

U.S. PRESENCE AND RECONSTRUCTION MANAGEMENT

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THE U.S. PRESENCE IN 2011

Consistent with the terms of the U.S.-Iraq Security Agreement (SA) of 2008,¹⁵⁰ the U.S. Forces-Iraq (USF-I) is slated to begin a rapid drawdown this summer, leading to a complete exit of U.S. troops on December 31, 2011. While the U.S. government has expressed a willingness to keep a contingent of military personnel beyond the current end-of-mission deadline,¹⁵¹ as of July 20, 2011, the Government of Iraq (GOI) had not asked the United States to extend the presence of U.S. military personnel beyond the end of the year. During a recent visit to Iraq, new Secretary of Defense Leon Panetta commented that any such extension would require a formal request from the GOI.¹⁵²

As the troops depart, U.S. Embassy-Baghdad and the Department of State (DoS) will take on a series of ever-increasing challenges. While maintaining a significant diplomatic presence, DoS over the next six months will assume primary responsibility for a planned \$6.8 billion operation that includes advising and mentoring the Iraqi Security Forces (ISF), leading the Police Development Program (PDP), supporting advice and training for purchased military equipment, and building capacity and providing technical assistance to various government ministries and provinces. It will do so from 11 locations around Iraq, including three consulates and the world's largest embassy. DoS will also be responsible for working with the Department of Defense (DoD) to execute two of the largest Foreign Military Sales (FMS) and Foreign Military Financing (FMF) programs in the world and to spend the \$2.55 billion in Iraq Security Forces Fund (ISFF) budgetary authority remaining as of June 30, 2011.¹⁵³

Plans call for up to 16,000 government employees and contractors needed to do the work and to ensure adequate air and land transportation, maintenance of intelligence and security capabilities, personal protection, life support, logistics, and medical services. The challenges to negotiate and

manage the contracts for these services are greater than any previously faced by DoS and are being addressed in coordination with DoD, which is providing bridging support through contract vehicles such as the Logistics Civil Augmentation Program (LOGCAP) and staffing assistance through the Defense Contract Management Agency and Defense Contract Audit Agency.¹⁵⁴

Reconstruction in Transition

U.S. Army Corps of Engineers

On June 2, the U.S. Army Corps of Engineers (USACE) closed the Gulf Region District (GRD), which was located at USF-I headquarters. USACE

As of July 20, 2011, the GOI had not asked the United States to extend the presence of U.S. military personnel beyond the end of the year.



Assistant Secretary of State for Near Eastern Affairs Jeffrey Feltman, Consul General Piper A. W. Campbell, U.S. Ambassador James Jeffrey, and Maj. Gen. Eddy M. Spurgin at the July 5 inauguration of the U.S. Consulate in Basrah. (USF-I photo)

With the exception of the FMS work, MED expects all remaining projects in Iraq to be completed by September 2013.



On June 2, 2011, Gulf Region District Commander Col. Jon Christensen (right) and Transatlantic Division Commander Maj. Gen. Kendall Cox participated in a ceremony transferring GRD's responsibilities for Iraq reconstruction to USACE's Middle East District. (USACE photo)

began its Iraq reconstruction efforts in 2003 and consolidated them under one command in January 2004 when it formed the Gulf Region Division. From the outset, this Division was a provisional entity, and when USACE's workload and the theater's reconstruction effort began to transition toward the Iraqis taking the lead, USACE began consolidating its various Iraq engineer districts. In October 2009, USACE disestablished the Division, and by the end of March 2010, what remained in theater was GRD and three area offices. With the closing of GRD, all remaining USACE reconstruction activity in Iraq is being executed by an area office that reports to the Middle East District (MED) in Winchester, Virginia.¹⁵⁵ Since 2003, USACE has completed more than 5,000 reconstruction projects, valued at \$8.4 billion.¹⁵⁶

MED has taken over responsibility for 48 GRD legacy projects and 8 GRD service contracts. In

addition, it has five projects funded by the Economic Support Fund (ESF) and four projects funded by the FMS program—collectively valued at \$533 million—in the pre-award stage, as well as two studies, valued at \$1 million, working in support of the GOI. With the exception of the FMS work, MED expects all remaining projects in Iraq to be completed by September 2013.¹⁵⁷

MED's Iraq Area Office (IAO), which opened on April 2, is headquartered at Forward Operating Base (FOB) Union III. IAO's three project offices are located in Taji, Tikrit (Camp Speicher), and Basrah.¹⁵⁸

Iraq Strategic Partnership Office

Embassy-supported reconstruction projects will continue well beyond the scheduled summer 2011 closing of the Embassy's Iraq Strategic Partnership Office (ISPO), at which time the responsibilities and functions of ISPO, along with its staff, will transfer to the Economic Section at the Embassy. IAO will support the Economic Section by managing the technical aspects of these projects. The remaining ISPO staff members are expected to depart the Embassy during summer 2012.¹⁵⁹

A small ISPO staff currently oversees USACE efforts and provides liaison with the relevant GOI agencies for the projects. ISPO's process of winding down reconstruction projects has in a few instances required the award of assessment and repair efforts for previously completed work. The ISPO oversight efforts involve communicating with USACE on project progress and addressing the challenges that affect project completion, monitoring USACE regularly provided reports, reviewing financial management, and visiting sites on occasion. This quarter, ISPO staff visited the Wazeriya National Electric Training Center and the Supervisory Control and Data Acquisition training program at the Research Triangle Institute and also made numerous ministerial contacts and visits to discuss projects and results. According to U.S. Embassy-Baghdad, no projects were canceled this quarter.¹⁶⁰

Provincial Reconstruction

In line with the schedule for downsizing the Provincial Reconstruction Team (PRT) program, the U.S. Embassy presence in Iraq's provinces is changing rapidly. On April 1, 2011, there was an Embassy presence at 17 sites in Iraq, including 14 PRTs and 3 Forward Presence Locations. By July 31, 2011, only four PRTs will remain: Baghdad, Anbar, Diyala, and Najaf. These last remaining PRTs will be closed by mid-September.¹⁶¹

The Embassy's presence in the provinces is being replaced by Iraqi Cultural Advisors, who will live and work in the provinces and advise U.S. diplomats on developments, concerns, and key issues. The Cultural Advisors will also provide direct support to the Consulates in Erbil, Basrah, and Kirkuk.¹⁶²

Consulates are replacing PRTs in Basrah and Kirkuk and the Regional Reconstruction Team in Erbil. An initial proposal to have Embassy Branch Offices (EBOs) in Mosul and Kirkuk has been altered. The planning now calls for a temporary consulate in Kirkuk, while the EBO in Mosul has been mothballed. The Embassy held formal ribbon-cutting ceremonies in July to open the Consulates in Basrah and Erbil; on July 5, Ambassador Jeffrey hosted an American Independence Day celebration in Basrah to formally recognize the Consulate in southern Iraq.¹⁶³ Basrah is the epicenter for the development of Iraq's vast oil reserves in southern Iraq, where significant business opportunities are developing for U.S. companies.

Police Training Program

Handover from DoD to DoS

U.S. Embassy-Baghdad officially takes over the program for training the Iraqi police from the USF-I Training and Advisory Mission on October 1, 2011. The 90-day handover period began on July 1. Finalizing the PDP, which will be led by the DoS Bureau of International Narcotics and Law Enforcement Affairs (INL), has been delayed because of funding uncertainties. DoS has requested

\$1 billion in the FY 2012 budget to underwrite the first year's program expense and other criminal-justice program costs. Despite these uncertainties, the first wave of advisors who will guide the PDP have already arrived in Iraq. By the end of June, there were 18 advisors in Iraq.¹⁶⁴ The plan developed by INL calls for a total of 190 advisors.¹⁶⁵

DoS announced in May that Ambassador Michele Sison will become the Assistant Chief of Mission for Law Enforcement and Rule of Law Assistance at U.S. Embassy-Baghdad. She is expected to arrive in Iraq this summer. Ambassador Sison's primary role will be to lead the Embassy's INL office and the PDP. In addition, Ambassador Sison will replace the Deputy Chief of Mission as Chair of the Law Enforcement Working Group, which meets biweekly, and she will coordinate with the Department of Justice on programs funded by INL.¹⁶⁶

The Supplemental Appropriations bill for FY 2010 provided INL with \$450 million to construct temporary locations at FOB Shield, which is adjacent to the Baghdad Police College several miles from the Embassy. The other two PDP sites are in Erbil and Basrah. A recent DoS Office of Inspector General (DoS OIG) inspection report recommends that the U.S. Consulate in Erbil be colocated near the Erbil Airport with INL's police training and air wing operations. In August 2009, DoS OIG reported that the Erbil facilities are inadequate. In May 2011, DoS OIG estimated that \$12 million on security and facility upgrades could be saved if the Consulate were colocated with INL operations until a permanent facility could be constructed. INL expressed its opposition to this cost-saving recommendation, stating it would be cost-effective for the Erbil Consulate to remain at its Ankawa location until a permanent Consulate is constructed.¹⁶⁷

Contract Oversight

Since 2004, contracts for police training have been challenging to manage because of their size and complexity. In 2005, INL was told it needed to beef up its staffing to strengthen its oversight both in Iraq and Afghanistan. In January 2007, SIGIR and

Finalizing the INL-led PDP has been delayed because of funding uncertainties.

DoS OIG reported that poor contract administration by INL and the DoS Office of Acquisition Management put millions of dollars at risk. In October 2007, SIGIR had to suspend its audit because INL could not identify what DynCorp International provided under the contract or how funds were spent. In January 2010, SIGIR reported that INL continued to exhibit weak oversight of DynCorp and lacked resources and controls to manage the contract, thus making \$2.5 billion in U.S. funds vulnerable to waste and fraud.

Because oversight had been weak, INL had to reconcile all historical invoices for work undertaken under the contract. In October 2007, SIGIR was told it would take INL three to five years to complete the reconciliation; however, SIGIR found in January 2010 that the reconciliation effort would take longer because INL had not adequately staffed the effort.

In June 2011, DoS Under Secretary for Management Patrick Kennedy testified before the Commission on Wartime Contracting (CWC) that INL had conducted a 100% reconciliation of all INL-funded, Iraq-related invoices prior to 2006 and had collected \$40.8 million related to Iraq and Afghanistan invoices. He added that INL has requested another \$37.9 million from DynCorp. Ambassador Kennedy went on to testify that INL's review had led to a further reduction of more than \$109 million in reduced bills for contractor support services.¹⁶⁸

The State Department's decision to undertake the reconciliation of invoices follows years of SIGIR criticism of INL's weak contract administration and oversight dating back to 2005. Most recently, in January 2010, SIGIR found that INL exhibited weak oversight of the DynCorp task orders for support of the Iraqi police training program. SIGIR's audit revealed that INL could not ensure that the costs submitted by DynCorp on invoices were allowable, nor was there adequate supporting documentation for the amounts being paid under the contract.¹⁶⁹

The results of the reconciliation as reported by Ambassador Kennedy are a clear demonstration of the critical importance of contemporaneous

invoice oversight in contract execution—particularly for the new INL-led police training effort.

