

Sources and Uses of Funding for Iraq Reconstruction

OVERVIEW

SOURCES OF U.S. RECONSTRUCTION FUNDS

IRAQ RELIEF AND RECONSTRUCTION FUND (IRRF)

IRAQ SECURITY FORCES FUND (ISFF)

ECONOMIC SUPPORT FUND (ESF)

COMMANDER'S EMERGENCY RESPONSE PROGRAM (CERP)

USES OF U.S. APPROPRIATIONS

SECURITY AND JUSTICE

PROVINCIAL RECONSTRUCTION TEAMS

CAPACITY DEVELOPMENT

ELECTRICITY

OIL AND GAS

WATER

HEALTH CARE

TRANSPORTATION AND COMMUNICATIONS

DEMOCRACY

ECONOMIC DEVELOPMENT

REFUGEES, HUMAN RIGHTS, AND EDUCATION

INTERNATIONAL SUPPORT FOR IRAQ RECONSTRUCTION

SECTION

2

OVERVIEW

The Special Inspector General for Iraq Reconstruction (SIGIR) reports on the oversight and accounting of the obligation and expenditure of funds used for Iraq relief and reconstruction. This section presents an overview of the sources of funding for this effort and its uses in reconstruction programs, projects, and activities.

The reconstruction effort is funded by three sources: U.S. appropriations; Iraqi funds; and international donor support. As of June 30, 2007, funding for the entire reconstruction program totaled nearly \$99.641 billion, including \$44.538 billion in U.S. appropriated funds, \$18.219 billion in international donor funds, and \$36.884 billion in Iraqi funds. For an overview of these sources, see Figure 2.1.

U.S. Appropriated Funds (\$44.538 billion)

The Congress appropriated U.S. support for Iraq's relief and reconstruction to four major funds:

- Iraq Relief and Reconstruction Fund (IRRF)—\$20.914 billion
- Iraq Security Forces Fund (ISFF)—\$13.940 billion
- Economic Support Fund (ESF)—\$3.149 billion

- Commander's Emergency Response Program (CERP)—\$2.506 billion
- Other Relief and Reconstruction Activities (subsumes 26 smaller accounts)—\$4.029 billion

This section presents a detailed review of each of these sources and provides status reports of U.S. efforts in these areas:

- Security and Justice
- Provincial Reconstruction Teams
- Capacity Development
- Electricity
- Oil and Gas
- Water
- Health Care
- Transportation and Communications
- Democracy
- Economic Development
- Refugees, Human Rights, and Education

Appendix F and Appendix G include more comprehensive information about sources of U.S. appropriated funding, including IRRF apportionments, a historical perspective of relief and reconstruction accounts, operating expenses, and obligated and expended funding activities.

International Support for Iraq Reconstruction (\$18.219 billion)

The overall success of the Iraq reconstruction program depends, in part, on assistance from the international community. The International Compact with Iraq—a five-year national plan to help Iraq achieve stability, sound governance, and economic reconstruction—is now the primary mechanism for coordinating international support for Iraq. The total amount of donor support pledged or provided to date is \$18.219 billion.

Iraqi Funds (\$36.884 billion)

Iraqi funds have been an important source for reconstruction efforts, particularly during the tenure of the Coalition Provisional Authority (CPA). As of June 30, 2007, these funds totaled \$36.884 billion, including:

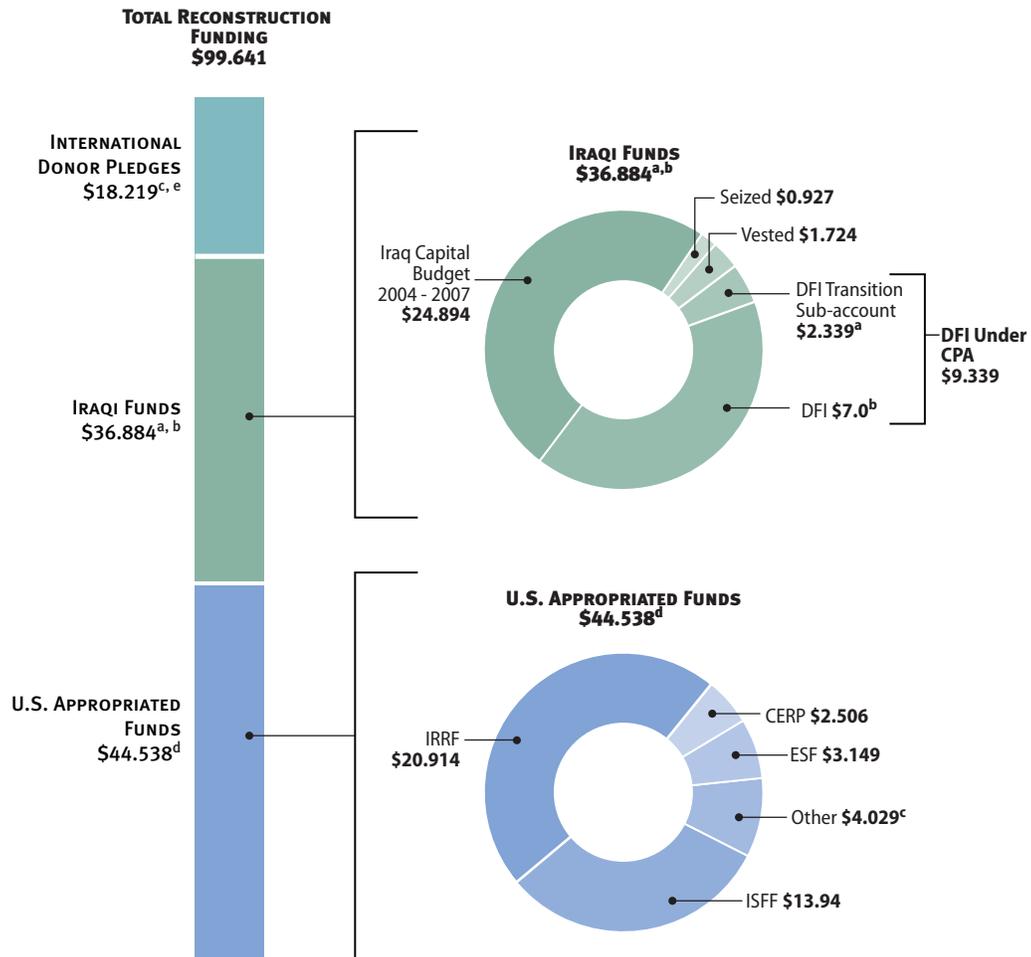
- vested (frozen) funds of \$1.724 billion
- seized funds, including confiscated cash and property, of \$927 million
- Development Fund for Iraq (DFI) funds, drawn primarily from oil proceeds and repatriated funds, of \$9.339 billion. (Under UN Security Council Resolution 1483, this fund was created to meet the costs of Iraqi civilian administration, humanitarian needs, infrastructure repairs, economic reconstruction, and other purposes benefiting the people of Iraq)
- Iraqi capital budget funding of \$24.894 billion from 2004 to 2007

For an accounting of seized funds, vested funds, and the DFI transition sub-account, see Appendix H.

SOURCES AND USES OF U.S. RECONSTRUCTION FUNDS

FIGURE 2.1

SOURCES OF IRAQ RECONSTRUCTION FUNDING - \$99.641 BILLION \$ Billions



a. Includes August 11, 2004 transfer of \$86 million cash from the Central Bank of Iraq for CERP at the authorization of the Ministry of Finance.

b. In previous Quarterly Reports, SIGIR reported approximately \$20 billion in DFI cumulative deposits to fund Iraqi government operations and reconstruction programs. This quarter, SIGIR has refined that number to reflect only reconstruction funding, which according to GAO audit 05-876 (July 28, 2005, p. 2) is approximately \$7 billion.

c. May include humanitarian aid or other types of assistance.

d. Where Iraq-only appropriations are unavailable, SIGIR assigned 85% for Iraq based on historical trends.

e. International donor pledges are discussed in detail later in this section.

Under P.L. 108-106, Section 3001 (as amended), SIGIR is required to report on the oversight of and accounting for U.S. taxpayer funds expended on Iraq's relief and reconstruction.

On October 17, 2006, SIGIR's mandate was expanded under Section 1054 of the John Warner National Defense Authorization Act for FY 2007 (P.L. 109-364).

SOURCES OF U.S. RECONSTRUCTION FUNDS

This legislation provided SIGIR with additional oversight authority over any U.S. funds made available for FY 2006 for the reconstruction of Iraq, regardless of how they are designated. Figure 2.2 identifies the funds associated with SIGIR's new mandate, including the ISFF, ESF, CERP, and others. SIGIR's authority now

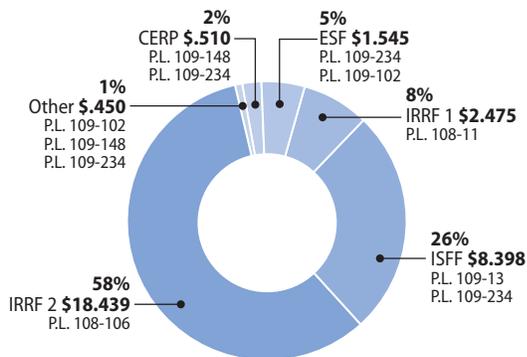
includes oversight of \$31.817 billion in reconstruction funds. Figure 2.3 shows the expenditure status of funds under SIGIR oversight that have been contractually obligated. For a cross-reference of budget terms associated with these funding streams, see Appendix N.

FIGURE 2.2

SUMMARY OF SIGIR OVERSIGHT

\$ Billions, % of \$31.818

Sources: DoD, Secretary of the Army Update (7/8/2007); DoS, Iraq Weekly Status (6/27/2007); MNC-I, Response to SIGIR (7/7/2007); ITAO,* Weekly Status Report (6/26/2007); IRMS, ESF Cost to Complete (7/5/2007); USAID Activities Report (7/12/2007)



CERP = Commander's Emergency Response Program
 IRRF 1 & 2 = Iraq Relief and Reconstruction Fund
 ISFF = Iraq Security Forces Fund
 ESF = Economic Support Fund
 P.L. = Public Law

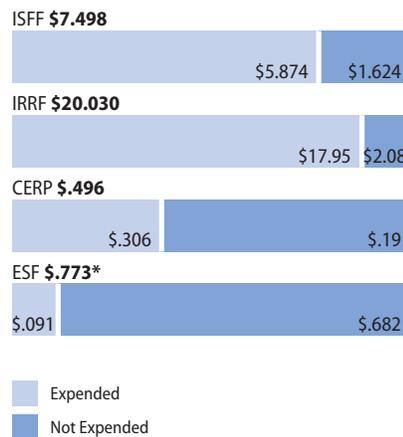
* By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.
 Note: Numbers are affected by rounding.

FIGURE 2.3

STATUS OF OBLIGATED U.S. RECONSTRUCTION FUNDING UNDER SIGIR OVERSIGHT

\$ Billions, \$28.80 Billion Total

Sources: DoD, Secretary of the Army Update (7/8/2007); DoS, Iraq Weekly Status (6/27/2007); MNC-I, Response to SIGIR (7/7/2007); IRMS ESF Cost to Complete (7/5/2007); USAID, Activities Report (7/12/2007)



Note: Numbers are affected by rounding.
 * Data for expended and obligated amounts only available for FY 2006 Supplemental Funds.

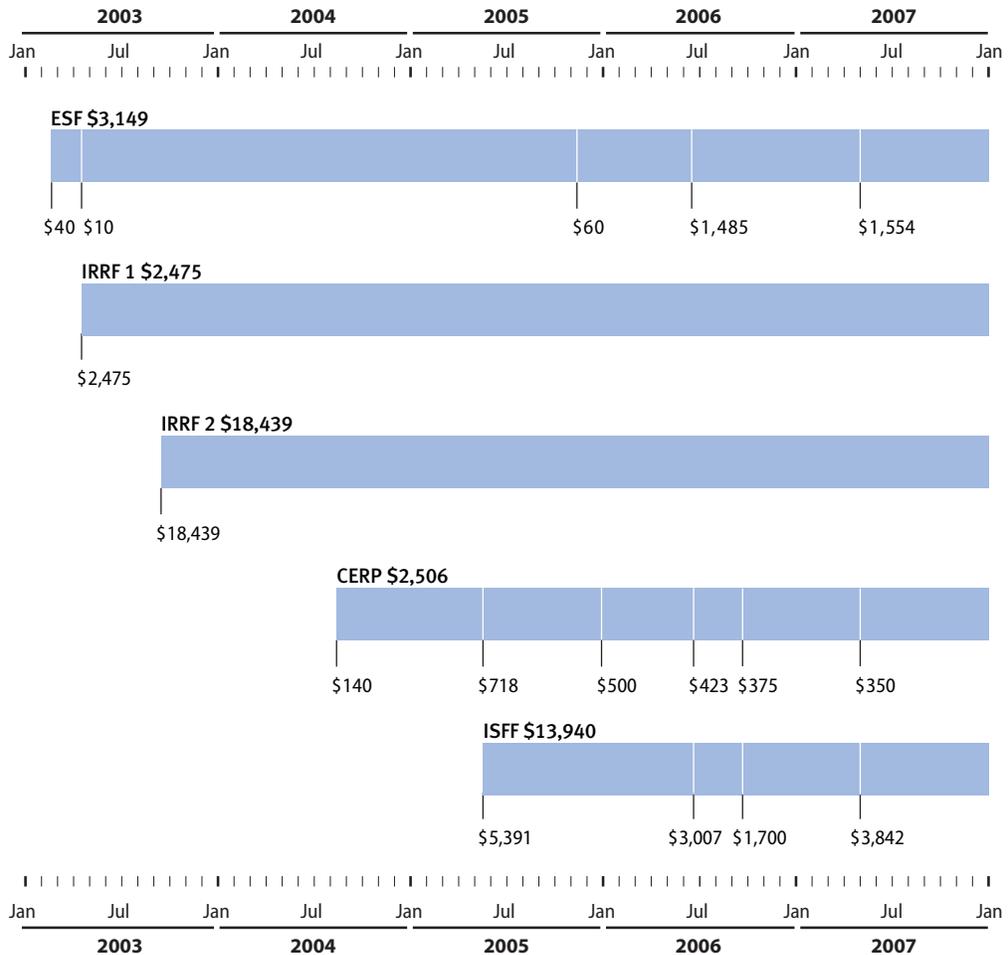
SOURCES OF U.S. RECONSTRUCTION FUNDS

FIGURE 2.4

TIMELINE OF U.S. APPROPRIATIONS

\$ Millions

Sources: P.L. 108-7, P.L. 108-11, P.L. 108-106, P.L. 108-287, P.L. 109-13, P.L. 109-102, P.L. 109-148, P.L. 109-234, P.L. 109-289, P.L. 110-28



Over the past four years, the Congress passed ten appropriations bills providing approximately \$44.538 billion in Iraq relief and reconstruction funding. Nearly half of this funding went to the Iraq Relief and Reconstruction Fund, which was created in 2003. SIGIR has continuing oversight of the IRRF program.

Since SIGIR's April Quarterly Report, the Congress added to reconstruction funding by passing the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act on May 25, 2007. This act provided:

- \$3.842 billion for the Iraq Security Forces Fund (ISFF)

- \$1.554 billion for the Economic Support Fund (ESF)
- \$.350 billion for the Commander's Emergency Response Program (CERP) in Iraq
- approximately \$1.338 billion in additional U.S. reconstruction funding

Figure 2.4 shows the timeline for all major U.S. funds appropriated for relief and reconstruction to date. Table 2.1 provides additional detail about these funds.

In the absence of an internationally recognized definition of "relief and reconstruction," Table 2.1 also includes 29 non-IRRF activities that present the most complete information available on U.S. appropriations.

SOURCES OF U.S. RECONSTRUCTION FUNDS

| FUNDING MECHANISM | CONOLIDATED APPROPRIATIONS RESOLUTION 2003 | EMERGENCY SUPPLEMENTAL APPROPRIATIONS ACT, 2003 | EMERGENCY APPROPRIATIONS ACT FOR THE DEFENSE AND FOR THE RECONSTRUCTION OF IRAQ AND AFGHANISTAN, 2004 | EMERGENCY SUPPLEMENTAL APPROPRIATIONS ON TERROR, AND TSUNAMI RELIEF, 2005 | EMERGENCY SUPPLEMENTAL APPROPRIATIONS FOR THE DEPARTMENT OF DEFENSE, FY 2006 | EMERGENCY SUPPLEMENTAL APPROPRIATIONS FOR THE DEPARTMENT OF DEFENSE, FY 2006 | DEPARTMENT OF DEFENSE APPROPRIATIONS ACT, FY 2007 | U.S. TROOP READINESS, TRANSFORMER, AND IRAQ ACCOUNTABILITY APPROPRIATIONS ACT, 2007 | TOTAL APPROPRIATIONS |
|---|--|---|---|---|--|--|---|---|-------------------------|
| PUBLIC LAW # | PL. 108-7 | PL. 108-11 | PL. 108-106 | PL. 109-13 | PL. 109-102 | PL. 109-234 | PL. 109-289 | PL. 110-28 | |
| DATE OF ENACTMENT | 2/20/03 | 4/16/03 | 11/6/03 | 5/11/05 | 11/14/05 | 6/15/06 | 9/29/06 | 5/25/07 | |
| Iraq Relief and Reconstruction Fund (IRRF 2) ^a | | | \$18,439,000,000 | | | | | | \$18,439,000,000 |
| Iraq Security Forces Fund (ISFF) | | | | \$5,391,000,000 | | \$3,007,000,000 | \$1,700,000,000 | | \$3,842,300,000 |
| Economic Support Fund (ESF) ^b | \$40,000,000 | \$10,000,000 | | \$60,390,000 | | \$1,485,000,000 | | | \$1,554,000,000 |
| Commander's Emergency Response Program (CERP) ^c | | | | \$718,000,000 | | \$423,000,000 | \$375,000,000 | | \$350,000,000 |
| Iraq Relief and Reconstruction Fund (IRRF 1) | | | | | | | | | \$2,475,000,000 |
| Coalition Provisional Authority (CPA) ^d | | | \$908,000,000 | | | | | | \$908,000,000 |
| Diplomatic and Consular Programs ^e | | | | \$49,659,000 | \$56,908,000 | | | | \$750,000,000 |
| Natural Resources Risk Remediation Fund (NRRRF) | | \$489,300,000 | | | | | | | \$856,567,000 |
| Department of State, International Narcotics Control and Law Enforcement (DoS/INL) | | \$20,000,000 | | | | | | | \$489,300,000 |
| Democracy Fund (State) | | | | | | \$91,400,000 | | | \$150,000,000 |
| New Iraqi Army ^f | | | | | \$210,000,000 | | | | \$250,000,000 |
| Project and Contracting Office (PCO/DoD) ^g | | | | | | \$200,000,000 | | | \$210,000,000 |
| International Disaster and Famine Assistance | | \$143,800,000 | | | | | | | \$200,000,000 |
| Special Inspector General for Iraq Reconstruction (SIGIR) | | | \$75,000,000 | | | \$24,000,000 | | | \$45,000,000 |
| USAID Administrative Expenses | | \$21,000,000 | | | | | | | \$35,000,000 |
| Child Survival and Health Programs Fund | | \$90,000,000 | | | | | | | \$134,000,000 |
| P.L. 480 Title II Food Aid | | \$68,000,000 | | | | | | | \$124,400,000 |
| Voluntary Peacekeeping Operations | | \$50,000,000 | | | | | | | \$90,000,000 |
| Iraq Freedom Fund (Reconstruction and Rehabilitation only) | | | | | | | | | \$68,000,000 |
| Migration and Refugee Assistance | | | | | | | | | \$50,000,000 |
| Emergency Refugee and Migration Assistance ^h | | \$37,000,000 | | | | | | | \$45,000,000 |
| Overseas Humanitarian, Disaster and Civic Aid | | | \$17,000,000 | | | | | | \$37,000,000 |
| International Affairs Technical Assistance | | | | | | \$13,000,000 | | | \$17,000,000 |
| United States Agency for International Development, Office of Inspector General (USAID OIG) | | \$3,500,000 | \$1,900,000 | \$2,500,000 | | | | | \$2,750,000 |
| Nonproliferation, Anti-terrorism, Demining and Related Programs | | | | | | | | | \$2,625,000 |
| DoD Office of the Inspector General | | | | | | \$5,000,000 | | | \$7,000,000 |
| Combatant Commander Initiative Fund (CICF) | | | | | | | | | \$5,000,000 |
| DoS, Office of Inspector General | | \$3,612,000 | | | | | | | \$3,612,000 |
| U.S. Treasury (Salaries and Expenses) | | | | | | \$1,000,000 | | | \$1,300,000 |
| Department of Justice, Litigation Support Services for SIGIR | | | | | | \$1,800,000 | | | \$1,800,000 |
| Legal Activities and U.S. Marshals (Salaries and Expenses) | | | | | | \$1,000,000 | | | \$1,648,000 |
| TOTAL | \$108,000,000 | \$3,343,212,000 | \$19,440,900,000 | \$6,185,559,000 | \$117,298,000 | \$5,331,200,000 | \$2,975,000,000 | \$7,083,675,000 | \$44,537,792,000 |

Note: This table does not include FY 2007 Continuing Resolution levels

^a \$18.439 billion represents the amount appropriated by the Congress for Iraq programs in IRRF 2 under P.L. 108-106, enacted in November 2003. The Congress had initially appropriated \$18.649 billion to IRRF 2, but also earmarked \$210 million to be transferred to other accounts for programs in Jordan, Liberia, and Sudan. Of the remaining \$18.439 billion, the administration transferred out of the IRRF to other accounts roughly \$562 million for Iraq-related programs that could be implemented only in other accounts, such as a \$352 million Iraq bilateral debt forgiveness program to the United States that required funding in a Treasury account. The Congress was notified of all transfers out of the IRRF. In addition, in FY 2006 appropriations, the Congress earmarked \$9.95 million to be transferred into the IRRF from the DoS Economic Support Fund account.

^b \$40 million from FY 2003 ESF base account that was not reimbursed; \$10 million from P.L. 108-11.

^c SIGIR reports in Audit 07-006 that the Congress appropriated \$923 million in FY 2006 for CERP activities in Iraq and Afghanistan. The Department of the Army allocated \$724.5 million for use in FY 2006 and carried forward the balance of \$198.5 million to FY 2007. The U.S. Central Command then allocated \$510 million to MNC-I, with the remaining \$214.5 million going to fund CERP projects executed by U.S. forces in Afghanistan.

^d Excludes \$75 million for Special Inspector General for Iraq Reconstruction under P.L. 108-106.

^e Includes Iraq Reconstruction Management Office salaries and expenses, mission travel, public diplomacy programs, and other operating expenses related to reconstruction.

^f Where Iraq-only appropriations unavailable, based on historical trends SIGIR split 85% for Iraq and 15% for Afghanistan.

^g The Congress provided funding for PCO in other appropriations bills; more details will be available in future SIGIR reports.

TABLE 2.1

IRAQ RELIEF AND RECONSTRUCTION FUND (IRRF)

In April 2003, the Congress created IRRF 1, appropriating \$2.475 billion under P.L. 108-11 to support operations that provided immediate relief and reconstruction for the people of Iraq. The IRRF 1 allocation authorized the use of funds for reconstruction across five agencies: the U.S. Agency for International Development (USAID), Department of Defense (DoD), Department of State (DoS), Department of Treasury (Treasury), and the

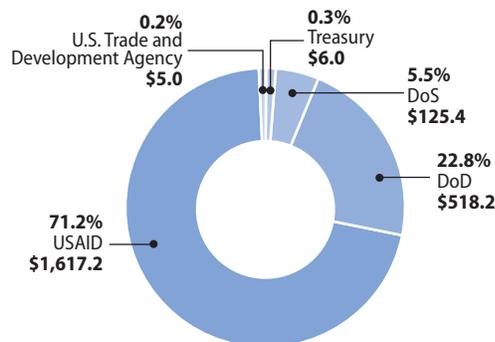
U.S. Trade and Development Agency. USAID received about two-thirds of the appropriation. Figure 2.5 shows the IRRF 1 breakdown by agency allocation. Virtually all of IRRF 1 has been expended.

In November 2003, the Congress created IRRF 2, providing \$18.439 billion for Iraq's relief and reconstruction. Figure 2.6 shows that most IRRF 2 funds were allocated to DoD.

The CPA hired 12 major contractors to design and build projects that improved large-scale infrastructure. Table 2.2 lists the 10 contractors that received the largest contracts.

Figure 2.5

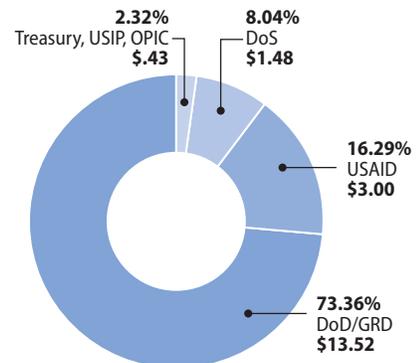
IRRF 1 ORIGINAL ALLOCATIONS BY AGENCY
\$ Millions
Source: P.L. 108-11 (4/16/2003)



Note: Numbers are affected by rounding.

Figure 2.6

IRRF 2 CURRENT ALLOCATIONS BY AGENCY
\$ Billions
Source: IRMO, *Weekly Status Report* (3/13/2007)



TOP TEN IRRF 2 CONTRACTORS (\$ MILLIONS)

| CONTRACTOR | OBLIGATED ^a | EXPENDED | EXPENDED PREVIOUS QUARTER | % INCREASE IN EXPENDITURES |
|------------------------------------|------------------------|----------|------------------------------|-------------------------------|
| Bechtel National, Inc. | \$1,218 | \$1,175 | \$1,174 | 0.1% |
| FluorAMEC, LLC | \$981 | \$918 | \$899 | 2% |
| Parsons Global Services, Inc. | \$702 | \$635 | \$628 | 1% |
| Parsons Iraq Joint Venture | \$592 | \$556 | \$524 | 6% |
| KBR | \$578 | \$534 | \$512 | 4% |
| Washington Group International | \$535 | \$485 | \$457 | 6% |
| Development Alternatives, Inc. | \$440 | \$436 | \$436 | 0% |
| Environmental Chemical Corporation | \$354 | \$349 | \$349 | 0% |
| Anham Joint Venture | \$259 | \$259 | \$258 | 0.2% |
| Symbion Power, LLC | \$249 | \$121 | \$83 | 46% |

Sources: Corps of Engineers Financial Management System, All Items Report for PMCON and All Items Report for PMNCN, July 3, 2007; USAID, *Activities Report*, July 12, 2007

Note: Numbers affected by rounding.

^a Of the \$17.80 billion obligated to the IRRF 2, SIGIR has collected contract-level data for GRD and USAID totaling \$14.44 billion in obligations. The list is produced by compiling the obligation data provided by GRD and USAID only.

TABLE 2.2

As of June 27, 2007, approximately 97% of IRRF 2 funds had been obligated,¹³ and 86% had been expended. Almost \$2 billion of IRRF 2 remains unexpended. For the status of IRRF 2 appropriations, see Figure 2.7.

The security and justice and electricity sectors received the largest allocation of these funds—57% of the total. Figure 2.8 shows the

allocation of IRRF 2 funds, by sector.

This quarter, most reconstruction projects funded by IRRF 2 are complete.

For a cross-reference of how IRRF 2 sectors relate to SIGIR sectors, see Appendix D.

For the contracts funded by the IRRF, see Appendix E.

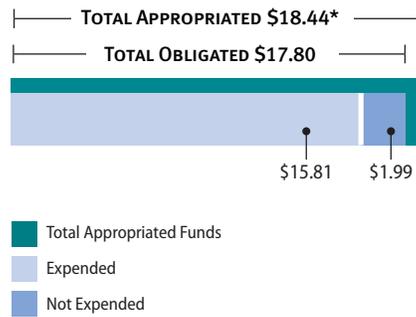
For IRRF apportionments, see Appendix G.

Figure 2.7

STATUS OF IRRF 2 FUNDS

\$ Billions

Source: DoS, *Iraq Weekly Status* (6/27/2007)



Note: Numbers are affected by rounding.

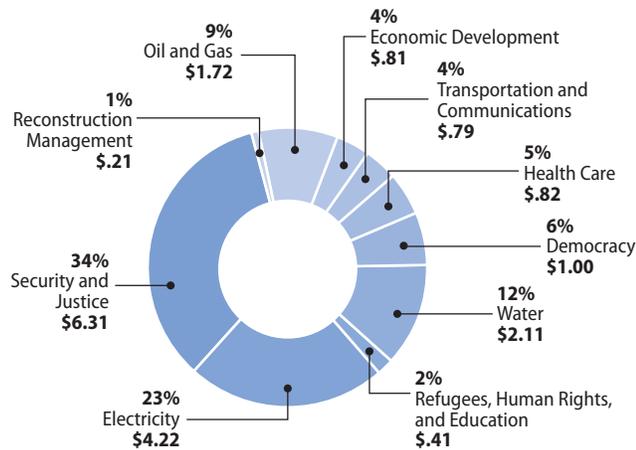
* DoS currently reports that \$18.40 billion has been apportioned to IRRF 2—down from last quarter’s report of \$18.44 billion. The change is a result of deobligations for future use in IRRF 2 programs. For a consistent financial summary of the IRRF 2 program, SIGIR measures sector-level apportionments of allocations against the \$18.44 billion appropriated by the Congress.

Figure 2.8

IRRF 2 CURRENT ALLOCATIONS BY SECTOR

\$ Billions, % of \$18.44 Billion

Source: DoS, *Iraq Weekly Status* (6/27/2007)



Notes:

1. Numbers are affected by rounding.

2. See Appendix D for P.L. 108-106 cross-reference to SIGIR-defined sectors.

IRAQ SECURITY FORCES FUND (ISFF)

In 2005, the ISFF was established under P.L. 109-13 to allow the Commander of the Multi-National Security Transition Command-Iraq (MNSTC-I) to provide assistance to the Iraqi Security Forces (ISF). Along with the IRRF, ISFF funds have trained, equipped, and built facilities for ISF. The central objective of these funds was to stand up a capable Iraqi force.

As of July 8, 2007, almost 83% of the \$10.82 billion in FY 2005, FY 2006, and FY 2007 ISFF funds had been obligated, and approximately 61% had been expended. These ISFF funds will remain available until September 30, 2008. For the status of ISFF FY 2005, FY 2006, and FY 2007 funds, see Figure 2.9.

MNSTC-I manages the ISFF and awards approximately 90% of its construction contracts through the Air Force Center for Engineering and the Environment (AFCEE).¹⁴ AFCEE then issues task orders to U.S. prime contractors, who hire and manage Iraqi subcontractors to execute the projects. Consequently, almost all of the employees on these projects are Iraqis.

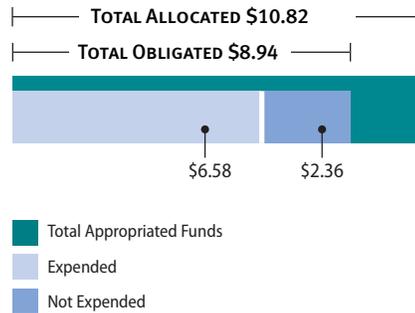
The remaining ISFF projects are contracted through Gulf Regional Division (GRD) and Joint Contracting Command-Iraq/Afghanistan (JCC-I/A); nearly all of these projects are directly awarded to local Iraqi firms. For

Figure 2.9

STATUS OF ISFF FY 2005, FY 2006, AND FY 2007 FUNDS

\$ Billions

Source: DoD, Secretary of the Army Update (7/8/2007)



Notes:

1. Totals are produced by combining financial detail from ISFF 2005, ISFF 2006, and ISFF 2007 funds.

2. Numbers are affected by rounding.

non-construction contracts, JCC-I/A awards more than 50% of ISFF contracts directly to Iraqi firms.¹⁵

MNSTC-I project/program managers provide oversight of the ISFF construction program. These managers review the project scope and cost changes to ensure compliance with mission requirements and resource availability. To manage cost overruns, MNSTC-I has a standard 15% contingency for all construction projects.¹⁶

Of the total allocation for the Ministry of Defense, equipment and transportation comprise 43%, and training and operations only 3%. Training and operations receives the largest allocation (40%) of the support for the Ministry of Interior. For a breakdown of the use of funds directed toward projects under the Ministry of Defense and the Ministry of Interior, see Figure 2.10.

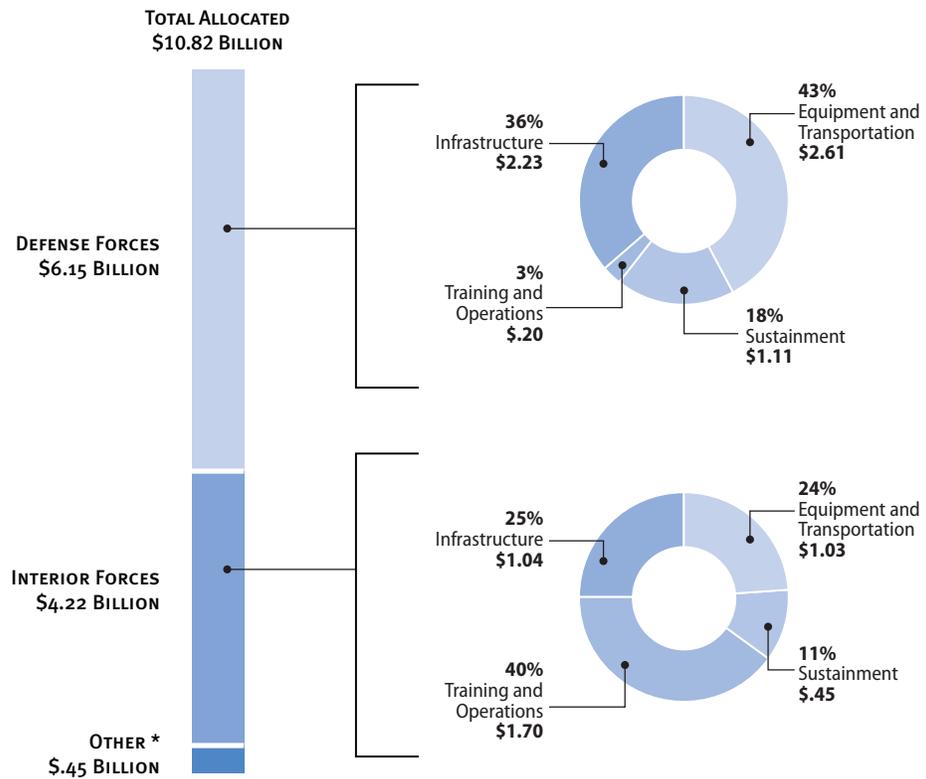
For the contracts funded by the ISFF, see Appendix E. Next quarter, SIGIR will list the top ten contractors under ISFF.

Figure 2.10

ALLOCATIONS OF ISFF FUNDS BY SECTOR

\$ Billions

Source: DoD, Secretary of the Army Update (7/8/2007)



Note: Numbers are affected by rounding.

* Includes Detainee Ops, Prosthetics Clinics, Quick Response Fund, and Other Training and Operations.

