

IRAQ RECONSTRUCTION FUNDING SOURCES AND USES

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IRAQ RECONSTRUCTION FUNDING SOURCES

As of June 30, 2009, nearly \$140.29 billion has been made available for the relief and reconstruction of Iraq. These funds have come from three main sources:³⁹

- Iraqi capital budgets and the Development Fund for Iraq (DFI)—\$71.01 billion
- International pledges of assistance from non-U.S. sources—\$17.01 billion
- U.S. appropriations—\$52.27 billion

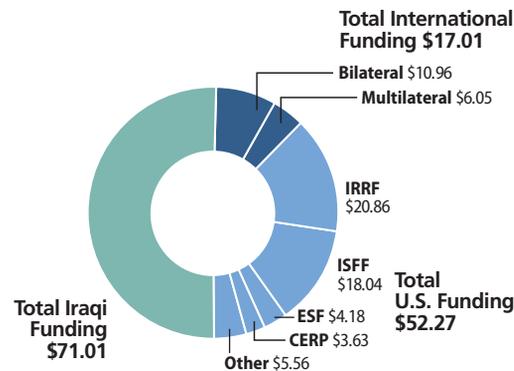
See Figure 2.1 for an overview of these funding sources.

Iraqi Funding

Each year since the 2003 invasion, the Government of Iraq (GOI) has increased its contribution to reconstruction efforts, and it now provides more funding than the United States and all other international sources combined. Under the Coalition Provisional Authority (CPA), Iraqi reconstruction funding was supplied directly by the DFI. Currently, 95% of GOI oil revenues accrue to the DFI, which is used to fund Iraq's annual budget, including the reconstruction-oriented capital budget.⁴⁰ As of June 30, 2009, Iraqi reconstruction funding from the CPA-era DFI and its annual capital budgets totaled more than \$71.01 billion.

Iraq's rate of expenditure continues to lag U.S. spending.⁴¹ Unspent capital budget allocations contributed to the estimated \$21.5 billion cumulative fiscal surplus amassed as of the end of 2008.⁴² Now Iraq faces a projected budget deficit of \$16 billion in 2009⁴³ as lower oil prices reduce GOI revenues and public-sector wage hikes and increased security responsibilities drive up GOI

FIGURE 2.1
FUNDING SOURCES
\$ Billions, Total \$140.29



Note: Data not audited. Numbers affected by rounding.

Sources: Treasury, response to SIGIR data call, 7/2/2009; NEA-I, response to SIGIR data call, 7/2/2009; U.S. Embassy-Baghdad, responses to SIGIR data call, 7/6/2009 and 7/16/2009; GRD, response to SIGIR data call, 7/4/2009; ITAO, *Essential Indicators Report*, 5/14/2009; OSD, responses to SIGIR data call, 7/2/2009 and 7/13/2009; SIGIR, *Quarterly and Semiannual Reports to the United States Congress*, 3/2004–4/2009.

operating expenses.⁴⁴ Only 22% of the revised 2009 budget is allocated to capital projects. Expenditures are even lower; \$500 million (6%) of the \$8.6 billion in 2009 GOI expenditures to date have gone to capital projects.⁴⁵

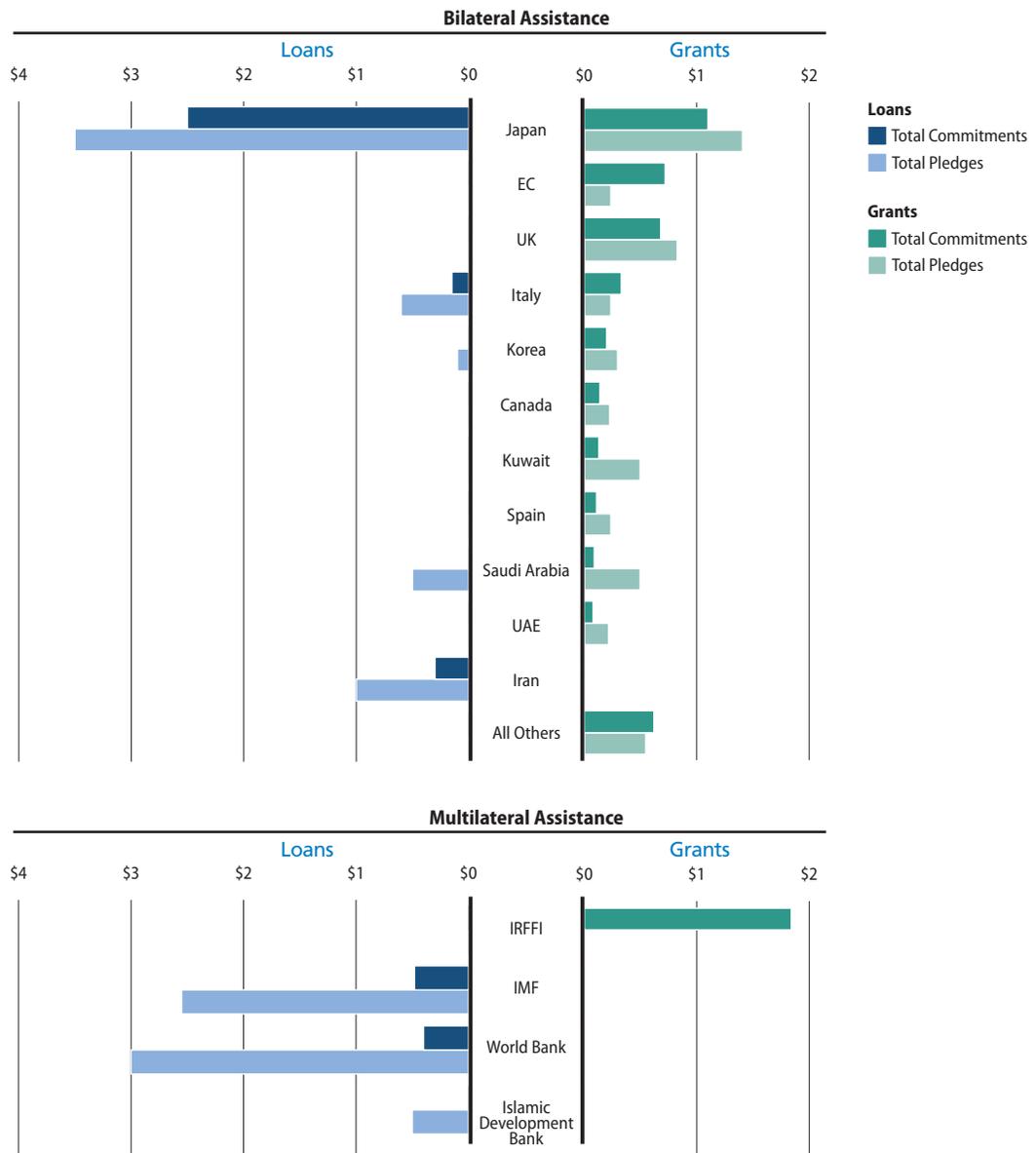
International Development Assistance

As of June 30, 2009, international donors have pledged \$17.01 billion—\$5.26 billion in grants and \$11.75 billion in loans—for Iraq reconstruction. These donors have committed \$9.86 billion, or 58% of pledged funds.⁴⁶ For an overview of bilateral and multilateral development assistance to Iraq, see Figure 2.2.

IRAQ RECONSTRUCTION FUNDING SOURCES

FIGURE 2.2

INTERNATIONAL GRANTS AND LOANS, PLEDGED VS. COMMITTED, BY DONOR \$ Billions



Note: Bilateral commitments exclude IRFFI deposits. The European Commission (EC) remains the largest IRFFI contributor, with deposits totaling \$772 million, or 42% of total IRFFI deposits.

Source: NEA-I, response to SIGIR data call, 7/2/2009.

Bilateral Development Assistance

Bilateral development assistance includes grant and loan commitments and pledges from donor countries. As of June 30, 2009, \$7.15 billion in bilateral assistance had been committed to Iraq. The largest international (non-U.S.) donors include

Japan, with \$3.60 billion committed through grants and loans, and the European Commission, with \$0.72 billion committed through grants. The only change this quarter was a donation by Saudi Arabia of \$3.5 million to the Office of the United

Nations High Commissioner for Refugees (UNHCR) for the benefit of Iraqi refugees.⁴⁷

Multilateral Development Assistance

Multilateral development assistance includes loan commitments and pledges from the World Bank, International Monetary Fund (IMF), and the Islamic Development Bank, as well as International Reconstruction Fund Facility for Iraq (IRFFI) donor deposits.

The IRFFI was launched in 2004 to help donor nations channel their resources and coordinate support for reconstruction and development in Iraq. The facility comprises both the World Bank Iraq Trust Fund and the United Nations Development Group Iraq Trust Fund. New IRFFI projects must start by the end of 2010; project completions and disbursements are to take place no later than December 31, 2013.⁴⁸ As of June 30, 2009, donors had committed \$1.84 billion for Iraq reconstruction through the IRFFI.⁴⁹

U.S. Funding

The U.S. Congress has appropriated or otherwise made available \$52.27 billion for reconstruction efforts in Iraq, including the building of physical infrastructure, the establishment of political and societal institutions, reconstitution of security forces, and the purchase of products and services for the benefit of the people of Iraq.⁵⁰

As of June 30, 2009, \$46.71 billion (89%) of all U.S. funding for Iraq had been appropriated to four major funds:⁵¹

- **Iraq Relief and Reconstruction Fund (IRRF).** At \$20.86 billion, the IRRF is the largest U.S. reconstruction fund, but only \$534 million remains available to be expended for ongoing projects.⁵²
- **Iraq Security Forces Fund (ISFF).** \$18.04 billion has been appropriated to the ISFF to support the infrastructure, equipment, training, and sustainment needs of the Iraqi Security Forces (ISF). The ISFF represents 60% of unobligated U.S. funding and 62% of funds remaining for expenditure.⁵³
- **Economic Support Fund (ESF).** \$4.18 billion has been appropriated to the ESF. Administered by the Department of State (DoS), the ESF supports projects in three program tracks: Security, Economic, and Political.
- **Commander's Emergency Response Program (CERP).** At \$3.63 billion, the CERP is the smallest of the major reconstruction funds. The Congress intends CERP to be used by U.S. military commanders to address urgent relief and reconstruction needs in their areas of responsibility.⁵⁴

As of June 30, 2009, more than \$42.59 billion (91%) had been obligated from the four major funds, and \$38.49 billion (82%) had been expended.⁵⁵

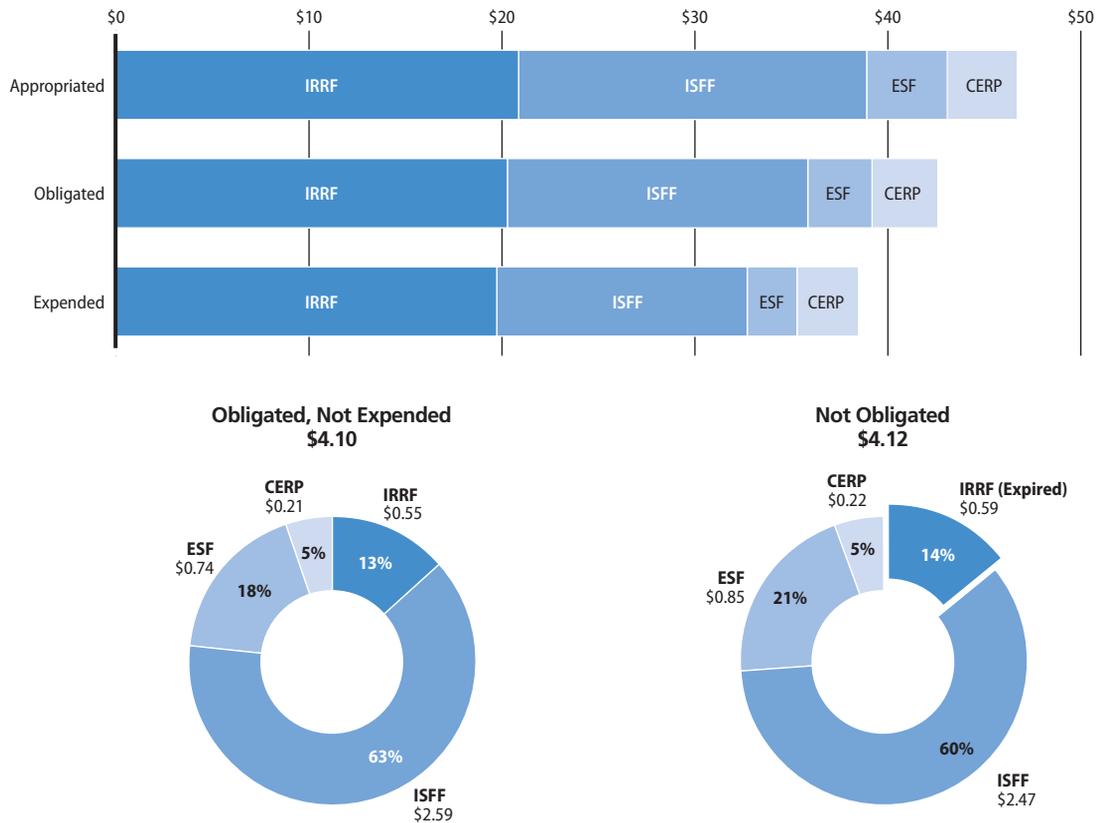
In addition to these four major funds, \$5.56 billion had been appropriated to several smaller funds.⁵⁶

For a detailed account of appropriations, obligations, and expenditures, as of June 30, 2009, see Figure 2.3 and Table 2.1.

Supplemental Appropriations Act, 2009

On June 24, 2009, the President signed P.L. 111-32, the Supplemental Appropriations Act, 2009. Section 306(a) of the act rescinds \$1.00 billion from the ISFF (which would have been unavailable for obligation after September 30, 2009) and appropriates \$1.00 billion for the same purpose, to remain available until September 30,

FIGURE 2.3
STATUS OF MAJOR U.S. FUNDS
\$ Billions



Note: Data not audited. Numbers affected by rounding.

Sources: U.S. Embassy-Baghdad, responses to SIGIR data call, 7/6/2009 and 7/16/2009; GRD, responses to SIGIR data call, 7/4/2009 and 7/18/2009; ITAO, *Essential Indicators Report*, 5/14/2009; MNC-1, *Quarterly Report*, 4/7/2009 and 7/4/2009; OSD, responses to SIGIR data call, 7/2/2009 and 7/13/2009.

2010. The total amount appropriated to the ISFF remains unchanged, but the time available for its obligation has been extended.⁵⁷

P.L. 111-32 appropriates \$2.97 billion to the ESF, of which \$439 million (15%) is allocated for Iraq reconstruction. Iraq's allocation is divided among several programs, including \$118 million for the Democracy and Civil Society program and \$50 million for the Community Action

Program. A total of \$239 million of the ESF for Iraq is not allocated on a program level.⁵⁸

The Congress also allocated \$20 million for Iraq from the International Narcotics Control and Law Enforcement fund.⁵⁹ Title XI of the Act provides for the transfer of \$7 million to SIGIR and appropriates \$2 million for Iraq under the International Military Education and Training fund.⁶⁰ A total of \$453 million has been

IRAQ RECONSTRUCTION FUNDING SOURCES AND USES

TABLE 2.1

U.S. APPROPRIATED FUNDS

\$ Millions

	APPROPRIATIONS BY FISCAL YEAR, FY 2003-FY 2007				
	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
	2003	2004	2005	2006	2007
MAJOR FUNDS					
Iraq Relief and Reconstruction Fund (IRRF 2) ^a		18,439			
Iraq Security Forces Fund (ISFF)			5,490	3,007	5,542
Economic Support Fund (ESF) ^b	50			1,545	1,478
Commander's Emergency Response Program (CERP) ^c		140	718	678	743
Iraq Relief and Reconstruction Fund (IRRF 1)	2,475				
Subtotal	2,525	18,579	6,208	5,230	7,764
OTHER ASSISTANCE PROGRAMS					
Iraq Freedom Fund (Other Reconstruction Activities) ^d	766				
Migration and Refugee Assistance (MRA) ^e	37				45
Natural Resources Risk Remediation Fund (NRRRF)	489				
International Narcotics Control and Law Enforcement (INCLE)	20			91	150
Democracy Fund (DoS/Democracy)					250
International Disaster Assistance (IDA) ^e	144			8	
Iraq Freedom Fund (TF-BSO)					50
P.L. 480 Title II Food Aid	68		3		
Child Survival and Health Programs Fund (CSH)	90				
International Disaster and Famine Assistance (IDFA) ^e					45
Voluntary Peacekeeping Operations (PKO)	50				
Alhurra-Iraq Broadcasting		40			
Nonproliferation, Anti-terrorism, Demining and Related Programs (NADR)					7
Overseas Humanitarian, Disaster and Civic Aid (OHDACA)		17			
Education and Cultural Exchange Programs (DoS/Exchange)				6	
International Affairs Technical Assistance (OTA)				13	3
International Military and Education Training (IMET)					
U.S. Marshals Service (Litigation Support Services)				1	
Department of Justice (DoJ)					2
Subtotal	1,664	57	3	119	551
RECONSTRUCTION-RELATED OPERATING EXPENSES					
Coalition Provisional Authority (CPA) ^f		833			
Project and Contracting Office (PCO) ^g				200	630
USAID Operating Expenses (USAID OE) ^h	21		24	79	
Iraq Freedom Fund (PRT Administrative Costs)					100
U.S. Contributions to International Organizations (IO Contributions)					
Subtotal	21	833	24	279	730
RECONSTRUCTION OVERSIGHT					
Special Inspector General for Iraq Reconstruction (SIGIR)		75		24	35
DoD Office of the Inspector General (DoD OIG)				5	
USAID Office of the Inspector General (USAID OIG)	4	2	3		1
Defense Contract Audit Agency (DCAA) ⁱ					16
DoS Office of the Inspector General (DoS OIG)				1	2
Subtotal	4	77	3	30	53
Total	4,214	19,546	6,238	5,658	9,099

^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 that \$210 million 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, Congress earmarked that \$9.95 million of FY 2006 appropriations be transferred into the IRRF from the DoS ESF. Also includes a \$50 million rescission as identified in HR 2642.

^b \$40 million from FY 2003 ESF base account that was not reimbursed; \$10 million from P.L. 108-11. FY 2007 ESF Emergency Supplemental includes \$76 million rescission.

^c Funds appropriated to the CERP are for efforts in Iraq and Afghanistan. SIGIR reports DoD's allocation to CERP for Iraq.

IRAQ RECONSTRUCTION FUNDING SOURCES

APPROPRIATIONS, FY 2008-FY 2009

	P.L. 110-92, P.L. 110-116, P.L. 110-137, P.L. 110-149				TOTAL APPROPRIATED	STATUS OF FUNDS		
	12/21/07	12/26/07	06/30/08	06/24/09		ALLOCATED	OBLIGATED	EXPENDED
MAJOR FUNDS								
IRRF 2			(50)		18,389	18,016	18,016	17,482
ISFF		1,500	1,500	1,000	18,039	18,039	15,573	12,979
ESF	123	15	527	439	4,177	3,632	3,327	2,584
CERP		365	986		3,630	3,630	3,409	3,195
IRRF 1					2,475	2,271	2,261	2,249
Subtotal	123	1,880	2,962	1,439	46,710	45,589	42,587	38,489
OTHER ASSISTANCE								
IFF (Other)					766	766	746	715
MRA	20	149	269		520	485	455	372
NRRRF					489	489	489	489
INCLE	20		85	20	386	346	322	144
DoS/Democracy			75		325	325	315	124
IDA		50	45		247	93	82	35
IFF (TF-BSO)			50		100			
P.L. 480 Title II		23			94			
CSH					90			
IDFA	5				50			
PKO					50			
Alhurra					40			
NADR	12	16	5		40	34	32	27
OHDACA					17			
DoS/Exchange	5	6			16			
OTA					16	16	16	14
IMET	1	0		2	3			
U.S. Marshals			2		3			
DoJ					2			
Subtotal	64	244	530	22	3,255	Data Incomplete		
OPERATING EXPENSES								
CPA					833	832	832	799
PCO					830			
USAID OE		21	77		222			
IFF (PRT)					100			
IO Contributions			68		68			
Subtotal		21	145		2,053	Data Incomplete		
OVERSIGHT								
SIGIR			39	7	180			
DoD OIG		21			26			
USAID OIG	3	3	4		18			
DCAA					16			
DoS OIG	1	1	8		13			
Subtotal	4	25	51	7	253	Data Incomplete		
Total	191	2,170	3,688	1,468	52,270			

^d Includes funds appropriated to the Iraq Freedom Fund by P.L. 108-11, Title I, and transferred to reconstruction activities.

^e HR 2642 appropriated funding for International Disaster and Famine Assistance and Migration and Refugee Assistance is subject to change pending final worldwide allocation of these two funds.

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

^g Per conference reports for P.L. 109-234 and P.L. 110-28, reconstruction support funding is provided for Project and Contracting Office activities.

^h Incomplete pending further investigation into administrative expenses for all fiscal years.

ⁱ As identified in the P.L. 110-28 conference report. Includes Iraq reconstruction efforts for civilian personnel, temporary/additional duty, and miscellaneous contracts.

IRAQ RECONSTRUCTION FUNDING SOURCES AND USES

FIGURE 2.4
QUARTERLY OBLIGATION AND EXPENDITURE RATES OF MAJOR U.S. FUNDS
 % of Available Funds Obligated and Expended



Note: Numbers affected by rounding. Obligation Rate is the ratio of funds obligated during the quarter to the total funds available (appropriations less expired funds) as of the start of the quarter. Expenditure Rate is the ratio of funds expended during the quarter to the total funds available as of the start of the quarter.

Source: U.S. Embassy-Baghdad, responses to SIGIR data call, 7/6/2009 and 7/16/2009; GRD, responses to SIGIR data call, 7/4/2009 and 7/18/2009, ITAO, *Essential Indicators Report*, 5/14/2009; MNC-I, *Quarterly Reports*, 4/7/2009 and 7/4/2009; OSD, responses to SIGIR data call, 7/2/2009 and 7/13/2009; SIGIR, *Quarterly and Semiannual Reports to the United States Congress*, 3/2004–4/2009.

appropriated to the CERP, but it has not yet been allocated between Iraq and Afghanistan.⁶¹

Quarterly Obligations and Expenditures

This quarter, nearly \$760 million was obligated and more than \$853 million was expended from the four major funds.⁶² See Table 2.2 for obligations and expenditures by major U.S. fund this quarter.

Quarterly obligation rates have assumed a more regular pattern since late 2006, spiking in the fourth quarter of each fiscal year. This quarter, however, had the lowest quarterly expenditure rate of available funds since January 2005.⁶³ See Figure 2.12 for an overview of obligation rates versus expenditure rates over time.

TABLE 2.2
QUARTERLY OBLIGATIONS AND EXPENDITURES, BY MAJOR U.S. FUND, 4/1/2009–6/30/2009
 \$ Millions

FUND	OBLIGATED	EXPENDED
ISFF	701	497
ESF	49	186
CERP	20	100
IRRF	-10	70
Total	760	853

Sources: U.S. Embassy-Baghdad, responses to SIGIR data call, 7/6/2009 and 7/16/2009; GRD, responses to SIGIR data call, 7/4/2009 and 7/18/2009; ITAO, *Essential Indicators Report*, 5/14/2009; OSD, responses to SIGIR data call, 7/2/2009 and 7/13/2009.

Iraq Relief and Reconstruction Fund

The IRRF is the largest source of U.S. reconstruction funding, comprising \$20.86 billion made available through two appropriations: IRRF 1 (\$2.48 billion) and IRRF 2 (\$18.39 billion).⁶⁴ As of June 30, 2009, \$20.28 billion (97%) of the IRRF had been obligated, and \$19.73 billion (95%) had been expended.⁶⁵ About \$534 million remains available for expenditure on open projects.⁶⁶

The largest IRRF 2 sector allocations were made for Security and Law Enforcement (\$4.94 billion) and the Electric Sector (\$4.08 billion). This quarter, the largest expenditures occurred in the Electric Sector, totaling \$22 million between April 1 and June 30, 2009.⁶⁷ For the status of IRRF 2 allocations, obligations, and expenditures by sector, see Table 2.3.

TABLE 2.3
STATUS OF IRRF BY APPROPRIATION AND SECTOR

APPROPRIATION	SECTOR	STATUS OF FUNDS (\$ Millions)			QUARTERLY CHANGE	
		ALLOCATED	OBLIGATED	EXPENDED	OBLIGATED	EXPENDED
IRRF 1	Subtotal	2,271.3	2,260.8	2,248.9	-	-
IRRF 2	Security & Law Enforcement	4,936.5	4,936.5	4,892.4	-0.8 (0%)	1.8 (0%)
	Electric Sector	4,075.8	4,075.8	4,009.8	0.9 (0%)	22.4 (1%)
	Justice, Public Safety Infrastructure, & Civil Society	2,309.4	2,309.4	2,180.4	-0.2 (0%)	11.8 (1%)
	Water Resources & Sanitation	1,965.5	1,965.5	1,891.1	-8.0 (0%)	20.4 (1%)
	Oil Infrastructure	1,604.5	1,604.5	1,591.6	-0.2 (0%)	0.2 (0%)
	Health Care	795.9	795.9	765.9	-0.1 (0%)	4.0 (1%)
	Private Sector Development	860.0	860.0	826.1	-	0.1 (0%)
	Education, Refugees, Human Rights, Democracy, & Governance	519.6	519.6	417.0	-0.6 (0%)	5.1 (1%)
	Transportation & Telecommunications Projects	448.1	448.1	435.0	-0.9 (0%)	1.6 (0%)
	Roads, Bridges, & Construction	281.4	281.4	262.5	-0.5 (0%)	2.4 (1%)
	Administrative Expenses	219.3	219.3	210.3	-	-
	Subtotal	18,016.0	18,016.0	17,482.2	-10.3 (0%)	69.6 (0%)
	Total	20,287.3	20,276.8	19,731.0	-10.3 (0%)	69.6 (0%)

Note: Data not audited. Numbers affected by rounding.

Sources: U.S. Embassy-Baghdad, response to SIGIR data call, 7/6/2009; SIGIR, *Quarterly Report to the United States Congress*, 4/2009.

ISFF

Iraq Security Forces Fund

Administered by the Department of Defense (DoD) through the Multi-National Security Transition Command-Iraq (MNSTC-I), the \$18.04 billion appropriated to the ISFF supports Iraq's Ministry of Defense (MOD) and Ministry of Interior (MOI) in developing the ISF.

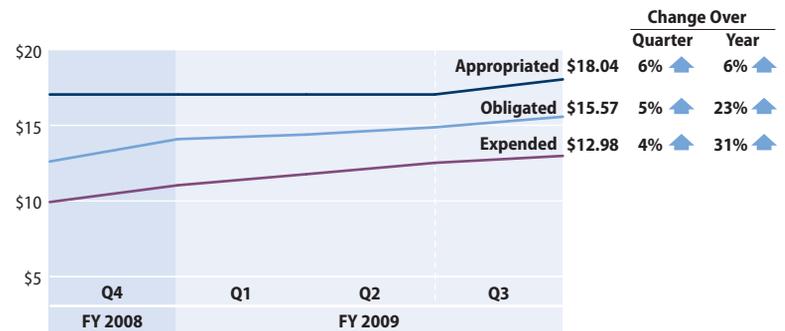
As of June 30, 2009, \$15.57 billion (86%) of the ISFF had been obligated, and \$12.98 billion (72%) had been expended.⁶⁸ For the status of these funds, see Figure 2.5.

ISFF Quarterly Obligations and Expenditures by Sub-Activity Group

Of the total \$18.04 billion appropriated to the ISFF, \$16.96 billion (94%) has been allocated to four major sub-activity groups:⁶⁹

- Equipment—equipment procurement, including weapons, vehicles, and communications
- Sustainment—maintenance, equipment, and logistics support for existing investments
- Training—ministerial capacity development, unit training, and advise and assist
- Infrastructure—training facilities, military bases, and police stations

FIGURE 2.5
ISFF STATUS OF FUNDS
\$ Billions



Note: Data not audited. Numbers affected by rounding.

Sources: OSD, responses to SIGIR data call, 7/2/2009 and 7/13/2009; SIGIR, *Quarterly and Semiannual Reports to the United States Congress*, 7/31/2008–4/30/2009.

TABLE 2.4

STATUS OF ISFF BY MINISTRY AND SUB-ACTIVITY GROUP

MINISTRY	SUB-ACTIVITY GROUP	STATUS OF FUNDS (\$ Millions)			QUARTERLY CHANGE	
		ALLOCATED	OBLIGATED	EXPENDED	OBLIGATED	EXPENDED
MOD	Equipment	4,664.8	4,066.6	3,244.9	133.5 (3%)	79.5 (3%)
	Infrastructure	3,256.5	3,023.0	2,611.0	99.6 (3%)	99.5 (4%)
	Sustainment	1,951.8	1,781.1	1,601.5	28.7 (2%)	67.9 (4%)
	Training	540.8	333.5	284.9	-0.1 (0%)	28.1 (11%)
	Subtotal	10,413.9	9,204.3	7,742.3	261.7 (3%)	275.0 (4%)
MOI	Training	2,585.9	2,151.5	1,891.0	238.8 (12%)	13.6 (1%)
	Equipment	1,864.6	1,491.6	1,154.9	74.9 (5%)	93.1 (9%)
	Infrastructure	1,441.8	1,367.1	1,020.4	74.9 (6%)	46.0 (5%)
	Sustainment	650.5	532.8	504.4	0.0 (0%)	7.0 (1%)
	Subtotal	6,542.9	5,543.0	4,570.6	388.5 (8%)	159.7 (4%)
Other	Related Activities	1,082.5	825.9	665.8	50.8 (7%)	62.4 (10%)
Total		18,039.3	15,573.2	12,978.7	700.9 (5%)	497.1 (4%)

Note: Data not audited. Numbers affected by rounding.

Sources: OSD, responses to SIGIR data call, 7/2/2009 and 7/13/2009; SIGIR, *Quarterly Report to the United States Congress*, 4/2009.

The remainder of the ISFF is allocated to smaller sub-activity groups. Collectively termed “Related Activities,” these smaller sub-activity groups include the ISFF Quick Response Fund; disarmament, demobilization, and reintegration; detainee operations; and rule-of-law complexes.⁷⁰

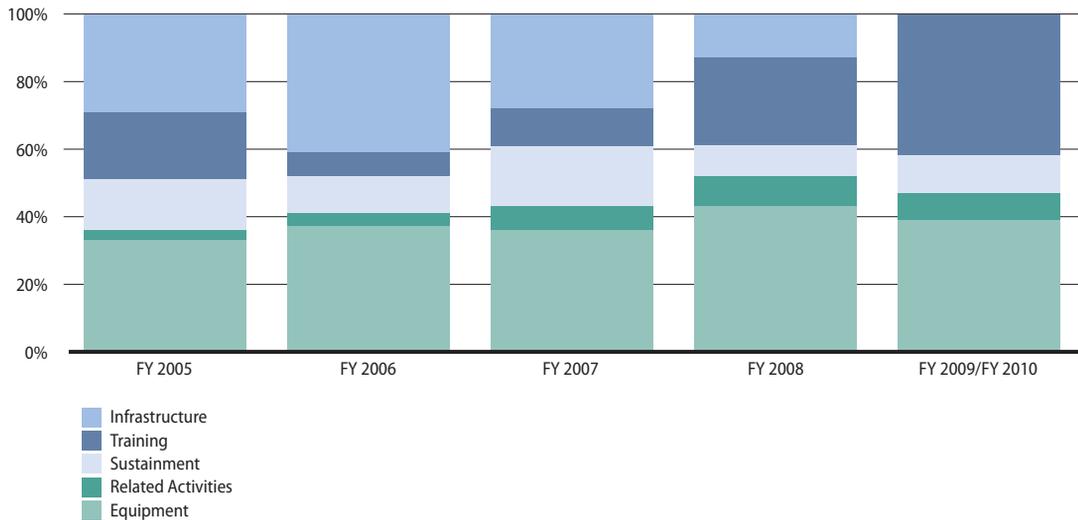
Of the \$701 million in new ISFF obligations this quarter, programs to support the MOD accounted for 37%, and programs to develop the MOI accounted for 55%. Of the \$497 million in new expenditures this quarter, MOD programs accounted for 55%, and MOI programs accounted for 32%.⁷¹ For the status of the ISFF by ministry and sub-activity group, see Table 2.4.

