

DEVELOPMENTS IN IRAQ

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GOVERNANCE

Iraq continues to grapple with the legacy of the March 2010 parliamentary elections, which left Prime Minister Nuri al-Maliki in office for a second term atop a fractious coalition government. The latest round of political turmoil that began last December when the Government of Iraq (GOI) issued an arrest warrant for Vice President Tariq al-Hashimi entered a new phase, as Prime Minister al-Maliki's rivals sought to secure enough support in the Council of Representatives (CoR) to remove him from office. Although their efforts appear, for the moment, to have foundered, the major political factions remain at odds, potentially placing Iraq's political stability at risk as the country prepares for provincial elections in 2013 and CoR elections scheduled for 2014. For a discussion of this quarter's major political events, see Section 1 of this Report.

Council of Ministers

Notwithstanding the distraction of recent events, the Council of Ministers (CoM) met regularly throughout the quarter, taking action on several key issues.²⁸⁴

- approving the provision of technical assistance to Libya on issues pertaining to the removal of chemical-weapon stockpiles
- raising border guards' salaries by 25%–40%
- approving a program to provide free fuel to operators of off-grid generators during the four-month period from June 1 through September 30, 2012
- authorizing the Ministry of Oil to sign a five-year memorandum of understanding (MOU) with Jordan that would promote enhanced cooperation between the two countries on energy and other issues

- forming a committee to give effect to the provisions of Article 105 of the Iraqi Constitution, which provides for the equitable representation of regions and provincial governments in the management of GOI institutions

As part of Prime Minister al-Maliki's campaign to gather political support in various regions of the country, the CoM also held several meetings outside of Baghdad this quarter, convening in Basrah, Kirkuk, Mosul, and Nassiriya. In Kirkuk and Mosul, the Prime Minister made statements that appealed to nationalist Sunnis opposed to encroachments by the Kurdistan Regional Government (KRG), while in Basrah and Nassiriya, he sought the support of local Shia constituencies.²⁸⁵

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Postponement of Kurdish Provincial Elections

In early June, Iraq's Independent High Electoral Commission (IHEC) announced that the KRG had indefinitely postponed the provincial elections for Erbil, Dahuk, and Sulaymaniyah provinces that had been scheduled for September 27, 2012. According to the IHEC, the KRG delayed the elections because of a provision in the Region's electoral laws that allowed Christians to vote only for Christian candidates. The IHEC chairman stated that the KRG will reschedule provincial elections once the law has been altered to allow Christians to vote for any candidate on the ballot. The Kurdistan Region—along with Tameem province, home to the disputed city of Kirkuk—did not conduct provincial elections in January 2009, when Iraq's other 14 provinces elected governments.²⁸⁶

Iraqi Budget Execution

The economic health of Iraq and the quality of life of its citizens are inextricably intertwined with its public finances. A June 2011 United Nations Development Programme (UNDP) report estimates that Iraq's total public expenditures in recent years have exceeded 90% of its GDP.²⁸⁷ For 2009 and 2010, the GOI allocated about three-fourths of its annual budgets for operational expenditures (primarily salaries, pensions, and office expenses), with the remainder allocated for capital expenditures.²⁸⁸

While the GOI has consistently executed its operational budget at 80%–90%,²⁸⁹ capital budget execution rates have generally been lower, with some ministries reportedly failing to execute even half their annual capital budgets.²⁹⁰

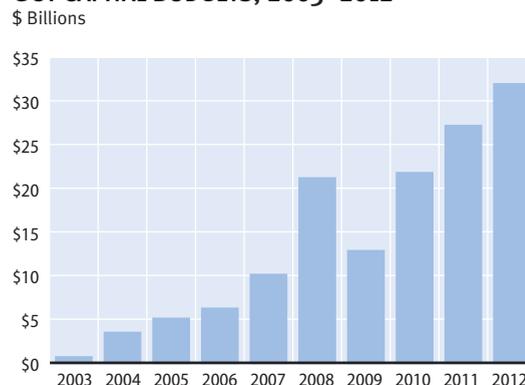
Capital Budget Execution Rates

As Figure 4.1 demonstrates, the GOI's annual capital budget has increased dramatically since 2003. For 2012, the GOI capital budget is nearly \$31.9 billion—up from \$27.1 billion in 2011 and \$21.7 billion in 2010.²⁹¹ Although the reported numbers vary, recent reports suggest that capital budget execution is low in several key ministries.²⁹²

According to Ministry of Finance (MOF) data obtained by the World Bank, the GOI's overall capital budget execution rate in 2008 was 75%. In 2009, it increased to 83% before falling to 78% in 2010.²⁹³ The Office of the Treasury Attaché also reviewed MOF budget data and concluded that the execution rates in all three of these years were lower: 35% in 2008, 57% in 2009, and 69% in 2010.²⁹⁴

In a separate report, as shown in Table 4.1, Iraq's Ministry of Planning and Development Cooperation (MoPDC) calculated that the overall rate for 2009 was 86%. Of the 25 ministries listed in the MoPDC report, at least 5 had capital budget execution rates of less than 50%, including Justice (17%), Finance (17%), Commerce (18%), Environment (31%), and Communications (46%) (complete data for the Ministry of Agriculture was unavailable). Conversely, the Ministries of Oil, Municipalities

FIGURE 4.1
GOI CAPITAL BUDGETS, 2003–2012



Note: Data not audited.

Sources: GOI, CoM, "Council of Ministers Approved Draft Law of the GOI Federal Budget for 2012 Financial Year," 1/9/2012, Schedule C; GOI, MoPDC, "Indicators of the Investment Budget for Year 2010," Table 17, 2011, www.mop.gov.iq/mop/resources/pdf/About%20MOP/Economical%20Rebort/Report%203.doc, accessed 7/11/2012; U.S. Treasury, responses to SIGIR data calls, 1/4/2009 and 4/9/2009; "GOI Budget" (as approved by TNA and written into law December 2005); GOI, Presidency of the Iraqi Interim National Assembly, "The State General Budget for 2005," 2005; GOI, Presidency of the Iraqi Interim National Assembly, "The State General Budget for 2005," 2005; GOI, "Budget Revenues and Expenses 2003, July-December," 2003.

and Public Works, Youth and Sports, Foreign Affairs, and Defense executed their entire capital budgets in 2009.²⁹⁵

For 2010, the MoPDC reported that the GOI capital budget execution rate fell from 86% to 76%, a figure slightly lower than the MOF estimate of 78% reported by the World Bank. According to the MoPDC, 13 of 26 ministries had capital budget execution rates below 50% in 2010, including Agriculture (6%), Finance (14%), Justice (18%), Health (20%), and Education (24%). Capital budget execution was also deficient in the security ministries, with the Ministry of Defense spending 68% of its capital budget and the Ministry of Interior spending 54% of its capital budget. Ministries executing all or nearly all of their capital budgets in 2010 included Foreign Affairs (103%), Electricity (94%), Municipalities and Public Works (86%), and Oil (85%).²⁹⁶

Although official budget-execution data for 2011 was unavailable as of July 1, some CoR members have asserted that some ministries' execution rates are lagging. Among them, Sheik Sabah al-Saadi, a

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DEVELOPMENTS IN IRAQ

TABLE 4.1

IRAQI CAPITAL BUDGET EXECUTION RATES, 2009 AND 2010

\$ Millions

		2009			2010		
		BUDGETED	EXECUTED	RATE	BUDGETED	EXECUTED	RATE
Republic Presidency		–	–	–	2.6	0.1	5%
Council of Representatives		4.5	0.8	18%	6.4	1.4	21%
Council of Ministries		208.6	81.2	39%	510.7	331.1	65%
Ministries	Oil	2,225.3	2,218.1	100%	2,652.6	2,260.5	85%
	Electricity	1,175.5	1,091.4	93%	3,638.0	3,416.6	94%
	Municipalities & Public Works	521.8	521.8	100%	1,495.3	1,286.1	86%
	Water Resources	589.1	495.4	84%	979.2	630.9	64%
	Housing & Construction	469.5	464.2	99%	651.7	491.5	75%
	Health	454.3	417.2	92%	920.5	185.1	20%
	Youth and Sports	167.3	167.3	100%	470.1	348.2	74%
	Industry & Minerals	508.5	475.7	94%	787.2	765.0	97%
	Education	181.6	145.8	80%	231.6	56.0	24%
	Foreign Affairs	100.4	100.4	100%	178.4	184.4	103%
	Communications	217.9	100.6	46%	336.8	86.1	26%
	Higher Education & Scientific Research	238.2	178.0	75%	350.1	139.0	40%
	Transportation	326.9	194.2	59%	459.1	229.1	50%
	Agricultural Initiatives	155.5	52.7	34%	179.0	83.0	46%
	Agriculture	209.2	–	–	246.2	15.6	6%
	Defense	71.7	71.7	100%	179.9	123.1	68%
	Interior	159.0	144.5	91%	162.4	87.9	54%
	Culture	21.8	8.5	39%	34.6	17.6	51%
	Finance	7.7	1.3	17%	36.9	5.1	14%
	Planning and Development Cooperation	43.6	30.3	70%	56.7	21.8	38%
	Science and Technology	19.8	11.6	58%	31.7	13.3	42%
	Commerce	47.0	8.6	18%	78.2	20.9	27%
	Labor & Social Affairs	15.1	10.9	72%	21.1	10.7	51%
	Justice	10.9	1.9	18%	13.7	2.5	18%
	Environment	8.1	2.5	31%	17.7	5.5	31%
	Human Rights	3.6	2.7	74%	6.1	2.1	34%
	Subtotal	7,949.3	6,917.2	87%	14,214.7	10,487.6	74%
Independent Offices		47.2	13.5	28%	44.6	24.9	56%
Regional, Provincial, and Local Development		4,569.2	4,036.7	88%	6,933.2	5,610.8	81%
Total		12,778.9	11,049.4	86%	21,712.2	16,456.0	76%

Note: Numbers affected by rounding.

Source: GOI, MoPDC, "Indicators of the Investment Budget for Year 2010," Table 17, 2011, www.mop.gov.iq/mop/pdf/About%20MOP/Economical%20Rebort/Report%203.doc, accessed 7/11/2012.