In October 2010, SIGIR reported that there were weaknesses in DoD's management of the police training program. These weaknesses existed, specifically, in the areas of program planning and assessments, communications and coordination between organizations performing the training, and oversight of contract police advisors.

Office of Security Cooperation-Iraq

Effective October 1, 2011, responsibility for U.S. assistance to Iraq's Ministry of Defense will transition from the Deputy Commanding General for Advising and Training (DCG-A&T) to OSC-I. OSC-I, in conjunction with U.S. Embassy-Baghdad, the GOI, and U.S. Central Command (CENTCOM), will continue to conduct security cooperation activities to support Iraq's continued development into a stable and long-term, self-reliant strategic partner of the United States. OSC-I will be a Security Assistance Organization under Chief of Mission (COM) authority and will engage directly with the Political-Military Section at the Embassy.¹⁷⁰

According to OSC-I, on January 1, 2012, the Chief of OSC-I will likely become the Senior Defense Official (SDO) in Iraq. In this role, the SDO will serve as the principal DoD official in the Embassy and as the principal military advisor on defense and national security issues for the COM. The SDO will also serve as the focal point in Iraq for U.S. defense coordination with CENTCOM. The specific relationships and responsibilities of the SDO will be defined in the SDO appointment letter.¹⁷¹

OSC-I will provide management within Iraq of the GOI security assistance programs. According to DoD officials, OSC-I personnel will include 118 military personnel, 9 civilians, and 30 locally employed staff. USF-I estimates that an additional 3,000 contractors may be needed to provide life support, security, and transportation assistance for OSC-I.¹⁷²

The State Department's decision to undertake the reconciliation of invoices follows years of SIGIR criticism of INL's weak contract administration and oversight.

OSC-I DoD staff will support the Iraqi forces by advising, training, assisting, and equipping the force, providing professional military education, and planning for joint military exercises. In addition, OSC-I staff will administer the FMS program in Iraq. To provide this level of support to the Iraqi forces, OSC-I plans to operate from 10 locations throughout Iraq—6 dedicated sites and 4 sites shared with the Embassy. The six dedicated sites are located near Iraqi military installations:¹⁷³

- Baghdad, at the current location of DCG-A&T at FOB Union III
- Tikrit, at the home of the Iraqi Air Academy
- Umm Qasr, at the primary location of the Iraqi Navy
- Taji, at the Iraqi Army headquarters and site of the Iraqi National Logistics Center
- Kirkuk, home of the Kirkuk Regional Air Wing
- Besmaya, at the site of the Iraqi Army Training Center

The four shared sites are Joint Security Stations Shield and Sather, and the Consulate locations in Erbil and Basrah. FMS case implementation may require OSC-I personnel, particularly Security Assistance Teams, to operate at additional locations.¹⁷⁴



SIGIR Deputy Inspector General visits future OSC-I site in Taji on July 13, 2011.

Funding Issues

Funding for OSC-I has not yet been approved by the Congress. The FMF budget request for FY 2012 includes \$1 billion to allow the United States to continue to advise, train, and equip Iraqi military forces.

Although the full scope of the USF-I advising and training mission will terminate with the USF-I withdrawal, significant balances of the ISFF will be available to continue support for the ISF after that date. USF-I reported that OSC-I will likely be responsible for executing any unobligated or unexpended ISFF monies.¹⁷⁵ The ISFF had been intended to provide for the ISF to attain a minimum essential capability (MEC) standard prior to the withdrawal of U.S. troops in December 2011.¹⁷⁶ It now appears that the readiness of the ISF to manage the security environment at the time of U.S. forces' end of mission will likely fall short of the MEC that the ISFF funds were intended to realize.¹⁷⁷ For information on the ISFF spend plan, see Section 2 of this Quarterly Report. ♦

OSC-I plans to operate from 10 locations throughout Iraq—6 dedicated sites and 4 sites shared with the Embassy.

CONTRACTING

Of the 16,000 personnel who are expected to serve under COM authority after the U.S. military draw-down, most will be contractors. They will provide life support, security, and transportation, as well as help meet the medical requirements of personnel serving under the COM.¹⁷⁸

Contract oversight and management will play a significant role as new contracts are awarded and contract execution commences. Testimony presented in June 2011 before the CWC reinforced the important role of contract management. In describing the State Department's strategy in Iraq, Ambassador Kennedy said that DoS's primary contracting team is located in Washington, D.C. To support its growing contracting demands, Ambassador Kennedy testified that DoS started a skills-based class for contracting officer's representatives (CORs) and adopted the Federal Acquisition Certification Contracting Officer Representative Requirements for contract administration training.¹⁷⁹

DoS reached an agreement with DoD to allow the use of LOGCAP IV as a contract vehicle to obtain life support services at the primary Embassy location in Baghdad and its additional 11 locations throughout Iraq. The LOGCAP IV contract for Iraq is expected to be awarded by the end of July. This is a temporary step designed to allow DoS time to solicit its own life support contract. DoD, which has considerable experience in oversight of LOGCAP III and now LOGCAP IV, has recommended that DoS provide 20 CORs to manage the contract in Iraq. However, DoS apparently believes that only six CORs will be needed to manage the contract.¹⁸⁰

Al-Khuza'ie also noted what he perceived as the U.S. overreliance on layers of subcontractors.

U.S.-funded Contractors and Grantees in Iraq

As of June 30, 2011, 69,457 U.S.-funded contractors and grantees supported DoD, DoS, USAID, and other U.S. agencies in Iraq, according to data available in the Synchronized Predeployment and Operation Tracker (SPOT). The number of U.S.-funded contractors declined significantly this quarter, dropping by 14,797 (18%) from the 84,254 contractors registered in Iraq as of March 31, 2011.¹⁸¹ For information on contractors and grantees, by agency and national origin, see Table 3.1.

DoD officials expect the number of PSC personnel in Iraq supporting DoD activities to continue to decline along with the number of U.S. troops. This decline will be partially offset by an increase in the number of PSC personnel supporting DoS activities.¹⁸² For information on contractors and grantees, by agency and type of service, see Table 3.2.

In discussing the U.S. reconstruction effort with SIGIR, Vice President Khudayer al-Khuza'ie acknowledged the work done by the United States to help Iraq. However, al-Khuza'ie also noted what he perceived as the U.S. overreliance on layers of subcontractors, stating that "by the time you get to the contractor doing the actual work, there was only enough money for one coat of paint that melted away as soon as it rained."¹⁸³

Contracting Actions and Grants

As of June 30, 2011, DoD, DoS, and USAID had reported 34,728 contracting actions or grants, totaling \$35.94 billion in cumulative obligations.¹⁸⁴ This accounts for 84% of the \$42.83 billion in reported financial obligations from the Iraq Relief and Reconstruction Fund (IRRF), ESF, and ISFF.¹⁸⁵ Comprehensive contract data was not available for

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TABLE 3.1
CONTRACTORS AND GRANTEES IN IRAQ, BY AGENCY AND NATIONAL ORIGIN, AS OF 7/1/2011

| AGENCY | | THIRD-COUNTRY NATIONAL | U.S. CITIZEN | IRAQI NATIONAL | TOTAL | QUARTERLY CHANGE |
|-----------------------|--|------------------------|---------------|----------------|---------------|-----------------------|
| Department of Defense | Department of the Army (Army) | 24,646 | 14,807 | 1,761 | 41,214 | -3,578 (-8%) |
| | CENTCOM Contracting Command (C3) | 10,722 | 2,110 | 2,681 | 15,513 | -8,176 (-35%) |
| | Department of the Air Force (Air Force) | 1,242 | 849 | 7 | 2,098 | -310 (-13%) |
| | U.S. Transportation Command (USTRANSCOM) | 256 | 10 | 580 | 846 | 148 (21%) |
| | Army and Air Force Exchange Service (AAFES) | 720 | 19 | 3 | 742 | -325 (-30%) |
| | Department of the Navy (Navy) | | 563 | | 563 | -234 (-29%) |
| | Defense Contract Management Agency (DCMA) | 4 | 528 | 16 | 548 | -118 (-18%) |
| | U.S. Special Operations Command (USSOCOM) | | 250 | | 250 | 45 (22%) |
| | DoD Joint Program Office MRAP | | 192 | | 192 | |
| | Department of Defense (DoD) | 49 | 63 | 4 | 116 | 8 (7%) |
| | Defense Intelligence Agency (DIA) | | 83 | | 83 | -35 (-30%) |
| | Space and Missile Defense Command (SMDC) | | 64 | | 64 | -7 (-10%) |
| | Defense Logistics Agency (DLA) | 40 | 17 | | 57 | 1 (2%) |
| | Defense Information Systems Agency (DISA) | 4 | 49 | | 53 | -10 (-16%) |
| | Washington Headquarters Service (WHS) | 35 | | 4 | 39 | -17 (-30%) |
| | National Geospatial-Intelligence Agency (NGA) | | 32 | | 32 | -31 (-49%) |
| | Defense Contract Agency (DCA) | | 20 | | 20 | -2 (-9%) |
| | Air Force Center for Engineering and the Environment (AFCEE) | | 14 | | 14 | 13 (1300%) |
| | Defense Advanced Research Projects Agency (DARPA) | | 10 | | 10 | -7 (-41%) |
| | Missile Defense Agency (MDA) | | 10 | | 10 | -11 (-52%) |
| | Office of the Secretary of Defense (OSD) | | 8 | | 8 | -3 (-27%) |
| | Business Transformation Agency (BTA) | | 7 | | 7 | |
| | Army Materiel Command (AMC) | | 3 | | 3 | -2 (-40%) |
| | Defense Contract Audit Agency (DCAA) | | 1 | | 1 | -4 (-80%) |
| | Defense Finance and Accounting Service (DFAS) | | | | 1 | -15 (-94%) |
| | Subtotal | | 37,718 | 19,709 | 5,057 | 62,484 |
| Other | Department of State (DoS) | 1,734 | 3,034 | 35 | 4,803 | -1,172 (-20%) |
| | U.S. Agency for International Development (USAID) | 92 | 65 | 1,908 | 2,065 | -98 (-5%) |
| | General Services Administration (GSA) | | 54 | | 54 | -35 (-39%) |
| | Department of Justice (DoJ) | | 29 | | 29 | -20 (-41%) |
| | Department of Energy (DoE) | | 21 | | 21 | |
| | Society of Environmental Toxicology and Chemistry (SETAC) | 1 | | | 1 | -25 (-96%) |
| | Department of Health and Human Services (DHHS) | | | | | -3 (-100%) |
| | Department of Interior (DoI) | | | | | -1 (-100%) |
| | Not Specified | | | | | -773 (-100%) |
| | Subtotal | | 1,827 | 3,203 | 1,943 | 6,973 |
| Total | | 39,545 | 22,912 | 7,000 | 69,457 | -14,797 (-18%) |

Note: Data not audited.