Obligation and expenditure figures do not include the FY 2009 ISFF bridge funding of \$1.00 billion, which was rescinded and re-appropriated by P.L. 111-32. The Congress made these funds available until September 30, 2010.⁷²

Allocation Trends

As shown in Figure 2.6, priorities for the ISFF have shifted considerably, with a decreased emphasis on Infrastructure and an increased emphasis on Training. Allocations to Infrastructure dropped from a high of 41% of the FY 2006 appropriation to 14% of FY 2008 appropriation.⁷³ No money has been allocated for Infrastructure in FY 2009/FY 2010, in line with the congressional prohibition against new ISFF obligations for Infrastructure in the latest appropriation.⁷⁴ Allocations to Training increased from a low of 8% of the FY 2006 appropriation to a high of 43% of the FY 2009/FY 2010 appropriation. Equipment procurement was consistently well funded from 2005 through 2008. Although Equipment accounts for nearly \$386 million (39%) of the FY 2009/FY 2010 spend plan, allocations are far less than the \$1.16 billion initially requested by DoD in FY 2009.⁷⁵

FIGURE 2.6
ISFF ALLOCATIONS BY FISCAL YEAR OF APPROPRIATION
% of Total Allocations



Note: Data not audited.

Source: OSD, response to SIGIR data call, 7/2/2009.

ESF

Economic Support Fund

Since 2003, the Congress has appropriated \$4.18 billion to the ESF to improve infrastructure and community security, promote democracy and civil society, and support capacity building and economic development.⁷⁶

As of June 30, 2009, \$3.33 billion (80%) had been obligated, and \$2.58 billion (62%) had been expended.⁷⁷ For the status of these funds, see Figure 2.7.

ESF Quarterly Obligations and Expenditures by Program

The nearly \$4.18 billion appropriated to the ESF is allocated to programs in three tracks:

- Security—programs focused on reducing violence, improving infrastructure security, and strengthening the link between the government and the community
- Political—activities designed to increase the capacity of national and provincial governments
- Economic—programs aimed at increasing the GOI’s operations and maintenance capabilities and stimulating private-sector growth

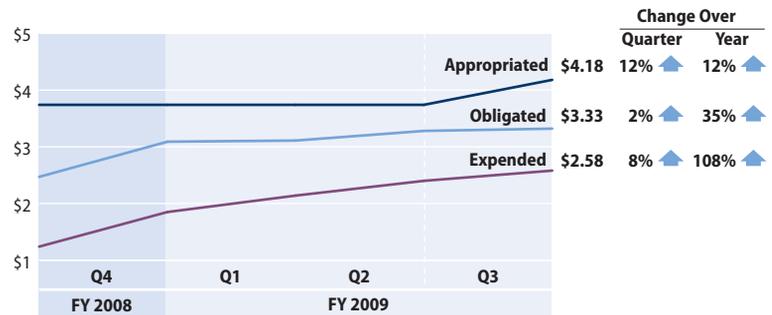
The largest programs are the Provincial Reconstruction Team/Provincial Reconstruction Development Council (PRT/PRDC) projects and the Community Stabilization Program, both of which are in the Security Track.⁷⁸

The ESF had \$49 million in new obligations this quarter, of which the PRT Quick Response Fund accounted for the largest portion at more than \$25 million (51%). Quarterly expenditures were more dispersed; of the nearly \$187 million in new expenditures this quarter, the Community Stabilization Program accounted for \$43 million (23%), and PRT/PRDC projects accounted

FIGURE 2.7

ESF STATUS OF FUNDS

\$ Billions



Note: Data not audited. Numbers affected by rounding.

Sources: U.S. Embassy-Baghdad, responses to SIGIR data call, 7/6/2009 and 7/16/2009; GRD, response to SIGIR data call, 7/4/2009; ITAO, *Essential Indicators Report*, 5/14/2009; SIGIR, *Quarterly and Semiannual Reports to the United States Congress*, 7/2008–4/2009.

for \$42 million (23%).⁷⁹ For the status of ESF by track and program, see Table 2.5.

ESF Historical Appropriations and Expenditures by Agency

Iraq receives ESF funding through standard U.S. appropriations for foreign operations in addition to the emergency wartime supplemental appropriations.⁸⁰ The ESF was established to provide assistance to countries that would not warrant traditional development assistance.⁸¹ Historically, it has been used to support economic and political stability in countries where the United States has a national security or other strategic interest. Between 1976 and 2001, ESF allocations to Israel and Egypt accounted for more than half of the total ESF.⁸²

The FY 2010 congressional budget justification for foreign operations requests \$6.50 billion for the ESF (not counting supplemental funds that may be requested). Of that amount,

IRAQ RECONSTRUCTION FUNDING SOURCES

TABLE 2.5
STATUS OF ESF BY TRACK AND PROGRAM

TRACK	PROGRAM	STATUS OF FUNDS (\$ Millions)			QUARTERLY CHANGE	
		ALLOCATED	OBLIGATED	EXPENDED	OBLIGATED	EXPENDED
Security	PRT/PRDC Projects	700.0	468.7	323.7	16.6 (4%)	42.1 (15%)
	Community Stabilization Program	646.3	646.3	596.8	-0.2 (0%)	42.8 (8%)
	Local Governance Program	355.5	355.5	257.9	-	2.7 (1%)
	Community Action Program	265.0	265.0	160.8	-	5.5 (4%)
	Infrastructure Security Protection	217.0	181.1	176.0	1.3 (1%)	10.9 (7%)
	PRT Quick Response Fund	204.0	195.4	107.1	25.4 (13%)	13.0 (14%)
	Subtotal		2,387.7	2,111.9	1,622.3	43.0 (2%)
Political	National Capacity Development	264.3	264.3	190.5	-	21.6 (13%)
	Democracy and Civil Society	188.9	185.2	144.5	-2.1 (-1%)	5.3 (4%)
	Economic Governance II, Policy and Regulatory Reforms	85.0	85.0	85.0	-	-
	Iraqi Refugees (Jordan)	58.0	58.0	36.0	-	-
	Ministerial Capacity Development	38.0	37.1	27.8	-0.1 (0%)	0.3 (1%)
	Regime Crimes Liaison Office	33.0	30.1	28.4	-0.6 (-2%)	0.3 (1%)
	Subtotal		667.2	659.7	512.1	-2.8 (0%)
Economic	O&M Sustainment	294.2	273.4	271.5	10.8 (4%)	21.7 (9%)
	Inma Agribusiness Development	92.5	92.5	61.9	-	8.9 (17%)
	Provincial Economic Growth	60.8	60.8	28.8	-	8.2 (40%)
	Targeted Development Program	57.4	57.4	18.4	-	4.9 (37%)
	Plant-Level Capacity Development & Technical Training	48.7	47.6	46.5	-1.6 (-3%)	-1.8 (-4%)
	Izdiyar	23.8	23.8	22.4	-	-
	Subtotal		577.4	555.6	449.5	9.2 (2%)
Total		3,632.3	3,327.2	2,584.0	49.5 (1%)	186.5 (8%)

Note: Data not audited. Numbers affected by rounding.

Sources: U.S. Embassy-Baghdad, responses to SIGIR data call, 7/6/2009 and 7/16/2009; GRD, response to SIGIR data call, 7/4/2009; ITAO, *Essential Indicators Report*, 5/14/2009; SIGIR, *Quarterly Report to the United States Congress*, 4/2009.

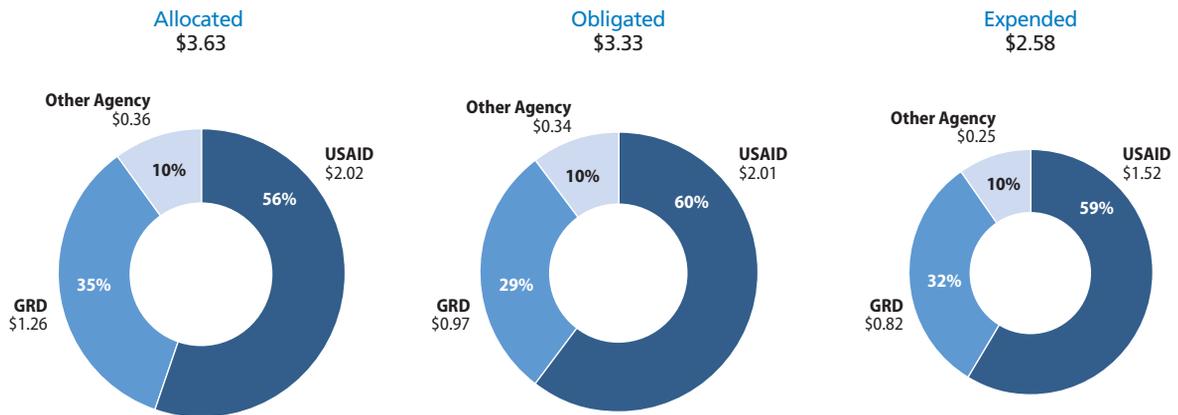
\$416 million (6%) is requested for Iraq to support capacity building, assist reintegration of refugees and internally displaced persons (IDPs), fund anticorruption programs, and promote broad-based economic growth.⁸³

Under policy guidance from DoS, USAID and the Gulf Region Division (GRD) of the

U.S. Army Corps of Engineers implement most ESF programs in Iraq. These two executing agencies have received more than 90% of total ESF allocations over the course of the reconstruction.⁸⁴ For a comparison of ESF allocations, obligations, and expenditures, by agency, see Figure 2.8.

IRAQ RECONSTRUCTION FUNDING SOURCES AND USES

FIGURE 2.8
ESF ALLOCATIONS, OBLIGATIONS, AND EXPENDITURES, BY AGENCY
\$ Billions



Note: Data not audited. Numbers affected by rounding.

Sources: U.S. Embassy-Baghdad, responses to SIGIR data call, 7/6/2009 and 7/16/2009; GRD, responses to SIGIR data call, 7/4/2009 and 7/18/2009; ITAO, *Essential Indicators Report*, 5/14/2009.

CERP

Commander's Emergency Response Program

Since 2004, the Congress has appropriated \$3.63 billion to the CERP to enable MNC-I commanders to provide targeted local relief and reconstruction throughout Iraq.⁸⁵

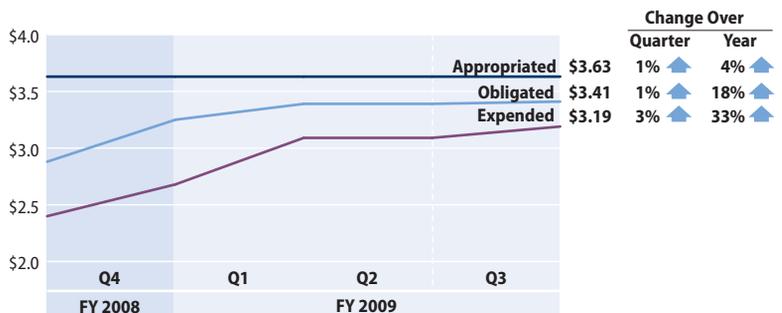
As of June 30, 2009, \$3.41 billion (94%) had been obligated, and \$3.19 billion (88%) had been expended.⁸⁶ For the status of these funds, see Figure 2.9.

CERP Quarterly Obligations and Expenditures

DoD obligates the CERP to 20 project categories, among which security-related project categories have received the majority of obligations in recent years.⁸⁷

Almost all new obligations and expenditures this quarter were in the Water and Sanitation sector, which accounted for 97% of new obligations and 97% of new expenditures.

FIGURE 2.9
CERP STATUS OF FUNDS
\$ Billions



Note: Data not audited. Numbers affected by rounding.

Sources: OSD, response to SIGIR data call, 7/13/2009; SIGIR, *Quarterly and Semiannual Reports to the United States Congress*, 7/2008–4/2009.

Water and Sanitation now accounts for 21% of all CERP obligations.⁸⁸

Protective Measures is the second largest category overall, accounting for more than \$401 million (12%) of total obligations.⁸⁹ This

TABLE 2.6
STATUS OF CERP BY SECTOR

SECTOR	STATUS OF FUNDS (\$ Millions)			QUARTERLY CHANGE	
	ALLOCATED	OBLIGATED	EXPENDED	OBLIGATED	EXPENDED
Water & Sanitation	601.4	609.1	538.1	443.5 (268%)	396.9 (281%)
Protective Measures	404.5	401.3	298.2	13.3 (3%)	22.5 (8%)
Electricity	326.0	329.9	265.4	6.7 (2%)	3.1 (1%)
Transportation	313.8	317.4	268.3	0.8 (0%)	7.1 (3%)
Education	298.2	300.7	241.1	13.2 (5%)	8.8 (4%)
Civic Cleanup Activities	158.7	158.2	125.0	-0.4 (0%)	-7.9 (-6%)
Other Humanitarian and Reconstruction Projects	125.7	125.8	91.2	-3.2 (-3%)	-5.8 (-6%)
Health Care	99.6	99.3	84.6	0.9 (1%)	-0.1 (0%)
Law & Governance	99.6	98.9	88.7	2.3 (2%)	1.0 (1%)
Agriculture	92.0	91.1	65.0	2.1 (2%)	-1.3 (-2%)
Civic Infrastructure Repair	83.7	82.9	70.8	-9.1 (-10%)	-1.8 (-3%)
Economic, Financial, and Management Improvements	82.6	81.7	64.9	-1.6 (-2%)	-2.6 (-4%)
Condolence Payments	39.0	38.4	34.5	-9.0 (-19%)	-8.5 (-20%)
Battle Damage	37.7	37.4	30.8	-1.2 (-3%)	-1.8 (-6%)
Telecommunications	27.5	27.9	25.3	-0.7 (-2%)	2.5 (11%)
Civic Support Vehicles	19.9	19.8	16.7	-	-0.8 (-5%)
Food Production & Distribution	12.7	12.6	9.6	-0.5 (-4%)	-0.2 (-2%)
Detainee Release Payments	0.9	0.9	0.5	-0.1 (-6%)	-0.1 (-9%)
Subtotal	2,823.5	2,833.3	2,318.8	457.1 (19%)	411.1 (22%)
Unaccounted for CERP Allocations	806.3	576.2	876.2	-437.5 (-43%)	-311.0 (-26%)
Total	3,629.8	3,409.5	3,195.0	19.5 (1%)	100.2 (3%)

Note: OSD does not report allocation, obligation, and expenditure data for project categories on a quarterly basis for all fiscal year appropriations. The "Unaccounted for CERP Allocations" row is the difference between the top-line allocation, obligation, and expenditure data provided by OSD and the categorical data available from IRMS.

Sources: MNC-I, *Quarterly Report*, 4/7/2009 and 7/4/2009; OSD, response to SIGIR data call, 7/13/2009; SIGIR, *Quarterly Report to the United States Congress*, 4/2009.

category includes construction and repair of fencing, lights, barriers, guard towers, and other measures to enhance the durability and survivability of critical infrastructure sites.⁹⁰ For the status of CERP projects by sector, see Table 2.6.

Much of the CERP has been expended slowly during this fiscal year because MNF-I focused during the first two quarters on executing projects through the Iraq-Commander's Emergency Response Program (I-CERP), the GOI-funded analog of CERP. As of mid-June, the I-CERP was nearly 90% obligated.⁹¹ The GOI has elected not to continue funding the program because of budget constraints caused by reduced oil revenues.⁹² Consequently, the Multi-National Force-Iraq (MNF-I) expects to execute the entire

\$500 million available in the CERP for FY 2009.⁹³ MNF-I also expects to execute an additional \$500 million in FY 2010, focusing on Mosul, Diyala, Tameem, Baghdad, and Basrah.⁹⁴

As in past years, if the entire CERP allocation is not used, funding will be returned to the Army Operations and Maintenance account, where it can be obligated for other purposes before expiration. MNF-I returned \$243 million of the CERP funds appropriated in FY 2008, which were then obligated for other DoD priorities before the end of the fiscal year.⁹⁵

CERP Reporting Practices

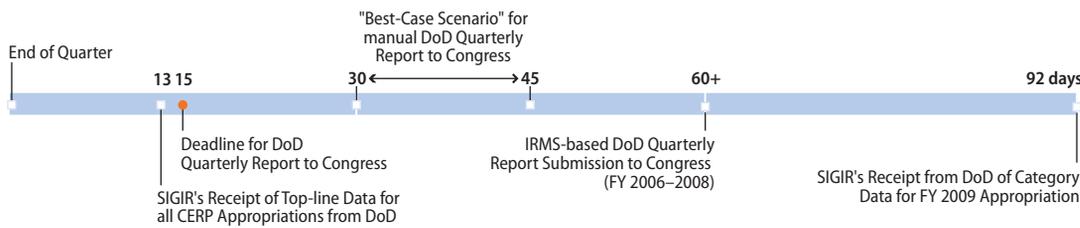
The Congress requires SIGIR to submit a quarterly report detailing all obligations, expenditures,

IRAQ RECONSTRUCTION FUNDING SOURCES AND USES

FIGURE 2.10

CERP REPORTING PRACTICES

Days Since End of Quarter



Sources: DoD OIG, response to SIGIR data call, 1/12/2009; OSD, responses to SIGIR data call, 7/2/2009 and 7/13/2009; P.L. 109-163, National Defense Authorization Act for Fiscal Year 2006, 1/6/2006, Section 1202(b); P.L. 110-181, National Defense Authorization Act for Fiscal Year 2008, 1/28/2008, Section 1205(b).

and revenues associated with Iraq reconstruction and rehabilitation, including a project-by-project and program-by-program accounting of the costs incurred as of the end of the quarter, within 30 days of the end of the quarter.⁹⁶ In previous Quarterly Reports, SIGIR has pointed out DoD's difficulty in providing timely and complete information on CERP obligations and expenditures and on completed and ongoing projects.

The CERP authorizing legislation requires DoD to submit quarterly reports to the Congress within 15 days of the end of each quarter. The Congress further stipulates that these reports contain the source, allocation, and use of funds by CERP project category, and that they demonstrate how projects valued at more than \$500,000 support CERP objectives.⁹⁷

As the executive agent for the CERP, the Secretary of the Army is required to forward the quarterly CERP reports to the chairmen and ranking members of the four congressional defense committees as well as to the DoD Comptroller. Until mid-2008, CERP project details were available only through the Iraq Reconstruction Management System (IRMS), a Web-based system maintained by the Multi-National Corps-Iraq (MNC-I). However, the system was not compatible with the Army accounting system and proved an unreliable source for project-level details; delays of 60 days or more were common.⁹⁸

To improve accuracy, the Army transitioned to manual reporting for CERP project details

in FY 2009. Data now is reported from the field to U.S. Army Central and passed to the Army Budget Office, where staff members review every project line to ensure compliance with the intent of the CERP as well as the accuracy of category reporting. Project details are then provided to the DoD Comptroller and elements of the Joint Staff and CENTCOM for concurrent review. When approved, the package is released to the Congress. The "best-case scenario" for accurate reporting using the manual system is 30 to 45 days.⁹⁹

For a timeline of CERP reporting practices, see Figure 2.10.

Unlike the other major funds, CERP obligation and expenditure data for prior-year appropriations is not reported for project categories on a quarterly basis; the DoD Comptroller reports obligation and expenditure data by project category only for the current fiscal year appropriation. Historical obligation and expenditure data is only available from IRMS—the reporting system identified by the DoD Office of the Inspector General and SIGIR as unreliable.¹⁰⁰ For its mandated reporting, SIGIR recently agreed to accept CERP obligation and expenditure data by project category a full 90 days past the end of the fiscal quarter to accommodate the OSD's reporting practices. The FY 2009 CERP data by category for the quarter ending March 31, 2009, was not received until July 2, 2009, and it lacked expenditure data for prior-year appropriations.¹⁰¹ ♦

CONTRACTING

CONTRACTING IN IRAQ WAS
DONE WILLY-NILLY.¹⁰²
—SECRETARY OF DEFENSE
ROBERT GATES,
JANUARY 2009

Contractors continue to play a substantial role in supporting U.S. military and diplomatic operations, as well as reconstruction programs in Iraq. The services they provide range from brick-and-mortar construction projects (power generation, medical, and security facilities) to non-construction activities (building the GOI capacity) to activities supporting uniformed military and diplomatic personnel (life support and personal security). Although contractor support of military and diplomatic efforts can be seen as separate from contract work related to reconstruction, the lines are often blurred.

Early U.S. efforts in Iraq frequently engaged multiple agencies with overlapping jurisdictions—and without adequate resources—to oversee the contracting and resulting project-management processes.¹⁰³ But the contracting and procurement process generally improved over the course of the reconstruction effort. Agencies are addressing the lessons learned—such as management of private security contractors (PSCs)—which has improved operational processes.

U.S. Contracting Organizations

Six U.S. government organizations are primarily responsible for implementing Iraq reconstruction efforts, including managing the contractors who carry them out:¹⁰⁴

- Joint Contracting Command-Iraq/Afghanistan (JCC-I/A)
- U.S. Army Corps of Engineers, Gulf Region Division (GRD)
- Multi-National Corps-Iraq (MNC-I)

- Air Force Center for Engineering and the Environment (AFCEE)
- U.S. Agency for International Development (USAID)
- Department of State (DoS)

JCC-I/A reports to the Multi-National Force-Iraq (MNF-I), providing centralized management and operational contracting support. The JCC-I/A Commander has the authority to approve statements of work to ensure that appropriate terms and conditions are included in contracts for the delivery of supplies and services.¹⁰⁵

GRD plans to reorganize its operations in Iraq, moving from a division with three districts to a single district by March 2010. MNF-I is developing the framework around which U.S. personnel will reduce their footprint in Iraq between now and August 2010. This drawdown of military forces and DoD civilians will likely result in increased reliance on contractor personnel.¹⁰⁶

USAID reports that, as the military draw down, it will rely more on GOI assets and subcontractors to continue key support programs at the national and provincial levels.¹⁰⁷

Contractor Tracking System

The Joint Contingency Contracting System (JCCS) has been supporting U.S. expeditionary contingency contracting for two years, facilitating several functions critical to efficient and effective oversight, including:¹⁰⁸

- providing a location for storing all reconstruction contracts in Iraq and Afghanistan

- tracking vendor past performance
- posting all Iraq and Afghanistan reconstruction solicitations
- providing a location for vendors to submit proposals
- tracking all historical reconstruction contract data
- allowing oversight of in-theater contracts to monitor cost, schedule, and performance, as well as vendor activities

More than 33,400 vendors are now tracked in the JCCS, and over 77,850 actions have been awarded to local Iraqi and Afghan vendors who have registered in the system.¹⁰⁹ Recent system milestones include:¹¹⁰

- 22 Regional Contract Commands throughout Iraq and Afghanistan have been automated and linked to a centralized database for electronic capture and reporting on reconstruction contracts.
- Transition of work for rotating Commanders and Contracting Officers has been improved.
- Headlines and notifications on the main website page provide a centralized communication area throughout the JCC-I/A.
- All contracting information on the Task Force to Improve Business and Stability Operation had been integrated into the JCCS as of January 1, 2009.

Reconstruction Contract Overview

Since 2003, U.S. agencies have awarded more than \$42 billion for reconstruction contracts in Iraq, or more than 91% of all U.S. appropriations for reconstruction,¹¹¹ but Corps of Engineers Financial Management System (CEFMS) and

USAID contract data does not account for all obligations.

For a summary of the major contractors that have executed projects funded through the IRRF 2, ISFF, and ESF, as of June 30, 2009, see Table 2.7.

U.S. Initiative for Businesses Owned by Women

At least one million women, are heads of households in Iraq and Afghanistan.¹¹² As part of its effort to increase access to contracting opportunities for Iraqi-owned businesses, especially those owned by traditionally underserved groups,¹¹³ JCC-I/A launched the Women Owned Businesses (WOB) program to help women support themselves and their families.¹¹⁴

In Iraq, the WOB program is a part of the woman-led Business Development and Outreach Program (BDOP), which provides business education, entrepreneurial skills training, and economic opportunities for Iraqi women.



NCD/Tatweer Capacity Development Training in Baghdad. (MNF-I photo)

TABLE 2.7
MAJOR IRRF 2, ISFF, AND ESF CONTRACTORS
 \$ Millions

FUND NAME	CONTRACTOR	OBLIGATED	EXPENDED
IRRF 2	FluorAMEC, LLC	944	942
	Parsons Global Services, Inc.	663	641
	Kellogg, Brown & Root Services, Inc.	630	620
	Parsons Iraq Joint Venture	628	625
	Washington Group International, Inc. (Power)	490	488
	Environmental Chemical Corporation	312	310
	Anham Joint Venture	259	259
	Uruk-Baghdad Joint Venture	169	169
	Washington International/ Black & Veatch	157	153
	ISFF	AECOM Government Services, Inc.	859
Environmental Chemical Corporation		709	691
AMECO		497	386
Navistar Defense, LLC		437	283
ALMCO, Limited		313	250
Innovative Technical Solutions, Inc.		284	273
Tetra Tech EC, Inc.		278	274
Toltest, Inc.		267	261
ESF	Wamar International, Inc.	71	68
	Parsons Brinckerhoff, Inc.	62	62
	Stanley Baker Hill, LLC	26	25
	Eastern Deffaf al-Nahraen	24	9
	Iraq Power Alliance Joint Venture	22	22
	Altayf al-Abiad Company, AAAE	21	10
	Sakar al-Fahal Company	17	17
	Al-Qaswaa United Co. for General Contracts	14	14
	Zana Group Company	13	13
	Al-Kahlaa Group Company	13	10

Note: Numbers affected by rounding. This list is produced by compiling contract-level obligation data provided by different agencies.

Source: CEFMS, 7/4/2009.

The BDOP employs 12 consultants—Arabic-speaking business owners who understand the local culture.¹¹⁵

JCC-I/A reports that from FY 2006 to FY 2009, women-owned businesses in Iraq have been awarded contracts valued at more than \$450 million, an increase of more than 300% since 2005. As of June 2009, more than 2,000 women-owned businesses had registered to do business with the JCC-I/A.¹¹⁶

Update on Contractor Personnel

Currently, more than 167,000 contractor employees (72% non-U.S. nationals) are working in Iraq to support the operations and projects of the U.S. military, DoS, and other U.S. government agencies. Prime contractors and subcontractors are required to register to gain access to Iraq. However, the U.S. government cannot confirm whether the manual census of those contractors already operating in the theater includes all subcontractor entities.¹¹⁷ For an estimated total number of contractors by agency, see Table 2.8.

The contractor force provides a broad range of skills and capabilities. For a breakdown of DoD contractors by national origin and type of service they provide as of May 30, 2009, see Figure 2.11.

Companies providing services for the U.S. government in Iraq enter into these contracts with certain expectations about the risks they may face in a hostile operating environment. Since 2003, more than 1,469 U.S. contractors have died in Iraq (See Figure 2.12).¹¹⁸

TABLE 2.8

CONTRACTOR SUPPORT FOR IRAQ

AGENCY	U.S. CITIZENS	THIRD-COUNTRY NATIONALS	IRAQI NATIONALS	TOTAL CONTRACTORS
DoS	4,079	-	-	4,079
DoD	34,846	56,191	34,126	125,163
Others	8,948	26,973	5,929	41,850
Total	47,873	83,164	40,055	171,092

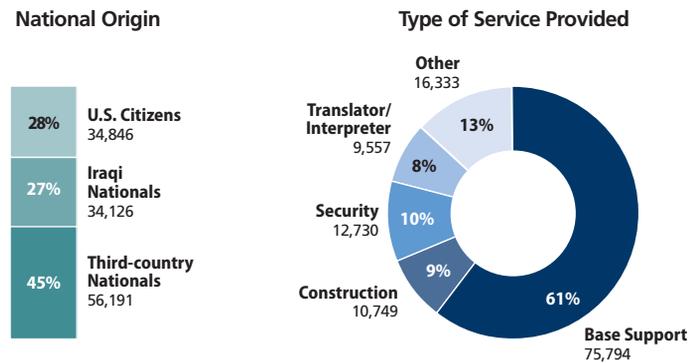
Note: Information on third-country and Iraqi nationals contracting under DoS was not available.

Sources: Assistant Deputy Under Secretary of Defense for Program Support, "Contract Support in Contingency Operations," 5/2009, p. 4; OSD, response to SIGIR data call, 7/14/2009; U.S. Embassy-Baghdad, response to SIGIR data call, 7/6/2009.

FIGURE 2.11

DoD CONTRACTORS IN IRAQ

125,163 Total Contractors

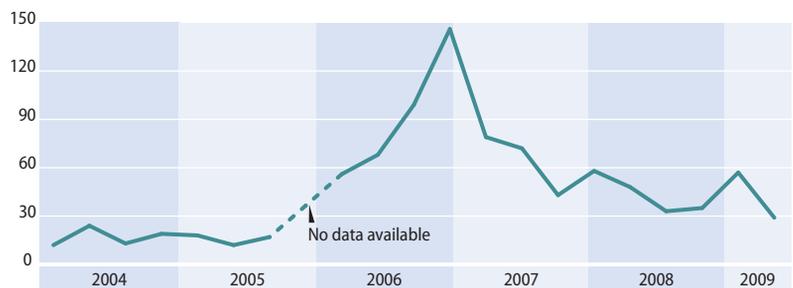


Note: Numbers affected by rounding. These numbers reflect DoD contractors only. Totals for reconstruction contractors working in other agencies are not available.

Sources: Assistant Deputy Under Secretary of Defense for Program Support, "Contractor Support of U.S. Operations in USCENTCOM AOR, Iraq, and Afghanistan," 5/2009; OSD, response to SIGIR data call, 7/14/2009.

FIGURE 2.12

CONTRACTOR DEATHS IN IRAQ, BY QUARTER, 1/1/2004–6/30/2009



Sources: DoL, response to SIGIR data call, 7/1/2009; SIGIR, *Quarterly Reports to the United States Congress*, 7/2004–4/2009.

Challenges to Effective Contract Oversight in Overseas Contingency Operations

The success of reconstruction programs in overseas contingency operations (OCOs) depends in large part on the U.S. government's ability to efficiently and rapidly deploy the necessary services, materials, and support systems. This requires government contracting and procurement processes that are well structured and customized for contingency situations.

The root cause of the lack of unity of effort among U.S. agencies participating in the Iraq reconstruction effort is the absence of an integrated management structure for effectively and efficiently implementing reconstruction programs in unstable nation-states.

Since 2004, SIGIR, in partnership with other oversight agencies, has documented many examples of how the failure to effectively integrate agency efforts has hindered the U.S. mission in Iraq. For example, initial U.S. reconstruction efforts in Iraq were plagued by:¹¹⁹

- missed tactical and strategic opportunities
- weak program oversight
- inadequate contract management
- insufficient personnel, financial, and contracting resources
- poor financial accountability
- missed tactical and strategic opportunities
- lack of a unified operating system to ensure command and control

A 2009 CRS report addressing the need for reforming the way the U.S. government conducts reconstruction and stabilization (R&S) operations notes five points commonly highlighted in recent studies of this issue:¹²⁰

- The ad hoc system needs to be replaced with a permanent mechanism for developing contingency plans and procedures for joint civil-military operations led by civilians.
- Mechanisms must be developed to rapidly deploy U.S. civilian government employees and contractors in R&S situations.
- Preventive action should be consistent.
- The U.S. government needs to “enhance multi-national capabilities” to carry out R&S security tasks and coordinate international aid.
- Flexible funding arrangements for R&S efforts should be developed.

