

SIGIR OBSERVATIONS

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SECTION

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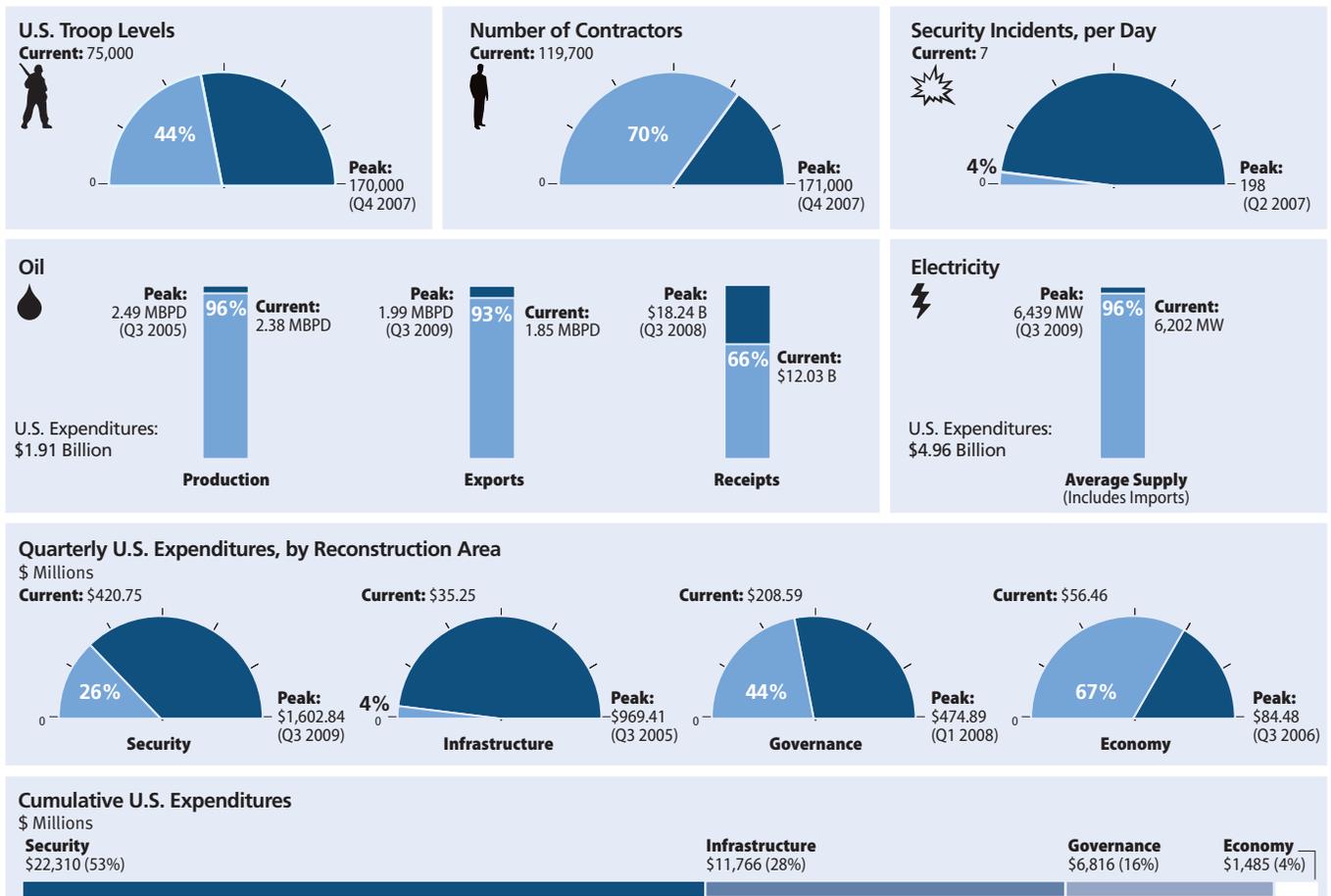
FROM TRANSITION TO TRANSFORMATION?

One month and one day from the issuance of this report, the United States will formally conclude its combat mission in Iraq, reducing its in-country troop presence to less than 50,000—the lowest level since April 2003. This August 31 milestone will be marked by the re-designation of Operation

Iraqi Freedom as Operation New Dawn. The new nomenclature reflects the evolving nature of the relationship between the United States and Iraq. See Figure 1.1 for an update of key indicators.

Notwithstanding these vital developments, a variety of daunting challenges continue to confront the fledgling Iraqi democracy, including the pressing need to form a new government, the fragile security situation, the weak ability of the GOI to deliver essential services to its citizens, and the cancer of corruption:

FIGURE 1.1
DASHBOARD OF KEY INDICATORS, CURRENT QUARTER VS. PEAK QUARTER



Note: Data not audited. Numbers affected by rounding. Quarters refer to the calendar year.

Sources: For sources, see the specific discussions in Section 2.

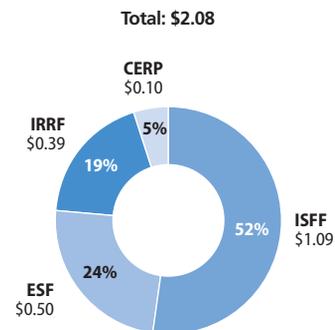
- Governance.** As of July 20, 2010, the major blocs in the Council of Representatives (CoR) have been unable to agree on who will fill the crucial positions of president, speaker of the CoR, and prime minister. Without a permanent government in place, thousands of other posts throughout the GOI—including the heads of the ministries—remain in the hands of caretaker occupants. Until a new government is seated, progress on most issues will remain stalled, including conducting the long-awaited national census and effectively pacifying the persistent jurisdictional tensions between the national government in Baghdad and the Kurdistan Regional Government (KRG).
- Security.** The United States currently has about 75,000 troops deployed across Iraq, about 55,000 fewer than in July 2009—a 42% decrease.¹ Notably, the substantial reduction in U.S. forces over the past year has not resulted in a rise in overall violence levels. But this quarter did see significant attacks against important Iraqi financial institutions, assassinations of prominent Iraqi politicians, and more lethal assaults on Sons of Iraq members. As U.S. forces continue to draw down between now and the end of 2011 (when all U.S. troops are scheduled to be out of Iraq), the Iraqi Security Forces (ISF) must improve concomitantly its capacity to meet the array of security threats that still face Iraq.
- Services.** Iraq’s Minister of Electricity resigned on June 21, a move prompted by several days of violent demonstrations in the south spurred by electricity shortages. The Minister of Oil was appointed acting Minister of Electricity, and he will hold both posts until a new government is formed.²
- Corruption.** Iraq’s “second insurgency”—endemic government graft and public sector malfeasance—continues to drain the state of needed resources and capacity. Moreover, in one of the most significant corruption trials since 2003, the former Minister of Trade was acquitted (a second case against him remains pending). Iraq has yet to hold a single senior official

fully accountable for corruption. This integrity vacuum understandably weakens public trust in the Iraqi government.