Sources: USD(AT&L), SPOT Program Support, responses to SIGIR data calls, 4/25/2011 and 7/5/2011.

TABLE 3.2
CONTRACTORS AND GRANTEES IN IRAQ, BY TYPE OF SERVICE PROVIDED AND AGENCY, AS OF 7/1/2011

| CATEGORY | SERVICE PROVIDED | AGENCY | | | | | TOTAL | QUARTERLY CHANGE |
|--|---|---------------|---------------|--------------|--------------|--------------|---------------|-----------------------|
| | | ARMY | C3 | STATE | USAID | OTHER | | |
| Support Services | Security Guards and Patrol Services | 120 | 10,598 | 2,540 | | | 13,258 | -4,708 (-26%) |
| | Facilities Support Services | 738 | 203 | 403 | | 761 | 2,105 | 103 (5%) |
| | Security Systems Services (except Locksmiths) | 325 | 60 | 5 | | | 390 | - 444 (-53%) |
| | Other | 33,370 | 475 | 98 | | 506 | 34,449 | -1,666 (-5%) |
| | Subtotal | 34,553 | 11,336 | 3,046 | | 1,267 | 50,202 | -6,715 (-12%) |
| Professional, Scientific, and Technical Services | Translation and Interpretation Services | 2,969 | 137 | 73 | | 94 | 3,273 | -1,123 (-26%) |
| | Administrative Management and General Management Consulting Services | 93 | 27 | 21 | 1,722 | 44 | 1,907 | -70 (-4%) |
| | Engineering Services | 702 | | 28 | | 968 | 1,698 | -133 (-7%) |
| | Other | 424 | 78 | 29 | | 503 | 1,034 | -109 (-10%) |
| | Subtotal | 4,188 | 242 | 151 | 1,722 | 1,609 | 7,912 | -1,435 (-15%) |
| Miscellaneous | Sewage Treatment Facilities; Finish Carpentry; Facilities Support; Appliance Repair and Maintenance | | 1,000 | | | | 1,000 | -613 (-38%) |
| | Support Activities for Air Transportation | 176 | 30 | 473 | | 221 | 900 | 100 (13%) |
| | Specialty Trade Contractors | 17 | 761 | 1 | | | 779 | -83 (-10%) |
| | Police Protection | | | 716 | | | 716 | -589 (-45%) |
| | Satellite Telecommunications | 334 | | | | | 334 | -80 (-19%) |
| | Other | 1,933 | 1,684 | 412 | 343 | 2,250 | 6,622 | -2,704 (-29%) |
| | Subtotal | 2,460 | 3,475 | 1,602 | 343 | 2,471 | 10,351 | -3,969 (-28%) |
| Not Specified | | 13 | 460 | 4 | | 515 | 992 | -2,678 (-73%) |
| Total | | 41,214 | 15,513 | 4,803 | 2,065 | 5,862 | 69,457 | -14,797 (-18%) |

Note: Data not audited.

Sources: USD(AT&L), SPOT Program Support, responses to SIGIR data calls, 4/25/2011 and 7/5/2011.

TABLE 3.3
CONTRACTING ACTIONS AND GRANTS

\$ Millions

| FUND | CURRENT STATUS | | | CHANGE OVER QUARTER | | |
|--------------|----------------|-------------------|-------------------|---------------------|---------------------|---------------------|
| | COUNT | OBLIGATED | EXPENDED | COUNT | OBLIGATED | EXPENDED |
| ISFF | 18,598 | \$17,830.4 | \$17,202.1 | 245 (1%) | \$77.4 (0%) | \$213.0 (1%) |
| IRRF | 8,494 | \$14,417.4 | \$14,300.3 | 5 (0%) | -\$1.2 (0%) | \$10.2 (0%) |
| ESF | 7,636 | \$3,694.3 | \$3,341.6 | -56 (-1%) | \$71.3 (2%) | \$75.0 (2%) |
| Total | 34,728 | \$35,942.0 | \$34,844.1 | 194 (1%) | \$147.4 (0%) | \$298.3 (1%) |

Note: Data not audited. Numbers affected by rounding. Tables represent only those contracting actions that were reported by the agencies; they do not reflect all obligations or expenditures made in Iraq.

Sources: CEFMS, ESF, IRRF: Construction, IRRF: Non-construction, ISFF, 4/1/2011 and 7/9/2011; USAID, responses to SIGIR data calls, 1/22/2010, 4/16/2011, and 7/7/2011.

the Commander's Emergency Response Program and the International Narcotics Control and Law Enforcement account.

This quarter, DoD, DoS, and USAID reported 194 new contracting actions or grants from the IRRF, ESF, and ISFF, resulting in \$147 million in new obligations and \$298 million in new expenditures.¹⁸⁶

For an overview of the status and quarterly change of contracting actions and grants, see Table 3.3. For a list of the top contractors and grantees in Iraq, see Table 3.4. For a complete list of contracting actions and grants, as reported to SIGIR, visit: www.sigir.mil. ♦

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TABLE 3.4
TOP CONTRACTORS IN IRAQ, AS OF 6/30/2011
\$ Millions

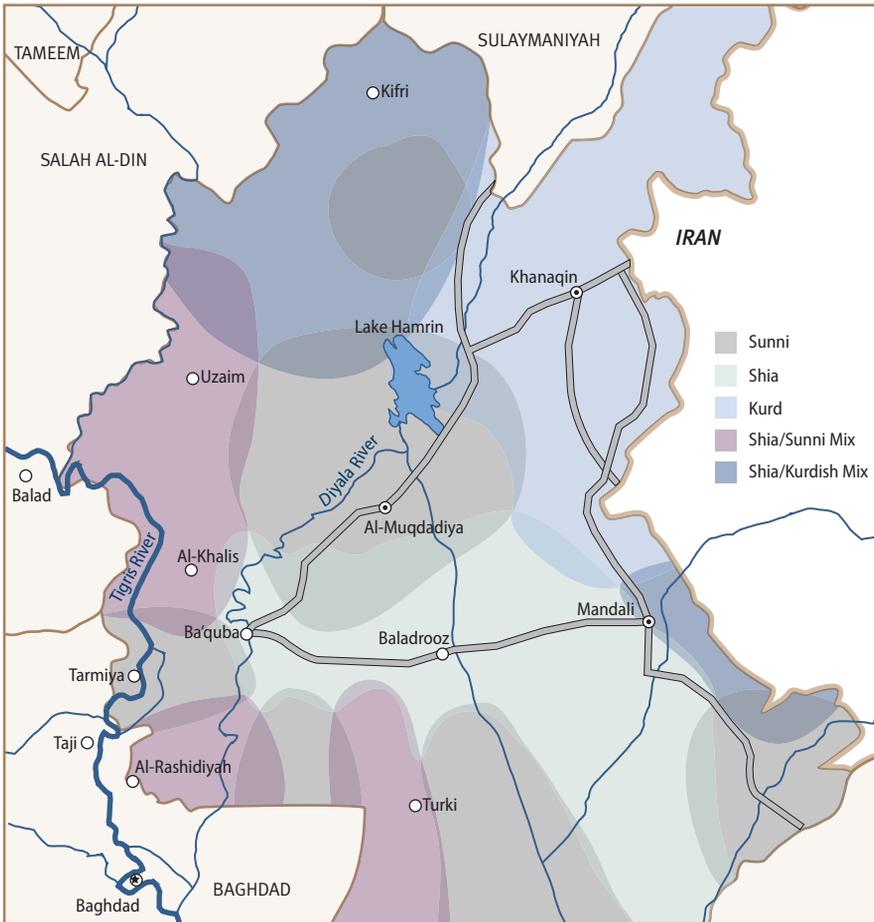
| CONTRACTOR | OBLIGATED | | | | EXPENDED | | | |
|--|-----------|-------|-------|---------|----------|-------|-------|---------|
| | IRRF | ISFF | ESF | TOTAL | IRRF | ISFF | ESF | TOTAL |
| Bechtel National, Inc. | 1,186.6 | | | 1,186.6 | 1,180.2 | | | 1,180.2 |
| Environmental Chemical Corporation | 352.3 | 766.6 | | 1,118.9 | 351.2 | 755.8 | | 1,107.0 |
| Fluor/AMEC, LLC | 943.6 | | | 943.6 | 942.2 | | | 942.2 |
| AECOM Government Services, Inc. | 11.5 | 953.8 | | 965.3 | 11.5 | 905.1 | | 916.6 |
| Washington Group International | 509.5 | 164.7 | | 674.2 | 508.4 | 163.6 | | 672.0 |
| Parsons Global Services, Inc. | 687.7 | 3.6 | | 691.3 | 665.8 | 3.6 | | 669.4 |
| International Relief and Development | | | 686.7 | 686.7 | | | 656.0 | 656.0 |
| Parsons Iraq Joint Venture | 631.7 | | | 631.7 | 630.4 | | | 630.4 |
| Kellogg Brown & Root Services, Inc. | 626.5 | 7.9 | | 634.4 | 620.2 | 6.4 | | 626.6 |
| Navistar | 68.7 | 560.7 | | 629.4 | 68.7 | 543.8 | | 612.4 |
| American Equipment Company (AMERCO) | 0.2 | 516.9 | | 517.1 | 0.2 | 513.3 | | 513.4 |
| Research Triangle Institute | | | 446.5 | 446.5 | | | 428.2 | 428.2 |
| Iraqi Contractor - 5300 | 16.6 | 347.8 | 10.5 | 374.9 | 16.6 | 330.1 | 10.5 | 357.2 |
| TolTest, Inc. | 86.1 | 266.8 | | 352.9 | 82.4 | 263.8 | | 346.2 |
| Tetra International, LLC | 67.4 | 276.2 | 0.4 | 344.0 | 67.4 | 274.8 | 0.4 | 342.6 |
| Laguna Construction Company, Inc. | 156.7 | 180.3 | | 337.0 | 155.8 | 165.7 | | 321.5 |
| AMEC Earth & Environmental, Inc. | 134.6 | 183.3 | | 317.8 | 134.4 | 182.8 | | 317.3 |
| Innovative Technical Solutions, Inc. | 25.6 | 283.9 | | 309.6 | 25.6 | 279.4 | | 305.0 |
| Management Systems International, Inc. | | | 354.8 | 354.8 | | | 301.1 | 301.1 |
| MAC International FZE | 177.3 | 118.6 | | 295.9 | 177.2 | 117.9 | | 295.1 |
| Research Triangle Institute (RTI) | 287.7 | | | 287.7 | 287.4 | | | 287.4 |
| Weston Solutions, Inc. | 114.1 | 170.3 | | 284.4 | 114.1 | 170.0 | | 284.1 |
| Anham Joint Venture | 258.5 | 6.3 | | 264.8 | 258.5 | 6.3 | | 264.8 |
| CHF International | 51.4 | | 210.9 | 262.3 | 51.3 | | 201.2 | 252.5 |
| Louis Berger International, Inc. | | | 300.4 | 300.4 | | | 251.6 | 251.6 |
| BearingPoint, Inc. | 154.4 | | 93.6 | 248.0 | 153.3 | | 92.5 | 245.9 |
| Symbion Power, LLC | 240.0 | | | 240.0 | 239.6 | | | 239.6 |
| Siemens | 217.9 | | 6.4 | 224.3 | 217.9 | | 6.4 | 224.3 |
| Raytheon Company | 2.5 | 227.3 | 0.9 | 230.7 | 2.5 | 216.4 | 0.9 | 219.8 |
| URS Group, Inc. | | 225.8 | | 225.8 | | 219.7 | | 219.7 |

Note: Data not audited. Numbers affected by rounding. Table represents only those contracting actions that were reported by the agencies; the values do not reflect all obligations or expenditures made in Iraq.