Strengthening Contractor Oversight

In 2008, the Congress established the Commission on Wartime Contracting in Iraq and Afghanistan. The eight-member commission is a bipartisan, independent entity charged with evaluating and reporting on America's wartime contracting for logistics, reconstruction, and security. In its interim report released in June 2009, the commission reinforced a conclusion reported in numerous SIGIR audits: “There is an acute shortage of qualified DoD personnel to monitor reconstruction contracts.”¹²¹

As part of its efforts to strengthen contracting oversight, the Secretary of Defense announced in May 2009 that DoD has adopted a goal of replacing 20,000 contractors (who were overseeing contracts) with civil servants over the next 5 years. DoD's short-term goal for 2010 is to replace 4,100 contractors with civil servants.¹²²

Comprehensive Database for Managing Contractors

Section 861 of the National Defense Authorization Act for FY 2008 required the Secretary of Defense, the Secretary of State, and the USAID Administrator to enter into a memorandum of understanding (MOU) regarding the following issues related to contracting in Iraq and Afghanistan:¹²³

- identification of the major categories of contracts
- identification of the roles and responsibilities of each agency
- responsibility for establishing procedures for, and the coordination of, movement of contractors
- identification of common databases that will serve as repositories for information on contracts in Iraq

A July 2008 MOU between these agencies designated the Synchronized Pre-Deployment and Operational Tracker (SPOT) database as the system for tracking the information required by this agreement. This Web-based tool provides information on contractor personnel serving in theater. A SPOT-generated letter of authorization is now required for contractors receiving government support, which has prompted a substantial increase in registered contractor personnel. SPOT now has more than 159,000 active contractor records.¹²⁴

U.S. Embassy-Baghdad reports that it has limited ability to enforce SPOT use because DoD has the lead on SPOT maintenance, and the majority of contractors listed in SPOT are DoD contractors. To track its own contractors, DoS requires Iraqi and Afghan contractors to present a SPOT-generated letter of authorization before issuing a Common Access Card for use during deployment. Notwithstanding these and other efforts to improve accountability, agencies continue to use different systems for tracking contractor personnel. Uniform use of SPOT by DoD, USAID, and DoS contractors is not yet the norm.¹²⁵

Strengthening the Contract Monitoring Process

SIGIR's *Hard Lessons: The Iraq Reconstruction Experience*, published in February 2009, reviewed the U.S. effort to help rebuild Iraq and summarized the lessons that could be derived from this experience, including lessons that could be applied to government contracting. In May, General David Petraeus, Commander of the United States Central Command (CENTCOM), described how these lessons are being applied in Afghanistan.¹²⁶ For an overview of these lessons, as well as a summary of how DoD states that it is applying these lessons or how CENTCOM believes these lessons should be applied, see Table 2.9. ♦

TABLE 2.9
DoD’s APPLICATION OF *HARD LESSONS* TO AFGHANISTAN

LESSON LEARNED IN IRAQ	APPLIED TO AFGHANISTAN
Security is necessary for large-scale reconstruction to succeed.	17,000 additional troops have been deployed; DoD requested \$3.7 billion in additional funding.
Developing the capacity of people and systems is as important as brick-and-mortar reconstruction.	The U.S. Engineering Division in Afghanistan contracts 70% of its proposals to Afghan and Afghan/American firms and has created training programs to mentor engineering cadets.
Soft programs serve as an important complement to military operations in insecure environments.	Maneuver units are making adjustments for soft programs. “Fly-away teams” have been deployed to assist local governance, and Agribusiness Development Teams are being deployed.
Programs should be geared to indigenous priorities.	Local projects are vetted to ensure alignment with national plans. The Special Inspector General for Afghanistan Reconstruction (SIGAR) is assessing donor strategies based on national plans and priorities.
Reconstruction is an extension of political strategy.	The USAID Tactical Conflict Assessment Framework Program is currently being tested.
Executive authority below the President is necessary to ensure the effectiveness of contingency relief and reconstruction operations.	The Office of the Secretary of Defense (OSD) should advocate that DoS Office of the Coordinator for Reconstruction and Stabilization appoint a single executive agent to coordinate all contingency relief and reconstruction operations. Establish joint interagency coordination committee.
Uninterrupted oversight is essential to ensuring taxpayer value in contingency operations.	SIGAR established offices in Washington D.C., and in Kabul, with additional presence sought at Kandahar, Bagram, and with the Combined Security Transition Command-Afghanistan (CSTC-A) in Kabul.
An integrated management structure is necessary to ensure effective interagency reconstruction efforts.	U.S. Forces-Afghanistan uses an integrated system to collect Provincial Reconstruction Team (PRT) reconstruction data. USAID is developing a common database.
Outsourcing management to contractors should be limited because it complicates lines of authority in contingency reconstruction operations.	CSTC-A is investigating methods to prevent outsourcing management to contractors.
The U.S. government should develop new contracting rules that permit greater flexibility.	The Under Secretary of Defense for Acquisitions should host an interagency acquisition advisory panel to draft a single, interagency Contingency Federal Acquisition Regulation.
The U.S. government needs a new human-resources management system capable of meeting the demands of a large-scale relief and reconstruction operation.	DoD Human Resources Activity should work with the Office of Personnel Management to sponsor an interagency panel to draft universal contingency human resources rules.
The U.S. government must strengthen its capacity to manage the contractors that carry out reconstruction work in contingency relief and reconstruction.	DoD is adding 720 contract oversight personnel to the Defense Contract Management Agency over the next 5 years. DoD, DoS, and USAID signed an MOU to use SPOT.
Diplomatic, development, and area expertise must be expanded to ensure a sufficient supply of qualified civilian personnel in contingency reconstruction operations.	DoS Office of Management Policy is working with the Office of Management and Budget to provide advice and guidance regarding the President’s Management Agenda.

Source: Commander, U.S. Central Command, Office of the Commander, Memorandum for the Secretary of Defense, “Applying Lessons Learned in Iraq to Afghanistan,” 5/24/2009.

U.S. RECONSTRUCTION FUNDING USES

SIGIR classifies U.S. reconstruction funding by its use into 4 reconstruction areas, comprising 17 exclusive sectors. Developments in these reconstruction areas are discussed in the following Security, Infrastructure, Governance, and Economy subsections.

For the status of U.S. reconstruction funding by use, see Table 2.10. For an overview of U.S. reconstruction funding sources and uses, see Figure 2.13. ♦

TABLE 2.10
STATUS OF MAJOR U.S. RECONSTRUCTION FUNDS BY USE

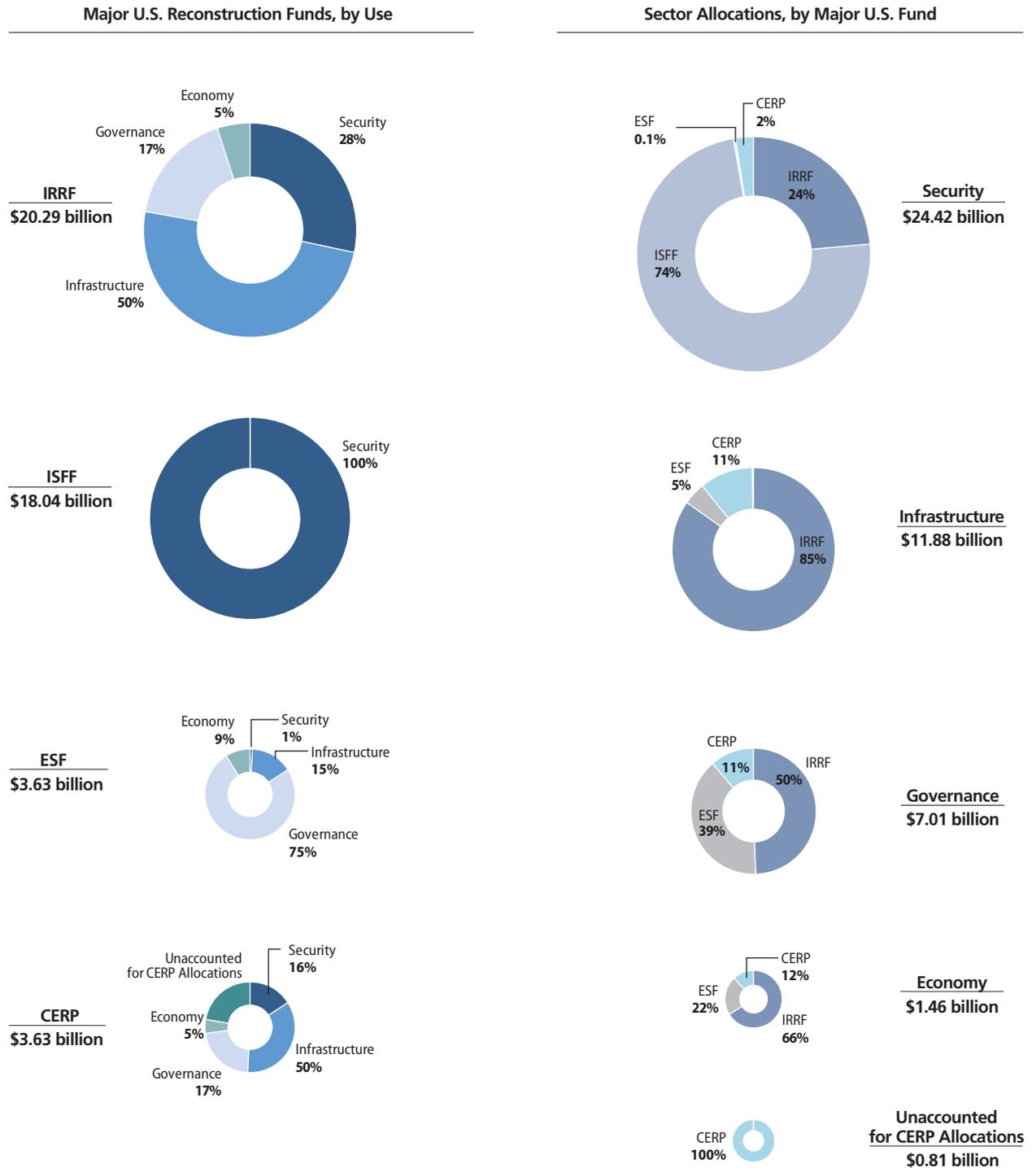
AREA	SECTOR	STATUS OF FUNDS (\$ Billions)			QUARTERLY CHANGE	
		ALLOCATED	OBLIGATED	EXPENDED	OBLIGATED	EXPENDED
Security	Iraqi Security Forces Equipment	7.22	6.25	5.09	0.21 (3%)	0.11 (2%)
	Iraqi Security Forces Training	6.01	5.36	5.02	0.24 (5%)	0.03 (1%)
	Iraqi Security Forces Infrastructure	5.78	5.47	4.71	0.17 (3%)	0.14 (3%)
	Iraqi Security Forces Sustainment	2.60	2.31	2.11	0.10 (5%)	0.13 (7%)
	Rule of Law	1.46	1.45	1.23	0.01 (1%)	0.03 (2%)
	Related Activities	1.36	1.10	0.93	0.02 (2%)	0.05 (5%)
	Subtotal		24.42	21.95	19.09	0.75 (4%)
Infrastructure	Electricity	5.00	4.97	4.84	0.01 (0%)	0.03 (1%)
	Water and Sanitation	2.61	2.61	2.46	0.44 (20%)	0.42 (21%)
	Oil and Gas	1.94	1.92	1.91	-	0.01 (1%)
	General Infrastructure	1.25	1.24	1.24	-	-
	Transportation and Communications	1.08	1.09	1.00	-	0.02 (2%)
	Subtotal		11.88	11.83	11.45	0.45 (4%)
Governance	Capacity Development	2.41	2.17	1.75	0.04 (2%)	0.12 (7%)
	Democracy and Civil Society	1.94	1.94	1.61	-	0.02 (1%)
	Public Services	1.86	1.86	1.70	0.01 (0%)	0.01 (0%)
	Humanitarian Relief	0.81	0.81	0.74	-	-0.01 (-1%)
	Subtotal		7.01	6.77	5.80	0.04 (1%)
Economy	Economic Governance	0.79	0.79	0.74	-	-
	Private Sector Development	0.68	0.67	0.54	-	0.02 (4%)
	Subtotal		1.46	1.46	1.28	-
Total		44.78	42.01	37.61	1.2 (3%)	1.1 (3%)

Note: Data not audited. Numbers affected by rounding. Total values for U.S. reconstruction funding by use is lower than U.S. reconstruction funding by source because the status of CERP funding by project category for prior fiscal year appropriations is unavailable.

Sources: U.S. Embassy-Baghdad, responses to SIGIR data call, 7/6/2009 and 7/16/2009; GRD, responses to SIGIR data call, 7/4/2009 and 7/18/2009; ITAO, *Essential Indicators Report*, 5/14/2009; MNC-I, *Quarterly Reports*, 4/7/2009 and 7/4/2009; OSD, responses to SIGIR data call, 7/2/2009 and 7/13/2009.

U.S. RECONSTRUCTION FUNDING USES

FIGURE 2.13
ALLOCATIONS OF MAJOR U.S. RECONSTRUCTION FUNDS, AS OF 6/30/2009



Note: Data not audited. Numbers affected by rounding. Total values for U.S. reconstruction funding by use is lower than U.S. reconstruction funding by source because the status of CERP funding by project category for prior fiscal year appropriations is unavailable.

Sources: U.S. Embassy-Baghdad, responses to SIGIR data call, 7/6/2009 and 7/16/2009; GRD, responses to SIGIR data call, 7/4/2009 and 7/18/2009; ITAO, Essential Indicators Report, 5/14/2009; MNC-1, Quarterly Reports, 4/7/2009 and 7/4/2009; OSD, responses to SIGIR data call, 7/2/2009 and 7/13/2009.

SECURITY

The United States has allocated \$24.42 billion¹²⁷ for programs and projects to develop the Iraqi Security Forces (ISF), construct related infrastructure, and support increased capacity for the rule of law in Iraq. For a summary of obligations and expenditures of the ISFF, CERP, IRRF, ESF, and International Narcotics Control and Law Enforcement Fund (INCLE) for security and justice programs, see Figure 2.14.

The Strategic Framework Agreement and the Security Agreement between the U.S. government and the GOI define the future presence of U.S. security forces. The process of U.S. troop withdrawal and the Iraqi assumption of full responsibility for security affairs are the key elements of the current security relationship between the United States and the GOI.¹²⁸ The U.S. government is also committed to continue support for democratic Iraq's legal and judicial institutions.¹²⁹

On June 30, 2009, Iraqis marked the withdrawal of U.S. combat forces from all cities with a national holiday. ISF personnel will replace U.S. forces that have been relocated to bases and other staging locations in Iraq. Some U.S. forces, however, remain in the cities embedded with the ISF as advisers and liaison officers who would be able to call on U.S. rapid-reaction forces if needed.¹³⁰ While they remain in Iraq, U.S. forces will conduct operations with the ISF as requested. Joint efforts are designed to provide a layered defense, with the ISF securing the cities and the Multi-National Force-Iraq (MNF-I) securing belts and borders to eliminate safe havens and deny freedom of movement to terrorists.¹³¹

Plans in support of security and justice programs in Iraq emphasize training and equipping

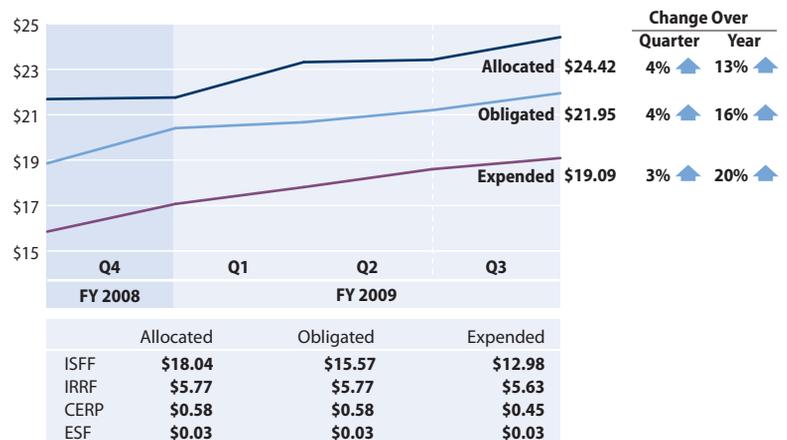
the ISF and executing the Rule of Law Strategic Action Plan (RoLSAP). These activities are coordinated by the U.S. Embassy and include the following:

- Existing ISFF appropriations are programmed to set up a nationwide force-training project to meet force-generation requirements while continuing to support the acquisition of necessary equipment.
- The RoLSAP would extend capacity-development programs in the ministries and PRT activities in the provinces, while existing infrastructure projects (such as prisons) are being transferred to the GOI.

THE UNITED STATES WILL PURSUE A NEW STRATEGY TO END THE WAR IN IRAQ THROUGH A TRANSITION TO FULL IRAQI RESPONSIBILITY.... THERE WILL SURELY BE DIFFICULT PERIODS AND TACTICAL ADJUSTMENTS. BUT OUR ENEMIES SHOULD BE LEFT WITH NO DOUBT: THIS PLAN GIVES OUR MILITARY THE FORCES AND FLEXIBILITY THEY NEED TO SUPPORT OUR IRAQI PARTNERS, AND TO SUCCEED.¹³²

—PRESIDENT BARACK OBAMA, FEBRUARY 27, 2009

FIGURE 2.14
SECURITY—STATUS OF FUNDS
\$ Billions



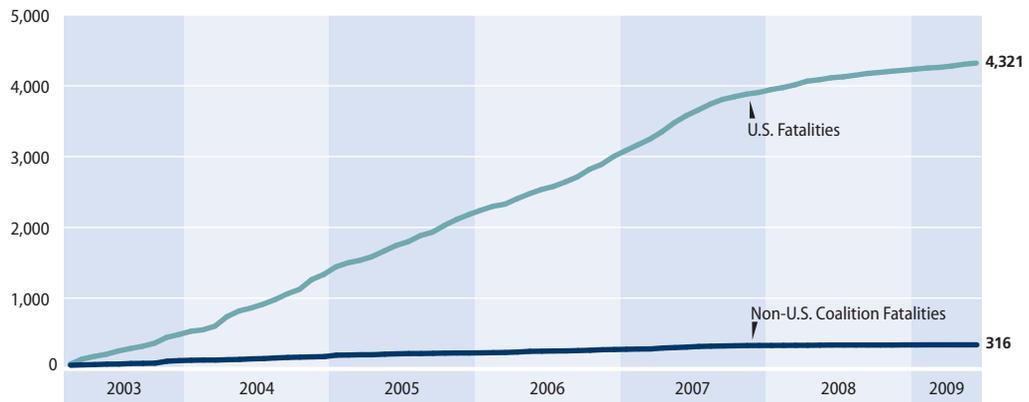
Note: Data not audited. Numbers affected by rounding.

Sources: MNC-I, *Quarterly Report*, 7/4/2009; ITAO, *Essential Indicators Report*, 5/14/2009; DFAS, response to SIGIR data call, 4/10/2009; DoS, response to SIGIR data call, 4/5/2007; U.S. Embassy-Baghdad, response to SIGIR data call, 7/6/2009; OSD, responses to SIGIR data call, 7/2/2009 and 7/13/2009.

FIGURE 2.15

MILITARY FATALITIES IN OPERATION IRAQI FREEDOM, 3/2003–6/2009

Cumulative Fatalities



Note: Excludes Iraqi Security Forces fatalities.

Sources: Brookings Institution, *Iraq Index*, 6/25/2009, pp. 15, 17; DoD, "Operation Iraqi Freedom U.S. Casualty Status," 7/2/2009.

U.S. Security Personnel and a New Operating Environment

The transition of security responsibilities pursuant to the Security Agreement provides for the withdrawal of U.S. combat forces from Iraqi cities by June 30, 2009, and the withdrawal of U.S. forces from Iraq by December 31, 2011. The U.S. basing and staging footprint has also shifted. MNF-I reports that 142 U.S. bases have been shut down or handed over to the Iraqi government, bringing the total number of bases and other locations occupied by U.S. forces to about 320.¹³³ Contracting for private security has been on the rise. Private security contractors (PSCs) operate under rules of engagement prescribed by the GOI, and their movements are coordinated with U.S. military commands.¹³⁴

In Baghdad, security restrictions appear to be easing, with many temporary concrete walls being removed from urban areas as part of a broader normalization process. Officials of the

GOI believe that the ISF is capable of assuming security responsibility for the departing multinational force.¹³⁵ However, the Minister of Interior acknowledged that U.S. forces still play an important role, pointing to the many sacrifices they have made to help bring Iraq to its current security and stability.¹³⁶ Since the beginning of Operation Iraqi Freedom through July 3, 2009, 4,321 U.S. personnel have been killed and more than 31,350 have been wounded in action.¹³⁷ For a timeline of casualties sustained by the U.S. forces, see Figure 2.15.

Since the United States deployed its surge strategy in 2007, security incidents markedly declined. In 2007, about 900 incidents were carried out weekly. In 2008, that number dropped to 200, and this year, fewer than 100 incidents have been occurring each week.¹³⁸ Although the overall security situation in Iraq has improved since 2008, the recent spike in mass-casualty incidents shows that terrorist attacks continue to pose gravest serious security challenge.¹³⁹

IRAQ RECONSTRUCTION FUNDING SOURCES AND USES

This quarter, a wave of suicide bombings culminated in a series of 404 bombs detonated across Iraq, bringing the total Iraqis killed this quarter to about 1,000.¹⁴⁰ Although insurgent activity across the country has declined in the past 12 months, al-Qaeda and other extremist elements continue to demonstrate their ability to conduct major attacks against government officials, security forces, and the local population in an attempt to undermine public confidence in the government's ability to provide effective security.¹⁴¹ For information about daily and annual security incidents and their locations since 2003, see Figure 2.16.

For the status of security personnel operating in Iraq, see Table 2.11.



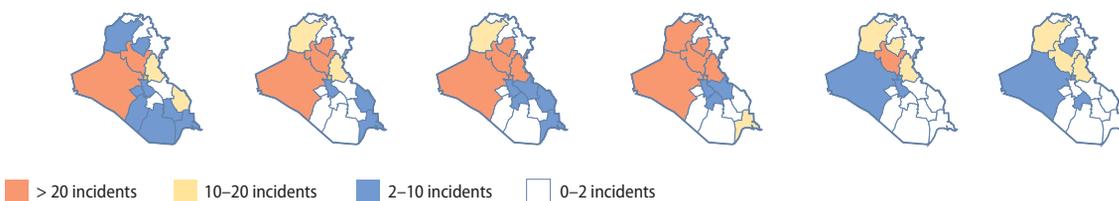
The United States complied with the terms of the Security Agreement, withdrawing all U.S. combat forces from Iraqi cities by June 30, 2009. (Army.mil photo)

FIGURE 2.16
SECURITY INCIDENTS AND IRAQI CIVILIAN FATALITIES, 1/2004–6/2009

Average Daily Incidents and Estimated Average Daily Fatalities, by Month



Annual Incidents per 10,000 People, by Province



Note: Incidents include attacks against Iraqi infrastructure and government organizations; bombs that are found and cleared (including IEDs and mines); detonated bombs; sniper, ambush, grenade, and other small arms attacks; and mortar, rocket, and surface-to-air attacks.

Sources: MNF-I, responses to SIGIR data call, 10/6/2008 and 7/2/2009; CENTCOM, response to SIGIR data call, 1/10/2009; Iraq Body Count, www.iraqbodycount.org, accessed 7/3/2009; Brookings Institution, *Iraq Index*, 6/25/2009.

TABLE 2.11
SECURITY FORCES IN IRAQ

SERVICE		ASSIGNED PERSONNEL	TREND	STATUS
U.S. Forces		130,000		All U.S. combat forces out of the cities, June 30, 2009
Private Security Contractors ^a		30,000	—	All agencies assessing their PSC status
Iraqi Security Forces				
Ministry of Defense ^b	Iraqi Army (IA)	201,356		Recruiting freeze due to budgetary constraints
	Training and Support	23,452	—	Working on improving force generation
	Air Force	2,006	—	Building capabilities
	Navy	1,898	—	Developing capacity
	Total MOD	228,712		
Ministry of Interior ^b	Iraqi Police	291,520		Working toward independent force management
	National Police	51,766		Improving logistics and training
	Border Enforcement	42,431		Training in preparation for drawdown
	Oil Police	29,411	—	Oil infrastructure security slowed by hiring freeze
	Facilities Protection Service (FPS)	87,000 ^c	—	Pending reform legislation to make FPS a formal department under the MOI
	Total MOI	502,128		
Counter-Terrorism	Special Operations	4,160	—	Pending CoR reform legislation to become a new Iraqi ministry
ISF Total		735,000		
Grand Total		858,996		

Note: Numbers affected by rounding.

^a PSC numbers shift continually based on changing contract activity and level of security services required. Total reflects SIGIR's estimate.

^b Assigned numbers illustrate payroll data; they do not reflect present-for-duty totals; approximately 112,000 MOI employees are not included in ISF numbers.

^c FPS personnel are not counted in the official MOI rosters because they are contracted and reform legislation has not been passed.

Sources: SIGIR, *Quarterly and Semiannual Reports to the United States Congress*, 1/31/2009 and 4/30/2009; OSD, response to SIGIR data call, 4/2/2009; DoD, *Measuring Stability and Security in Iraq*, 12/31/2008; OSD, response to SIGIR data call, 7/1/2009.

Status of U.S. Forces

As of June 30, 2009, approximately 130,000 U.S. forces remain in Iraq, and by August 2010, their combat mission is scheduled to transition to a support role, conducted by 35,000 to 50,000 military advisors and trainers.¹⁴² Concomitant with the planned force drawdown, the United States will make organizational changes within the U.S. force structure. MNF-I will be replaced by U.S. Forces-Iraq (USF-I). Additionally, the Iraq Security Assistance Mission (ISAM)¹⁴³ and the Iraq Training and Advisory Mission (ITAM) will assume the functions now performed by the Multi-National Security Transition Command-Iraq (MNSTC-I).

The advisory and training mission organizations will report to the Deputy Commanding General of ITAM under the Commanding General for USF-I, as well as to DoS offices in the Embassy, continuing joint mission oversight.¹⁴⁴ ITAM will work to hand over its police-training mission as soon as DoS is ready to accept it. ISAM will then be the core of the Office of Security Cooperation operations, which will serve under the U.S. Embassy as directed by MNF-I/USF-I command and control transformation guidance.¹⁴⁵

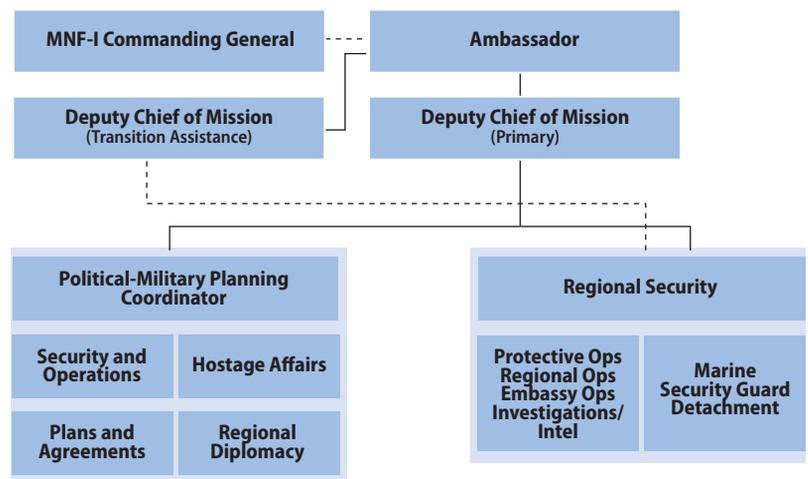
For an overview of the U.S. Embassy security operations organization, see Figure 2.17.

Private Security Contractors

Although the total number of contractors working in Iraq appears to have decreased, DoD contracting for PSC support has increased by 23% since January 2009.¹⁴⁶ PSCs coordinate the efforts of Security Escort Teams (SETs) and Reconnaissance Liaison Teams (RLTs) through a system of reconstruction support centers. SETs escort military and civilian personnel, providing security for visits to construction

FIGURE 2.17

U.S. EMBASSY SECURITY OPERATIONS ORGANIZATIONAL CHART



Source: U.S. Embassy-Baghdad, response to SIGIR data call, 7/16/2009.

sites. RLTs visit communities and local leaders to develop a positive support relationship, and they conduct technical inspections of ongoing construction projects.

Although the Security Agreement has not yet caused any significant change to these security activities, GRD reports that its coordinating role will draw down over the next year. As the reconstruction work load decreases, GRD will adjust its PSC contractor support accordingly.¹⁴⁷

Under current host-nation regulations, in order to carry weapons, PSC personnel in Iraq must work for a private security contractor that has been properly registered and licensed with the GOI authorities, including the Ministries of Trade and Interior. DoD-affiliated PSCs must be properly licensed to carry arms, and they must receive CENTCOM/Coalition forces approval for their operations. Two days before the Security Agreement between the United States and Iraq took effect, on December 30, 2008, Iraq's Ministry of Interior (MOI) issued an order that



U.S. soldiers attend a transfer of authority ceremony for Joint Security Station eastern Baghdad. (MNF-I photo)

established joint committees to review existing policies pertaining to PSCs and to develop new policies and procedures. Committee members include representatives from MOI, GOI, MNF-I, and U.S. Embassy-Baghdad. Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) participates as requested.

The committee has been discussing and implementing guidance on several key issues, including:¹⁴⁸

- licensing of contractors
- registration of firearms and personal security weaponry
- vehicle registration
- licensing of pilots and aircrafts related to personnel and security operations
- customs, duties, tariffs, taxation, and inspections
- entry/exit procedures and use of DoD assets to transport members of the U.S. forces, DoD civilian component, U.S. contractors, and U.S. Embassy personnel

DoD and DoS continue to coordinate with the GOI regarding the legal accountability of U.S. contractor personnel as well as PSC operational and security operations. This quarter, SIGIR issued an audit on coordination between the U.S. military and PSCs in Iraq, finding that the use of contractors has not been without problems, including incidents between PSCs and Iraqis as well as U.S. forces. In late 2007, DoD and DoS began making organizational and procedural changes to strengthen their oversight, coordination, and control of PSC activities. SIGIR's audit was conducted to obtain field commander's opinions on the effect of those changes and to address the requirements of Section 842 of the National Defense Authorization Act for FY 2008 (Public Law 110-181), which encourages oversight agencies to identify the extent to which field commanders have been able to coordinate or direct the performance of contractors in areas of combat operations.

SIGIR's audit found that field commanders generally believe that the new control and coordination procedures have been effective in ensuring that PSC operations are not inconsistent with ongoing combat operations. SIGIR had previously reviewed the reporting, investigation, and remediation of serious incidents involving PSCs, finding that improved oversight and coordination of serious incidents could be achieved by establishing core standards, policies, and procedures early in a contingency. SIGIR identified this as a lesson learned, and the audit released this quarter provides further evidence of the importance of these activities.¹⁴⁹

SIGIR also conducted an audit on investigation and remediation records concerning incidents of weapons discharges by PSCs. SIGIR found that from May 2008 through February 2009, 109 incidents of weapons discharges were reported by

PSCs and recorded in DoD databases. Although DoD has improved its tracking of these incidents, it did not have supporting documentation to verify the actions taken on 56 of these incidents. As such, it was difficult, and sometimes impossible, to determine the total number of actions taken to investigate and remediate the incidents, including the actions taken against the PSCs in this timeframe.¹⁵⁰

SIGIR Joint Audit of Private Security Contracting

A joint audit by SIGIR and DoS OIG reviewed funding and performance under Blackwater Security Consulting contracts to provide personal protective services in Iraq. The estimated costs for DoS contracts and task orders awarded to Blackwater (which has since changed its name to Xe) totaled more than \$1 billion as of May 29, 2008. The contracts are funded primarily with DoS Diplomatic and Consular Programs funds and about \$76 million from the IRRF. The report presented these findings:¹⁵¹

- DoS officials in Iraq did not establish or perform measures to confirm the accuracy of labor costs used as the basis for contract billing. Monthly invoices from the contractor were paid without adequate review of support documentation.
- Full manning of protective details is important to the safety of the principal being protected, as well as for the members of the protective detail. However, penalties for noncompliance with contract staffing requirements were not assessed.
- Blackwater's travel costs were not adequately reviewed. Ineligible travel costs of \$127,364 were paid for airfare in excess of coach fare. During the audit, the contracting officer recovered \$56,457 of the total amount ineligible under the contract.



U.S. forces patrolling the borders. (MNF-I photo)

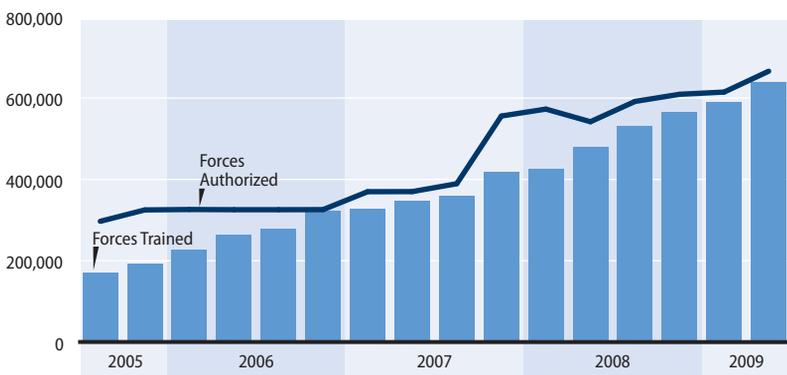
- Contract oversight files required by the contracting officer's representatives were not easily accessible and may not be complete in Iraq and at headquarters.