U.S. FUNDING UPDATE

The Congress has appropriated or otherwise made available \$53.79 billion for reconstruction efforts in Iraq since 2003, chiefly through four major funds: the Iraq Relief and Reconstruction Fund (IRRF), Iraq Security Forces Fund (ISFF), Economic Support Fund (ESF), and Commander’s Emergency Response Program (CERP).³ As of June 30, 2010, \$2.08 billion of previously obligated funds had not been expended, and an additional \$2.34 billion remained unobligated.⁴ Figure 1.2 summarizes the current status of unexpended obligations of the four major funds. For more on U.S. reconstruction funding, see Section 2.

FIGURE 1.2
UNEXPENDED OBLIGATIONS: MAJOR U.S. FUNDS
\$ Billions



Note: Data not audited. Numbers affected by rounding. OSD does not report CERP obligation and expenditure data for project categories on a quarterly basis for all fiscal year appropriations. SIGIR pulls CERP project category data from the IRMS, which lags in reporting. Therefore, category totals found in the Funding Sources subsection of this Report may not match top-line values found in the other subsections.

Sources: P.L. 108-106; P.L. 108-11; P.L. 108-287; P.L. 108-7; P.L. 109-102; P.L. 109-13; P.L. 109-148; P.L. 109-234; P.L. 109-289; P.L. 110-161; P.L. 110-252; P.L. 110-28; P.L. 110-92; P.L. 110-116; P.L. 110-137; P.L. 110-149; P.L. 111-117; P.L. 111-118; P.L. 111-32; DoS, response to SIGIR data call, 4/5/2007; NEA-I, responses to SIGIR data calls, 4/2/2010, 4/12/2010, 4/14/2010, 6/30/2010, 7/6/2010, and 7/8/2010; OSD, responses to SIGIR data calls, 4/10/2009 and 7/13/2010; U.S. Embassy-Baghdad, response to SIGIR data call, 7/14/2010; U.S. Treasury, response to SIGIR data call, 4/2/2009; USACE, response to SIGIR data call, 7/12/2010; USAID, responses to SIGIR data call, 7/8/2010 and 7/13/2010; USTDA, response to SIGIR data call, 4/2/2009.

RECONSTRUCTION UPDATE

The summer’s transitions include the imminent arrival of new U.S. military and diplomatic leadership in Baghdad, as well as the opening of new offices to manage the remaining U.S. reconstruction programs and projects, the release of a new Iraqi *National Development Plan* (NDP), and the publication of a new framework for cooperation between the United Nations and the GOI.

Familiar Leadership Returning to Iraq

On June 28, President Barack Obama nominated Ambassador James Jeffrey as the next U.S. Ambassador to Iraq. Ambassador Jeffrey, our current Ambassador to Turkey, will replace Ambassador Christopher Hill, who has served as Ambassador to Iraq since April 2009. Ambassador Jeffrey brings a wealth of relevant experience, having served as Deputy Chief of Mission in Baghdad and later as Chargé d’Affaires (in 2004 and 2005) and subsequently as Senior Advisor to the Secretary of State and the White House on Iraq (in 2005–2006). Upon confirmation, Ambassador Jeffrey will become the fifth U.S. Ambassador to Iraq since 2003, following Ambassadors Negroponte, Khalilzad, Crocker, and Hill.

Ambassador Jeffrey will be assisted by a new Deputy Chief of Mission (DCM) and a new Assistant Chief of Mission. This quarter, Stuart Jones replaced Cameron Munter as DCM, and Peter Bodde replaced Patricia Haslach as the Assistant Chief of Mission.

The President also nominated Lieutenant General Lloyd Austin to the rank of General, with assignment as Commanding General of the United States Forces-Iraq (USF-I). Confirmed by the Senate on June 30, Austin replaces General Raymond Odierno, who will return to the United States to lead the U.S. Joint Forces Command, in Norfolk, Virginia. General Austin, most recently the Director of



Ambassador James Jeffrey. (DoS photo)



General Lloyd Austin. (DoD photo)



General James Mattis. (DoD photo)

the Joint Staff, was in Iraq in 2003, as Assistant Commander for the 3rd Infantry Division, and in 2008–2009, as Commanding General of the Multi-National Corps-Iraq.

In other notable command shifts, General James Mattis has been nominated to lead U.S. Central Command (CENTCOM), replacing General David Petraeus, who now leads U.S. forces in Afghanistan. General Mattis led the 1st Marine Division in the 2003 invasion of Iraq and previously commanded a battalion during Operation Desert Storm.

C³ Replaces JCC-I/A

This quarter, CENTCOM established a new agency to oversee contracts throughout its area of responsibility—the CENTCOM Contracting Command (C³). On June 30, the responsibilities of the former Joint Contracting Command-Iraq/Afghanistan (JCC-I/A) transitioned to C³, which is based in Qatar.⁵

ISPO Replaces ITAO

In May, the President signed an executive order establishing the Iraq Strategic Partnership Office (ISPO). Housed within the Department of State (DoS), ISPO replaces the Iraq Transition Assistance Office (ITAO), which replaced the Iraq Reconstruction Management Office (IRMO) in 2007. ISPO has assumed ITAO's remaining responsibilities, including supporting the Provincial Reconstruction Teams (PRTs).⁶

Safeguarding Diplomats

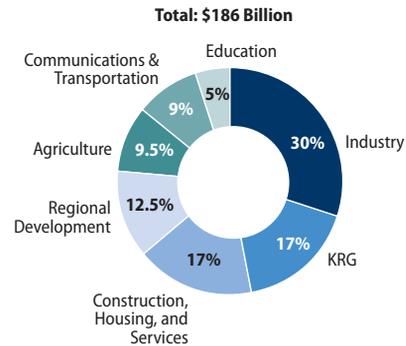
This quarter, DoS reportedly requested that the Department of Defense (DoD) transfer certain military hardware to DoS for security at its five Enduring Presence Posts (EPPs). The equipment includes 24 helicopters, 50 armored vehicles, and other ancillary logistical and security equipment.⁷ Additionally, DoS requested permission to use DoD's LOGCAP contract to continue to provide life-support services to the EPPs and U.S. Embassy-Baghdad.⁸

NEW IRAQI NATIONAL DEVELOPMENT PLAN

On July 4, 2010, the Prime Minister and Minister of Planning and Development Cooperation publicly presented Iraq's new NDP. Crafted with assistance from the U.S. Agency for International Development (USAID) and the international community, the NDP charts a five-year course for Iraq's social and economic development and environmental protection. It assumes that Iraq will generate \$334 billion in revenue between 2010 and 2014, basing the number on an average oil price per barrel of \$60 in 2010, \$63 in 2011, and \$68 in 2012–2014. The NDP's goals include:⁹

- creating 3.5 million new jobs
- cutting unemployment in half from the current estimated level of 15%

FIGURE 1.3
IRAQI NATIONAL DEVELOPMENT PLAN



Note: SIGIR categorizes programs and projects by sector using criteria different from those found in the NDP.