Sources: CEFMS, ESF, IRRF: Construction, IRRF: Non-construction, ISFF, 4/1/2011 and 7/9/2011; USAID, responses to SIGIR data calls, 1/22/2010, 4/16/2011, and 7/7/2011.

FOCUS ON DIYALA

FIGURE D.1



Note: The map above shows the diverse ethnic and religious composition of Diyala province. The shapes are rough indicators and should not be viewed as exact.

Source: 3rd HBCT, 1st Cavalry Division, "Diyala Province," 10/2006–12/2007, as sourced in Claire Russo, "Diyala Provincial Election: Maliki and the IIP," *The Institute for Understanding War*, 1/30/2011, p. 12.

Background

Bordered by Iran, the Kurdistan Region, Baghdad, the mostly Sunni province of Salah Al-Din, and the overwhelmingly Shia province of Wassit, Diyala is a microcosm of Iraq. With its contentious intercommunal relationships, mixed economy, and varied geography, the major issues in Diyala reflect, albeit on a smaller scale, the foremost challenges facing Iraq. As one U.S. brigade commander said about Diyala in 2007, "basically, all the issues and conflicts that exist through all Iraq . . . exist here."¹⁸⁷

With no national census since 1987 and large-scale population displacements having occurred both before and after 2003, measuring the size and composition of Iraqi provincial populations with precision is impossible. The situation is particularly difficult in Diyala because of the Ba'athist regime's mass resettlement of Arabs there and related expulsions of Kurds in the period after the Iran-Iraq War. Most estimates, however, show that a majority of Diyala's residents are Sunni Arabs, but as Figure D.1 shows, they share the province with several different groups. Intertwined

Geography

Provincial Capital: Ba'quba
Area: 6,828 square miles (17,685 square kilometers), 4.1% of national territory
Major Cities: Ba'quba, Baladrooz, al-Khalis, Kifri, and Khanaqin

Demography

Population: 1.65 million (2009 GOI est.)
Rural vs. Urban: 59% vs. 41%
Major ethnosectarian groups: Sunni (55%); Shia (25%); Kurds (10%); others, including Turkmen, Christians, and Yazidis (10%)

Political Economy

Governor: Abdul-Nasser al-Mahdawi (Iraqi Accordance Front)
Provincial Council Chairman: Talib Mohamad Hasan (Kurdistani Alliance)
Main Industry: Agriculture

U.S. Presence

Diyala PRT Closure Date: September 2011
Total U.S. Reconstruction Funds Committed: \$1.06 billion
Ongoing U.S. Capital Investment: \$54.9 million
Planned U.S. Capital Investment: \$5.18 million

Note: Population estimates based on data call responses from U.S. Embassy-Baghdad, 3/29/2009, 7/6/2009, and 7/16/2009, and information from the Diyala Investment Commission. Funding information from PRT Diyala.

amidst this ethnic mosaic is an even more complex web of tribes. According to the U.S. military, in 2007 there were at least 25 major tribes and almost 100 sub-tribes in Diyala, some of which encompassed both Sunni and Shia branches. As a former Diyala Provincial Council member told SIGIR in July, ethnic tensions were minimized prior to 2003 because, "Saddam ruled with an iron fist."¹⁸⁸

Because its oil and natural gas resources have yet to be extensively developed, Diyala's economy remains heavily dependent on agriculture. Once known as the "City of Oranges" for its bountiful citrus groves, the provincial capital of Ba'quba lies at the heart of the fertile Diyala River valley, which bisects the province from the northeast to the southwest. But a plurality of the province's population (40%) resides in the province's largest, and mostly desert, district of Baladrooz.¹⁸⁹

Arab-Kurdish Dispute

North of Baladrooz lies the district of Khanaqin—the central focus of Arab-Kurdish tensions in Diyala province. In the aftermath of the Iran-Iraq War, Saddam Hussein attempted to "Arabize" much of Khanaqin by expelling large numbers of Feyli (Shia) Kurds from Iraq, accusing them of actively sympathizing with their Shia co-religionists across the border. In their place, the Ba'athists relocated Sunni Arab families—thought to be more sympathetic to Saddam—to take ownership of the vacated homes. After 2003, many displaced Kurds resettled in the district, and the Kurdistan Regional Government (KRG) asserted claims to parts of Khanaqin and neighboring Kifri districts—claims contested by the Government of Iraq (GOI).¹⁹⁰

These tensions led to a stand-off between Kurdish *Peshmerga* forces and the Iraqi Army (IA) in August 2008, when elements of the IA's 1st Division entered Khanaqin—a movement that the IA's Chief of Staff, a Kurd, claims not to have known of in advance.¹⁹¹ Like the disputes between the GOI and KRG over Kirkuk, the conflicting claims over northern Diyala are meant to be settled as part of the process set forth in Article 140 of the Iraqi Constitution. But, to date, the GOI has made little progress in moving forward with the Article 140 process, which requires it to conduct both a census and referendum. Underscoring

the unresolved nature of this dispute, in late May 2011, the Khanaqin municipal government raised the KRG flag over an official border crossing with Iran for the first time.¹⁹²

Since 2010, the U.S. military has been engaged in joint patrols with the Iraqi Security Forces (ISF) and Kurdish *Peshmerga* along the Kurdistan Region's southern border. As of June 30, no firm plans exist regarding what force, if any, will replace them if the U.S. military withdraws from Iraq as scheduled by the end of the year. This led former U.S. Forces-Iraq (USF-I) Commanding General Raymond Odierno to publicly raise last year the possibility of an international peacekeeping force eventually patrolling territories claimed by both the KRG and GOI.¹⁹³

Security

The Insurgency Intensifies: 2003–2006

Between 2003 and 2006, the insurgency gradually intensified in Diyala, as armed groups streamed into the province from cities where there was a larger Coalition military presence, such as Baghdad.¹⁹⁴ By June 2007, the number of monthly incidents had reached 1,023:¹⁹⁵

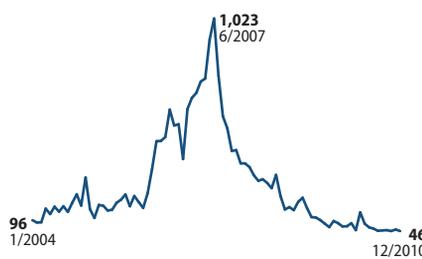


Figure D.2 shows major security events in Diyala during peak violence in 2006–2008.

By April 2006, Abu Musab al-Zarqawi, then-head of al-Qaeda in Iraq (AQI), felt secure enough to declare Diyala as the capital of the caliphate he intended to establish in Iraq. That same month, AQI launched a large-scale offensive in the province, striking targets across Diyala from their rural bastions in the farmlands near Ba'quba.



U.S. artillery round detonates during operations against insurgents in Diyala in January 2007. (USF-I photo)

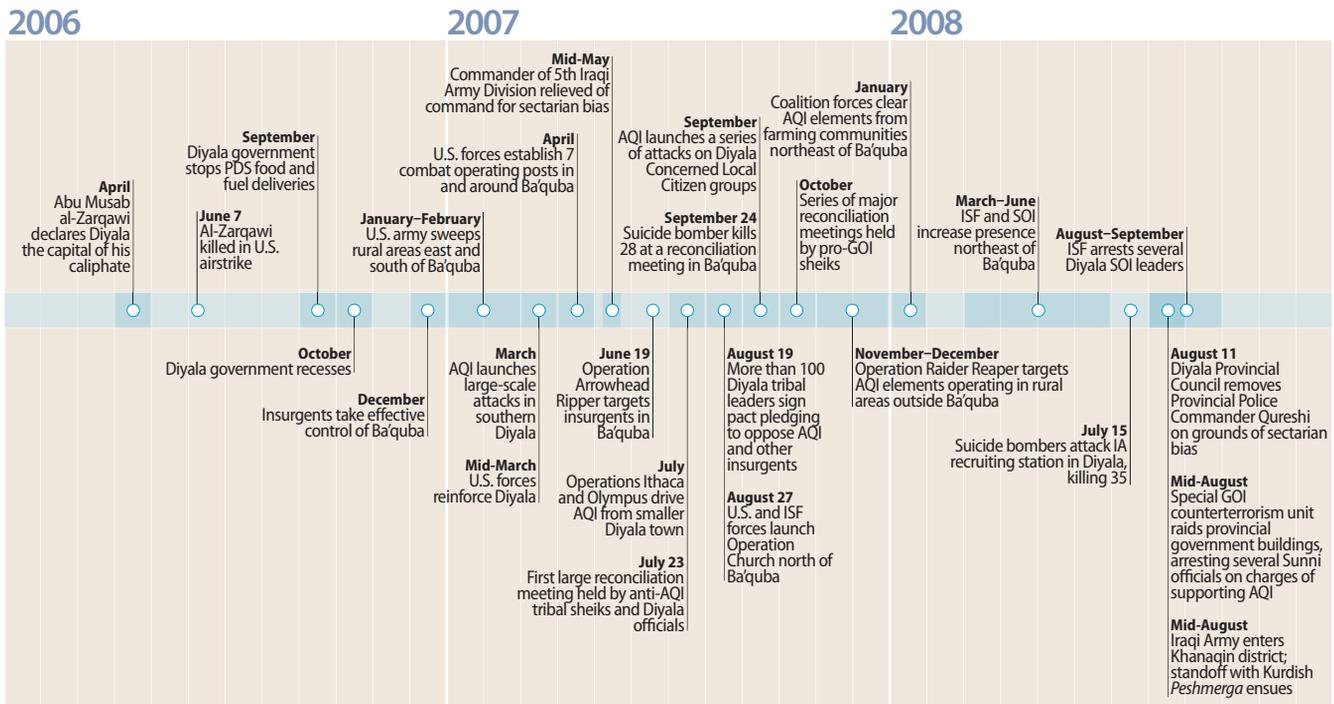
Although Coalition forces killed al-Zarqawi in a June airstrike on his hideout near Ba'quba, the security situation in the province continued to deteriorate as the year wore on. Sectarian tensions in Diyala were also exacerbated by the Sunni perception that the Shia-dominated police force acted in a partisan manner. In one incident, a police sweep netted about 900 detainees—all but 2 of whom were Sunnis.¹⁹⁶

As the security situation grew worse, Diyala's government ceased to function. In September 2006, Diyala officials stopped distributing regular food rations and fuel to residents. In October, the provincial government recessed because of the deteriorating security situation. By December, the insurgency effectively controlled Ba'quba and much of the Diyala valley.¹⁹⁷

Securing Diyala: 2007

Beginning in January 2007, Coalition forces, led by the U.S. 1st Cavalry Division, slowly reasserted control over Diyala. After clearing AQI fighters from the village of Turki southeast of Ba'quba in Operation Turki Bowl, U.S. forces gradually pushed toward the provincial capital. In an attempt to counter the increased tempo of U.S. operations, AQI launched several attacks in March and April, using suicide bombers against civilian targets in towns and villages and kidnapping and killing many GOI officials. Shia militias also constituted a serious security threat. In late February, U.S. troops uncovered a cache of more than 150

FIGURE D.2
SIGNIFICANT SECURITY EVENTS IN DIYALA, 2006–2008



Note: This timeline highlights selected major events during 2006–2008.