Iraqi Security Forces

Although DoD believes “the ISF continues to demonstrate a growing capability and confidence in providing for security and leading operations in their country,”¹⁵² there are also indications that the performance of a self-sustaining and full-spectrum-capable ISF remains in question.¹⁵³ The training of security personnel has not kept pace with the build-out of force strength, and this lag is the justification for ISFF-funded training base plans through 2009 and 2010.¹⁵⁴

MNSTC-I advisory teams continue to work closely with both the MOD and MOI to improve the accuracy and frequency of their personnel reporting systems. The number of

FIGURE 2.18
ESTIMATED ISF FORCE STRENGTH, CUMULATIVE, BY QUARTER



Note: Cumulative number of Iraqi Army, Air Force, Navy, Iraqi Police, National Police, Border Enforcement, and Special Operations Personnel. June 2009 data is a SIGIR estimate.

Sources: DoD, *Measuring Stability and Security in Iraq*, 7/2005, 10/2005, 2/2006, 5/2006, 8/2006, 11/2006, 3/2007, 6/2007, 9/2007, 12/2007, 3/2008, 6/2008, 9/2008, 12/2008; DoS, *Iraq Status Report*, 3/18/2009; OSD, response to SIGIR data call, 7/14/2009.

TABLE 2.12
SOI PERSONNEL TRANSITIONED TO GOI AND ISF POSITIONS,
AS OF 6/30/2009

DATE OF TRANSFER	NEW ORGANIZATION	NUMBER OF PERSONNEL
6/2007–9/2008 (Date of program inception to Iraqi PM Order 118C)	ISF	8,777
	Non-security GOI positions	2,364
	Subtotal	11,141
10/2008–6/2009 (Date of Order 118C to present)	ISF	4,565
	Non-security GOI positions	1,717
	Subtotal	6,282
Total Transitioned		17,423

Source: OSD, response to SIGIR data call, 7/2/2009.

MOI personnel assigned continues to exceed personnel trained. Training centers have not been able to keep up with the pace of hiring in 2007 and 2008, as well as the return of former Iraqi Army personnel, who must be scheduled for retraining. Additionally, as missions are transferred to the MOI—(such as the Oil

Police, Electricity Police, and Facility Protection Service (FPS)—personnel are transferred with limited training and inadequate equipment, creating a backlog of untrained and uncertified personnel.

Efforts to train MOI instructors and build infrastructure are part of the capacity-development program, which is designed to address the immediate shortfalls. But a focus on procurement, distribution, and sustainment is still needed to ensure that the ISF is adequately equipped.¹⁵⁵

More than 648,000 Iraqis now serve in the MOI, MOD, and Iraqi National Counter-Terrorism Force (See Figure 2.18).¹⁵⁶

Status of Sons of Iraq

Since the Sons of Iraq (SOI) program was transferred to complete GOI control in April 2009, no SOI members have been transitioned into ISF or ministry jobs because the MOD and MOI are currently under a hiring freeze. Between January 2006 and June 2007, before the inception of the SOI program, 8,206 members of the original al-Sahwa movement had transitioned into the Anbar provincial police.¹⁵⁷ For the timeline of personnel transitioned from the 94,000 SOI force, see Table 2.12.

In April 2009, the U.S. government allocated \$1.27 million of the CERP to close out Coalition responsibility for SOI pay in portions of Baghdad, Qadissiya, and Salah Al-Din provinces. No U.S. funds have been used since May 2009 to support the SOI program, nor are there plans in the future to continue using CERP funding for this purpose. The GOI now pays for all salaries as well as any SOI vocational programs.¹⁵⁸

Key leaders from MNC-I’s reconciliation and engagements cell (the U.S. government’s liaison for the SOI program) and GOI’s committee for national reconciliation meet biweekly to discuss

current SOI topics, including pay, transition, and the arrests of SOI leaders. This quarter, the most challenging issue was ensuring the availability of funds required to pay the SOI. Because of the decline in oil prices, the GOI went through several revisions of its 2009 budget, which caused a delay in paying the SOI members. The GOI has since rectified this situation and allocated enough money to fund salaries through the end of this year.¹⁵⁹

U.S. forces continue to work closely with the GOI to ensure the more than 88,000 remaining SOI members receive pay under the Iraqi-controlled program.

Since November 2008, 41 SOI leaders have been arrested, and 6 have been released. Most of the SOI leaders have been arrested under charges of terrorism. Although some arrests appear to have been made for valid reasons, there is concern that a portion may be the result of sectarian or politically driven agendas.¹⁶⁰

Iraqi Women in the ISF

The United States has launched a wide spectrum of programs to help Iraqi women achieve equal protection under the law. Provincial Reconstruction Teams run 48 assistance projects for women. Training centers in Baghdad and Basrah funded by the DoS Bureau of Democracy, Human Rights and Labor (DRL) provide women with job skills. DRL also funds a \$5 million program specifically for widows. MNF-I has trained hundreds of female security personnel as part of its strategy to thwart female suicide bombers.¹⁶¹

The Daughters of Iraq (DOI) are breaking traditional societal norms to help authorities counter al-Qaeda's use of women to carry out suicide bomb attacks. The security program began in October 2008 as an unarmed spin-off of the SOI. DOI personnel work with the Iraqi



Training of female Iraqi police recruits at the Kirkuk Police Academy. (DoD Photo)

Police to search women at checkpoints to reduce the threat posed by female suicide bombers as well as male bombers who disguise themselves as women.¹⁶² Recently, the GOI has seen increased demand for female security personnel because of the sharp rise in female suicide bombings.

U.S.-funded Security Programs

Since 2003, the United States has allocated \$24.42 billion and obligated \$21.95 billion for programs to develop Iraq's security and justice capacity. As of June 30, 2009, \$2.47 billion remains for obligation and \$5.34 billion for expenditure.¹⁶³ Continuing funding is directed at programs intended to develop ISF capacity (training) and capability (sustainment and equipment).

Historically, funding has also supported security-related infrastructure projects. Since 2004, ISFF has provided for the construction of

609 police stations throughout Iraq, in addition to the rehabilitation and construction of border forts, ports of entry, and training centers for MOI. The total cost of construction to date is nearly \$1 billion.¹⁶⁴ The authority to obligate ISFF for infrastructure projects is set to expire on September 30, 2009.

MNF-I reports that although CERP funding remains integral to U.S. security programs, the impact of a reduction of \$247 million of the \$747 million originally planned for FY 2009 can be mitigated. Moreover, it does not expect the June 30, 2009, U.S. troop withdrawal from the cities to change plans for executing \$500 million in FY 2009.¹⁶⁵

The decreased level of U.S. funding for Iraq-related activities in FY 2009 is consistent with the MOD and MOI assuming increased operational and strategic control from U.S. forces.¹⁶⁶

SIGIR Inspection of the Iraqi Army Barracks

This quarter, SIGIR inspected the Iraqi Army Headquarters Barracks in Missan, Iraq. The \$1.2 million contract was for the construction and renovation of several buildings and facilities, including an office building, toilets and baths, and roadways. Contractors also installed a generator, fuel tanks, and other equipment. The facility was turned over to the GOI in March 2008.

SIGIR did not observe any signs of structural failure or distress, concluding that aside from minor construction defects, safety concerns, and damage from improper use, the construction was adequate and was turned over to the GOI in a sustainable condition. SIGIR recommended that GRD locate the detailed construction drawings and design calculations for the new battalion headquarters building and maintain them in the project file records.¹⁶⁷

U.S. Security Program Strategy

The GOI continues to assume broader ownership for and increasing fiscal commitment to its security forces and to programs that support the MOD and MOI. Although funded below their budget requests, both the MOI and MOD continue to show progress in developing ministerial capacity, albeit slowly and unevenly.

To expand institutional capacity, Coalition mentorship and partnership will be necessary for some time to overcome decades of isolation and stagnation in law enforcement and military education and training. A lack of capacity to train civilian management, a shortage of training staff, deterioration of some facilities, and an inability to fill many positions with trained personnel are challenges that continue to hinder these ministries. Currently, many of the Iraqi civilians working for the MOD and MOI are not yet fully trained and qualified for their positions. Furthermore, many are reluctant to pursue technology-focused training.¹⁶⁸

Plans call for ITAM to provide direction, oversight, and assessment of institutional-level training, advisor support for the ministries, and assistance to the ISF to support force generation, build capacity, develop and enhance key capabilities, and improve competence and professionalism.¹⁶⁹

As part of the transition to the ISF, MNF-I developed the Training Base 2009 program to serve as a basis for MOD planning. The goal is to institutionalize training in the Iraqi Army and ensure that these priorities are met:¹⁷⁰

- Identify force generation and replenishment requirements.
- Continue the professionalization of the Iraqi Army through specialty training and courses for non-commissioned officers.

IRAQ RECONSTRUCTION FUNDING SOURCES AND USES

- Institutionalize battalion tactics through the Warfighter Exercise Program.
- Train Iraqi Army units on the M1A1 Tank; 60mm, 81mm, and 120mm mortars; and other heavy artillery.

This quarter, capacity development for force generation at the MOI continued as U.S. funding shifted from sustainment and training to provision of more equipment and transportation support.¹⁷¹ MNSTC-I continues support for both the MOI and MOD to develop professional training capacities. For a summary of FY 2009 revised budget line items, see Table 2.13.

Building Maintenance Capacity

Establishing logistics-capable units remains a top priority of U.S. programs that provide force training, sustainment, and equipment. Efforts to expand ministerial capacity within the MOD and MOI are also ongoing and viewed as important to the GOI's ability to assume security responsibilities. These activities, which are broadly consistent with typical U.S. assistance to foreign security forces,¹⁷² require the full support of the relevant Iraqi parties. There appear to be significant challenges, however, to the GOI's commitment to maximize the training and capacity development opportunities, which will have a proportionately negative impact on the development of a logistics and sustainment capability.

National Maintenance Support

A GOI-run national logistics base in an important component for building a self-sustaining security force. The United States has invested in the multiple phases of the **Taji National Maintenance Depot's** development, which is scheduled to be completed and transitioned to full Iraqi control by January 1, 2010.¹⁷³ Marking

a significant milestone on March 4, the first M1114 Humvee to be totally rebuilt rolled out of the Main Wheel Assembly & Disassembly facility. Iraqi Army mechanics accomplished the rebuild as part of a six-month, supervised on-the-job training program at the depot.¹⁷⁴ But a recent SIGIR audit questioned whether Iraqi military forces would be able to perform maintenance repairs, even at a low rate of production, by the end of the year.

SIGIR's recent audit examined a \$350 million MNSTC-I contract (funded by the ISFF) to complete the Taji National Maintenance Depot, in Baghdad province. Construction has been conducted in seven phases, and the contract audited was intended to complete the final four phases: procuring and installing equipment, training Iraqi soldiers and civilians in depot maintenance and operations, initiating operations, and transitioning the depot to Iraqi control.

TABLE 2.13
IRAQ SECURITY FORCES FUND SPEND PLANS
\$ Millions

	SUB-ACTIVITY GROUP	FY 2008/FY 2009		FY 2009/FY 2010	
		PREVIOUSLY APPROVED (9/2008)	REVISED SPEND PLAN	FY 2009 BRIDGE REQUEST	SPEND PLAN
MOD	Sustainment	154.7	173.9	91.8	91.8
	Equipment	917.9	925.0	1,030.1	260.1
	Training	116.1	192.4	234.0	196.5
	Infrastructure	298.5	298.5	0.0	0.0
	MOD Subtotal	1,487.2	1,589.8	1,355.9	548.4
MOI	Sustainment	106.0	66.0	20.0	20.0
	Equipment	392.0	432.0	125.6	125.6
	Training	650.0	650.0	417.2	231.0
	Infrastructure	110.0	110.0	0.0	0.0
	MOI Subtotal	1,258.0	1,258.0	562.8	376.6
Other	Related Activities	254.8	152.2	96.2	75.0
Total		3,000.0	3,000.0	2,014.9	1,000.0

Note: Data not audited. Numbers affected by rounding.

Source: OSD, response to SIGIR data call, 7/2/2009.

TABLE 2.14
LOCATION COMMANDS
\$ Millions

LOCATION COMMAND	PROVINCE	FUND	COST
Kirkush	Diyala	ISFF	\$7.35
Kirkuk	Tameem	ISFF	\$7.95
al-Na'maniya	Wassit	ISFF	\$7.75
Taji	Baghdad	ISFF	\$21.91
Habbaniyah	Anbar	ISFF, QRF	\$21.46
Tallil	Salah Al-Din	ISFF, QRF	\$28.80
Hammam	Ninewa	ISFF	\$12.50
al-Kasik	Ninewa	ISFF, QRF	\$6.78
Shaiba	Basrah	ISFF, FMS	\$40.67
al-Asad	Anbar	ISFF	\$9.24
Total			\$163.83

Notes: Numbers affected by rounding.

Source: OSD, response to data call, 7/6/2009.

SIGIR auditors found that the cost of this contract, which currently totals \$220 million, is likely to increase because of repairs for serious safety hazards and electrical problems related to earlier phases of the contract. It also concluded that the possibility that the depot will transition to an Iraqi-controlled operation capable of low-rate production by the contract's deadline of December 31, 2009, is remote. Insufficient equipment has forced training to be canceled or scaled back. However, a larger impediment has been a lack of Iraqi commitment to the training.

About half of the assigned students are absent at any given time for a variety of reasons. As of May 31, 2009, only 74% of the required workforce had completed training, and even the trained workers' skill level was assessed as "marginal." Although contract management has improved over earlier periods, and MNSTC-I has taken measures to address the previous deficiencies, the capability of the Iraqi Army to provide military depot maintenance appears at risk.¹⁷⁵

Regional Maintenance

The Taji depot provides the highest level of maintenance support capability for repair and upkeep of Iraqi Army equipment and vehicles. In addition, regional facilities, called Location Commands (LCs), provide second-tier maintenance support for Iraqi Army units around Iraq. Under the Global Maintenance and Supply Services (GMASS) contract, facilities and equipment have been provided for 10 LCs (see Table 2.14).¹⁷⁶ SIGIR recently examined contracts intended to support the Iraqi Army training and sustainment logistics capability as well as the construction of the physical infrastructure of an LC.

Last quarter, SIGIR performed an audit of the GMASS in Iraq.¹⁷⁷ This contract supports a MNSTC-I program to assist the Iraqi Army in developing a logistics capability so that it can be self-sufficient. SIGIR found that the effort fell well short of achieving the important goal of training Iraqi Army personnel to perform certain maintenance functions and operate a supply system. Notably, the Iraqi Army did not provide a sufficient number of soldiers for training. Although SIGIR determined that the Iraqi Army had some maintenance capability, it was unclear whether that capability was sufficient to assume all maintenance activities without contractor support. Additionally, it was unclear if the Iraqi Army was capable of independently operating its supply system. To address these problems, MNSTC-I had planned to continue the existing task order for maintenance and supply system support—a task order that had previously been modified 161 times.

This quarter SIGIR issued an audit on the Tikrit Location Command as part of its legislative requirement to prepare a final forensic audit on funds made available for Iraq relief and reconstruction. This review examined the

\$37.8 million project to construct a new area support base for the Iraqi Army. This joint effort between MNSTC-I and ITAM was funded by the ISFF. JCC-I/A awarded the contract and is responsible for contract oversight, but the GRD North District provides program management and engineering oversight.

As of May 31, 2009, the contractor was meeting the requirements of the contract, and cost disbursements were commensurate with management's estimate of the construction status. The GRD program manager estimates that overall construction is 78% complete, and both the GRD manager and the contractor believe that construction will be completed by the end of the current period of performance, which is September 26, 2009. MNSTC-I has an asset transfer plan in place and is working with the GOI to address several training and sustainment issues ahead of project transfer.¹⁷⁸

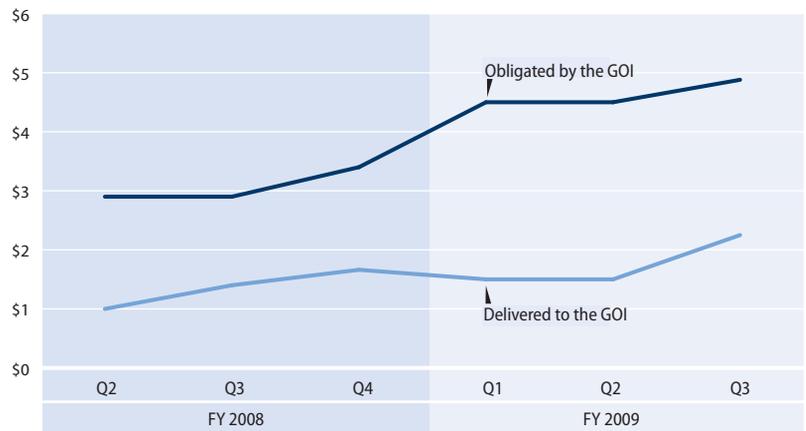
Foreign Military Sales

The Foreign Military Sales (FMS) program allows the GOI to rebuild and strengthen the ISF through purchase of U.S. defense equipment, services, and training. The program has been in use in Iraq since 2005, and all contracting is administered through the DoD acquisition system.¹⁷⁹

As of June 30, 2009, the GOI had implemented 134 FMS cases, obligating \$4.88 billion to buy military equipment, supplies, and training from the United States.¹⁸⁰ At any time, there may be cases that have been signed but not funded (or that are in the process of being funded). However, the GOI has demonstrated in signing these cases that it has sufficient funds available for payment.¹⁸¹ See Figure 2.19 for more details.

FIGURE 2.19

FOREIGN MILITARY SALES TO THE GOI
\$ Billions, Cumulative by Fiscal Year Quarter



Note: Numbers affected by rounding.

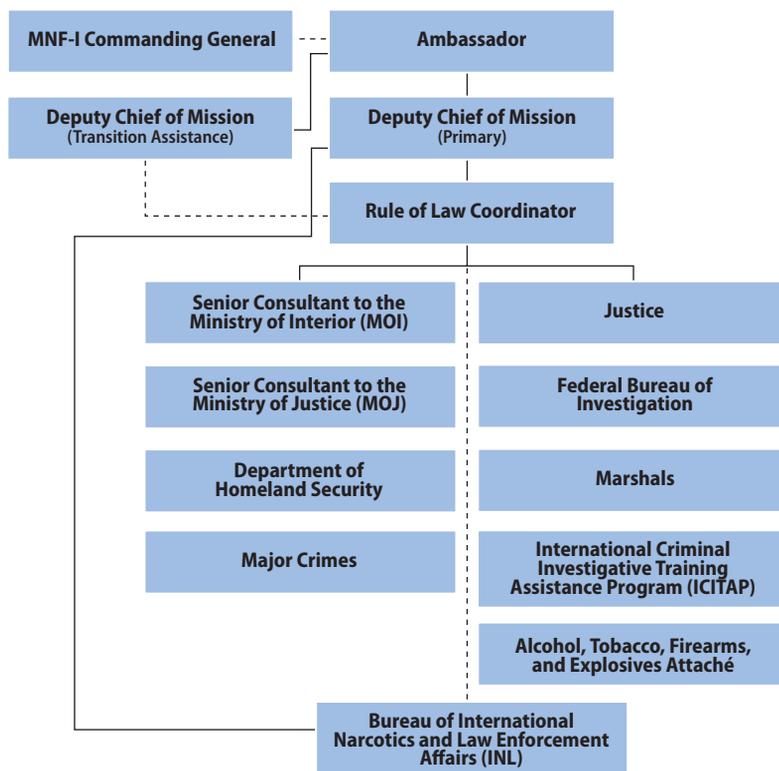
Sources: DoD, *Measuring Stability and Security in Iraq*, 3/2008, 12/2008, and 3/2009; DSCA, response to SIGIR data call, 10/15/2008; MNSTC-I, response to SIGIR data call, 4/2008; OSD, Principal Deputy Assistant Secretary of Defense, Global Security Affairs, SIGIR interview, 7/7/2008; OSD, responses to SIGIR data call, 4/2/2009 and 7/1/2009.

U.S. Programs To Support the Rule of Law

Judicial security remains a prime concern for the GOI, and the United States continues to assist efforts to safeguard judges and their families. Given the long history of distrust and lack of cooperation between the MOI and the Higher Judicial Council (HJC), the progress made this quarter is especially noteworthy. In Ninewa province, for example, U.S. advisors assisted MOI and HJC in conducting a province-by-province assessment of the judicial security needs of every member of the Iraqi Judiciary. The HJC and MOI have agreed to collectively address the needs once determined.

The U.S. Embassy's Rule of Law Coordinator (RoLC) directs a range of programs to address the needs of Iraq's court systems, its correctional facilities, and other capacity-development

FIGURE 2.20
U.S. EMBASSY-BAGHDAD RULE OF LAW ORGANIZATIONAL CHART



Source: U.S. Justice Attaché (Baghdad), "Rule of Law Organizational Chart," 7/16/2009.

activities to support the rule of law. The Coordinator is responsible for overseeing all RoL activities and policies internally within the Embassy and externally with the GOI (Chief Justice and HJC), as well as with MNF-I and Task Force-134, which oversees detainee command and control operations.¹⁸² For the Embassy's RoL organizational structure, see Figure 2.20.

Development of the Rule of Law

The Rule of Law Strategic Action Plan, approved by the Chief of Mission in February 2009, guides U.S. activities to support the GOI. Activities are focused on these three priorities:

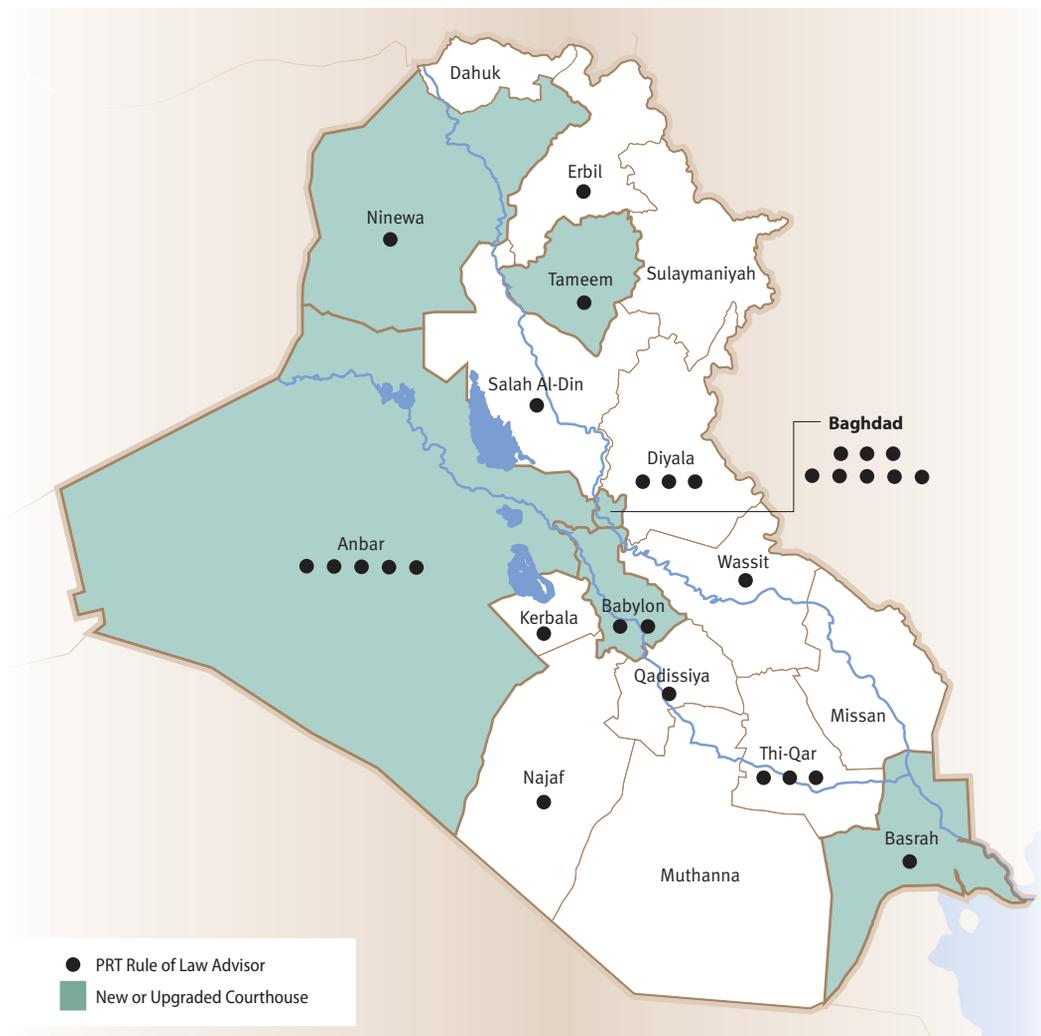
- creating a judicial security plan that reconciles efforts of the HJC and MOI
- coordinating civilian and military efforts to provide effective detention policies and improve the efficiency of detainee processing and release
- building capacity through rule-of-law efforts at the provincial level, working through the PRTs

However, according to the RoLC, the Rule of Law mission in Iraq faces many challenges: the program lacks sufficient funding; endemic corruption pervades many GOI institutions; and the Iraqi rule-of-law infrastructure, including court and correctional facilities, has yet to fully recover from deterioration permitted by the prior regime and resulting from war.¹⁸³

In March 2009, the RoLC assigned Provincial RoL Liaison Officers to support each of the provinces. These assignments are patterned after those of the Office of Provincial Affairs desk officers, providing support for these activities.¹⁸⁴

- quickly capture provincial RoL developments, accomplishments, and challenges
- provide more uniform and cohesive policy guidance for the provincial RoL mission
- coordinate more broadly and effectively with military counterparts at all levels

FIGURE 2.21
RULE OF LAW ASSISTANCE TO GOI'S JUDICIAL SYSTEM



Source: DoS, "INL Report on Courthouses," 10/2008.

For the locations of U.S. rule-of-law assistance around Iraq, see Figure 2.21.

Capacity Development

The DoS Bureau of International Narcotics and Law Enforcement Affairs (INL) and the HJC have worked to develop the **Judicial Education and Development Institute (JEDI)** curriculum survey, which has been circulated for comment. The value of this survey was such that additional surveys for the information technology department and court administration staff have been requested by HJC. Members of the **Iraq Justice Integration Project** were asked to brief the Iraqi National Security Council on lessons learned as well as its best-practices model for operations on the merits of the project. These insights will be used by the GOI in planning a government-wide system for sharing information. The HJC's information technology department is now launching a portion of the case-management pilot site based on technical support provided in 2008. INL funding has been committed for the third quarter of FY 2009.

The installation of the JEDI began in October 2008 and has proceeded according to timelines

revised to accommodate HJC guidance as well as major changes to the security plan. Classrooms have been scheduled for August, and final hand-over is expected by September.¹⁸⁵

Prison Update

This quarter, SIGIR inspected the U.S.-built **Chamchamal Prison** at a cost of more than \$32 million, which is designed to hold 3,000 inmates: 1,000 high-security and 2,000 medium-security prisoners. Dormitories at the facility also accommodate approximately 400 staff members. Although turnover of the facility occurred on March 19, 2009, the prison sits empty. The prison warden has said that 1,200 guards are needed to operate 3 security shifts, and the Ministry of Justice does not have sufficient funds to hire them or to pay for fuel for the facility's electric generators.¹⁸⁶

For an update on U.S. prison projects, see Table 2.15.

Protection Services for Iraq's Judges

In coordination with the HJC, INL advisors visited five provinces and completed seven vulnerability assessments as a first step in developing curricula to be taught at JEDI and enhance the

TABLE 2.15
ONGOING INL-FUNDED PRISON CONSTRUCTION

PRISON	COST TO COMPLETE (\$ Millions)	LOCATION	% COMPLETE (AS OF 6/30/2009)	FUND	EST. DATE OF COMPLETION	EST. CAPACITY	CAUSE OF DELAY
Basrah Central	9.7	Basrah	22%	INCLE	11/6/2009	1,200 beds	
Fort Suse: Phase I	5.6	Sulaymaniyah	87%	INCLE	7/15/2009	689 beds	The Iraqi Correctional Services failed to sign for renovated areas.
Fort Suse: Phase III	11.1	Sulaymaniyah	27%	INLCE	8/18/2009	500 beds	The contractor is in the process of descoping the construction of the 3-story, high-security building due to engineering problems encountered with the design and site conditions. The number of beds provided under this project is being reduced from 1,000 beds to 500 beds.
Nassriya: Phase II	8.0	Thi-Qar	74%	INCLE	8/2/2009	400 beds	Work stoppages.

Source: INL, response to SIGIR data call, 7/1/2009.

HJC's ability to provide for its own security, both for infrastructure and personnel protection. INL also reported these activities:¹⁸⁷

- conducting security upgrade assessments for five courthouses
- completing the last two courthouse security upgrades (Phase I) in Mosul (Ninewa province) and Ba'quba (Diyala province)
- facilitating an agreement with the Director of Training for the MOI to train 7,500 PSCs who will protect the HJC judges nationwide
- presenting a vulnerability assessment of the main terrorism court in Baghdad

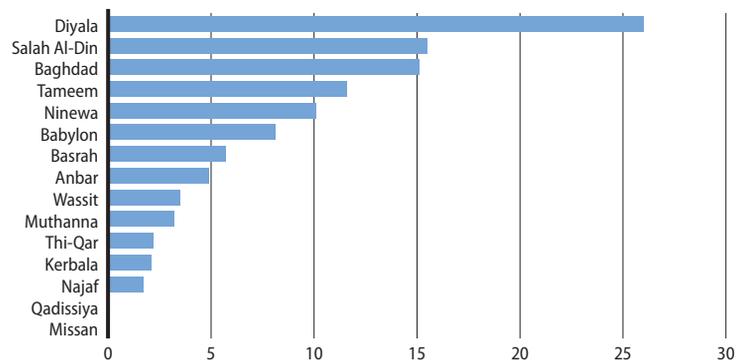
Since June 17, 2003, 143 lives have been lost in judicial assassination attempts—38 judges, 6 judicial family members, and 99 judicial employees, including security personnel. No judges, employees, or security personnel were assassinated this quarter. However, on or about April 22, 2009, a judge in Kirkuk was kidnapped and subsequently released.¹⁸⁸ For a summary of assassinations among court workers, see Figure 2.22.

Major Crimes Task Force

The United States continues to work on building the capacity of Iraq's **Major Crimes Task Force (MCTF)**. Now 23 Iraqi investigators work under the MCTF, drawn from MOI's Internal Affairs, the MOI Office of the Inspector General, the National Information and Investigations Agency, and MOI's Criminal Investigation Division (CID). U.S. participation also increased with the addition of a third U.S. Army CID agent and a second Defense Criminal Investigative Service (DCIS) agent.

As of June 15, 2009, the MCTF had 49 open investigations, had obtained 111 arrest warrants, conducted 11 arrests, and interviewed 69 witnesses/sources, among other activities. U.S.

FIGURE 2.22
ASSASSINATIONS OF IRAQI JUDGES AND COURT STAFF SINCE 2003



Note: No data for the Kurdistan Region.

Sources: SIGIR, *Quarterly Report to the United States Congress*, 4/30/2009; U.S. Justice Attache-Baghdad, response to SIGIR data call, 7/2/2009.

federal agents continued to mentor, train, and advise the Iraqi investigators on the task force, reporting three significant investigative accomplishments this quarter:¹⁸⁹

- In April 2009, the MCTF investigators opened an investigation into the attempted murder of the Executive Secretary to the Minister of Justice. The victim lost both legs in an explosion during the attack.
- In June 2009, the MCTF opened an investigation into the murder of a U.S. citizen who was killed in the International Zone. This is the first investigation of its kind being conducted by the MCTF. It required 2 Iraqi search warrants, which resulted in the arrest of 5 U.S. contractors and 1 Iraqi national, as well as seizure of drugs, items used to manufacture false Iraqi license plates and vehicle registration cards, and more than 50 weapons.

Detainee Release and Court Docket Backlog

As of June 15, 2009, the total detainee population in MNF-I custody had dropped to 10,956 as

MNF-I continues working with the GOI to release detainees or transfer them to GOI custody in accordance with the Security Agreement. Since January 1, 2009, more than 3,682 detainees were released. The rate of detainee release or turnover for Joint Task Force-134 Detention Operation has averaged 750 per month.¹⁹⁰ Of those still detained by the Coalition, 2,325 have been convicted or are at some stage of scheduling for trial in the Central Criminal Court of Iraq (CCC-I).¹⁹¹

The U.S. government has taken multiple steps to assist the HJC in mitigating the docket backlog. In the short term, RoL advisors in many provinces provide basic logistical assistance. MNF-I also provides logistical assistance by transporting some detainees to court and by transporting judges to regions of Iraq that

lack sufficient judicial personnel to adequately process the high volume of additional cases often resulting from security operations.