ECONOMIC SUPPORT FUND (ESF)

The Economic Support Fund (ESF) is a bilateral economic assistance account that is used to promote a variety of relief and reconstruction activities in Iraq.¹⁷

The FY 2006 Supplemental appropriated approximately \$1.485 billion¹⁸ in bilateral economic assistance for ESF projects in Iraq.¹⁹ Many ESF programs and projects build on the efforts of the IRRF program. SIGIR performed a review of FY 2006 sources and uses of U.S. funding for Iraq reconstruction, which is contained in Section 3 of this Report.

Of the \$1.485 billion appropriated by the supplemental appropriations bill, approximately 52% has been obligated,²⁰ and 6% has been expended.²¹ Figure 2.11 shows the amounts of obligated and expended ESF funds compared to the appropriated amount.

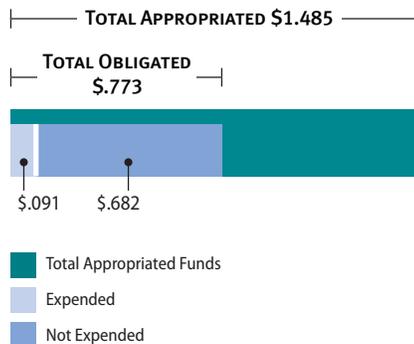
Several of the ESF funding lines are managed through interagency agreements (IAAs),²² which “obligate” all the funds at the time of the agreement.²³ For purposes of this section, however, SIGIR considers ESF “obligations” as funds committed. SIGIR generally reports amounts that have been contractually awarded as “obligated.”²⁴ Table 2.3 shows the ten contractors that received the largest obligations (via contract) of ESF funds.

Figure 2.11

STATUS OF ESF FY 2006 SUPPLEMENTAL FUNDS

\$ Billions

Sources: ITAO,* *Weekly Status Report* (6/26/2007); IRMS, *ESF Cost to Complete* (7/5/2007); USAID, *Activities Report* (7/12/2007)



Note: Numbers are affected by rounding.

* By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.

TOP 10 CONTRACTORS ESF FY 2006 (MILLIONS)

| CONTRACTOR | OBLIGATED | EXPENDED | NOT EXPENDED |
|--|-----------|----------|--------------|
| Research Triangle Institute | \$155 | \$0 | \$155 |
| International Relief and Development | \$135 | \$27 | \$108 |
| Management Systems International, Inc. | \$60 | \$13 | \$47 |
| Wamar International, Inc. | \$57 | \$5 | \$52 |
| CHF International | \$45 | \$1 | \$44 |
| Iraqi Contractor - 4767 | \$44 | \$10 | \$34 |
| BearingPoint | \$20 | \$1 | \$19 |
| Stanley Baker Hill, LLC | \$13 | \$5 | \$8 |
| Iraqi Contractor - 5400 | \$12 | \$0 | \$12 |
| Iraqi Contractor - 4147 | \$11 | \$1 | \$10 |

Sources: USACE, response to SIGIR, June 30, 2007; USAID, *Activities Report*, July 12, 2007.
 Note: Numbers affected by rounding.

TABLE 2.3

The PRTs and security and justice sector received approximately 53%²⁵ of ESF FY 2006 supplemental funds. All of the ESF funds in the electricity (\$228 million), water (\$32 million), transportation and communications (\$13 million), and health care (\$12 million) sectors are part of ESF’s O&M Sustainment Program. The Capacity Development section of this Report includes more funding details of ESF’s Capacity Development and Technical Training Program. Figure 2.12 shows the allocation of ESF monies to each SIGIR-defined sector.

FY 2007 Funding

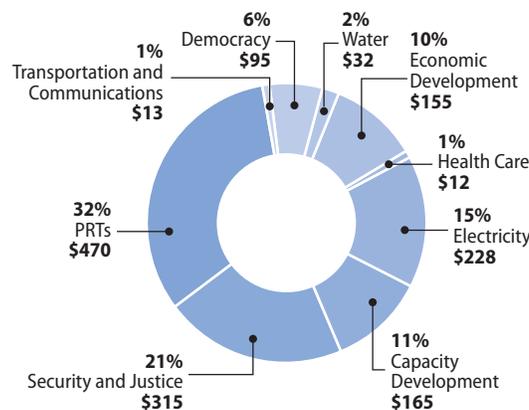
In the FY 2007 Supplemental (P.L. 110-28), which the President signed this quarter, no ESF FY 2007 funds can be obligated or expended until the President certifies that Iraq has made satisfactory progress on 18 specific benchmarks.²⁶ The bill also includes a provision allowing the President to waive the requirement if he submits a written certification to the Congress setting forth a justification for the waiver, including a detailed report describing the actions being taken by the United States to

Figure 2.12

ALLOCATIONS OF ESF FY 2006 SUPPLEMENTAL FUNDS

\$ Millions, % of \$1,485 Million

Sources: ITAO,* *Weekly Status Report* (6/26/2007); IRMS, *ESF Economic Track Summary* (7/5/2007)



Note: Numbers are affected by rounding.
 * By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.

bring the GOI into compliance with the benchmarks. On July 12, 2007, the President submitted such a report to the Congress, waiving \$642.5 million of ESF FY 2007 funds from the requirement.²⁷

Structure of ESF

These are the objectives of ESF:²⁸

- strengthen the role of the private sector, reduce government controls over markets, enhance job creation, and improve economic growth
- develop and strengthen the institutions necessary for sustainable democracy
- strengthen Iraq's capacity to manage the human dimension of the transition to democracy and a market-based economy while sustaining the neediest groups of the population

In line with the President's New Way Forward for Iraq, ESF programs follow three tracks—security, political, and economic. The security track received approximately 63%²⁹ (\$932 million) of FY 2006 supplemental ESF funds, the economic track received 23%³⁰ (\$345 million), and the political track received 14%³¹ (\$208 million). For a cross-reference table of ESF programs by SIGIR-defined-sector, see Appendix D. For a cross-reference of budget terms associated with the ESF, see Appendix N.

Executing ESF Funds

A SIGIR report this quarter found that it takes longer to move ESF funds from appropriation to field activities than CERP and ISFF funds. SIGIR's fact sheet on FY 2006 sources and uses of U.S. funding reported:³²

- ISFF funds were allotted to the field activities within 29 days of appropriation.
- CERP funds were allotted within 35 days.
- ESF funds took between 62 and 218 days.

SIGIR's fact sheet noted that measuring the effectiveness of ESF-funded programs also is a challenge.³³ Although United States Army Corps of Engineers (USACE) managed programs incorporate metrics into some of their IAAs, and USAID uses metrics in its Performance Management Plan, SIGIR did not find specific performance measures established or required for all ESF programs.³⁴ Additionally, the Congress did not impose a reporting requirement for the ESF. DoS has been reporting on ESF funds since January 2007 in its *Section 2207 Report*.³⁵ For a summary of SIGIR's fact sheet on sources and uses, see Section 3 of this Report.

COMMANDER'S EMERGENCY RESPONSE PROGRAM (CERP)

CERP FY 2006 and FY 2007 funds total approximately \$944 million—or about 2% of the total U.S. funds appropriated for Iraq reconstruction. Multi-National Corps-Iraq (MNC-I) has expended approximately 46% of the total CERP FY 2006 and FY 2007 funds. Figure 2.13 shows the status of that portion of funds already obligated.

CERP was created to allow U.S. military commanders in Iraq to respond rapidly to urgent humanitarian, relief, and reconstruction needs. The amount of CERP dollars expended in Iraq continues to increase as the IRRF program winds down. Figure 2.14 shows the allocation of CERP funds by reconstruction sector.

MNC-I is the program coordinator for

Figure 2.13
STATUS OF CERP FY 2006 AND FY 2007 FUNDS
 \$ Billions
 Source: MNC-I, Response to SIGIR (7/7/2007)



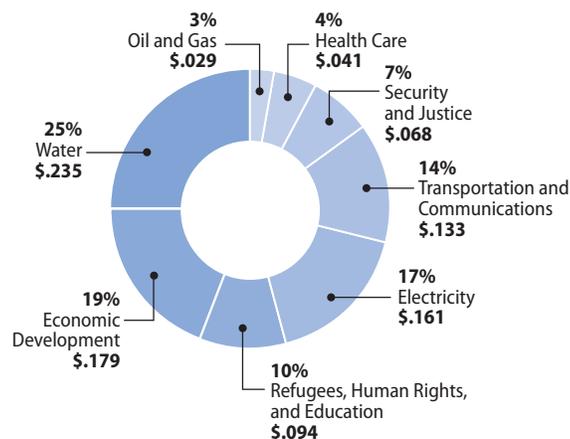
Notes:
 1. For reporting consistency, CERP activities are mapped to SIGIR-defined sectors.
 2. Numbers are affected by rounding.

CERP, and DoD regulates CERP funding.³⁶ MNC-I's major subordinate commanders have approval authority for contracts of up to \$500,000. The MNSTC-I commander approves contracts greater than \$500,000.³⁷

CERP projects are chosen based on how quickly they can be executed, how many Iraqis would be employed, how many Iraqis would benefit, and the visibility of the project.³⁸ Figure 2.15 shows the status of CERP projects.

DoD established guidelines outlining 19 uses for CERP. SIGIR has announced an audit reviewing the scope and impact of CERP projects valued more than \$400,000.

Figure 2.14
SECTOR SHARES OF CERP FY 2006 AND FY 2007 FUNDS
 \$ Billions, % of \$.944 Billion
 Source: MNC-I, Response to SIGIR, 7/7/2007

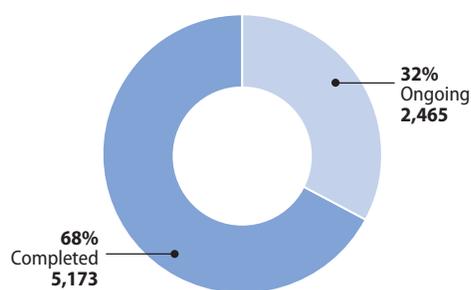


Notes:
 1. Allocation detail for CERP FY 2006 and FY 2007 is currently unavailable; therefore, the percentages in this graphic are calculated using dollars obligated.
 2. For reporting consistency, CERP activities are mapped to SIGIR-defined sectors.
 3. Numbers are affected by rounding.

Figure 2.15

STATUS OF CERP FY 2006 AND FY 2007 PROJECTS
TOTAL NUMBER OF PROJECTS 7,638

Source: MNC-I, Response to SIGIR (7/7/2007)



| Project Type | Ongoing | Completed | Total |
|---------------------------------------|--------------|--------------|--------------|
| Economic Development | 695 | 981 | 1,676 |
| Security and Justice | 381 | 1,019 | 1,400 |
| Water | 420 | 789 | 1,209 |
| Refugees, Human Rights, and Education | 354 | 799 | 1,153 |
| Transportation and Communications | 252 | 704 | 956 |
| Electricity | 212 | 529 | 741 |
| Health Care | 130 | 317 | 447 |
| Oil and Gas | 21 | 35 | 56 |
| Total | 2,465 | 5,173 | 7,638 |

Since 2004, military commanders have contracted 11,670 projects, 7,638 of which were funded with CERP FY 2006 and FY 2007 monies. Four of the six governorates with the most CERP FY 2006 and FY 2007 projects—Anbar, Baghdad, Salah al-Din, and Diyala—are also the governorates that DoD has identified as the most violent provinces in Iraq.³⁹

In 2004, the average CERP project in Iraq was valued at approximately \$67,000. In 2006, the average value of a CERP project was approximately \$140,000. In total, 11 provinces have experienced yearly increases in average CERP project values from 2004 through 2006. Figure 2.16 shows the increase in the average value per CERP project, by governorate.

Challenges to Executing the CERP Program

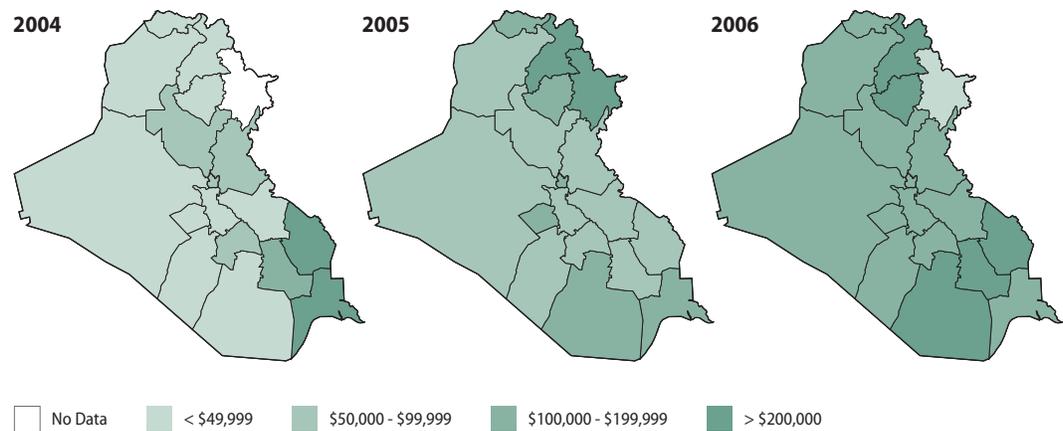
In three previous audits of the CERP, SIGIR reviewed the CERP and found that the program generally achieved success in employing Iraqis for projects at the local level;⁴⁰ however, it is difficult to report on CERP results for two reasons:

- There is no mechanism in place to specifically measure the outputs and outcomes of CERP-funded projects.⁴¹
- The high turnover of personnel in Iraq results in a lack of continuity with respect to institutional knowledge of the CERP programs.⁴²

Figure 2.16

AVERAGE VALUE PER CERP PROJECT BY GOVERNORATE

Source: IRMS, CERP Excel Workbook (6/29/2007)



Note:
Data is compiled using FY 2004, FY 2005, and FY 2006 CERP funds. The years indicated correspond to the actual start dates of the projects.

As a SIGIR audit of CERP has documented, MNC-I has made progress since 2004 coordinating CERP projects with U.S. Embassy reconstruction management.⁴³ For example, MNC-I shares information with USAID, and USAID provides development expertise to help guide CERP spending, as needed.⁴⁴

Last quarter, DoD reported to SIGIR that CERP project quality assurance is conducted during and at the completion of a project by outside engineering firms or engineers hired

for project oversight. SIGIR also reported that “multiple monthly polls are conducted by contractors for MNF-I and MNC-I to gauge the impact of the Coalition efforts in Iraq.”⁴⁵

For a cross-reference of how sectors under CERP FY 2006 and FY 2007 funds relate to SIGIR-defined sectors, see Appendix D.

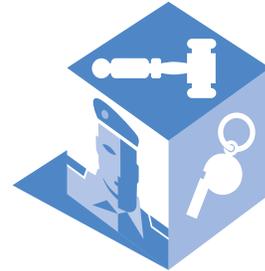
SIGIR collects data on U.S. funding from different sources. For a cross-reference of budget terms associated with these funding streams, see Appendix N.



SIGIR reports here on the uses of the \$44.5 billion in U.S. appropriated funds within these reconstruction programs:

- Security and Justice
- Provincial Reconstruction Teams
- Capacity Development
- Electricity
- Oil and Gas
- Water
- Health Care
- Transportation and Communications
- Democracy
- Economic Development
- Refugees, Human Rights, and Education



SECURITY
AND JUSTICE

SECURITY AND JUSTICE

More than \$17 billion of U.S. reconstruction funds have been appropriated to train, equip, supply, and provide for the infrastructure support of the ISF. The FY 2007 Supplemental provided 60.6% of Iraq reconstruction-related funds to the Iraq Security Forces Fund (ISFF).

The plan to provide for ISF readiness involved four phases of development:

- partnership between MNF-I and ISF
- Iraqi army-led operations and clearing of areas of insurgency
- Provincial Iraqi Control (PIC): Iraqi authorities assume control and responsibility for their respective provinces
- security self-reliance: the GOI operates and sustains security forces through the organs of the state⁴⁶

Escalating levels of violence and early ISF “lead” failures challenged the execution of this strategy. Increasing the end-strength of Iraqi army and police forces is essential to counter the insurgent and criminal activities. But threats to the integrity of the ISF force structure—including combat attrition, liberal leave arrangements, and sectarian and militia infiltration—have placed significant strain on the capacity of ISF to meet expanding end-state force requirements.

In July 2007, the President’s *Initial Benchmark Assessment* stated that the GOI “has made satisfactory progress toward establishing supporting political, media, economic, and services committees in support of the Baghdad Security Plan,”⁴⁷ by establishing the Executive Steering Committee and related subcommittees. The Report further noted that the Administration will “continue to monitor and engage with the committees to produce a satisfactory effect over the next 60 days.”⁴⁸

Transition to Iraqi Control

Progress in the Coalition’s efforts to transition responsibility to the GOI has been slower than anticipated. This quarter, Missan became the fourth province to transfer to provincial Iraqi control.⁴⁹

Two other provinces that DoD had anticipated would have attained PIC status “by the spring of 2007”⁵⁰—Qadissiya and Ninewa—have not met the conditions required for transfer. On May 30, 2007, Dahuk, Erbil, and Sulaymaniyah were transitioned to “Regional Iraqi Control,” under the Kurdistan Regional Government (KRG).⁵¹

In its most recent report on Iraq’s stability and security, DoD revised its forecast for transferring security control. DoD now expects



TRANSFER RATE OF FORWARD OPERATING BASES

| 9010 RPT | TOTAL FOBS | FOBS TRANSFERRED | PERCENT FOBS TRANSFERRED |
|----------|------------|------------------|--------------------------|
| May 2006 | NA | 34 | – |
| Aug 2006 | 110 | 48 | 43.6% |
| Nov 2006 | 110 | 52 | 47.3% |
| Mar 2007 | NA | NA | – |
| Jun 2007 | 122 | 61 | 50.0% |

TABLE 2.4

transition of all Iraqi provinces to PIC status “no later than March 2008.”⁵²

The process of transferring Forward Operating Bases (FOBs) to Iraqi control also has been affected by ongoing security operations. DoD reports that MNF-I turned over some FOBs to the Iraqis this quarter. But MNF-I also has established some new FOBs during 2007 to support the Baghdad Security Plan and “other elements in Iraq, including Coalition partners, Provincial Reconstruction Teams, Transition Teams, other supporting entities, and the Department of State.”⁵³ As shown in Table 2.4, between November 2006 and June 2007, the number of FOBs in Iraq increased by 10.9%, from 110 to 122.⁵⁴

U.S. Support

The security and justice sector has received the largest portions of the \$44 billion in U.S. funds for Iraq’s relief and reconstruction—more than \$17 billion. For the allocations of funding to security and justice by source, see Figure 2.17.

To date, \$10.82 billion of the ISFF has been allocated to help meet the training and equip-

ment requirements of the ISF, of which, 61% has already been expended. The security and justice sector was allocated 34% of the \$18.44 billion in IRRF 2, and more than 93% of these IRRF funds have been expended. Of the total CERP funding for Iraq reconstruction, 7% was allocated to security and justice, and approximately 42% of these funds had been expended by the end of this quarter. For the status of the four funding streams, see Figure 2.18.

The ISFF funds part of the training, equipping, and fielding of the ISF. IRRF funding focused on large construction projects, but it has also provided funding for non-construction activities, such as arming the New Iraqi Army, training Iraqi police, assisting war victims, and supporting witness-protection programs. ESF has mainly funded infrastructure security efforts, and CERP has focused on condolence payments.

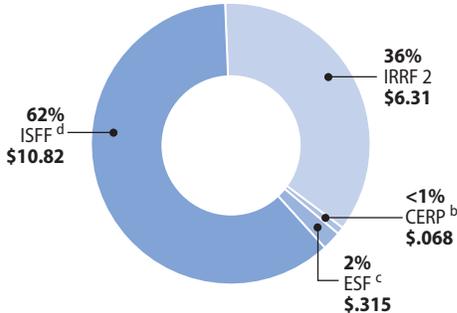
RULE-OF-LAW INITIATIVES

Several initiatives are in progress to support the rule of law in Iraq and to strengthen the legal code, police force, judicial system, and correctional system. MNF-I, with support



Figure 2.17

ALLOCATIONS TO SECURITY AND JUSTICE
 \$ Billions, % of \$17.51 Billion
 Sources: DoD, Secretary of the Army Update (7/8/2007); DoS, *Iraq Weekly Status* (6/27/2007); MNC-I, Response to SIGIR (7/7/2007); ITAO,^a *Weekly Status Report* (6/26/2007); IRMS, *ESF Cost to Complete* (7/5/2007); USAID, *Activities Report* (7/12/2007)



Note: Numbers are affected by rounding.
 a. By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.
 b. Appropriation detail at the sector and subsector level for CERP is currently unavailable; therefore, the percentages for CERP are calculated using FY 2006 and FY 2007 dollars obligated.
 c. FY 2006 Supplemental Funds (P.L.109-234).
 d. FY 2005, FY 2006, and FY 2007.

from DoJ and DoS, has established the Law and Order Task Force to increase, among other things, the capacity of the Central Criminal Court of Iraq (CCCI).⁵⁵

Security problems continue to hinder progress of the rule-of-law effort. For example, attacks and death threats have made some Iraqi judges reluctant to try cases related to terrorism or the insurgency. MNF-I thus established a Rule of Law Complex (ROLC) in Baghdad to “provide a secure location combining police, courts, forensic labs and corrections functions, and judicial housing and detention facilities.”⁵⁶

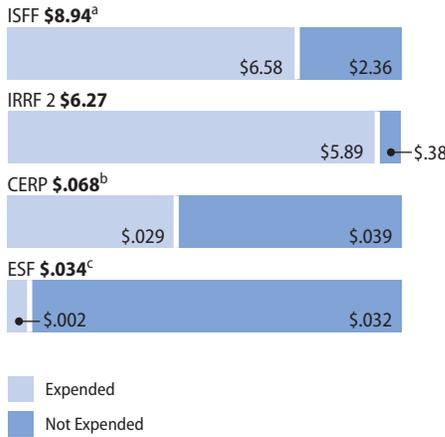
This quarter, DoD reported that the first judicial proceeding at the ROLC was conducted before an Iraqi investigative judge on April 2, 2007. Nine Iraqi judges and 15 support personnel have been appointed to staff the new court since then.⁵⁷ In addition, DoD assigned 67 judge advocates, paralegals, investigators, and intelligence officers to the Law and Order Task Force, scheduled to begin arrival on May 15, 2007.

ISFF

Of the 478 security projects funded by ISFF in FY 2005, FY 2006, and FY 2007, 51% are completed, and 9% have not started. For the status of ISFF projects, see Figure 2.19.

Figure 2.18

OBLIGATIONS FOR SECURITY AND JUSTICE
 \$ Billions, \$15.31 Billion Total
 Sources: DoD, Secretary of the Army Update (7/8/2007); DoS, *Iraq Weekly Status* (6/27/2007); MNC-I, Response to SIGIR (7/7/2007); IRMS, *ESF Cost to Complete* (7/5/2007)

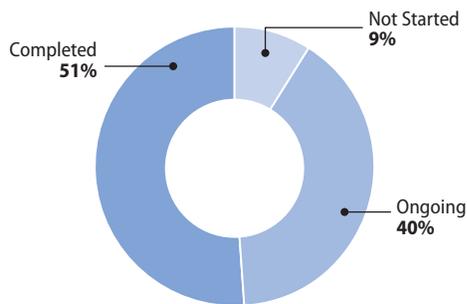


Note: Numbers are affected by rounding.
 a. FY 2005, FY 2006 and FY 2007.
 b. FY 2005 and FY 2006.
 c. FY 2006 Supplemental Funds (P.L. 109-234).



Figure 2.19

STATUS OF ISFF FY 2005, FY 2006, AND FY 2007 PROJECTS - SECURITY AND JUSTICE
TOTAL NUMBER OF PROJECTS: 478
 Source: IRMS, ITAO* Rollup (6/29/2007)



Note: Numbers are affected by rounding.
 * By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.

| Project Type | Not Started | Ongoing | Completed | Total |
|------------------------------|-------------|------------|------------|------------|
| Infrastructure | 33 | 127 | 122 | 282 |
| Training and Operations | 9 | 39 | 107 | 155 |
| Sustainment | | 26 | 10 | 36 |
| Equipment and Transportation | | 2 | 3 | 5 |
| Total | 42 | 194 | 242 | 478 |

Training, Equipping, and Fielding ISF

Although the Coalition has trained and equipped significant numbers of Iraqis, their capacity to conduct widespread counterinsurgency operations remains in question. As shown in Figure 2.20, the goals for required ISF end-state force levels have increased almost 225% above the initial estimates of the CPA's training programs. By the end of 2006, the number of trained forces met estimated end-state goals, and support efforts shifted to replacing force depletion and developing logistical capacities.⁵⁸ But in early 2007, overall force requirements were again increased to a goal of 385,000 trained ISF personnel.

This quarter, the number of trained and equipped ISF personnel increased by 22,100 to 353,100:

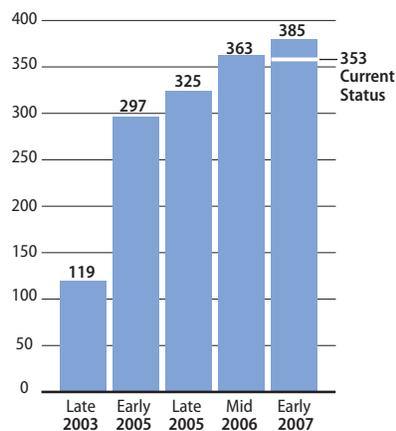
- 158,900 Iraqi Army, Navy, and Air Force personnel⁵⁹
- 194,200 police, highway patrol, and other Ministry of Interior officers⁶⁰

Figure 2.20

TRAINED AND EQUIPPED ISF PERSONNEL

Thousands

Sources: Statement of Work for Contract DABK01-03-R-0012, New Iraqi Army Training, June 9, 2003, p.4; CPA Update Briefing, Presidential Envoy to Iraq, September 2, 2003; DoD, "Measuring Stability and Security in Iraq," October 25, 2005; Former Commanding General of MNSTC-I, Statement for the House Armed Services Subcommittee on Oversight and Investigations on ISF, June 12, 2007.





Notwithstanding this extensive training, the *Initial Benchmark Assessment* questioned the capability of ISF units to operate independently, rating the GOI's progress as "unsatisfactory." The assessment stated that "the presence of Coalition partners and support remains necessary for ISF operations."⁶¹

Fielding and Equipping Trained Troops

As of May 14, 2007, 101 Iraqi Army (IA) combat battalions have become operational and are conducting operations at various levels of capability; 38 additional battalions are in the process.⁶² However, the actual present-for-duty number of Iraqi Army personnel continues to be lower than reported. DoD states that only 65% of authorized personnel are active on duty in fielded units at any given time.⁶³

To improve present-for-duty strength, MNSTC-I has funded training for 12,000 additional soldiers to bring combat unit levels to 110% of authorization. Initial training has already been completed for 10,300 of these new soldiers. In addition, MNSTC-I has funded the equipping of 18,000 new soldiers, who will serve as replacements for personnel losses.

Ministry of Defense forces are increasingly taking the lead in operations.⁶⁴ As of May 14, 2007, 9 Division Headquarters and 31 Brigade Headquarters had been assessed as capable of leading counter-insurgency operations, and 95 Iraqi Army battalions are now in the lead—up from 93 battalions in February. Although DoD reported last quarter that the Iraqi Ground Forces Command (IGFC) was expected to gain control of all ten Army divisions by June

2007,⁶⁵ MNC-I still has operational control over the fifth and seventh divisions as of May 14, 2007, and a complete transition is now expected by November 2007.⁶⁶

The logistics capability of the Ministry of Defense remains a key hindrance to the Iraqis' ability to assume the mission from the Coalition.⁶⁷ SIGIR has identified as "at risk" the MNF-I goal of a sustainable and manageable logistics operation at the Ministry of Defense by January 2008;⁶⁸ the projected transition dates of some of the activities lapsed this quarter.

A joint Iraqi and Coalition forces board is evaluating progress to determine when the Ministry of Defense will assume maintenance tasks. The ministry has "agreed, in principle to fund the National Maintenance Contract through May 2008 using a [foreign military sales (FMS)] case."⁶⁹ Contractors continue to be used to sustain 2 support battalions and 80 Garrison Support Units that provide logistics and support for divisions.

Other U.S.-funded initiatives include training and equipping the Strategic Infrastructure Battalions (SIBs)⁷⁰ and partnering Coalition forces with Iraq's various energy infrastructure protection forces.⁷¹ The Ministry of Defense has established 17 SIBs, which go through a two-phased re-training and equipping process to transform into regular Iraqi Army battalions.⁷² This quarter, DoD reported that 13 SIBs are assessed to be capable of conducting operations side by side with Coalition forces.⁷³



Training Iraqi Police

Iraqi police level forces trained include:

- Iraqi Police Service (IPS)
- National Police (NP)
- Facilities Protection Service (FPS)
- Directorate of Border Enforcement (DBE) and Directorate of Ports of Entry (POE)

IPS comprises the majority of the Ministry of Interior Personnel, reaching its manning target of 135,000 last quarter. Approximately 89% of authorized critical equipment has been distributed to IPS, and the rest will be delivered by the end of 2007. A significant portion of the equipment may no longer be serviceable because of combat loss and attrition.⁷⁴ Accountability for equipment transferred to IPS may also affect its availability for security uses.⁷⁵

In early 2004, the Coalition Police Assistance Transition Team (CPATT) was created to recruit, train, equip, and sustain IPS. However, because there was little distinction between Iraqi military forces and civilian rule-of-law police service, police were often trained by soldiers instead of police experts. As a result, some issues received less emphasis, including rule of law, human rights and treatment of suspects and prisoners, and policing in a democracy.⁷⁶

Currently, 222 Police Transition Teams (PTTs) are operating throughout Iraq to assist the development of IPS. Each team has 12 to 15 members. Most of these members are military personnel, and two to four team members

are civilian International Police Liaison Officers (IPLO), who provide civilian law enforcement expertise in technical aspects of criminal investigation and police station management.

In its March report to the Congress, DoD noted that, “costs and risk preclude deploying enough PTTs to cover all of Iraq’s police stations; at any time, only 5 of Iraq’s 18 provinces have sufficient PTTs to conduct the full range of activities ... [coaching, joint patrolling, evaluating performance].”⁷⁷ Since March, the Ministry of Interior conducted an initiative to assess performance and effectiveness of Iraqi police stations, inspecting 44 of Baghdad’s 47 stations.⁷⁸

Managing the National Police has been a problem for the Ministry of Interior. Thus, in October 2006, MNSTC-I implemented a four-phased National Police Transformation Program to redirect the program toward police functions. Phase 2 includes emphases on human rights, rule of law, and police ethics.⁷⁹ As of June 27, 2007, approximately 26,300 members of the NP have completed retraining.⁸⁰

The integrity of the NP, however, remains questionable. There have been numerous accusations that the NP are functioning as death squads, committing murder, torture, and kidnapping.⁸¹ In the past seven months, 7 of the 9 National Police Brigade Commanders and 16 battalion commanders have been replaced because of concerns about sectarian activities.⁸²

Similar to the PTTs, 39 National Police Transition Teams (NPTTs) now support the



development of National Police units by mentoring, training, and facilitating communication with Coalition forces, and they assess the operational readiness of the National Police.⁸³

The FPS protects infrastructure and facilities controlled by their respective 27 ministries. The FPS has also been a problem, with allegations of involvement in violent crimes and other illegal activity. Reform and centralization of FPS operations have been a stated objective since mid-2006.⁸⁴ But the Ministry of Finance has not yet centralized funding with the Ministry of Interior, and thus, the status of FPS personnel and equipment apparently remains aligned with their respective ministries.⁸⁵ Once consolidated, FPS personnel will total 98,000, down from 145,000 reported in 2006.⁸⁶

IRRF PROJECTS

By the end of June 2007, approximately 89% of IRRF-funded projects had been completed in the security and justice sector. For a list of IRRF projects and status, see Figure 2.21.

IRRF has funded the construction and rehabilitation of border forts, fire stations, police stations, public-safety training academies, prisons and corrections facilities, courthouses, and witness-protection facilities.⁸⁷ Past SIGIR inspections have reviewed border forts, police stations, courthouses, and prisons, with mixed results. For example, SIGIR's inspection of the border forts at Sulaymaniyah found design flaws that the contractors subsequently corrected.

Construction at the **Khan Bani Saad Correctional Facility** was scheduled for completion in late November 2007; however,

construction work at this project site was terminated on June 30, 2007 due to "impact of severe security issues and slow rate of progress by the contractor."⁸⁸ The new construction of the **Zarka Rehabilitation Center** in Dahuk was completed on June 20, 2007.⁸⁹

The 800-bed **Nassriya Correctional Facility** is estimated to be completed by November 2007, a month behind what was reported last quarter.⁹⁰ In mid-2006, a SIGIR inspection of the facility found the quality of work and sustainability elements to be at acceptable levels, although project slippage and cost overruns resulted in the scope of work being reduced from a 4,400-inmate facility.⁹¹ Currently, the project is 62% complete.⁹²

In addition to IRRF, the FY 2006 supplemental appropriated \$91.4 million in International Narcotics Control and Law Enforcement (INL) funding, of which \$82 million was for prison construction.⁹³ According to GRD, which is responsible for overseeing construction of the prison projects, most projects are in the pre-award stage under this program.⁹⁴ The last IRRF-funded security and justice construction project, the **Al Hillah Courthouse**, is scheduled to be completed in late August 2008.⁹⁵

This quarter, SIGIR project assessments found that the **Al Rasheed Brigade Base** and the **Iraqi Ministry of Defense Building** met design standards and are both fully operational. Construction at the **Iraqi C-130 Base** also met contract requirements, but generator sustainability was a problem. For additional information on these assessments, see Section 3 of this Report.