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



Munitions seized from insurgents in Diyala. (USF-I photo)



Iraqi Army soldier on patrol outside Ba'quba. (USF-I photo)



SOI checkpoint in Diyala. (USF-I photo)

Iranian-made weapons, suggesting that Iraq's eastern neighbor was supplying Shia militia operating in Diyala.¹⁹⁸

On June 19, 2007, U.S. and ISF units began Operation Arrowhead Ripper to clear Ba'quba city and its environs. Although fighting continued throughout the summer, Ba'quba was mostly secure by August, as U.S. forces pushed AQI out of the city and into the hinterlands. By mid-year, AQI's religious extremism and brutal tactics, along with an increasingly assertive Coalition military presence, contributed to many of AQI's secular

Sunni allies abandoning them and beginning to provide intelligence and other assistance to the U.S. military. These collections of concerned local citizens included the Ba'quba Guardians, a U.S.-backed group formed in July 2007 to provide security in the provincial capital. Eventually, many of these groups would be financially supported by the U.S. military via the Sons of Iraq (SOI) initiative.¹⁹⁹

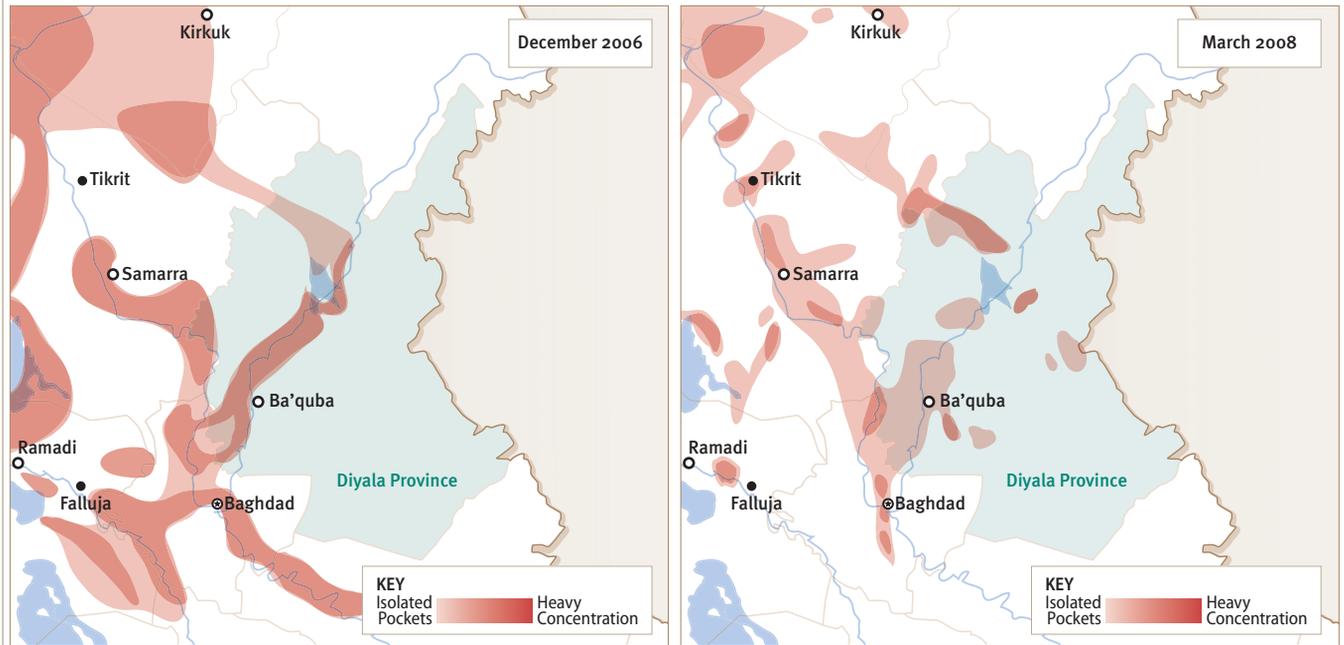
Precarious Stability: 2008–2011

In 2008, Coalition military operations in Diyala emphasized clearing AQI

remnants from farming communities and small towns in the Diyala valley. In contrast to previous operations, which swept through these areas without leaving behind a permanent security presence, U.S. and ISF units began establishing outposts in several outlying communities.²⁰⁰ Figure D.3 compares AQI's presence in Diyala in December 2006 to its presence in March 2008.

In 2007 and 2008, tensions grew between Diyala's Shia provincial police chief, Ghanem al-Qurishi, and the mostly Sunni SOI. This conflict came to

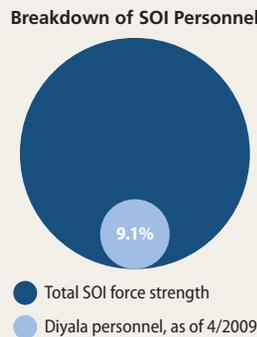
FIGURE D.3
AL-QAEDA IN DIYALA PROVINCE, 2006 VS. 2008



Source: MNF-I, Charts to accompany the testimony of General David H. Petraeus, before the Senate Armed Services Committee hearing, “On the Situation in Iraq and Progress Made by the Government of Iraq in Meeting Benchmarks and Achieving Reconciliation,” 4/8/2008, slide 8.

FIGURE D.4
SONS OF IRAQ IN DIYALA PROVINCE

Beginning in October 2008, the Government of Iraq (GOI) progressively assumed full management responsibility for the Sons of Iraq (SOI) program from Coalition military forces, taking control of more than 8,600 Diyala personnel on January 1, 2009. Under the terms of an agreement with the Multi-National Force-Iraq, the GOI promised to provide government employment for all 95,120 SOI members, either in the security ministries (Interior and Defense) or elsewhere. A SIGIR audit released in January 2011, however, reported that meeting this goal has been challenging. As of December 2010, about 42% of all SOI personnel had been transferred to GOI jobs—but only 463 (5.3% of all SOI transferred) were from Diyala province.



Source: SIGIR Audit 11-010, “Sons of Iraq Program: Results are Uncertain and Financial Controls Were Weak,” 1/28/2011.

a head in August, when special security units from Baghdad raided the Ba’quba government center, arresting pro-SOI/anti-Qureshi officials after a firefight with the center’s guards. The ISF remains reluctant to integrate Diyala SOI into its units (see Figure D.4 for information on the SOI program in Diyala).²⁰¹

Although the security situation in Diyala has improved since 2008, the province remains one of Iraq’s most volatile. On June 14, 2011, multiple suicide bombers and gunmen targeted

a provincial government building. At least 9 people died in the attack and about 17 were wounded. Two weeks later, Ba’quba’s mayor was injured when an improvised-explosive device detonated near his convoy. In the wake of these attacks, several Diyala officials announced their intention to avoid provincial government facilities and conduct their work elsewhere until the security situation had improved.²⁰² Figure D.5 lists significant recent security events in Diyala province.

Diyala officials expressed grave concerns to SIGIR in July meetings about the security situation. The province’s chief prosecutor remarked that every time he steps outside his house, it “is a walk into the unknown.”²⁰³

There isn’t anything that makes me hopeful. If anything, I’m cynical. As long as sectarianism still exists it will kill all hope and optimism, and fear will reign. As a country, we need security. We’ve gone back 100 years. The other countries of the region—once having only sand—are thriving today . . . and look like European cities. All we want in Iraq is to be stable enough to start catching up.²⁰⁴

Future of U.S. Presence

While the provincial officials who spoke to SIGIR expressed mixed feelings about the planned departure of the U.S. troops currently stationed in Ba’quba, they were unanimous in their wish for the United States to maintain some presence in the province after December 2011. One Diyala official told SIGIR that, “if the United States pulls out all its [civilian and military] personnel from the province,

FIGURE D.5

SELECTED INCIDENTS OF VIOLENCE IN DIYALA, 4/10/2011–7/10/2011

April
Wednesday, April 13: Local government official wounded by IED in Ba'quba
Thursday, April 14: Police spokesman survived bomb attack on his residence in Ba'quba
Thursday, April 28: Suicide bomber attacked Shia mosque in Baladrooz, killing 8 and wounding about 18
Friday, April 29: Imam of a mosque in Khanaqin killed with his family by gunmen; 4 Awakening members killed in armed attack on a house south of Ba'quba

May
Friday, May 6: Bodyguard of Awakening sheik stabbed to death south of Ba'quba
Saturday, May 7: 10 police officers wounded in car bomb attack in Ba'quba; 5 killed and 3 wounded in attack on money exchange in Ba'quba
Wednesday, May 25: Ministry of Oil official killed by gunmen in Khanaqin
Saturday, May 28: 2 attacks (IED and grenade) killed 1 civilian and wounded 3 police officers in Ba'quba

June
Tuesday, June 7: Police chief of Hibhib, a small town west of Ba'quba, killed by sticky bomb detonation
Saturday, June 11: Retired IA officer and his son killed by sticky bomb detonation in Khanaqin
Tuesday, June 14: Suicide bombers and gunmen attacked Diyala provincial government complex in Ba'quba, killing 2 police officer and wounding more than 20 others
Saturday, June 18: Bomb killed 3 in Ba'quba
Sunday, June 19: Sticky bomb explosion in Ba'quba killed 1 and injured 3
Monday, June 20: Mayor of Judeidat al-Shat, a small town north of Ba'quba, killed by gunmen who attacked his residence
Sunday, June 26: Suicide bomber kills police chief near Ba'quba
Tuesday, June 28: Mayor of Ba'quba survived IED attack on his vehicle

July
Monday, July 4: Official from the Patriotic Union of Kurdistan party shot and killed northeast of Ba'quba
Wednesday, July 6: VBIED attack in Ba'quba killed 2 police officers and wounded 19 other people
Thursday, July 7: IED exploded near a butcher shop west of Ba'quba, wounding 3
Saturday, July 9: Booby-trapped motorcycle exploded in Ba'quba, wounding 15

Note: The security incidents cited above are intended to provide a sense of the types of violence occurring in Diyala province. This is not intended to be a comprehensive list of all security incidents.