Source: USAID, "The Iraqi National Development Plan," briefing for the CERP conference, Al-Faw Palace, Baghdad, 7/7/2010, slide 11.

- generating a 9% annual gross domestic product (GDP) growth rate
- reforming the legal and administrative systems
- enhancing rural development
- supporting decentralization
- reducing poverty by 30% in comparison to 2007 levels
- increasing environmental protection

According to the NDP, \$186 billion in investment will be required to achieve these goals—\$100 billion from the GOI and \$86 billion from the private sector. These funds will support 2,831 projects, 43% of which will be for construction.¹⁰ Figure 1.3 shows the proposed distribution of this money by sector.

UNDAF UNVEILED

This quarter, the UN finalized its strategic plan to aid Iraq—the *United Nations Development Assistance Framework for Iraq 2011–2014* (UNDAF). The UNDAF provides strategic direction for international support to Iraq over the next four years through five priorities: improved governance, economic growth, environmental stewardship, better services, and

increased investment in human capital. The UN estimates the UNDAF will cost \$1.90 billion, of which only \$250 million is currently available.¹¹

The UNDAF goals are strikingly similar to those in the international community’s previous five-year plan for Iraq, the *International Compact with Iraq* (ICI). Initiated in 2007, the ICI detailed almost 300 benchmarks to measure Iraq’s political, social, and economic progress. But the ICI’s mandate terminated, with most goals unmet or only partially addressed. To avert the same fate for the UNDAF, the UN and the GOI will have to aggressively oversee its implementation.

FORMING THE NEW GOVERNMENT OF IRAQ

On March 7, 2010, Iraq held elections for its 325-seat parliament. Former Prime Minister Ayad Allawi’s al-Iraqiya coalition won 91 seats, with current Prime Minister Nouri al-Maliki’s State of Law Coalition (SoL) finishing a close second at 89 seats. Figure 1.4 summarizes the final, certified results of the March balloting.¹²

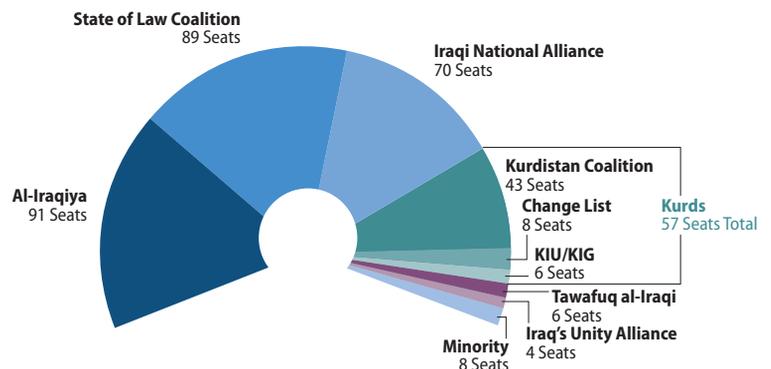
Certifying the Election

On May 3, 2010, at the urging of the SoL, the Independent High Electoral Commission (IHEC) began a recount of the approximately 2.5 million ballots cast in Baghdad province.¹³ After an 11-day manual review, IHEC upheld the results of the March election, announcing that al-Iraqiya had maintained its two-seat lead over the SoL.¹⁴ The election results were certified by Iraq’s Chief Justice, Medhat al-Mahmoud, on June 1, 2010.¹⁵

Shifting Political Sands

This quarter, Iraq’s major political blocs attempted to assemble the 163 votes needed to earn the right to select Iraq’s next prime minister. To that end, on May 5, 2010, representatives from SoL and the Iraqi

FIGURE 1.4
FINAL, CERTIFIED RESULTS OF MARCH 2010 ELECTIONS



Source: GOI, IHEC, “Iraqi CoR Election Results,” 3/28/2010, ihec-iq.com/en/results.html, accessed 7/21/2010.

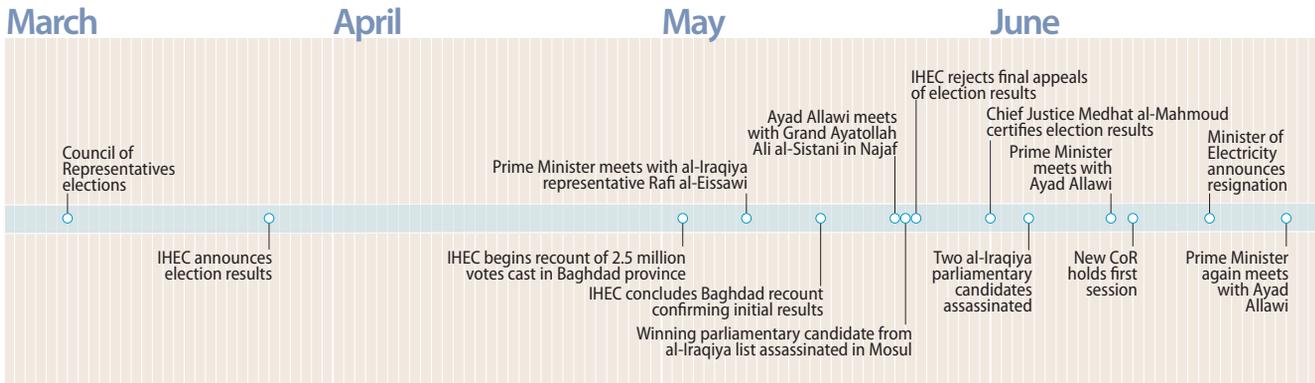
National Alliance (INA) announced the formation of an alliance between the two groups, but they have been unable to agree on a single candidate for prime minister. The dominant faction within the INA—the Sadrist Trend—refuses to accede to SoL’s insistence that Prime Minister al-Maliki be given a second term. Meanwhile, al-Iraqiya and the Kurdistan Alliance sought support from splinter groups, including some within SoL and the INA. On July 20, Prime Minister al-Maliki again met with Ayad Allawi, but the two were unable to break the impasse, leaving Iraq still without a new government. On July 21, Muqtada al-Sadr again publicly stated that al-Maliki was unacceptable as the next prime minister. Figure 1.5 presents some of most significant political events occurring this quarter, while Figure 1.6 compares key events in the 2010 election cycle with the 2005–2006 cycle.