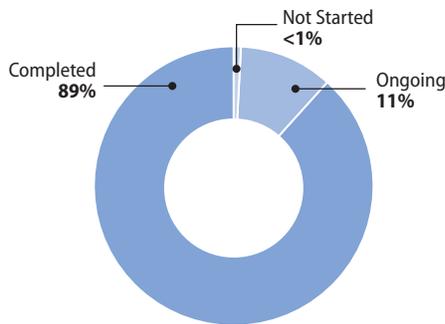


Figure 2.21

STATUS OF IRRF 2 PROJECTS - SECURITY AND JUSTICE

TOTAL NUMBER OF PROJECTS: 3,169

Sources: IRMS, ITAO* Rollup (6/29/2007); USAID, Activities Report (7/12/2007)



Note: Numbers are affected by rounding.
 * By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.

| Project Type | Not Started | Ongoing | Completed | Total |
|---|-------------|------------|--------------|--------------|
| Marla Ruzicka Iraq War Victims Fund | | 169 | 1,104 | 1,273 |
| Commanders Humanitarian Relief and Reconstruction | | 1 | 602 | 603 |
| Facilities Repair | | 9 | 426 | 435 |
| Border Enforcement | 2 | 1 | 270 | 273 |
| Focused Stabilization | | 123 | 115 | 238 |
| Establish New Iraqi Army | 2 | 9 | 76 | 87 |
| Iraqi Civil Defense Corps | 4 | 7 | 72 | 83 |
| Police Training and Assistance | 9 | 5 | 60 | 74 |
| Judicial Security and Facilities | | 6 | 31 | 37 |
| Investigations of Crimes Against Humanity | | 1 | 34 | 35 |
| Miscellaneous | | 2 | 7 | 9 |
| Reconstruction of Detention Facilities | | 3 | 2 | 5 |
| Witness Protection Program | | 4 | 1 | 5 |
| National Security Communications Network | | | 3 | 3 |
| Penal Facilities | | 1 | 2 | 3 |
| Public Safety Training and Facilities | | 1 | 2 | 3 |
| Facilities Protection Services | | | 2 | 2 |
| Security and Law Enforcement | | | 1 | 1 |
| Total | 17 | 342 | 2,810 | 3,169 |



ESF PROJECTS

Approximately 21% of the ESF FY 2006 Supplemental was appropriated to the security sector. USACE entered into an interagency agreement that fully committed the \$277 million programmed to Infrastructure Security Protection (ISP), which represents approximately 88% of ESF funds in this sector. Of the programmed amount for ISP, GRD has obligated approximately \$34.42 million and expended \$2.09 million.⁹⁶ SIGIR has requested review of the problem presented by infrastructure security, and this ESF funding has helped address that problem.

Examples of ISP projects include:

- **Exclusion Zones:** protected areas to provide security to linear infrastructure, typically comprising fencing, setbacks, towers, berms, and ditches
- **Intrusion Detection Systems:** electronic sensors to detect perimeter breaches
- **Identity:** biometric vetting and creation of the Iraq National ID Card program, which provides a basic foundation to identify and vet Iraqi citizens and foreign nationals
- **Infrastructure Hardening:** such as chain-link fence, razor wire, guard towers, and barriers to better protect critical infrastructure against interdiction attempts and security breaches⁹⁷

The ISP projects are typically designed for facilities hardening, improved lighting, communications, and improvements to forward-operating bases used by the Iraqi Army to

protect critical infrastructure.⁹⁸ Most of these projects are for oil pipeline exclusion zones and electrical transmission towers and will be solicited, awarded, and administered by GRD.⁹⁹ Figure 2.22 shows the status of ESF projects in the security and justice sector.

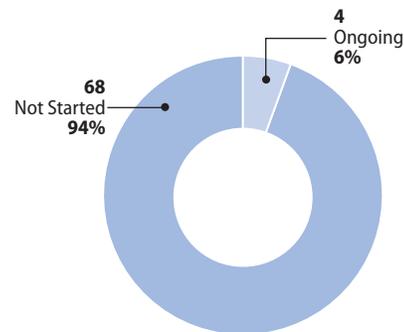
CERP

CERP FY 2006 and FY 2007 funds represent less than 1% of the total U.S. funds for security projects in Iraq and 7% of the total CERP FY 2006 and FY 2007 funds for reconstruction in Iraq.

As of early July, 1,019 of the 1,400 planned projects have been completed, and 381 are ongoing. CERP security projects include repairs of civic and cultural facilities, restoration of damage resulting from military opera-

Figure 2.22

STATUS OF ESF* PROJECTS - SECURITY AND JUSTICE
TOTAL NUMBER OF PROJECTS: 72
 Sources: IRMS, *ESF Cost to Complete* (7/5/2007); IRMS, *ESF Project Tracker* (6/29/2007)



* Funded by the ESF FY 2006 Supplemental.

SECURITY AND JUSTICE

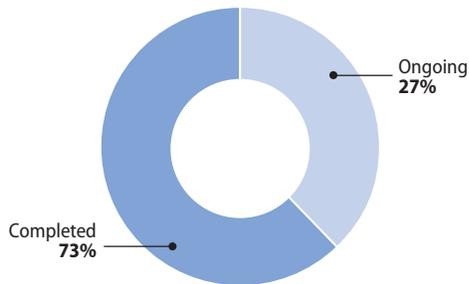


Figure 2.23

STATUS OF CERP FY 2006 AND FY 2007 PROJECTS - SECURITY AND JUSTICE

TOTAL NUMBER OF PROJECTS: 1,400

Source: MNC-I, Response to SIGIR (7/7/2007)



| Project Type | Ongoing | Completed | Total |
|---|------------|--------------|--------------|
| Condolence Payments | 202 | 586 | 788 |
| Rule of Law and Governance | 68 | 237 | 305 |
| Repair of Civic or Cultural Facilities | 71 | 105 | 176 |
| Repair of Damage from Military Operations | 40 | 91 | 131 |
| Total | 381 | 1,019 | 1,400 |

tions, rule-of-law and governance projects, and condolence payments. Infrastructure-hardening projects were also completed last year using CERP funds.¹⁰⁰ See Figure 2.23 on CERP-funded project status.

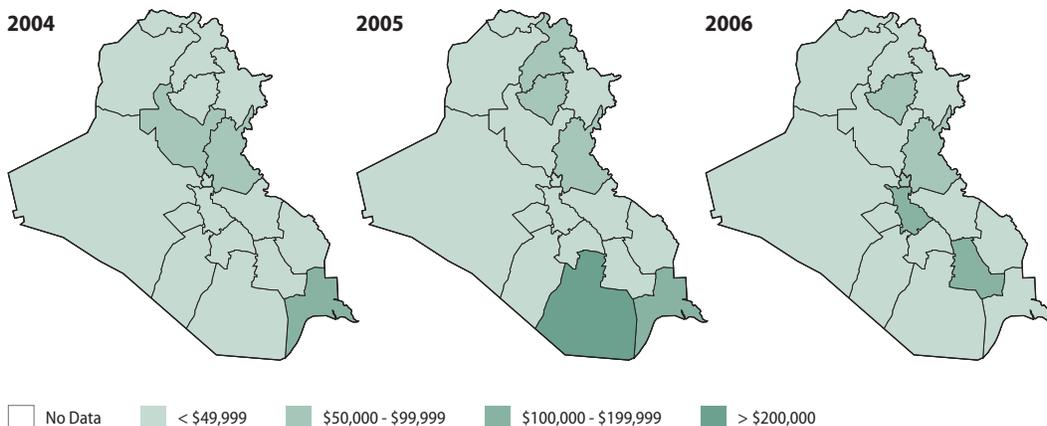
Since 2004, CERP security projects have averaged approximately \$40,000 per project.

From 2004 to 2006, the Baghdad province experienced an increase in the average value per security project from approximately \$18,000 in 2004 to approximately \$68,000 in 2006. Figure 2.24 shows the change in the average value per project for years 2004, 2005, and 2006.

Figure 2.24

AVERAGE VALUE PER CERP SECURITY PROJECT BY GOVERNORATE

Source: IRMS, CERP Excel Workbook (6/29/2007)



Note:

Data is compiled using FY 2004, FY 2005, and FY 2006 CERP funds. The years indicated correspond to the actual start dates of the projects.

**PROVINCIAL
RECONSTRUCTION
TEAMS**

PROVINCIAL RECONSTRUCTION TEAMS

The Provincial Reconstruction Team (PRT) program is the most important nationwide capacity-building program in Iraq. It is a civil-military undertaking that provides a platform to help develop the capacity of Iraq's provincial governments.

A PRT has a mix of civilian and military staff, numbering from 30 to 100 members, including locally employed Iraqis.¹⁰¹ PRTs work to build provincial governance capacity in each of Iraq's 18 provinces and seek to facilitate the integration of the operational connections between the central government and the provincial governments.¹⁰²

According to SIGIR's new audit of the PRT program, the mission of the PRTs is a four-year effort, with the first two years focused on providing provincial governments necessary capacity development. As the provincial governments demonstrate increased capability to govern and manage their security environment, the PRT mission will transition to a more traditional USAID training program focused on developing governance capacity below the provincial level.¹⁰³ For more information about SIGIR's audit of the PRT expansion program, see Section 3.

Embedded PRTs

The President's January 2007 plan to surge the number of PRTs in conjunction with the military surge was implemented this quarter.¹⁰⁴ In mid-April 2007, an additional ten PRTs were deployed,¹⁰⁵ and full staffing of civilian personnel for the new PRTs is anticipated by December 2007.¹⁰⁶ As of July 12, 2007, approximately half of the scheduled 300 additional PRT personnel have been deployed.¹⁰⁷

The original ten PRTs continue to operate in permanent locales at the provincial level. The new PRTs, however, are mobile units, embedded within Brigade Combat Teams (BCTs) and working at the district and municipal levels.¹⁰⁸ The embedded PRTs (ePRTs) have a current primary mission of supporting counterinsurgency operations.¹⁰⁹ They include four core members: team leader, senior development specialist, civil affairs officer, and bilingual-bicultural adviser.

This embedded structure provides organic security for the ePRTs, allowing them to operate in more difficult security environments.¹¹⁰ The first ten ePRTs were deployed to unstable, yet strategically significant, areas: six in Baghdad, three in Anbar, and one in northern Babylon.¹¹¹

In June 2007, the decision was made to add four additional ePRTs—three in Baghdad, one in southern Diyala—to support arriving

PROVINCIAL RECONSTRUCTION TEAMS



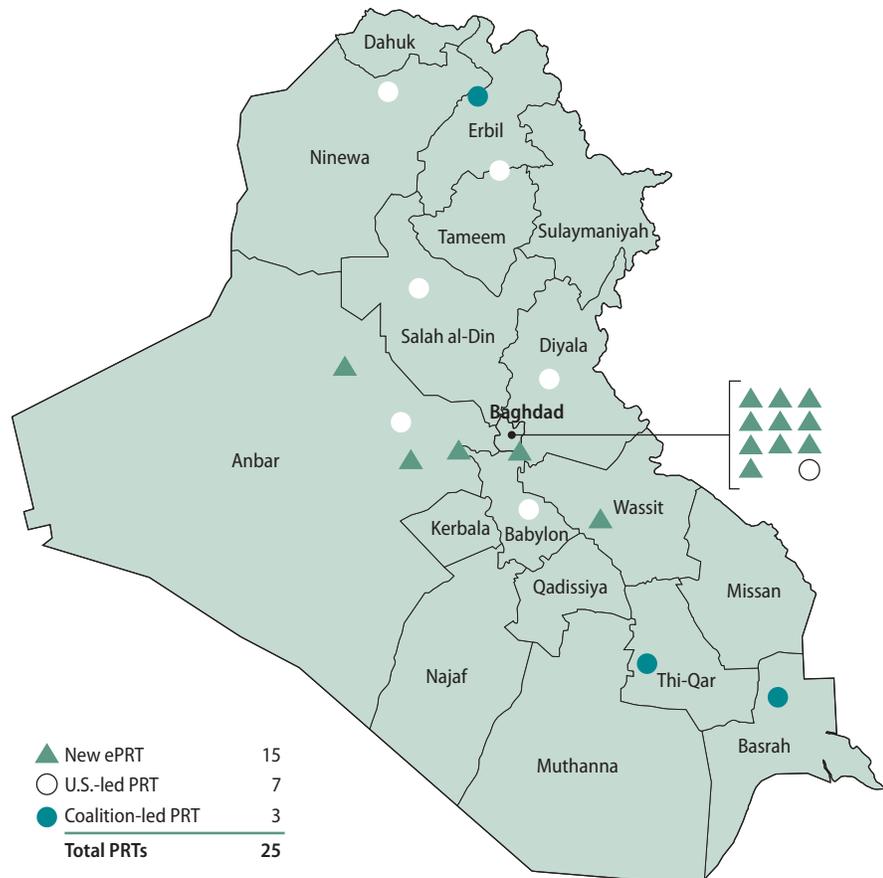
BCTs. Plans are evolving to embed the Wassit Provincial Support Team members in a brigade headquarters in Kut.¹¹² These developments will increase the total number of PRTs to 25 (10 original PRTs, 10 ePRTs, and the recently added 5 ePRTs), with a combined staff of about 700.¹¹³

The expanded PRT program will “double the U.S. civilian presence in the provinces and decentralize efforts to accelerate transition to Iraqi self-reliance.”¹¹⁴ Figure 2.25 shows the location of the PRTs and ePRTs throughout Iraq.

Figure 2.25

PROVINCIAL RECONSTRUCTION TEAM (PRT) PROGRAM EXPANSION

Source: SIGIR analysis of MNC-I data, as reported in SIGIR Audit 07-014, “Status of the Provincial Reconstruction Team Program Expansion in Iraq,” July 2007.

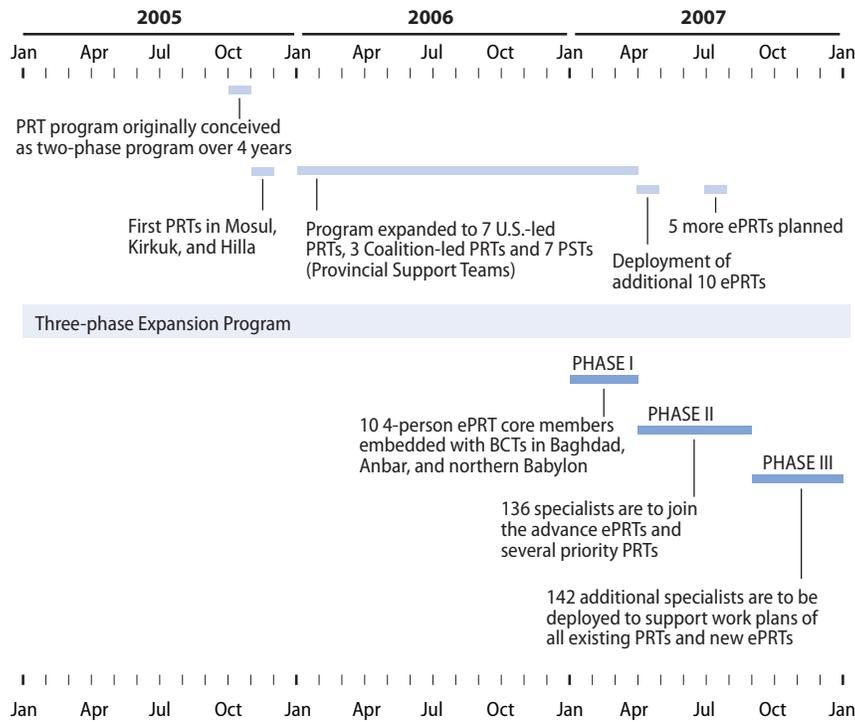


PROVINCIAL RECONSTRUCTION TEAMS

Figure 2.26

PRT PROGRAM TIMELINE

Source: SIGIR Audit 07-014, "Status of the Provincial Reconstruction Team Program Expansion in Iraq," (July 2007)



PRT Challenges

SIGIR previously reported that PRTs faced challenges in resources and staffing. DoS is introducing a different assignment cycle to address the staffing problem. The DoS Director of Human Resources stated on June 19, 2007, "In order to continue to effectively meet the challenge we face in staffing Embassy Baghdad and the Iraq PRTs with qualified officers, [DoS has] introduced a first-ever, country-specific, special assignments cycle for Iraq. This new cycle will ensure that we once again fully staff our mission in Iraq for next year...before any other Foreign Service staffing decisions are made."¹¹⁵

Additionally, the three-phase expansion program has a plan for the timing of the staffing of PRTs. Figure 2.26 provides an overview of the PRT program in Iraq and shows the timeline of staffing of PRTs throughout the

three phases of the PRT expansion program.

As of July 20, 2007, DoD deployed 70 specialists for the second phase. DoD plans to deploy an additional 34 specialists by the end of August 2007. USAID, the U.S. Department of Agriculture (USDA), and DoS plan to have in place an additional 32 specialists by September.¹¹⁶

Additional staffing challenges have emerged with the transition of PRT support responsibilities from IRMO to the Office of Provincial Affairs (OPA), which has oversight of the PRTs. The Embassy has had difficulty staffing critical positions and establishing continuity during the transition.¹¹⁷ SIGIR recommended that OPA develop a workforce plan to fill vacancies of critical staff managing the PRT program.¹¹⁸

SIGIR's audit on the PRT program reported that measuring the effectiveness of the PRTs remains a challenge. Only two of the original

PROVINCIAL RECONSTRUCTION TEAMS



U.S. SUPPORT FOR THE PRT PROGRAM (MILLIONS)

| PRT FUNDING CATEGORY | FY 2006 SUPPLEMENTAL ENACTED | FY 2007 SUPPLEMENTAL ENACTED | TOTAL | FY 2008 BUDGET REQUESTED |
|---------------------------------|------------------------------|------------------------------|----------------|--------------------------|
| Operational Funding | \$230 ^a | \$414 | \$644 | \$679 |
| Program Funding from ESF | | | | |
| PRT/PRDC Projects | 315 | 720 | 1,035 | 160 |
| PRT Local Government Program | 155 | 90 | 245 | 98 ^b |
| Total ESF | 470 | 810 | 1,280 | 258^c |
| Grand Total | \$700 | \$1,224 | \$1,924 | \$937 |

Source: DoS, reported in SIGIR Audit 07-014, "Status of the Provincial Reconstruction Team Program Expansion in Iraq," July 2007.

Notes:

^a None of the operating funds from FY 2006 were obligated or expended in FY 2006; they were carried forward into FY 2007.

^b Includes \$33 million base and \$65 million in Global War on Terror (GWOT) funding. (Source: USAID, response to SIGIR, July 18, 2007.)

^c Includes \$93 million in base agency funding and \$165 million in GWOT funding.

TABLE 2.5

ten PRTs in operation have submitted work plans to OPA, making it difficult to determine what the PRTs aim to accomplish. SIGIR has recommended that the U.S. Ambassador to Iraq and MNF-I develop a performance monitoring system.¹¹⁹ Section 3 of this Report provides additional information about SIGIR's audit of the PRT expansion program.

On the project execution level, security continues to hinder PRT efforts. At the provincial level, the ongoing violence makes it difficult to retain local staff and to visit project sites, according to USAID.¹²⁰

U.S. Support

As of June 2007, the United States has appropriated \$1.924 billion to support the PRT program; an additional \$937 million was requested for FY 2008.¹²¹ Approximately 67%¹²² of the \$1.924 billion are ESF funds.

Table 2.5 shows the U.S. support for the PRT program for FY 2006 to FY 2008.

ESF FY 2006 supplemental funds totaled \$470 million, of which USAID obligated \$155 million and, as of July 18, 2007, has not made any expenditure.¹²³ GRD obligated \$110.16

million and expended \$6.95 million. As of July 12, 2007, the ESF FY 2007 Supplemental has yet to be released.¹²⁴ The status of ESF FY 2006 supplemental monies is shown in Figure 2.27.

CERP projects work to "pacify the local populations where PRTs reside."¹²⁵ PRTs will continue to be a critical component to U.S.-funded efforts. Non-U.S. funding sources include the Development Fund for Iraq, Coalition partners, non-governmental organizations (NGOs), and donor nations.¹²⁶

ESF

PRTs help implement many U.S. efforts through CERP, IRRF, and ESF funds in partnership with the Provincial Reconstruction Development Committees (PRDCs). However, two programs—PRT/PRDC Projects and PRT Local Government Support—have allocated amounts specifically for PRT projects. Approximately 50%¹²⁷ of the ESF FY 2006 Supplemental allocated to the ESF security track went to GRD's PRT/PRDC Projects and USAID's PRT Local Government Support. Combined appropriated funds for these two programs increased from \$470 million in FY 2006 to



Figure 2.27

OBLIGATIONS FOR PRTs

\$ Billions, \$.265 Billion Total

Sources: IRMS, *ESF Cost to Complete* (7/5/2007); USAID, *Activities Report* (7/12/2007)



Note: Numbers are affected by rounding.
* FY 2006 Supplemental Funds (P.L.109-234).

\$810 million from the FY 2007 Supplemental, an increase of approximately 72%.¹²⁸

Figure 2.28 shows the status of ESF-funded projects for these two programs.

PRT/PRDC Projects

PRTs and PRDCs work at the local level to support reconstruction decision-making by provincial Iraqi officials. The shift to a more decentralized process means that the PRDC method for awarding projects has also evolved. USACE has implemented an interagency agreement that provides procedures for the submission of projects through Iraqi-led PRDCs and the approval of projects through the National Embassy Team (NET).

Under the process, PRDCs, PRTs, and the Provincial Council work together to nominate

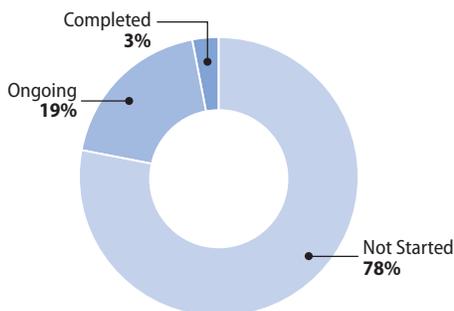
projects and obtain approval through NET.¹²⁹ For example, in Anbar, “procedural details to develop project lists have been worked between the Governor and Provincial Council Chairman. The Anbar PRT is actively engaged in this process by bringing the Governor and Provincial Council Chairman to Baghdad to report on their project list development status.”¹³⁰

As of June 28, 2007, the Iraqi PRDCs have submitted a list of 304 prioritized projects totaling approximately \$432 million to the ITAO office at the U.S. Embassy in Baghdad for consideration.¹³¹ As of July 2, 2007, NET has approved 198 projects, of which 100 projects have been awarded with a total value of more than \$130 million.¹³² Approximately 41% of the available \$315 million has been awarded.

Figure 2.28

STATUS OF ESF* PROJECTS - PRTs
TOTAL NUMBER OF PROJECTS: 237

Sources: IRMS, *ESF Project Tracker* (6/29/2007); USAID, *Activities Report* (7/12/2007)



| Project Type | Not Started | Ongoing | Completed | Total |
|-------------------------------|-------------|-----------|-----------|------------|
| PRT/PRDC Projects | 186 | 42 | 6 | 234 |
| PRTs Local Government Support | | 3 | | 3 |
| Total | 186 | 45 | 6 | 237 |

* Funded by the ESF FY 2006 Supplemental.

PROVINCIAL RECONSTRUCTION TEAMS



Figure 2.29

PRT/PRDC PROJECTS - APPROVED AND AWARDED AMOUNTS
\$ Millions
Source: GRD, Response to SIGIR (7/21/2007)

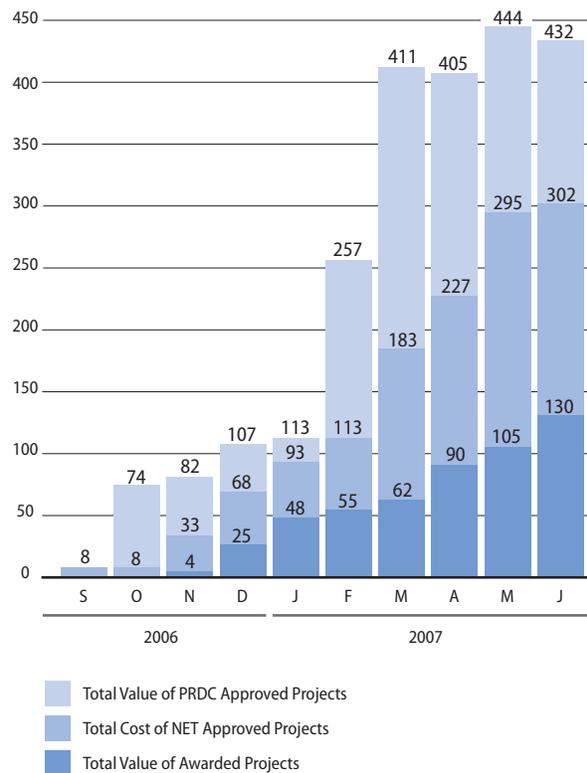


Figure 2.29 shows the values of the projects that have been approved by PRDCs, the total cost approved by NET, and the total awarded since September 2006.

The following activities were reported for individual provinces through this quarter:

- 41 contracts totaling \$71.7 million have been awarded for PRDC projects in Baghdad; approximately 61% of the \$118 million was allocated to Baghdad.¹³³
- An additional \$12.2 million in funding has been requested by the Anbar PRDC.¹³⁴
- Six provinces with combined ESF allocations of approximately \$84.7 million have not awarded a PRDC project.¹³⁵

Figure 2.30 presents a distribution of NET-approved and awarded projects by governorate.

PRT Local Government Support

ESF's **Local Governance Program (LGP)** complements the efforts of PRTs by supporting provincial and local government policy reform, a decentralized mode of governance, government to citizen services, economic development, and transparency and accountability support. USAID obligated the entire \$155 million of FY 2006 ESF Supplemental under the existing LGP contract. In the six months before June 2007, LGP reported these outputs:¹³⁶

- 2,779 people were trained to strengthen their local government skills and capacities.
- 16 Provincial Councils and 64 lower-level councils received performance improvement assistance.

- 560 people in government were trained to strengthen transparency.

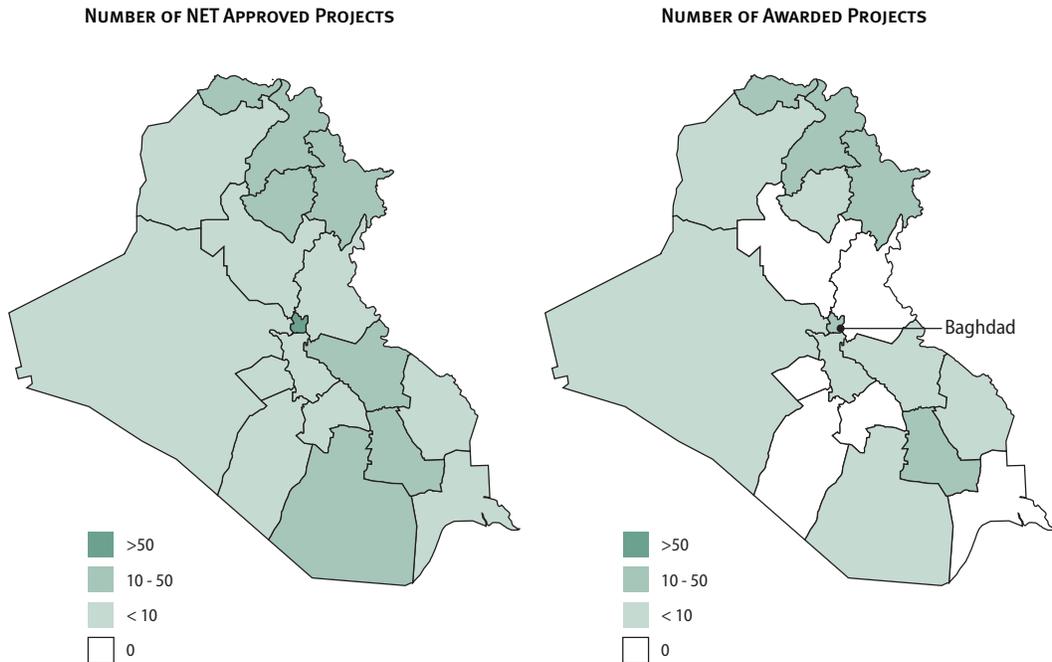
Additionally, through the PRTs, the funds will help build the capacity of local administrators to direct services in a number of areas.¹³⁷ One of the LGP efforts was the USAID's conference on "Strengthening Public Participation in Babil [Babylon] Local Government." Babylon Provincial Council members delivered presentations on the structure of local government and its authority within its framework to more than 250 attendees—representatives from NGOs, community action groups, university professors, and council members.¹³⁸



Figure 2.30

PRT/PRDC PROJECTS

Source: ITAO,* *Weekly Status Report (7/3/2007)*



Note: Erbil, Sulaymaniyah, and Dahuk are combined under KRG, which in total has 30 NET approved and 20 awarded projects.
* By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to IRMO.

Iraqi Support

PRTs track Iraqi expenditures in the provinces and provide OPA with updates on the progress of Iraqi involvement in capacity development efforts at the provincial level.

The total funding available for provincial budgets in 2007 is approximately \$5.4 billion:¹³⁹

- Iraq put \$2.4 billion toward provincial spending.¹⁴⁰
- Ministry funds provide \$2 billion.¹⁴¹
- Remaining provincial funds from 2006 total \$1 billion.¹⁴²

Based on monthly PRT data, most Iraqi provinces executed more than 50% of their 2006 budgets.¹⁴³

- Seven provinces reported 100% of their 2006 budget contracted.
- Five provinces reported more than 90% of their 2006 budget contracted.

DoS reports that “though the FY 2006 Budget Law allocated funds ‘to be expended until [December 31, 2006];’ subsequently, GOI has allowed the provinces to continue to expend those FY 2006 monies in 2007.”¹⁴⁴

Several provinces continue to struggle with budget execution and tracking. Provincial budgets are a new idea; under Saddam, provinces had no spending authority.¹⁴⁵ According to the U.S. Treasury, the provinces’ limited capacity to understand and implement the contracting

PROVINCIAL RECONSTRUCTION TEAMS



IRAQ'S CAPITAL BUDGET OBLIGATIONS, BY GOVERNORATE

| PROVINCE | 2006 BUDGET OBLIGATED (US \$ MILLIONS) | | | 2007 BUDGET OBLIGATED (US \$ MILLIONS) | | |
|-------------------------------|--|------------------|-------------|--|------------------|-------------|
| | BUDGET ALLOCATED | AMOUNT OBLIGATED | % OBLIGATED | BUDGET ALLOCATED | AMOUNT OBLIGATED | % OBLIGATED |
| Baghdad | \$598 | \$598 | 100% | \$559 | \$264 | 47% |
| Ninewa | \$240 | \$240 | 100% | \$226 | \$36 | 16% |
| Basrah | \$205 | \$197 | 96% | \$195 | \$90 | 46% |
| Thi-Qar | \$197 | \$197 | 100% | \$138 | \$119 | 86% |
| Babylon | \$132 | \$132 | 100% | \$112 | \$112 | 100% |
| Diyala | \$118 | \$23 | 20% | \$109 | \$0 | 0% |
| Salah al-Din | \$99 | \$101 | 100% | \$93 | \$33 | 35% |
| Anbar | \$97 | \$54 | 56% | \$107 | \$0 | 0% |
| Tameem | \$97 | \$97 | 100% | \$90 | \$25 | 28% |
| Najaf | \$94 | \$86 | 92% | \$88 | \$32 | 36% |
| Qadisiya | \$88 | \$88 | 100% | \$64 | \$29 | 46% |
| Wassit | \$88 | \$56 | 63% | \$83 | \$32 | 38% |
| Kerbala | \$74 | \$67 | 90% | \$71 | \$58 | 81% |
| Kurdistan Regional Government | \$63 | \$57 | 91% | \$127 | \$3 | 2% |
| Muthanna | \$55 | \$50 | 92% | \$52 | \$16 | 30% |
| Missan | \$0 | \$0 | 0% | \$0 | \$0 | 0% |
| Total | \$2,245 | \$2,043 | 91% | \$2,114 | \$849 | 40% |

Source: MNF-I, Provincial Budget Execution presentation, July 18, 2007.

Note: Totals have been changed to more accurately reflect data.

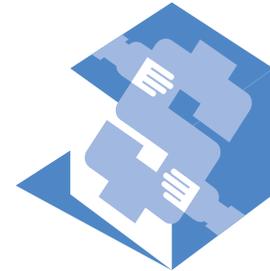
TABLE 2.6

procedures is exacerbated by the short list of companies willing to take on a contract, given the security situation.¹⁴⁶

Diyala has executed only 20% of its 2006 budget.¹⁴⁷ MNF-I reports that Diyala is experiencing several challenges that have limited its ability to spend its provincial budget. Diyala lacks qualified staff, and the province needs significant improvement on the security front.¹⁴⁸ USAID's LGP works with the PRT in Diyala to develop an execution process that will more efficiently move plans for capital projects through Diyala's local government.¹⁴⁹

Anbar also has been experiencing budget difficulties because of a cash shortage.¹⁵⁰ Without the cash to pay its contractors, Anbar is limited in its ability to execute its budget. For this reason, only 56% of Anbar's 2006 budget has been expended, and none of its 2007 budget.¹⁵¹

Table 2.6 shows the status of the capital budgets of Iraq's provinces in 2006 and year-to-date 2007. The bottom row shows total budgets, total obligated amounts, and the national average percentage of budgets executed in Iraq for each year.¹⁵²

**CAPACITY
DEVELOPMENT**

CAPACITY DEVELOPMENT

Capacity development must be an essential part of the U.S. strategy to strengthen Iraq's public sector. Capacity development activities facilitate the transfer of knowledge, skills, and abilities across a range of GOI functions.¹⁵³

In October 2005, SIGIR reported on a growing recognition within the U.S. government that the GOI was not prepared to assume the near- or long-term management and funding of the infrastructure developed through U.S.-managed IRRF projects.

As a result, IRMO and USAID began planning to provide more capacity development support to Iraqi ministries and executive institutions.

U.S. support targets three key areas:

- improving budget preparation and execution
- improving the ability to support and sustain critical infrastructure projects
- improving the management capacity of the Iraqi ministries and civil service

The lack of an integrated capacity development strategy has inhibited U.S. efforts since the inception of the reconstruction program.

Budget Execution

Iraq's 2006 budget totaled \$34 billion; its 2007 budget is \$41 billion.¹⁵⁴ But only 22% of the 2006 capital budget was spent last year.¹⁵⁵ By contrast, ministry execution rates of administrative budgets (salaries) were at 99%.¹⁵⁶

The GOI failed to spend any of its January 2007 \$0.8 billion capital expenditures¹⁵⁷ because the 2007 budget was not approved until February 2007. Passage of the budget cleared the way for an increase in budget expenditure, and in February 2007, \$2.454 billion of the budget was spent.¹⁵⁸ No budget execution data has been reported for March 2007.¹⁵⁹

The GOI continues to face many challenges in meeting its goal to fully execute the 2007 budget within the year. "Sustaining progress through September to meet this benchmark at year-end requires accelerated spending and procurement activity, which are challenging tasks in the face of capacity constraints and security problems."¹⁶⁰

The unpredictable nature of Iraq's revenue adds to these concerns. Iraq's 2007 budget depends largely on revenue that fluctuates with the price of oil. It is difficult to predict the



GOI's 2007 income without a clear idea of the cost per barrel.¹⁶¹

PROCUREMENT PROCESS

The complicated procurement process is one cause of capital budget execution delays. GAO reported that “the lack of agreed-upon procurement and budgeting rules causes confusion among ministry officials and creates opportunities for corruption and mismanagement.”¹⁶²

The Iraqi procurement process is complex.¹⁶³

1. Contracts for more than \$5 million are reviewed/approved by High Contracts Committee.
2. The spending ministry awards the contract to its chosen vendor.
3. The spending ministry applies for a letter of credit (L/C).
4. The application is submitted through the Ministry of Finance.
5. The Ministry of Finance passes the application to the Trade Bank of Iraq (TBI).
6. The Ministry of Finance authorizes the Central Bank of Iraq to release funds equal to 100% of the total value of the L/C to J.P. Morgan (JPM).
7. TBI sends the L/C application electronically to JPM.
8. JPM sends the L/C application to a Consortium Bank.
9. The Consortium Bank issues the L/C to Vendor Bank.