Source: SIGIR analysis of open-source Arabic- and English-language documents, 4/2011–7/2011.



ISF and SOI officials confer at a U.S. base in Diyala. (USF-I photo)

it will be a very big mistake.” Diyala officials cited the simmering religious and ethnic tensions—between Sunni and Shia, and Arabs and Kurds—and its strategic location on the Iranian border as two reasons weighing in favor of a continued U.S. presence in the province.²⁰⁵

Camp Ashraf: A Lingering Issue

Located northeast of the town of al-Khalis, Camp Ashraf has housed members of the Iranian Mujaheddin e-Khalq (MeK) (also known as the People’s Mujaheddin Organization of Iran) for more than two decades. The MeK fought as allies of

Saddam Hussein in his wars against Iran and the U.S.-led Coalition and were placed on the U.S. Department of State (DoS) list of Foreign Terrorist Organizations. In mid-2004, Coalition forces granted the camp’s residents protection under international law, on the condition that they relinquish their arms.

On January 1, 2009, the U.S. military transferred control of Camp Ashraf and its approximately 3,400 residents to the GOI on the understanding that these protections would continue. However, ISF units have entered the camp on at least two occasions since January 2009, and each encounter resulted in multiple deaths. Most recently, an ISF incursion in early April resulted in the deaths of more than 30 camp residents. A U.S. congressional delegation attempted to visit Camp Ashraf during a June 2011 trip to Iraq, but was not granted GOI permission to travel there. Current GOI plans call for shutting down Camp Ashraf by the end of the year and relocating the MeK elsewhere, either in Iraq or another country.²⁰⁶



SIGIR Deputy Inspector General meets with Diyala officials.

Governance

Relations between the provincial government and Baghdad remain somewhat contentious. This quarter, Diyala’s governor threatened to resign if the GOI failed to release certain detainees and accede to his demands on other security matters.²⁰⁷ As of July 10, however, he had not followed through with his threat.

Provincial Elections, 2005 and 2009

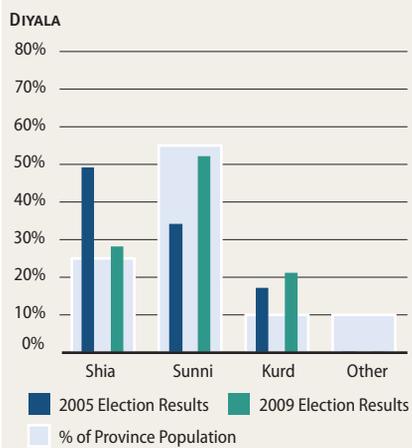
In 2005, a widespread boycott by most Sunni Arab political parties of Iraq’s first post-2003 provincial elections resulted in a coalition of Shia parties winning almost 50% of the 41 seats on Diyala’s Provincial Council, despite Shia numbering only about one-fourth of the province’s population. The only major Sunni Arab party participating in the 2005 provincial elections in Diyala, the Iraqi Islamic Party, won 14 seats. A Kurdish-led bloc won the remaining 7 seats. Thus, Sunni Arabs, who comprise more than one-half of the province’s population, held only about one-third of the seats on the Provincial Council. After the 2005 elections, council members chose as governor Ra’ad Hameed al-Mula Jowad al-Tamimi, a Shia Arab affiliated with the party now known as the Islamic Supreme Council of Iraq.²⁰⁸

Four years later, Sunni Arab turnout increased dramatically, resulting in two Sunni Arab-led parties finishing first and second in Diyala’s 2009 provincial elections. The United Accord and Reform Front in Diyala and the National

Iraqi Project combined to win 15 of the 29 seats on the newly reduced-in-size Provincial Council. The council subsequently elected as governor Abdul-Nasser al-Mahdawi, a Sunni.²⁰⁹ Figure D.6 compares the approximate Shia, Sunni, and Kurdish populations in 2005 and 2009 with the percentage of council seats won by each community.

FIGURE D.6

COUNCIL SEATS WON IN DIYALA, 2005 VS. 2009



Sources: UNAMI, Elections Results, Issue No. 30, 2/2009; GOI, IHEC, www.ihec.iq/arabic, SIGIR translation, accessed 2/22/2009; U.S. Embassy-Baghdad, response to SIGIR data call, 4/2/2009.



Residents of al-Khalis confer with ISF officials about insurgent attacks. (USF-I photo)

Council of Representatives

In the March 2010 national parliamentary elections, former Prime Minister Ayad Allawi’s al-Iraqiya bloc won 8 of Diyala’s 13 seats, with about 60% of eligible voters casting ballots. The Shia-dominated Iraqi National Alliance finished second, winning 3 seats. The Kurdistan Alliance and Prime Minister Nuri al-Maliki’s State of Law coalition each won one seat.²¹⁰

Economic Development

According to Diyala officials and community leaders with whom SIGIR met in early July 2011, the provincial economy is one of the worst-performing in Iraq. Diyala officials estimated unemployment at about two-thirds of the working-age population.

The provincial economy runs a deficit, producing little that contributes to the national coffers while drawing about \$120 million annually from Baghdad for payroll and stipends. Diyala officials have chiefly ascribed the poor performance of the economy to the near anarchy that characterized the province before 2008.

Officials added that although some progress has been made in the past three years, security in the province has deteriorated in recent months, placing even that fragile progress at substantial risk.²¹¹ The uncertain security environment in Diyala has dissuaded foreign companies from committing resources to the province. One study concluded that less than 1% of all foreign commercial activity in Iraq last year occurred in Diyala.²¹²

Provincial Investment Promotion

Diyala has two main investment-promotion organizations operating to improve its economy:²¹³

- **Diyala Chamber of Commerce.** With a membership of about 5,000, the Chamber is the largest economic development organization in the province, assisting businesses in obtaining loans, monitoring inflation, and promoting

exports. However, the Chamber reported that its operations have been somewhat impeded by the Ministry of Interior’s seizure of half of its headquarters building.

- **Provincial Investment Commission (PIC).** Beset by political infighting from its inception more than two years ago, the PIC is struggling to gain a foothold in the province and has not received any funds from the Ministry of Finance. The nine commissioners who lead the PIC have not been paid, and they currently operate out of a rented house. The U.S. Provincial Reconstruction Team (PRT) in Diyala is helping the PIC find a permanent headquarters.

Agriculture

Diyala contains about 10% of all arable land in Iraq, and its agricultural sector is the main source of employment in the province, providing roughly 70% of all nongovernment jobs. Primary crops include dates (of which there are more than 72 local varieties), citrus fruits, seasonal vegetables (such as eggplants and peppers), wheat, barley, grapes, and figs.²¹⁴

Under the Ottoman Empire, most farmland in Diyala was registered to tribal collectives. Today, farms are held under a variety of different types of deeds, including private, tribal, government-owned and -operated, and government-owned but provided to businesses or citizens for commercial exploitation. This complicated system of land ownership is just one factor affecting the development of Diyala’s farming sector. Other challenges include low rainfall, which averages about four inches per year; poorly maintained irrigation canals; lack of fertilizer; limited refrigerated-storage facilities; and poor road networks.²¹⁵

Most of the water used for farming comes from the Diyala River, which flows from Iran, through the Kurdistan Region, into the province. According to



Diyala officials open the annual date festival in Ba'quba. (USF-I photo)



Joint U.S.-ISF patrols near the Diyala River. (USF-I photo)



U.S. patrol encounters cattle in rural Diyala. (USF-I photo)

the provincial Director General (DG) of Water Resources, “amounts released from Iran are totally arbitrary because there are no agreements between the two governments.” The KRG also dams the water, further limiting the province’s supply. “As a result, we can’t plan anything,” the DG said.

Studies on underground water sources have found that water tables are between 60 and 360 feet deep, but their high salinity and sulfur levels render them unusable. As a consequence, many people unable to sustain their farms are migrating to the cities and joining the ranks of the unemployed. The DG said his office is trying to adopt new irrigation technologies such as drip irrigation with assistance from PRT Diyala, but stated that the challenges are still vast.²¹⁶

On July 9, residents of Khanaqin conducted a protest march against the Iranian government’s decision to interrupt the downstream flow of water in one of the Diyala River’s tributaries. According to the chairman of Diyala’s Provincial Council, local officials lodged a formal complaint with Baghdad about this matter in May, but did not receive a response.²¹⁷

Banking

The banking sector is a major component of the provincial economy, but it, too, is struggling to address multiple challenges. There are only 11 branches of the government-owned Rafidain and Rashid banks for a province of more than 1.6 million people. The Diyala Supervisor of Banking stressed the need for private banks to

open in the province because they would have better technical infrastructure and more experienced staff.²¹⁸

Banks do make loans available to Diyala residents, albeit in limited fashion. The GOI Real Estate Bank offers 20-year loans for homes at 2%, while Rafidain offers 15-year loans at 8%. For those who follow Islamic law, which prohibits the payment of interest, the GOI is exploring the establishment of Islamic banks. Prime Minister al-Maliki also recently set up a fund that provides five types of no-interest loans to farmers. But Diyala officials noted that there is no oversight of these loans after the money is lent.²¹⁹

Natural Gas and Oil

On June 5, 2011, the Ministry of Oil finalized a 20-year contract with a Turkish-led consortium to develop the Mansuriya natural gas field, located about 50 kilometers northeast of Ba’quba, near the Iranian border. The field is estimated to be capable of producing about 320 million cubic feet of gas per day. As part of the deal, Turkey’s state-owned oil and gas company (TPAO) will contribute 50% of the investment needed to exploit this field, the Kuwait Energy Company will contribute 30%, and the Korean Gas Corporation will provide the remaining 20%. Production is not estimated to come on line until 2015.²²⁰

The Ministry of Oil announced plans to conduct its fourth hydrocarbon licensing round in early 2012, which would include a large natural-gas exploration site that runs from southern Diyala under the inter-provincial border into northern Wasit.²²¹

Diyala lacks the large oil fields found in provinces to its north and south, further contributing to its relative impoverishment. Most of Diyala’s modest oil deposits are located in the northern area of the province. Naft Kana, the largest field, produces about 16,000 barrels per day, much of which is shipped to Baghdad by truck for refining. According to PRT Diyala, the oil sector provides about 32,000 jobs in Diyala.²²²

Industrial Activity

According to PRT Diyala, large businesses operating in the province (those with more than 100 employees) provide jobs for more than 11,000 individuals.²²³ Many of Diyala’s largest firms, however, are not operational. Cheap imports have caused several food-processing plants to cease operations, as their products were priced out of the market. Politics also plays a role. For example, al-Khalis Medicinal Alcohol Plant lies idle because the GOI has denied the owners financing, citing their close association with the former Ba’athist government. Table D.1 summarizes the current state of Diyala’s large businesses.²²⁴