Who Goes First: Differing Interpretations

Articles 55 and 70 of the Iraqi Constitution state that the CoR shall elect a speaker during its first session and then a president (no set deadline). Within 15 days of election, according to Article 76, the president must charge the “largest bloc” in the CoR to name a prime minister, who then has 30 days to form a government.¹⁶

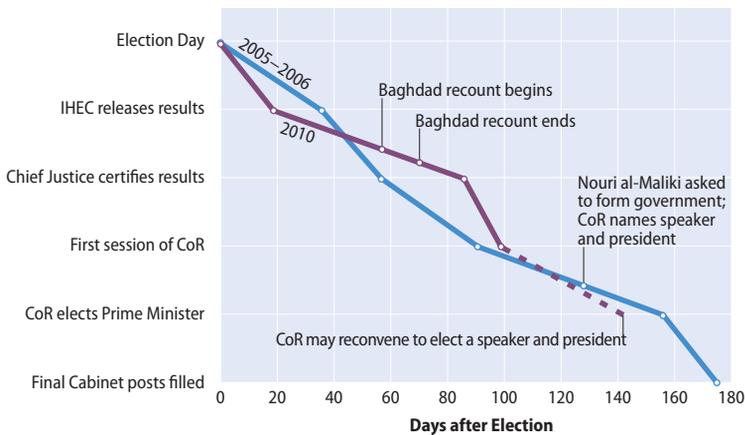
The meaning of the term the “largest bloc” has been disputed. Al-Iraqiya insisted that it means the

FIGURE 1.5
TIME LINE OF KEY POST-ELECTION POLITICAL DEVELOPMENTS, 3/1/2010–6/30/2010



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

FIGURE 1.6
GOVERNMENT FORMATION: 2005–2006 VS. 2010



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

bloc that won the most seats, citing the precedent of the 2005 CoR election. But SoL contended that it means the largest post-election alliance formed by coalitions within the 325-member CoR. On March 25, the Chief Justice issued a ruling stating that the “largest bloc” means the majority alliance formed after the election with the most seats.¹⁷

Council of Representatives Convenes

The new CoR convened on June 14, 2010—99 days after the March elections, with the session lasting

less than 30 minutes, just long enough for members to take the oath of office. It was scheduled to meet again on July 27, 2010, when the election of the speaker and the president presumably would be on the agenda.¹⁸ However, it was possible that this meeting would be delayed if the major political blocs fail to agree on who should fill those two key posts. The CoR has planned to meet on a very limited schedule for the holy month of Ramadan, which begins at moonrise on August 10. Thus, it is possible that Iraq could go without new leadership and a new government well into September, if not beyond.

Challenges Ahead

Once formed, the new government will confront a series of contentious issues requiring urgent action:

- **Anticorruption.** Iraq’s three main anticorruption entities—the Commission of Integrity (COI), the ministry inspectors general (IGs), and the Board of Supreme Audit (BSA)—still derive their legitimacy from orders drafted by the Coalition Provisional Authority (CPA) in 2003–2004. This quarter, however, senior GOI officials informed the SIGIR Inspector General that the new CoR will prioritize the debate and passage of new anticorruption legislation, which will clarify the roles and responsibilities of the COI, IGs, and BSA.¹⁹



Members take the oath of office at the first session of the Council of Representatives. (GOI photo)

- **Hydrocarbon legislation.** This long-awaited package of legislation, comprising four separate laws, is essential to clarifying the regulatory regime that will govern the ongoing exploitation of Iraq's hydrocarbon resources.²⁰
- **Control of Kirkuk.** Article 140 of the Iraqi Constitution requires a referendum as part of the constitutional process for determining the status of Kirkuk, which, though not within its jurisdiction, is historically claimed by the KRG. The referendum has been put off repeatedly, increasing tensions between the GOI in Baghdad and the KRG.
- **Constitutional reform.** In July 2009, the GOI's Constitutional Review Committee submitted 68 pages of proposed amendments to the Iraqi Constitution to the CoR. If the new CoR approves them, a national referendum will then ensue wherein voters will have the opportunity to approve or reject the reform package *in toto*.²¹
- **Appointments.** More than 100,000 government jobs remain in abeyance awaiting the formation of the new government.

SECURITY

Violence Trends

Iraq remains a dangerous place. However, when compared to the peak of sectarian violence in 2006, the country is significantly more peaceful.

Notwithstanding that statistical truth, hundreds of Iraqi civilians continue to fall victim to violence each month. In June, approximately 204 were killed, down 39% from May, when 337 were killed. June's death toll was also a 36% drop from the 320 civilian deaths reported in June 2009.²² Figure 1.7 displays civilian deaths on a monthly basis from January to June 2010.

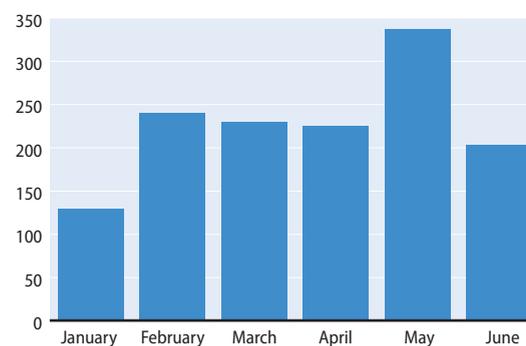
Significant attacks continue to be concentrated in Baghdad and in the north around Mosul. On June 13, gunmen clad in Iraqi Army uniforms attacked the Central Bank of Iraq in Baghdad, killing 26.²³ One week later, two car bombs exploded outside the Baghdad-based Trade Bank of Iraq, killing 18 people.²⁴ And during a three-day period in early July, at least 70 Shia pilgrims were killed in a series of bombings around Baghdad.²⁵

Political killings also occurred this quarter, with several members of the al-Iraqiya list assassinated, including Bashar Hamid al-Lagaidi, who won election to the CoR in March. Two other al-Iraqiya candidates, who did not win seats, were killed in early June.²⁶ Figure 1.8 maps some of the key violent incidents occurring between mid-April and mid-July 2010.

U.S. Military Rapidly Reducing Footprint

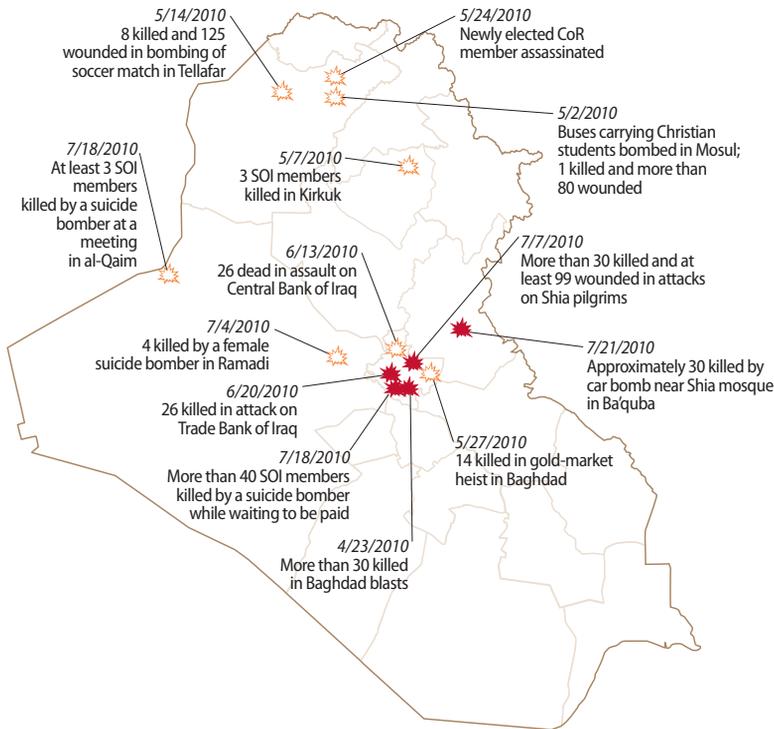
USF-I now maintains 124 bases in Iraq, 40% less than in July 2009. By the end of August, when troop levels reach 50,000, about 97 U.S. bases will