In coordination with PRT Baghdad, DoJ's Law and Order Task Force (LAOTF) continues its work out of the **Rusafa Legal Defense Center**, providing 25 Iraqi attorneys to assist thousands of detainees with legal services—a measure aimed at reducing judicial backlog. Since its inception, the Rusafa Legal Defense Center has conducted thousands of defense consultations. There has been some positive GOI response to this initiative, and similar activities are planned in other provinces, particularly in Anbar and Diyala. LAOTF has also provided technical assistance in establishing a basic system to help court personnel more efficiently locate and transport detainees for court hearings.

DoS and INL are also developing long-range initiatives, such as the **Iraq Higher Judicial Council Court Administration Project**, which should allow the HJC to increase its capacity in all aspects of judicial administration, including case management. The HJC currently lacks a centralized case management system, and often there is little case tracking. The initiative aims to standardize a national case-management system initially via a manual system, and then gradually, it plans to phase in a computerized system. JEDI has established criminal case management as a priority in its curriculum development.

Amnesty Law

As of June 2009, 133,422 Iraqis charged with crimes were eligible for amnesty under a law passed in February 2008; 32,858 were ineligible.¹⁹² For details, see Table 2.16.

TABLE 2.16
NUMBER OF DETAINEES AFFECTED BY THE AMNESTY LAW (2/2008–6/2009)

APPELLATE COURT	NUMBER ELIGIBLE	NUMBER DENIED
Baghdad-Rusafa	13,687	8,181
Baghdad-Kharkh	16,282	7,025
Ninewa	12,989	2,189
Diyala	1,873	1,501
Qadissiya	4,573	1,695
Missan	3,402	513
Basrah	9,989	1,587
Kerbala	7,339	579
Babylon	16,857	2,565
Wassit	6,515	912
Anbar	1,443	541
Muthanna	5,684	701
Thi-Qar	9,913	1,621
Najaf	11,073	782
Tameem	7,450	1,225
Salah Al-Din	4,206	1,241
Total	133,422	32,858

Source: INL, response to SIGIR data call, 7/2/2009.

Court Reconstruction Update

This quarter, the \$21.5 million **Anbar Appeals Courthouse** construction and renovation project (funded through the IRRF, ISFF, and Iraq Interim Government Fund) was completed. In addition to renovating three former palaces, which serve as courthouses, the GRD-managed project included the construction of housing facilities for the justices and barracks for the security guards.¹⁹³

In May 2009, renovation of the **Mosul Courthouse** was completed. This \$511,000 project was funded by INL to provide a number of security upgrades designed to protect both citizens and Ministry of Justice employees.¹⁹⁴

Court Operations Update

In April 2009, by order of Chief Justice Medhat, the CCC-I Rusafa Trial Court was combined with the District Felony Court, in Baghdad, and renamed the **Felony Court at the Rusafa Judicial Palace**. The new court presides over felony criminal trials in addition to terrorism cases. Consistent with past practice, the U.S. government has provided significant logistical and technical support to all CCC-I locations.

CCC-I Rusafa

LAOTF continues to provide logistical and technical assistance to increase the efficiency and security of the facility and reports the following milestones:

- *Defense Bar Initiative*: The Baghdad Legal Defense Center is now less dependent on LAOTF mentoring and is developing GOI relationships that will sustain it in the future. The Center reports that it is improving and expanding its reach to assist detainee cases as they move through the system.



Anbar Appeals Courthouse set for the opening ceremony. (GRD photo)

- *Rusafa Prison*. LAOTF established a full-time liaison (Line of Operation, or LNO) to the Rusafa Prison to improve coordination between the courts and the Iraqi Correctional Service (ICS) and resolve issues delaying detainee releases. The LNO briefed the Minister of Justice on approximately 1,000 Iraqi Army detainees who have had no meaningful court action for 2 to 5 years. Most detainees held since 2003 and 2004 face serious criminal charges; however, their cases are being processed slowly, and evidence gathering and basic concepts of due process appear to be challenges. LAOTF is pushing to have these cases either addressed by the regular courts or through the process provided for under the Amnesty Law.
- *Joint Investigative Committee (JIC)*: The LAOTF Investigative Judge (IJ) team coordinated with Coalition forces and the ISF to obtain more than 600 warrants and over 100 detention orders against members of



U.S.-funded renovation of the old Mosul Courthouse. (USACE photo)

al-Qaeda, Hezbollah, and others, pursuant to the Security Agreement. The team established the model operations with the JIC, which comprises an Iraqi IJ and investigators who work with joint Coalition and Iraqi military units to investigate and refer terrorism cases to the Iraqi CCC-I.

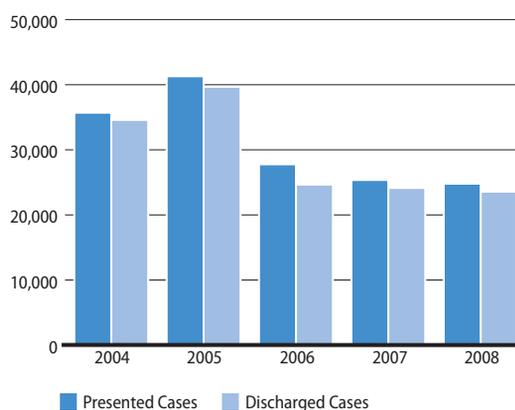
CCC-I Kharkh

Task Force-134 maintains a liaison office with the CCC-I Kharkh to assist in the prosecution of cases in which Coalition forces are victims of criminal offenses or where Coalition forces investigate serious crimes against Iraqi military or civilian victims. The office coordinates the appearance of detainees and witnesses and assists the Iraqi investigative officers in the collection and presentation of evidence.

The Justice Attaché's office within the Embassy's RoL Section continued to support

FIGURE 2.23

FEDERAL CASSATION COURT: PRESENTED CASES VS. DISCHARGED CASES, 2004–2008



Note: The Federal Cassation Court is an appellate tribunal. A case is considered "discharged" if a judge dismisses it or if a verdict is reached.

Source: GOI, Higher Judicial Council, "Annual Statistical Report of Iraqi Court Cases of 2008," 5/2009, p. 6.

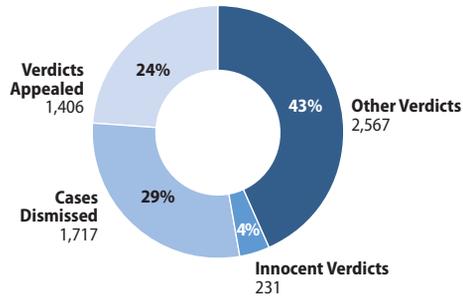
CCC-I Kharkh as well, including providing advice and information to the judges. In June 2009, the Justice Attaché and the Chief Investigative Judge served as joint faculty for search and seizure training of U.S and Iraqi law enforcement officers.¹⁹⁵

The Federal Court of Cassation completed 68% of the 9,564 cases received this quarter. For a comparison with previous years, see Figure 2.23.¹⁹⁶

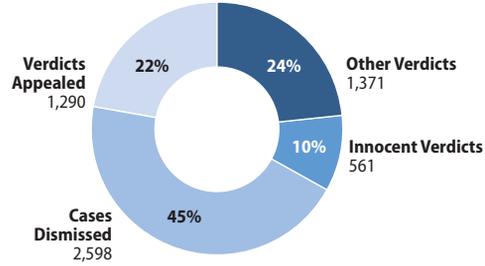
In 2008, 11,736 cases were heard by criminal courts throughout Iraq. Of that number, 29% of the cases were discharged (that is, dismissed or completed), and 4% ended with the court finding in favor of the defendant. The remaining cases ended in other verdicts of conviction. In contrast, the CCC-I, which adjudicates cases throughout the greater Baghdad area, heard 5,820 cases in 2008. For the verdict results of those cases, see Figure 2.24. ♦

FIGURE 2.24
COURT CASES DISCHARGED IN 2008

Nationwide Criminal Court Cases Discharged



Central Criminal Court of Iraq Cases Discharged



Note: "Verdicts Appealed" refers to those cases where a verdict was reached, but the case was referred to the Federal Court of Cassation, which functions as an appellate tribunal. A case is considered "discharged" if a judge dismisses it or if a verdict is reached.

Source: GOI, Higher Judicial Council, "Annual Statistical Report of Iraqi Court Cases of 2008," 5/2009, pp. 58 and 62.

INFRASTRUCTURE

THE STATE CANNOT CARRY ALL THE BURDENS IT USED TO CARRY. THE STATE NEEDS TO TRANSFER MORE WORK AND BURDENS TO THE PRIVATE SECTOR AND ATTRACT FOREIGN INVESTMENT. I BELIEVE IF WE MOVE MORE TOWARD PRIVATIZATION, WE WILL SEE IMPROVEMENTS.¹⁹⁷

—MINISTRY OF PLANNING
ALI BABAN, APRIL 2009

Since 2003, the United States has allocated \$11.88 billion for programs to rehabilitate Iraq’s infrastructure, including projects in the energy, water, and transportation and communications sectors. Through June 30, 2009, \$11.83 billion had been obligated, and \$11.45 billion had been expended.¹⁹⁸ For the status of U.S. infrastructure spending, see Figure 2.25.

For an overview of the U.S. Embassy’s current economic and infrastructure team, see Figure 2.26.

This quarter, as U.S. infrastructure projects continued closing out, several milestones were reached:

- Crude oil production averaged 2.40 million barrels per day (MBPD), up more than 5% from the previous quarter but 3% below production during the same quarter in 2008. Crude oil exports averaged 1.88 MBPD, a 3% increase from last quarter and roughly equal to exports during the same quarter last year.¹⁹⁹

- In its first contracting round for the development of oil and gas fields, the Ministry of Oil accepted a bid from a consortium led by British Petroleum to develop the Rumaila field, Iraq’s largest oil field. The ministry rejected all bids for the development of other fields.²⁰⁰
- The Qudas Power Plant expansion project—the largest U.S. power-plant generation initiative in Iraq—was completed in May, adding 200 megawatts (MW) of feasible production capacity to the national grid.²⁰¹
- Total electricity supply reached a post-invasion record high for the fourth straight quarter, a 7% increase from the previous quarter and a 35% increase over the same quarter in 2008.²⁰²
- Increased flow of water in the Tigris River led to increased hydroelectric production.²⁰³

U.S. agencies now are focused on helping Iraq maintain and sustain previously completed projects and on building Iraqi capacity to continue infrastructure development.²⁰⁴

The GOI’s efforts to rebuild and improve its infrastructure are hampered by limited available funding. The GOI’s 2009 budget contained reductions in the capital budgets of several key ministries, and the Ministry of Electricity (MOE) reports that its efforts to increase production have been hindered by a lack of funding necessary to procure new generation equipment. Further, although the GOI has begun major projects to improve water treatment, roads, and oil production, much greater government capacity and resources are needed to sustain the development of Iraq’s infrastructure. To meet these financial challenges:

FIGURE 2.25

INFRASTRUCTURE—STATUS OF FUNDS

\$ Billions



Note: Data not audited. Numbers affected by rounding.

Sources: GRD, responses to SIGIR data call, 7/4/2009 and 7/18/2009; MNC-I, Quarterly Report, 7/4/2009; U.S. Embassy-Baghdad, response to SIGIR data call, 7/6/2009; SIGIR, Quarterly Report to the United States Congress, 4/2009.

- The GOI received a \$500 million loan from the World Bank that will fund power, water, and water treatment projects. This loan is in addition to the World Bank’s \$1 billion allocation in 2003.²⁰⁵
- On May 17, 2009, the Iraqi Council of Ministers approved the sale of \$3 billion in dinar-denominated treasury bonds to provide \$2.4 million in funding for electricity projects and \$600 million for water and railway projects. However, the measure has yet to receive approval by the Council of Representatives because of unresolved issues.²⁰⁶

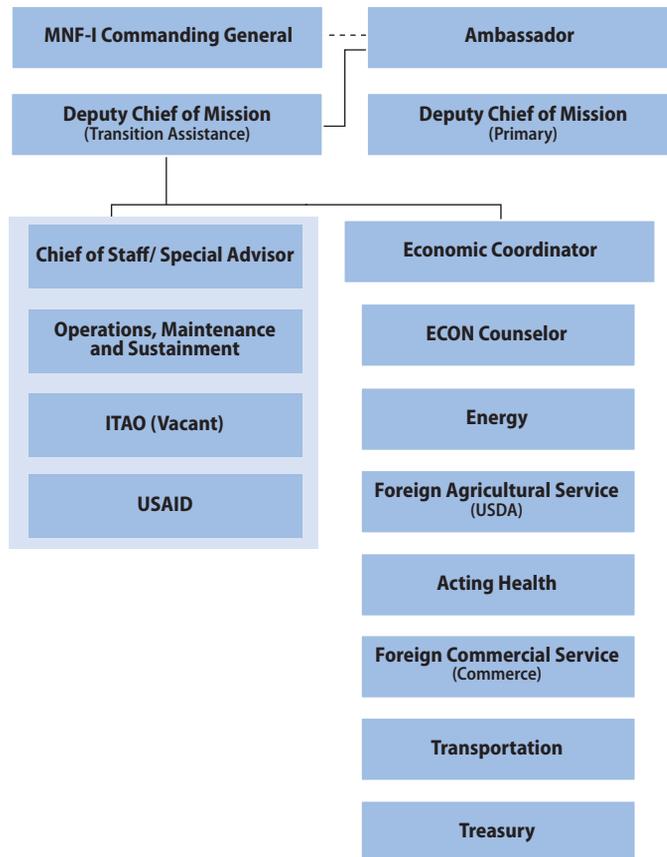
Private investment has played only a minor role in the reconstruction of Iraq, with the transportation and telecommunications sectors receiving the largest capital infusions.²⁰⁷ However, the latest oil and gas bidding round and recent partnerships in the electricity sector may signal increased GOI interest in foreign capital investment.²⁰⁸ In the past, security concerns, corruption, and a poor overall business environment have deterred needed capital flow into the country.²⁰⁹ For more on foreign investment in Iraq, see the Economy section in this Report.

Energy

Since 2003, the United States has allocated \$6.94 billion, obligated \$6.89 billion, and expended \$6.74 billion to refurbish and expand Iraq’s energy sector (oil, gas, and electricity).²¹⁰

Iraq is dependent on oil for its domestic energy needs, as well as for government funding. More than 90% of Iraq’s energy needs are met with petroleum. Further, crude oil exports and refining activity currently provide more than 85% of the GOI’s revenue.²¹¹ For more on oil

FIGURE 2.26
U.S. EMBASSY TRANSITION ASSISTANCE ORGANIZATIONAL CHART



Source: U.S. Embassy-Baghdad, response to SIGIR data call, 7/16/2009.

revenues and the Iraqi budget, see the Economy section in this Report.

Oil and Gas

Through June 30, 2009, the United States had allocated \$1.94 billion, obligated \$1.92 billion, and expended more than \$1.91 billion to rehabilitate Iraq’s oil and gas infrastructure.²¹²

Although the United States does not have any ongoing construction projects in the oil and gas

FIGURE 2.27
CRUDE OIL PRODUCTION AND EXPORTS, BY MONTH, 7/2003–6/2009
 Million Barrels per Day



Sources: ITAO, *Monthly Import, Production, and Export Spreadsheet*, 1/2008; U.S. Embassy-Baghdad, response to SIGIR data call, 10/2/2008; DoS, *Iraq Status Report*, 5/27/2009; NEA-I, response to SIGIR data call, 7/2/2009.

sector, capacity-development programs continue for Ministry of Oil employees:

- The U.S. Department of Commerce conducted workshops in its Commercial Law Development Program; the sessions centered on contracts, licensing, and the economics of oil field development.²¹³
- The U.S. Department of the Interior’s Minerals Management Service conducted a four-day course for Ministry of Oil employees on international regulation, lease and tender administration, and dispute mitigation.²¹⁴
- USAID launched an initiative to modernize the information technology infrastructure at the **Doura Refinery**, which recently increased fuel oil output by 77%. USAID has trained Ministry of Oil employees in project management, procurement, and contracting, as well as health, safety, and environmental systems management.²¹⁵

The Ministry of Oil is focusing its efforts on increasing oil production through new service contracts with international oil companies.²¹⁶

Oil Production and Exports

Crude oil production this quarter averaged 2.40 MBPD, up 5% from last quarter, but below the post-invasion record of 2.48 MBPD set in the second quarter of 2008. Exports of crude oil averaged 1.88 MBPD, up 3% from last quarter and about the same as export levels during the same quarter in 2008. However, exports were below the post-invasion high of 1.94 MBPD set in the fourth quarter of 2007.²¹⁷

Refinery inputs this quarter averaged about 400,000 barrels per day. After exports and refinery inputs, the remaining 120,000 barrels per day of crude oil produced either was used as fuel in electric power plants or could not be accounted for.²¹⁸

For crude oil production and export levels since 2003, see Figure 2.27.

GOI Efforts To Increase Production

The Ministry of Oil estimates that at least \$75 billion worth of investment will be necessary to achieve its goal of producing 6 MBPD by 2017.²¹⁹ If production levels were to reach 6 MBPD, Iraq could become the fourth-largest oil-producing nation in the world.²²⁰ Attaining this GOI goal depends on both technical and political factors.²²¹

The ministry aims to increase production through new service contracts awarded in three bidding rounds, the first auctions held since the nationalization of the oil sector in 1972. The first round, held on June 30, aimed at completing contracts for six oil fields and two gas fields to raise production by 1.8 MBPD by 2013. The bids contained two components:²²²

- the amount per barrel that the ministry will reimburse the contractor for production increases over baseline production
- the production level that will be reached and sustained over a seven-year period

The ministry accepted just one of the bids and is in the process of agreeing on a 20-year service contract to develop the Rumaila field, which contains an estimated 17 billion barrels of oil, or 15% of Iraq's current proved reserves.²²³ This offer was subsequently approved by the Council of Ministers.²²⁴ The ministry has announced that production at Rumaila is expected to increase to 2.85 MBPD from its current output of slightly less than 1.0 MBPD. The ministry rejected terms offered by international oil companies for service contracts on the other fields.²²⁵

The second bidding round is scheduled to take place in the second half of 2009. The ministry plans to auction 10 oil fields in that round, with the aim of increasing production an additional 2 MBPD by 2013. Round three is expected to

include tenders for the remaining discovered oil fields in the country.²²⁶

Many challenges confront the Ministry of Oil in its goal of increasing oil production and exports. First, according to the Center for Global Energy Studies, neither the ministry nor the GOI have a strategic petroleum plan for the long-term development of Iraq's resources. Second, the package of hydrocarbon laws remains stalled,²²⁷ and international firms remain guarded about pursuing opportunities in Iraq. Third, production and exports face major bottlenecks, and the Ministry of Oil has limited capacity in terms of manpower, equipment, and services.²²⁸

The Minister of Oil, Husayn al-Shahristani, was summoned before the Iraqi parliament to answer questions about his leadership at the ministry and why oil production has not increased.²²⁹

New Oil Exports from the Kurdistan Region

On June 1, 2009, the Kurdistan Regional Government (KRG), in agreement with the GOI,²³⁰ began exporting oil from the Tawke and Taq Taq fields. The Tawke field is connected to the Iraq-Turkey pipeline, and oil from the Taq Taq field is being trucked to GOI facilities to be pumped through the same line.²³¹ Oil revenues are controlled by the Ministry of Finance, which pays foreign oil companies for their work to develop the fields and oversee production.²³² However, there is no agreement for any additional funds above the 17% of total GOI revenues that the KRG automatically receives.²³³

Pipeline Security

Because of repeated sabotage, protecting Iraq's energy infrastructure became an important priority for the United States early in the reconstruction effort. Under the ESF-funded, GRD-executed Infrastructure Security Program, the United States

has constructed pipeline exclusion zones (PEZs)—large berms, fencing, and other security measures that block access to major oil pipelines.

No pipelines within the PEZ were attacked this quarter. The Bai Hassan oil field’s pipeline, a gas line to the Mosul power plant, and the Baiji oil refinery were attacked this quarter, but there were no effects on oil production or exports.²³⁴

This quarter, the Iraqi Navy assumed control of point security from Coalition forces at the **Khawr al-Amaya Oil Terminal**. Since 2004, Coalition and Iraqi forces have jointly provided security for Iraq’s oil platforms, and this transfer is the first in a process of transitioning security for Khawr al-Amaya and the **Al Basrah Oil Terminal (ABOT)** to the Iraqi Navy. Joint security will continue at the ABOT. Nearly three-fourths of Iraq’s oil is transferred to tankers for export from these terminals.²³⁵

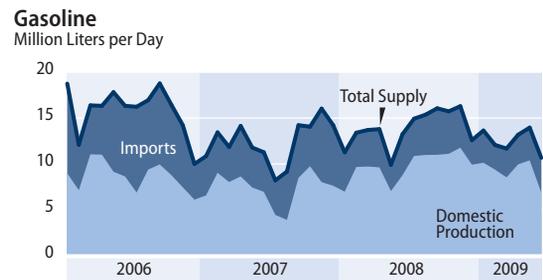
Refineries and Petroleum Products

GOI progress since 2003 in increasing refinery production of gasoline, diesel, kerosene, and liquefied petroleum gas (LPG) has resulted in far fewer imports being required to meet domestic consumption. Recent trends continued this quarter: Iraq produced the majority of its total supply of gasoline, kerosene, and diesel fuels, but imported more LPG than it produced. This quarter, Iraq imported 74% of its total supply of LPG, 28% of its gasoline, 13% of its diesel fuel, and none of its kerosene.²³⁶ For more on refined fuels, see Figure 2.28.

Natural Gas

Iraq has the world’s tenth-largest proved reserves of natural gas,²³⁷ but it currently lacks the infrastructure to effectively use or export this energy resource. About 40% of Iraq’s gas production reportedly is flared.²³⁸

FIGURE 2.28
REFINED FUEL PRODUCTION AND IMPORTS, BY MONTH, 2006–2009

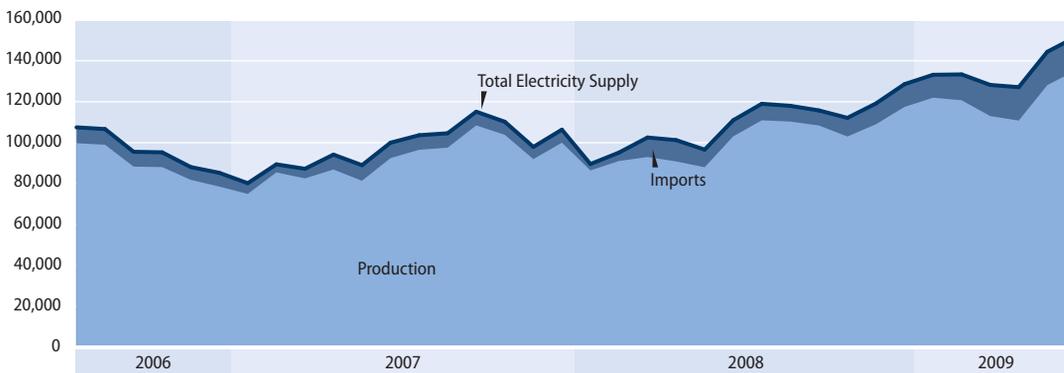


Note: Data for first three months of 2009 includes corrected data received from NEA-I and differs from data shown in SIGIR’s April 2009 Quarterly Report.

Source: NEA-I, responses to SIGIR data call, 1/5/2009 and 7/2/2009.

FIGURE 2.29

AVERAGE IRAQI ELECTRICITY PRODUCTION, IMPORTS, AND TOTAL SUPPLY, BY MONTH, 7/2006–6/2009
MWh per Day



Source: ITAO/EFC, *Electric Daily Performance Reports*, 7/1/2006–6/30/2009.

The KRG has expressed interest in exporting natural gas via the **Nabucco Pipeline** as a part of an \$8 billion project, but the GOI has rejected any deals to unilaterally export gas from the Kurdistan Region.²³⁹ However, the GOI had once denied the KRG the right to export oil and later acquiesced under a compromise.²⁴⁰ The \$11 billion project is designed to build a 3,700-kilometer (km) pipeline to supply Europe with natural gas from Central Asia and the Middle East. The 56-inch pipeline reportedly has the capacity to carry 31 billion cubic meters per year of natural gas from eastern Turkey to Austria.²⁴¹

Electricity

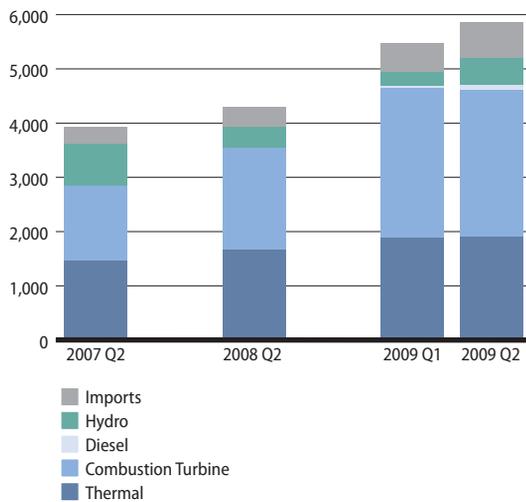
Since 2003, the United States has allocated \$5.00 billion, obligated \$4.97 billion, and expended \$4.84 billion²⁴² to help Iraq improve its generation, transmission, and distribution of electricity, as well as to train MOE personnel in operations and maintenance.²⁴³

Generation Capacity, Production, and Imports

Iraq has continued a fairly steady climb in electricity production and supply, setting new post-invasion records during each of the last four quarters. Daily electricity production from April 1, 2009, to June 30, 2009, averaged 124,713 megawatt-hours (MWh), and imports averaged 16,327 MWh for a total supply of 141,040 MWh, or 5,877 MW. This is a 7% increase from the previous quarter and a 36% increase from the second quarter of 2008—and almost 50% above the level in the first quarter of 2007.²⁴⁴ Total electricity supply over the past three years is shown in Figure 2.29, broken down by domestic production and imports.

Iraq's feasible generation capacity averaged 10,722 MW this quarter, a 5% increase from the previous quarter. Feasible capacity is the maximum output from power plants taking into account the condition of the plant. This quarter, Iraq's power plants operated at 48% of their

FIGURE 2.30
ELECTRICITY SUPPLY, BY SOURCE, SELECTED QUARTERS
MW



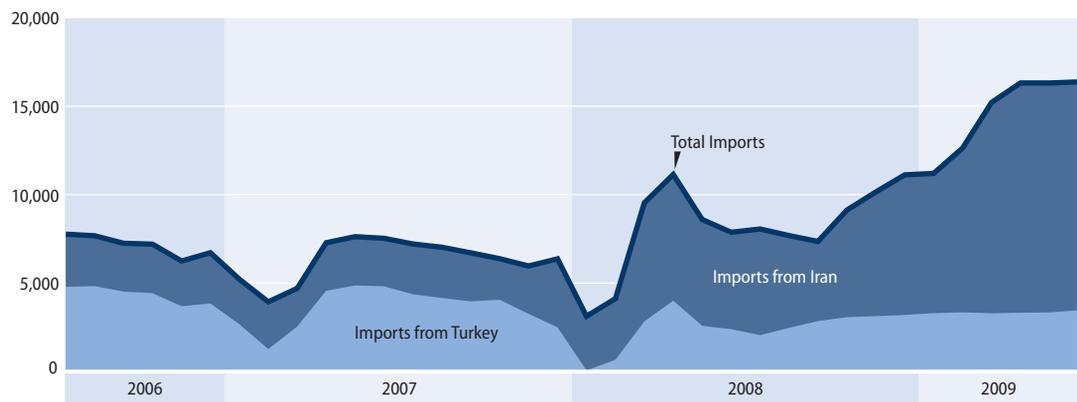
Source: ITAO/EFC, *Electric Daily Performance Reports*, 4/1/2007–6/30/2009.

feasible capacity, a figure unchanged from last quarter and up from 40% in the second quarter of 2008.²⁴⁵

The growth in electricity supply over the past few years can be attributed primarily to the refurbishment and construction of combustion turbine power plants (see Figure 2.30). U.S. investments in generating capacity have focused on these types of power plants. However, even with the addition of new capacity at the Qudas plant in Baghdad, production from combustion turbine plants remained flat in the first and second quarters of 2009. The roughly 400-MW increase in supply this quarter came almost completely from electricity imports and greater output from hydroelectric plants.²⁴⁶

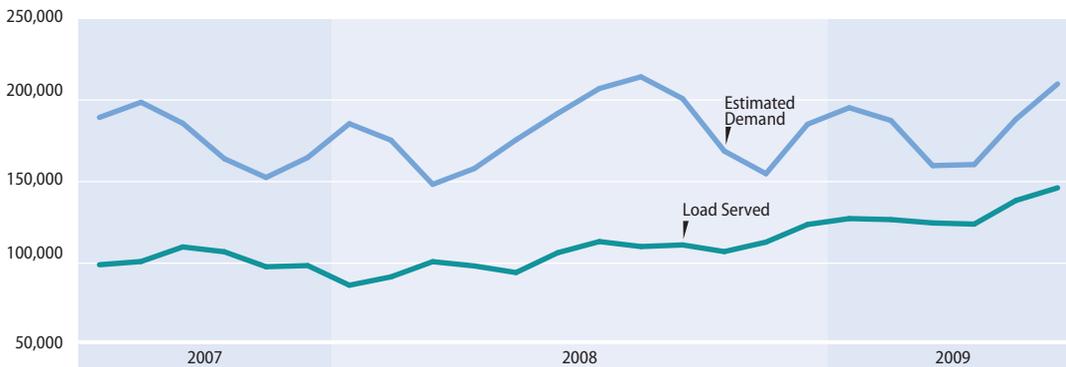
As shown in Figure 2.31, over the past three quarters, Iraq has been steadily increasing the amount of electricity it imports. Electricity imports this quarter increased by one-fourth over last quarter and accounted

FIGURE 2.31
ELECTRICITY IMPORTS, BY MONTH, 7/2006–6/2009
MWh per Day



Source: ITAO/EFC, *Electric Daily Performance Reports*, 6/1/2006–6/30/2009.

FIGURE 2.32
ESTIMATED ELECTRICITY DEMAND AND LOAD SERVED, 7/2007–6/2009
MWh per Day



Source: ITAO/EFC, *Electric Daily Performance Reports*, 7/1/2007–6/30/2009.

for almost 12% of total supply on the grid, compared with 9% in the same quarter last year.²⁴⁷

Hydroelectric production almost doubled from last quarter,²⁴⁸ with virtually all the additional output coming from the Mosul dam on the Tigris River.²⁴⁹ The higher output may be attributed to three factors: actions by Turkey that temporarily increased the flow of river water to downstream countries, mildly increased rainfall, and a brief break in the regional drought.²⁵⁰ Relative to average production in the first quarter of 2009, hydroelectric production increased 64% in April and 142% in May before dropping back to roughly the April level in June—reflecting the vagaries of hydroelectric plants.²⁵¹ The water held behind dams is primarily for irrigation and potable water. Electricity generation is a byproduct of the water-control systems, and reduced output of electricity from these plants often reflects efforts to conserve water.²⁵²

Efforts To Increase Capacity and Production

Even with new combustion turbines coming on line and supply increasing, Iraq is still

TABLE 2.17
ONGOING GRD ELECTRICITY PROJECTS

PROJECT TYPE	NUMBER OF PROJECTS	COST (\$ MILLIONS)
Generation	5	\$202.7
Transmission	7	\$143.1
Distribution	3	\$4.6
Total	15	\$350.4

Source: GRD, *Monthly SITREP*, 4/2009, slide 3.

unable to meet the demand for electricity. ITAO estimates that the available electricity supply meets less than three-fourths of demand.²⁵³ Figure 2.32 shows estimated demand and load served over the past two years.

GRD has completed 457 projects, valued at more than \$2.12 billion, to increase electricity generation, transmission, and distribution.²⁵⁴ For details on ongoing electricity projects, see Table 2.17.