ADDRESSING THE CHALLENGES TO BUDGET EXECUTION

The GOI has formed a Budget Execution Monitoring Unit (BEMU), run by the Deputy Prime Minister, in an effort to address budget execution challenges. The unit is tasked with improving Iraqi budget processes. Treasury reports that the BEMU will ultimately take over Treasury's role in reporting on Iraqi budgets.¹⁶⁴

In February, the Ministry of Finance issued the early release of 10% of each budget in an effort to increase efficient budget execution.¹⁶⁵ In addition, as reported last quarter by SIGIR, the GOI has instituted a new budgetary policy: any ministry that fails to obligate 25% or more of its budget by the end of June 2007 will risk losing some of that budget. The Ministry of Finance is authorized to reallocate these unused ministry funds.¹⁶⁶

The Ministry of Planning, in association with the Joint Contracting Command-Iraq/Afghanistan (JCC-I/A), has formed a Procurement Assistance Center (PAC) to train ministry procurement officers in writing spending requests.¹⁶⁷ The PAC defines its mission as follows: “Assist the Government of Iraq to execute its capital budget by developing professional people, end-to-end processes, and enabling technology.”¹⁶⁸ Some of the PAC's short-term objectives include:¹⁶⁹

- create standard forms for budget process
- conduct initial training for ministries and provinces
- create a PAC website and help desk



The U.S. government has been working closely with the GOI to address budget execution challenges. In April 2007, DoS authorized DoD to offer commodities and services to the GOI to ease budget execution problems, according to GAO. This aid would be provided on an “advance-of-funds basis,” which would require the GOI to issue an official request for the U.S. government’s services.¹⁷⁰

These organizations are working in coordination with the GOI to improve the national budget process:¹⁷¹

- DoD Task Force To Improve Business and Stability Operations (TF-BSO)
- JCC-I/A
- Treasury
- DoS

TF-BSO has two teams working with the Ministry of Planning on budget execution. One of these teams operates from Baghdad, and the other works with the Kurdistan Regional Government (KRG) from a satellite office.¹⁷²

The Ministry of Defense and the Ministry of Interior have also been seeking experts to help them execute their 2007 budgets through U.S. Foreign Military Sales (FMS).¹⁷³ The Defense Security Cooperation Agency defines FMS as “the government-to-government method for selling U.S. defense equipment, services, and training.”¹⁷⁴

The GOI has provided \$1.7 billion for FMS services, including aid for budget execution.¹⁷⁵ The DoS FY 2008 budget anticipates that Iraq will spend an estimated \$1 billion in FMS services per year for 2007 and 2008.¹⁷⁶

Despite difficulties in budget execution in 2006, the GOI’s security budget for 2007 will increase from \$5.4 billion to \$7.3 billion. DoD reports that this budget increase is evidence of the GOI’s independence and increased focus on security. However, GAO’s report on Iraq’s security budget and management raises questions about the ability of the GOI to effectively execute this larger budget. GAO warns: “As the U.S. government transfers more of its security responsibilities to the Iraqi government, it is important that the Iraqi government demonstrate that it can execute its approved budget more effectively.”¹⁷⁷

U.S. Support

In addition to supporting improved budget execution, U.S. activities in this sector focus on building other capacities across the GOI. Efforts in this area range from O&M training at the individual project level up to the ministries. Specialized U.S. agencies¹⁷⁸ provide targeted support directly to the Iraqis and in collaboration with other international donors. For more information on international donor efforts, see International Support for Iraq Reconstruction later in this section.

FUNDING STATUS

Capacity development has been allocated \$165 million in total ESF FY 2006 funding, which is more than 11% of overall ESF funds.¹⁷⁹ These U.S. agencies received funding for capacity-development programs:



- \$60 million went to USAID for Ministerial Capacity Development.
- \$45 million went to IRMO (now ITAO) for Ministerial Capacity Development.
- \$60 million went to GRD for Plant-Level Capacity Development and Technical Training.¹⁸⁰

Of the \$124.12 million that has been obligated to date, approximately 17.3% (\$21.43 million) has been expended.¹⁸¹ For the status of funds in the capacity development sector, see Figure 2.31.

ESF is funding 59 projects across 2 areas—Ministerial Capacity Development (USAID and ITAO) and Capacity Development and Technical Training (GRD). In Ministerial Capacity Development, there is one ongoing project. In Capacity Development and Technical Training, almost 75% of projects have not started and 25% are ongoing.¹⁸² Figure 2.32 shows the status of ESF projects in the capacity development sector.

Short-term Initiatives

ITAO is tasked with short-term initiatives, which use teams to strengthen policy functions across the GOI. It supports training in procurement and contracting, budget assistance, English language, and the Financial Management Information System (FMIS). The office also provides support to bilingual and bicultural advisors, as well as the development of the Ministry of Electricity’s master plan.¹⁸³

Medium-term and Long-term Initiatives

USAID’s \$165 million National Capacity Development (NCD) Program is working to strengthen the GOI’s policy functions and personnel.¹⁸⁴ Approximately \$65 million of NCD has been obligated since the program began in August 2006.¹⁸⁵

The NCD, also known as Tatweer, operates in the Ministries of Oil, Electricity, Finance, Water, Health, Education, Justice, Planning and Development Cooperation, Agriculture, and Public Works. In addition, the program works with the Prime Minister’s Office and the Council of Ministers’ Secretariat.¹⁸⁶

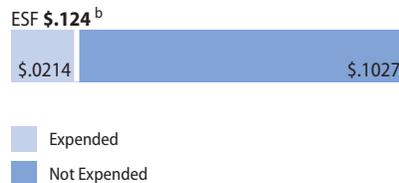
Tatweer offers ministerial support and provides guidance to foster sustainable policy mechanisms, regulations, and personnel development.¹⁸⁷ Public Management Advisors (PMAs) work in the ministries to assist with “development planning and implementation.”¹⁸⁸ Currently, PMAs are staffed in seven of

Figure 2.31

OBLIGATIONS TO CAPACITY DEVELOPMENT

\$ Billions, \$.124 Billion Total

Sources: ITAO,^a *Weekly Status Report* (6/26/2007); IRMS, *ESF Cost to Complete* (7/5/2007); USAID, *Activities Report* (7/12/2007); ITAO, Response to SIGIR, (7/14/2007)



Note: Numbers are affected by rounding.
a. By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.
b. FY 2006 Supplemental Funds (P.L. 109-234).

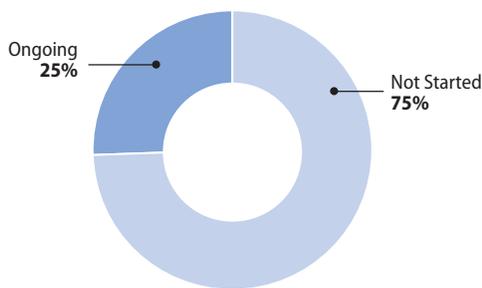


Figure 2.32

STATUS OF ESF* PROJECTS - CAPACITY DEVELOPMENT

TOTAL NUMBER OF PROJECTS: 59

Sources: IRMS, ESF Cost to Complete (7/5/2007); IRMS, ESF Project Tracker (6/29/2007); USAID, Activities Report (7/12/2007)



| Project Type | Not Started | Ongoing | Completed | Total |
|---|-------------|-----------|-----------|-----------|
| Capacity Development and Technical Training | 44 | 14 | | 58 |
| Ministerial Capacity Development | | 1 | | 1 |
| Total | 44 | 15 | | 59 |

* Funded by the ESF FY 2006 Supplemental.

the ten targeted ministries, except for the Ministries of Finance, Justice, and Education.¹⁸⁹

Tatweer has also established a scholarship program that enables Iraqi civil servants to earn advanced degrees in public administration; renovated Iraq’s National Center for Consultation and Management Development building; set up regional offices in Erbil and Mosul; and developed training programs in procurement, information technology, financial management, policy development, and administration.¹⁹⁰

In May 2007, Tatweer awarded 75 scholarships for Iraqi public servants. The students (36% female) come from 11 provinces and “represent 14 central government institutions, plus the Kurdish Regional Government....”¹⁹¹ In July 2007, USAID reported that 80 scholarships had been awarded.¹⁹²

Metrics

Metrics for the NCD program were reviewed in July. Measuring outcomes, however, is difficult because of the nature of the program and the time required for tangible results.¹⁹³

The initial target of training 1,500 civil servants has been revised¹⁹⁴ to reflect time constraints and the difficulty “finding Iraqi training institutions able and willing to roll out the newly designed courses.”¹⁹⁵ Proposals from Iraqi institutions are expected by the end of July.

The overall goals of NCD remain the same: improving administrative systems, strengthening institutions, and providing training.¹⁹⁶ From November 2006 to July 3, 2007, Tatweer conducted 53 classes, ranging from the Fundamentals of Project Management, Cash Management, Government Procurement, Human Resources, Leadership, Test of English as a Foreign Language (TOEFL) Competency



to Anticorruption.¹⁹⁷ More than 800 people have participated in the training sessions.¹⁹⁸ Most participants come from the Ministries of Planning and Agriculture; the most-attended classes are on procurement, budgeting, project management, leadership, and anticorruption.¹⁹⁹

Sector-focused Initiatives

In the electrical, transportation and communications, health care, and water and sanitation sectors, GRD administers \$60 million in FY 2006 ESF Economic track funds for capacity development. Of that amount, GRD reported \$22 million in contractual obligations—nearly 37% of the total programmed amount. Approximately \$5.8 million has been expended.²⁰⁰ See Table 2.7 for sector funding data.²⁰¹

These are examples of GRD capacity-building activities that were not funded by ESF this quarter:²⁰²

- conducting two basic training classes on contracting, with the support of JCC-I/A, “to assist potential Iraqi contractors with understanding the procedures associated with responding to tenders”
- signing a Grant Agreement for Nassriya Drainage Pump Station with the Minister of Water Resources, which allows GRD “to provide procurement, administration, construction, management, and quality assurance for agreed-upon construction projects”
- organizing the Business Networking Day, with co-sponsors, “to provide vetted Iraqi firms quality networking time with U.S. firms...so that they can establish a working relationship”

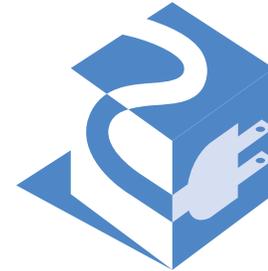
ESF SECTOR FUNDING DATA (MILLIONS)

| SECTOR | PROGRAMMED AMOUNT | TOTAL OBLIGATED | UNOBLIGATED |
|-----------------------------------|-------------------|-----------------|-------------|
| Electricity | \$25 | \$16 | \$9 |
| Health | 12 | 0 | 12 |
| Transportation and Communications | 8 | 2.5 | 5.5 |
| Water | 15 | 3.5 | 11.5 |
| Total | \$60 | \$22 | \$38 |

Source: Program Review Board, Capacity Development and Sustainment Program Status—ESF06, June 29, 2007, p. 52.

TABLE 2.7

ELECTRICITY



ELECTRICITY

Since 2003, the electricity sector has received the second-largest investment of Iraq reconstruction funds, amounting to more than \$4.6 billion. Despite this major investment, which funded the repair and rehabilitation of generation facilities, transmission lines, and distribution networks, the Iraqi electric grid remains fragile and vulnerable. Thus, the power generated does not meet demand.²⁰³

This quarter, electricity output declined for the month of May, but rebounded in mid-June.²⁰⁴ Actual peak generation²⁰⁵ this quarter averaged approximately 4,230 mega-

watts (MW) of power per day, which is above the previous quarter's output but 1,750 MW below the reconstruction goal of 6,000 MW generated per day. Actual peak demand this quarter was 8,120 MW per day.²⁰⁶ Table 2.8 and Table 2.9 compare production and output this quarter with the same period last year and pre-war production levels.

Baghdad

This quarter, Baghdad received an average of 8.1 hours of power²⁰⁷ per day, almost 4 hours less than the rest of the country but higher

CURRENT ACTUAL PEAK PRODUCTION VS. PAST PRODUCTION LEVELS (MEGAWATTS)

| OUTPUT METRIC | DAILY AVERAGE, LAST WEEK OF JUNE 2007 |
|---------------------------------------|---------------------------------------|
| Actual Peak Power Generated (MW) | 4,230 |
| % Change, Previous Quarter (3,872 MW) | 9% |
| % Change, June 2006 (4,201 MW) | 1% |
| % Change, Pre-war Level (4,500 MW) | -6% |

Sources: Pre-War level: DoS briefing by U.S. Embassy-Baghdad, November 30, 2005; Goals: Joint U.S.-Iraqi Electricity Action Plan; Current: ITAO, Electric Daily Units Performance Report, last week of June 2007 (6/24-6/30/2007); last week of March 2007 (3/20-3/26/2007); last week of June 2006 (6/24-6/30/2006); last week of March 2006 (3/25-3/31/2006)

TABLE 2.8

CURRENT TOTAL AVAILABLE PRODUCTION VS. PAST PRODUCTION LEVELS (MEGAWATTS)

| OUTPUT METRIC | DAILY AVERAGE, LAST WEEK OF JUNE 2007 |
|---------------------------------------|---------------------------------------|
| Total Available Capacity (MW) | 4,558 |
| % Change, Previous Quarter (4,068 MW) | 12% |
| % Change, June 2006 (4,517 MW) | 1% |
| % Change, Pre-War Level (n/a) | n/a |

Sources: IRMO/ITAO, Weekly Status Report (12/14/2005 – 6/26/2007) Pre-War level: DoS Briefing by U.S. Embassy-Baghdad, November 30, 2005; Goals: Joint U.S.-Iraqi Electricity Action Plan; Current: ITAO, Electric Daily Units Performance Report: last week of June 2007 (6/24-6/30/2007), last week of March 2007 (3/20-3/26/2007), last week of June 2006 (6/24-6/30/2006), last week of March 2006 (3/25-3/31/2006)

Note: Total Available Capacity = Actual Peak Capacity (MW) + Iraq Import (MW).

TABLE 2.9



HOURS OF POWER BAGHDAD

| OUTPUT METRIC | DAILY AVERAGE, LAST WEEK OF JUNE 2007 |
|--|--|
| Baghdad Hours of Power/Day | 8.1 |
| % Change, Previous Quarter (6.5 Hours) | 25% |
| % Change, June 2006 (8.1 Hours) | 0% |
| % Change, Pre-war Level (16-24 Hours) | -66% |

Source: ITAO, Electric Daily Units Performance Report, last week of June 2007 (6/24-30/2007), last week of March 2007 (3/20-3/26/2007), last week of June 2006 (6/24-6/30/2006)

TABLE 2.10

than last quarter. Baghdad averaged the same amount of hours of power in the same period last year.

Available power in Baghdad continues to lag behind pre-war levels for these reasons:

- The U.S. reconstruction strategy in this sector focused on providing power more equitably throughout the country.
- Power lines that feed the capital continue to be attacked.
- Transferring power to the capital from large plants in northern and southern Iraq has been compromised by local political manipulation of the power grids.

Table 2.10 compares the hours of power for Baghdad with the measure for the first quarter of this year, the quarter ending in June 2006, and pre-war levels.

Baghdad has never had enough power plants to meet its own demand, and thus it must import power from other regions. Building new plants is part of the GOI's long-term power-generation plan.

ITAO reports that improper "fuel supplies continue to be a major setback for increasing the amount of electricity in the country and the Baghdad Ring."²⁰⁸ As SIGIR has noted in previous reports, 16 of the 35 gas turbines installed by the United States are currently using less than optimum fuel—such as diesel, crude, or heavy fuel—instead of the natural gas for which they were designed. This practice greatly increases maintenance requirements and decreases overall capacity.



Transmission lines continue to be the target of saboteurs.²⁰⁹ As of June 30, 2007, eight of the twelve 400-kV lines were out of service.²¹⁰ Three transmission lines feed power to Baghdad from the north, and two of these lines were out of service during the past quarter.²¹¹ In the south, three of the four transmission lines that feed Baghdad were out of service during this quarter.

Iraq's power system "remains very fragile and experiences frequency drops that result in breakers tripping and blackouts."²¹² The Ministry of Electricity's National Dispatch Center is supposed to manage electricity usage for the provinces based on demand. But this quarter, blackouts were caused by the "refusal of the provinces to follow the allocations from the Ministry of Electricity."²¹³

One key to providing more power to the Baghdad ring is "get[ting] control of distribution circuit breakers and the substations in the

outer provinces."²¹⁴ In May, Baghdad consumed an average of 15% of Iraq's total electricity generation—12% below its allocation from the National Dispatch Center.²¹⁵ The GOI must continue to develop control over the substations that operate and maintain the local grids because these stations are essential to supplying more power to Baghdad.

Outside Baghdad

Outside Baghdad, hours generated of electrical power for the last week in June 2007 (nearly 12 hours per day) was greater than before the U.S.-led invasion but 13% below the measure of hours of power for the same period last year. See Table 2.11 for the measure of hours of power compared to pre-war levels.

HOURS OF POWER OUTSIDE BAGHDAD

| OUTPUT METRIC | DAILY AVERAGE, LAST WEEK OF JUNE 2007 |
|---------------------------------------|--|
| Iraq Hours of Power/Day | 11.85 |
| % Change, Previous Quarter (14 hours) | -15% |
| % Change, June 2006 (13.6 hours) | -13% |
| % Change, Pre-war Level (4-8 hours) | 48% |

Sources: Pre-war level: DoS Briefing by U.S. Embassy-Baghdad, November 30, 2005; Current: ITAO, Electric Daily Units Performance Report: last week of June 2007 (6/24-6/30/2007), last week of March 2007 (3/20-3/26/2007), last week of June 2006 (6/24-6/30/2006)

TABLE 2.11

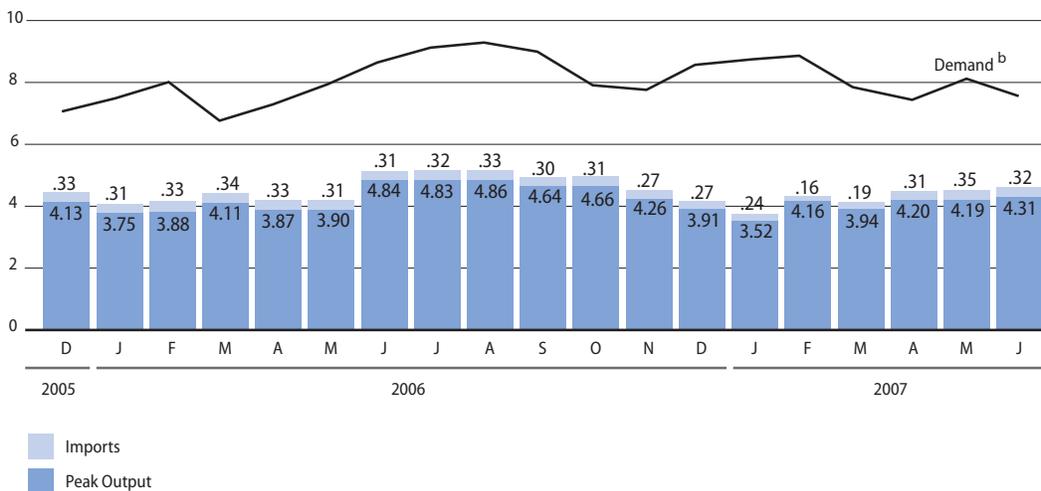


Figure 2.33

ELECTRICITY DEMAND VS. CAPACITY

Monthly Average Gigawatts (GW = 1,000 MW)

Source: IRMO, *Weekly Status Reports* (12/14/2005 - 5/8/2007); ITAO,^a *Weekly Status Reports* (5/8/2007 - 6/26/2007)



a. By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.

b. The demand for electrical output is not constant; from 12/2005 - 3/2007, the seasonal demand ranged from 6.39 to 9.61 GW per week.

Figure 2.33 indicates that demand for electricity—8,120 MW on average this quarter— continues to significantly surpass Iraq’s average peak generation capacity. Iraq imported slightly more than 300 MW per day this quarter, bringing total available capacity to 4,550 MW per day.

Blackouts happen frequently across Iraq because of local breakdowns at key power-transfer points. Insurgents are also targeting the smaller, more local 132-kV lines that direct power across the provinces. These lines are often controlled by local substations.

This quarter, Anbar province generated more power than the governorate demands

because of the increased production at a provincial hydroelectric plant. However, Anbar has been reluctant to share excess power with the national grid.²¹⁶

U.S. Support for Electricity

The United States has allocated approximately \$4.61 billion to the electricity sector in Iraq through three major funds. See Figure 2.34. U.S. electricity projects have contributed 2,700 MW to Iraq’s generation capacity.²¹⁷

To boost capabilities, the U.S. reconstruction program funded three major types of projects in the electricity sector:

- Generation facilities produce power for the



- system.
- Transmission networks carry that power across the country.
 - Distribution networks deliver the transmitted power to local areas, homes, and businesses.

As of June 27, 2007, nearly 82% of electricity sector IRRF obligations had been expended.²¹⁸ See Figure 2.35 for the status of all U.S. funds obligated in the electricity sector.

IRRF

Reprogrammings of the IRRF reduced electricity sector funding by \$1 billion, leaving 23% of the IRRF 2 allocated to electricity.

The IRRF 1 reconstruction goal for the electricity sector was to increase peak generation output to 6,750 MW from a pre-war level of 4,500 MW,²¹⁹ but the goal was subsequently reduced to 6,000 MW. For projects funded by IRRF 2, see Figure 2.36.

Major IRRF-funded projects in the generation, transmission, and distribution areas include:

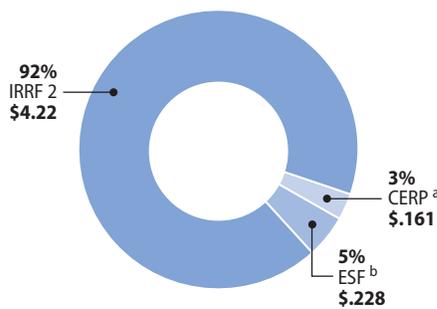
- **Doura Power Station (320-MW capac-**

Figure 2.34

ALLOCATIONS TO ELECTRICITY

\$ Billions, % of \$4.61 Billion

Sources: DoS, *Iraq Weekly Status* (6/27/2007); MNC-I, Response to SIGIR (7/7/2007); IRMS, *ESF Economic Track Summary* (7/5/2007)



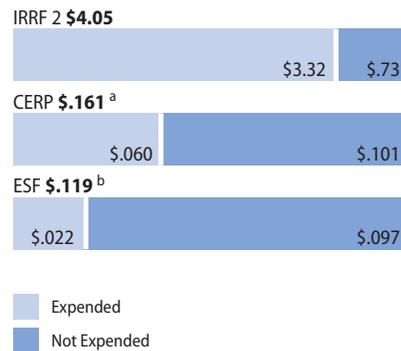
Note: Numbers are affected by rounding.
 a. Allocation detail at the sector and subsector level for CERP is currently unavailable; therefore, the percentages for CERP are calculated using FY 2006 and FY 2007 dollars obligated.
 b. FY 2006 Supplemental Funds (P.L.109-234).

Figure 2.35

OBLIGATIONS FOR ELECTRICITY

\$ Billions, \$4.33 Billion Total

Sources: DoS, *Iraq Weekly Status* (6/27/2007); MNC-I, Response to SIGIR (7/7/2007); IRMS, *ESF Cost to Complete* (7/5/2007)



a. FY 2006 and FY 2007.
 b. FY 2006 Supplemental Funds (P.L. 109-234).



ity). SIGIR conducted an inspection of the Doura project this quarter. SIGIR inspectors found that in August 2006, equipment was removed from Unit 6 as it neared operational status and placed into Unit 5 to expedite its restart after catastrophic failure. Ministry of Electricity officials decided to swap the exciter from Unit 6 to Unit 5 to minimize outage time and to quickly restore electric power to the Baghdad grid as a short-term solution. However, Unit 5 failed, and Unit 6 was rendered inoperable because of the switch. Therefore, 320 MW of electricity was unavailable to the Baghdad grid. For details on this inspection, see section 3.

- Qudas Expansion Project (180-MW capacity).** The Qudas Power Plant has eight gas turbine generators, four of which are offline because of maintenance and fuel shortages. The project end-date is scheduled for January 2008, which is later than

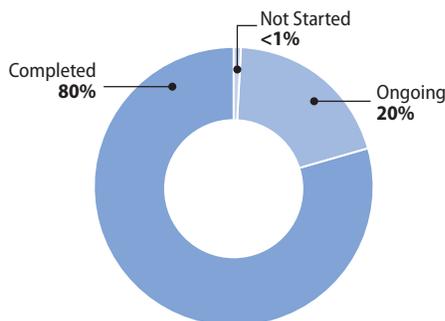
planned because orders of equipment were placed late.²²⁰

- Khor al-Zubair Generation Plant (250-MW capacity).** The United States funded generation work at this power plant. A SIGIR inspection reported that the plant was functioning properly as of April 2006. The plant's six gas turbine generators remain operational.
- Baiji Power Plant (320-MW capacity).** The United States funded repairs to mobile engines and inspections of three gas turbine generators. Three of Baiji's four gas turbine generators are working, but all eight small mobile generators are offline.
- Substations.** The United States funded repairs to the Baghdad West substation and extensions in the north and south. SIGIR inspections have reported positive outcomes on work at five substations in Basrah.

Figure 2.36

STATUS OF IRRF 2 PROJECTS - ELECTRICITY
TOTAL NUMBER OF PROJECTS: 529

Sources: IRMS, *ITAO* Rollup* (6/29/2007); USAID, *Activities Report* (7/12/2007)



| Project Type | Not Started | Ongoing | Completed | Total |
|---|-------------|------------|------------|------------|
| Distribution | 1 | 75 | 342 | 418 |
| Transmission | 1 | 24 | 33 | 58 |
| Generation | | 1 | 47 | 48 |
| Automatic Monitoring and Control System | | 4 | 1 | 5 |
| Total | 2 | 104 | 423 | 529 |

Note: Numbers are affected by rounding.
 * By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.



The IRRF funded the Supervisory Control and Data Acquisition network (SCADA), which was expected to help maximize the availability of electricity across Iraq by automating the distribution of power across Iraq. However, GRD reported to SIGIR this quarter that the SCADA projects were terminated because of budget overruns.

According to GRD, “there is no firm commitment to complete this work with IRRF funds; however, ITAO may continue to complete the system using alternative means.”²²¹ In April, DoS reported that the Ministry of Electricity will be provided with “drawings, equipment and material, a detailed list of what equipment has been installed and tested and a list of equipment and testing that remains to be completed.”²²²

CERP

CERP FY 2006 and FY 2007 funds represent 3% of the total U.S. funds allocated for electricity reconstruction in Iraq and 17% of the total CERP funds allocated for reconstruction in Iraq. MNC-I has undertaken 741 electricity projects with CERP FY 2006 and FY 2007 funds. CERP-funded projects support local efforts to repair electrical distribution and transmission systems to ensure that power reaches Iraqi homes. Figure 2.37 shows the status of sector projects funded by the CERP.

According to GRD, 21 CERP electricity projects, totaling \$33.8 million, have been programmed in Baghdad.²²³ In Babylon, nearly \$700,000 of the CERP is being used to repair the **Mussayib Electrical Network**. This project has the potential to provide an electrical network to 5,000 homes.²²⁴ In Ramadi, CERP is

Figure 2.37

STATUS OF CERP FY 2006 AND FY 2007 PROJECTS - ELECTRICITY TOTAL NUMBER OF PROJECTS: 741

Source: MNC-I, Response to SIGIR (7/7/2007)

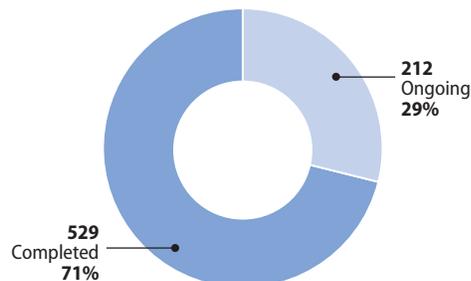
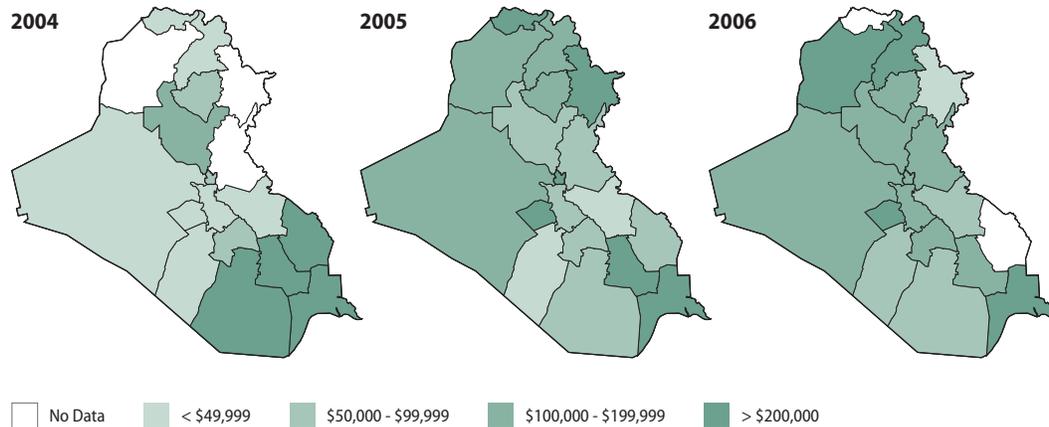




Figure 2.38

AVERAGE VALUE PER CERP ELECTRICITY PROJECT BY GOVERNORATE

Source: IRMS, CERP Excel Workbook (6/29/2007)



Note:

Data is compiled using FY 2004, FY 2005, and FY 2006 CERP funds. Years indicated correspond to the actual start dates of the projects.

funding a \$3 million project that will install a 132-kV circuit at the regional substation.²²⁵

As IRRF funding in this sector has been expended, CERP funds have taken on an increasingly significant role. Since 2004, the average value of CERP electricity projects in Iraq rose from \$94,000 in 2004 to \$194,000 in 2006.²²⁶ In 12 provinces, CERP FY 2006 electricity projects averaged more than \$100,000 in value, including Basrah and Kerbala, where the average CERP electricity project was valued at more than \$500,000.

This quarter, SIGIR announced that it is undertaking an audit of CERP projects in Iraq valued at more than \$400,000. Figure 2.38 shows the average value of electricity projects from 2004 to 2006.

ESF

Electricity projects received approximately \$228 million of ESF FY 2006 supplemental

funds through the O&M Sustainment program.²²⁷ Approximately 80%²²⁸ of the total amount programmed for ESF's O&M Sustainment program was allocated to electricity projects.²²⁹

USACE GRD is the implementing agency for this program. GRD has completed 43 statements of work, initiated procurement actions for 39 of 62 O&M sustainment projects, and awarded contracts for 6 sustainment efforts, totaling \$83.6 million.²³⁰ Figure 2.39 shows the status of the ESF O&M Sustainment projects for electricity.

O&M is particularly important for the Ministry of Electricity. DoS reports that "the long-term success of reconstruction relies heavily on the ability of the [Ministry] to execute an effective O&M program."²³¹ SIGIR's inspection of the Doura Power Plant showed that sustainable operations of generators cannot be reasonably assured "unless the Ministry of



The Iraqi power grid remains very fragile and susceptible to attacks and breakdown.

Electricity's O&M practices improve." SIGIR inspectors also noted that "too often, the ministry has operated improperly or insufficiently maintained equipment in environments where equipment failure was likely."

Since last quarter, the Ministry of Electricity has completed one of two planned O&M contracts for support training. A contractor has been mobilized to support education in

engineering and machine-specific training. The second contract, which has not yet been completed, has been hindered by problems obtaining visas and passports for trainees.²³²

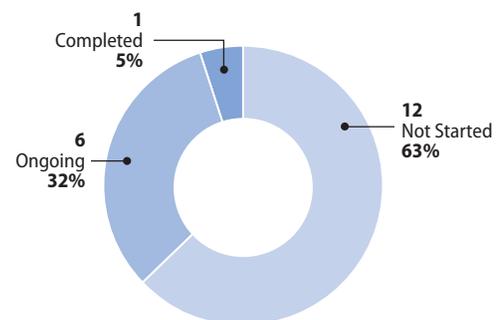
The ESF Capacity Development and Technical Training program also provides an additional \$25 million for electricity projects.

Figure 2.39

STATUS OF ESF* PROJECTS - ELECTRICITY

TOTAL NUMBER OF PROJECTS: 19

Source: IRMS, ESF Project Tracker (6/29/2007)



* Funded by the ESF FY 2006 Supplemental.





OIL AND GAS

Oil production in Iraq has been on the rise since January 2007.²³³ Notwithstanding this recent rise, long-term output remains “constrained by security problems and persistent underinvestment.”²³⁴

Iraq relies on the export of crude oil to generate the funds necessary “to achieve the politically vital goal of ensuring the stable provision and expansion of basic services.”²³⁵ Oil export revenues account for over 70% of Iraq’s gross domestic product and more than 90% of government revenues.²³⁶ Figure 2.40 shows the oil and gas infrastructure across Iraq, including the 4,350-mile pipeline system.

Oil production this quarter averaged 2.09 Million Barrels per Day (MBPD), a decrease of 6% compared to this same period last year, but an increase from the last quarter (1.9 MBPD). Oil production in Iraq has trended

upward since a fall off in January. Oil export output (1.57 MBPD) fell 6% below export levels for this same period last year but are up for 2007.²³⁷ Table 2.12 presents an overview of production output.

Quarterly export levels are affected by the operational status of the northern export pipeline (ITP) that links the Kirkuk oil fields to the Ceyhan terminal in Turkey. This line is regularly attacked by insurgents.

Over the last two quarters, because of attacks, the ITP has not been able to contribute in any meaningful way to the country’s total exports. In May, the ITP pumped only approximately 200,000 barrels of crude oil before acts of sabotage by insurgents²³⁸ knocked the pipeline out of service.²³⁹ Only 2% of oil exports went through Ceyhan last quarter, contributing to an output that was below the Iraqi export target of 1.65 bpd.²⁴⁰ When the northern export lines are not operating, Iraq depends



Figure 2.40

OIL AND GAS INFRASTRUCTURE BY GOVERNORATE

Source: CIA Country Profile Map





CURRENT OIL AND GAS PRODUCTION VS. PRE-WAR LEVEL AND GOAL

| | OUTCOMES |
|--|------------------|
| Current Oil Production—Capacity* | 3.00 MBPD |
| % change, same period last year** (2.50 MBPD) | 20% |
| % change, Pre-war Level (2.80 MBPD) | 7% |
| Goal (2.80 MBPD) | 107% |
| Current Oil Production—Actual | 2.09 MBPD |
| % change, same period last year (2.23 MBPD) | -6% |
| Pre-war level (2.58 MBPD) | -23% |
| Goal (2.64 MBPD) | 79% |
| Export Levels | 1.57 MBPD |
| % change, same period last year (1.67 MBPD) | -6% |
| Goal (1.65 MBPD) | 95% |
| Natural Gas Production Capacity (MSCFD) | 800 MSCFD |
| % change, same period last year (675 MSCFD) | 19% |
| Goal (800 MSCFD) | 100% |
| Liquefied Petroleum Gas Production Capacity (TPD) | 3,000 TPD |
| % change, same period last year (1,320 TPD) | 44% |
| Goal (3,000 TPD) | 100% |

Source: Oil Production Capacity, Natural Gas Production Capacity, and Liquefied Petroleum Gas Production Capacity figures come from USACE, response to SIGIR, June 9, 2007. Oil Production Actual, Oil Production Actual Goal, and Export Levels are taken from ITAO, Oil monthly import production and export spreadsheet, July 11, 2007.