FIGURE 1.7
IRAQI CIVILIANS KILLED IN ATTACKS, 1/2010–6/2010



Source: Brookings Institution, *Iraq Index*, 6/30/2010, pp. 3, 4.

FIGURE 1.8
SIGNIFICANT SECURITY INCIDENTS, 4/15/2010–7/21/2010



Note: All casualty figures are based on the best information available.

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

remain. The remaining U.S. forces in Iraq will focus on advising and assisting the ISF, supporting select counter-terrorism operations in cooperation with the ISF, and providing security to the Department of State's PRTs. All U.S. military personnel are scheduled to depart Iraq by December 31, 2011.²⁷

General Odierno Suggests UN Peacekeeper Presence in Northern Iraq

The USF-I is rapidly reducing its presence in northern Iraq. Of the approximately 54 USF-I facilities there in early 2010, only about 8 will remain under complete U.S. control by September 1.²⁸ In early July, outgoing USF-I Commanding General Odierno stated that UN peacekeepers may ultimately be required to maintain stability in the north, given

the increase in tensions between the KRG and the GOI over the disputed Kirkuk oil fields. General Odierno suggested that a UN presence might prevent the outbreak of violence.²⁹

Iraqi Security Forces

The Iraqi Army (IA) and other Ministry of Defense (MOD) forces number more than 250,000, while the Ministry of Interior (MOI) currently fields about 410,000 police and border enforcement personnel.³⁰ The IA is transitioning domestic security responsibilities to the MOI, a process that will accelerate over the coming months. Responsive to this shift, the IA continues to acquire modern equipment, including 140 M1A1 tanks, which will allow it to focus on its chief mission of securing Iraq against external threats. As one U.S. general stated in June, "the Iraqis are very aware that they live in a neighborhood where they must be able to protect Iraqi sovereignty."³¹

On June 1, Iraqi forces assumed full control over all entry points into the International Zone. The ISF had been jointly manning these entry points with the U.S. military since January 2009. U.S. forces remain in an advisory role to the ISF troops who guard the protected enclave that houses many GOI government offices and U.S. Embassy-Baghdad.³²

Sons of Iraq

Throughout this quarter, former Sunni insurgents known as the Sons of Iraq (SOI) were repeatedly the targets of terrorist attacks. Most notably, on July 18, a suicide bomber struck a group of SOI near Baghdad, killing more than 40. That same day, at least three other SOI were killed in another suicide bombing at al-Qaim in Anbar province.³³

The U.S. military transferred responsibility for paying the SOI to the GOI in 2009, but the GOI has been repeatedly delinquent in providing the monthly salaries. As of July, less than half (about 41,000) of the 94,000 SOI had been offered positions in the government,³⁴ and USF-I reported that the MOD has halted transitioning SOI members until it reassesses the security situation. The GOI's

SIGIR Inspector General Meets with the Leadership of the Central Bank of Iraq

On May 25, 2010, the Inspector General met with senior officials at the Central Bank of Iraq (CBI), including the CBI Governor, Dr. Sinan al-Shabibi. The discussion focused on the key economic issues currently facing the GOI, including combating corruption, attracting foreign investment, and creating a modern regulatory framework that is conducive to privatization. According to CBI representatives:³⁸

- Tracking government funds disbursed to Iraqi ministries is a serious problem. The lack of

transparency on the use, misuse, or nonuse of these monies prevents the GOI from having a complete or accurate picture of its fiscal situation.

- The GOI has about 3 million employees—10% of the estimated population of Iraq—the highest number ever.
- Iraq will have difficulty increasing its oil production in 2010 primarily because of obsolete infrastructure and diminished production from the fields around Kirkuk. However, the

CBI representatives claimed that oil smuggling is becoming less of a problem. (The IG from the Ministry of Oil contradicted this point in a

separate meeting with the Inspector General.)

- Iraq's private banking sector is still in its infancy. The Ministry of Finance has cut ties with private banks and refuses to accept their checks. Moreover, legal and technological challenges deter foreign banks from establishing a presence in Iraq.



Sinan al-Shabibi, Governor of the Central Bank of Iraq. (Central Bank of Iraq photo)

willingness and ability to further integrate SOI will significantly affect future relations between the Shia majority and the Sunni minority.³⁵

Last Large U.S.-run Detainee Facility Turned Over to the GOI

On July 15, 2010, the USF-I transferred control of Cropper Theater Internment Facility to the Iraqi Correctional Service, which is part of the Ministry of Justice. At the time of its transfer, Cropper held about 1,600 detainees.³⁶ The prison is located near the Baghdad International Airport and is the last of the major U.S.-administered detention facilities to be turned over to the GOI. Camp Bucca in southern Iraq was transferred last fall, and Camp Taji was turned over in March 2010. At the end of June, 1,769 detainees remained in U.S. custody, down from about 10,000 in January 2009 and more than 25,000 three years ago.³⁷

ECONOMIC GROWTH

Iraq's real GDP is forecasted to grow by an annual average of 6.3% in 2010, up from an estimated 4.5% in 2009. This strengthening depends on the ISF maintaining a relatively stable security situation and the GOI obtaining—and applying effectively—increased foreign investment, especially in the oil sector. In 2012, significant increases in oil production are expected to derive from the recent international investments,³⁹ which would bode well for Iraq's medium-term economic prospects.