The **Qudas Power Plant Expansion** was completed this quarter. This \$176 million project was the largest power plant expansion overseen



SIGIR's audit of the Muhalla 312 electricity expansion found that the contractor fulfilled project specifications.

by GRD and the final power generation project to be funded from the IRRF. Two Iraqi firms designed and installed two new turbines that operate on either crude oil or diesel fuel, adding 200 MW, or 2% of feasible production capacity, to the national grid. During the height of construction, 400 local workers were employed on the project. ITAO provided program management, and GRD supervised the contract and construction of the project. The MOE has assumed responsibility for daily operations.²⁵⁵

The GOI has signed contracts with foreign firms to increase domestic electricity production capacity. The World Bank and the MOE are funding a project to bring two new 200-MW generators to the Hartha thermal plant. Four new generation units are currently being installed at a power plant in Amara that will add an additional 200 MW to the grid. Another four projects with Siemens and other foreign firms are expected to bring 600 MW

to the grid sometime between September and December. Additional projects are planned to further increase electricity production capacity in Iraq.²⁵⁶ However, the MOE requested \$1 billion for short-term contracts, but received only \$400 million. This forced a hold on projects to lay new electric cables and upgrade power switches necessary for increasing production.²⁵⁷

The GOI has signed a new contract to increase the capacity of solar production across the country. The contract includes terms for a full production line of solar panels that can generate up to 250 watts of electricity each. Production is expected to start in November 2009.²⁵⁸

Transmission and Distribution

As Iraq adds new generation capacity over the next three to five years, the transmission and distribution systems will need substantial upgrades to operate with acceptable reliability. Although the transmission system is generally adequate for current loads, it apparently is strained in some areas—most notably in the north, including the Kurdistan Region, where the transmission system is relatively weak for the amount of electricity that flows through it from the power plants to the substations. Upgrades to local distribution systems, which carry power from the substations to end users, also are needed to keep up with increased electrical generation and to share the available power more equitably. Inadequate funding for these upgrades could cause both technical and political problems.²⁵⁹

In Thi-Qar province, GRD recently finished a \$24 million project designed to bring more stability to the electricity network. Phase I of the project installed a \$14.8 million overhead transmission line linking the Nassriya power plant and the al-Shatra substation. In phase II, GRD completed a \$9.2 million upgrade to the

substation and power plant, providing power for 500,000 people as far away as Basrah.²⁶⁰

GRD also recently turned over five 132-kilovolt IRRF-funded substations to the MOE in the Basrah area. The projects were valued at more than \$48 million.²⁶¹ The added grid stability allows these substations to serve 275,000 residents, local industries, the port of Khor Al-Zubair, and nearby oil facilities.²⁶² GRD is also overseeing the construction of a \$3.4 million ESF-funded Electrical Engineering College at Kufa University.²⁶³

This quarter, SIGIR performed an audit of the CERP-funded **Muhalla 312 Electrical Distribution Project**. Though the project took longer to complete than anticipated, the \$11.76 million initiative was successful in meeting the goal of rehabilitating an electrical distribution facility and thereby providing electrical power to 12,000 people in a 10-square-block Baghdad neighborhood. The contract was managed and overseen by GRD effectively, and coordination with the GOI was excellent, resulting in transfer to the MOE on January 13, 2009. SIGIR's May 20, 2009, visit confirmed that the GOI was sustaining the project, something SIGIR has noted was often persistently lacking in previous projects. The only problem noted is that the project was not fully coordinated with other U.S. reconstruction activities—a previous SIGIR recommendation related to other reconstruction activities.²⁶⁴

Water

The United States has allocated \$2.61 billion, obligated \$2.61 billion, and expended \$2.46 billion²⁶⁵ to expand access to potable water and increase sewage treatment in Iraq. Since 2004, GRD has completed 382 water projects, and 30

remain ongoing.²⁶⁶ These projects include the construction of large-scale water distribution systems, compact-unit water treatment plants, new irrigation systems, and the rehabilitation of existing infrastructure.²⁶⁷

Iraq's potable water and irrigation supplies, as well as hydroelectric power production, depend largely on limited annual rainfall and the flow of water in the Tigris and Euphrates rivers, which originate in the mountains of Turkey.²⁶⁸ The Deputy Minister of Water Resources noted that only 32% of Iraq's water is locally sourced.²⁶⁹ In the second quarter of 2009, water stored behind the Haditha Dam was only 17% of the dam's capacity.²⁷⁰ The overall water volume for the year will likely remain below average; the Haditha Dam will not be able to fulfill water requirements because of reduced flow from upstream sources in Turkey.²⁷¹

Iraq's recovery from severe drought hinges on increased supply from its neighbors to the north.²⁷² A May 2009 meeting between Turkey's government and the GOI resulted in an increase of the flow of water along the Euphrates. The Ministry of Water Resources (MoWR) has requested further increases.²⁷³ Reflecting the seriousness of the situation, the Iraqi Parliament passed a bill stipulating that all future agreements with Turkey or Syria include Iraq's demand for an equitable share of resources.²⁷⁴

The MoWR is responsible for supplying untreated water for Iraq and oversees 7 dams, 18 barrages, hundreds of pump stations, 140 reclamation projects, and more than 80,000 kilometers of irrigation and drainage channels. The MoWR is working to rehabilitate equipment and pump stations that were poorly maintained over the last 30 years and to preserve and restore the Mesopotamian marshes, 90% of which were destroyed by the former regime.²⁷⁵

Irrigation

Agriculture is the largest source of private-sector employment in Iraq,²⁷⁶ and irrigation is vital to sustaining the industry. More than 90% of Iraq’s water supply is used to irrigate more than 3.25 million hectares of farmland.²⁷⁷

GRD has completed six projects, valued at approximately \$127 million, to repair dams and canals to improve both irrigation and drainage. Five projects remain ongoing at a cost of nearly \$65 million.²⁷⁸

The MoWR has undertaken an almost \$1 million project to improve irrigation for orchards in Ninewa and Dahuk. The project includes seven canals spanning more than five miles to carry water from nearby springs and mountains to the farming areas, as well as an aqueduct and rainwater discharge system. These irrigation canals will replace the earth canals that were previously carrying water to the farms.²⁷⁹ In Anbar province, the MoWR is constructing concrete canals to improve irrigation efficiency and reduce water losses as part of the **Saqlawiya Reclamation Project**.²⁸⁰

Water Treatment

U.S.-funded projects valued at \$1.37 billion²⁸¹ have added the capacity to produce 2.5 million cubic meters of potable water per day, which potentially could serve approximately 8 million people. U.S. construction projects have also added 1.2 million cubic meters per day of sewage treatment capacity, which has the potential to serve approximately 5 million Iraqis. To reach their potential, these projects must have a consistent supply of electricity and a reliable staff to operate them, conditions which are often not met.²⁸² According to a June 2009 UN report, only 12% of Iraqi households have a reliable water connection.²⁸³

On April 22, 2009, GRD marked the completion of the **Choman Water Project**, which was funded with \$1 million from the ESF and \$1.2 million from the Erbil governor’s office. Choman is located near a mountain range with heavy annual snowfall and plentiful water, but there had not previously been a method for getting the water to the town. GRD engineers helped design an 11-mile network of gravity-fed pipes to funnel

TABLE 2.18
ONGOING GRD WATER SUPPLY PROJECTS

PROJECT NAME	COST (\$ MILLIONS)	% COMPLETE (% SCHEDULED COMPLETE)	SIGNIFICANCE/ISSUES
Halabjai Shaheed Water Project	\$1.1	34% (61%)	The project is designed to provide water for an isolated town; safety issues continue at work site.
Al-Jehad Water Compact Unit	\$1.0	68% (68%)	The project is designed to provide clean water for 300,000 local residents; shortage of qualified personnel has impeded progress.
Sadr City Potable Water Networks	\$3.0	89% (100%)	The project is designed to serve 368,000 people in Sadr City.
Al-Abu Shemsi Water Compact Unit	\$1.2	39% (33%)	The network is designed to serve 1,000 local residences in the city.

Note: Numbers affected by rounding.

Sources: GRD, *Weekly SITREP*, 6/9/2009, slide 12; GRD, *Weekly SITREP*, 6/9/2009, slide 32; GRD, *Weekly SITREP*, 4/10/2009, slide 17; GRD, *Weekly SITREP*, 6/9/2009, slide 28.

this source into the town's water network. The system has no mechanical parts, thus requiring little maintenance.²⁸⁴

GRD is also assisting in the expansion of the **Qurmat Ali Water Facility**. The \$9.5 million project will quadruple the facility's capacity to 16,000 cubic meters per hour. Throughout Basrah's neighborhoods, 2.5 million people will receive water from the facility, which is only 10 km away. Previously, these citizens relied on the Sweetwater canal pump station, which is 90 kilometers north of the city.²⁸⁵ For more on ongoing GRD water projects, see Table 2.18.

The budget shortfall has led to GOI cuts in potable water and sewage treatment projects. The mayor of Baghdad reportedly said that Iraqi municipalities were initially allocated \$5 billion, but those funds were cut by 60%, forcing cancellations for potable water and wastewater treatment projects.²⁸⁶

Transportation and Communications

As of June 30, 2009, the United States has allocated \$1.08 billion, obligated \$1.08 billion, and expended \$1.00 billion to improve Iraq's transportation and communications systems.²⁸⁷

Roads and Bridges

GRD continues work on road and bridge construction projects throughout Iraq. For an overview of completed and ongoing projects, as well as those not yet started, see Figure 2.33.

This quarter, the \$1.3 million ESF-funded **al-Khiarat Road** project was completed in Kerbala province. The existing surface, measuring only six meters across, was replaced with a wider road to improve traffic flow. The \$1.2

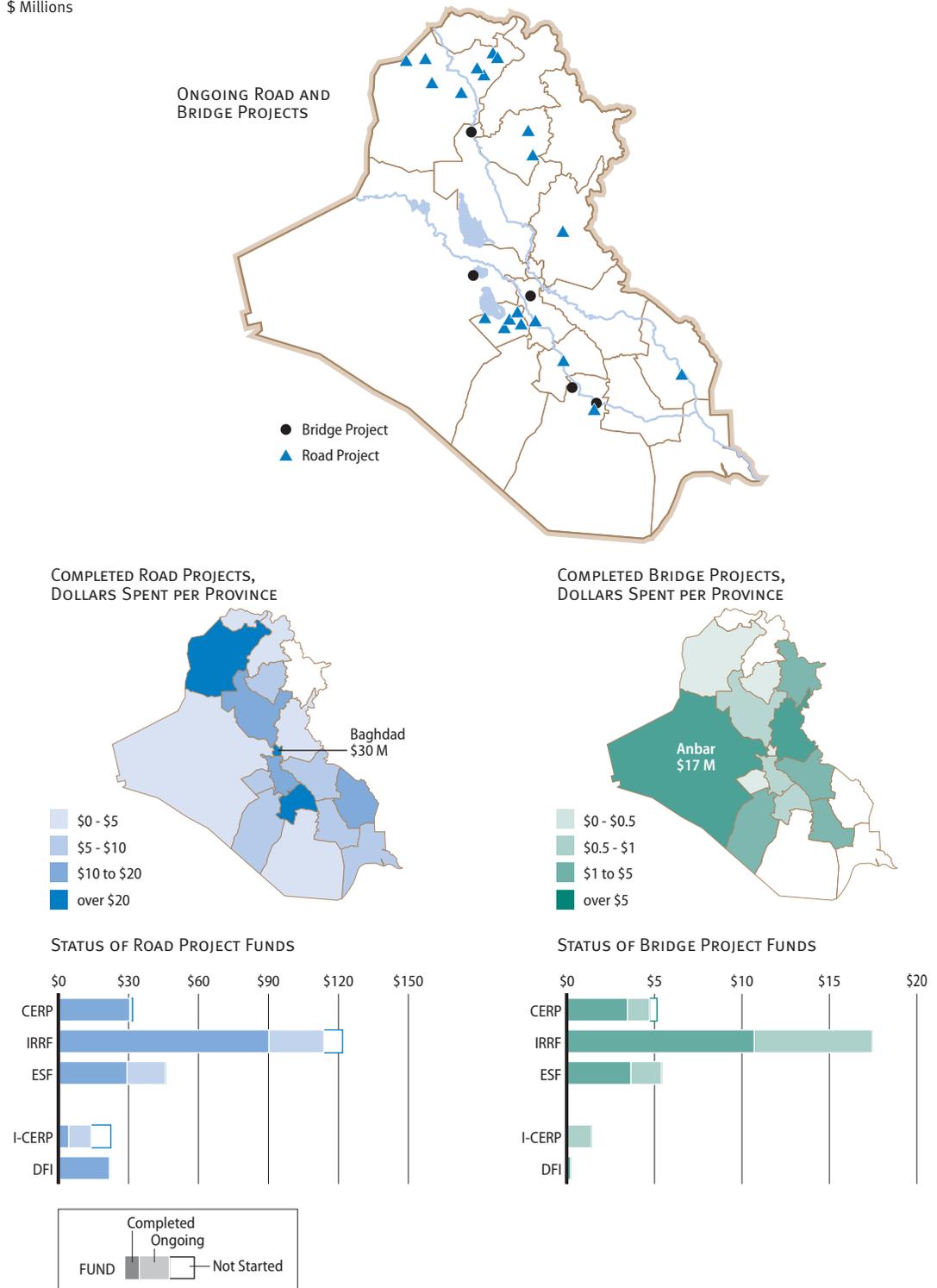


SIGIR's inspection of the Mujarrah Canal Bridge found some faulty construction, but overall the work met most design specifications.

million I-CERP-funded repair of the **Hai al-Salam Bridge** near Baghdad is now 54% complete. This bridge will reconnect two Baghdad communities once complete. In Salah Al-Din province, the \$7.1 million **al-Shirqat Bridge** is now 75% complete. This IRRF-funded project consists of a multi-span, two-lane concrete bridge, as well as four kilometers of roadway approach to the bridge. This project has encountered the challenges of relocating electricity sources for bridge lighting, erosion control, and delays in contractor payments because of slow GOI administration.²⁸⁸

This quarter SIGIR issued an inspection report on the **Mujarrah Canal Bridge** in Anbar province, a significant link in the transportation network of western Iraq connecting Ramadi to Falluja, and ultimately to Baghdad. The Mujarrah Canal Bridge, which was severely damaged by a vehicle-borne improvised explosive device,

FIGURE 2.33
GRD ROAD AND BRIDGE PROJECTS
 \$ Millions



Source: GRD, response to SIGIR data call, 7/6/2009.

was contracted to be repaired to its original condition for \$1.3 million from the CERP. The inspection revealed several construction issues, but the overall construction carried out by the contractor met with most of the design specifications. SIGIR recommended an investigation by GRD engineers into the construction deficiencies, which they ultimately performed. The bridge was supposed to be completed by October 2008, and it opened this past June.²⁸⁹

Railroads

Over the last two years, passenger and freight traffic on the Iraqi railroad system has increased with the decline of insurgent activity. As of June 30, 2009, 62% of the 1,412-mile system was in use, and ridership stood at 14,400 passengers per month. Notwithstanding this rise in rail usage, much of the existing infrastructure must be rehabilitated, and the Kirkuk line has not yet reopened since the destruction of the Al-Fatah Bridge. Design work for repair of the structure is underway, but the Iraq Republic Railway has not received a sufficient capital budget to meet its needs.²⁹⁰ For more on the increase in ridership and freight movement, see Table 2.19.

Ports

Iraq has six seaport facilities in Basrah province, with the **Port of Umm Qasr** being the main deep-water facility. Umm Qasr has 22 platforms, 175,000 square feet of covered warehouses, and 800,000 square feet of storage facilities. More land around the port is available for future expansions. A ferry transports passengers, vehicles, and cargo between Umm Qasr and Dubai three times each week.²⁹¹

To rehabilitate the port's capacity to import and export goods, the United States has undertaken construction projects in ship removal, sea

TABLE 2.19
AVERAGE NUMBER OF MONTHLY TRAIN MOVEMENTS

TYPE OF RAIL SERVICE	10/2006–3/2007	10/2008–3/2009
Passenger	18	135
Freight	236	663

Source: U.S. Embassy-Baghdad, response to SIGIR data call, 7/6/2009.



SIGIR's inspection of the \$2.7 million IRRF-funded Roll-On/Roll-Off Berth in the Port of Umm Qasr found only minor construction deficiencies.

lane dredging, crane and loading berth repair, electrical improvements, and upgrading port security. Recently, repair work to loading cranes at Umm Qasr entered its third and final phase, which will involve \$900,000 of work from the IRRF. Also, average monthly shipping traffic in the port has increased by 47%, which has resulted in a 20% revenue increase.²⁹²

GRD is currently overseeing a \$44.4 million GOI foreign military sales (FMS) contract to construct a pier and seawall at Umm Qasr. The stakeholders of this project include the Ministry



SIGIR's audit of the Baghdad International Airport Caravan Hotel raised concerns about project selection, cost oversight, and transfer to the GOI.

of Defense and the Iraqi Navy Operational Squadron, which requires facilities for its 15 patrol boats, 4 patrol ships, and 2 off-shore support vessels.²⁹³ The final site plan incorporates a floating pier, a seawall, electrical connectivity, and water and fuel distribution systems for the docked ships.²⁹⁴

This quarter, SIGIR released an inspection report on one of the U.S. projects designed to increase the operational capability of the **Port of Umm Qasr**. The project, a \$2.7 million IRRF-funded Roll-On/Roll-Off Berth, was designed to ease the loading and unloading of freight at the port. SIGIR concluded that the construction of the berth was adequate and that it was operating at the design capacity specified in the contract. Minor damages were noted during the site inspection, and at SIGIR's request, the Transportation Attaché of the U.S. Embassy took immediate action in consulting the Ministry of Transportation (MOT) to repair the damage. The project increased local employment and the port's capacity for docking vessels.²⁹⁵

The port of **Abu Flus** provides facilities on the Shatt Al-Arab waterway, specializing in the

export of cars, electrical and agricultural products, and construction materials. To reach its full capacity, this facility will require additional funding. The port of **al-Maqal** has been closed for 20 years. More than \$7 million has been invested to refurbish the port, but more funding will be needed to re-open the facility.²⁹⁶

Aviation

Air traffic operations in Iraq have risen significantly over the past two quarters. Aircraft operations (arrivals, departures, and overflights) increased 44% from the fourth quarter of 2008 to the first quarter of 2009, the latest period for which data is available. Moreover, from the first quarter of 2008 to the first quarter of 2009, aircraft operations have more than doubled. As of June 30, 2009, approximately 63% of flights in Iraq were civilian carrier flights, and 37% were military.²⁹⁷

The GOI's Iraqi Civil Aviation Authority (ICAA) now oversees the country's airports under the required standards of the International Civil Aviation Organization and has little continuing dependence on U.S. contractors to maintain these standards. Under the

Security Agreement, Iraq assumed control of all of its airspace on January 1, 2009, but has requested U.S. support for airspace below 24,000 feet. However, on July 1, 2009, under an agreement with the United States, Iraq took over responsibility for funding contracts to train air traffic controllers. As the number of qualified Iraqi controllers increases, the GOI will assume increasing control over more of its airspace. In addition, the Council of Ministers has approved an MOT plan for an additional \$8 million in contracts for radar automation and communication, surveillance and navigation technicians, and aeronautical information services.

The United States and UN continue to aid Iraq in its goal of achieving full compliance with ICAO standards by 2011. The Federal Aviation Administration performed audits of five of six major Iraqi airports and provided the ICAA with the reports so the deficiencies could be corrected. The UN Development Programme produced a Civil Aviation Master Plan, which will aid the ICAA in achieving full compliance.²⁹⁸ The plan includes 243 recommendations in the areas of civil aviation legislation, aviation security, airport security, aviation safety, and air transport economics.²⁹⁹

This quarter, SIGIR performed an audit of a \$4.2 million CERP project to build a hotel at Baghdad International Airport as part of the development of the economic zone around the airport. Although the **Baghdad International Airport Caravan Hotel** project was completed according to specifications, questions remain about the project's selection, cost, oversight, hotel management contract, and the lack of plans for transfer to the GOI. For example, available documentation did not answer questions as to why the project was completed six months late,

why the project cost increased from \$2.7 million to \$4.2 million during the solicitation process, or why the contract was modified to require cash payments after initially making payments by electronic fund transfer. These internal control weaknesses make the program vulnerable to undetected fraud, waste, and abuse. Moreover, although the hotel is operating, it has not been transferred because of doubts regarding whether the GOI would sustain it. MNC-I entered into a contract with a hotel management contractor, which, in effect, put MNC-I in competition with private-sector businesses. Further, MNC-I has not identified legal authority for entering into such an arrangement.³⁰⁰

Telecommunications

The largest U.S. project in the telecommunications sector, the **Al Mamoon Telecommunications Center**, has been stalled since November 2008 because of contracting issues. GRD reports that the project will be re-awarded in the third quarter of 2009.³⁰¹

Ministry of Communications Update

The Ministry of Communications (MOC) contains Iraq's two state-owned telecommunications companies—the Iraqi Telecommunications and Postal Company (ITPC) and the State Company for Internet Services. The ITPC has a monopoly on providing copper lines and claims a monopoly on providing fiber-optic lines, but this claim is disputed by private competitors. Iraq's fiber-optic network has reasonable capacity, but occasional breaks in service have led the World Bank and Japanese government to aid the ITPC in improving the network. The ITPC also is working to improve the “last mile”—the connection of end users to the network—which remains a weak link in Iraq's telecommunications

network. Improvements are expected to be complete by the end of 2010.³⁰²

Iraq's independent regulator of the telecommunications industry, the Communications Media Commission (CMC), has been inactive since April 2008 because neither the chairman nor the nine commissioners have been present. Also, new legislation may further hinder independent regulation and free-market competition. This new legislation will move the powers of the CMC into the MOC and begin crowding out the private competition in the sector. Private investment remains central to having competitive pricing and improving the cellular and Internet networks. The MOC prefers to exert control over pricing and services across the telecommunications market. Further, penalties have been assessed against three cellular providers for poor service; these penalties may not be justified.³⁰³

The United States continues to support telecommunications legislation that backs free-market competition and an independent regulator, as well as training for MOC and CMC employees, the appointment of all CMC commissioners, and GOI participation in telecommunications forums.³⁰⁴

Phone and Internet Service

There are 1.2 million landline telephone service users, a figure that has been consistent for one year.³⁰⁵ In April 2005, landline telephone service surpassed the pre-2003 level of 880,000 users.³⁰⁶ There were 17.7 million mobile telephone users in the second quarter of 2009—unchanged from last quarter. The U.S. Embassy reports that there are now 830,000 subscribers to the Internet, a slight increase from last quarter.³⁰⁷

Progress in the wireless service sector is an example of the role private investment can play in Iraq's economic development. In 2003, market penetration in the wireless sector was only 3% of the market, but now more than 65% of the population is served, with most of the growth coming from the private sector. Three firms serve nearly 18 million subscribers in Iraq:³⁰⁸

- Zain-Iraq—9.7 million
- Asiacell—6.1 million
- Korek—1.9 million

Zain Telecom was fined \$18.6 million for poor service this quarter, but the company cites Coalition forces jamming operations as having interfered with its ability to provide wireless service.³⁰⁹ Notwithstanding the volatile regulatory environment, service remains affordable and accessible; a typical subscriber pays less than \$20 per month.³¹⁰ ♦

GOVERNANCE

Since the beginning of U.S.-led operations, the prevailing wisdom among U.S. and Iraqi policy makers concerning Iraq’s governance and reconstruction has often been challenged, reassessed, and changed. The political environment in Iraq—compounded by ethnic, religious, and sectarian strife—has necessitated these periodic reevaluations. From the first leaders of the Coalition Provisional Authority and the Iraqi Governing Council to the current Prime Minister and U.S. Ambassador, the focal point for action has always been, and continues to be, the principals occupying these positions. For a timeline of key U.S. and GOI diplomatic and military leaders and their tenures, see Figure 2.34.

With the advent of the Security Agreement and the subsequent reduction of the U.S. footprint in Iraq, the emphasis of U.S. policy has increasingly shifted away from brick-and-mortar reconstruction projects to programs focused on training, institution building, and humanitarian assistance. The goal of these programs is to increase the capacity of Iraqi institutions to govern effectively, provide reliable public services, and strengthen economic development.

Since 2003, the United States has allocated approximately \$7 billion for governance activities in Iraq.³¹¹ For the status of these funds, see Figure 2.35.

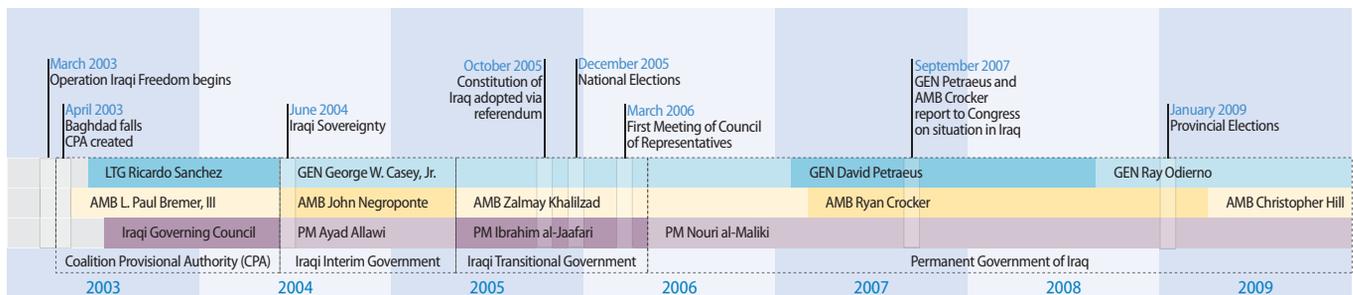
This quarter, audits prepared by the Government Accountability Office (GAO) and USAID’s Office of Inspector General (USAID OIG) examined some of the major U.S.-funded capacity-development programs operating in Iraq. Some of the key deficiencies cited by these audits included poor management controls and an inability to secure Iraqi commitment to program goals. The audits also noted certain successes, but focused on identifying areas for improvement in the following initiatives:

- DoS’s Provincial Reconstruction Development Council (PRDC) program
- USAID’s National Capacity Development (NCD) program
- USAID’s Economic Governance II (EG II) program
- USAID’s Local Governance program—Phase II (LGP II)

BUT I DO HAVE AN UNYIELDING BELIEF THAT ALL PEOPLE YEARN FOR CERTAIN THINGS: THE ABILITY TO SPEAK YOUR MIND AND HAVE A SAY IN HOW YOU ARE GOVERNED; CONFIDENCE IN THE RULE OF LAW AND THE EQUAL ADMINISTRATION OF JUSTICE; GOVERNMENT THAT IS TRANSPARENT AND DOESN’T STEAL FROM THE PEOPLE; THE FREEDOM TO LIVE AS YOU CHOOSE. THESE ARE NOT JUST AMERICAN IDEAS; THEY ARE HUMAN RIGHTS. AND THAT IS WHY WE WILL SUPPORT THEM EVERYWHERE.³¹²

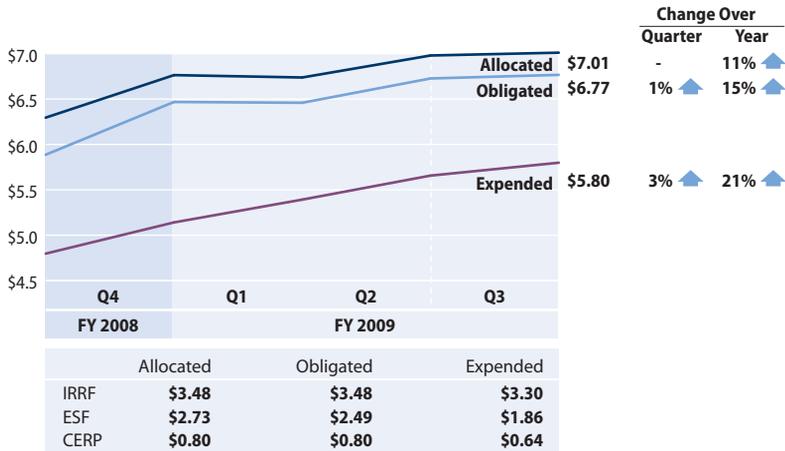
– PRESIDENT BARACK OBAMA, U.S. EMBASSY BAGHDAD, JUNE 4, 2009

FIGURE 2.34
GOVERNANCE TIMELINE



Sources: SIGIR, *Hard Lessons: The Iraq Reconstruction Experience*, 2/2009; SIGIR, *Quarterly Reports to the United States Congress*, 3/2004-4/2009.

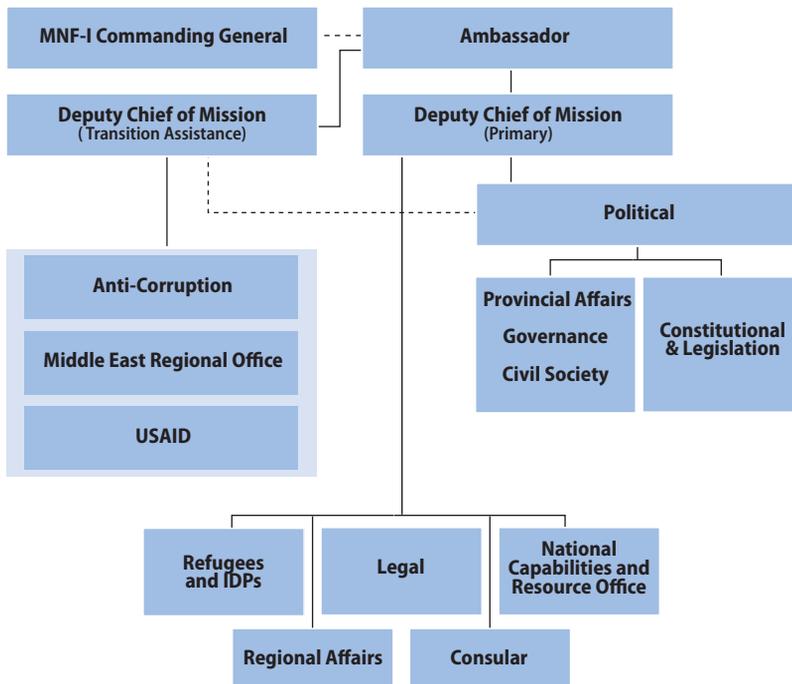
FIGURE 2.35
GOVERNANCE—STATUS OF FUNDS
\$ Billions



Note: Data not audited. Numbers affected by rounding.

Sources: ITAO, *Essential Indicators Report*, 5/14/2009; U.S. Embassy-Baghdad, response to SIGIR data call, 7/6/2009; GRD, response to SIGIR data call, 7/4/2009; USAID, response to SIGIR data call, 4/13/2009; DoS, response to SIGIR data call, 4/5/2007.

FIGURE 2.36
U.S. EMBASSY GOVERNANCE PROGRAMS ORGANIZATIONAL CHART



Source: U.S. Embassy-Baghdad, response to SIGIR data call, 7/16/2009.

U.S. governance assistance also comes in the form of advisory and capacity-development support for Iraq’s anticorruption institutions. In 2004, the Coalition Provisional Authority (CPA) created the Commission on Public Integrity (now known as the Commission on Integrity, or COI), established Iraq’s inspector-general system, and reestablished the independence of the Board of Supreme Audit. Since then, U.S. advisors have worked with their Iraqi counterparts to provide resources and training to increase the capacity of these independent oversight entities.

In 2008, the United States created an ambassadorial position within the U.S. Embassy in Baghdad, the Anticorruption Coordinator, to oversee these programs. Notwithstanding these efforts and recent positive statements made by senior GOI officials, endemic corruption continues to pervade Iraq’s governmental institutions.³¹³

For an organizational chart of U.S. Embassy offices that deal with governance programs and issues, see Figure 2.36.