*Oil Production Capacity, Natural Gas Production Capacity and Liquefied Petroleum Gas Production Capacity are not measured in quarterly average but total capacity available.

**Same period last year comparison refers to quarterly output as reported by SIGIR in July 2006.

TABLE 2.12



heavily—almost exclusively—on the Al Basrah Oil Terminal (ABOT), the southern export node. Figure 2.41 shows the status of crude oil production by northern and southern region.

GOI Fuel Subsidies

In accordance with the IMF Stand-By Arrangement (SBA), Iraq’s Ministry of Oil raised the prices this quarter of gasoline, blended gasoline, and diesel.²⁴¹ Iraq has been phasing in a significant increase in domestic fuel prices, which reduces the government subsidies for many fuel products.²⁴² Table 2.13 compares IMF goals for refined fuel increases with actual price increases.

Pursuant to the SBA, Iraq’s 2007 budget allocates significantly less money (\$300 million) to the subsidy of fuel imports than it did in 2006; however, the Ministry of Oil continues to subsidize gas, diesel, and other domestically produced refined products



Iraqi Oil Refinery. Iraq lacks the domestic capacity to meet demand for refined fuels.

because Iraq lacks the domestic capacity to meet demand for refined fuels.²⁴³ Consequently, although it is one of the largest producers of crude oil in the world, Iraq must still import kerosene, gasoline, diesel, and liquefied petroleum gas (LPG).

Figure 2.42 shows the status of Iraq’s refined fuel production this quarter compared to performance over the last three years.

PRICE INCREASES FOR REFINED FUELS (\$ PER GALLON)

| | SEP. 2005 | PRIOR ACTION | 3/31/2006 | | 6/30/2006 | | 9/30/2006 | | 12/31/2006 | | 6/30/2007 | |
|------------------|-----------|--------------|-----------|--------|-----------|--------|-----------|--------|------------|--------|-----------|--------|
| | | | GOAL | ACTUAL | GOAL | ACTUAL | GOAL | ACTUAL | GOAL | ACTUAL | GOAL | ACTUAL |
| Regular Gasoline | \$0.05 | \$0.26 | \$0.33 | \$0.26 | \$0.40 | \$0.45 | \$0.45 | \$0.45 | \$0.54 | \$0.68 | \$0.91 | \$1.06 |
| Premium Gasoline | \$0.13 | \$0.64 | \$0.77 | \$0.64 | \$0.90 | \$0.90 | \$1.03 | \$0.90 | \$1.23 | \$0.95 | – | – |
| Blended Gasoline | – | – | – | – | – | – | – | – | – | \$0.95 | \$1.21 | \$1.36 |
| Kerosene | \$0.01 | \$0.06 | \$0.13 | \$0.06 | \$0.19 | \$0.19 | \$0.23 | \$0.19 | \$0.31 | \$0.20 | \$0.45 | \$0.61 |
| Diesel | \$0.03 | \$0.23 | \$0.28 | \$0.23 | \$0.32 | \$0.32 | \$0.40 | \$0.38 | \$0.48 | \$0.41 | \$1.06 | \$1.06 |

Sources: IMF, Country Report No. 07/115, March 2007; Conversion rates: IMF, response to SIGIR, July 19, 2007.

Note: Prices have been converted from Iraqi dinars per liter to U.S. dollars per gallon. These are the conversion rates used, by date: December 2005—1,474 ID/\$, March 2006—1,476 ID/\$, June 2006—1,477 ID/\$, September 2006—1,475 ID/\$, December 2006—1,391 ID/\$, June 2007—1,250 ID/\$.

TABLE 2.13

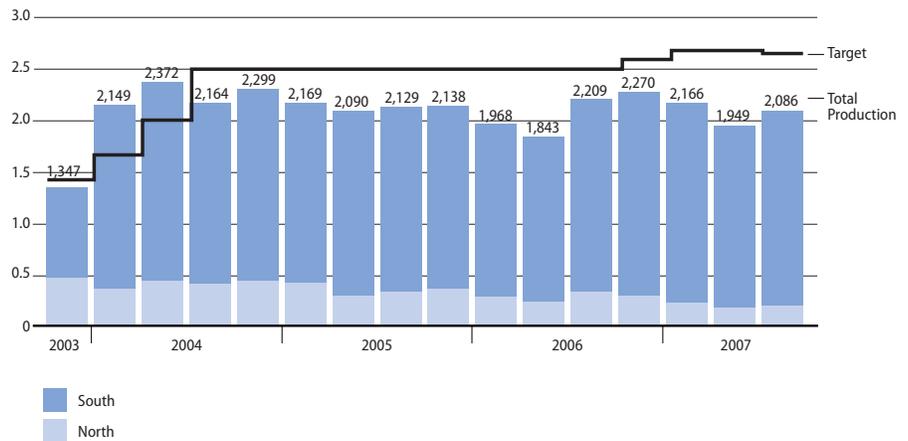


Figure 2.41

CRUDE OIL PRODUCTION BY REGION

Millions of Barrels per Day, Quarterly Average

Source: ITAO,* *Monthly Import, Production, and Export* (June 2007)



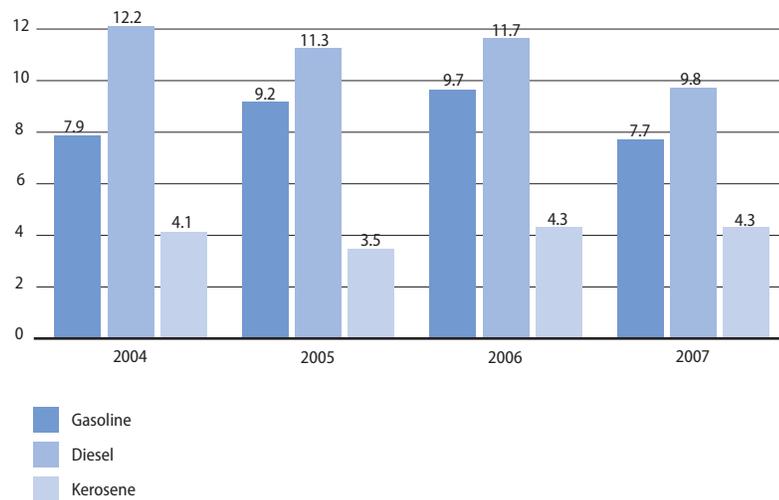
* By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.

Figure 2.42

SUMMER FUEL REFINERY PRODUCTION 2004 - 2007

Millions of Liters

Source: ITAO,* *Monthly Import, Production, and Export Report* (June 2007)





Hydrocarbon Legislation

The *Initial Benchmark Assessment* noted that “the Government of Iraq has not met its self-imposed goal of May 31, 2007, for submitting the framework hydrocarbon and revenue sharing laws to the [Council of Representatives].” GAO reported this quarter that “until this legislation is enacted and implemented, it will be difficult for Iraq to attract the billions of dollars in foreign investment it needs to modernize the sector.”²⁴⁴

Since September 2006, the GOI and U.S. government sources have been reporting on the impending finalization of the hydrocarbon legislation. Despite previous reports of imminent passage in September 2006, December 2006, February 2007, and June 2007, the legislation has yet to be fully addressed by Iraq’s Council of Representatives (COR).

DoS recently expressed confidence that the hydrocarbon legislation was “weeks rather than multiple months”²⁴⁵ away from passage.

The hydrocarbon legislation is a series of four separate laws, establishing:²⁴⁶

- a framework for lines of authority
- revenue sharing
- a national oil company
- a regulatory role for the Ministry of Oil

Without this legislation, development in the oil sector will remain stalled.

This quarter, Iraqi oil workers went on strike over unmet demands, including representa-

tion in the hydrocarbon law’s drafting process.²⁴⁷ The main impact of the strike was the shutdown of two oil product pipelines feeding Baghdad.²⁴⁸

Report on Corruption

SIGIR previously reported on the detrimental effects of oil smuggling on Iraq’s vital source of revenue. In a recent report, GAO confirms that “about 10% to 30% of refined fuels is diverted to the black market or smuggled out of Iraq and sold for profit.”²⁴⁹ GAO also reported that “as much as 70% of the fuel processed at Baiji was lost to the black market, possibly as much as \$2 billion a year.”²⁵⁰

U.S. Support

IRRF and CERP projects in Iraq have supported the continued development of oil production facilities and export infrastructure. For the distribution of funding in this sector, see Figure 2.43. Figure 2.44 shows the status of U.S. funds in the sector.

This quarter, GRD reports that projects met their program goals.²⁵¹ These goals included:

- increasing Iraqi oil production capacity to 3 million barrels per day (MBPD)
- increasing liquefied petroleum gas (LPG) capacity to 3,000 metric tons per day
- increasing natural gas production capacity to 800 standard cubic feet (SCF)

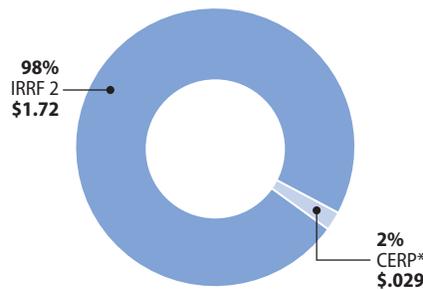


Figure 2.43

ALLOCATIONS TO OIL AND GAS

\$ Billions, % of \$1.75 Billion

Sources: DoS, *Iraq Weekly Status* (6/27/2007); MNC-I, Response to SIGIR (7/7/2007)



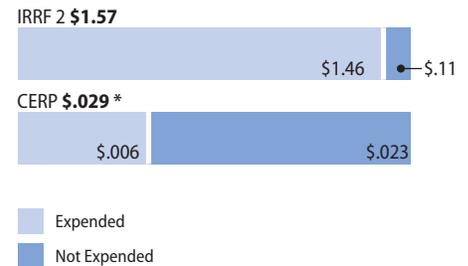
Note: Numbers are affected by rounding.
 *Allocation detail at the sector and subsector level for CERP is currently unavailable; therefore, the percentages for CERP are calculated using FY 2006 and FY 2007 dollars obligated.

Figure 2.44

OBLIGATIONS FOR OIL AND GAS

\$ Billions, \$1.60 Billion Total

Sources: DoS, *Iraq Weekly Status* (6/27/2007); MNC-I, Response to SIGIR (7/7/2007)



Sector progress continues to face several familiar challenges. The impact of slow budget execution and poor O&M inhibit growth. Iraqi Ministry of Oil officials face significant challenges in developing an effective contracting and procurement process. The contracting rules are reportedly so constricting that when conducting oversight on the rules, Iraqi inspectors “wreaked havoc with charges of corruption.”²⁵²

As of July 7, 2007, the Ministry of Oil reported that it had spent 23% of its \$2.4 billion 2007 capital budget.²⁵³ A review of last year’s Iraqi capital budget revealed a very poor capital expenditure rate in the oil sector; the Ministry of Oil has committed to improving budget execution in this sector.

IRRF

Just 9% of IRRF 2 funds were allocated to oil and gas reconstruction in Iraq. As of June 27, 2007, approximately \$1.46 billion of the sector’s \$1.72 billion IRRF allocation had been expended.²⁵⁴ U.S. reconstruction officials reported that all IRRF construction projects in this sector are complete, and only infrastructure security projects remain underway (see Figure 2.45).²⁵⁵

IRRF construction projects included well workovers and gas oil separation plants (GOSPs) in the Rumaila oil fields, near Basrah. The IRRF also funded oil services projects in Iraq through the procurement of materials (such as water injection pumps for the southern oil fields), training, spare parts, service agreements, and capacity development.



Although it is one of the largest producers of crude oil in the world, Iraq must import kerosene, gasoline, diesel, and liquefied petroleum gas.

The major completed and ongoing IRRF-funded projects include:

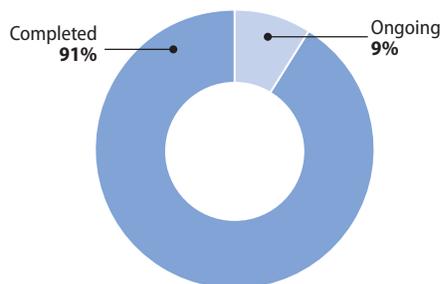
- **Qarmat Ali:** Engineering and procurement work provided treated water for injection wells to maintain oil reservoir pressure.
- **Al Basrah Oil Terminal (ABOT):** Meter installation work continues, and work on the loading-arm refurbishment at berths 1-4 is complete. Last quarter, SIGIR inspected ABOT and found that refurbishment and repair work met the original objectives.
- **Gas Oil Separation Projects:** In the south, 12 gas oil separation plants were refurbished, with the potential to increase capacity by 600,000 BPD. In the north, eight were refurbished, with the potential to increase capacity by 300,000 BPD.
- **Shuaiba Refinery Power Plant:** Completed last year, this plant provides long-term power supply to Basrah Refinery.
- **South Well Workover:** Work is complete at 30 wells in the Basrah governorate to

Figure 2.45

STATUS OF IRRF 2 PROJECTS - OIL AND GAS

TOTAL NUMBER OF PROJECTS: 46

Sources: IRMS, ITAO* Rollup (6/29/2007); USAID, Activities Report (7/12/2007)



| Project Type | Not Started | Ongoing | Completed | Total |
|------------------------------|-------------|----------|-----------|-----------|
| Southern Region Projects | | 3 | 11 | 14 |
| Northern Region Projects | | | 11 | 11 |
| Water Injection Pump Station | | | 9 | 9 |
| Dedicated Power | | 1 | 5 | 6 |
| LPG/LNG Plant Refurb | | | 5 | 5 |
| General Projects | | | 1 | 1 |
| Total | | 4 | 42 | 46 |



Al Basrah Oil Terminal. Meter work continues to improve the ability of the Iraqi government to monitor oil exports.

increase oil production capacity by more than 300,000 BPD.

CERP

CERP FY 2006 and FY 2007 oil projects represent a small fraction of both total U.S. funds and total CERP funds spent in the oil sector in Iraq. Specifically, the sector received approximately \$30 million of CERP FY 2006 and FY 2007 funds—2% of the funds allocated to the oil sector in Iraq. This sector received only 3% of total CERP FY 2006 and FY 2007 funds.

Because all IRRF-funded construction projects in this sector are complete and IRRF funding for oil projects in Iraq is nearly expended, CERP represents a potential source of new U.S. funding for projects in the oil and gas sector. As Figure 2.46 shows, many CERP oil projects in Iraq average more than \$100,000 in value.

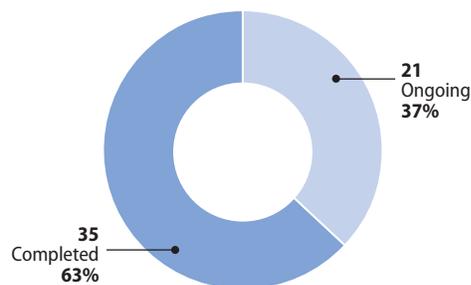
In 2005, four provinces had CERP oil and gas projects valued at more than \$200,000. In 2006, this proportion decreased slightly to three, although project values averaged more

Figure 2.46

STATUS OF CERP FY 2006 AND FY 2007 PROJECTS - OIL AND GAS

TOTAL NUMBER OF PROJECTS: 56

Source: MNC-I, Response to SIGIR (7/7/2007)





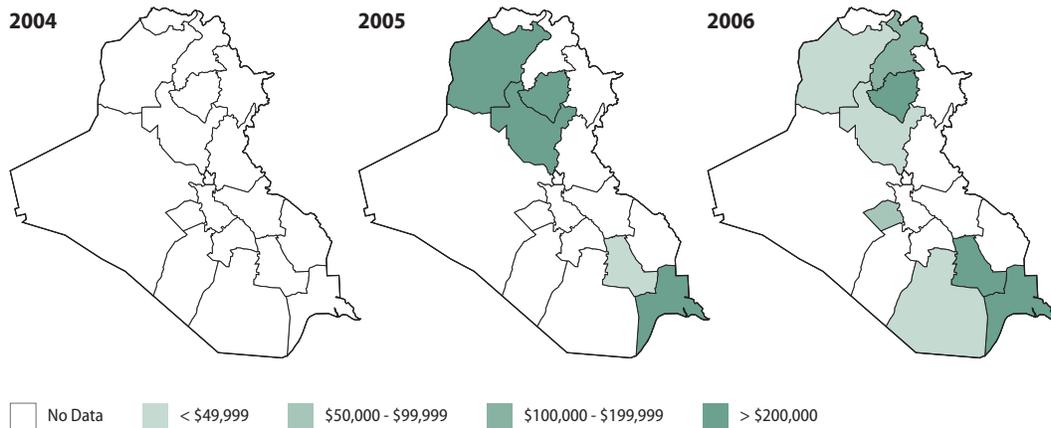
than \$500,000. This quarter, SIGIR announced a review of large CERP projects in Iraq, specifically those valued at more than \$400,000.

CERP FY 2006 and FY 2007 monies funded 56 oil projects across Iraq. The largest CERP oil projects occur in Basrah. Figure 2.47 shows the average value per CERP oil project by governorate in Iraq over the past three years.

Figure 2.47

AVERAGE VALUE PER CERP OIL PROJECT BY GOVERNORATE

Source: IRMS, CERP Excel Workbook (6/29/2007)



Note:
Data is compiled using FY 2004, FY 2005, and FY 2006 CERP funds. The years indicated correspond to the actual start dates of the projects.



WATER

Before the 1991 Gulf War, most Iraqis had access to potable water—95% in urban areas and 75% in rural communities—and most urban areas had sanitation service. Access to clean water and sewerage declined after 1991, as a result of war damage and poor maintenance.²⁵⁶

By 2003, Iraq's irrigation network required extensive rehabilitation "after years of insufficient maintenance and funding."²⁵⁷ A 2003 UN/World Bank assessment estimated that reconstruction for Iraq's water and sewerage systems would cost more than \$6.8 billion,²⁵⁸ and more than \$1.5 billion for irrigation.²⁵⁹

Today, progress in the water sector is impeded by violence, a lack of trained facility workers, and inadequate maintenance practices. In Mosul, approximately 60% of homes and businesses have access to potable water.²⁶⁰ Although 75% of homes in Basrah have access to raw water, potable water must still be purchased.²⁶¹ Although the goal for Baghdad is to provide potable water for all homes and businesses, only 30% are connected to water distribution lines.²⁶²

Iraq's sewerage system also requires improvement: many cities lack updated sewerage systems and rely on septic systems. In Kirkuk²⁶³ and Samarra,²⁶⁴ streets and alley-

ways are used for open drainage. In Falluja, raw sewage spills out onto the streets and thus into water sources.²⁶⁵ In Najaf, 40% of homes are connected to sewage lines,²⁶⁶ and 50% of homes in Basrah are connected.²⁶⁷

This quarter, SIGIR conducted an inspection of the \$4.23 million **Sadr City Al Qana'at Raw Water Pump Station** project, which provides raw water for agricultural uses. This station will also be linked to a potable water plant. SIGIR found no construction deficiencies and determined that the project's quality control and quality assurance mechanisms were operating effectively. For more information on the assessment, see SIGIR Inspections in Section 3.



Al Qana'at Raw Water Pump Station.



U.S. Support

The water sector has received approximately \$2.38 billion in overall U.S. reconstruction funds.²⁶⁸ Water projects have received:

- 11.4% of all IRRF 2 funds
- nearly 25% of FY 2006 and FY 2007 CERP funds
- approximately 2% of FY 2006 ESF

For the allocation of funds in this sector, see Figure 2.48.

IRRF 2 has provided \$2.11 billion for water projects,²⁶⁹ improving access to potable

water, sewerage, and irrigation. As of June 27, 2007, nearly 93% of IRRF 2 funding had been obligated, and 82% for water projects had been expended.²⁷⁰

Of the \$944 million in FY 2006 CERP, \$235 million fund water projects.²⁷¹ CERP money contributes 10% of the overall funding for the water sector.

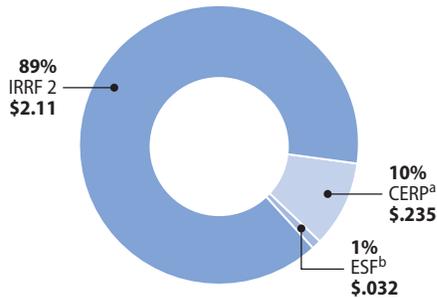
ESF's O&M Sustainment program allocated approximately \$32 million for water.²⁷² GRD entered into an interagency agreement that fully committed 100% of the \$32 million. GRD reported \$6.29 million in contractual

Figure 2.48

ALLOCATIONS TO WATER

\$ Billions, % of \$2.38 Billion

Sources: DoS, *Iraq Weekly Status* (6/27/2007); MNC-I, Response to SIGIR (7/7/2007); IRMS, *ESF Economic Track Summary* (7/5/2007)



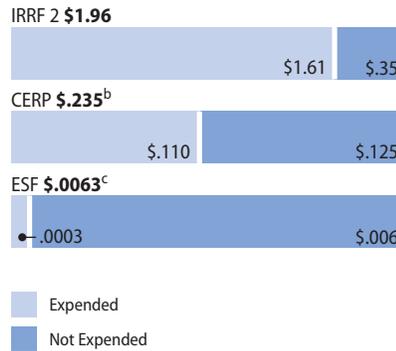
Note: Numbers are affected by rounding.
 a. Allocation detail at the sector and subsector level for CERP is currently unavailable; therefore, the percentages for CERP are calculated using FY 2006 and FY 2007 dollars obligated.
 b. FY 2006 Supplemental Funds (P.L.109-234).

Figure 2.49

OBLIGATIONS FOR WATER

\$ Billions, \$2.20 Billion Total

Sources: DoS, *Iraq Weekly Status* (6/27/2007); MNC-I, Response to SIGIR (7/7/2007); ITAO,^a *Weekly Status Report* (6/26/2007); IRMS, *ESF Cost to Complete* (7/5/2007)



Note: Numbers are affected by rounding.
 a. By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.
 b. FY 2006 and FY 2007.
 c. FY 2006 Supplemental Funds (P.L. 109-234).



obligations, of which \$0.32 million has been expended.²⁷³ For the status of funds in this sector, see Figure 2.50.

The ESF Capacity Development and Technical Training program provided an additional \$15 million for water and sanitation projects.

Although progress has been made completing planned water projects, measuring the direct impact of U.S.-funded projects remains a challenge.

IRRF

As of June 29, 2007, a total of 1,095 IRRF water projects have been undertaken, with about 90% complete, 9% ongoing, and 1% yet to begin.²⁷⁴ For the status of projects in the water sector, see Figure 2.50.

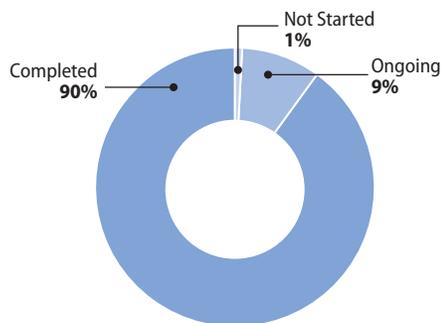
Potable Water

U.S. projects valued at more than \$1.7 billion have provided “capacity for supplying potable water to approximately 2.5 million citizens who previously did not have access.”²⁷⁵ As of July 1, 2007, potable water projects provided

Figure 2.50

STATUS OF IRRF 2 PROJECTS - WATER
TOTAL NUMBER OF PROJECTS: 1,095

Sources: IRMS, ITAO* Rollup (6/29/2007); USAID, Activities Report (7/12/2007)



Note: Numbers are affected by rounding.
* By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.

| Project Type | Not Started | Ongoing | Completed | Total |
|---|-------------|------------|------------|--------------|
| Potable Water | 3 | 89 | 901 | 993 |
| Sewerage | 3 | 9 | 55 | 67 |
| Water Conservation | | | 18 | 18 |
| Pumping Stations and Generators | | 1 | 8 | 9 |
| Other Solid Waste Management | | | 3 | 3 |
| Umm Qasr/Basrah Water Supply Project | | 1 | 1 | 2 |
| Dam Repair, Rehabilitation and New Construction | | 1 | | 1 |
| Om Al-Iraq Canal Cleaning | | | 1 | 1 |
| Construct Eastern Euphrates Drain | | 1 | | 1 |
| Total | 6 | 102 | 987 | 1,095 |

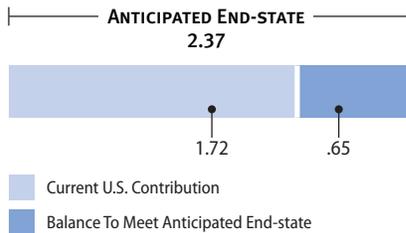


Figure 2.51

OUTPUT OF U.S. POTABLE WATER PROJECTS

Million Cubic Meters per Day

Source: NEA, Response to SIGIR (7/13/2007)



approximately 1.72 million m³/day in additional system capacity, which is nearly 73% of the end-state goal.²⁷⁶ The outputs of these IRRF-funded projects appear in Figure 2.51 which shows the current and anticipated capacity provided by completed water projects.

The goal of U.S. efforts is to provide potable water to 8.38 million Iraqis.²⁷⁷ To date, U.S. projects have provided capacity to supply potable water access to an estimated 5.86 million²⁷⁸ people—an increase from last quarter’s 5.6 million and more than half the anticipated end-state. Figure 2.52 shows the additional capacity expected from these IRRF projects.

The United States continues to work to add capacity to the potable water system:

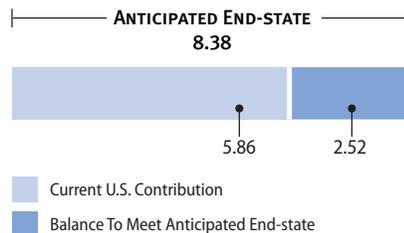
- **Ba’quba Water Treatment Plant Sludge Pump Station** serves 300,000 Iraqis in Diyala province.²⁷⁹
- **Two water compact units in Ramadi and one in Salah al-Din province** provide clean, potable water to approximately 41,500 residents.²⁸⁰
- **Talha reverse osmosis water treatment plant** in Basrah province serves more than 40,000 residents of the Talha district.²⁸¹

Figure 2.52

PEOPLE SERVED BY U.S. POTABLE WATER PROJECTS

Millions

Source: NEA, Response to SIGIR (7/13/2007)



- In Kirkuk province, the **Tal Adi Dhahab Water Project** provides water to the city of Jubari, and the **Nassir and Qahara Water Project** supplies water to 1,500 residents.²⁸²

SIGIR reported in the April 2007 Quarterly Report that the **Nassriya Water Treatment Plant** project (estimated to cost \$276 million) would not be turned over to the Ministry of Municipalities and Public Works until enough Iraqis were trained to operate the facility. As of July, the Ministry had not yet trained a sufficient number of employees to operate the facility.²⁸³ During performance testing in June,²⁸⁴ the plant produced 2,100 m³/hour—only 21% of its 10,000 m³/hour capacity.²⁸⁵

SIGIR previously has highlighted the **Small Potable Water Program**, which is aimed at boosting potable water capacity in rural areas. Although 41 small water projects have been completed by local Iraqi companies, the target of 87 projects has not yet been achieved because security problems have hindered access to work sites.²⁸⁶



Figure 2.53

OUTPUT OF U.S. SEWERAGE PROJECTS

Million Cubic Meters per Day

Source: NEA, Response to SIGIR (7/13/2007)

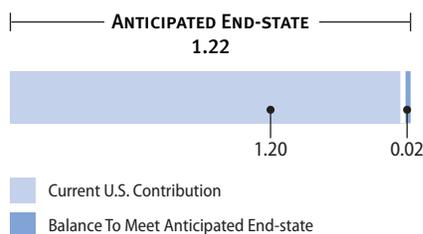
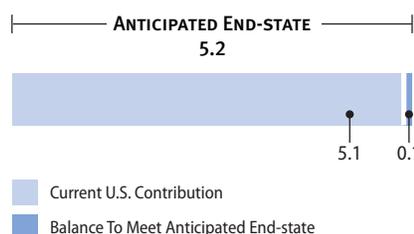


Figure 2.54

PEOPLE SERVED BY U.S. SEWERAGE PROJECTS

Millions

Source: NEA, Response to SIGIR (7/13/2007)



Sewerage

U.S. projects continue to produce at 1.20 million m³/day, which is 2% short of achieving the U.S. goal for additional sewerage capacity.²⁸⁷ Figure 2.53 shows the current and anticipated status of additional sewerage capacity that U.S. projects have contributed to the system.

The United States has now completed 55 of 67 planned sewerage projects (82%).²⁸⁸ Three projects have yet to begin, and nine are ongoing.²⁸⁹

By July 13, 2007, 5.1 million additional people have been served by U.S. funded sewerage projects²⁹⁰—100,000 short of the goal. The anticipated end-state for service has been altered slightly since last quarter, which was revised from 5.3 million people to 5.2 million people. Figure 2.54 illustrates the current number of people served, compared with the new goal.

Last quarter, SIGIR noted that work on the **Falluja Wastewater System** was vulnerable because of the unstable security environment. The project, valued at \$49 million, will include a wastewater treatment plant and several pump stations.²⁹¹ Although ITAO reports that the

project will serve 228,000 people,²⁹² GRD estimates that only 75,000 people will be served initially.²⁹³ GRD says that reaching this quarter’s construction goal is unlikely because of a “security shutdown and the impact of delayed approval of DFI invoices by GOI.”²⁹⁴

Irrigation

On March 1, 2007, USACE handed construction of the **Nassriya Drainage Pump Station** over to the Ministry of Water Resources, with an estimated completion date of December 31, 2007.²⁹⁵ Until the March handover, the United States had invested approximately \$80 million in the project.²⁹⁶

As part of the transition of responsibility to the Iraqis, GRD and the Ministry signed a grant agreement in June 2007 with \$20 million in IRRF funding, which will partially support the project’s remaining work.²⁹⁷ GRD reported that the agreement “allows the Iraqi Ministry to execute the procurement, administration, construction, management and quality assurance, under the oversight of GRD, for agreed-upon construction projects.”²⁹⁸ The arrangement is “structured such that the Ministry will



The water sector has received approximately \$2.38 billion in U.S. reconstruction funds.

be reimbursed for work completed according to a table of earned values previously agreed upon by both the Ministry and GRD.²⁹⁹

The **Eastern Euphrates Drain Project** is associated with the Nassriya Drainage Pump Station. It is partially funded by a grant agreement with the Ministry of Water Resources. Approximately 9% of the project is complete. The 15% completion target was not achieved because of issues arising from land disagreements.³⁰⁰

The anticipated target for additional irrigated or drained land is 387,000 hectares. The United States has reached 8% of that goal.³⁰¹ Figure 2.55 illustrates the anticipated end-state and current status of irrigation projects, measured in hectares.

CERP

CERP FY 2006 and FY 2007 water projects received approximately \$235 million—nearly 10% of the total (\$2.38 billion) reconstruction funds allocated for Iraq’s water sector and 24% of the total FY 2006 and FY 2007 CERP funds (\$944 million).

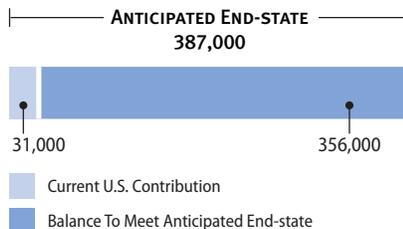
As IRRF projects finish and IRRF funding is expended, CERP-funded projects are taking on a greater role in the water sector. The Multi-

National Corps-Iraq (MNC-I) has undertaken 1,209 water projects with CERP FY 2006 and FY 2007 funds. Over the past three years in Iraq, the average value of CERP water projects has increased from approximately \$90,000 in 2004 to \$260,000 in 2006.

Figure 2.55

OUTPUT OF U.S. IRRIGATION PROJECTS

Hectares
Source: ITAO,* *Weekly Status Report* (7/10/2007)



* By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.



In 2005, a major reprogramming of IRRF dollars shifted money out of the water sector and into non-construction sectors. As a result, CERP FY 2006 and FY 2007 funds have been used to pay for water projects in Iraq. As the maps below show, 12 governorates have experienced a consistent increase in the average value of CERP water projects between 2004 and 2006. Baghdad has experienced the most consistent increase, from \$122,000 in 2004 to approximately \$450,000 in 2006. Anbar, Muthanna, Tameem, Babylon, Diyala, and Salah al-Din provinces also experienced consistent increases.

For the average value of CERP water projects by governorate, see Figure 2.56.

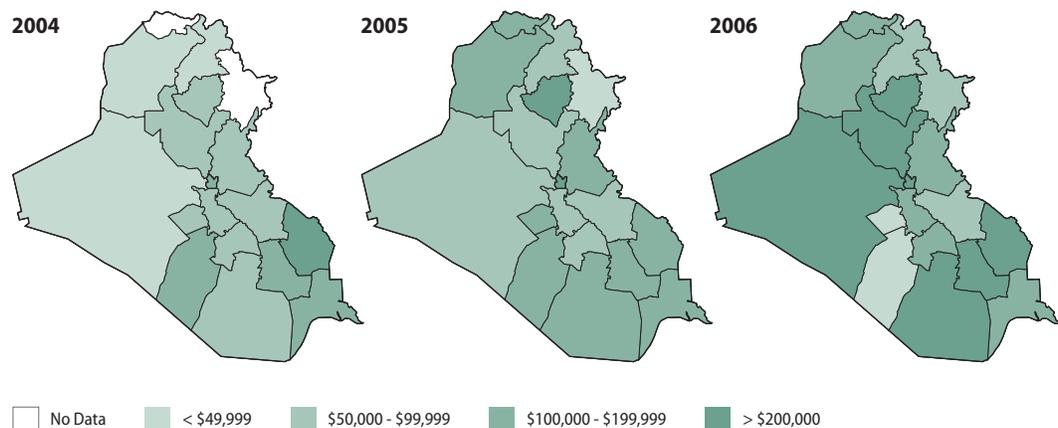
CERP water expenditures fund potable water, sanitary sewage, and storm-water systems projects in Iraq. As of July 7, 2007, CERP FY 2006 and FY 2007 has funded 420 ongoing and 789 completed projects.³⁰² For the status of CERP water projects, see Figure 2.57.

ESF

As IRRF infrastructure projects near completion, the focus turns to building Iraq's capacity to maintain completed projects. ESF sustainment projects aim to strengthen Iraq's ability to maintain facilities and equipment. ESF is funding a total of 23 projects. None has been completed, nearly 22% are ongoing, and more than 78% have yet to start.³⁰³ Figure 2.58

Figure 2.56

AVERAGE VALUE PER CERP WATER PROJECT BY GOVERNORATE
Source: IRMS, CERP Excel Workbook (6/29/2007)



Note:
Data is compiled using FY 2004, FY 2005, and FY 2006 CERP funds. The years indicated correspond to the actual start dates of the projects.