CoR member from southern Iraq and voluble critic of Prime Minister al-Maliki, has joined with other members to call for the questioning before the CoR of those ministers responsible for inadequate budget execution.²⁹⁷

Practical Effects

Some ministries' failure to execute the full amount of their capital budgets in a timely fashion has had a deleterious effect on Iraqi reconstruction, with infrastructure projects remaining incomplete years after contracts were signed by the parties and announced with much fanfare to the public. For example, in late 2008, the Ministry of Electricity (MOE) signed a "Mega Deal" with General Electric to buy 56 turbines for power plants, with a combined generating capacity of 7,000 megawatts (MW), but not one of those planned plants had been completed as of mid-July 2012. Even with the MOE importing about 16% of its electricity from Iran, the MOE reported that Iraqis residing outside the Kurdistan Region received only about 10 hours of power per day from the national grid this quarter.²⁹⁸

Probable Causes

According to GOI and U.S. government officials, slow execution rates can be attributed to several factors, including a sclerotic bureaucracy, inadequate contracting and project-management capacities, and public corruption.

The reluctance of certain mid-level Iraqi bureaucrats to take action on high-value contracts may be influenced by both societal and bureaucratic factors. Many GOI officials matured under an authoritarian system, where initiative was discouraged and mistakes had dire consequences.²⁹⁹ The GOI also lacks a full complement of contracting specialists, as the Deputy Governor of the Central Bank of Iraq (CBI) noted in a recent meeting with SIGIR.³⁰⁰ In addition, according to the Deputy Governor, certain complex agreements take "a very long time" to draft and finalize because several levels of approval are required for a contract to be executed.³⁰¹

Another factor affecting capital budget execution is the fear of some GOI officials that their political opponents will use any actions they take as an excuse to file a complaint against them with their ministry's inspector general (IG) or the Commission of Integrity (COI)—entities established by the Coalition Provisional Authority in 2004.³⁰² According to the Ministry of Industry and Minerals IG, employees in several ministries, which he did not name, allow urgent matters to lie unattended out of a fear that the IG will launch an investigation into their activities.³⁰³ This fear may be grounded, at least in part, in their knowledge that under the Iraqi Penal Code many forms of administrative misconduct are punishable as criminal offenses.³⁰⁴

Moreover, when IG or COI investigations do occur, they tend to be time-consuming and can cause significant delays in ministry actions. The COI (an independent agency) and ministry IG offices (nominally independent oversight offices) have wide-ranging legal authorities to request documents and question officials suspected of corruption. But, hampered by inexperienced staffs and political interference, COI and IG investigations are often drawn-out and labor-intensive processes.³⁰⁵

Finally, according to current and former COI and IG officials, the apparent contradiction between large capital budgets and persistently inferior public services—such as schools, hospitals, and sewer systems—suggests that some capital funds may be siphoned off by corrupt officials.³⁰⁶ Although it is impossible to determine the extent of any such malfeasance, one CoR member told SIGIR in June that corruption was one factor slowing capital budget execution.³⁰⁷ The same member noted that corrupt officials have become experts at hiding funds skimmed from ministry budgets, adding that the problem has grown so severe that "sometimes... a good old-fashioned Saddam-like execution would not be a bad thing because it is the only thing that might shock [corrupt] people to their senses."³⁰⁸ The Deputy Governor of the CBI agreed, commenting that public corruption was an

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impediment to certain ministries efficiently spending their capital budgets.³⁰⁹

Efforts To Effect Change

Cognizant of both the practical and political effects of unfinished projects, some ministers have begun traveling to project locations and publicly calling for more expeditious budget execution. For example, the Minister of Planning and Development Cooperation recently traveled to Babylon, Najaf, and several other provinces.³¹⁰ In Najaf, he inspected several religious-tourism and infrastructure projects, describing their progress as “lagging” and promising the ministry would reprioritize their completion.³¹¹ The Minister of Electricity also toured unfinished power plants throughout Iraq earlier this year, calling for their prompt completion.³¹² Their efforts appear to be showing some early results. For example, the MOE signed a contract with the South Korean firm STX in September 2011 to add 900 MW to the national grid. The project was completed this quarter—just in time for the high-demand summer months.³¹³

In a meeting of the Ministerial Committee of Reconstruction and Public Services in late June, Prime Minister al-Maliki praised the inspection tours recently taken by some ministers and called for enhanced interministerial cooperation on reconstruction projects, noting the urgent need for improved public services. He also stressed the need for ministers to actively monitor the degree to which projects are actually implemented and investigate instances where delays occur.³¹⁴

In another effort to bring about change, the World Bank is implementing a \$16 million, four-year program (2009–2013) to assist GOI ministries in executing their budgets and developing more accountable and effective public financial-management systems. One goal of the program is to increase the capital budget execution rate by at least 10 percentage points (presumably from the 2008 rate of 75%). According to an April 2012 update on the program, however, only about 11% of project funds have been disbursed to the GOI because of



Minister of Planning on an inspection trip to a shrine in Najaf, 2012. (GOI photo)

what the World Bank describes as “implementation bottlenecks.” These impediments contributed to the World Bank’s assessment of the program to date being “moderately unsatisfactory.”³¹⁵

Public Services

In April, the MoPDC released the detailed results of the nationwide 2011 Iraq Knowledge Network survey. The survey of 28,875 Iraqi households during the first quarter of 2011 found that many Iraqis had difficulty accessing basic public services. Table 4.2 shows how respondents in each of Iraq’s 18 provinces prioritized the need to improve the availability and quality of various public services.³¹⁶

Electricity

Based on incomplete data, SIGIR estimates that the total supply of electricity on the national grid controlled by the GOI’s Ministry of Electricity averaged about 6,200 megawatts (MW) this quarter. In addition to output from the MOE’s power plants, this total includes electricity imported from Iran and purchased from the privately owned “powerships” in Basrah, but it excludes electricity produced in the Kurdistan Region. In the last three months of 2011, the power transmission and distribution network operated by the KRG represented almost one-fourth of Iraq’s total supply. However, the KRG’s grid is

Prime Minister al-Maliki praised the inspection tours recently taken by some ministers and called for enhanced interministerial cooperation on reconstruction projects.

TABLE 4.2
DISTRIBUTION OF HOUSEHOLDS RATING VARIOUS SERVICES AS FIRST PRIORITY
% of Respondents

PROGRAM	HEALTH CARE SYSTEM	EDUCATION	WATER	ELECTRICITY	SECURITY	JUSTICE	OTHER
Anbar	11.0	1.9	2.8	23.5	51.0	7.7	2.2
Babylon	11.0	13.1	15.1	36.2	18.0	2.6	4.0
Baghdad	3.3	4.7	3.0	31.6	47.3	3.6	6.5
Basrah	7.9	4.1	13.2	52.2	12.4	1.0	8.8
Dahuk	19.0	17.7	8.3	33.1	4.0	8.4	9.5
Diyala	4.8	18.6	22.3	11.4	31.7	7.9	2.4
Erbil	23.6	14.3	11.3	27.6	9.4	6.3	7.5
Kerbala	4.4	7.8	9.0	38.3	34.2	4.4	1.2
Missan	8.8	12.0	7.9	61.1	2.2	2.3	5.8
Muthanna	4.2	6.8	11.0	63.0	1.6	8.2	4.4
Najaf	5.2	11.2	7.3	52.7	15.7	4.9	2.6
Ninewa	8.7	6.2	12.1	26.4	41.6	3.6	1.0
Qadissiya	12.4	12.1	6.9	47.2	9.4	7.5	4.0
Salah Al-Din	5.9	9.5	7.7	28.8	39.3	7.3	0.0
Sulaymaniyah	15.7	9.4	10.7	21.3	15.5	19.4	7.9
Tameem	7.8	8.2	6.8	55.2	17.1	3.4	1.2
Thi-Qar	18.2	12.5	16.6	33.6	12.2	3.9	2.0
Wassit	6.7	10.1	15.8	47.7	12.6	3.6	3.2

Source: UN, IAU, and GOI, COS, "Iraq Knowledge Network Survey 2011," 4/2012, p. 268, www.iauiraq.org/documents/1686/IKN_S9_Governance_en.pdf, accessed 6/12/2012.

independent of the national grid, and the MOE stopped reporting supply and demand data for the Kurdistan Region in March 2012.³¹⁷

This quarter's estimated average supply of 6,200 MW on the national grid was a 9% increase from last quarter and an 18% increase from the same quarter in 2011. It also surpassed the previous quarterly record of 5,917 MW set in the July–September quarter last year and may have signaled that the MOE's efforts to expand generating capacity are finally starting to produce results.³¹⁸

Still, the power supplied on the national grid in June was only able to meet consumer needs for roughly 10 hours each day.³¹⁹ Because of this shortfall, the CoM again this year approved a plan to provide a limited quantity of free fuel for off-grid government and private generators during the summer months. Under the plan,

This quarter's average supply on the national grid surpassed the previous quarterly record and may have signaled that the MOE's efforts to expand generating capacity are finally starting to produce results.



On May 6, the MOE announced the increases in electricity supplies it expects to see each month from June 2012 to April 2013. (MOE video)

which was authorized on May 22 and scheduled to be in effect from June 1 until September 30, the Ministry of Oil would provide free fuel to owners of generators who delivered at least 10 hours of electricity per day at reasonable prices to residential, commercial, or government buildings.³²⁰

The KRG’s Ministry of Electricity, by contrast, said that it expected residents in the Kurdistan Region to receive 20–22 hours of electricity each day from its grid during June and July.³²¹ Unlike the MOE in Baghdad, however, the KRG ministry does not publish daily supply and demand data.

The National Grid: Supply Forecast and Developments

While acknowledging that supply will be unable to meet demand before the end of 2013,³²² the MOE made several announcements this quarter promising marked improvements over the next year. The most detailed forecast was in a May 6 press release and video that showed the electricity supply climbing to 12,330 MW in April 2013—a doubling of available power over a one-year period.³²³ In a separate statement, the ministry said it expected the total supply to reach 27,000 MW early in 2015.³²⁴ Figure 4.2 displays the MOE’s month-by-month projection through next April, along with its reported average monthly supply from January 2011 through June 2012. The MOE’s reporting for June was sporadic. Based on the limited available data, SIGIR estimates the actual supply in June was

in the range of 6,700–6,800 MW, at least 9% below the 7,450 MW in the MOE’s May forecast.