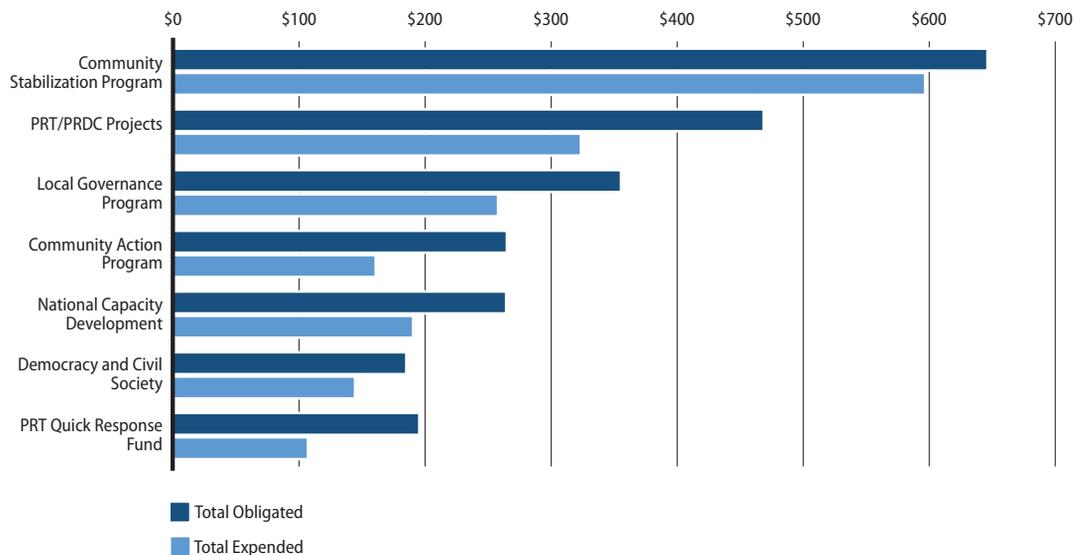
Capacity Development

The United States continues to support Iraqi governance at the local, provincial, and national levels through focused capacity-development programs, funded primarily by the Economic Support Fund (ESF) for Iraq. For an overview of ongoing ESF-funded programs, see Figure 2.37.

The Ministerial Capacity Development Program

The Ministerial Capacity Development (MCD) program assists key ministries and the inspectors general in developing the technical skills necessary to effectively deliver public services. This initiative focuses on the Ministries of Finance,

FIGURE 2.37
ESF SUPPORT FOR ONGOING GOVERNANCE PROGRAMS
 \$ Millions



Note: Data not audited. Numbers affected by rounding.

Sources: U.S. Embassy-Baghdad, responses to SIGIR data call, 7/6/2009 and 7/16/2009; GRD, response to SIGIR data call, 7/4/2009; ITAO, *Essential Indicators Report*, 5/14/2009; SIGIR, *Quarterly Report to the United States Congress*, 4/2009.

Electricity, Oil, Municipalities and Public Works, Water Resources, Planning, Justice, Agriculture, and Health.³¹⁴

MCD activities comprise two main elements: dedicated advisors who provide direct technical support to the ministries, and training for Iraqi civil servants at the national and provincial levels to improve their approach to public administration functions. For example, the MCD program funds the Legislative Coordination Committee Program (LCCP) and Council of Ministers Secretariat (CoMSec) Organization Review and Document Management System.³¹⁵ The LCCP provides senior lawyers to assist the Prime Minister's office and trains junior lawyers to become effective civil servants. Program goals include the creation of a digital library and a legislative

tracking system. In early 2007, the contract to implement these systems was awarded to a Jordanian firm, which provides Iraqi legal advisors to the Prime Minister's office and scans the Iraqi Official Gazette (roughly Iraq's equivalent to the U.S. Statutes at Large) to create a centrally accessible electronic record.³¹⁶

The CoMSec Organization Review and Document Management System provides a foundation for long-term capacity development in support of the Joint Campaign Plan, which guides the overall U.S. mission in Iraq. To ensure greater transparency and effectiveness, the U.S. government agreed to provide CoMSec, the administrative heart of the GOI, with an Electronic Document Management System (EDMS). This MCD project provides for an organizational assessment and a

change-management program designed to create standardized CoMSec policies and procedures.³¹⁷ CoMSec is expected to begin rolling out the EDMS in late fall 2009.³¹⁸

Provincial Reconstruction Development Committees

Through the PRDC program, DoS and the U.S. Army Corps of Engineers (USACE) work with Iraqis to develop proposals and implement small-scale projects throughout the country.³¹⁹ Projects in the water and wastewater, electrical, transportation, communications, education, and medical sectors have brought basic services to thousands of Iraqis, improving their standard of living.³²⁰ From November 2006 through February 2008, the PRDC program received \$700 million from the ESF.³²¹

According to the June 2009 GAO audit, however, the PRDC program suffers from multiple “management control weaknesses.” The program was designed around a seven-step process that includes proposal development by Iraqi officials, approval by a U.S. Embassy team, and implementation by USACE. Until May 2009, though, DoS lacked a program manager with general oversight responsibilities to identify deficiencies and implement solutions. The audit also pointed to the lack of a performance-monitoring system to check program outcomes against the PRDC initiative’s stated goals. Moreover, GAO found that DoS did not adequately communicate frequent changes in program policies and guidelines to its USACE partners.³²²

National Capacity Development

The National Capacity Development (NCD) program, or “Tatweer,” is a USAID initiative that trains Iraqi government employees in critical skills to bolster their administrative, budgetary,

and planning capabilities. The program supports national and regional training centers and ministerial training programs throughout Iraq.³²³ It also works with 10 GOI offices to improve their overall institutional performance and introduce international best practices. According to USAID, the NCD program has trained more than 70,000 GOI officials in strategic planning, human resources, financial management, and project management over the last 2 years.³²⁴ The program began in August 2006, is scheduled to run through January 2011, and has an allocated budget of approximately \$339.5 million, of which \$299.3 million has been obligated and \$198.8 million has been expended through June 2009.³²⁵

In addition to the GOI ministries, the NCD program also works with the National Center for Consultancy and Management Development and GOI’s “Executive Offices,” which include: the Presidency Council, Prime Minister’s office, Deputy Prime Minister’s office, CoMSec, Prime Minister’s Advisory Committee, National Investment Commission, and Labor Ministry’s Social Safety Net.³²⁶

In 2009, the NCD program has increased its provincial efforts, and on May 5, NCD and the Deputy Prime Minister’s office co-sponsored the first Provincial Assistance Conference in Baghdad. The conference was attended by almost 500 participants, including an Iraqi Deputy Prime Minister, the U.S. Ambassador, the USAID Mission Director, and other U.S. government representatives. NCD’s provincial assistance plans were presented at the conference, which provided participants an opportunity to reach consensus on improving basic services delivery and capacity building in the provinces of Anbar, Diyala, Kerbala, Najaf, and Wassit. Subsequent conferences will focus on other regions.³²⁷ This quarter, according to USAID, 4,738 enrollees

completed 232 courses, bringing the cumulative total trained to 66,658. Participants from provinces outside Baghdad accounted for 79% of all those trained in May 2009, and GOI trainers delivered 56% of courses.³²⁸

In its June 2009 audit, GAO found that although the NCD program has a clearly defined organizational structure and proper management controls, it has financial control weaknesses for contract payment. According to the audit, \$17 million of \$79 million in invoices did not have a confirmed receipt for goods and services. GAO also noted that USAID did not adequately document reviews of contractors' invoices before paying them.³²⁹

Economic Governance II

USAID's EG II program assists the GOI in creating policies, programs, and institutions that promote transparency and encourage economic growth and investment in Iraq. In September 2004, USAID awarded a \$223 million contract to BearingPoint to implement the program's goals for providing advisory and training services to aid Iraq's development of a modern regulatory and social safety-net framework.³³⁰ USAID claims several programmatic accomplishments—pension reforms, monetary policy tools, and designing and training officials on an automated financial management information system.³³¹ However, according to USAID OIG, the EG II program has not had a significant impact on Iraq's economic environment. After 4 years and \$192 million in incurred costs, less than half of EG II's original 398 tasks had been accomplished, including the implementation of the Iraq Financial Management Information System (IFMIS).³³²

The IFMIS has suffered setbacks since its implementation began, including the May 2007 abduction of five EG II contractors assigned



NCD/Tatweer Capacity Development Training in Baghdad. (OPA photo)

to work on the project.³³³ The bodies of two of those kidnapped contractors were discovered in late June 2009.³³⁴ USAID noted in its comments on the audit that, because of security concerns following the kidnappings, it has been hampered in its ability to verify onsite the outcomes of the contract and has used alternate methods of confirmation. For more information on the status of EG II and the IFMIS, see the Economy section of this Report.

Local Governance Program

USAID's LGP initiative supports Iraq's transition to self-reliance by strengthening GOI institutions at the provincial, municipal, district, and sub-district levels. Since the program's inception, Research Triangle Institute (RTI) International has been awarded all three phases of the contract (LGP I, LGP II, and LGP III).

SIGIR audited the cost, outcomes, and oversight of USAID's LGP contract with RTI

International in October 2008. At that time, SIGIR found that costs from LGP I and LGP II (\$609 million total) were not easily linked to outcomes, citing insufficient program oversight by USAID. However, SIGIR noted that contract management and oversight had gradually improved over time.³³⁵

On May 31, 2009, USAID OIG released an audit report of LGP II, finding that the program had only been “partially successful in strengthening Iraq’s emerging and fragile local governance system” and concluding that the program needed oversight of training courses for GOI officials—a key component of the contract.³³⁶ The audit’s recommendations are expected to be implemented under the LGP III contract (\$125.5 million³³⁷), which began on January 1, 2009.³³⁸ According to USAID, LGP III is currently on or ahead of schedule based on the task order’s scope and approved plan.³³⁹

Anticorruption

The GOI continues to work on a more comprehensive anticorruption strategy to replace a 2008 plan, but although the Council of Representatives (CoR) has prepared a draft anticorruption law, it is unclear when it may pass. Moreover, prospects for passage of multiple bills to reform Iraq’s principal anticorruption agencies remain in question.

In June 2009, the GOI formally announced that it was launching a campaign against bribery in the ministries.³⁴⁰ Moreover, the Commission on Integrity (COI) reported approximately 997 arrest warrants issued against GOI officials suspected of corruption since 2004—53 at the director-general level or above. A COI statement noted that 51 government employees were arrested in April, and 69 were arrested in May.³⁴¹

On May 16–17, 2009, the CoR questioned Minister of Trade Abdul Falah al-Sudani on corruption allegations, including graft and nepotism. Al-Sudani, a member of the Prime Minister’s Dawa Party, later resigned his post and was arrested. As of June 28, al-Sudani was free on bail and awaiting trial.³⁴² Following the arrest, Prime Minister al-Maliki was quoted as saying, “We will not remain silent over corruption after today. We will pursue those corrupt and bring them to justice.”³⁴³

UNCAC Compliance

U.S. agencies continue to support Iraq’s efforts to establish an effective anticorruption regime compliant with the UN Convention Against Corruption (UNCAC). To that end, USAID maintains a training program for inspectors general and their staff. The Department of Justice also trains COI personnel under the DoS/INL-funded International Criminal Investigative Training Assistance Program (ICITAP), and the U.S. Embassy’s Anticorruption Coordination Office (ACCO) continues to fund programs implemented by the UN Development Programme (UNDP) and the UN Office on Drugs and Crime (UNODC).³⁴⁴ This quarter, the United States conducted several anticorruption activities in support of these efforts:³⁴⁵

- In April, the ACCO funded the UNDP-sponsored “UNCAC Self-assessment Conference” in Amman, Jordan. Representatives from Iraq’s anticorruption agencies attended and redrafted an analysis of the gap between the GOI’s current level of anticorruption preparedness and the UNCAC’s requirements. In June, a U.S.-funded follow-up meeting was held.
- Also in June 2009, the ACCO funded a UNODC conference on anti-money-laundering legislation.

- The University of Utah, under an ACCO-funded program, provided the CoR with an analysis of Article 136(b) of the Iraqi Criminal Procedure Code to assist the GOI in reforming this controversial provision that allows ministers to effectively immunize their subordinates from prosecution. The Utah program also reviews and drafts anticorruption laws to ensure they meet UNCAC obligations.
- ICITAP signed over INL-funded polygraph and surveillance equipment to the COI to increase its enforcement capabilities.
- The Embassy’s Public Affairs Section provided technical assistance to COI’s Education Department, and the military produced year-long public service announcements on anticorruption issues.

In addition to these activities, the ACCO is currently developing a program to assist the COI’s legal staff and another 12-month initiative aimed at providing investigative and management training to Iraq’s IGs. Neither of these

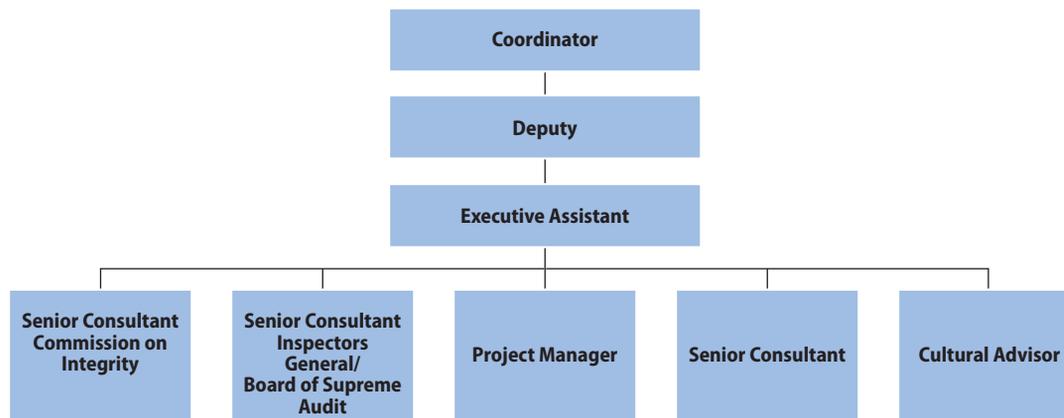
programs has been funded yet. The ACCO also requested a number of CERP projects focused on supporting the COI’s provincial field offices. These projects would focus on improving government services that have been negatively affected by corruption.³⁴⁶ For the ACCO’s organization chart, see Figure 2.38.

Other U.S. Anticorruption Initiatives

This quarter, USAID’s NCD program held a senior leadership anticorruption seminar under the auspices of one of Iraq’s two vice presidents. The NCD program also hosted its first Train-the-Trainers course for local participants from the offices of inspectors general and the President’s Council.³⁴⁷

Iraq’s Association of Inspectors General (AIG) also accepted the recommendation of NCD advisors to integrate the anticorruption courses currently taught at the Karrada/Tatweer compound to assist in building training capacity at the AIG Academy. Further, the NCD anticorruption team has been asked to

FIGURE 2.38
U.S. EMBASSY ANTICORRUPTION COORDINATION OFFICE ORGANIZATIONAL CHART



Source: DoS, response to SIGIR data call, 7/10/2009.

work on monitoring the flow of oil and improving the complex web of transfer payments, rations, and subsidies that comprise Iraq's social safety net.³⁴⁸

Elections Overview

On March 26, 2009, the Independent High Electoral Commission (IHEC) released official provincial election results. This began the process of Provincial Council formation in the 14 provinces where elections were conducted in January 2009. This process includes selection of provincial governors and their deputies. In the central provinces, large majorities or pluralities won, making it easier for alliances to be forged. Consequently, senior posts were filled quickly in these provinces. In some southern provinces, however, the vote was divided among many parties, making it more difficult for the newly elected council members to reach a consensus on leadership positions. Muthanna was the last to form its Provincial Council, selecting a new governor on April 30, 2009.³⁴⁹

Under IHEC guidance, the Kurdistan Region completed a successful and peaceful first week of updating voter registration in preparation for regional parliamentary and presidential elections, which are scheduled for July 25, 2009. Throughout the Kurdistan Region and in Baghdad, 89 voter registration update centers opened on May 25, 2009. The IHEC reported that 1,109 observers and 650 political party representatives visited the 89 centers to ensure proper procedures were being followed.³⁵⁰ A date has not been set for provincial elections in Tameem, home to the ethnically mixed and violence-plagued city of Kirkuk.³⁵¹

The USAID-funded International Foundation for Electoral Systems (IFES), which in conjunction with UNAMI forms the International Electoral Assistance Team (IEAT), has an embedded team in the IHEC to assist the Iraqis in preparing systems, procedures, and regulations for upcoming rounds of balloting in July 2009 and January 2010. For elections in the Kurdistan Region, USAID assisted IHEC with the voter registration process and the seat-allocation system. Given the relative security of the Kurdistan Region, the IHEC has made no request for large-scale security assistance. Multi-National Force-Iraq (MNF-I) is supporting IHEC efforts to train Governorate Electoral Office (GEO) security managers on contingency planning for the Kurdistan Regional Government (KRG). But for July 2009, MNF-I's election support will be limited to intelligence, surveillance, and reconnaissance support for ballot material movements, as well as medical evacuation, with supporting quick-reaction forces on standby.³⁵²

Several DoS Bureau of Democracy, Human Rights, and Labor grantees are working to ensure adequate voter education in advance of elections in the Kurdistan Region. The Institute for War and Peace Reporting (IWPR) is conducting election coverage workshops and, in cooperation with local partners, is developing radio and TV programming to inform the electorate about certain election topics. The International Republican Institute (IRI) is working with local civil society partners to produce and distribute voter education materials. American University and the International Research and Exchanges Board are conducting public outreach programs. Both IRI and the National Democratic Institute are assisting a broad range of registered political entities with their get-out-the-vote capabilities.³⁵³

Legislation

On April 19, 2009, Ayad al-Samarrai was elected as the new Speaker of Parliament of Iraq's CoR. Al-Samarrai, deputy leader of Vice-President al-Hashimi's Iraqi Islamic Party, has introduced a program to accelerate the passage of pending legislation and enhance the parliament's oversight role. Chief among the CoR's outstanding agenda items is the work of the committee considering Article 23 of the Provincial Elections Law to develop an inter-communal, power-sharing formula ahead of the provincial elections in Tameem.³⁵⁴ Legislative activities this quarter included:

- **NGO Law.** The CoR held a first reading on a law regulating the operations and funding of non-governmental organizations (NGOs).
- **Amendment Law.** To attract more foreign investors to enter the Iraqi market, the CoM approved a bill legalizing foreign ownership of Iraqi land for investment in housing construction projects.
- **Oil and Gas Laws.** On June 1, 2009, low-level talks were held concerning the recently initiated export of small amounts of crude oil from two fields in the Kurdistan Region, but no progress has been made on the laws. The U.S. Embassy does not anticipate a political compromise on the management of oil and revenue sharing before national elections in 2010.³⁵⁵
- **Article 41.** The Constitutional Review Committee is considering Article 41, which deals with the issue of religious freedom, specifically the personal status of Iraqis as members of their respective religions and sects.³⁵⁶
- **Article 140.** In April, the UN Secretary General's Special Representative Staffan de Mistura presented reports on disputed internal boundaries in northern Iraq (the subject of

Article 140) to the Prime Minister, the Presidency Council, and the KRG. The UN has not released these reports to the public.³⁵⁷

- **Article 115.** The CoR's Constitutional Review Committee is also working with international legal NGOs to clarify Articles 115 of the Constitution, which permits one or more provinces to form a "region" with the ability to craft laws that often give greater powers to the provinces over the federal government.³⁵⁸

USAID's Iraq Legislative Strengthening Program is attempting to enhance the committee process in Iraq's parliament, including helping to establish oversight systems to monitor the implementation of laws passed by the parliament.³⁵⁹

On June 24, 2009, the KRG Parliament passed a new constitution which claims Kirkuk as part of the Kurdistan Region. However, the constitution will not be ratified until the people of the Kurdistan Region vote for it via a referendum,³⁶⁰ which was postponed and has yet to be rescheduled.³⁶¹ In response, 50 members of Iraq's CoR signed a petition criticizing KRG's new constitution as incompatible with Iraq's federal constitution.³⁶²

Refugees and IDPs

The UN High Commissioner for Refugees (UNHCR) reports that approximately 12,600 internally displaced persons (IDPs) and refugees returned home in April (see Figure 2.39). Since January, the UN reports that more than 44,400 have returned. UNHCR and the International Organization for Migration (IOM) estimate that more than 1.5 million Iraqis remain displaced in the region, and more than 1.6 million have been displaced inside Iraq since the spike in sectarian violence in February 2006. UNHCR

also continues to seek donor contributions for its \$299 million appeal for Iraq and the region. As of May 2009, only 47% of UNHCR's appeal had been funded.³⁶³ The UNHCR budget for the Iraq supplementary program has increased from \$40 million in 2005 to more than \$271 million in 2008.³⁶⁴

In FY 2008, the DoS Bureau of Population, Refugees and Migration contributed \$287 million to international organizations and NGOs to assist displaced Iraqis inside the country and in the region.³⁶⁵ By the end of this quarter, it plans to fund several initiatives to benefit displaced Iraqis, which include:³⁶⁶

- \$20 million for protection and shelter rehabilitation in areas to which refugees and IDP are returning
- \$15 million to UNHCR's appeal for Iraq and the region, in addition to a \$90 million contribution made earlier this year
- \$6 million contribution to International Committee of the Red Cross, in addition to \$21 million provided earlier this year
- \$10 million to IOM for socioeconomic reintegration of returnees

To date, USAID's Office of Foreign Disaster Assistance has provided more than \$105 million in humanitarian assistance to Iraq. These programs prioritize assistance to vulnerable IDPs, returnees, and host communities. Implementing partners provide primary health care, emergency relief commodities, protection services, temporary shelter, and employment support.³⁶⁷

Since FY 2007, 28,460 Iraqi refugees have been admitted for U.S. resettlement, and by the end of FY 2009 the United States seeks to admit at least 17,000 Iraqi refugees.³⁶⁸ So far, 13,030 refugees have been resettled in the United States in FY 2009—ahead of the previous years' pace.³⁶⁹ The

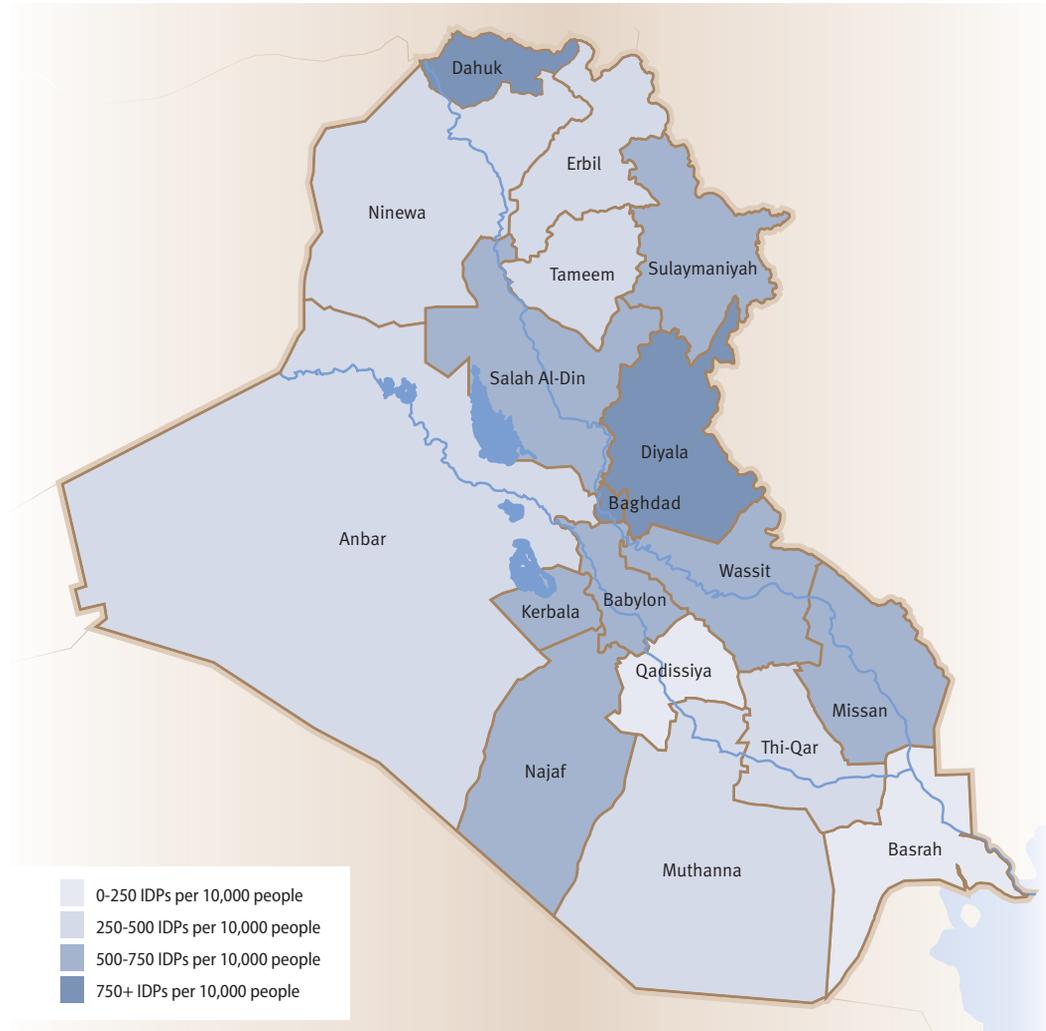
majority of resettled Iraqi refugees have been processed from third countries—especially Jordan and Syria—and 1,027 have been resettled from the in-country refugee processing program in Baghdad.³⁷⁰

Security concerns have caused significant delays in processing Iraqis seeking visas for the United States. As of June 25, 2009, 5,162 approved Iraqi refugees were awaiting clearance, 959 of which are processing from the in-country Baghdad refugee program. Before March 31, 2009, 641 Special Immigrant Visas (SIVs) had been issued to principal Iraqi applicants, and the Embassy's Consular Section issued an additional 362 visas from March 31 to June 14, 2009. As of March 2009, 819 SIVs had been issued to Iraqis who were principal applicants under the Section 1059 program,³⁷¹ which provides special immigrant status to Iraqi translators and interpreters who have served the U.S. Mission.

According to MNF-I, the Ministry of Displacement and Migration (MODM) plans to expand its assistance programs for IDPs and returnees. MODM Director General of Humanitarian Affairs, Samir al Nahi, claimed that the Prime Minister's office promised to supplement the Ministry's humanitarian assistance budget with an additional \$120.5 million—\$26.5 million in unspent funds from 2007 and \$94 million in new money.³⁷²

The MODM reports that it has streamlined the returnee process by removing a requirement that returnees register with local authorities before registering with the ministry—reducing average processing times by two-thirds. This quarter, the MODM concluded a two-month program for unregistered IDPs choosing to return to their place of origin to register and receive government stipends. In addition, the ministry plans to conduct a survey of Iraq's

FIGURE 2.39
NUMBER OF INTERNALLY DISPLACED PERSONS, BY PROVINCE



Sources: U.S. Embassy-Baghdad, responses to SIGIR data call, 3/29/2009 and 7/6/2009.

IDPs to determine their needs and assess their intent to return. Those who do not intend to return home would receive a \$400 stipend from the MODM to support their integration elsewhere, and their status would no longer be recorded as displaced.³⁷³

Health Care

The Department of Health and Human Services, through the Health Attaché's office in the U.S. Embassy, offers technical assistance to Iraq's Ministry of Health (MOH) in rebuilding Iraq's medical infrastructure. The Attaché's Strategic Plan for 2009–2010 outlines these priorities:³⁷⁴

- enhancing the quality and quantity of medical, nursing, and mental health professionals
- implementing the Field Epidemiology and Laboratory Training Program
- strengthening health infrastructure

In July 2009, the MOH requested additional funding for maintenance and repair of existing primary health care facilities in Iraq. An original project to build 150 Primary Healthcare Centers (PHCs) resulted in the completion of only 133 facilities. Problems with security, construction, and lack of progress on the remaining PHCs resulted in an “as is” turnover to the GOI, de-scoping, or de-programming. An assessment is planned to determine the extent of work needed to bring these facilities on-line.³⁷⁵

Basrah Children's Hospital

This quarter, SIGIR issued an inspection report on Basrah Children's Hospital (BCH), a pediatric specialty hospital in southern Iraq. The BCH project began on July 1, 2004, with a projected completion date of December 2005. To date,

construction on the 2-story, 160,000-square-foot, 94-bed acute and referral care center is ongoing. USAID was responsible for construction, while Project HOPE was responsible for providing medical equipment and training for Iraqi doctors and nurses. In June 2006, a “stop work” order was issued to the contractor—Bechtel—and the U.S. Embassy transferred oversight to the Gulf Region Division (GRD) of the U.S. Army Corps of Engineers. A new contract was awarded on September 30, 2006, with a new finish date of July 21, 2008. Since then 8 modifications and 22 additional contracts for support work have been issued. Current estimates for the hospital to be fully functional are 2011.³⁷⁶

Moreover, SIGIR inspectors found that although the contractors' design and quality control plans were sufficient as executed, they are expected to fall short of the proposed “state-of-the-art” hospital originally envisioned with respect to medical equipment and its operation. Unrealistic timeframes for design and construction, poor soil conditions, a drastically changing security situation, multiple partners and funding sources, and failure of the GOI to follow through on its obligations all have contributed to escalating the project's costs and delaying the opening. The United States has funded \$103.9 million in construction for this complex through the IRRF, Child Survivor and Health Programs Fund, and CERP fund. The Government of Spain, Project Hope, and the GOI have contributed an additional \$61.8 million.³⁷⁷

Missan Surgical Hospital

SIGIR also inspected the Missan Surgical Hospital, a facility that was originally planned as a “state-of-the-art” surgical hospital and medical training facility in Amara. The hospital's construction is funded with \$12.7 million in ESF funds. The

inspection revealed that the construction of the hospital was significantly behind schedule. Phase I of construction was to be completed on March 24, 2009, and Phase II on September 7, 2009; however, SIGIR estimated that each phase was approximately 10%-15% complete.³⁷⁸

SIGIR found that construction deficiencies and deviations from specifications in the design drawings, as well as slow progress by the contractor, have delayed the hospital's opening. Furthermore, the GOI, which is responsible for providing equipment and staff to operate and maintain the hospital, does not have the funds available to facilitate these requirements. Until these assets are in place, the hospital will serve no purpose. SIGIR recommended that GRD's Commanding General resolve the construction deficiencies and that the Iraq Transition Assistance Office continue its efforts to coordinate with GOI officials to ensure that the project will be equipped, staffed, and funded to maintain operations once construction is completed.³⁷⁹

Human Rights

According to the DoS May 2009 *Advancing Freedom and Democracy Reports*, conditions in Iraq have improved following improvements to Iraq's security forces. However, while extrajudicial killings by government agents have decreased sharply, discrimination and abuse against women and minorities continue. In addition, notwithstanding the GOI's respect for constitutionally protected religious freedom, radical Islamic and criminal elements continue to target religious minorities.³⁸⁰ For example, on July 12, 2009, at least four people were killed and dozens injured, including children, in bombings at churches in Baghdad and Mosul.³⁸¹ Trafficking



A cancer treatment ward, Basrah Children's Hospital.

in persons for sexual exploitation and forced labor were also reported as serious problems.³⁸²

U.S. support for human rights initiatives focuses on the documentation, prevention, and rehabilitation of victims of human rights abuses. Partnering with NGOs, the U.S. government assists the Ministry of Human Rights in gathering and analyzing data on human rights abuses using complex DNA techniques. U.S. training programs on parliamentary, legal, and journalistic subject areas also support rehabilitative services for victims of human rights violations.³⁸³

On June 16, 2009, Jawad al-Bulani, Iraq's Minister of Interior, announced that 43 police officers will face charges following an investigation into allegations concerning the abuse of prisoners. A special MOI investigative committee found 23 instances of abuse and 20 cases of incarceration without warrant.³⁸⁴

Prime Minister al-Maliki formed a committee to launch an investigation of conditions in Iraq's

prisons. The committee includes representatives from the GOI security ministries as well as human rights and judicial agencies. Concerns over prisoner rights have increased as the U.S. military continues to turn over custody of thousands of detainees under the Security Agreement. The UN has also warned of overcrowding and serious violations of the human rights of detainees in Iraqi custody. In addition, Harith al-Ubeidi, head of the Sunni Iraqi Accordance Front and deputy chair of the CoR's human rights committee, was assassinated June 12, 2009, after raising the issue in the CoR.³⁸⁵

In June 10, 2009 letter to Prime Minister al-Maliki, the Committee to Protect Journalists (CPJ) and the Baghdad-based Journalistic Freedoms Observatory raised their concerns over cases of assault and harassment of journalists by GOI officials. CPJ names Iraq as the most dangerous country to conduct journalism; 139 reporters have been killed there since 2003.³⁸⁶

International Efforts

After almost two years in Iraq, the Special Representative of the UN Secretary General, Staffan de Mistura, completed his tour this quarter; the UN has named al-Melkert as his successor.³⁸⁷ On June 30, 2009, the GOI opened a consulate in Detroit, Michigan, home of the largest Arab-American community in the United States. At its opening, the consulate joined other Iraqi missions around the world by hosting a Sovereignty Day event.