State-owned Enterprises: A Case Study

The largest state-owned enterprise (SOE) operating in the province is the Diyala State Company for Electrical Industries (DEI). Established in 1977, the company began producing a variety of small consumer and industrial goods in the early 1980s. Employing more than 3,500

TABLE D.1
STATUS OF MAJOR COMPANIES IN
DIYALA, 7/2011

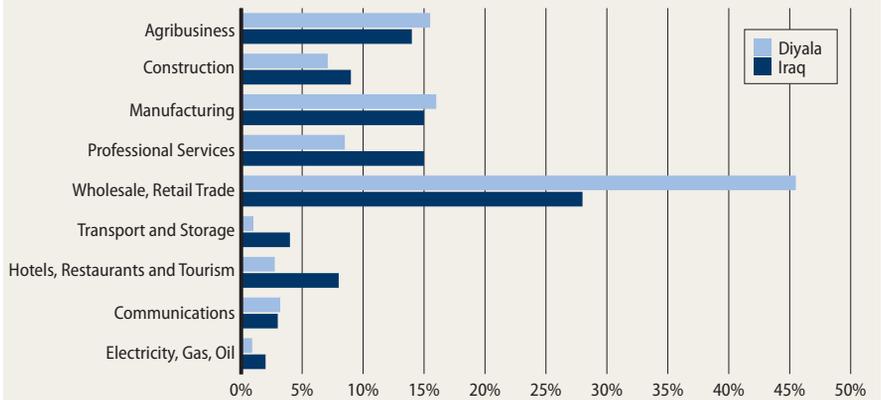
| STATUS | BUSINESS NAME | TOTAL EMPLOYEES |
|----------------------------|--|-----------------|
| Currently Operating | | |
| | Diyala State Company for Electrical Industries (51% private, 49% public) | 3,500 |
| | Baladrooz Brick Plant (100% public) | 2,000 |
| | Khan Bani Sa'ad Silo (100% private) | 270 |
| | New Baghdad Brick Factory (100% private) | 240 |
| Not Operating | | |
| | Dehliki Food Processing Plant (100% private) | 1,500 |
| | Al-Oury Food Process Plant (Ba'quba) (100% private) | 1,500 |
| | Nassim al-Baradi Date Processing Plant (privately owned by Jordanian interest) | 1,000 |
| | Al-Muqdadiya Milk Factory (100% private) | 300 |
| | Al-Khalis Medicinal Alcohol (51% public, 49% private) | 210 |
| | Khan Bani Sa'ad Water Bottling Plant (n/a) | 200 |
| | Baladrooz Water Bottling Plant (n/a) | 200 |
| | Al-Muqdadiya Chicken Factory (n/a) | 100 |

Source: PRT Diyala, "Diyala Provincial Business and Investment Organizations" (draft), 7/2011.



Worker moves sheet metal at the Diyala State Electrical Company. (USF-I photo)

FIGURE D.7
SMALL AND MEDIUM-SIZED BUSINESSES IN DIYALA AND NATIONWIDE, BY SECTOR



Source: USAID, *Tijara*, "Market Assessment: Business Constraints and Opportunities at the Business Enabling Environment and Firm Levels for the Province of Diyala, Iraq," 3/2010, p. 33.

workers, the company makes spark plugs, water heaters, electrical transformers, ovens, and ceiling fans, which it sells primarily to various GOI ministries.²²⁵

Although the security situation caused it to cease operations for a time in 2007, its major problems are now more mundane and more persistent. Irregular power supplies often disrupt production lines, and modern management methods remain largely unknown. Moreover, the global economic downturn of 2008 stymied efforts to attract foreign investors, causing an Egyptian-Jordanian consortium to back out of its initial commitment to purchase 51% ownership in the company.²²⁶ Notwithstanding these challenges, PRT Diyala reports that the GOI recently ordered more than \$20 million of electrical transformers from DEI.²²⁷

Small and Medium-sized Businesses

While large SOEs dominated much of Iraq's pre-war command economy, the past eight years have witnessed the rise of smaller, independent businesses. More than 70% of small and medium-sized businesses in Diyala have been established since 2003. Of these, 45% operate in the trade sector, selling consumer goods or other products out of *suqs* (Arabic for markets) or small shops. Figure D.7 shows a sector breakout of these



Ba'quba business district.

businesses, comparing them with the rest of Iraq.²²⁸

Although they pre-date American malls by millennia, *suqs* serve much the same function, bringing together a wide variety of commercial enterprises and service providers in one location. In Diyala, about 50% of all small businesses are housed in *suqs*, as are the offices of many doctors, lawyers, and other professionals. Cognizant of their importance to the local economy, AQI conducted operations out of bases located inside the *suqs*, which consequently suffered significant damage when U.S. and Iraqi forces conducted clearing operations aimed at eliminating these terrorist nests. The Aruba Suq in al-Muqdadiya, Diyala's largest market, suffered extensive damage as a result of such operations.²²⁹ Table D.2 summarizes U.S.-funded efforts to refurbish Diyala *suqs*.²³⁰

TABLE D.2
U.S.-FUNDED SUPPORT FOR DIYALA SUQS

| NAME | % OF PROVINCIAL BUSINESS | NUMBER OF SHOPS | ASSISTANCE |
|----------------------------|--------------------------|------------------|--|
| Aruba (al-Muqdadiya) | 16 | 2,500 (200 open) | Former headquarters of AQI in Diyala and a major Coalition rehabilitation project |
| West Ba'quba | 10 | 1,500 | Several Coalition projects have focused on rehabilitating this market |
| Khan Bani Sa'ad | 10 | 1,500 | CSP is rehabilitating this market and coalition forces have provided roughly \$400,000 in microloans |
| Baladrooz | 7 | 75 | Rehabilitated by Coalition forces |
| Old Ba'quba | 3 | 600 | n/a |
| Al-Khalis | 2 | 500 | I-CERP funds are currently being used to rehabilitate this market |
| Abu Sayda | 2 | 500 | CSP project submitted |
| Buhritz (Ba'quba) | 1 | 250 | Received some Coalition funding |
| Al-Mulameen (al-Muqdadiya) | 1 | 250 | n/a |
| Hibhib | 0.5 | 150 | CSP project submitted |
| Udain (1) | 0.5 | 150 | CSP project submitted |
| Udain (2) | 0.3 | 75 | Rehabilitated by Coalition forces |
| Khanaqin | 0.3 | 75 | n/a |
| Mandali | 0.25 | 65 | n/a |

Source: PRT Diyala, "Overview of Major Suqs in Diyala," 7/2011, pp. 35–36.

Rule of Law

Citing recent increases in the overall number of convictions, the province's chief judge and chief prosecutor told SIGIR that the Diyala judiciary, though facing profound challenges, is improving its performance. The chief prosecutor noted that the magnitude and complexity of cases is the main problem facing Diyala judges. He stated that about 70% of recent convictions involved terrorism matters. He said that, "before 2003, the worst case we had was a homicide case," adding that, "back then, we handled about 175 cases per year.... Last year we handled 880 cases." In looking ahead to the rest of 2011, he said that the court is on track to handle even more cases than in 2010, having opened more than 500 new cases between January and June of this year.²³¹

Police

According to the chief judge and chief prosecutor, the Iraqi police in Diyala are improving. They cited a decrease in the number of pre-trial detainees from 2,500 in November 2010 to around 1,200

in May 2011, suggesting that the police are now less likely to round up suspects and detain them without conducting a proper investigation.²³² However, the chief prosecutor voiced concern over the quality of some police. He said that these officers, drawn from army backgrounds, have less respect for court orders. The chief prosecutor added that sometimes these problematic officers will not release a prisoner despite a judge's ruling, while other times they will not arrest someone even though the court issued a valid warrant for that person's detention. He also noted that there continue to be some illiterate police officers who cannot perform basic job functions.²³³

Corruption

Diyala provincial government officials described corruption in the province as rampant, noting that positions that should be occupied by skilled technocrats are instead filled with patronage appointees whose loyalties lie with politicians in Baghdad. Since government jobs are often the only employment to be had, corruption in the public sector affects



SIGIR officials meet with Diyala Chief Justice.

the entire provincial economy. Several officials mentioned sectarianism as one factor contributing to corruption, as unqualified government officials use their positions to advance the financial and political interests of themselves and their particular affiliations.²³⁴

According to Commission of Integrity (COI) officials, GOI anticorruption agencies in Diyala focus their efforts on the capital, and they often lack the will and the means to carry their oversight to the provinces. They cited inadequate resources—such as cars, personnel, office equipment, and funding—and pressure from local officials and religious leaders as factors inhibiting their efforts.²³⁵

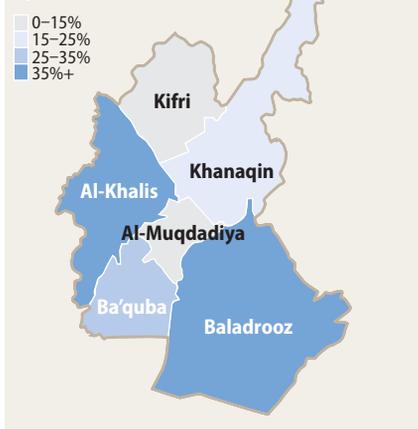
From January 1 to May 31, 2011, the COI reportedly referred 186 suspects from Diyala to investigative judges (IJs) for further action: 139 (75%) were accused of violating Article 240, which criminalizes the disobeying of directions given by a public official, and 36 (19%) were alleged to have used forged educational or professional certificates to obtain employment or promotion. Thus, 94% of the COI cases sent to IJs during that period involved relatively minor allegations, and no cases involving senior Diyala officials had been forwarded for adjudication.²³⁶

Living Conditions

In meetings with SIGIR, Diyala officials expressed a pervasive sense of pessimism about the future of the province. As one government official said, "Our fathers lived better than we did, and the lives we

FIGURE D.8

POVERTY IN DIYALA, BY DISTRICT, 6/2011



Note: Data reflects the percentage of households reporting average expenditures in the lowest quintile, as measured nationally by the UN.

Source: IAU, "Diyala Governorate Profile," 6/2011, www.iauiraq.org/gp/print/GP-Diyala.asp, accessed 6/27/2011.

have lived, as difficult as they have been, they are better than the lives our children will lead." These officials noted that Diyala remains dependent on Baghdad for jobs, subsidies, and other assistance, and remarked that even the agricultural sector—once the driving force behind the provincial economy—is stagnant and underperforming.²³⁷

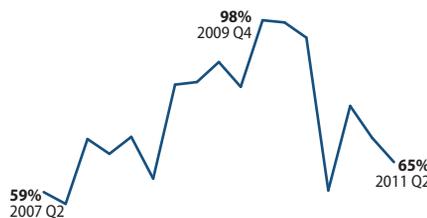
Poverty

A 2009 GOI study listed Diyala as one of Iraq's five least-developed provinces, along with Muthanna, Thi-Qar, Misan, and Qadissiya. An estimated 33% of Diyala residents have incomes below the national poverty line of about \$2.20 per day, compared with a national average of 23%.²³⁸ As Figure D.8 shows, the poverty level is greatest in the western parts of the province and in the rural southern district of Baladrooz.