OIL SECTOR

Oil: Goals, Production, and Exports

On June 7, Iraq's Minister of Oil reiterated plans to increase Iraq's crude oil production nearly fivefold by 2017, from the less than 2.5 million barrels per day (MBPD) today to 12 MBPD. This quarter, oil production was unchanged from the previous one,

holding steady at 2.38 MBPD, slightly less than the average production during the same quarter in 2009. Exports dropped 5% from last quarter to an average of 1.85 MBPD.⁴⁰

Pipeline Exclusion Zone Breached for the First Time

In at least three separate incidents this quarter, oil pipelines within Pipeline Exclusion Zones (PEZ) were damaged by attacks. These were the first reported attacks on PEZ-protected pipelines since these zones started to become operational in the late fall of 2007. One attack prevented the Doura refinery in Baghdad from receiving about 20,000 barrels per day (BPD) for several days. Other attacks in April and June interrupted flows in the export pipeline to Turkey.⁴¹

International Investment in Oil Sector

This quarter, a Sino-Turkish consortium contracted with the GOI to expand production in three Missan province oil fields.⁴² Of the eleven service contracts awarded to international oil firms in 2009, the joint venture between British Petroleum and the China National Oil Company to exploit the Rumaila field appears to be the most advanced; Ministry of Oil officials predict an almost 200,000 BPD increase in production by the end of this year.⁴³

Private oil services firms, including many with substantial U.S. ties, are increasing their presence in Iraq to support the bid-winning consortiums. For example, Weatherford International Ltd. plans to have about 1,000 personnel on the ground in Iraq by the end of July, and Schlumberger anticipates having 300 employees by year's end.⁴⁴ For more information on international investment in Iraq's oil sector, see Section 2.

Iraq Plans Four New Oil Refineries

Due to aging infrastructure and years of war, Iraq has limited domestic refining capacity, causing the country to depend on imports from neighboring countries, including Iran. Iraq currently operates three main oil refineries and eleven smaller ones

with a combined capacity of 790,000 BPD. The largest of four planned refineries would be built in the southern city of Nassiriya and have a refining capacity of 300,000 BPD. The other three would be constructed in Kirkuk, Missan, and Kerbala and possess a combined capacity of 440,000 BPD.⁴⁵

In June, the Ministry of Oil announced a package of incentives aimed at attracting investment to support the construction of the new refineries. The refineries would either be privately owned or structured as public-private partnerships. This approach is significant, given that the oil industry in Iraq is now entirely government-owned.⁴⁶

POWER SHORTAGES AND PROTESTS

This quarter, the average daily supply of electricity on Iraq's national grid was 6,202 megawatts (MW), of which 5,435 MW was produced domestically and 767 MW was imported (78% of which was from Iran). Imports this quarter increased 10% over last.⁴⁷

The combination of insufficient fuel and water to generate power, planned and unplanned outages, and record-high demand in June (averaging 10,800 MW) caused by an unexpectedly severe heat wave exacerbated the summer power shortages that perennially plague Iraq.⁴⁸ In mid-June, protestors demonstrating against blackouts rioted in Basrah, Nassiriya, and Ba'quba. The protests became lethal in Basrah on June 19, when the ISF killed two protestors. Following a similar disturbance in Nassiriya on June 21, the Minister of Electricity resigned and was replaced by the Minister of Oil.⁴⁹

ANTICORRUPTION

New Coordinator for U.S. Anticorruption Effort

In late June, Andrew Dowdy replaced Ambassador Joseph Stafford as the head of the Embassy's Anti-Corruption Coordination Office (ACCO). He is the ACCO's fourth leader since the office's creation (in response to a SIGIR audit) in early 2008, and the eleventh official in charge of U.S. anticorruption efforts since the beginning of 2004. As of June 23, 2010, the ACCO will report directly to the DoS Bureau of International Narcotics and Law Enforcement Affairs (INL) office at U.S. Embassy-Baghdad. Previously, the ACCO had reported to the Assistant Chief of Mission.⁵⁰

Commission of Integrity

This quarter, the COI reported that it had opened 93 cases in the first four months of 2010, including one against an undisclosed GOI minister.⁵¹ For a detailed breakdown of these cases, see Figure 1.9.

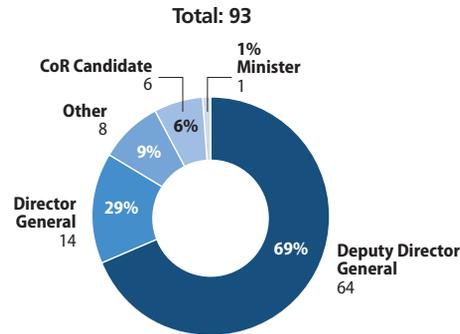
Minister of Trade Acquitted

This quarter, the Rusafa criminal court in Baghdad dismissed one of two cases against the former Minister of Trade for allegedly squandering public funds allocated to the Iraqi Public Distribution System (PDS). The COI and one member of the previous parliament have announced their intention to appeal. A second corruption case against the former Minister of Trade is still pending.⁵²

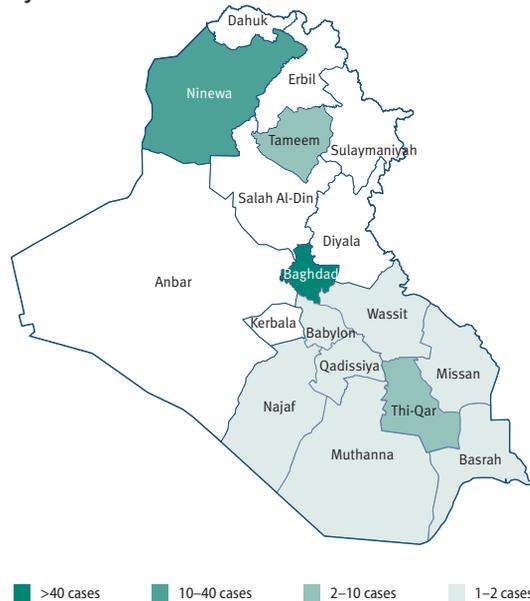
Inspectors General

At the end of May, SIGIR conducted a training seminar for its audit staff in Baghdad and opened the session to top officials from the Iraqi IG community. Among the attendees were the IGs from the Ministries of Electricity, Oil, Industry and Minerals, Finance, Education, Trade, Communications, and Interior (Deputy IG). The session gave SIGIR's Iraqi counterparts a look at how the organization provides in-house training to its

FIGURE 1.9
CASES OPENED BY THE COI, 1/1/2010–4/30/2010
By Investigated Subject's Rank



By Province



Source: GOI, COI, response to SIGIR data call, 7/1/2010.



SIGIR Inspector General and members of the Iraqi IG community, May 2010.

employees as part of SIGIR's overall quality-assurance program. The class also covered U.S. Government Accountability Office audit standards, which were available in Arabic.