New Generating Units Coming on Line

The MOE reported that several projects to build diesel and combustion turbine plants reached or neared completion this quarter:

- On May 19, the MOE began operation of a 230 MW diesel plant in Haditha in Anbar province. Work on this project originally began during the regime of Saddam Hussein, but was halted in 2002 and not resumed until 2009.³²⁵
- On May 23, the first of the MOE’s “Fast Track” projects using GE combustion turbines went on line. The Taji Gas Power Plant, built by Iraqi-owned Uruk Engineering & Contracting, has four generating units with a combined capacity of 160 MW.³²⁶
- In June, the South Korean firm STX completed the four diesel plants (with a combined capacity of 900 MW) it agreed to build under a contract it signed with the MOE in 2011—a 300 MW plant in Kerbala, a 200 MW plant in Missan, and two 200 MW plants in Qadisiya. Under the terms of the \$1.1 billion contract, the MOE would only

Several projects to build diesel and combustion turbine plants reached or neared completion this quarter.

FIGURE 4.2
ACTUAL AND FORECAST AVERAGE MONTHLY ELECTRICITY SUPPLY ON GOI NATIONAL GRID,
1/2011–4/2013
MW



Note: June 2012 “Actual Supply” is estimate based on limited available data.

Sources: ITAO/ESD, *Electric Daily Performance Reports*, 1/1/2011–6/30/2011; U.S. Embassy-Baghdad, responses to SIGIR data calls, 1/22/2012, 4/13/2012, and 7/3/2012; GOI, NMC, “Status of the Ministry of Electricity,” selected reports, 6/1/2012–6/30/2012, nmc.gov.iq/default.aspx, accessed various dates; GOI, MOE, press release, “Ministry of Electricity Announces the Size of the Total Electric Power Produced and Added Throughout the Months,” 5/6/2012, www.moelc.gov.iq/ar/index.php?name=News&file=article&sid=347, accessed 5/14/2012.

accept generating units completed before July 1, 2012.³²⁷

- On July 2, the first six of eight 7.5 MW generating units entered service at the new “Martyr Abdul Abbas Hashim” diesel plant in Baghdad. The plant was being built by a Lebanese company.³²⁸

Power Plants under Construction

As of June 30, the MOE had more than 9,000 MW of additional generating capacity at various stages of construction. These projects were underway in at least nine provinces.³²⁹ The largest plant under construction—and potentially the largest power plant in the Middle East—is the 2,540 MW al-Zubaidya thermal plant in Wassit, which is being built by Shanghai Electric. According to the MOE, the plant’s first generating unit, with a capacity of 330 MW, will come on line in early 2013.³³⁰

At least one construction project began this quarter. On June 20, Iran Power & Water Equipment and Services Export Company (Sunir) began work on a \$72 million contract to install 320 MW of new capacity at the Dibis combustion-turbine plant in Tameem province. The plant will use two 160 MW turbines that the MOE purchased in the December 2008 “Mega Deal” with Siemens.³³¹

New and Pending Power-plant Contracts

Other projects were in the pre-award stage or expected to start soon. On April 29, for example, the MOE announced that it had signed a contract with Orascom Construction Industries of Egypt to build the 960 MW Baiji combustion-turbine plant in Salah Al-Din province. The plant will use six 160 MW turbines that the MOE purchased in the Siemens Mega Deal. The MOE expects the project to be completed within 21 months of start-up.³³²

The MOE also received and began evaluating bids on two major new power plants:

- The largest is for a 1,500 MW combined-cycle plant in Anbar, which will have four gas-fueled combustion-turbine generating units and two thermal units that use the waste heat from the

turbines to generate additional power. This will be the MOE’s first plant to use combined-cycle technology, and construction is expected to take almost three years.³³³

- The MOE is also evaluating proposals for building the 500 MW al-Samawa combustion-turbine plant in Muthanna, one of four plants that the MOE originally had planned to award to independent power producers (IPPs) but subsequently changed to engineering, procurement, and construction (EPC) contracts. Al-Samawa plant will use four 125 MW turbines that the MOE purchased in the December 2008 Mega Deal with General Electric (GE).³³⁴

Imports and Powerships

In line with the MOE’s near-term plan for increasing supplies, Iraq’s reliance on electricity imports from Iran has continued to grow. Iranian imports averaged approximately 1,050 MW this quarter—a 16% increase from last quarter, and a 62% increase from the same quarter in 2011.³³⁵

Also this quarter, for the first time in more than six years, electricity started flowing into Iraq from Syria. On June 10, the MOE announced that it had completed a transmission line that was carrying about 100 MW from Syria into Anbar province. The announcement did not say if the electricity was produced in Syria or if it was a portion of the supply transmitted into the region from Egypt.³³⁶ Last quarter, the MOE reported that it had reached an agreement to start importing, via Jordan and Syria, 150–200 MW of electricity produced in Egypt by this summer.³³⁷ The ministry’s daily electricity reports showed supplies on the new line to be in the 125–135 MW range in mid-June, but these imports ceased later in the month, and the MOE said that three of the line’s towers in Syria had been bombed.³³⁸

To pay for the additional supplies of imported power—as well as to pay the past-due bills from Iran Power Generation, Transmission, and Distribution Management Company (Tavanir)—the CoM on June 5 almost doubled the 2012 funding

Iranian imports averaged 1,050 MW this quarter—a 62% increase from the same quarter in 2011.

available for electricity imports. The budget approved by the CoR last quarter allocated \$940 million for this purpose, and the CoM this quarter increased the allocation to \$1.7 billion.³³⁹

In another effort to quickly boost supplies, the MOE this quarter signed a two-year contract with a United Arab Emirates company to add two more powerships, each capable of generating 125 MW, to the fleet docked in Basrah.³⁴⁰ Three floating power plants owned by Karadeniz Energy Group of Turkey currently supply electricity to the Basrah area and produced an average of about 235 MW this quarter.³⁴¹ In April, the MOE reported that its inspector general and other law-enforcement agencies were investigating an alleged scheme to systematically steal fuel intended to run the generators on these ships.³⁴²

System Reliability

The MOE's supply forecast for the next year is based mainly on the completion of ongoing projects aimed at adding new generating capacity to the grid. But even if these projects are completed on schedule, their potential could be limited by fuel availability, problems with the transmission and distribution network, and other issues. During the evening of June 15, for example, a scarcity of fuel and technical problems at al-Musayab thermal power plant reportedly led to a two-hour nationwide blackout, and the system was not returned to normal until the next morning.³⁴³ To address these types of issues, the MOE has efforts underway to upgrade the network, reduce vandalism and illegal tapping, pipe in natural gas from Iran, and make better use of domestic natural gas that is currently flared.

Kurdistan Region: Expansion of Generating Capacity, Imports, and Exports

The three major power plants in the Kurdistan Region are privately owned and have a combined nameplate capacity of 2,250 MW. The current capacity of the largest plant, Erbil Gas, is 1,000 MW, and plans are in place to convert the plant to

combined-cycle technology and thereby increase its generating capacity to 1,500 MW. Mass Global, the independent power producer that owns the plant, has selected GE to supply the steam turbines and Turkish company ENKA to execute the upgrade, which is scheduled for completion by mid-2014.³⁴⁴

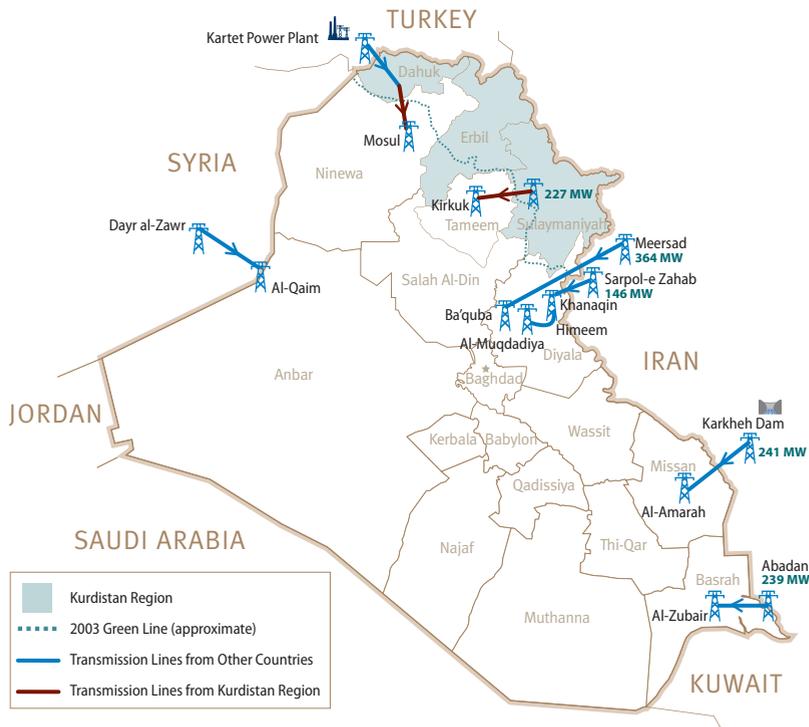
The KRG also announced plans this quarter to add a fourth major power plant to the Region's grid. On June 8, KRG Prime Minister Nechervan Barzani announced an agreement between companies from the Czech Republic, Turkey, and the Kurdistan Region to build the new plant, with financing provided by the Czech Export Bank.³⁴⁵ According to one of the companies, the new gas-fired thermal plant will have a generating capacity of 980 MW and will be located in Erbil.³⁴⁶

Since January 2011, when the GOI allowed the contract for electricity imports from Turkey to Dahuk to expire, all electricity consumed in the Kurdistan Region has been produced in the region. However, on June 2, 2012, the KRG's Ministry of Electricity announced that it had "renewed" the contract for imports, that electricity was again flowing across the border into Dahuk, and that the ministry had connected the tie line from Turkey to another line that serves the Mosul area in Ninewa province. The announcement stated that "any impediments to the project would harm the inhabitants of Mosul" and that the KRG ministry was ready to provide services to all areas of Iraq.³⁴⁷

This is the second time in a year that the KRG has independently taken steps to provide electric power to areas of Iraq on the other side of the "Green Line." On June 23, 2011, KRG President Massoud Barzani announced that power produced in the Kurdistan Region was being supplied to Tameem to help that province during the hot summer and that these supplies would continue until the GOI "returns all these areas to the Kurdistan Region."³⁴⁸ During the first two months of this quarter, the Kurdistan Region supplied an average of 227 MW to Tameem.³⁴⁹

This is the second time in a year that the KRG has independently taken steps to provide electric power to areas of Iraq on the other side of the "Green Line."