Figure 2.57

**STATUS OF CERP FY 2006 AND FY 2007 PROJECTS
WATER AND SANITATION**
TOTAL NUMBER OF PROJECTS: 1,209
Source: MNC-I, Response to SIGIR (7/7/2007)

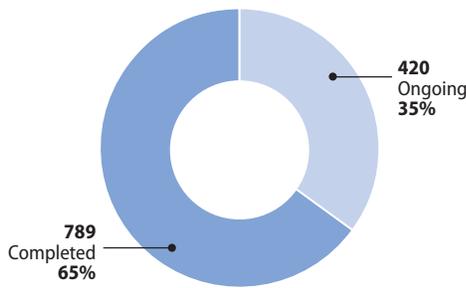
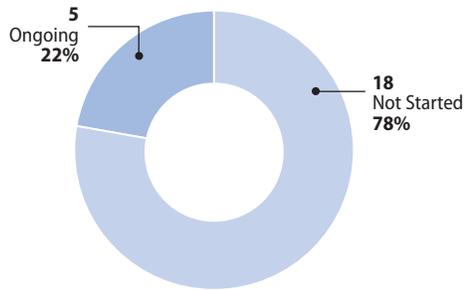


Figure 2.58

STATUS OF ESF* PROJECTS - WATER AND SANITATION
TOTAL NUMBER OF PROJECTS: 23
Source: IRMS, ESF Project Tracker (6/29/2007)



* Funded by the ESF FY 2006 Supplemental.

shows the status of O&M Sustainment projects in the water sector. The ESF-funded Provincial Reconstruction Team (PRT) program also conducts water projects.

Challenges in Sustainment

The inability of Iraq’s water ministries to sustain projects continues to limit progress in the sector. The security situation is the “number one challenge faced by ministries today in executing their work.”³⁰⁴ Deteriorating conditions are “increasingly affecting the ability of both the Ministry of Water Resources and the Ministry of Municipalities and Public Works to operate and has reached a crisis stage.”³⁰⁵ Employees have vacated Baghdad buildings in dangerous locations, and “Ministry of Municipalities and Public Works officials estimate that less than half the remaining staff (those who have not fled the country) are showing up for work every day.”³⁰⁶

The GOI has not allocated sufficient money for operations and maintenance (O&M); this affects sustainability. Iraqi ministries tend to focus on building facilities rather than maintaining them.³⁰⁷ For example, O&M was budgeted at 9% of the total funds ITAO recommended to the Ministry of Municipalities and Public Works in 2005 and 2006. Overall, however, the Ministry of Water Resources has adequate capacity to execute capital projects.³⁰⁸

Other factors hindering progress in the water sector include the lack of a well-established fee for service and the lack of a strong, customer-oriented focus. Performance could be improved by providing more funding for ministerial capacity development, an improved worker-compensation system, increased transparency and accountability, development of higher-quality services, and improved O&M.³⁰⁹

Another issue related to sustainability is the **Water Sector Sustainment Program**



(WSSP), which continues this quarter. Phase II was anticipated to be complete last quarter; GRD reports that Phase II is still ongoing but nearing completion.³¹⁰ Phase III is beginning and continues to support the program's emphasis on O&M in water and wastewater

facilities and rural water projects.³¹¹ On June 5, 2007, GRD awarded contracts for O&M support and training programs.³¹² Phase III will also add new projects coordinated by ITAO and in conjunction with Iraq's water ministries.³¹³



HEALTH CARE



HEALTH CARE

Before the war in 2003, Iraq had approximately 240 hospitals and 1,200 health clinics. For the previous two decades, the Iraqi health care system had been poorly managed, and no new hospitals had been built. More than half of the public health centers had deteriorated and closed before 2003.³¹⁴

U.S. reconstruction in this sector has focused on building, rehabilitating, and equipping medical facilities, as well as providing immunization, training, and other health services.

Activities in this sector were initially hindered by both design-build contractor performance shortfalls and mismanagement in overseeing the reconstruction contracts. These issues most adversely affected the primary healthcare center (PHC) program.³¹⁵

In addition, insurgent attacks have slowed construction of PHCs. GRD noted that two PHC sites were bombed this quarter.³¹⁶ Last quarter, four PHCs were bombed, and construction at these sites was brought to a halt.³¹⁷ Security issues are the major impediments for Iraqis seeking access to medical attention, and health care professionals are threatened with kidnappings and other intimidation.

U.S. Support

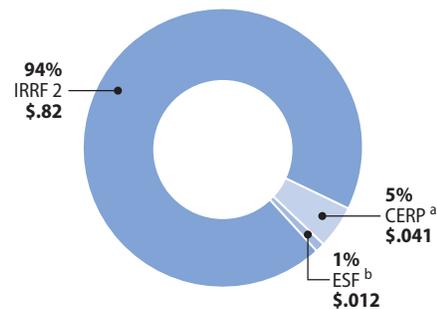
Figure 2.59 shows the allocations of U.S. funding in the health care sector. IRRF activities in this sector include constructing and refurbishing PHCs and hospitals throughout Iraq, as well as supplying those facilities with medical equipment and training medical practitioners and government officials. Past activities in this sector also included nationwide vaccination programs. CERP activities are smaller-scale projects, including the provision

FIGURE 2.59

ALLOCATIONS TO HEALTH CARE

\$ Billions, % of \$.87 Billion

Sources: DoS, *Iraq Weekly Status* (6/27/2007); MNC-I, Response to SIGIR (7/7/2007); IRMS, *ESF Economic Track Summary* (7/5/2007)



Note: Numbers are affected by rounding.

a. Allocation detail at the sector and subsector level for CERP is currently unavailable; therefore, the percentages for CERP are calculated using FY 2006 and FY 2007 dollars obligated.

b. FY 2006 Supplemental Funds (P.L.109-234).

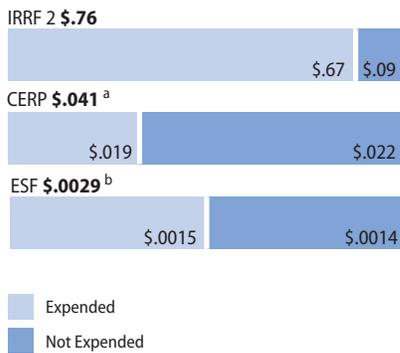


FIGURE 2.60

OBLIGATIONS FOR HEALTH CARE

\$ Billions, \$.80 Billion Total

Sources: DoS, *Iraq Weekly Status* (6/27/2007); MNC-1, Response to SIGIR (7/7/2007); IRMS, *ESF Cost to Complete* (7/5/2007)



Note: Numbers are affected by rounding.

a. FY 2006 and FY 2007.

b. FY 2006 Supplemental Funds (P.L. 109-234).

of medical supplies and equipment and repairs to health clinics.

ESF projects provide support to the sector through the Capacity Development and O&M Sustainment programs. In addition, ESF provides new health care facilities.³¹⁸

At the end of this quarter, 82% of IRRF sector funding had been expended. Almost 46% of the CERP funds for the sector had been expended, and more than 12% of the ESF sector total. Figure 2.60 shows the status of all U.S. funds that have been obligated in the health care sector.



ESF projects in the health care sector have helped keep needed medical facilities and vehicles operational.



IRRF

53% of IRRF projects in the health care sector are complete, as shown in Figure 2.61.

Last quarter, GRD reported that construction of more than 70 PHCs would be completed before July 2007;³¹⁹ however, as of June 30, 2007, only 44 of 142 planned PHCs have been completed. Of the completed PHCs, 20 have been turned over to the Ministry of Health, but only 8 are currently open. Construction at eight other PHCs was stopped last quarter because of security concerns or subcontractor problems.³²⁰ This quarter, GRD reported that six of these eight PHCs “have been deprogrammed due to security issues” and that work at the other two sites will resume, pending completion of contract modifications and re-awards.³²¹

This is the status of unfinished PHC projects:

- 64 are 90-100% complete.
- 20 are 75-90% complete.
- 8 are at various stages of completion, ranging from 40-75%.

The remaining portion of the PHC program will be finished by January 2008.³²² SIGIR audits in 2006 of the PHC construction contract and the PHC supplies contract uncovered weak oversight and poor accountability.³²³

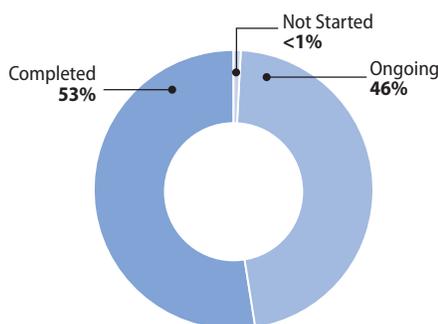
GRD continues to oversee the refurbishment of 20 hospitals (which were originally under a single design-build contract but have subsequently been re-awarded to Iraqi firms) and the construction of the Basrah Children’s Hospital (previously managed by USAID).³²⁴ Last quarter, GRD stated that all rehabilitation work in its hospital program was expected to be completed by June 2007;³²⁵ however, six construction rehabilitation projects have not yet been completed. One project was delayed because of security issues, and contractor

FIGURE 2.61

STATUS OF IRRF 2 PROJECTS - HEALTH CARE

TOTAL NUMBER OF PROJECTS: 236

Sources: IRMS, ITAO* Rollup (6/29/2007); USAID, Activities Report (7/12/2007)



| Project Type | Not Started | Ongoing | Completed | Total |
|---|-------------|------------|------------|------------|
| Primary Healthcare Centers | | 97 | 44 | 141 |
| Equipment Procurement | | 2 | 60 | 62 |
| Hospitals | 1 | 10 | 19 | 30 |
| Nationwide Hospital and Clinic Improvements | | | 3 | 3 |
| Total | 1 | 109 | 126 | 236 |

Note: Numbers are affected by rounding.

* By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.



Basrah Children's Hospital. Construction is now scheduled to be completed in July 2008.

problems delayed the other five projects. The hospital refurbishment program is now scheduled for completion by September 2007.³²⁶

On September 30, 2006, GRD awarded a new fixed-price contract on the Basrah Children's Hospital. Construction is now scheduled to be completed in July 2008, and medical equipment integration is scheduled for completion in November 2008, followed by a phased opening starting in early 2009.³²⁷ GRD reported this quarter that the project is 55% complete, as of June 30, 2007—up from 45% reported last quarter.³²⁸ SIGIR previously issued an audit of this project in July 2006, which found insufficient government oversight of the contract.³²⁹

U.S.-funded projects have allocated \$205 million to procuring health care equipment, modernization, and training.³³⁰ Medical equip-

ment, consumables, and furniture were delivered and installed at nine completed PHCs. In addition, \$22 million of the \$23.5 million in medical equipment was delivered to and installed in 18 renovated hospitals.³³¹

CERP

FY 2006 and FY 2007 CERP funds represent 5% of all U.S. funds for health care reconstruction in Iraq and 4% of CERP funds across all sectors. MNC-I oversees CERP projects in this sector, and Figure 2.62 shows their status.³³²

As IRRF projects finish out and funding is expended, CERP funds have taken on a greater significance in this sector. MNC-I has programmed 447 projects in this sector to be completed with CERP FY 2006 and FY 2007 funds.

FIGURE 2.62

**STATUS OF CERP FY 2006 AND FY 2007 PROJECTS
HEALTH CARE**

TOTAL NUMBER OF PROJECTS: 447

Source: MNC-I, Response to SIGIR (7/7/2007)

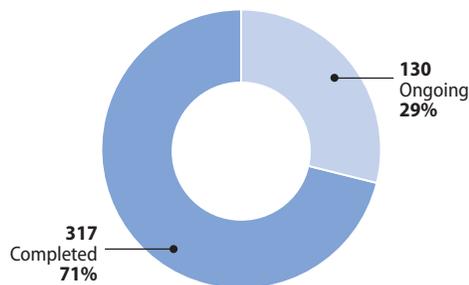
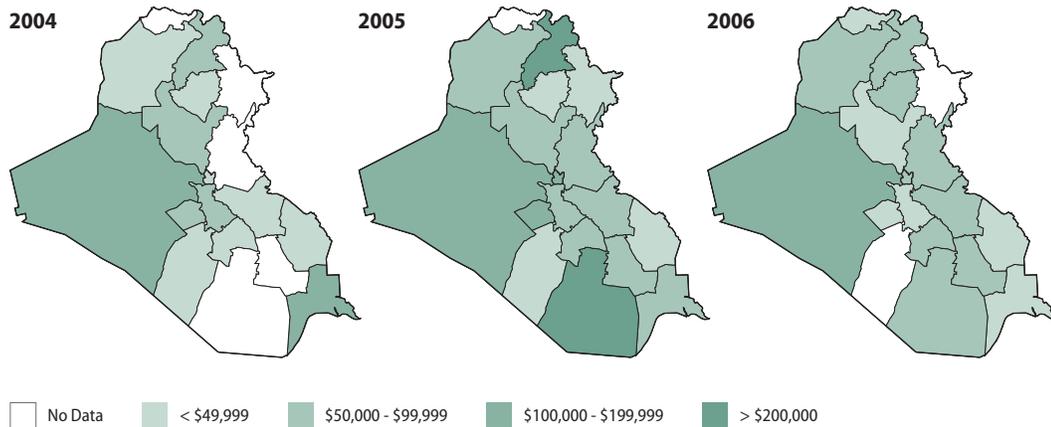


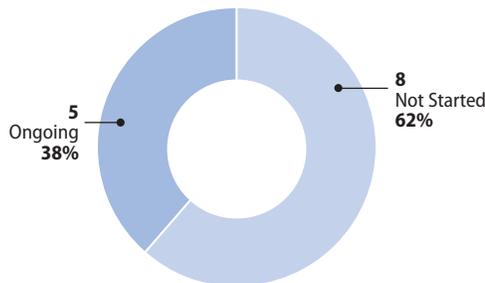


FIGURE 2.63
AVERAGE VALUE PER CERP HEALTH CARE PROJECT BY GOVERNORATE
 Source: IRMS, CERP Excel Workbook (6/29/2007)



Note:
 Data is compiled using FY 2004, FY 2005, and FY 2006 CERP funds. The years indicated correspond to the actual start dates of the projects.

FIGURE 2.64
STATUS OF ESF* PROJECTS - HEALTH CARE
 TOTAL NUMBER OF PROJECTS: 13
 Source: IRMS, ESF Project Tracker (6/29/2007)



* Funded by the ESF FY 2006 Supplemental.

Figure 2.63 shows the progression of CERP health care project values awarded over the last three years. Five provinces have health care projects that averaged more than \$100,000 in 2006.

ESF

Health care projects received approximately \$12 million from the \$285 million for the O&M Sustainment program. Figure 2.64 shows the status of ESF O&M projects in the health care sector.

Examples of health care O&M projects include procurement of spare parts for U.S.-donated medical equipment, vehicles for repair technicians and O&M personnel, and diagnostic and repair tool sets for biomedical and facility equipment.³³³

The ESF Capacity Development and Technical Training program also provides an additional \$12 million for health care projects. The status of this program's funds is updated in the Capacity Development sector discussion earlier in this section.



**TRANSPORTATION
AND
COMMUNICATIONS**

TRANSPORTATION AND COMMUNICATIONS

In 2003, the UN and World Bank estimated that transportation and communications in Iraq would require a \$3.38 billion investment.³³⁴ Security continues to pose a significant threat to reconstruction in this sector. In the telecommunications subsector, the most significant development this quarter is the Iraqi Media Communication Commission's announcement of a national mobile phone license auction.

Shipping

The number of vessels berthed at the Umm Qasr Port averaged 26 per week this quarter, a significant increase from the weekly average of 18.5 reported last quarter.³³⁵

Railway

Poor security conditions continue to hinder the flow of rail traffic in Iraq, particularly in the important Latifiyah area south of Baghdad. There has been no traffic over the Latifiyah Bridge since its repair last quarter,³³⁶ and on July 4, 2007, insurgents struck the bridge.³³⁷

Aviation

Total non-military take-offs and landings at Iraqi airports this quarter averaged 2,389 per week.³³⁸ From May 2006 to May 2007, the average for civilian take-offs and landings in Iraq was 2,734 per week—a significant increase from 1,537 per week in the previous 12-month period. Most of the air traffic is directed by Iraqi controllers at four civilian airports: Baghdad, Basrah, Erbil, and Sulaymaniyah.³³⁹

Roads and Bridges

The security situation poses a major threat to road and bridge projects. In Baghdad, five bridges were damaged by insurgent attacks between April and June. As a result, the GOI has prohibited oil tankers and other heavy trucks from crossing 11 of Baghdad's 13 bridges.³⁴⁰

Telecommunications

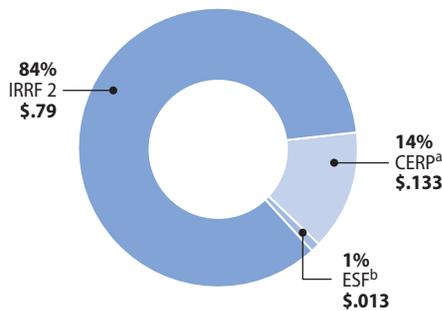
The GOI is currently preparing for an auction of three national mobile phone licenses. The auction is now scheduled to occur in Amman, Jordan, in mid-August.³⁴¹ The private sector has invested more than \$1 billion in wire-less telecommunication; however, “investors

TRANSPORTATION AND COMMUNICATIONS



FIGURE 2.65

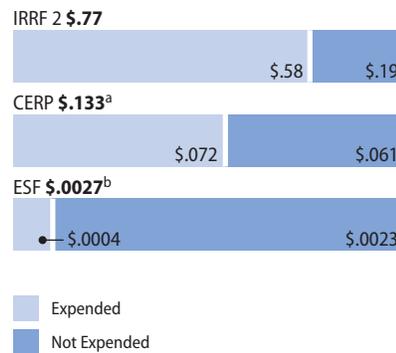
ALLOCATIONS TO TRANSPORTATION AND COMMUNICATIONS
 \$ Billions, % of \$.94 billion
 Sources: DoS, *Iraq Weekly Status* (6/27/2007); MNC-I, Response to SIGIR (7/7/2007); IRMS, *ESF Economic Track Summary* (7/5/2007)



Note: Numbers are affected by rounding.
 a. Allocation detail at the sector and subsector level for CERP is currently unavailable; therefore, the percentages for CERP are calculated using FY 2006 and FY 2007 dollars obligated.
 b. FY 2006 Supplemental Funds (P.L. 109-234).

FIGURE 2.66

STATUS OF OBLIGATIONS FOR TRANSPORTATION AND COMMUNICATIONS
 \$ Billions, \$.91 Billion Total
 Sources: DoS, *Iraq Weekly Status* (6/27/2007); MNC-I, Response to SIGIR (7/7/2007); IRMS, *ESF Cost to Complete* (7/5/2007)



Note: Numbers are affected by rounding.
 a. FY 2006 and FY 2007.
 b. FY 2006 Supplemental Funds (P.L. 109-234).

remain wary due to poor security and the continuing need for a strong legal framework.³⁴² In addition, the State Company for Internet Services (SCIS) has invited leading Internet service providers to participate in an investment license to provide dial-up, DSL, wireless, voice-over IP, and WiMax access.³⁴³

U.S. Support

Construction projects in this sector aim to improve transportation systems in Iraq, such as ports, railways, roads, bridges, and airports. This sector also includes U.S.-funded telecommunications projects. Figure 2.65 shows the sources of funding in this sector.

As of June 27, 2007, 73% of the \$798 million in IRRF funds allocated to this sector had

been expended. Of the \$.13 billion in total CERP allocations, 54% has been expended. Of the \$285 million programmed for O&M sustainment from ESF's FY 2006 Supplemental funding, approximately 5% (\$13 million) was allocated for projects in transportation and communications. GRD has committed 100% of these funds, obligated 21%, and expended 3%.³⁴⁴ The ESF Capacity Development and Technical Training program also provides an additional \$8 million for transportation and communication projects.

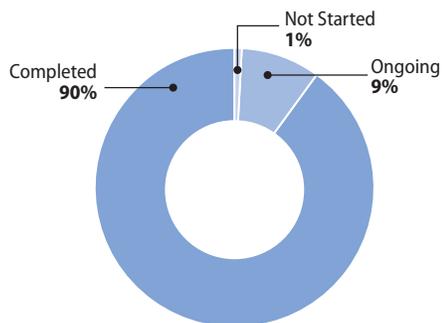
Figure 2.66 shows the status of all sector funds that have been obligated to date.



FIGURE 2.67

STATUS OF IRRF 2 PROJECTS - TRANSPORTATION AND COMMUNICATIONS
TOTAL NUMBER OF PROJECTS: 546

Sources: IRMS, ITAO* Rollup (6/29/2007); USAID, Activities Report (7/12/2007)



Note: Numbers are affected by rounding.

* By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.

| Project Type | Not Started | Ongoing | Completed | Total |
|---|-------------|-----------|------------|------------|
| Roads and Bridges | 4 | 35 | 246 | 285 |
| Railroad Rehabilitation and Restoration | | 1 | 96 | 97 |
| Consolidated Fiber Network | | | 95 | 95 |
| Telecommunications Business Modernization | | 1 | 32 | 33 |
| Civil Aviation | | 5 | 15 | 20 |
| Umm Qasr Port Rehabilitation | | 1 | 9 | 10 |
| Expressways | | 4 | | 4 |
| Telecommunications Operations/Regulatory Reform | | | 1 | 1 |
| Telecommunications Systems | | 1 | | 1 |
| Total | 4 | 48 | 494 | 546 |

IRRF

IRRF construction in this sector is expected to be completed by December 2008.³⁴⁵ Of the total sector projects, 90% are currently complete. For the status of projects funded by IRRF 2, see Figure 2.67.

Shipping Projects

The IRRF shipping program was originally scheduled to be completed by February 2007; however, the last port project is now expected to be complete in September 2007. A SIGIR project assessment found that security upgrades at the Port of Umm Qasr met construction standards.³⁴⁶

This quarter, GRD reported that all port projects have been completed except for the RO-RO (roll-on, roll-off) berth facility and providing the electrical supply to the Nelcon cranes. As of June 30, 2007, the **Nelcon cranes**

refurbishment project was 97% complete.³⁴⁷

In addition, construction of the **RO-RO berth facility** is still in progress, and completion is expected by September 3, 2007. A RO-RO berth allows ships to quickly berth and offload cargo from its ramps without cranes.³⁴⁸ This project encountered early delivery delays of equipment from outside the country.³⁴⁹

Railway Projects

U.S. projects have completed repairs at 96 of 98 railway stations, as of June 30, 2007.³⁵⁰ For the railway station projects by location, see Figure 2.68.

In other construction activities, rehabilitation of the **Basrah Railway Station**, valued at \$187,000, was completed on June 13, 2007. The project scope included rehabilitation throughout the building.³⁵¹

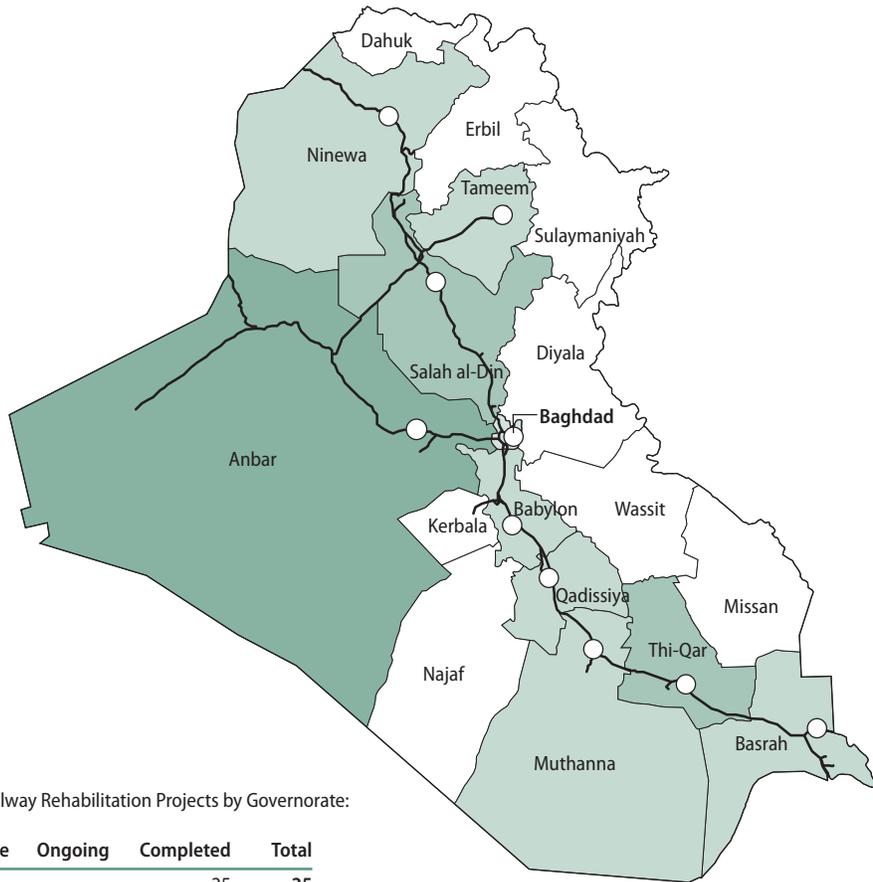
In July 2006, a SIGIR project assessment



FIGURE 2.68

RAILROAD STATION REHABILITATION PROJECTS BY GOVERNORATE

Source: IRMS, ITAO* Rollup (6/29/2007)

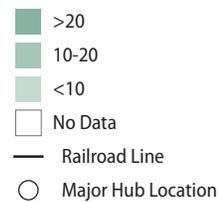


Status of Railway Rehabilitation Projects by Governorate:

| Governorate | Ongoing | Completed | Total |
|--------------|----------|-----------|-----------|
| Anbar | | 25 | 25 |
| Salah al-Din | 1 | 18 | 19 |
| Thi-Qar | | 10 | 10 |
| Babylon | | 9 | 9 |
| Ninewa | | 9 | 9 |
| Muthanna | | 8 | 8 |
| Basrah | | 6 | 6 |
| Tameem | | 5 | 5 |
| Qadissiya | | 4 | 4 |
| Baghdad | 1 | 2 | 3 |
| Total | 2 | 96 | 98 |

Total Number of Projects Nationwide: 98

Total Number of Projects by Governorate:



* By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.



STATUS OF U.S.-LED PROJECTS AT IRAQI AIRPORTS, AS OF 6/30/2007

| AIRPORT | CONTRACT SIZE | NUMBER OF PROJECTS | ESTIMATED COMPLETION DATE | STATUS |
|---------|---------------|--------------------|---------------------------|---------------|
| Baghdad | \$17 million | 7 | October 2006 | 100% Complete |
| Basrah | \$25 million | 10 | February 2008 | 99% Complete |
| Mosul | \$10 million | 1 | September 2006 | 100% Complete |

Source: GRD, response to SIGIR, July 19, 2007.

TABLE 2.14

at the **Baghdad Railway Station** found that although most project components met standards, the construction design was not complete.³⁵²

In addition to railway station rehabilitation, funding allocated to this subsector has been used for materials and equipment. Phase I of the **Communications-Based Train Control System (CBTC)** will provide the Iraq Republic Railway with a train-control system to track the movement of all locomotives on the rail system. The project is currently 90% complete and is expected to be finished by September 2007. Phase II, which is 88% complete, will provide a \$41.6 million Digital Microwave Radio Communications Network (also referred to as the **CBTC-backbone**). This phase is scheduled to be completed by May 31, 2008.³⁵³

Aviation Projects

The Air Systems Commissioning Flight Inspection has been completed at the **Baghdad International Airport (BIAP)**, allowing flights to land and depart with less-than-visual flight conditions. After 18 months of outage, radar service was restored, and training for the first class of BIAP air traffic controllers was com-

pleted last quarter.³⁵⁴ However, a SIGIR project assessment last quarter found that of the 17 new generator sets, valued at \$11.8 million, 10 were not operational.³⁵⁵

This quarter, construction projects continued at the **Basrah International Airport (BIA)**. The terminal and tower renovation project is 95% complete.³⁵⁶ The remaining BIA projects are scheduled to be delivered by September 2007, except for the new radar system, which is expected to be complete in February 2008 because of longer-than-anticipated manufacturing time for the radar.³⁵⁷

Last July, a SIGIR project assessment found that although construction of the terminal and tower renovation at BIA met contract requirements, the stated objective was not met.³⁵⁸

Table 2.14 summarizes the work done at the Baghdad, Basrah, and Mosul airports.

Roads and Bridges

U.S.-funded projects in this subsector are on schedule to finish in December 2008. The projects have focused on small village roads, several key highways, and bridges.³⁵⁹

The highway between Baghdad and Kirkuk will be upgraded to four lanes by December



2008. Also, Diwaniya and Samarra will be connected by an upgraded four-lane highway. This \$15.5 million project is scheduled to be completed in January 2008. The project is now 38% complete.³⁶⁰

The **Village Roads Program**, budgeted at \$38.5 million, plans to improve 424 miles of roads throughout 15 governorates in Iraq.³⁶¹ Originally scheduled to be completed by August 2006,³⁶² the program completion was delayed because of security problems and a shortage of fuel and bitumen.³⁶³ This quarter, GRD reported further delays, and the current estimated completion date for the program is now December 31, 2007.³⁶⁴

Previously, SIGIR project assessments found that both the Ninewa Village Roads Segment 3 and the Muthanna Village Roads Segment 4 were not adequately designed,³⁶⁵ but the Thi-Qar Village Roads Segment 3 project was adequately completed to contract specifications.³⁶⁶

Of the 56 Provincial Reconstruction Development Committee (PRDC) projects in this sector, valued at \$56.5 million, 33 have been completed, as of June 30, 2007. GRD reported that eight PRDC projects, including three road projects and five street projects, have been completed since last quarter.³⁶⁷

Telecommunications

The **Iraq Telecommunications and Postal Commission (ITPC)** modernization effort includes 34 projects to construct and renovate post offices. These projects were scheduled to finish in July 2007,³⁶⁸ but GRD reported this

quarter that one post office project will not be completed until August 30, 2007.³⁶⁹

Personnel from the Iraqi Telephone and Postal Company concluded a five-day training program in the United Arab Emirates, sponsored by ITAO. The program included training in international postal organizations, operations and policies, parcel inspections and delivery, postal management, and auditing.³⁷⁰

The Iraqi Telecommunications System was allocated \$47 million from the IRRF. The funding has been used to construct a **primary switching facility at Al-Maimouna** and a **wireless broadband network (WBBN)**. As of June 30, 2007, the \$26 million switch facility was 22% complete and was estimated to be finished by September 2007.³⁷¹ However, GRD later reported that a 200-day extension was issued for the project, and the estimated project completion date is now February 2008.³⁷² The WBBN project, valued at \$1.9 million, was completed in March 2007.³⁷³

To modernize the Iraq telecommunications operations system and to support a new regulatory agency, the **Communications and Media Commission (CMC)** was allocated \$20 million.³⁷⁴ Phase 1 of the Strategic Development Training for CMC staff, valued at \$2.4 million, began in January 2007 and is 10% complete. In addition, purchase and installation of the High-speed Data Network for the CMC (\$4.7 million) is 40% complete.³⁷⁵

This quarter, USAID released an audit report on the **Consolidated Fiber Network (CFN)** project. Valued at \$46.1 million, the project was intended to provide fiber-optic



material and construction equipment, employ 1,000 Iraqis, and improve the voice transmission network to benefit approximately 10 million Iraqis. The audit found that, although USAID provided equipment, there was not sufficient documentation to demonstrate that 1,000 Iraqis were employed. In addition, the goal of serving 10 million people was not reached because the Ministry of Electricity and the ITPC had not made full use of the CFN.³⁷⁶

CERP

CERP FY 2006 and FY 2007 funds represent 14% of the total U.S. funds for transportation and communication reconstruction in Iraq and 13% of the total CERP funds for reconstruction in Iraq. These sources fund 840 transportation projects and 116 telecommunications projects overseen by MNC-I. For the status of CERP-funded projects, see Figure 2.69.

In Falluja this quarter, 15 CERP projects are programmed to spend more than \$5 million

to improve commerce in the city, including 4 railway projects to repair track and ties.³⁷⁷ In Mosul, 4 ongoing CERP projects are improving the transportation system, and 52 projects, valued at \$3.8 million, have been completed.³⁷⁸

In Samarra, \$1.4 million of the CERP is used for the transportation system, and in Kirkuk, more than \$5 million is used for transportation projects.³⁷⁹ In Ramadi, \$672,000 of CERP funds are being used to construct Riverside Road, which runs along the Euphrates River.

In addition, two railway projects funded by CERP are currently in construction in Falluja to repair tracks and railroad ties. The projects are 44% and 38% complete, respectively, and both are scheduled to finish in September 2007.³⁸⁰

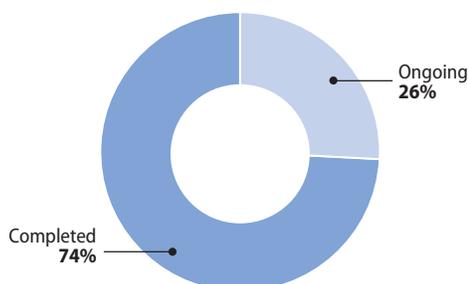
As the project profile of CERP grows within the U.S. reconstruction program in Iraq, so has the average dollar value per CERP transportation and communications project. Figure

FIGURE 2.69

STATUS OF CERP FY 2006 AND FY 2007 PROJECTS - TRANSPORTATION AND COMMUNICATIONS

TOTAL NUMBER OF PROJECTS: 956

Source: MNC-I, Response to SIGIR (7/7/2007)



| Project Type | Ongoing | Completed | Total |
|--------------------|------------|------------|------------|
| Transportation | 225 | 615 | 840 |
| Telecommunications | 27 | 89 | 116 |
| Total | 252 | 704 | 956 |

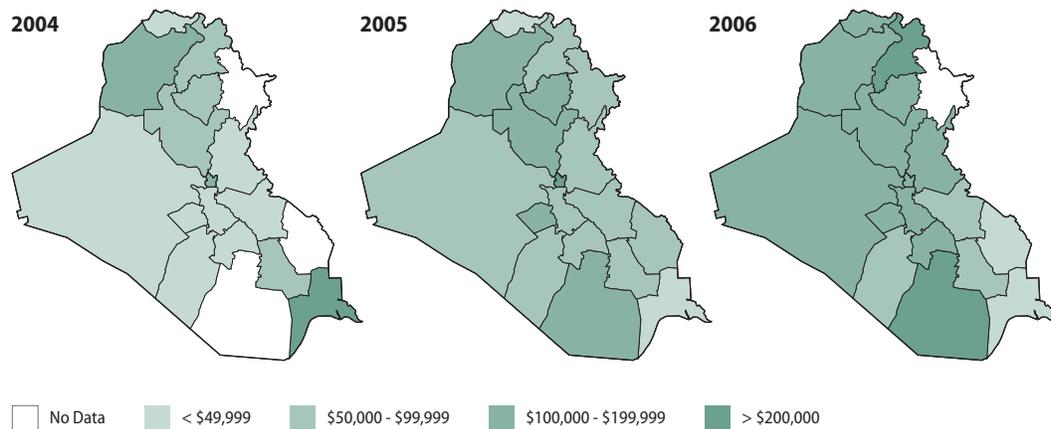
TRANSPORTATION AND COMMUNICATIONS



FIGURE 2.70

AVERAGE VALUE PER CERP TRANSPORTATION AND COMMUNICATIONS PROJECT BY GOVERNORATE

Source: IRMS, CERP Excel Workbook (6/29/2007)



Note:
Data is compiled using FY 2004, FY 2005, and FY 2006 CERP funds. The years indicated correspond to the actual start dates of the projects.