SIGIR OVERSIGHT

Audits

SIGIR issued five audit reports this quarter. To date, SIGIR has published 171 audits. As described in greater detail in Section 3, SIGIR's audits this quarter reviewed:

- **Economic Support Fund (ESF) allocations.** This report analyzes the status of the \$45 billion in ESF allocated for use by DoS and USAID in Iraq. The programs funded by the ESF focused on improving the security situation, building the governmental capacity of the GOI, and enhancing economic growth. SIGIR determined that DoS and USAID had obligated 96% of allocations and liquidated about 80% as of March 31, 2010.
- **Development Fund for Iraq (DFI).** Beginning in 2004, DoD managed the Iraqi oil revenue deposited in the DFI. The funds were to be used for the reconstruction of Iraq. After reviewing DoD's financial and management controls, SIGIR concluded that weaknesses in these controls left DoD unable to account for \$8.7 billion of the \$9.1 billion in DFI funds it received. This transpired primarily because most DoD organizations receiving DFI funds did not establish the required accounts with the Department of the Treasury and no single DoD organization was responsible for managing the use of DFI funds. SIGIR recommended that DoD update its financial management regulations and guidance and determine whether any DoD organizations are still holding DFI funds.
- **DoS Oversight of Democracy Grants to the International Republican Institute (IRI).** SIGIR's review of DoS's management of a \$50 million

grant to IRI for democracy-building activities in Iraq found that inadequate DoS oversight and weak IRI compliance with the grant's requirements combined to leave the U.S. government vulnerable to paying excessive charges and with insufficient information regarding what was achieved—other than the holding of 271 training sessions for about 5,000 Iraqis over two years.

- **DoD, DoS, and USAID Records-management Policies for Reconstruction Data.** DoD, DoS, and USAID have not fully implemented their respective policies for preserving their Iraq reconstruction records, leaving the U.S. government vulnerable to waste and theft. While this audit did show some progress in preserving these records, SIGIR remains particularly concerned about the lack of progress in preserving ISFF and CERP records.
- **Progress on SIGIR's Forensic Audit Initiative.** As part of its statutorily required forensic review of the more than \$53 billion in U.S. funds appropriated for the reconstruction of Iraq, SIGIR to date has reviewed 108,000 transactions valued at \$35.8 billion. After reviewing potential duplicate payments involving DoD-related IRRF and ISFF projects, SIGIR concluded that most of the suspicious transactions were legitimate. SIGIR also concluded its review of possible duplicate payments made by USAID in connection with IRRF- and ESF-funded projects. Here, SIGIR found that duplicate or overpayments, as well as payment and accounting adjustments, were made in 36 of the 54 transactions reviewed, and USAID had either recovered the funds or made the appropriate ledger adjustments for all of the amounts.

For more on SIGIR audits this quarter, see Section 3.

Investigations

SIGIR investigators are currently working 112 open cases, many in close conjunction with domestic and international law enforcement partners in the United States, Iraq, and elsewhere. To date,

SIGIR's investigative work has led to 29 arrests, 43 indictments, 34 convictions, and more than \$70.7 million in fines, forfeitures, recoveries, and restitution payments. Highlights from this quarter's investigative work include:

- On July 22, 2010, a former DoS official was arrested and indicted for his alleged role in a \$147,000 wire-fraud scheme involving the conversion of U.S. government property for his own use.
- In early May, West Point graduate and U.S. Army Captain Michael Dung Nguyen was sentenced to 30 months in prison following his guilty pleas to the crimes of theft of government property and structuring financial transactions. He previously admitted that while on deployment to Iraq, he stole and converted to his own use approximately \$690,000 in U.S. currency derived from CERP funds. During the execution of a search warrant, investigators discovered more than \$300,000 in stolen CERP funds hidden in the attic of Nguyen's Portland family home. Nguyen was ordered to serve three years of supervised release, pay restitution in the amount of \$200,000, and forfeit his interest in all personal property he bought with the stolen money as well as the remaining funds seized by the government at the time of his arrest.
- On May 10, 2010, Captain Faustino Gonzales, U.S. Army, was charged in a one-count indictment of a gratuity received by a public official. Gonzales was a U.S. Army Project Purchasing Officer in Iraq. Gonzales admitted that in September 2006, he conspired with a contracting company to receive \$25,000 in bribes in return for awarding CERP contracts. He pled guilty on June 24, 2010, and is awaiting sentencing.
- On May 14, 2010, a criminal information was filed in federal court charging a former employee of a United States-based construction company with conspiracy to defraud the United States by accepting \$384,000 in kickbacks from subcontractors whom he helped to get contracts on government building projects in Iraq between 2005 and 2008.
- On May 17, 2010, Captain Eric Schmidt, U.S. Marine Corps (USMC), pled guilty in federal court to conspiracy to commit wire fraud and filing a false federal tax form. Schmidt and his wife were charged on March 4, 2010, with conspiring to skim approximately \$1.75 million from government contracts awarded under the Iraqi First Program. At sentencing, Captain Schmidt and his wife each face up to 23 years in federal prison.
- That same day, Master Sergeant Terence Walton, USMC, was convicted by a General Court Martial of bribery, graft, and failure to obey a direct order. Walton was a contract specialist in Iraq from 2005 to 2006. He was sentenced to a reprimand, reduction in rank from E-8 to E-3, a \$65,000 fine, and 62 days confinement. As a result of these convictions, a warrant was executed on June 3, 2010, and federal agents seized four vehicles.
- On May 24, 2010, a USMC major turned himself in to federal authorities in Arizona pursuant to an arrest warrant on charges he illegally deposited more than \$440,000 into U.S. bank accounts following a 2005 deployment in Iraq where he served as a project purchasing officer for the CERP.
- In the most recent development in the "Cockerham case," which to date has resulted in eleven indictments and nine convictions, a relative of former U.S. Army Major John Cockerham submitted a cashier's check in the amount of \$100,000 for voluntary surrender to the U.S. Marshals Service Asset Forfeiture account. It is alleged that the relative received \$300,000 from a Kuwait-based contracting company. The money was identified as funds from the bribery scheme orchestrated by Cockerham.
- On July 7, 2010, U.S. Army Major Charles E. Sublett pled guilty in federal court in Tennessee to making false statements to a federal agency. According to the indictment, while stationed in Iraq as a contracting officer in 2005, Sublett smuggled into the United States more than \$100,000 in currency.

For additional details on SIGIR's recent investigative activities, see Section 3.

Upcoming Inspections and Evaluations Reports

Later this year, SIGIR will publish its inspections capping report, summarizing and analyzing its findings from the 170 project assessments, 96 limited on-site assessments, and 871 aerial assessments that it has issued over the past five years. Most of the former members of SIGIR's Inspections Directorate have transitioned to the new Evaluations Directorate and are currently contributing to the first evaluation reports, which will be released later in 2010.

Testimony

On May 24, 2010, the Commission on Wartime Contracting in Iraq and Afghanistan (CWC) held hearings on the U.S. government's ability to curb waste, fraud, and abuse in contingency operations. The hearings focused on challenges confronting law enforcement agencies, including preparing successful criminal prosecutions in contingency environments.⁵³ SIGIR's Deputy Inspector General and Assistant Inspector General for Investigations testified on the breadth of criminal activity observed in Iraq, SIGIR's investigative capabilities and processes, and actions necessary to prevent and detect fraud in other contingency operations.⁵⁴

On June 29, 2010, the Inspector General testified before the Subcommittee on National Security and Foreign Affairs of the House of Representatives' Committee on Oversight and Government



SIGIR officials and other oversight officials testify before Commission on Wartime Contracting in Iraq and Afghanistan, May 2010. (CWC photo)

Reform as part of a panel examining the problems associated with subcontracting in contingency operations. The IG's testimony noted that government leaders need to take steps to prevent contractors—and those layered below them—from undermining the government's interests. In his appearance, the Inspector General also reiterated two recommendations SIGIR has made in the past: the implementation of a "Contingency Federal Acquisition Regulation" and the creation of a new integrated office to manage stabilization and reconstruction operations.