FIGURE 4.3
ELECTRICITY IMPORTS INTO AND WITHIN IRAQ, AS OF 6/30/2012



Note: Routes of transmission lines are approximate. The supply (in MW) shown for each line is the approximate average amount transmitted during April and May 2012.

Sources: Based on GOI, NMC, “Status of the Ministry of Electricity,” selected reports, 4/1/2012–6/30/2012, www.nmc.gov.iq/default.aspx, accessed various dates; selected GOI and KRG press releases; U.S. Embassy-Baghdad, response to SIGIR data call, 7/3/2012.

Figure 4.3 shows the approximate routes of the transmission lines connecting the Kurdistan Region to Mosul and Kirkuk, as well as the lines coming into Iraq from Iran, Syria, and Turkey.

Health

The Ministry of Health this quarter lifted a ban first imposed during the Saddam Hussein era that for decades had prevented foreigners from investing in, or administering, Iraqi hospitals. With the restriction lifted, foreign entities are able to contract with the GOI to undertake such work. Under Iraq’s *National Development Plan 2010–2014*, the GOI called for an increase of more than 40% in the number of hospital beds, a 20% increase in the number of health centers, and

over 40% more specialized health centers that offer surgery and preventative medicine as well as routine services.³⁵⁰

Water

This quarter, the CoM approved a draft law establishing a National Water Council to help the GOI develop improved domestic water strategies and conduct effective water-related regional diplomacy. The move comes as changing weather patterns and growing populations strain available water resources throughout the Middle East. As currently conceived, the new council will have an external division, headed by the Minister of Foreign Affairs, that will conduct relations with countries that also use water from the Euphrates and Tigris Rivers. A domestic division of the council will be headed by the Minister of Water Resources and include several other federal ministries.³⁵¹

The Ministry of Water Resources and the General Assembly of the Arab League took steps toward greater cooperation in the management of the region’s water resources, hosting a conference of Arab nations in Baghdad this quarter. Participants adopted a shared water agreement to ensure equitable division of existing water resources among regional countries and created a committee of experts to offer legal, political, and technical guidance in this effort.³⁵²

The United Nations Educational, Scientific and Cultural Organization is working with the GOI to survey Iraq’s groundwater resources to improve the government’s ability to counter the growing problem of water scarcity. The program, supported by \$6.3 million from the European Union, is to determine the availability of groundwater to supplement Iraq’s longer-term water needs—needs currently met mainly by the Tigris and Euphrates Rivers. It involves “ground-proofing,” or physically verifying, the presence of large underwater aquifers that appear on satellite images to determine if newly identified aquifers can be replenished if they are tapped. The program also contains a training program for the development of international negotiating skills

The CoM approved a draft law establishing a National Water Council to help the GOI develop improved domestic water strategies and conduct effective water-related regional diplomacy.

so that Iraq can better work with nations that share the major watersheds of these rivers³⁵³

Education

The Chairman of the CoR Committee on Higher Education expressed concern about the arrest this quarter of a respected professor at Baghdad University without apparent cause other than his outspoken political views. He denounced the arrest as “a step backwards for Iraqi democracy,” saying that the action could discourage Iraqi academics now working in foreign countries from considering a return to Iraq.³⁵⁴

Displaced Persons

Relocating the Former Residents of Camp Ashraf

On December 25, 2011, the United Nations (UN) and GOI signed an MOU providing for the relocation of the approximately 3,400 Iranian Mujaheddin e-Khalq (MEK) members living at Camp Ashraf. As of mid-May, the GOI had run five convoys transporting almost 2,000 former Ashraf residents to new housing facilities at Camp Hurriya (formerly the U.S. military base near Baghdad known as Camp Liberty). Each of the five convoys was accompanied by UN monitors, who also observed the GOI’s screening and loading procedures—a process the Department of State (DoS) Special Advisor for Ashraf described as “lengthy” and characterized by sometimes heated disagreements between GOI officials and Ashraf residents. Although DoS officials have stated that Camp Hurriya has Internet connectivity, a mosque, and a gym, several humanitarian challenges persist, including an insufficient number of functional air-conditioning units, generators, and sewage-removal systems capable of supplying a fully populated camp.³⁵⁵

The next step in the resettlement process involves the UN High Commissioner for Refugees

(UNHCR) determining the eligibility of Camp Hurriya residents for refugee status. The United States has expressed a willingness to accept an undetermined number of UNHCR referrals, as have several European countries. Other Hurriya residents may be forced to rely on UNHCR assistance to secure resettlement in another country if they elect not to return to Iran.³⁵⁶

On June 18, DoS issued a statement chiding the MEK leadership for insisting that U.S. representatives inspect Ashraf before additional residents are moved to Hurriya. This quarter, DoS also stated that it intends to comply with a recent federal appellate court decision that calls for it to determine by October 1, 2012, whether the MEK will remain on its list of terrorist organizations.³⁵⁷

Refugees and Returnees

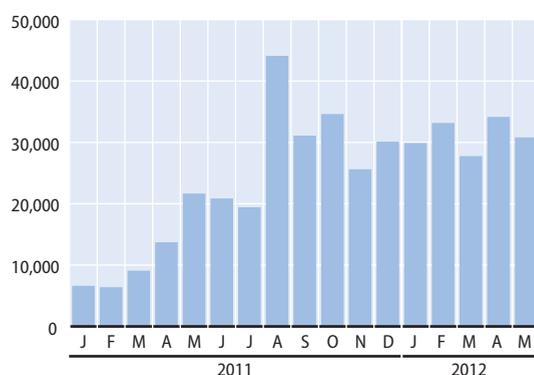
The number of Iraqi refugees registered with the UNHCR in neighboring countries continued its steady downward trend during the first five months of 2012, falling by about 11% from 168,765 on January 1 to 149,897 on May 31. About two-thirds of registered refugees listed Baghdad as their province of origin, 11% reported Ninewa as their place of origin, and 5% said they were from Basrah. Notwithstanding the ongoing civil conflict in Syria, nearly 59% (87,741) of registered refugees were sheltering there. About 19% (29,191) resided in Jordan, and 8% (11,322) in Turkey.³⁵⁸ As Figure 4.4 shows, for the first five months of 2012, the number

The number of Iraqi refugees registered with the UNHCR in neighboring countries continued its steady downward trend during the first five months of 2012.



IDP children in Diyala province, 2011. (UNHCR photo)

FIGURE 4.4
NUMBER OF RETURNING REFUGEES AND IDPS,
BY MONTH, 1/2011–5/2012



Source: UN, IAU, "Monthly Statistical Update on Return," 5/2012, p. 11, www.iauiraq.org/documents/1743/Return%20Update%20IRAQ%20MAY%202012.pdf, accessed 7/15/2012.

Nearly 500,000 people live in squatter settlements throughout Iraq, with more than 200,000 of them residing in Baghdad province.

of Iraqi internally displaced persons (IDPs) and refugees registering as returnees remained ahead of 2011's pace.

As of the end of May, 154,700 had registered with the Ministry of Displacement and Migration (MoDM). In all of last year, 260,690 returnees registered, including 193,610 IDPs and 67,080 refugees. Since January, about 69% of IDP and refugee returnees have registered in Baghdad province, followed by 15% in Diyala province.³⁵⁹

Syrian Refugees in the Kurdistan Region

According to KRG officials, more than 5,300 Syrian refugees were sheltering in the Region as of mid-June. The majority of Syrian refugees in the Region resided in Dahuk province's Domiz camp, which opened in early April. Those who did not live in a refugee camp usually stayed with relatives or in mosques. A survey conducted by the International Organization for Migration (IOM) found that almost all of these refugees are Sunni Kurds. The camp provides some basic services, such as tents and some drinking water, but it lacks medical facilities and adequate water and sanitation networks. While the UNHCR has assisted the KRG by providing refugees with basic foodstuffs, and the IOM has built a water-storage tank, Kurdish

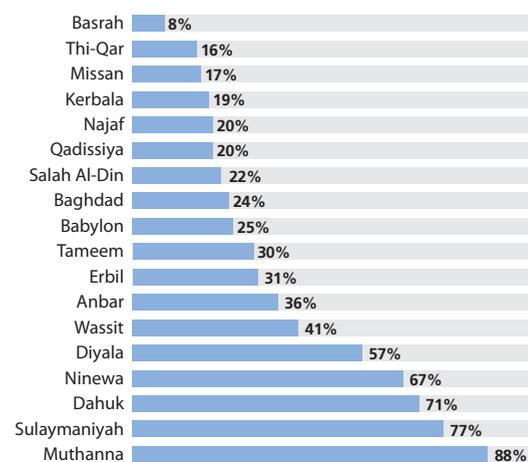
officials have stated that more help is needed if they are to meet the growing population's needs.³⁶⁰

Housing Needs of Displaced Persons

According to information published by the IOM this quarter, nearly 500,000 people live in squatter settlements throughout Iraq, with more than 200,000 of them residing in Baghdad province. While the problem is particularly acute in the capital, a majority of IOM-assessed families in the southern provinces of Missan (66%) and Kerbala (62%) were living in some form of substandard shelter. Figure 4.5 shows the IOM report's findings on home-ownership rates.³⁶¹

About half of all families living in substandard housing (such as tents and tin shacks) are IDPs (48%), while almost as many are characterized as residents of the host communities (46%). In contrast to 2006–2008, when deteriorating security drove displacement, the IOM found that many of these families have been driven into squatter camps and other temporary accommodations because of drought conditions, a lack of building materials, or a dearth of home financing in their communities. The GOI's Ministry of Construction and Housing

FIGURE 4.5
HOME-OWNERSHIP RATES AMONG UN-ASSESSED FAMILIES, BY PROVINCE, 6/2012



Source: IOM, "Iraq Special Report: Shelter," 6/15/2012, p. 14, reliefweb.int/sites/reliefweb.int/files/resources/ShelterFinal.pdf, accessed 6/17/2012.

estimates that it would have to construct one new home every 45 seconds of each work day to keep up with the surging demand for housing.³⁶²