2.70 shows that the average value per project has steadily increased since 2004. In 2006, the average value per CERP transportation and communications project reached \$135,000—nearly double the average value in 2004.

ESF

Figure 2.71 shows the status of ESF O&M Sustainment projects in transportation and communications that are funded from FY 2006 supplemental appropriations.

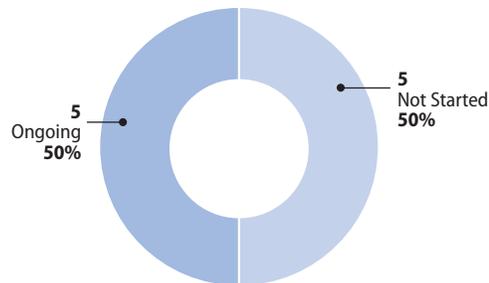
An example of an O&M sustainment effort in the telecommunication sector is the CFN Southern Euphrates fiber O&M project, a \$1.7 million effort that will provide fiber network O&M support to the ITPC. Also related to telecommunications, the \$1 million dollar contract to provide spare parts to the **Ministry of Communications/ITPC for a fiber backbone** was awarded on May 28, 2007.³⁸¹

Other ESF-funded projects in this sector include on-the-job training for the BIAP area control, on-the-job training for air traffic control, and O&M for BIAP navigation aids.³⁸²

FIGURE 2.71

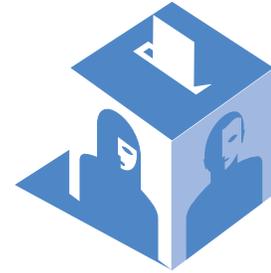
STATUS OF ESF* PROJECTS TRANSPORTATION AND COMMUNICATIONS

TOTAL NUMBER OF PROJECTS: 10
Source: IRMS, ESF Project Tracker (6/29/2007)



* Funded by the ESF FY 2006 Supplemental.

DEMOCRACY



DEMOCRACY

The broad objectives for U.S. support of Iraqi democratic governance are outlined in the President's *National Strategy for Victory in Iraq*.³⁸³

- Isolate enemy elements from those who can be won over to the political process by countering false propaganda and demonstrating to all Iraqis that they have a stake in a democratic Iraq.
- Engage those outside the political process and invite in those willing to turn away from violence through ever-expanding avenues of participation.
- Build stable, pluralistic, and effective national institutions that can protect the interests of all Iraqis and facilitate Iraq's full integration into the international community.

The current U.S. strategy to achieve these objectives includes "bottom-up reconciliation," which involves "working at the local and pro-

vincial level, seeking local political accommodations, and getting more Iraqis to invest in the future of a united and democratic Iraq."³⁸⁴ The Provincial Reconstruction Teams (PRTs) are critical components of strengthening governance capacity. Additionally, several capacity-development initiatives, including USAID's National Capacity Development (NCD) Program, focus on building government capacity in Iraq.

"The Government of Iraq is currently working toward reviewing the Constitution. The process is likely to be a long and careful one, as consideration needs to be given to the interests of each of the major political groups. Issues to be addressed include federalism, the sharing of oil revenues, de-Ba'athification reform, and provincial elections."³⁸⁵ On July 8, Iraq's Council of Representatives (COR) voted to extend the current term through July 31, 2007, working six days per week from July 16, 2007, to July 31, 2007.³⁸⁶

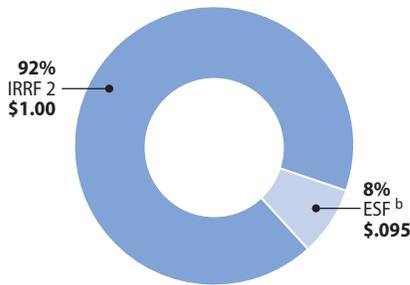


Figure 2.72

ALLOCATIONS TO DEMOCRACY

\$ Billions, % of \$1.09 Billion

Sources: DoS, *Iraq Weekly Status* (6/27/2007); ITAO,^a *Weekly Status Report* (6/26/2007)



Note: Numbers are affected by rounding.

a. By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.

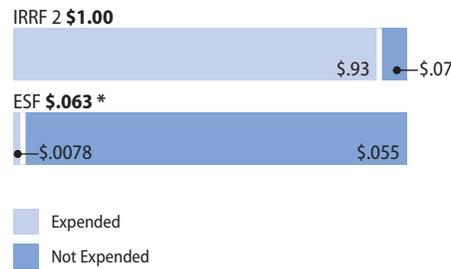
b. FY 2006 Supplemental Funds (P.L. 109-234).

Figure 2.73

OBLIGATIONS FOR DEMOCRACY

\$ Billions, \$1.06 Billion Total

Sources: DoS, *Iraq Weekly Status* (6/27/2007); USAID, *Activities Report* (7/12/2007)



Note: Numbers are affected by rounding.

* FY 2006 Supplemental Funds (P.L. 109-234).

U.S. Support

In this sector, both the IRRF 2 and ESF FY 2006 Supplemental provide funding for projects (see Figure 2.72). Approximately \$1 billion of the IRRF 2 was allocated for democracy-building activities, of which 93% has been expended.³⁸⁷ As IRRF funding approaches depletion, new funding for democracy projects is coming from the ESF, which contributes approximately 8% of the funding for this sector.³⁸⁸ Of the nearly \$63 million in ESF FY 2006 supplemental monies obligated

in the democracy sector, nearly 13% has been expended.³⁸⁹

Figure 2.73 shows the status of U.S. funding in this sector. ESF-funded programs aim to establish grassroots civil-society efforts through community action groups and through the efforts of the PRTs. For a discussion of additional projects aimed at strengthening civil-society organizations through PRTs, see the Provincial Reconstruction Teams discussion in this section.



IRRF

Most of the IRRF funds in the democracy sector were used to support the national elections, draft the constitution, and conduct the constitutional referendum in 2005. Figure 2.74 shows the status of IRRF 2 projects in this sector.

These are some examples of recent IRRF democracy-building efforts reported in the DoS *Section 2207 Report* from April 2007:³⁹⁰

- printing and distributing 2,000 illustrated booklets detailing the role of Iraqi women in the reconciliation process
- completing training for 12 political parties on federalist democratic perspectives
- training 1,750 Iraqis in 50 Civic Coalition for Free Elections workshops in five

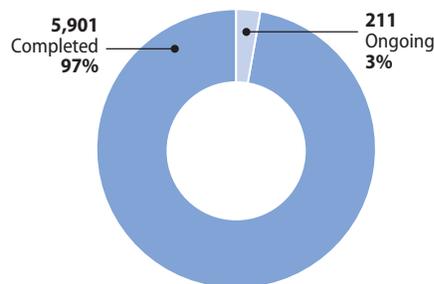
southern provinces on the significance of national reconciliation in the Iraqi political process

- broadcasting, on Al Mahaba station, 16 radio talk shows produced by Rafadin’s Women’s Coalition, focusing on national reconciliation and the role of leaders and clerics in the national reconciliation process

Additionally, USAID helped the Kirkuk Provincial Council to launch its own website to provide information about the council’s work in the province.³⁹¹ This effort was facilitated by the Local Governance Program, which is discussed in greater detail in the PRT section of this Report.

Figure 2.74

STATUS OF IRRF 2 PROJECTS - DEMOCRACY
TOTAL NUMBER OF PROJECTS: 6,112
 Source: USAID, *Activities Report* (7/12/2007)





ESF

Figure 2.75 shows a status of democracy projects funded by the ESF FY 2006 Supplemental. For a cross-reference of the ESF programs categorized by SIGIR sector, see Appendix D.

Community Action Program

The **Community Action Program (CAP)** promotes grassroots democracy and works to establish better local governance through representative and participatory community action groups. The CAP, implemented by USAID and also funded by the IRRE, has been allocated \$50 million in ESF FY 2006 supplemental funds, of which \$5 million is included for the Marla Ruzicka Iraq War Victims Fund, which was transferred to the IRRE.³⁹² Only approximately \$560,000 of ESF supplemental funds allocated to this program has been

expended. As of May 17, 2007, USAID reports these highlights of the CAP since its inception in 2003:³⁹³

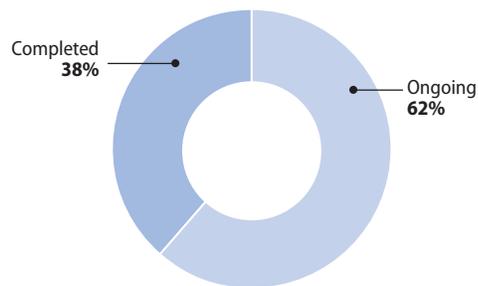
- mobilization of more than 1,450 community action groups in all 18 governorates
- creation of more than 2.7 million days of employment
- creation of 34,000 long-term jobs, of which 43% have gone to women
- USAID commitment of more than \$271 million to 6,000 CAP projects; Iraqi contributions of more than \$74 million

From January to April 2007, 158 projects were completed, valued at \$9.2 million. These projects created 204 long-term jobs.³⁹⁴

To improve the tracking of results achieved by CAP, USAID has completed and approved the Baseline Survey and Performance

Figure 2.75

STATUS OF ESF* PROJECTS - DEMOCRACY
TOTAL NUMBER OF PROJECTS: 419
 Source: USAID, *Activities Report* (7/12/2007)



* Funded by the ESF FY 2006 Supplemental.

| Project Type | Not Started | Ongoing | Completed | Total |
|--------------------------|-------------|------------|------------|------------|
| Community Action Program | | 256 | 161 | 417 |
| Civil Society | | 2 | | 2 |
| Total | | 258 | 161 | 419 |



Monitoring Plan.³⁹⁵ The web-based Project Reporting System, which unifies the data collected from the five NGOs implementing CAP activities, aims to improve the measurement and reporting of CAP programs.³⁹⁶ The five partner agencies maintain and update the PRS database.³⁹⁷

The CAP launched a women's literacy campaign in Missan, Qadisiya, and Wassit, with anticipated expansion to Basrah. Thousands of women have taken advantage of the two-part program. The first phase focuses on reading and writing; the second phase provides lessons in Arabic, mathematics, and social sciences. For example, the literacy program in the Missan governorate benefited approximately 2,500 Iraqi women.³⁹⁸ The project also resulted in the employment of previously unemployed Iraqi teachers and the refurbishment of classrooms used for the literacy campaign.³⁹⁹

Democracy and Civil Society

The **Democracy and Civil Society** programs conducted these activities:⁴⁰⁰

- meetings with PRT representatives and other democracy-promotion organizations to brainstorm areas of potential collaboration for future electoral events
- continued assessment of the current election administration's preparedness
- detailed training agenda for the staff of the Independent Election Commission of Iraq
- identified priorities and objectives under the Draft National Operations Plan for the conduct of a 2007 electoral event

Approximately \$50 million of the FY 2006 ESF supplemental funds support Democracy and Civil Society programs.⁴⁰¹ These projects support COR efforts to address key governance issues and to enhance the participation of women and minorities in the political process.⁴⁰²

USAID has obligated \$8 million to an existing contract for its **Civil Society and Independent Media** program.⁴⁰³ IRRF funding for civil society and independent media programs ended on September 30, 2006, as reported by SIGIR last quarter. Through ESF funding, USAID has continued supporting the media program activities, which include training media sector employees and providing market research and equipment.⁴⁰⁴ Media program activities were funded from "carry over ESF, which was reprogrammed from an obligation to the World Food Program in FY 2006," according to USAID.⁴⁰⁵

USAID obligated \$10 million to an existing agreement for its **IFES Election Support** program. IFES staff has conducted meetings with democracy-building organizations, including PRTs, to identify areas of collaboration for future elections.⁴⁰⁶



ECONOMIC DEVELOPMENT



ECONOMIC DEVELOPMENT

There were some signs of economic progress in Iraq this year.

Inflation improved, dropping from 65% at the end of 2006 to approximately 37% by the end of February 2007,⁴⁰⁷ but it subsequently increased, reaching 46% by the end of June.⁴⁰⁸ The primary cause of the spike was shortage of refined fuel products.⁴⁰⁹ Overall, inflation remains lower than at the end of last year but is still above IMF targets.

Iraq's Central Office for Statistics and Information Technology measured unemployment at 18% and underemployment at 38% in its November 2006 annual employment survey.⁴¹⁰ However, current estimates of Iraq's unemployment rate range from 25–40%.⁴¹¹

Dormant state-owned enterprises (SOEs) exacerbate the unemployment situation. As reported by the Deputy Undersecretary of Defense for Business Transformation, an estimated 500,000 employees of SOEs are not included in the unemployment statistics and continue to receive only about 40% of their pay.⁴¹²

The security crisis also constrains private sector development. According to the IMF, “if the level of violence can be reduced, the government investment program, including in the

oil sector, could be implemented and private sector activity could begin to recover.”⁴¹³

U.S. Task Force To Improve Business and Stability Operations

Economic activity in Iraq was prompted this quarter by a series of factory restarts by the U.S.-funded Task Force to Improve Business and Stability Operations (TF-BSO).

As of July 5, 2007, TF-BSO had conducted assessments of more than 64 major industrial operations⁴¹⁴ and selected 19 factories for restart in 2007.⁴¹⁵ The President's revised FY 2007 supplemental request of March 9, 2007, stated that TF-BSO will “help re-start over 140 Iraq factories during the next 6 to 18 months, employing up to 150,000 people.”⁴¹⁶ As of July 5, 2007, six factories have restarted production operations.⁴¹⁷

TF-BSO reported that less than \$200 million is required to restart most of these factories; however, it has only \$50 million in appropriated funds.⁴¹⁸ To close the gap in funding, TF-BSO has attempted to negotiate with the Ministry of Finance and the Ministry of Industry and Minerals to establish a low-interest-rate loan program through state-owned banks.⁴¹⁹



IMF Stand-By Arrangement (SBA)

The IMF's SBA stipulates specific measures that Iraq must implement to resolve problems with balance of payment, subsidies, and other economic issues.⁴²⁰ According to the President's *Initial Benchmark Assessment*, Iraq is on track to meet the SBA's requirements; however, to benefit from a planned follow-on IMF program, Iraq must continue to increase its fuel prices.⁴²¹

An IMF progress report on the SBA in March 2007 found that Iraq has made advances in implementing many required economic and structural reforms, including:⁴²²

- launching a new national payments system
- agreeing on a comprehensive bank reform and restructuring program to promote financial soundness and provide essential services to the population
- establishing budgetary targets, especially on capital investment

- implementing monetary policies aimed at decreasing inflation

As required by the SBA, the Central Bank of Iraq (CBI) has tightened monetary policy and adopted a policy of gradual appreciation of the dinar through incremental increases to relieve inflationary pressures. Since November 2006, the dinar has appreciated 17%.⁴²³ The current exchange rate is 1,249 dinars to the dollar, as of July 12, 2007. A year ago, the rate was 1,472 dinars to the dollar.⁴²⁴ Figure 2.76 shows the historical trend for the exchange rate.

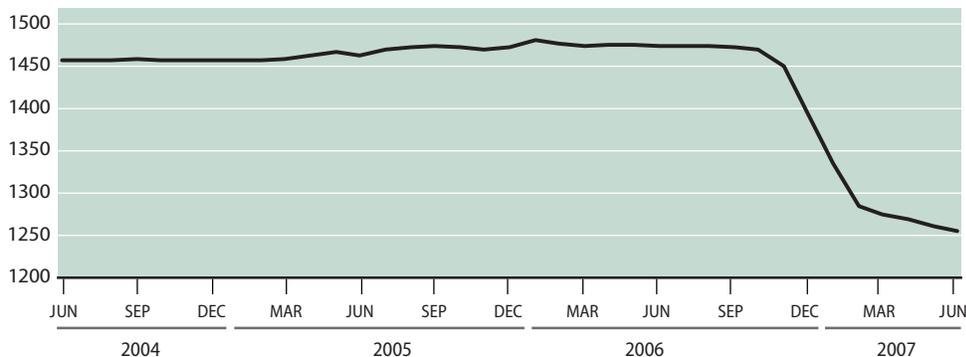
During the past quarter, Iraqi authorities have taken steps to comply with the requirements of the bank restructuring program, which they agreed to with the IMF last March. In particular, the Iraqis have focused on restructuring the two largest state-owned banks—Rafidain and Rasheed—under the SBA program as follows:⁴²⁵

Figure 2.76

CURRENCY EXCHANGE RATE

Currency (Auction Selling Price Dinar/\$1 USD)

Source: Central Bank of Iraq





- In March 2007, the economic committee of the Council of Ministers approved memoranda of understanding (MOUs) for operational restructuring of both state-owned banks and a financial institution restructuring of the Rasheed bank.
- The CBI set up a bank Restructuring Oversight Committee.
- An international auditor was selected in early June to conduct an operational and financial audit of both banks and will be appointed shortly.

These measures are important elements of the more comprehensive bank restructuring program called for by the committee's MOUs.

The IMF noted that progress was sufficient to justify extending the SBA to September

2007.⁴²⁶ The next SBA staff review is expected to take place in August, when the IMF will review progress through June 2007.⁴²⁷

U.S. Support

Approximately 71% of U.S. allocations to this sector are from IRRF 2. Figure 2.77 shows the sources of U.S. funds for projects in the economic development sector.

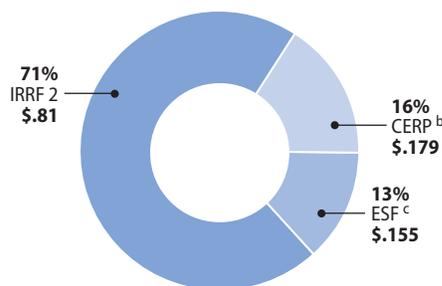
All of the IRRF allocated to economic development has been obligated, and approximately 97.5%⁴²⁸ has been expended. As IRRF comes to an end, U.S.-funded efforts to promote economic development will continue through ESF and CERP. Approximately 16% of funds in the economic development sector are from CERP, and 13% are from ESF. Figure 2.78 shows the status of U.S. funds that have been obligated in this sector.

Figure 2.77

ALLOCATIONS TO ECONOMIC DEVELOPMENT

\$ Billions, % of \$1.14 Billion

Sources: DoS, *Iraq Weekly Status* (6/27/2007); MNC-I, Response to SIGIR (7/7/2007); ITAO,^a *Weekly Status Report* (6/26/2007)



Note: Numbers are affected by rounding.

a. By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.

b. Allocation detail at the sector and subsector level for CERP is currently unavailable; therefore, the percentages for CERP are calculated using FY 2006 and FY 2007 dollars obligated.

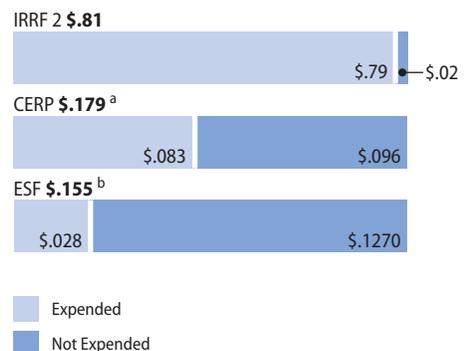
c. FY 2006 Supplemental Funds (P.L. 109-234).

Figure 2.78

OBLIGATIONS FOR ECONOMIC DEVELOPMENT

\$ Billions, \$1.14 Billion Total

Sources: DoS, *Iraq Weekly Status* (6/27/2007); MNC-I, Response to SIGIR (7/7/2007); USAID, *Activities Report* (7/12/2007)



Note: Numbers are affected by rounding.

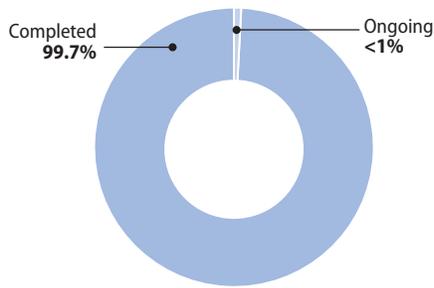
a. FY 2006 and FY 2007.

b. FY 2006 Supplemental Funds (P.L. 109-234).



Figure 2.79

STATUS OF IRRF 2 PROJECTS - ECONOMIC DEVELOPMENT
TOTAL NUMBER OF PROJECTS: 379
 Source: USAID, *Activities Report* (7/12/2007)



| Project Type | Not Started | Ongoing | Completed | Total |
|----------------------|-------------|----------|------------|------------|
| Agriculture | | 1 | 374 | 375 |
| Vocational Training | | | 3 | 3 |
| Market-Based Reforms | | | 1 | 1 |
| Total | | 1 | 378 | 379 |

This quarter, the FY 2007 supplemental appropriations bill provided \$57.4 million of ESF funds to be made available to nongovernmental organizations (NGOs) in Iraq for economic and societal development programs.⁴²⁹ Additionally, the supplemental appropriation provided \$50 million to be made available to the TF-BSO through the Iraq Freedom Fund.⁴³⁰

IRRF

IRRF-funded initiatives have been key elements in the promotion of Iraq’s economic development. IRRF funds have spanned multiple areas of economic growth promotion—from expanding the microfinance industry to providing advice on the implementation of financial systems. ESF funds are continuing many IRRF projects. Figure 2.79 shows the status of IRRF-funded projects in this sector.

Agriculture Industry Development

USAID has been responsible for almost all IRRF funding for the agriculture subsector

through the \$100 million **Agriculture Reconstruction and Development Program for Iraq (ARDI)**, which focused on production, infrastructure, and capacity-building projects. The program officially closed in December 2006.

The ESF-funded **Inma Agribusiness Program** is expected to continue USAID’s efforts in these areas, under a contract with a ceiling value of \$343 million.⁴³¹ To date, \$37.5 million has been allocated, and the contract includes two option years.⁴³²

USDA and Texas A&M University (TAMU) agreed to a work plan for the **Iraq Agriculture Extension Revitalization Project**, and the project money will be transferred to TAMU for implementation.⁴³³ The University Consortium, comprising five U.S. universities (led by Texas A&M), and six Iraqi universities, will conduct a series of two-week trainings for extension specialists on farming, poultry production, crop production, and other topics.⁴³⁴



Economic Governance

Despite security issues, the USAID **Economic Governance (EG) II Project** team continues to supply technical assistance to the GOI to facilitate fiscal and monetary management through a contract valued at approximately \$225 million. As of July 9, 2007, approximately \$161.7 million of these funds had been obligated, and \$131.3 million had been expended.⁴³⁵

Implementation of the **Financial Management Information System (FMIS)** has been suspended indefinitely for security reasons.⁴³⁶ Before the suspension, several technological updates were made to the FMIS. New software was configured and installed on the system to accommodate revised accounting rules, and the Government Financial Statistics-compliant Chart of Accounts was entered into the system.⁴³⁷ To date, USAID reported that it obligated approximately \$18 million (including security costs) for the FMIS.⁴³⁸ The figure does not include what ITAO has spent on FMIS-related modules. ESF funds are intended to complete the rollout of FMIS.⁴³⁹

SIGIR currently is conducting an audit to review the effectiveness of the FMIS contract.

As of April 2007, with the assistance of the U.S. Treasury, the connection of the CBI to the **Real Time Gross Settlement (RTGS)** and **Automated Clearing House (ACH)** systems was completed.⁴⁴⁰ Additionally, four more private banks were accepted as users of the RTGS and ACH systems, bringing the total population of users to 11 banks and the CBI.⁴⁴¹

U.S. efforts also helped the GOI develop a work plan and meet the deadline imposed

by the IMF Safeguards Assessment for the implementation of the **International Financial Reporting Standards (IFRS)** as the basis for financial reporting. The implementation of the IFRS is on schedule.⁴⁴²

Private-sector Development Program (Izdihar)

The existing **Izdihar Private Sector Development** contract ends on September 30, 2007.⁴⁴³ Izdihar's activities currently span multiple areas, including investment promotion, trade policy and market access, business management services, capital market development, small and medium enterprise development, and sustainable microfinance development.

Trade Policy and Market Access

Progress on Iraq's accession into the World Trade Organization (WTO) occurred this quarter. On May 25, the Iraqi delegation to the WTO Working Party held bilateral meetings with U.S., Arab, and European delegations. As a follow-up discussion to this meeting, advisors from the Izdihar program met with the Minister of Trade, who attended the WTO meeting, to discuss several key priorities for Iraq's accession. One of the key priorities is to complete and submit the Legislative Action Plan to the WTO Secretariat.⁴⁴⁴ These steps, supported by USAID, continue to drive economic reform in the key areas of trade, customs, and intellectual property rights as part of the WTO accession process.⁴⁴⁵



Small and Medium Enterprise Development

As of July 2007, the Iraq Company for Bank Guarantees (ICBG) had approved 18 loan guarantees with a total value of \$344,279.⁴⁴⁶ In November 2006, ICBG started its operations to improve access to credit and to develop profitable portfolios for qualified small and medium-sized enterprises. The program also aims to strengthen the cash-flow-based lending practices of qualified participating banks. Bolstered by a \$5 million grant from USAID through Izdihar, 11 private Iraqi banks subscribed \$3.7 million in initial equity as of April 1, 2007.⁴⁴⁷

Sustainable Microfinance Development

Since U.S.-funded microfinance efforts began in August 2003, a total of more than \$100 million⁴⁴⁸ in loans has been issued in 16 of 18 provinces.⁴⁴⁹ There are \$23 million in outstanding loans to more than 18,000 clients, and

the repayment rate is more than 98%.⁴⁵⁰ Izdihar began microfinance efforts in November 2006.⁴⁵¹

ESF

Two ESF FY 2006 Supplemental programs are categorized in the economic development sector. Figure 2.80 depicts the status of ESF-funded projects in this sector. Some ESF projects are a continuation of the efforts started by IRRF-funded activities.

Community Stabilization Program in Strategic Cities

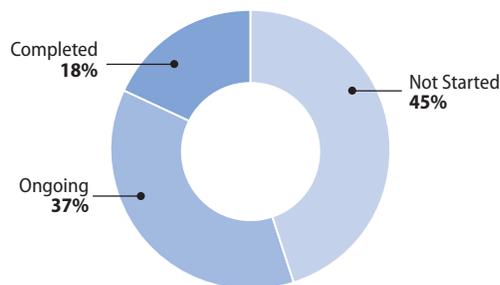
The **Community Stabilization Program (CSP)** was scheduled to end on September 30, 2008, but it has been extended to September 30, 2009, with the FY 2007 obligation.⁴⁵² The program is in the initial phase for assessment of additional cities.⁴⁵³

Figure 2.80

STATUS OF ESF* PROJECTS - ECONOMIC DEVELOPMENT

TOTAL NUMBER OF PROJECTS: 132

Source: USAID, *Activities Report* (7/12/2007)



* Funded by the ESF FY 2006 Supplemental.

| Project Type | Not Started | Ongoing | Completed | Total |
|---------------------------------|-------------|-----------|-----------|------------|
| Community Stabilization Program | 59 | 49 | 23 | 131 |
| Policy and Regulatory Reforms | | 1 | | 1 |
| Total | 59 | 50 | 23 | 132 |



As of April 2007, DoS reports that CSP has:⁴⁵⁴

- expanded to Kirkuk, Mosul/Telafar, and Falluja/Anbar
- planned expansion to Basrah
- conducted security assessments in Kirkuk, Mosul, and Falluja

USAID has obligated, via a cooperative agreement, all of the \$135 million of the ESF allocated for the CSP. The CSP pursues economic development incentives and provides employment support to discourage young Iraqis from participating in violent conflict. The program comprises these major components:⁴⁵⁵

- public works and small infrastructure projects
- vocational training and apprenticeship programs

- business development programs for micro-small-medium enterprises
- youth activities

As of June 25, 2007, USAID's average daily Iraqi employment total was 63,377.⁴⁵⁶ The total increased to 68,183 as of July 3, 2007.⁴⁵⁷ Table 2.15 lists the average number of daily employees per work-week for the week prior to July 3, 2007, for several U.S.-funded employment programs.

Table 2.16 shows the average daily number of people employed by the CSP in several Iraqi cities. Additionally, USAID reports that approximately 8,000 people, of which 532 people are employed in infrastructure projects, have benefited from CSP in the Ninewa Province.⁴⁵⁸

AVERAGE NUMBER OF PEOPLE EMPLOYED DAILY BY EMPLOYMENT PROGRAM

| EMPLOYMENT PROGRAM | IRAQIS EMPLOYED |
|---------------------------|-----------------|
| USAID | 68,183 |
| GRD (includes MILCON/OMA) | 18,758 |
| CERP | 4,320 |
| MNSTC-I | 11,788 |
| IRRF Non-construction | 8,855 |
| Totals | 111,904 |

Source: ITAO, *Weekly Status Report*, July 3, 2007, p. 17.
Note: For work-week prior to July 3, 2007.

TABLE 2.15



AVERAGE NUMBER OF PEOPLE EMPLOYED DAILY BY THE CSP

| | BAGHDAD (JUNE 24 – 30) | ANBAR (JUNE 24 – 30) | MOSUL (JUNE 10 – 16) | KIRKUK (JUNE 10 – 16) |
|------------------------------------|---------------------------|-------------------------|-------------------------|--------------------------|
| Short-term Employment (< 3 months) | 32,210 | 10,172 | 6,711 | 1,920 |
| Long-term Employment (> 3 months) | 11,216 | 99 | 296 | 801 |

Sources: USAID, responses to SIGIR, June 21, 2007 and July 9, 2007.

Note: Not all cities in which the CSP has operations are represented in the table.

TABLE 2.16

Policy and Regulatory Reforms

U.S.-funded projects continue to assist the GOI in **Policy and Regulatory Reforms**, which include support to the CBI for improving monetary policy and macroeconomic analysis activities. The focus of these efforts, funded by \$20 million, includes assistance with bank restructuring, banking supervision, reserve requirement, Iraqi treasury bill auctions, and information technology management.⁴⁵⁹ The program also assists the Ministry of Finance in developing an integrated annual budget, using the IMF classification system. This budget planning assistance will help the ministry prepare the national budget in accordance with the requirements of the SBA.⁴⁶⁰

In their efforts to help the GOI comply with terms of the SBA and meet the requirements of the IMF Safeguards Assessment, USAID and Treasury also performed these activities:⁴⁶¹

- working with CBI to ensure that the reconciliation of the Net International Reserves is accomplished to meet IMF Safeguard Assessment requirements

- assisting the GOI in amending the existing approved Prudential Regulations to ensure consistency and compliance with international best practices
- helping the GOI gain approval of draft Secured Transaction legislation from the Shura Council and Ministry of Finance

ESF-funded efforts are continuing many of these activities started by IRRF funds.

Provincial Economic Growth (PEG) Program

USAID anticipates that the **Provincial Economic Growth (PEG) Program** will provide \$10 million in loan and operational capital to microfinance institutions during each of its first two years of operations.⁴⁶² PEG aims to increase access to finance and promote growth for selected Iraqi manufacturing and service sectors.⁴⁶³ It has three main components:⁴⁶⁴

- developing the private sector
- strengthening Iraqi business to grow selected sectors of the economy
- expanding commercial lending to increase access to finance



The President's 2007 supplemental and 2008 budget requests sought \$45 million for PEG; \$125 million for Inma Agribusiness development; and \$75 million for Economic Governance II.⁴⁶⁵ PEG follows up on USAID's previous private-sector development project (Izdihar).

CERP

CERP FY 2006 and FY 2007 economic development projects were allocated approximately 16% of the total reconstruction funds for the economic development sector and 19% of total FY 2006 and FY 2007 CERP funds in Iraq.

CERP economic development projects

include civic cleanup activities; economic, financial, and management improvements; agriculture, irrigation, food production, and distribution projects; and civic support vehicles (see Figure 2.81).

In Baghdad, nearly \$1 million of CERP funds are used to employ Iraqis to rehabilitate **Mustansiriyah University**, including the repair of buildings, telephone systems, and sanitation services.⁴⁶⁶ More than \$400,000 in CERP funding is being used to employ local Iraqis to reconstruct **Al Nasir School** in Babil.

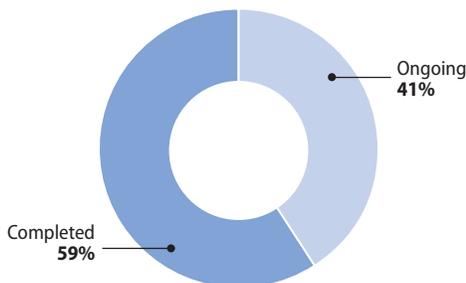
As IRRF projects in this sector finish, and IRRF funding is expended, CERP projects and funding are taking on a greater significance.

Figure 2.81

STATUS OF CERP FY 2006 AND FY 2007 PROJECTS - ECONOMIC DEVELOPMENT

TOTAL NUMBER OF PROJECTS 1,676

Source: MNC-I, Response to SIGIR (7/7/2007)



| Project Type | Ongoing | Completed | Total |
|--|------------|------------|--------------|
| Civic Cleanup Activities | 280 | 345 | 625 |
| Other Humanitarian or Reconstruction Projects | 221 | 374 | 595 |
| Economic, Financial, and Management Improvements | 78 | 70 | 148 |
| Agriculture | 60 | 87 | 147 |
| Irrigation | 30 | 61 | 91 |
| Food Production and Distribution | 23 | 30 | 53 |
| Civic Support Vehicles | 3 | 14 | 17 |
| Total | 695 | 981 | 1,676 |

ECONOMIC DEVELOPMENT



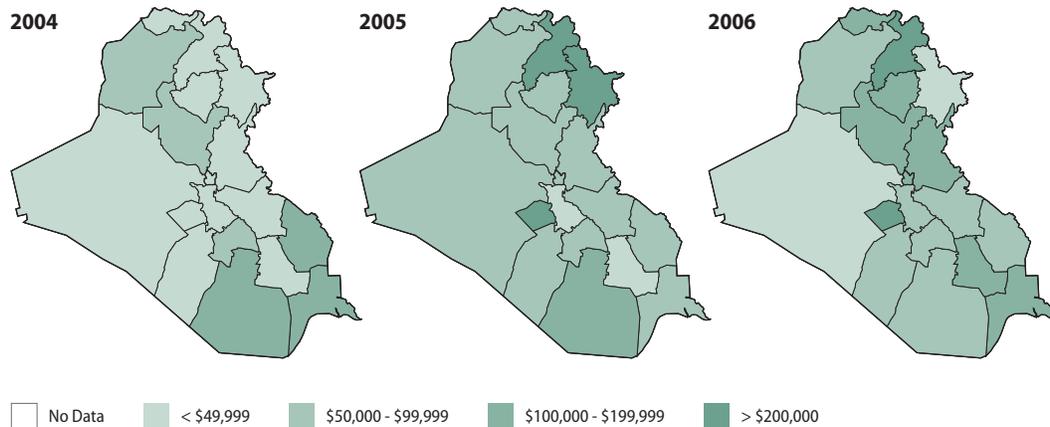
MNC-I has undertaken 1,676 economic development projects with CERP FY 2006 and FY 2007 funds, completing 981 of them. In 2004, the average CERP economic development project was valued at nearly \$40,000. In 2006,

this average had increased to approximately \$120,000, and nine provinces had CERP economic development projects that averaged more than \$100,000 in value, as shown in Figure 2.82.