THE HUMAN TOLL

U.S. Civilian Deaths

DoS reported that three U.S. civilians died in Iraq this quarter. Two died of natural causes. The cause of death in the third case has yet to be determined. Since March 2003, at least 305 U.S. civilians have died in Iraq.⁵⁵

Contractors

On July 22, 2010, several rockets impacted inside the International Zone, killing three foreign-national contractors working for Triple Canopy, a U.S.-based security company. Figure 1.10 lists the 15 contracting companies that have reported the largest number of deaths in Iraq since March 2003.

This quarter, the Department of Labor (DoL) received reports of 12 additional deaths of contractors working on U.S.-funded programs in Iraq. DoL also received reports of 882 injuries this quarter that caused the injured contractors to miss four or more days of work. Since 2003, at least 1,487 death claims have been filed with the DoL.⁵⁶

Journalists

On May 6, 2010, the body of Kurdish student journalist Sardasht Osman was found near Mosul. He had been shot twice in the head.

Osman acquired a degree of local fame for his pieces critical of corruption in the KRG. He was a contributor to the *Ashtiname* newspaper in Erbil and also published his work in several online forums. Osman was the only journalist reported killed in Iraq this quarter.⁵⁷

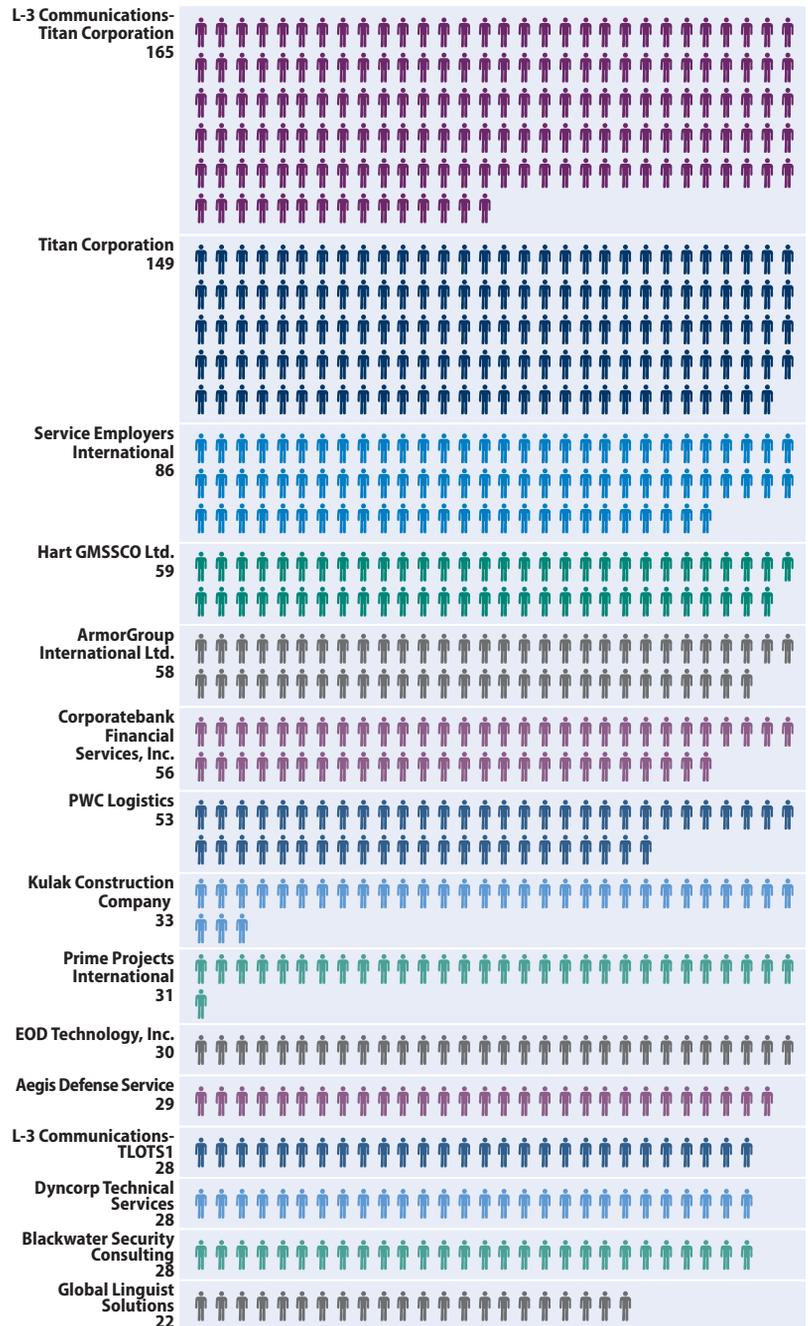
In the wake of Osman’s murder, the Committee to Protect Journalists (CPJ) sent an open letter to KRG President Massoud Barzani expressing its deep concern about deteriorating press freedom conditions in the Kurdistan Region. The CPJ also criticized KRG officials for filing criminal lawsuits intended to silence news coverage and called on President Barzani to issue clear directives to all security forces, instructing them to refrain from assaulting or obstructing journalists.⁵⁸

UN Releases Report on Human Rights

In early July, the UN published its latest report on the human rights situation in Iraq, noting that while Iraq has made some progress, significant areas of concern remain. The report was prepared by UNAMI and the Office of the UN High Commissioner for Human Rights and covers the last six months of 2009. Key findings included:⁵⁹

- Civilian deaths declined slightly over the second half of 2009 (1,998) when compared to the first half of the year (2,070).
- Approximately 9,747 civilians were injured during the reporting period, a marked increase over the first six months of 2009 when 6,188 civilians were reported injured.
- Militants continue to attack places of worship, bombing at least 11 churches and 5 Shia mosques.
- Death sentences are being carried out more frequently (31 during January–June versus 93 during July–December).
- Targeted assassinations against government officials and high-profile figures continued throughout the period with judges, tribal leaders, ministers, provincial council members, and senior-ranking security officials being targeted. ♦

FIGURE 1.10
EMPLOYERS FILING THE MOST DEATH BENEFIT CLAIMS UNDER THE DEFENSE BASE ACT, 3/1/2003–6/30/2010



Note: Each symbol represents a claim.

Source: U.S. Department of Labor, response to SIGIR data call, 7/1/2010.