UNHCR Assistance to Displaced Persons

The UNHCR reported that it has assisted the MoDM in drafting a national framework that outlines several measures needed to improve the lives of displaced persons and returnees. UNHCR operates 18 Protection Assistance and Return Centres and 40 mobile teams throughout Iraq, as well as 6 Return Integration and Community Centres in Baghdad to monitor protection and provide legal counseling. According to the UNHCR, it helped 6,750 displaced persons and returnees in 2011 obtain registration and documentation for births and marriages, recover lost documents, or renew outdated ones. In 2011, the UNHCR opened more than 3,100 legal cases, of which 38% served female clients.³⁶³

Human Rights

DoS Report on Human Rights Practices

In late May, the DoS Bureau of Democracy, Human Rights and Labor issued its annual Iraq country report on human rights practices for 2011, citing the continuing abuses by sectarian, ethnic, and government-affiliated armed groups as the most significant remaining human rights issue in the country.³⁶⁴ DoS stated that government involvement in extrajudicial killings remained low, but cited “credible reports” of some incidents, including one in February 2011 that involved soldiers arresting, torturing, and killing a Ninewa province resident.³⁶⁵ Other major problems cited in the report included:

- **ISF abuses.** According to DoS, “impunity for security forces continued,” with human rights violations committed by ISF personnel rarely being investigated and perpetrators seldom being punished.³⁶⁶
- **Prison conditions.** In its analysis of living conditions at GOI-administered detention facilities, DoS contrasted the relatively decent treatment accorded to prisoners at prisons run by the Ministry of Justice’s Iraqi Corrections Service (ICS) with the “generally poor” circumstances encountered at jails overseen by the Ministries of Interior and Defense.³⁶⁷
- **Arbitrary arrests.** DoS reported that ISF personnel frequently arrested citizens without the judicial authorization required under Iraqi law and often failed to notify family members of the arrests. Post-arrest, suspects were often held incommunicado for long periods without being formally charged or afforded the opportunity to speak with defense counsel. Although the ICS is authorized to hold only post-conviction detainees, about 35% of prisoners under ICS control in 2011 were pre-trial detainees.³⁶⁸
- **Limitation of free speech.** While citing several instances involving the intimidation of journalists by both GOI and KRG security forces, DoS found that the main limitation on freedom of speech came from self-censorship based on “the real fear” of reprisals, whether by the government, political parties, criminal gangs, or insurgent forces.³⁶⁹
- **Pressure to join political parties.** DoS noted that this is a particular problem in the Kurdistan Region, where Patriotic Union of Kurdistan (PUK) officials pressure residents of Sulymaniyah province, and Kurdistan Democratic Party (KDP) officials pressure people living in Erbil and Dahuk provinces. For residents of the Kurdistan Region, failure to affiliate with either party can adversely affect employment prospects.³⁷⁰
- **Censorship.** According to DoS, books published within the country needed the Ministry of Culture’s approval prior to publication, and imported books remained subject to censorship.³⁷¹
- **Domestic violence.** Relying on information compiled by nongovernmental organizations (NGOs), DoS stated that domestic violence against women remained a serious problem,

According to DoS, “impunity for security forces continued,” with human rights violations committed by ISF personnel rarely being investigated and perpetrators seldom being punished.

DoS granted Iraq a waiver from Tier 3 status based on its assessment that the GOI is devoting sufficient resources to crafting a written plan that, if fully implemented, would constitute a significant step toward meeting the minimum standards for eliminating trafficking in persons.

with abusers often going unpunished. DoS cited the lack of trained GOI police and judicial personnel as a major factor hampering efforts to bring domestic abusers to justice.³⁷²

UN Report on Human Rights

The UN Assistance Mission for Iraq (UNAMI), in coordination with UNHCR, also issued its annual report on human rights in Iraq this quarter. Underscoring the observations contained in the DoS report, UNAMI identified the still-elevated levels of violence, weak rule-of-law institutions, and widespread abuses against women and minorities as the most pressing human rights challenges facing Iraq. However, UNAMI noted that the GOI did make some progress in addressing these issues in 2011, including:³⁷³

- appointing a committee to nominate commissioners to the Iraqi Independent High Commission for Human Rights
- drafting a National Action Plan to implement the 135 recommendations made by the UN's 2010 Universal Periodic Review of human rights conditions in Iraq
- ratifying the Convention against Torture

The UNAMI report stated that, while the human rights situation in the Kurdistan Region continued to improve in 2011, measures taken by KRG officials to suppress demonstrations in early 2011 raised significant questions about the KRG's commitment to the freedom of expression. UNAMI also reiterated concerns about the continuing practice of female genital mutilation and other violence against women.³⁷⁴

Human Trafficking

On June 19, DoS released its Trafficking in Persons (TIP) Report for 2012, placing Iraq on its Tier 2 Watch List for the fourth consecutive year. This category is for countries whose governments do not fully comply with the minimum standards established under the Trafficking Victims Protection Act, but are making

significant efforts to bring themselves into compliance with those standards.³⁷⁵

DoS granted Iraq a waiver from Tier 3 status (reserved for countries that are not making significant efforts to comply) based on its assessment that the GOI is devoting sufficient resources to crafting a written plan that, if fully implemented, would constitute a significant step toward meeting the minimum standards for eliminating trafficking in persons. For example, the Anti-Trafficking in Persons Law, which the CoR passed on February 23, 2012, entered into force in late April when it was published in the *Official Gazette*. The law requires the formation of a Central Committee to Prevent Human Trafficking, charging this as-yet-unformed entity with implementing the law's provisions. But the law does not specify which GOI ministries will be represented on the Central Committee or who will lead it. Moreover, the KRG has not passed a similar law, and the nature of its participation in the new anti-trafficking legal regime remains uncertain.³⁷⁶

DoS also found that Iraq remains a source and destination country for men, women, and children subjected to sex trafficking and forced labor. While stating that the GOI did make some efforts to prevent trafficking in persons in 2011, the TIP Report also concluded:³⁷⁷

- Iraqi women are often lured into forced prostitution through false promises of work, with Saddam Hussein's hometown of Tikrit cited as the epicenter for many such trafficking rings.
- Some Iraqi boys from poor families are reportedly forced into non-consensual labor and commercial sexual exploitation.
- The GOI did not make demonstrable efforts in 2011 to investigate or punish government officials' complicity in trafficking offenses.
- The GOI demonstrated minimal efforts to protect victims of trafficking during the reporting period.
- The GOI continued to criminalize NGO-run shelters that provided protective services to sex-trafficking victims.

Minority Participation in Public Life

According to a report issued in late 2011 by the NGO Minority Rights Group International, many members of Iraqi minority groups (such as Christians, Turkmen, Yazidis, and Shabaks) are unable to access public services or obtain employment because of ethnic or religious prejudice. The report, which received financial support from the European Union and was conducted in partnership with the Iraqi Minorities Council, focused on minorities in northern Iraq and the provinces of Baghdad, Basrah, and Babylon. It noted that 60% of minorities surveyed felt comfortable exercising their religious rights, while less than half felt safe visiting places of worship (47%) or wearing religious symbols (45%). The report also found that female members of

minority groups were particularly vulnerable, with 96% of female minority members surveyed reporting that they had insufficient access to social services. Other key findings included:³⁷⁸

- 71% of respondents reported a lack of access to adequate water resources.
- 68% of respondents reported having difficulty buying medication.
- 38% of respondents reported experiencing discrimination when applying for a government job.
- 35% of respondents reported experiencing discrimination because of their political affiliation (or lack thereof).
- 32% of respondents reported experiencing discrimination when attempting to obtain housing assistance from the government.♦

60% of minorities surveyed felt comfortable exercising their religious rights, while less than half felt safe visiting places of worship or wearing religious symbols.

SECURITY AND THE RULE OF LAW

In late April, municipal officials in Baghdad announced a plan to open up 50% of the streets that had been closed for security reasons.³⁷⁹ Baghdad officials also stated that about 200,000 concrete barriers (including at least 50,000 large t-walls) had already been dismantled, citing the success of the recent Arab League summit as evidence that security precautions could be normalized.³⁸⁰ But a series of bombings in June and July underscored the fragility of the security situation in Baghdad and elsewhere, calling into question the durability of recent years' gains and the relaxing of security measures. In the worst day of violence, a series of attacks on July 23 in Taji, Baghdad, Kirkuk, and other cities killed more than 100 and injured at least 250.

Recent Violence

Several other major attacks occurred this quarter. On June 13, a wave of at least 40 coordinated attacks killed more than 60 people and injured over 200. In Baghdad, attacks targeted Shia pilgrims commemorating the eighth-century death of a revered imam, killing about 30. On that day, anti-government forces also carried out attacks in Hilla, Ba'quba, Kirkuk, Kerbala, Balad, and Mosul. Prior attacks against Iraq's Shia majority were carried out in Baghdad on May 31 (a bombing in a Shia neighborhood that killed at least 18) and June 4 (a bombing of the Shia Endowment's headquarters, which killed more than 20). Other mass-casualty attacks this quarter included:³⁸¹

- April 13—An attack on a bus in Samarra killed 7 Shia pilgrims.
- April 19—Bombings in 10 cities killed at least 30 people.
- April 26—The bombing of a café near Ba'quba killed 10.

- June 16—Two car bombs in Baghdad killed 32.
- June 18—A suicide bomber killed at least 15 in Baghdad.
- June 22—Two bombings killed at least 14 and injured more than 100 in Baghdad.
- June 25—Nine young soccer players and fans were killed by a bomb in Hilla.
- July 3—Multiple attacks in central and southern Iraq killed at least 40.
- July 22—Three bombings in Baghdad killed at least 15 and injured more than 60.