Figure 2.82

AVERAGE VALUE PER CERP ECONOMIC DEVELOPMENT PROJECT BY GOVERNORATE

Source: IRMS, CERP Excel Workbook (6/29/2007)



Note:

Data is compiled using FY 2004, FY 2005, and FY 2006 CERP funds. The years indicated correspond to the actual start dates of the projects.



REFUGEES, HUMAN RIGHTS, AND EDUCATION

Since 2003, more than 4 million Iraqis have been forced to leave their homes.⁴⁶⁷ Of these, 2.4 million Iraqis have fled the country as refugees,⁴⁶⁸ and 1.9 million Iraqis remain in the country as internally displaced persons (IDPs).⁴⁶⁹ More than half of Iraq's 18 governorates are hindering displaced persons from moving from one province to another.⁴⁷⁰

This quarter, the UN High Commissioner for Refugees (UNHCR) released a report that identifies Iraq as the second-leading country of origin for refugees. The UNHCR expects that Iraq will have 2.3 million IDPs by the end of 2007,⁴⁷¹ a 15% increase from 2006 to 2007. The number of refugees leaving Iraq is also increasing. In anticipation of the number of Iraqis being uprooted, UNHCR has doubled its Iraqi assistance budget this year to \$123 million.⁴⁷²

Figure 2.83 shows the number of Iraqis crossing into Turkey, Syria, Lebanon, Jordan, Egypt, and Iran.

U.S. Support

U.S. funds have been supporting programs and projects for refugees, human rights, and education in Iraq. This is the status of major U.S. funding streams in this sector:

- Of the \$410 million allocated to these groups through IRRF 2, \$400 million has been obligated,⁴⁷³ and \$370 million has been expended.⁴⁷⁴
- Of the \$94 million of CERP FY 2006 and FY 2007 funds that have been obligated, \$51 million has been expended.⁴⁷⁵

Much of the U.S. effort is supported by the Migration and Refugee Assistance Fund, which is provided under the authority of the Migration and Refugee Assistance Act of 1962, as amended. Through this fund, “the United States contributes to the programs of the office of UNHCR, the International Committee of the Red Cross, the International Organization for Migration, and other international and non-governmental organizations that provide protection and assistance to refugees, internally displaced persons, and victims of conflict.”⁴⁷⁶

Previous SIGIR Quarterly Reports have noted the following U.S. funding focused on refugee assistance in Iraq:⁴⁷⁷

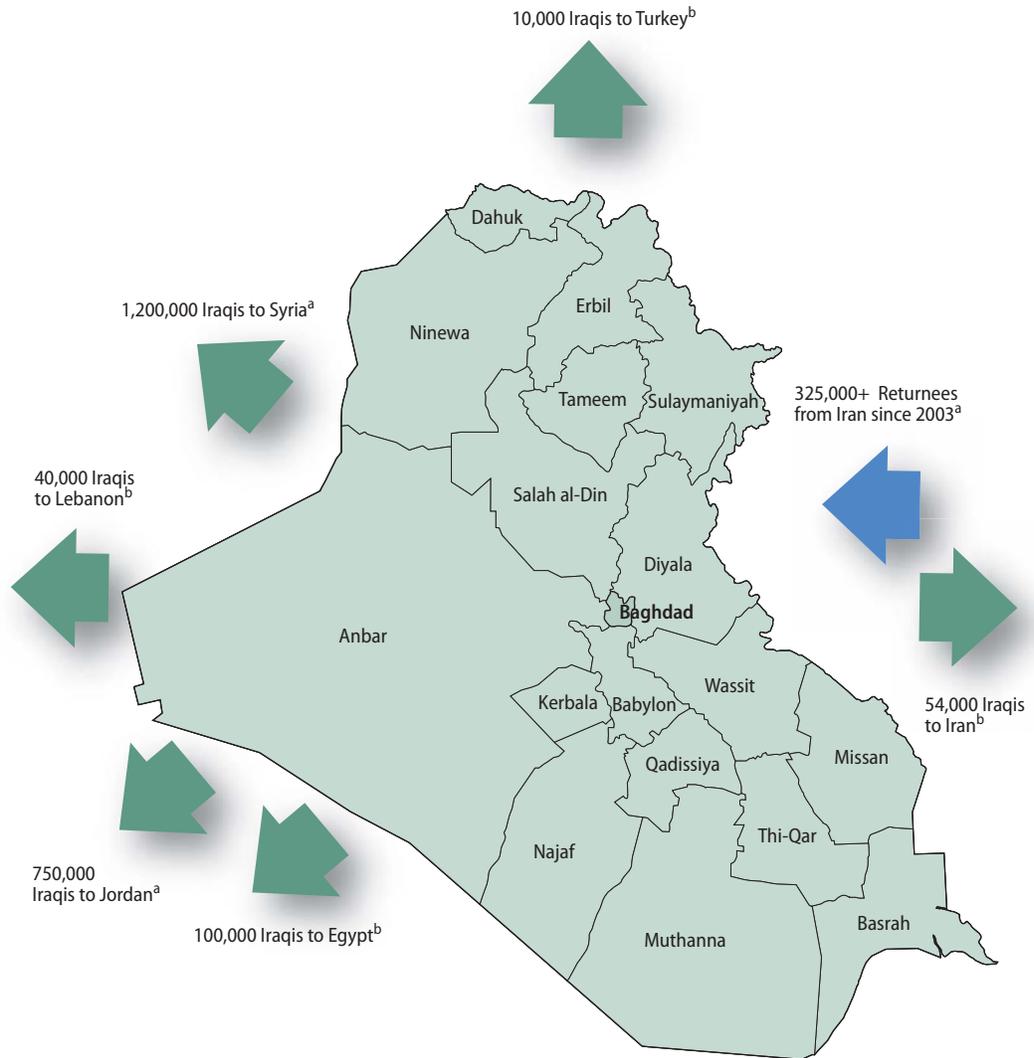
- FY 2004—\$105 million in IRRF funds was allocated to life-sustaining assistance for conflict victims, including refugees and IDPs, as part of the Migration and Refugee Assistance Fund.⁴⁷⁸

REFUGEES, HUMAN RIGHTS, AND EDUCATION



Figure 2.83

MOVEMENT OF INTERNALLY DISPLACED IRAQIS AND IRAQI REFUGEES



| | |
|---|------------------------------|
| Population, as of July 2007 | 27,499,638 ^c |
| Iraqi Refugees | 2,354,000 ^b |
| Internally Displaced Persons (IDPs) in Iraq | 1,908,400 ^b |
| Iraqi IDPs by Province | |
| Northern Provinces | 741,900 ^b |
| Central Provinces | 450,000 ^b |
| Southern Provinces | 716,500 ^b |
| Total | 1,908,400^b |

| | |
|--|----------------|
| Returns in Iraq, as of October 2006 | |
| 2006 | 401 |
| 2005 | 55,267 |
| 2004 | 191,645 |
| 2003 | 50,524 |
| 2002 | 1,142 |
| Total | 298,979 |

Note: Numbers may not total due to rounding.

a. UNHCR, Iraq Situation Map, May 2007, www.unhcr.org accessed on July 3, 2007.

b. ITAO, *Weekly Status Report*, June 19, 2007. By Executive Order, on May 8, 2007, the President created ITAO as the successor organization to the IRMO.

c. CIA, *World Factbook: Iraq*, June 19, 2007.



- FY 2005—an additional \$54 million was allocated to Migration and Refugee Assistance through IRRF funds.⁴⁷⁹
- FY 2006—an additional \$27 million in IRRF funds brought the total allocation to \$186 million.⁴⁸⁰

New funding for refugees includes:

- FY 2007—Emergency Supplemental funding in April 2007 provided \$45 million for Iraq through the Migration and Refugee Assistance Fund.⁴⁸¹
- FY 2007—DoS reports that \$8.6 million (originally allocated for Iraqi electricity generation) has been reallocated to Migration and Refugee Assistance “to provide additional funding for life-sustaining assistance to meet the immediate needs of refugees and other conflict victims, including internally displaced persons.”⁴⁸²
- FY 2008—The Administration requested \$35 million for Iraq refugee aid in the FY 2008 supplemental.⁴⁸³

IRRF funds have supported voluntary return and reintegration assistance for an estimated 150,000 newly returned Iraqi refugees, helping with health, water and sanitation, shelter, and primary education issues.⁴⁸⁴

In addition to U.S. support, the UN Children’s Fund (UNICEF) has requested \$42 million to provide water and sanitation services for Iraqi children, as well as education services for Iraqi refugee children in Jordan and Syria.⁴⁸⁵ DoS has reported that UNICEF also plans to fund nearly 8,000 vaccinators across

Iraq to prevent a potential measles outbreak.⁴⁸⁶

REFUGEES

USAID has reported progress in programs for refugees this quarter. These programs include:⁴⁸⁷

- provision of relief commodities in Baghdad and Diyala province
- completion of long-term Office of U.S. Foreign Disaster Assistance projects
- preparation of concept papers focused on the “ongoing emergency needs for IDP beneficiaries and anticipated host community needs to improve water, health, sanitation, and income generation conditions for recently displaced populations”

In April 2007, UNHCR conducted the International Conference on Addressing the Humanitarian Needs of Refugees and Internally Displaced Persons inside Iraq and in Neighboring Countries. The objective of the conference was “to sensitize the international community to the humanitarian impact of the violence and conflict in Iraq, to seek commitments to address the immediate and foreseeable needs, and to identify targeted responses to specific problems.”⁴⁸⁸

HUMAN RIGHTS

Of the \$15 million of IRRF that was allocated to promote human rights in Iraq, \$13 million has been expended.⁴⁸⁹ These are quarterly highlights of some U.S.-funded project results aimed at reducing human rights violations.⁴⁹⁰



- coordination of human rights workshops for officials from the Baghdad University and the Ministries of Human Rights, Environment, and Civil Society
- development of a mission statement, code of conduct, working plan, and timetable for the Human Rights Defenders Network, which comprises 18 nongovernmental organizations from Iraqi provinces
- training for the Iraqi Parliamentary Human Rights Committee on forced migration and roles and responsibilities of a parliamentary human rights committee

EDUCATION

IRRF also funded the construction of 809 schools and 6 public building construction and repair projects in Iraq. According to a June 29, 2007 IRMO report, all of these funds have been expended, and all 815 of the projects are completed.⁴⁹¹

CERP FY 2006 and FY 2007 has funded 1,153 education projects in Iraq. To date, 799 of these programs have been completed, and 354 are ongoing as of July 2007.⁴⁹²

INTERNATIONAL SUPPORT FOR IRAQ RECONSTRUCTION

The International Compact with Iraq (Compact) will shape future donor assistance to Iraq. It was formally launched on May 3, 2007, by the Iraqi Prime Minister and UN Secretary-General in Sharm el-Sheik, Egypt.

The Compact supports Iraq's five-year National Development Strategy (NDS) and includes mutual commitments from both Iraq and the international community, aimed at helping Iraq achieve political stability, improve security, and economic recovery.

The Compact requires the GOI to improve security, to address the corruption problem, to create a more efficient oil sector, to develop a solid budgetary framework, and to improve governance.⁴⁹³

Donors have already offered more than \$20 billion in debt relief within the terms of the Compact. They also have pledged more than \$11 billion in new grants and loans,⁴⁹⁴ which brings the estimate of total of international grants and loans for Iraq to \$18.2 billion. Of those pledges, an estimated \$3.6 billion⁴⁹⁵ has been committed, and \$1.4 billion has been disbursed, according to the GOI.⁴⁹⁶

The International Compact's Agenda

The Compact focuses on four areas for reform and investment: public resource management, governance and institutions, economic reforms, and social sector reform.

Progress in these areas will significantly enhance Iraq's capacity to:

- mobilize resources
- attract foreign investment and aid
- use resources in an efficient, transparent, and accountable manner⁴⁹⁷

To assist with implementation of the Compact, the GOI has asked the international community for:

- financial assistance, including loans and loan guarantees, to support major investments in basic services that are currently beyond the GOI's financial and technical capacity to execute because of its volatile oil revenue stream
- debt relief to reduce non-Paris Club debt, reparations, and the remaining 20% of Paris Club debt
- managerial and technical assistance, particularly to government ministries that need enhanced capacity to manage public investment

- assistance with a private-sector development strategy and promotion of private investment
- institutional strengthening and capacity building of government and civil society institutions
- assistance with accession to international agreements and development of new regional and international initiatives

The Compact Secretariat issued the first report on the implementation of the Compact on July 20, 2007. This report serves as a baseline for measuring progress and includes current achievements and continuing challenges.⁴⁹⁸

IRAQ'S ECONOMIC PRIORITIES OUTLINED IN THE COMPACT

The GOI has developed the National Development Strategy (NDS) for reform and investment over the next five years (2007-2011). Iraq's reform, reconstruction, and development needs are spelled out in the NDS and the Compact, identifying these four pillars for sustainable development in Iraq:

1. Strengthen the foundations of economic growth, including a stable macro-economic framework in accordance with the IMF-supported Stand-By Arrangement (SBA).
2. Revitalize the private sector, particularly through the creation of an enabling environment.
3. Improve the quality of life, starting with the provision of basic services.

4. Strengthen good governance and security and combat corruption.⁴⁹⁹

The Compact seeks to achieve this by outlining goals in specific sectors.

Public Resource Management

The GOI plans to develop macro-economic and monetary policies to insulate the economy from the detrimental impacts of oil price fluctuations and to encourage diversified and sustainable development. It will also align its public finance management with sound international practices, including:

- promoting budget transparency and oversight
- improving the monitoring of international aid and assistance
- carrying out and publishing audits of GOI finances
- implementing international practices in budget execution and public procurement procedures across regions
- making the Financial Management Information System (FMIS) operational across all ministries and provinces

Strengthening Institutions and Improving Governance

The GOI's goals in this area include:

- building consensus on economic reforms through dialogue and engagement with civil society
- mobilizing Iraq's social capital in the process of development
- developing a legal framework and building

institutional capacity to deter corruption at all levels of government

- establishing a civil service corps on the principles of professionalism, integrity, and non-partisanship

Economic Reform

The GOI seeks to create an enabling environment for investment—public and private, domestic and foreign—as a driver for sustainable and diversified economic growth and job creation. It also plans to maximize the benefits from foreign aid and investment and integration into the global economies. This includes subsidy reform, private sector development and investment promotion, regional and international economic integration, and financial sector restructuring.

Energy (Oil, Gas, and Electricity)

The GOI plans to establish a regulatory and institutional framework on the basis of the pending hydrocarbon legislation, consistent with its constitution and based on sound international practice, with these goals:

- clarifying mandates between the national and sub-national levels
- separating policy making, regulation, and execution/operation function
- developing a national hydrocarbon strategy, policy, and regulatory framework
- building the capacity of the Ministry of Oil to carry out new policies
- consolidating national infrastructure and marketing of petroleum
- restructuring and commercializing

upstream operations

- liberalizing downstream operations
- promoting foreign investment and private sector involvement on the basis of risk/reward pricing, transparency in contract execution and administration, consistency and transparency in the application of legal and regulatory frameworks, and an international arbitration option for investment disputes
- establishing a coherent, transparent, and predictable hydrocarbon fiscal regime
- improving monitoring and control, including metering at all stages
- implementing safeguards for the protection of the environment throughout the energy cycle, including a program for reduction, capture, and efficient use of flared gas

Agriculture and Water Management Strategy

The GOI plans to develop a stable, competitive, and sustainable agriculture sector to enhance food security and rural incomes, generate rural employment, diversify economic growth, and protect the natural environment, including:

- creating an environment for a market-oriented, private-sector driven, competitive, and profitable agriculture sector backed by appropriate GOI policy and institutional and infrastructure support
- developing a cohesive agricultural policy that integrates with food policy, trade policy, industrial policy, water policy, environment and natural resource management policy, and financial market development policy

INTERNATIONAL SUPPORT FOR IRAQ RECONSTRUCTION

COMPACT DEBT RELIEF (U.S. DOLLARS)

| DONOR | DEBT RELIEF AMOUNT |
|--------------|-------------------------|
| Bulgaria | \$2,540,000,000 |
| China | 6,220,000,000 |
| Greece | 177,000,000 |
| Saudi Arabia | 12,000,000,000 |
| Total | \$20,937,000,000 |

Source: DoS, response to SIGIR, July 18, 2007.

Note: Data not formally reviewed, audited, or verified.

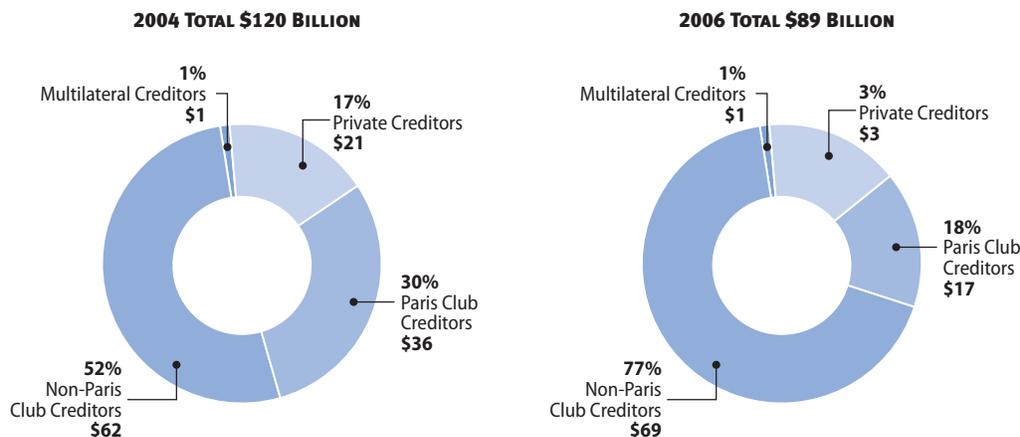
TABLE 2.17

Figure 2.84

IRAQ'S EXTERNAL DEBT

\$ Billions

Source: GAO, *Securing, Stabilizing, and Rebuilding Iraq* (January 2007)



Note: Numbers are affected by rounding.

- developing a financing plan, including public and private sources, to support agriculture sector policies and institutional and infrastructural reforms

DEBT RELIEF

By the end of 2006, the GOI's external debt was estimated at \$89 billion, down from the estimated \$120 billion in 2004. The GOI's current debt is nearly twice the size of its economy and continues to inhibit the country's ability to attract investment to finance its economic reconstruction.⁵⁰⁰

Debt relief is a major component of the Compact. Within the framework of the Compact, four countries have announced plans to relieve the GOI of some of its debt.⁵⁰¹ Table 2.17 shows a breakdown of debt relief resulting from the official launch of the Compact.

The reduction of Iraq's external debt is mainly due to Paris Club debt cancellation. In 2004, the 18 Paris Club⁵⁰² creditors agreed to forgive 80% of the \$36 billion debt owed to Paris Club members. The United States forgave 100% of Iraq's outstanding debt, totaling \$4.1 billion.

INTERNATIONAL SUPPORT FOR IRAQ RECONSTRUCTION

COMPACT PLEDGES (U.S. DOLLARS)

| DONOR | PLEDGE |
|--------------|----------------------|
| Australia | \$23,000,000 |
| China | 6,500,000 |
| Denmark | 35,000,000 |
| Iran | 10,000,000 |
| South Korea | 200,000,000 |
| Spain | 22,000,000 |
| UK | 400,000,000 |
| Total | \$696,500,000 |

Source: DoS, response to SIGIR, July 18, 2007.
 Note: This table does not include the \$10.7 billion Compact pledge from the United States. Data not formally reviewed, audited, or verified.

TABLE 2.18

The debt reduction plan is structured in three phases and is to be completed after three years of satisfactory performance under the SBA.⁵⁰³ As of the end of 2006, approximately \$19 billion (36%) of the \$36 billion Paris Club debt has been written off.⁵⁰⁴

Progress has been slower with non-Paris Club sovereign debt, which accounts for \$69 billion (77%) of Iraq's external debt. The GOI has had better success with commercial creditors: Iraq has completed debt and cash exchanges with its commercial creditors on terms comparable to the Paris Club deal.

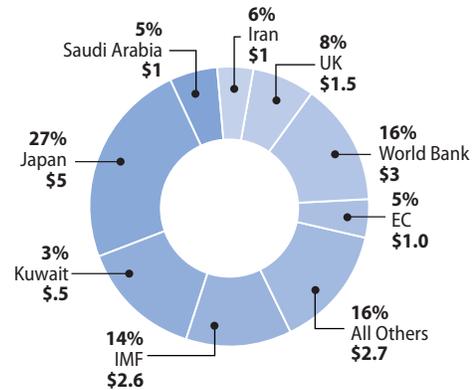
All of the eligible large commercial creditors accepted Iraq's debt exchange offer, and many smaller creditors accepted cash for debt, rather than new debt.⁵⁰⁵ By the end of 2006, Iraq had resolved 80% (\$20 billion) of claims submitted by private creditors through debt and cash exchanges.⁵⁰⁶ Figure 2.84 shows a breakdown of Iraq's external debt.

GRANTS AND LOANS FROM INTERNATIONAL DONORS

Total funds for Iraq reconstruction by international donors since 2003 are estimated to

Figure 2.85

INTERNATIONAL DONOR PLEDGES \$ Billions



Note: Numbers are affected by rounding.

be \$18.2 billion—including \$13.5 billion in Madrid pledges and nearly \$5 billion in new pledges since the Madrid Conference. This figure includes nearly \$700 million in grants and loans that was pledged by countries within the context of the Compact.⁵⁰⁷ See Table 2.18 for a list of Compact pledges. The total pledge figure does not include pledges by the United States—a \$10 million Madrid pledge and a \$10.7 billion Compact pledge.

According to the Development Assistance Database (DAD), approximately \$4.3 billion has been committed, and nearly \$1.4 billion has been disbursed.⁵⁰⁸ For information on total donor assistance to Iraq, see Table 2.19 and Figure 2.85.⁵⁰⁹

Of the original Madrid pledges, \$8 billion came from individual countries, and the remainder came from the World Bank and UN. Approximately \$10 billion of Madrid pledges were loans, and approximately \$4 billion were grants from other countries. Of the total amounts pledged, \$1.72 billion has funded projects in Iraq through the International Reconstruction Fund Facility for Iraq (IRFFI).

INTERNATIONAL SUPPORT FOR IRAQ RECONSTRUCTION

DONOR GRANTS AND LOANS TO IRAQ (U.S. DOLLARS)

| DONOR | PLEGGED ^a | COMMITTED ^b | DISBURSED ^b |
|----------------|----------------------|------------------------|------------------------|
| Australia | \$104,168,111 | \$40,253,296 | * |
| Austria | 5,700,000 | * | * |
| Belgium | 11,815,789 | 3,803,351 | 2,473,396 |
| Bulgaria | 1,300,000 | * | * |
| Canada | 286,085,242 | 178,238,910 | 106,082,427 |
| China | 38,000,000 | * | * |
| Croatia | 333,000 | * | * |
| Cyprus | 120,000 | * | * |
| Czech Republic | 14,700,000 | * | * |
| Denmark | 103,082,297 | 18,042,189 | 3,135,259 |
| Estonia | 80,000 | * | * |
| Finland | 8,834,500 | 8,834,500 | * |
| France | 32,288 | 32,288 | * |
| Germany | 12,820,513 | 807,660 | 586,276 |
| Greece | 5,414,458 | 3,614,458 | * |
| Hungary | 1,667,005 | * | * |
| Iceland | 3,200,000 | 2,700,000 | * |
| India | 11,000,000 | 7,500,000 | * |
| Iran | 1,020,000,000 | * | * |
| Ireland | 3,534,300 | 1,234,568 | * |
| Italy | 273,753,133 | 35,732,540 | 5,266,564 |
| Japan | 5,000,000,000 | 1,529,643,666 | 1,024,431,900 |
| Jordan | 1,500,000 | 75,000 | * |
| Kuwait | 516,200,000 | 10,000,000 | * |
| Lithuania | 30,000 | * | * |
| Luxembourg | 2,563,298 | 2,323,298 | * |
| Malta | 270,000 | * | * |
| Netherlands | 21,929,596 | 15,929,596 | 2,482,916 |
| New Zealand | 7,178,378 | 3,378,378 | * |
| Norway | 24,018,692 | 23,186,046 | 8,313,911 |
| Oman | 3,000,000 | * | * |
| Pakistan | 2,500,000 | * | * |
| Portugal | 600,000 | * | * |
| Qatar | 100,000,000 | 5,000,000 | * |
| Russia | 8,000,000 | * | * |
| Saudi Arabia | 1,000,000,000 | * | * |
| Singapore | \$1,700,000 | * | * |
| Slovenia | 420,000 | * | * |
| South Korea | 460,000,000 | \$168,334,627 | \$132,017,457 |
| Spain | 270,000,000 | 188,406,287 | 62,251,729 |
| Sri Lanka | 75,500 | * | * |
| Sweden | 58,424,464 | 47,450,978 | 5,819,693 |
| Switzerland | 11,000,000 | * | * |
| Taiwan | 4,300,000 | * | * |

INTERNATIONAL SUPPORT FOR IRAQ RECONSTRUCTION

DONOR GRANTS AND LOANS TO IRAQ (U.S. DOLLARS)

| DONOR | PLEGDED ^a | COMMITTED ^b | DISBURSED ^b |
|----------------------|-----------------------|------------------------|------------------------|
| Turkey | 50,000,000 | 1,300,000 | 98,442 |
| United Arab Emirates | 215,000,000 | * | * |
| United Kingdom | 1,537,037,037 | 450,063,185 | 82,042,828 |
| Vietnam | 700,000 | * | * |
| Subtotal | 11,200,787,601 | 2,745,884,821 | 1,435,002,798 |
| European Commission | 968,757,000 | 669,680,000 | 1,786,621 |
| Subtotal | 12,169,544,601 | 3,415,564,821 | 1,436,789,419 |

International Financial Institutions

| | | | |
|---|-------------------------------------|--------------------------|------------------------|
| IMF (low range) | 2,550,000,000 | 714,000,000 ^c | * |
| World Bank (low range) | 3,000,000,000 | 164,240,000 | 76,014 |
| Islamic Development Bank | 500,000,000 | * | * |
| Subtotal | 6,050,000,000 | 164,240,000 | 76,014 |
| Total International Donor Assistance | \$18,219,544,601^d | \$3,579,804,821 | \$1,436,865,433 |

* No data available.

^a SIGIR analyzed data to compile pledge figures from the following sources: DoS, response to SIGIR, June 13, 2007; DoS, response to SIGIR, June 18, 2007; GAO, "Stabilizing and Rebuilding Iraq: Coalition Support and International Donor Commitments," May 9, 2007; CRS, "Post-War Iraq: Foreign Contributions to Training, Peacekeeping, and Reconstruction," March 21, 2007; Iraqi Ministry of Planning Development Assistance Database, June 6, 2007.

^b Source: Iraqi Ministry of Planning Development Assistance Database, July 5, 2007, www.mop-iraq.org/dad.

^c This loan is from the Stand-By Arrangement. The GOI has stated that it is not likely to draw on these funds. Source: IRFFI, World Bank Operation in Iraq Data Sheet, June 30, 2007, www.irffi.org.

^d This figure does not include the \$10 million Madrid pledge and the \$10.7 billion Compact pledge from the United States. Note: Data not formally reviewed, audited, or verified.

TABLE 2.19

International Reconstruction Fund Facility for Iraq

A portion of donor assistance is administered by the IRFFI. Twenty-six donors have committed \$1.72 billion⁵¹⁰ to the two IRFFI funds—the World Bank Iraq Trust Fund (WB ITF) and the UN Development Group Iraq Trust Fund (UNDG ITF).

Nearly all IRFFI commitments have been deposited (99%). Of the total IRFFI funds, approximately \$1.1 billion has been contracted, and \$742 million has been disbursed.⁵¹¹

World Bank Iraq Trust Fund

In January 2004, donors authorized the World Bank to administer the World Bank ITF, which began receiving funds in March 2004. As of June 30, 2007, 17 donors pledged approximately \$462.1 million to the World Bank ITF; \$459.6 million has been deposited. Of that amount, \$320 million has been contracted, and \$108 million has been disbursed:

- The World Bank ITF finances 16 projects, valued at \$437 million.
- The GOI directly implements 13 of the 16 projects, valued at \$428.2 million.⁵¹²
- The World Bank implements the remaining two projects (\$8.5 million) in capacity

Figure 2.86

WORLD BANK IRAQ FUND - STATUS OF FUNDS

\$ Millions

Source: www.irffi.org (6/30/2007)



Figure 2.87

UNDG IRAQ TRUST FUND - STATUS OF FUNDS

\$ Billions

Source: www.irffi.org (5/31/2007)



building and technical assistance.

- Two World Bank projects financed by the ITF—the First Capacity Building Project and the Emergency Textbook Provision Project—are completed and closed.⁵¹³

Figure 2.86 reflects the status of World Bank ITF funds through June 30, 2007.

UN Development Group Iraq Trust Fund

The United Nations Development Programme (UNDP) administers the UNDG ITF. As of May 31, 2007, 25 donors have committed \$1.18 billion to the ITF, of which \$1.17 billion has been deposited. Sixteen UN agencies are implementing 151 projects with more than \$1 billion in funding. UNDP has the most funding (\$297 million), followed by the UN Office for Project Services (\$177 million) and UNICEF (\$139 million):

- \$741 million (72%) has been contracted.
- \$634 million (62%) has been disbursed.
- 25 projects have been completed.⁵¹⁴

For the status of UNDG ITF funds through May 31, 2007, see Figure 2.87.

Examples of Donor-funded Projects

According to the DAD, donors have funded 647 projects totaling more than \$5 billion across 11 sectors. There are many challenges to obtaining and verifying donor data because

there is no single, unified and populated reporting system for all donors. Although the DAD is intended to provide that vehicle, the capacity of the Iraqi Ministry of Planning to coordinate a wide variety of multilateral, bilateral, and international organization data is still evolving. Therefore, the information listed in Table 2x is not a complete view of donor assistance. According to the DAD, the Governance and Democracy sector had the largest number of donor-funded projects (20%).⁵¹⁵ The Infrastructure sector, however, is the largest donor-funded sector in terms of project costs (30%). See Table 2.20 for examples of projects by sector.

THE FUTURE OF DONOR ASSISTANCE

In March 2007, the IMF Executive Board completed the third and fourth reviews under the SBA. At that meeting, the period covered by the SBA was also extended by six months through September 2007.

Discussions on the fifth and final review under the current SBA and on the 2007 Article IV consultation are scheduled to begin this summer. Iraqi authorities have also indicated that they intend to request a successor arrangement to cover the period needed to reach the last stage of the Paris Club debt reduction agreement by December 2008.⁵¹⁶ The GOI will continue to work on reaching debt reduction agreements with non-Paris Club creditors.

INTERNATIONAL SUPPORT FOR IRAQ RECONSTRUCTION

DONOR FUND PROJECTS, AS OF 7/5/2007 (U.S. DOLLARS)

| SECTOR | NUMBER OF PROJECTS | PROJECT COST | TYPES OF PROJECT |
|--------------------------------------|--------------------|------------------------|---|
| Agriculture, Food, and Fishing | 33 | \$205,850,397 | Japan is the largest sovereign donor in this sector, with four projects totaling nearly \$20 million. Many of the projects in this sector are irrigation projects and training. |
| Economic Development | 16 | \$226,951,262 | The IMF has conducted 18 workshops for senior technical experts and executives from the Central Bank, Ministry of Finance, and State-owned banks. The workshops have covered monetary and fiscal policy, central bank operations and accounting, balance of payments, banking supervision, and bank reform and restructuring. ⁵¹⁷ The United Kingdom sponsored a capacity-building project to help the Ministry of Finance lead and manage a comprehensive macroeconomic reform program. |
| Education, Science, and Culture | 67 | \$478,370,285 | According to the DAD, the UNDG ITF has funded the most projects in this sector, 21 projects costing \$145.5 million. Typical projects in this sector include rehabilitating schools, training educators, and providing educational materials to educational facilities. |
| Energy | 1 | \$1,500,000 | According to the DAD, the United Kingdom is the only donor other than the United States to fund an energy project. The United Kingdom spent \$1.5 million to refurbish a Petrochemical Works Reverse Osmosis Unit. |
| Enterprise and Industry | 1 | \$17,000,000 | According to the DAD, Spain is the only donor other than the United States to fund an Enterprise and Industry project. Spain supplied \$17 million worth of industrial equipment. |
| Environment | 42 | \$555,580,127 | The WB ITF funded 3 projects totaling \$180 million. Many of the projects in this sector focus on water and sewage treatment. There are also technical assistance projects. |
| Governance and Democracy Development | 130 | \$510,675,058 | The UNDG ITF has funded the most projects (33), with a total cost of \$232 million. Many projects in this sector have focused on elections, civil society development, and refugees and internally displaced people assistance. |
| Health | 86 | \$586,267,252 | According to the DAD, Japan has financed 37 projects in this sector, with costs totaling \$242 million. Typical projects include medical facility rehabilitation, medical equipment, and training for health care workers. |
| Housing, Labor, and Social Affairs | 95 | \$727,062,722 | The WB ITF has funded 4 projects in this sector, with a total cost of more than \$200 million. The DAD includes refugee and water treatment projects in this sector. |
| Infrastructure | 103 | \$1,530,334,754 | Japan and the World Bank have funded the most projects in this sector, according to the DAD. Japan has funded 43 projects totaling \$523 million, and the World Bank has funded 8 projects totaling \$336 million. Many of the projects in this sector focus on electricity generation and the building of roads. |
| Security | 37 | \$132,679,708 | Only 2.6% of total project costs were spent in this sector, according to the DAD. Most of this funding came from Japan, which funded 11 projects totaling \$80 million. The typical project in this sector provides training and equipment for the police and military. |
| Unspecified/Unclassified | 25 | \$42,901,570 | Since the Compact, donors are providing more technical assistance to Iraq. For example, the World Bank, IMF, EU, and UK are coordinating efforts to provide technical assistance to Iraq for economic reform. ⁵¹⁸ |
| Unallocated | 11 | \$50,557,179 | |
| Total | 647 | \$5,065,730,314 | |

Source: DAD, July 5, 2007.

Note: Data not formally reviewed, audited, or verified.

TABLE 2.20