Electricity

Like most of Iraq, the estimated demand for electricity in Diyala province outstrips the available supply, leading to persistent power shortages, especially in the hot summer months. From mid-2008 through the end of 2009, the province's

power situation improved significantly, with the load served by the national grid increasing from 62% of estimated demand to 98%. But the situation began deteriorating in 2010, and this quarter, only about 65% of estimated demand was served:²³⁹



While some of this decrease is attributable to increased demand during the summer months and the proliferation of electronic devices, the percentage of demand met is the lowest it has been for this period since 2007.²⁴⁰

Diyala's only indigenous power-generation capacity is at the Himreen Dam, with production this quarter averaging a modest 12 megawatts (MW). The bulk of the power consumed in Diyala is imported from Iran.²⁴¹ The GOI's Ministry of Electricity currently is in talks with the French company, Alstom, about building a 720 MW combustion-turbine plant in Mansuriya.²⁴²

Drinking Water

Diyala's main water sources do not meet the province's needs. Downstream flows from the Tigris River and smaller rivers originating in Iran and the Kurdistan Region are insufficient supplements to the province's main drinking-water source, the reservoir formed by the Himreen Dam. The UN reports that more than 40% of all Diyala residents suffer from the irregular availability of drinking water, a figure that rises to 74% in al-Muqdadia district. Moreover, approximately half of all households in al-Muqdadia (47%), Kifri (53%), and Baladrooz (40%) districts drink water directly from a stream, river, or lake, although bottled water is readily available in most cities and towns.²⁴³

Popular Dissatisfaction with Services

A recent survey of 3,223 Diyala residents conducted by Al-Noor Universal Foundation found widespread dissatisfaction with the provision of government services. Only about 11% of respondents characterized services as either good or very good, while 48% chose the lowest possible descriptive category—bad—to describe the state of public services in the province. Respondents cited five main reasons for poor services:²⁴⁴

- unstable security situation
- lack of government oversight
- low levels of civic pride
- inadequate transparency and accountability
- sectarianism among government officials

When asked whether services had improved over the past year, 14% said that they had, while 79% said they had remained the same or deteriorated. Dissatisfaction over cleanliness, health care, education, public works, and availability of fuel was voiced by 65%–80% of all respondents; lack of power was cited as a problem by more than 82%.²⁴⁵

Displaced Persons

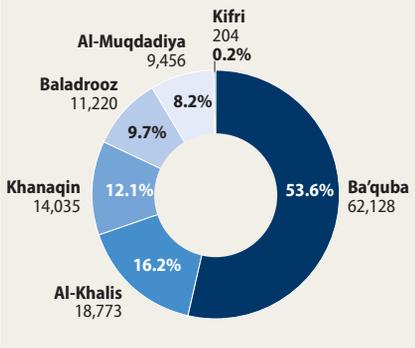
According to PRT Diyala, more than 60,000 former residents of Diyala are still displaced, living mostly in Baghdad, Najaf, Kerbala, and Sulymaniyah provinces. In June 2011, the UN reported that 8% of Iraq's internally displaced persons (IDPs) reside in Diyala, making it one of the provinces most affected by the intercommunal violence that



U.S. troops confer with local citizens in Diyala. (USF-I photo)

FIGURE D.9

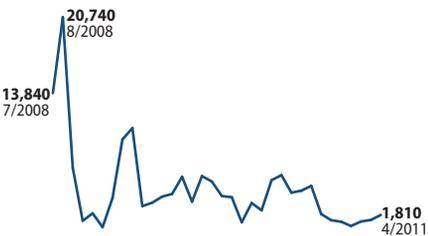
WHERE IDPS TAKE REFUGE, BY DISTRICT



Source: IAU, "Diyala Governorate Profile," 6/2011, www.iauiraq.org/gp/print/GP-Diyala.asp, accessed 6/28/2011.

followed the bombing of the Samarra mosque in February 2006. Of all Diyala IDPs, 83% originally resided within the province. As Figure D.9 shows, more than half of Diyala IDPs have taken refuge in Ba'quba district.²⁴⁶

During August–September 2008, more than 40,000 IDPs and refugees returned to Diyala province. The rate of return dropped sharply after that, and in April 2011, the UN reported only 1,810 returns.²⁴⁷

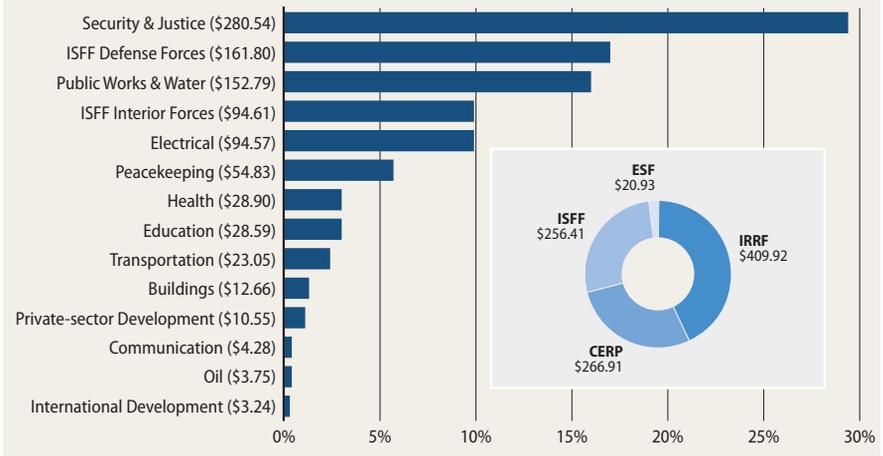


In 2009, the GOI created a Higher Committee to assist Diyala in establishing the conditions to entice displaced persons to return to their homes. The Diyala Initiative focuses on improving public access to water, electricity, food, shelter, and infrastructure. The initiative is supported by the UN and the U.S. government, with the U.S. Agency for International Development (USAID) and PRT Diyala assisting in the implementation of governance and agricultural programs. As of January 2011, the GOI had paid almost \$30 million to compensate Diyala residents for damage caused by violence.²⁴⁸

FIGURE D.10

U.S.-FUNDED INFRASTRUCTURE PROJECTS IN DIYALA PROVINCE, BY CATEGORY AND FUND, AS OF 9/2010

% of \$954.17 Million



Note: Numbers affected by rounding.

Source: IRMS, *Global Benchmark*, 9/3/2010.

U.S. Reconstruction Program

According to PRT Diyala, since 2003, the U.S. government has spent more than \$1.05 billion on infrastructure projects in Diyala province, or about \$642 per resident.²⁴⁹ Figure D.10 shows U.S. expenditures in Diyala by project category and fund, based on information provided in September 2010, by the Iraq Reconstruction Management System (IRMS).

USAID Operations in Diyala

USAID reports that its *Inma* agribusiness program has supported a number of initiatives in Diyala province, including:²⁵⁰

- importing commercially tested fruit trees and grape vines to enhance the quality of local orchards and vineyards
- supporting a microfinance lending institution that, to date, has disbursed more than 300 loans valued at \$976,200 in the province
- providing training in a variety of specialized areas, including irrigation, livestock husbandry, financial management, and strategic planning
- supporting two microfinance institutions in Diyala province—al-Thiqa and al-Amman.²⁵¹

- providing an \$80,000 procurement grant to fund start-up costs associated with the establishment of the Diyala Economic Development Center in December 2009.²⁵²

USAID is also working with PRT Diyala to establish the Diyala Small Business Development Center (SBDC). Plans for this new organization are in the early stages, and while USAID has obtained a building for the SBDC, it has not received any funding to support it.²⁵³

Other U.S. Reconstruction Efforts

In October 2010, the U.S. Army Corps of Engineers (USACE) completed work on a \$10.7 million regional commando base in Ba'quba for the Iraqi Special Operations Forces. This Iraq Security Forces Fund (ISFF) project was USACE's largest reconstruction initiative in Diyala. Other significant USACE reconstruction projects completed in Diyala include:²⁵⁴

- a \$6.8 million, ISFF-funded location-command facility to support a reinforced Iraqi Army battalion stationed in Baladrooz
- a \$1.7 million, IRRF-funded primary healthcare center in al-Atheem

The DoS Iraq Strategic Partnership Office reported the completion of two projects in Diyala since July 2010:²⁵⁵

- **Ba'quba General Hospital Surgical Health Center.** Financed by the Iraq Relief and Reconstruction Fund (IRRF) and executed by USACE, this \$8.7 million project expanded the Ba'quba General Hospital's surgical health center. This three-story facility center includes a 50-bed intensive-care unit, 20 emergency-room beds, and surgical and trauma operating rooms.
- **Baghdad-Kirkuk Carriageway South.** This roadway-improvement project running through Diyala was executed by the Ministry of Construction and Housing using an \$11.3 million IRRF grant.

ISPO reported that the only remaining project it oversees in Diyala is an assessment of the Khan Bani Sa'ad prison site.²⁵⁶

SIGIR Oversight

In 2004, the Coalition Provisional Authority issued a task order to Parsons Delaware, Inc. (Parsons), to design and construct the 3,600-bed Khan Bani Sa'ad Correctional Facility in Diyala province. In June 2006, the U.S. government terminated the contract for default on the part of Parsons, leaving the facility partially completed. Subsequently, the U.S. government awarded three successor contracts to complete the work. In June 2007, the U.S. government, citing security reasons, terminated all



War-damaged Diyala suq.



Diyala suq refurbished with U.S. assistance.



Khan Bani Sa'ad is still lying unused and incomplete. There is some discussion among local Iraqi officials that the MOJ may turn it into a working facility someday. However, as of July 2011, the MOJ has only posted a few security guards at the site, most of whom rarely report to work. (USACE photo)

remaining work on the project after investing approximately \$40 million of the IRRF. Two months later, USACE unilaterally transferred the prison to the GOI, although the Ministry of Justice had informed USACE representatives that it would not “complete, occupy, or provide security” for the facility.²⁵⁷

In June 2008, SIGIR inspected the prison, finding construction deficiencies, generally poor workmanship, and potentially dangerous conditions. SIGIR also determined that most of the \$1.2 million in materials that the contractor reported

as “abandoned” when the contract was terminated were missing from the site. In July 2011, GOI officials in Diyala province informed SIGIR that the correctional facility, which locals refer to as “the whale,” remained idle.²⁵⁸

This quarter, ISPO reported that it is studying the current status of the prison site to confirm previous assessment results and assist in preparing an estimate of how much it would cost to render the facility useable. The study will also explore GOI interest, if any, in using the site.²⁵⁹ ♦