Trends in Attacks and Casualties

According to the UN, the number of monthly attacks declined from 3,303 in August 2007 to 239 in March 2012—one of the lowest monthly totals since 2003. However, the number of attacks increased in both April and May before dropping slightly to 325 in June.³⁸² The UN reported that attacks killed at least 1,053 Iraqis from April 1 to June 30, up slightly from the first three months of this year when it reported 1,048 fatalities.³⁸³ And while official data for July is not available, the attacks that occurred on July 23 apparently resulted in the largest one-day death toll in more than two years. Although the GOI does not post official totals for monthly attacks, media reports of information provided by Iraqi security and health officials suggest the GOI may be under-reporting the number of attacks—this quarter, possibly by more than 60%.³⁸⁴

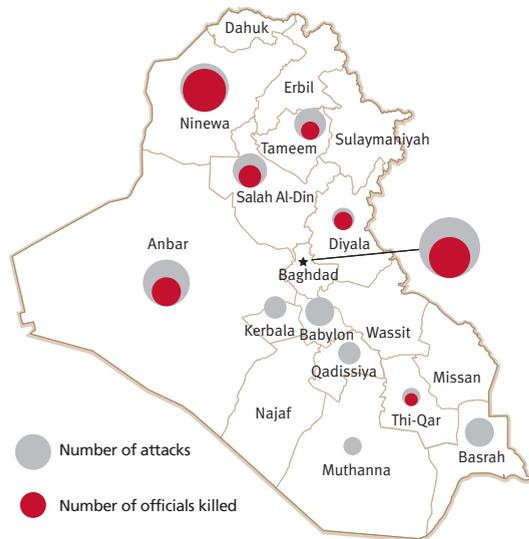
Assassinations

Assassinations of senior government officials continue as well. On May 25, unknown assailants shot and killed a Ministry of Interior (MOI) brigadier general as he was leaving his house in southern Baghdad. That same day, the Vice President of the Ninewa Provincial Council survived a bomb

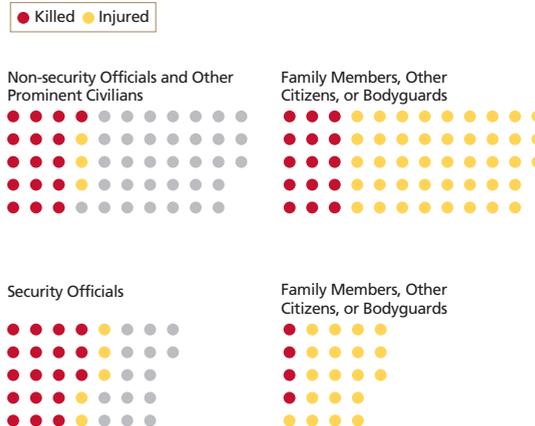
On June 13, a wave of at least 40 coordinated attacks killed more than 60 people and injured over 200.

FIGURE 4.6
SELECTED ACTS OF APPARENT TARGETED VIOLENCE AGAINST SENIOR OFFICIALS, 4/1/2012–6/30/2012

Number of Attacks and Officials Killed, by Province



Officials Targeted, Killed, and Injured, and Related Casualties



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

Source: SIGIR analysis of open-source documents in Arabic and English, 4/1/2012–6/30/2012.

attack on his convoy in Mosul that killed at least one person. Judges were also targeted this quarter. On July 1, a criminal court judge in Mosul was shot to death while driving home from work. As Figure 4.6 shows, this quarter, at least 90 senior GOI personnel were the apparent targets of assassination attempts, resulting in at least 34 deaths. This is up from 17 killings of senior officials for the three-month period from mid-January to mid-April 2012.³⁸⁵

Attacks on Infrastructure

Terrorists also attacked vulnerable Iraqi infrastructure targets on multiple occasions this quarter:

- In late April, police in Mosul safely detonated a bomb that was attached to a cell-phone tower.³⁸⁶
- In late May, the bombing of a tower severed the 400-kilovolt transmission line between Baiji and Kirkuk.³⁸⁷
- In early June, two bombs detonated near oil pipelines outside Kirkuk. Iraqi Security Forces

(ISF) personnel defused four other bombs in the same area. According to GOI officials, oil exports to Turkey were not affected by this incident.³⁸⁸

- In late June, bombs damaged three towers on a line for the transmission of electricity from Syria to Anbar province.³⁸⁹
- In early July, bombs damaged two more towers on the Baiji-Kirkuk line and disrupted service.³⁹⁰

Bombs damaged three towers on a line for the transmission of electricity from Syria to Anbar province.

MOI Principal Deputy Minister's Assessment of Iraqi Security

On May 2, the Inspector General met with Principal Deputy Minister of Interior Adnan al-Asadi, who stated that the three main challenges facing the MOI were terrorism, corruption, and armed militia groups. Al-Asadi stated that about "90% of al-Qaeda in Iraq- and Ba'athist-affiliated" groups had been defeated, with their members either killed

or captured. With regard to corruption, al-Asadi alleged that “there are many corrupt ministers,” many of whom are difficult to build cases against because of their high positions within the GOI. He added that there was a need for stronger anticorruption laws that would enable the MOI, and other GOI agencies, to combat corruption more effectively, noting that government funds obtained through illicit means still finance terrorist operations. In al-Asadi’s view, “power is needed to cure corruption in Iraq.”³⁹¹

Landmines and Unexploded Ordnance

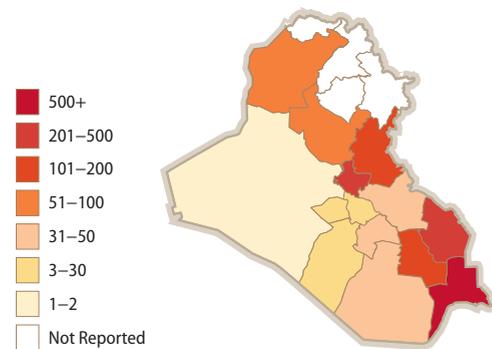
The UN estimates that about 1,730 square kilometers of Iraqi territory—inhabited by about 1.6 million people—is rendered dangerous by the presence of landmines or unexploded ordnance (UXO). In 2011, 10 Iraqis were reported killed, and 20 more injured, by landmines. As Figure 4.7 illustrates, mines and UXO are generally concentrated in southern and eastern Iraq, where Iraqi troops constructed defenses against the Iranians in the 1980s and against the U.S.-led coalitions of 1991 and 2003. The UN reports that 90% of the contaminated land is agricultural. UXO has also affected the development of some of Iraq’s large southern oil fields. Under the terms of their contracts with the GOI, international oil companies are obliged to survey and clear any land they suspect of being contaminated by UXO. In May, UN and GOI officials involved in clearing Iraq’s minefields said progress was slow and that all mines may not be cleared until 2028.³⁹²

An MOI major general announced that the ISF had only limited control over Iraq’s border with Syria despite the addition of more personnel to the area in May.

Fighting between Turkey and the PKK

In late June, multiple Turkish air strikes hit Kurdistan Workers’ Party (PKK) base camps in the

FIGURE 4.7
LANDMINE AND UNEXPLODED ORDNANCE SITES, BY PROVINCE, 2011



Source: GOI, MOH, “WHO Injury Surveillance Results,” 2011.

northern part of the Kurdistan Region in retaliation for a PKK attack on a Turkish army post that killed 8 Turkish soldiers and injured about 20. The latest round of fighting between the Turkish military and the PKK brought the death toll for the past 12 months in this decades-long conflict to more than 500 Turkish soldiers, PKK insurgents, and civilians.³⁹³

Policing the Syrian Border

In late June, an MOI major general with security responsibility for parts of Ninewa province announced that the ISF had only limited control over Iraq’s border with Syria despite the addition of more personnel to the area in May. He cited two reasons for the instability. First, neither Iraq nor Syria has been able to control cross-border smuggling networks. Second, many of the tribes in the area inhabit villages on both sides of the line, making the trafficking of goods and persons across the border easier. His sentiments were echoed in a June 19 statement by a member of the CoR’s Security and Defense Committee, who stated that Iraq needs additional surveillance planes to improve its ability to monitor cross-border traffic and dismantle smuggling networks.³⁹⁴

Iraqi Security Forces

This quarter, the MOI announced the findings of its joint study with the Ministry of Defense (MOD) on the process for transferring most security missions in Baghdad—many of which are currently handled by the Iraqi Army (IA)—to MOI police forces. Plans call for the transfer to be conducted in three phases. Upon completion of the final phase, MOI personnel will be responsible for 75% of security duties in Baghdad, with MOD forces retaining control over the other 25%, including providing protection for many GOI buildings and crowded public spaces.³⁹⁵

Increasing the MOI's role in domestic security has been a longstanding goal of both the GOI and U.S. civilian and military advisors. As the Office of Security Cooperation-Iraq (OSC-I) Chief noted in his May 1 meeting with the Inspector General, the continued professional development of Iraq's military depends, in part, on the rapidity with which it can transfer domestic security responsibilities to MOI police forces and reorient its training toward preparing for external contingencies.³⁹⁶

As the ISF prepares for these transitions, it has placed increased emphasis on indigenous training initiatives (independent of those delivered by OSC-I or the PDP). This quarter, the ISF reported activities in several professional-education programs:³⁹⁷

- 42 MOI personnel graduated from a six-month MOD-led training course held at a military school in Thi-Qar province, bringing to more than 1,300 the number of MOI personnel who have completed this program.
- 160 new police officers graduated from training to prepare them for protecting electricity infrastructure.
- 553 police recruits graduated from a three-week training course held in Basrah.

The GOI has asked OSC-I to support several programs that would enhance its capabilities as it assumes new domestic-security responsibilities, including a Foreign Military Sales case to develop



ISF personnel on review, July 2012. (GOI photo)

the Iraqi Intelligence Sharing Initiative. This computer-based intelligence-sharing system would allow Iraq to receive and fuse raw data into useable intelligence.³⁹⁸ OSC-I is also facilitating the delivery of armored vehicles, communications equipment, and additional weapons for the MOI, with delivery expected in late 2012 and early 2013.³⁹⁹ For more on OSC-I activities, see Section 3 of this Report.

To address future manpower needs, the CoR's Security and Defense Committee is considering whether to push for the reestablishment of the draft. One member of the committee noted that an additional benefit of conscription could be the fostering of a national identity and a concomitant weakening of sectarianism. However, the committee's efforts remain preliminary, and the reestablishment of a draft, if it were to happen, appears to be many years off.⁴⁰⁰

Counterterrorism Forces

No single GOI agency “owns” the domestic counterterrorism portfolio. Instead, multiple agencies possess overlapping authorities. The most publicly active agency charged with counterterrorism is the Counter-Terrorism Bureau,

The continued professional development of Iraq's military depends, in part, on the rapidity with which it can transfer domestic security responsibilities to MOI police forces.