Also this quarter, several foreign dignitaries visited Iraq, and several significant events occurred on the diplomatic front:³⁸⁸

- In April, the President of the Palestinian Authority visited Iraq, the first visit of a Palestinian leader since 2003.
- In May, Sheikha Mozah Bint Nasser al-Missned, wife of the Emir of Qatar, visited Iraq, as did the Belgium Foreign Minister.
- In June, Sweden officially re-opened its embassy in Baghdad. Following a visit to Baghdad from its Foreign Minister, Norway announced its plans to open a new embassy in Baghdad.
- The Egyptian Foreign Ministry recently announced that it will be sending a new ambassador to Iraq. The previous Egyptian ambassador to Iraq was killed by al-Qaeda in 2005.
- In June, the Yemeni Foreign Ministry nominated an ambassador to Iraq. ♦

ECONOMY

Despite the worldwide financial downturn, Iraq's economy in 2009 is growing, although at a much slower pace than in 2008. The UN's mid-2009 update on the world economy named Iraq as one of only seven countries that would experience economic growth of 3% or more this year.³⁸⁹ Growth in Iraq is largely dependent on oil exports, which account for approximately two-thirds of the country's gross domestic product (GDP) and 85%–90% of the government's revenues.³⁹⁰ In addition, Iraq is much less integrated into the worldwide economy than neighboring oil-exporting countries, and its financial institutions have much less exposure to global "toxic" assets.³⁹¹ Continued growth, however, depends on Iraq's ability to attract needed foreign investment; to refurbish, expand, and protect its energy infrastructure; and to sustain levels of oil production and exports commensurate with growth.³⁹² The GOI also recognizes that a more diversified economy will increase Iraq's potential for sustainable, long-term development.³⁹³

In recognition of the importance of growth and job creation to stability in Iraq, the United States has allocated approximately \$1.46 billion, obligated approximately \$1.46 billion, and expended approximately \$1.28 billion to support and strengthen Iraq's economic development, as of June 30, 2009. For the status of U.S. funds to support economic governance and private sector development in Iraq, see Figure 2.40.

Gross Domestic Product

Estimates for positive GDP growth in Iraq vary, but all are based on the assumption that oil prices will continue to rebound in 2009 from the early low of \$35.60 per barrel.³⁹⁴ The International Monetary Fund (IMF) estimates that Iraq's real GDP will grow by 6.9% in 2009, compared with 9.8% in 2008.³⁹⁵ The UN estimates more modest growth of 6.3% this year,³⁹⁶ and the *Economist* Intelligence Unit forecasts 5.4% growth in 2009.³⁹⁷

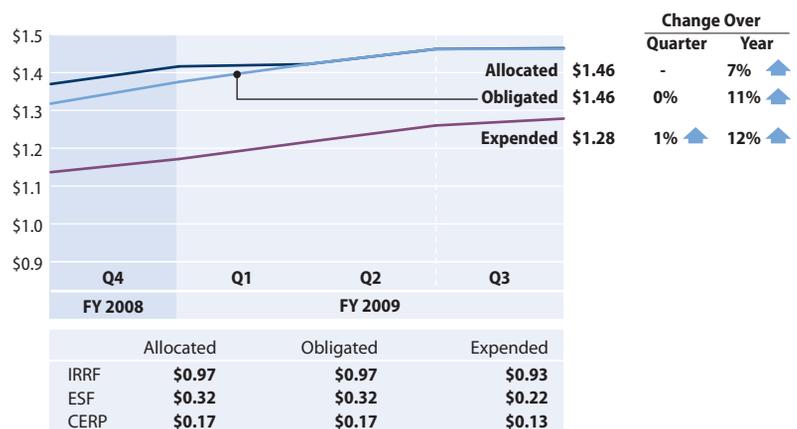
Real GDP growth, however, could fall to the 3% range if Iraq fails to boost oil exports beyond current levels or to improve the performance of its non-oil sectors.³⁹⁸ Oil-exporting nations this year are operating in the larger environment of a global economic slowdown, which has decreased the worldwide demand for oil—a major factor

WITHOUT ECONOMIC PROGRESS, WE CANNOT KEEP THE PEACE IN IRAQ ... SECURITY AND ECONOMIC DEVELOPMENT MUST HAVE EQUAL AMOUNTS OF INTEREST.³⁹⁹
—IRAQI PRIME MINISTER NOURI AL-MALIKI, APRIL 30, 2009

FIGURE 2.40

ECONOMY—STATUS OF FUNDS

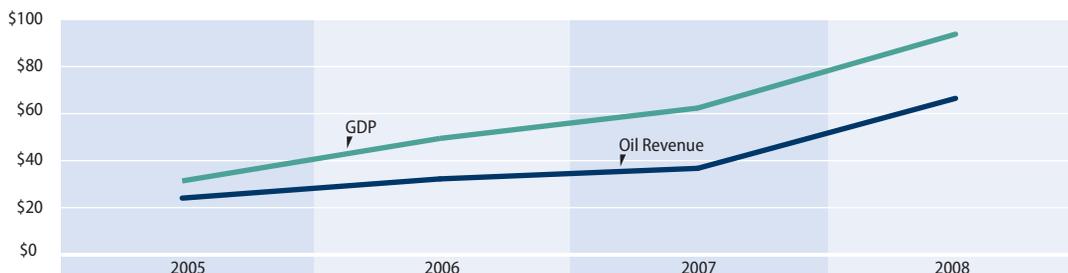
\$ Billions



Note: Data not audited. Numbers affected by rounding.

Sources: MNC-I, *Quarterly Report*, 7/4/2009; U.S. Embassy-Baghdad, response to SIGIR data call, 7/6/2009; ITAO, *Essential Indicators Report*, 5/14/2009; Treasury, response to SIGIR data call, 4/2/2009; USTDA, responses to SIGIR data call, 4/2/2009 and 4/13/2009.

FIGURE 2.41
RELATIONSHIP OF GOI OIL REVENUES TO IRAQI GDP
 \$ Billions



Note: IMF-estimated data for 2005–2006; IMF-projected data for 2007–2008. Oil revenue includes crude oil exports and domestic refinery activities.
Sources: IMF, “Country Report No. 08/303,” 9/2008, pp. 17, 19; IMF, “Country Report No. 08/383,” 12/2008, pp. 19, 21.

FIGURE 2.42
INFLATION AND CORE INFLATION RATES
 % Change over Previous Quarter



Note: Numbers affected by rounding. Iraqi consumer price index comprises: rent, miscellaneous commodities and services, medical services and medicine, communication and transportation, fuel and light, furniture, fabrics and clothes, drink and cigarettes, and food stuffs. Core inflation index excludes: fuel and light, as well as transportation and communications. June 2009 inflation data unavailable for 2nd quarter calculation.
Source: CBI, *Key Financial Indicators*, 6/25/2009, www.cbi.iq, accessed 6/29/2009; COSIT, *Indices Numbers for Consumer Prices*, www.cosit.gov.iq/English/indices.php, accessed 7/23/2009.

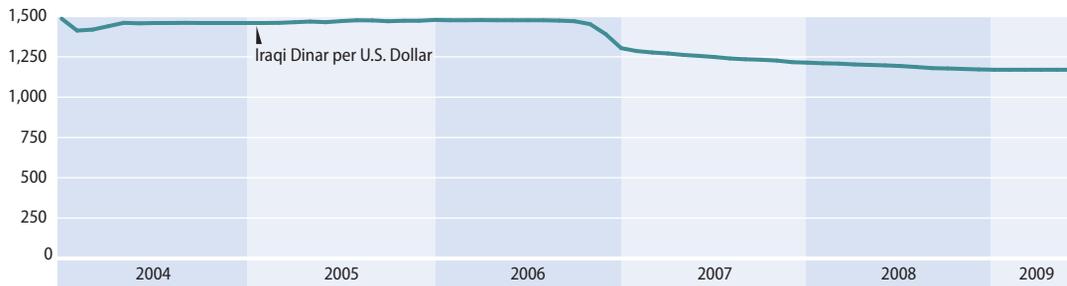
in the decelerating economic growth in all oil-exporting nations in the Middle East, including Iraq.⁴⁰⁰ Figure 2.41 shows the direct relationship between oil revenues and GDP growth in Iraq.

Inflation and Exchange Rates

Inflation in Iraq remains low, but volatile, with commodities having the biggest impact on price levels.⁴⁰¹ U.S. Embassy-Baghdad has observed that the May 2009 decision by the GOI

to support local farmers by limiting vegetable imports has yet to have any significant effect on food prices. The Embassy reports that the measure is being loosely enforced. Food prices represent approximately 63% of Iraq’s consumption basket, which is an inflation-measuring tool that represents the combination of goods and services consumed by a typical Iraqi family.⁴⁰² Figure 2.42 shows the recent quarterly trend for inflation and core inflation (which excludes fuel, electricity, communications, and transportation).

FIGURE 2.43
EXCHANGE RATE FOR THE IRAQI DINAR, 2004–2009
 Iraqi Dinar per U.S. Dollar, Daily Average



Source: CBI, *Key Financial Indicators*, 7/1/2009, www.cbi.iq, accessed 7/5/2009.

The Central Bank of Iraq has helped keep inflation low by allowing the dinar to appreciate against the U.S. dollar, increasing Iraqi purchasing power.⁴⁰³ Figure 2.43 shows the current exchange rates for the Iraqi dinar.

Unemployment

Iraq remains a predominantly state-controlled economy in which the government is the nation's largest single employer.⁴⁰⁴ Agriculture is the nation's largest private-sector employer, accounting for approximately 25% of all jobs.⁴⁰⁵ As discussed in previous SIGIR reports, employment in Iraq is difficult to measure accurately. Estimates of employment in the private-sector economy, especially in the informal economy, are sporadic and largely anecdotal. Reports from the Iraq Transition Assistance Office and others, however, suggest that recent security gains have fostered increases in community-based, small-business activity.⁴⁰⁶

According to Iraq's Central Organization for Statistics and Information Technology (COSIT), the employment situation in Iraq has recently

shown a short-term positive trend. COSIT estimates that national unemployment in Iraq fell from 18% in the first quarter of 2008 to less than 13% in the fourth quarter of 2008.⁴⁰⁷ COSIT's unemployment estimates are based on widely accepted measurement standards that do not include discouraged workers.⁴⁰⁸ U.S. Embassy-Baghdad, however, reports that COSIT employment data may be too optimistic.⁴⁰⁹ The *Iraq Index*, a Brookings Institution research publication that uses multiple sources to produce an estimate, places Iraqi unemployment in the 23%–38% range as of January 2009.⁴¹⁰ This is a 2% decrease from its estimated range of 25%–40% in 2008.⁴¹¹

Outstanding Debt

As of June 30, 2009, approximately \$74 billion in Iraqi debt had been forgiven, including \$42 billion owed to Paris Club creditors.⁴¹² Iraq's Paris Club debt is to be repaid in 6-month installments over a 23-year period.⁴¹³ The first principal payment will be made in July 2011.⁴¹⁴ Iraq continues to pursue forgiveness of its remaining

debt, estimated to total between \$50 billion and \$75 billion.⁴¹⁵ Its major outstanding creditors are Saudi Arabia, China, and Kuwait, to whom it owes an estimated \$32 billion to \$56 billion.⁴¹⁶

As part of their ongoing dialogue with other countries, DoS officials continue to encourage creditors that have not yet reached debt reduction agreements with Iraq to look to Paris Club terms as a model. Since January 2009, DoS has discussed Iraq debt reduction with Saudi Arabia, China, Kuwait, Qatar, Jordan, Turkey, Egypt, and Poland.⁴¹⁷

In June 2009, however, debt repayment became a source of increased bilateral tension with Kuwait as the UN Security Council took up the issue of the Chapter VII provisions related to Iraq. The GOI has asked that all Chapter VII provisions be lifted. The government of Kuwait, however, urged the UN not to lift the sanctions until Iraq pays its debts, including reparations owed from the 1990 Gulf War, and resolves other outstanding issues related to the Security Council resolutions.⁴¹⁸ As of June 30, 2009, the governments of Iraq and Kuwait had not yet come to an agreement over these issues and were still negotiating the issue.

While the Chapter VII provisions are in place, Iraq is required by UN Resolution 1483, as amended, to pay proceeds from the sale of its petroleum into two internationally supervised funds:⁴¹⁹

- 5% of Iraq's oil proceeds goes to the UN Compensation Commission (UNCC), which makes reparation payments to Kuwait and other authorized claimants.
- 95% goes into the Development Fund for Iraq (DFI), which is used for the benefit of the Iraqi people. The DFI is currently supervised by the International Advisory and Monitoring Board for Iraq (IAMB). The UN mandate for IAMB is scheduled to expire December 31,

2009, after which an Iraqi-appointed oversight board (Committee of Financial Experts, or COFE) is scheduled to assume oversight responsibilities.⁴²⁰

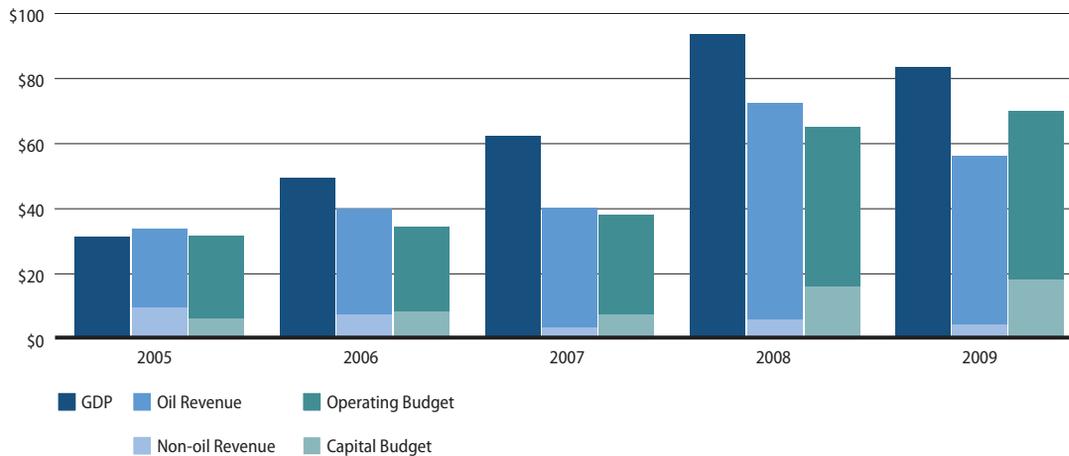
In June 2009, the UN Security Council heard the Secretary General's report on the UN Assistance Mission for Iraq (UNAMI)—one of a series of high-level reports on Iraq scheduled to be heard by the Security Council this summer. The Secretary General's report, mandated by Resolution 1859, will examine relevant facts related to Iraq and the UN Charter Chapter VII provisions. It is being finalized and is expected to be debated in the Security Council in August or September of this year.⁴²¹

Iraqi Budget

The decline in worldwide oil prices from the record-high levels of 2008 has affected Iraq just as it is assuming increasingly greater responsibility for funding its own reconstruction.

The GOI's final 2009 budget, adopted in April, projected expenditures of \$58.6 billion and revenues of \$42.7 billion, based on a price of \$50 per barrel of oil.⁴²² During the second quarter of 2009, however, the price of Kirkuk crude rose to an average of \$57.46 per barrel.⁴²³ As a result, discussion among Iraqi lawmakers of a "negative budget supplemental" that would acknowledge a budget deficit has subsided.⁴²⁴ In fact, Iraq's cabinet has approved a supplemental budget, based on revenues from potentially higher oil exports and mobile phone fees, which would add approximately \$3 billion in expenditures to the 2009 budget. This measure, however, must be reviewed and approved by the Council of Representatives (CoR) before it becomes law.⁴²⁵

FIGURE 2.44
IRAQI GDP, GOI REVENUE, AND GOI BUDGET
 \$ Billions



Note: Numbers affected by rounding. IMF-estimated data for 2005–2006; IMF-projected data for 2007–2009. Non-oil revenue includes grants. Budget excludes contingency funds.

Sources: IMF, “Country Report No. 08/303,” 9/2008, pp. 17, 19; IMF, “Country Report No. 08/383,” 12/2008, pp. 19, 21.

Iraq’s Ministry of Oil is counting on foreign investment to ramp up oil production. But the much-anticipated June 30 auction of service contracts for six oil fields and two natural gas fields in Iraq produced only one accepted bid. This means that current levels of oil production are likely to prevail throughout the year.⁴²⁶ From January to June 2009, oil exports averaged 1.86 million barrels per day (MBPD), which is below the GOI’s projected target level of 2 MBPD.⁴²⁷ For more detailed information on the oil and gas auction, see the Infrastructure section in this Report.

As noted previously by SIGIR, the largest single portion of Iraq’s budget is devoted to operating expenses: 78% of the 2009 budget pays for salaries, social benefits, pensions, goods and services, interest, assistance, grants, non-financial assets, and other expenditures. Approximately 22% of the budget funds capital reconstruction

projects.⁴²⁸ Through April 2009, GOI ministries had spent approximately \$8.3 billion on operating costs and approximately \$700 million on capital projects.⁴²⁹

For an overview of the GOI’s revenue and budget, relative to Iraq’s GDP, see Figure 2.44.

Closing Budget Gap

Several variables—such as the price of oil, the amount of oil exports, and actual government expenditures in 2009—will determine whether the GOI has a deficit and the size of its deficit. But absent significant budget cuts or dramatically rising oil prices or exports, the GOI is on track to produce its first-ever, post-war budget deficit in 2009, which the GOI estimates will be approximately \$16 billion.⁴³⁰ This deficit could be covered by current unexpended fiscal balances of approximately the same amount.⁴³¹ Without significant budget cuts, however, Iraq would

need oil prices to continue to rise to about \$80 per barrel to balance the 2010 budget.⁴³² The Ministry of Finance (MOF) responded to this challenge with multiple rounds of spending cuts to the initial draft of the 2009 budget. It also established a budget committee to propose caps on 2010 budget expenditures that are based on more realistic economic scenarios.⁴³³

Iraq is also considering other mechanisms to finance government expenditures, such as the sale of treasury bonds to fund reconstruction projects.⁴³⁴ In addition, the GOI had preliminary discussions with the IMF on a potential new Stand-By Arrangement for \$5.5 billion. Representatives of the GOI and IMF met in July to discuss conditions, with a view to potentially finalize a program by October 2009.⁴³⁵

The GOI is looking to generate additional revenues from development of its energy sector. The Ministry of Oil proposed to assess \$2.6 billion in up-front signing fees, or “soft loans,” on foreign companies that receive contracts to develop Iraqi oil and gas fields. The GOI plans to invest these funds in reconstruction projects.⁴³⁶ However, as noted previously, the June oil and gas auction resulted in only one international company being awarded a contract. The Cabinet’s spokesman had previously announced in May 2009 that a 35% tax on oil company profits had been approved by the Cabinet and sent to the Parliament for approval.⁴³⁷

Strengthening Transparency and Accountability

The U.S. government is assisting Iraq in developing the tools and expertise needed to implement a transparent, accountable, and sustainable budgeting system at both the national and

provincial levels. SIGIR has reported many times on the challenges related to one of these tools, the Iraq Financial Management Information System (IFMIS). On June 3, 2009, USAID OIG released an audit of the Economic Governance II (EG II) program, of which IFMIS is a component. The audit concluded that the IFMIS project was behind schedule and not fully operational. Among the difficulties encountered in completing the EG II program, the information technology (IT) leader and four other colleagues were kidnapped in June 2007.⁴³⁸ On June 20, 2009, the British Foreign Secretary confirmed that the remains of two of the hostages had been recovered and that the kidnapped project leader and two others were believed to still be in captivity and in grave danger.⁴³⁹ In the audit, USAID OIG noted that security issues surrounding the EG II program limited the agency’s ability to verify program fulfillment.⁴⁴⁰

As of June 30, 2009, 245 of the 250 spending units in the GOI have been trained on IFMIS, and 107 units are using the system as part of their budgeting process. However, many obstacles impede implementation of the system:⁴⁴¹

- The MOF has not provided IFMIS equipment or connectivity to 80 GOI spending units (32%), but it reports that procurement of these items is currently in progress.
- The MOF has not yet assumed full responsibility for IFMIS or committed funding for service and maintenance costs, including signing a contract with the software company that designs and maintains the system.
- The MOF has not yet confirmed that it is able to provide appropriate housing and security for the data backup server.

In addition, U.S. Embassy-Baghdad reports that it cannot confirm the MOF’s commitment to adopting and using the most crucial part of

the system, the Budget Module.⁴⁴² U.S. Embassy-Baghdad reports that the completion date for IFMIS project activities is July 31, 2009, and the estimated total cost is \$32 million.⁴⁴³

Strengthening Key Sectors of the Private Economy

Agriculture

Agriculture accounts for approximately 10% of Iraq's GDP and approximately 25% of employment. Yet Iraq continues to be a net importer of food, a situation exacerbated by the recent drought. Total rainfall in most of Iraq during autumn 2008 and spring 2009 (the most recent wheat-growing season) was only marginally better than last year, which was well below normal. Rainfall during this period averaged 45%–75% below normal for the most productive wheat-growing regions of Iraq.⁴⁴⁴

In addition, the flow of river water available to Iraq for cultivation has been further reduced by dams previously built on tributaries of the Euphrates and Tigris rivers in Turkey, Syria, and Iran.⁴⁴⁵ The GOI continues to negotiate with neighboring countries, especially Turkey, to increase the flow of water from the Euphrates and Tigris rivers into Iraq. For more information on the status of the water supply, see the Infrastructure section of this Report.

As a result of acute water shortages, Iraq is experiencing its second consecutive year of reduced wheat harvests.⁴⁴⁶ In fact, the Ministry of Agriculture reported in March 2009 that Iraq is using only about 50% of its arable land because of lack of irrigation and poor soil quality.⁴⁴⁷ The provinces of Ninewa, Erbil, and Tameem, which account for 35% of the nation's wheat production, were particularly hard hit by a lack of

rainfall.⁴⁴⁸ The provinces of Diyala, Wassit, and Qadissiya, producers of an additional 32% of the nation's wheat, were hurt by the drop in Tigris and Euphrates water levels.⁴⁴⁹ The U.S. Department of Agriculture estimates that 2009–2010 wheat production in Iraq will be approximately 1.35 million tons—45% below normal.⁴⁵⁰ In addition, Iraq's central and southern provinces are expected to reduce rice planting by half in summer 2009 because of insufficient water.⁴⁵¹

Drought conditions have also caused other problems for Iraqi farmers. For example, an unprecedented number of poisonous snakes fleeing the water-deprived marshes near Nassriya have attacked cattle and buffalo, causing serious losses to farmers in southern Iraq.⁴⁵²

In addition to the drought, other factors are contributing to lower agricultural output in Iraq. Cheaper imported vegetables are undercutting prices for Iraqi produce, creating disincentives for Iraqi vegetable farmers. In response, the GOI announced a temporary ban on vegetable



A dry lake due to the drought, which runs 20 kilometers in southern Iraq through the provinces of Thi-Qar, Missan, and Basrah. (GOI Photo)

imports in June 2009, which could be lifted if shortages ensue.⁴⁵³ The low prices set by the government for wheat and barley purchased for the Public Distribution System, as well as the volume of wheat imported for the program, have also created disincentives for domestic cultivation.⁴⁵⁴ In a step to increase agricultural output, the Chairman of Iraq's National Investment Commission announced that 50-year lease contracts on Iraqi farmland would be offered to foreign investors from the Gulf region.⁴⁵⁵

The U.S. government supports the revitalization of Iraqi agriculture through a variety of programs to upgrade irrigation techniques, boost agricultural and dairy production, and train Iraqis in modern animal husbandry techniques and sanitary slaughtering practices. For example, during May and June 2009, the Inma Agri-Business Program conducted these activities:⁴⁵⁶

- completed construction of a fruit and vegetable packing house outside Baghdad, demonstrating how modern food handling and packing practices can increase shelf-life and the revenue generated from crops
- signed three feedlot grants to demonstrate how livestock can be raised more economically in confinement
- imported 12,400 Hungarian fingerlings to cross-breed with heat-resistant Iraqi carp to increase aquaculture yields
- ordered 120,000 U.S.-grafted fruit saplings and rooted grape vines for export to Iraq in 2010 to help increase agricultural output

In another example, a newly constructed U.S.-funded slaughterhouse in Qala Diza will provide modern meat processing facilities for the local population, who are primarily engaged in trading, farming, and raising sheep and calves. The Deputy Inspector General for Iraq

Reconstruction visited this facility in Sulaymaniyah province on June 19–22, 2009.⁴⁵⁷

Foreign Investment in Iraq

President al-Maliki made several trips abroad this quarter to publicize investment opportunities in Iraq. On April 30, 2009, he led an Iraqi delegation to a London investment conference—jointly sponsored by Iraq's National Investment Commission and the UK Department for International Development—to discuss oil and infrastructure opportunities in Iraq.⁴⁵⁸ The Prime Minister also led a delegation to Paris on May 4, 2009, to discuss investment opportunities in Iraq with French President Sarkozy and other French senior officials.⁴⁵⁹ These are part of a series of bilateral investment conferences, the importance of which is indicated by the following upcoming events in 2009:⁴⁶⁰

- October 20–21 Iraq Business Forum in Washington, D.C.
- November 3–4 investor conference in Beijing, China
- November investment conference in Berlin, Germany
- Fall investor conferences in Paris, France; Seoul, Korea; Sweden; and Italy

Following up on the Prime Minister's announcement in London that Iraq is working to create a friendly environment for foreign investment, the Iraqi Council of Ministers approved a bill in June 2009 legalizing foreign ownership of Iraqi land for investment in housing construction projects.⁴⁶¹ The legislation, which represents a departure from previous Iraqi policy, is currently pending in the Council of Representatives.⁴⁶² It represents an attempt to find workable solutions for reforms that are politically difficult to implement at this time.⁴⁶³ U.S. Embassy-

Baghdad, however, points out that major obstacles to foreign investment in Iraq persist, including bureaucratic inefficiencies, infighting among political factions, and corruption.⁴⁶⁴

Despite the challenges, the GOI and the U.S. government are working together to increase the number of Iraqi-owned businesses that can successfully compete for government contracts. A key focus of this effort is to increase economic opportunities for traditionally underserved communities, especially women. Since FY 2005, JCC-I/A reports that reconstruction and rebuilding contracts valued at more than \$450 million have been awarded to businesses in Iraq owned by women. For a more detailed discussion, see the Contracting section of this Report.⁴⁶⁵

Challenges to Modernizing Key Iraqi Financial Institutions

A functioning, well-capitalized banking system is key to sustaining economic growth. The U.S. government, along with the IMF and the World Bank, is working to strengthen the management and capitalization of Iraq's public- and private-sector banks, as well as to increase the access of the GOI and Iraqi citizens to modern financial products and services. But cultural and trust issues in Iraq remain obstacles to implementing a modern banking system.⁴⁶⁶

The U.S. Department of the Treasury (Treasury) reports that although most Iraqis trust the large state-owned banks, they remain suspicious of privately owned banks. As of June 2009, 31 private banks had been licensed, and 22 of them were actually operating. Privately owned banks are small and highly risk-averse. Lending

is not their dominant line because of the unusual risks inherent in Iraq's economy.⁴⁶⁷

With the exception of perhaps 10 banks, most private banks do not follow international standards or have modern credit departments. Even if they are partially owned by foreign banks, there is little transfer of knowledge and no non-Iraqi senior management to drive reform. Many of the chairmen of these private banks live outside of Iraq, principally in Amman, Jordan. With little incentive and no enabling legislation, private banks are not likely to merge or acquire each other.⁴⁶⁸

Al-Warka Bank is the largest private bank in Iraq in terms of assets and the country's fifth largest bank. At the end of 2008, al-Warka had assets of \$1.3 billion and 85 branches, built quickly in 2007 and 2008 through property purchases and branch expansion. Without any marketing effort and relying on its "reputation," al-Warka has expanded from 500 customers in 2003 to 70,000 customers in 2009. However, al-Warka reportedly is "locked out" of business with public-sector entities (deposits and wage and pension distribution) because it lacks political connections.⁴⁶⁹

USAID's Tijara initiative is designed to address the many barriers to private lending in Iraq. A key area of focus is improving lending resources for small- and medium-size enterprises (SMEs). In June 2009, a \$6 million USAID grant supported the start of operations for the Iraqi Company for SME Finance Ltd. (ICF-SME). Established by nine shareholder Iraqi banks, the goal of the ICF-SME is to provide capital to participating commercial banks, enabling them to lend to qualified borrowers at below-market rates. Tijara also supports the Iraq Company for

Bank Guarantees (ICBG) initiative. Since 2006, 344 loans representing \$7 million have been disbursed under ICBG guarantee to SMEs.⁴⁷⁰

For a list of the top private banks in Iraq, by number of branches and assets, please see Table 2.20.

TABLE 2.20
TOP PRIVATE BANKS RANKED BY BRANCH
NUMBER AND TOTAL ASSETS

BANK	BRANCHES
Al-Warka Bank	85
Investment Bank of Iraq	20
Economy Bank	20
Bank of Baghdad (25% UGB)	19
Iraqi Middle East Investment Bank	18
Dar As-Salaam Bank (75% HSBC)	14
Gulf Commercial Bank	14
Basrah International	13
Credit Bank of Iraq (75% NBK)	12
Mosul Bank	12
	TOTAL ASSETS (USD Millions)
Al-Warka Bank	\$1,285
Iraqi Middle East Investment Bank	\$646
Bank of Baghdad (25% UGB)	\$483
Al-Bilad Islamic Bank	\$480
Dar As-Salaam Bank (75% HSBC)	\$401
Basrah International	\$363
North Bank	\$303
Credit Bank of Iraq (75% NBK)	\$290
Kurdistan Islamic Bank	\$217
Gulf Commercial Bank	\$206

Note: UGB = United Gulf Bank, Kuwait; NBK = National Bank of Kuwait; HSBC = HSBC Group (London).

Source: U.S. Treasury, response to SIGIR data call, 7/2/2009.

Treasury has identified many constraints to private-sector bank lending, including:⁴⁷¹

- Loan decisions are delayed because of the poor quality of loan applications and lack of credit officer experience. When potential bank customers seek financing, they draw on savings or relatives first and microfinance institutions last.
- The main source of bank revenue is not interest earned from loans: it is transaction fees for electronic funds transfer and the processing of state-owned enterprise transactions, such as direct deposits and cash disbursements. Reliance on fee income is safer because credit risk cannot be reliably assessed.
- There are no guidelines or manuals at the branch level to assess credit risk and no uniform loan application process. Disclosure standards and audit requirements are not available.
- Opening a personal or commercial bank account is a cumbersome and costly process at the private banks. Many types of identifications, certifications, and approvals are required. The banks assess a 2% fee for making a deposit. ATM usage is minimal, but the Smart Card biometric debit card issued by state-owned banks seems to be gaining popularity.

Update on the Rafidain and Rasheed Banks

The majority of all Iraqi banking assets are held in the two largest publicly owned banks, Rafidain and Rasheed.⁴⁷² As reported earlier by SIGIR, Rafidain and Rasheed are currently undergoing major restructuring with support from the U.S. Treasury and the World Bank. Based on the audits of a private U.S. accounting firm, an Action Plan (2008–2012) for the Iraqi Banking Reform Strategy has been developed with detailed plans to correct the operational deficiencies of these two banks. International

donors, along with senior level officials from the Central Bank and the MOF, met the first week of July 2009 in Cairo to coordinate activities and draw on lessons learned from bank restructuring efforts currently underway in Egypt. Conference participants also included representatives from the U.S. Treasury, Financial Services Volunteer Corps, IMF, World Bank, and Egyptian Banking Institute.⁴⁷³ The Action Plan is scheduled to be implemented over the next three years.⁴⁷⁴

In the interim, Treasury reports slow but steady progress on developing and implementing a core banking system for Rafidain Bank. Rasheed Bank has made an initial recommendation for a core banking system, but the MOF has

not yet approved it. Progress is also being made on documenting current operational processes in both banks, but they have resisted a strategic planning exercise to define their goals and franchises.⁴⁷⁵ In terms of financial restructuring, two areas of particular contention involve the difficulties associated with writing off external debts, and the absence of documentation to reconcile accounts.⁴⁷⁶ The World Bank has appointed a former consultant to Iraq's Central Bank to coordinate the operational restructuring of both banks.⁴⁷⁷ The Rafidain and Rasheed banks have also recently issued approximately 362,000 Smart Cards for direct deposit of salaries and pensions.⁴⁷⁸ ♦