The process of integrating PUK and KDP *Peshmerga* units should be completed by the end of this year.

established in April 2007 by the Prime Minister. Its approximately 400 personnel are drawn from the IA, the Federal Police, and the Emergency Response Bureau. The Counter-Terrorism Bureau generally targets Sunni anti-government elements, including Ba'athists and al-Qaeda-linked operatives. Other GOI counterterrorism entities include:⁴⁰¹

- MOI Emergency Response Bureau—a special weapons and tactics unit with about 1,200 personnel
- MOI Major Crimes Unit—a specialized police unit with about 2,000 personnel
- MOI Anti-Terrorism Directorate—another specialized police unit with about 500 personnel
- MOI Internal Affairs—responsible for investigating major felonies as well as some antiterrorism cases
- MOD Special Operations Forces—specialized military units involved in counterinsurgency operations (as discussed in Section 3, these forces are slated to receive a significant amount of additional U.S.-funded training and equipment in the coming months)

Sons of Iraq

In early June, the Prime Minister's Advisor for Reconciliation Affairs announced that the remaining Sons of Iraq (SOI) units (Awakening Councils) would be shut down in 2013, noting that it was the GOI's original intention to cease supporting them in 2011. However, the advisor implied that the GOI's 2013 budget would continue to provide financial support for remaining SOI members who had not been transitioned to jobs in GOI ministries. He added that the GOI was currently administering training programs for SOI members who desired government positions. As of late January 2012, the GOI estimated that about 70,000 former SOI members—out of approximately 100,000—had been transitioned into various government positions.⁴⁰²

Unifying the Kurdish *Peshmerga*

On May 23, 2012, the Secretary General of the KRG's Ministry of Peshmerga Affairs announced that the process of integrating Patriotic Union of Kurdistan (PUK) and Kurdistan Democratic Party (KDP) *Peshmerga* units should be completed by the end of this year. While the two groups fought a civil war in the mid-1990s, they cooperated with each other to assist the U.S.-led coalition in deposing the Ba'athist regime, but maintained separate command structures. This cooperation eventually developed into a formal unification process, which began in 2009.⁴⁰³

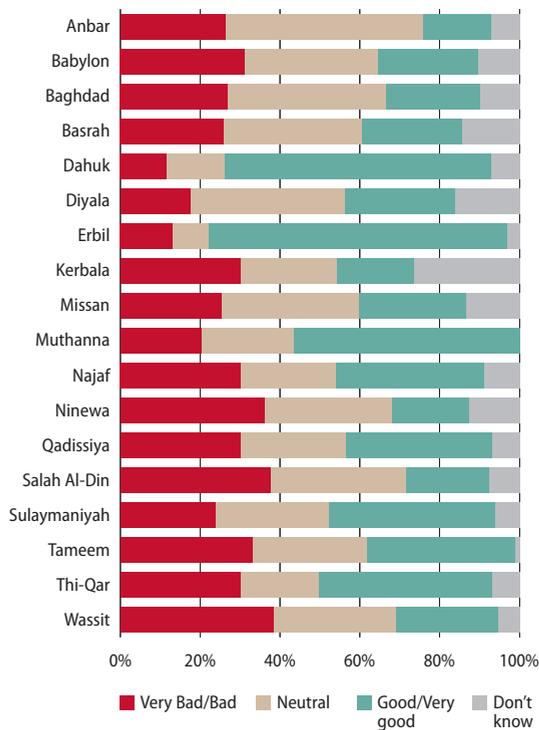
In his May pronouncement, the Secretary General noted that a fully integrated force structure would achieve significant training and procurement efficiencies, and added that one of the most significant obstacles to unification—combining the separate PUK and KDP pension systems—had already been accomplished. But he added a note of caution, stating that the process might not be completed by December 2012 because combining military units is inherently more challenging than uniting civilian agencies.⁴⁰⁴

Justice System

Public Perceptions of the Justice System

Geography affects how Iraqis perceive the quality of the justice system. For example, more than 60% of Erbil and Dahuk residents rate the justice system in their province as either “good” or “very good.” Muthanna was the only majority-Arab province where more than 50% of respondents express similar favorable sentiments. In eight provinces—Babylon, Kerbala, Najaf, Ninewa, Salah Al-Din, Tameem, Thi-Qar, and Wassit—more than 30% of respondents rated the judicial system as “bad” or “very bad.” Figure 4.8 summarizes the findings of the 2011 Iraq Knowledge Network Survey of Iraqi perceptions of the quality of the judicial system.⁴⁰⁵

FIGURE 4.8
PUBLIC OPINION ON QUALITY OF THE IRAQI JUSTICE SYSTEM, BY PROVINCE
 % of Respondents



Source: UN, IAU, and GOI, COS, "Iraq Knowledge Network Survey 2011," 4/2012, p. 246, www.iauiraq.org/documents/1686/KN_S9_Governance_en.pdf, accessed 6/12/2012.

The Trial of Vice President Tariq al-Hashimi

On May 15, the trial in absentia of Vice President Tariq al-Hashimi began in Baghdad. Al-Hashimi currently resides in Turkey and maintains that he could not receive a fair trial in Baghdad. A Sunni member of al-Iraqiya bloc and an avowed foe of the Prime Minister, al-Hashimi is charged with arranging the deaths of three people, including two GOI officials. Key events during the first weeks of the trial included:⁴⁰⁶

- testimony by three of al-Hashimi's bodyguards asserting that al-Hashimi or his son-in-law (and co-defendant) arranged for them to receive money in return for carrying out assassinations

- the court's rejection of defense counsel's request to obtain and use as evidence al-Hashimi and his son-in-law's phone records and calendars, as well as the rejection of the defense's request to call President Jalal Talabani as a witness
- testimony by a tribal leader that he was paid about \$90,000 by al-Hashimi and his agents to carry out bombings against ISF personnel in 2009 and 2011, videotapes of which were then sent to al-Hashimi
- a ruling by the court that al-Hashimi could have arranged for the assassinations while he was traveling out of the country
- a walk-out by defense counsel to protest what they perceived as unfair evidentiary rulings
- testimony by al-Hashimi's former deputy security chief that he helped arrange the assassinations of Sunnis opposed to al-Hashimi and his allies

As of mid-July, the three-judge tribunal had not rendered a verdict in the case.

Other Significant Cases

On May 7, a Baghdad trial court acquitted Lebanese national Ali Musa Daqduq of involvement in the 2007 murder of U.S. military personnel in Kerbala. According to U.S. officials, the court acquitted Daqduq because it found there was insufficient credible evidence against him. Captured by U.S. forces in Basrah within weeks of the Kerbala attack, Daqduq was held in U.S. custody until December 2011, when he became one of the final detainees turned over to the GOI pursuant to the terms of the U.S.-Iraq Security Agreement. In late June, the Secretary of Defense announced that the GOI had provided the United States with assurances that it would not release Daqduq, a claim not immediately confirmed by the GOI. As of mid-July, Daqduq reportedly remained in GOI custody.⁴⁰⁷

In early June, a Higher Judicial Council (HJC) spokesperson announced that the former Director General of the MOI explosives department had been sentenced to four years in prison on charges

On May 15, the trial in absentia of Vice President Tariq al-Hashimi began in Baghdad.

relating to the purchase of defective bomb-detection equipment from a British contractor. The CoR Integrity Committee is continuing to investigate the matter, seeking to uncover evidence against higher-ranking MOI officials.⁴⁰⁸

In late June, the former Minister of Trade was sentenced in absentia to seven years in prison for his role in a scheme to skim money from the Public Distribution System, the nationwide food public-welfare program. Because he is a British citizen who currently lives outside of Iraq, it appears unlikely that he will serve his sentence.⁴⁰⁹

Judicial Security

In an April 30 meeting with the Inspector General, HJC Chief Justice Medhat al-Mahmoud reiterated that providing security for judicial personnel remains a challenge. Since 2003, at least 48 of the HJC's approximately 1,200 judges have been murdered, and the Chief Justice estimated that the HJC is able to provide security for only about 60% of the judges and their families—primarily those based in Baghdad and Anbar provinces. He expressed his hope that the HJC would soon be able to improve security in Mosul, where several judges have been killed in recent years. The Chief Justice added that budgetary constraints have adversely affected HJC security plans, but noted that cooperation between

the HJC and both the MOI and Iraqi intelligence agencies has improved.⁴¹⁰

Corruption

In its 2011 report on the human rights situation in Iraq, released in May 2012, DoS reported that the GOI “did not implement anticorruption laws effectively, and officials frequently engaged in corrupt practices with impunity.” Specifically, the report concluded:⁴¹¹

- The Joint Anticorruption Council—a body established with U.S. assistance in 2007 to improve working relationships among GOI anticorruption agencies—had “little appreciable impact, due to the scale of official corruption.”
- Effective joint action by GOI anticorruption agencies “[did] not take place” because of continued confusion about roles and responsibilities.
- GOI anticorruption agencies remained reluctant to prosecute cases involving politically influential suspects.
- Ministers regularly stalled investigations by failing to comply with requests for information.
- Some ministry officials “openly thwarted” oversight by the IGs.
- Political parties and CoR members attempted to pressure the COI on numerous cases
- Corruption remained a substantial challenge in the Kurdistan Region, despite the establishment of a new anticorruption agency there in mid-2011.

Public Perceptions of Corruption

The 2011 Iraq Knowledge Network Survey provides additional perspectives on the nature of official corruption. In general, respondents from the Kurdistan Region were less likely to report perceiving corruption as a major problem than did respondents living in the rest of Iraq. The survey also showed that less than one-third of the respondents would report an allegation of corruption to either the

In its 2011 report on the human rights situation in Iraq, DoS reported that the GOI “did not implement anticorruption laws effectively, and officials frequently engaged in corrupt practices with impunity.”



The Inspector General meets with the acting COI Commissioner, Judge All'a Jwad Hameed, in April 2012.

DEVELOPMENTS IN IRAQ

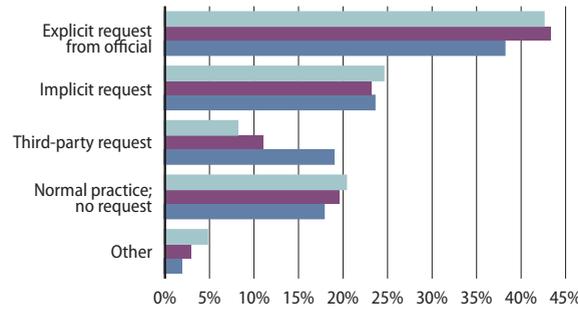
FIGURE 4.9

IRAQI PERCEPTIONS OF CORRUPTION



Why Citizens Pay Bribes

% of Respondents



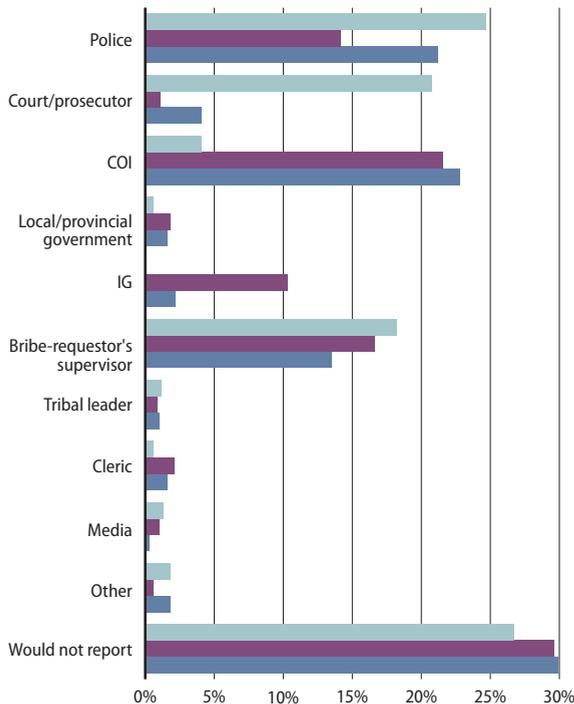
Would Not Report Bribes

% of Respondents



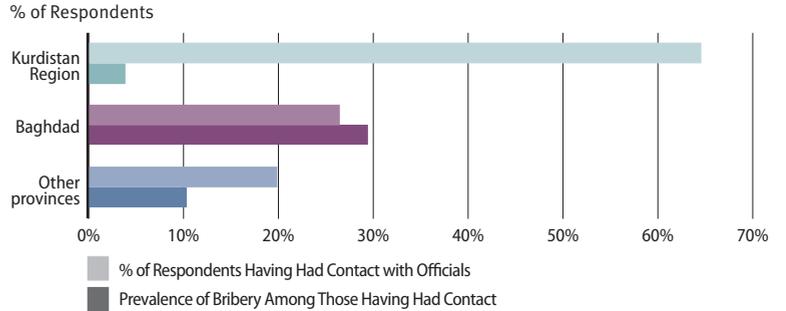
GOI Agency Citizens Would Notify If Asked for Bribe

% of Respondents



Prevalence of Bribery Among Respondents Having Had Contact with Public Officials in the Past Year

% of Respondents



Persons Agreeing with Statement, "No Public Service Can Be Offered [by GOI Officials] without a Bribe"

% of Respondents



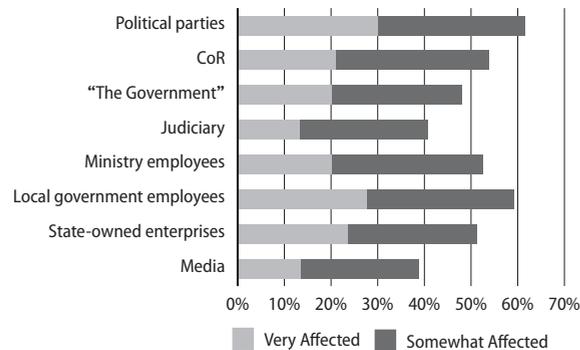
Persons Agreeing with Statement, "Corruption is Worse Now than Two Years Ago"

% of Respondents



Perception of How Much Corruption Affects Iraqi Institutions

% of Respondents



Perception of GOI Effectiveness in Fighting Corruption, 2009–2011

% of Respondents



Note: Based on a nationwide (all 18 provinces) survey of 28,875 Iraqi households and produced jointly by the Ministry of Planning and Development Cooperation, the Kurdistan Region Statistical Office, and the UN. For details on the methodology, see: www.iauiraq.org/documents/1677/IKN_Introduction_en.pdf.

Source: UN, IAU, and GOI, COS, "Iraq Knowledge Network Survey 2011," 4/2012, pp. 398, 402, 404, 405, 410, 417, and 418–426, www.iauiraq.org/documents/1686/IKN_S9_Governance_en.pdf, accessed 6/12/2012.

COI or the IGs, raising questions about the degree to which awareness of these two U.S.-established institutions has penetrated the national consciousness.⁴¹² Figure 4.9 presents additional details about the survey findings.

Commission of Integrity

This quarter, the COI released its *Annual Report for 2011*. For the year, more than 1,600 individuals were convicted of corruption-related crimes in the courts of Iraq’s 15 provinces outside of the Kurdistan Region.⁴¹³ Figure 4.10 shows the number of those convicted in each province.

According to the report, the COI received 12,520 tips about alleged instances of corruption in 2011, up 40% from 2010. As of December 31, 2011, there were 3,517 arrest warrants against GOI personnel for corruption-related crimes, including at least 6 for ministers and at least 36 for officials holding the rank of Director General (DG) or above. A majority of these warrants

A majority of these warrants were for forgery, usually of educational credentials, or for administrative misconduct.



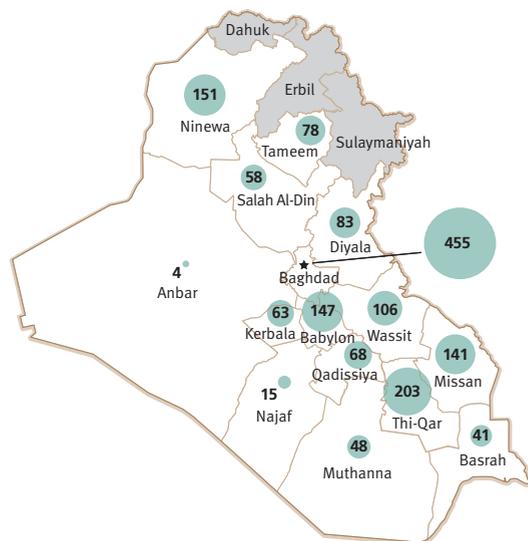
GOI officials and members of the media attend a COI seminar on transparency and accountability in May 2012. (GOI photo)

were for forgery (37%), usually of educational credentials, or for administrative misconduct (14%). The COI also reported that the HJC had issued 7,896 warrants for suspects to appear for questioning, including at least 12 for ministers and 130 for DGs. Unlike last year’s report, the *COI Annual Report for 2011* does not contain an assessment by the Commissioner about the obstacles the COI encounters and the adverse consequences of official interference in its cases. (As of mid-July, the Commissioner was still serving on an acting basis and had not been confirmed by the CoR).⁴¹⁴

Before its repeal in mid-2011, ministers could employ Article 136(b) of the Iraqi Criminal Procedure Code to halt investigations targeting their subordinates. The COI reported that ministers invoked Article 136(b) to halt cases against 413 officials during January–May 2011. While Article 136(b) is no longer operative, the courts are currently considering whether to reinstate it based on an appeal concerning the validity of the way the CoR repealed it.⁴¹⁵

In April, the COI released the findings of its latest survey of GOI employees in 382 ministry offices in the 15 provinces outside of the Kurdistan Region. The survey found that offices dealing with real estate matters were perceived by GOI employees as corrupt, with many respondents also reporting that corruption appeared to be a problem at offices dealing with ports of entry,

FIGURE 4.10
CONVICTIONS FOR CORRUPTION-RELATED
CRIMES, 2011



Note: Corruption-related crimes in the three provinces of the Kurdistan Region—Dahuk, Erbil, and Sulaymaniyah—are pursued and reported separately by the KRG’s Commission on Public Integrity.

Source: GOI, COI, *Annual Report for 2011*, p. 23.

especially in Ninewa province.⁴¹⁶ Tables 4.3 and 4.4 show the offices most frequently mentioned by GOI employees as corrupt, by ministry and by province.

More recently, the COI issued a statement on alleged acts of financial misconduct at the MOD.

In mid-June, the COI announced that the MOD's branch of the Rafidain Bank had issued \$129 million in fraudulent loans by issuing funds without completing proper legal procedures. The COI has been actively looking into allegations of corruption at the MOD since at least 2005.⁴¹⁷ ♦

In mid-June, the COI announced that the MOD's branch of the Rafidain Bank had issued \$129 million in fraudulent loans.

TABLE 4.3
GOI EMPLOYEE PERCEPTIONS: OFFICE WITHIN EACH MINISTRY WITH HIGHEST INCIDENCE OF BRIBERY, 4/2012

MINISTRY	OFFICE
Agriculture	Thi-Qar Provincial Agriculture Directorate
Baghdad Municipality	Al-Shaab Municipality Office
Communications	Anbar Mail and Communications Office
Education	Karkh Education Directorate (Baghdad)
Electricity	Ramadi Electrical Distribution Office
Finance	Rabea Customs and Border Crossing Directorate (Ninewa)
Health	Anbar Provincial Health Office
Housing	Baghdad Housing Fund
Interior	Al-Dhital Cars Registry (Baghdad)
Justice	Mansour Real Estate Registry (Baghdad)
Labor	Basrah Women's Committee
Migration and Displaced Persons	Basrah Migration and Displaced Persons Office
Municipalities	Kerbala Municipalities Directorate
Oil	Basrah Petroleum Products Distribution Company
Trade	Kirkuk Main Rations Center
Transportation	Rabea Land Transportation Company (Ninewa)

Note: Based on COI survey of 382 GOI offices in 15 provinces (not including Dahuk, Sulaymaniyah, and Erbil).

Source: GOI, COI, "Summary of Bribery Indicators in Ministries and Commissions," 5/24/2012, www.nazaha.iq/pdf_up/383/sec3_apr12-E.pdf, accessed 6/6/2012.

TABLE 4.4
GOI EMPLOYEE PERCEPTIONS: GOVERNMENT OFFICE WITH HIGHEST INCIDENCE OF BRIBERY, WITHIN EACH PROVINCE, 4/2012

PROVINCE	OFFICE
Anbar	Provincial Health Office
Babylon	Real Estate Registry Directorate
Baghdad	Al-Dhital Car Registry
Basrah	Petroleum Products Commission
Kerbala	Municipalities Directorate
Missan	National Retirement Commission
Muthanna	Al-Rasheed Bank
Najaf	Al-Rafidain Bank, Al Ameer Branch
Ninewa	Rabea Border Crossing Directorate
Qadissiya	Real Estate Registry Directorate
Tameem	Azadi Educational Hospital
Thi-Qar	Agricultural Directorate
Salah Al-Din	Real Estate Registry Directorate
Wassit	Real Estate Registry Directorate, Al Numania

Note: Based on COI survey of 382 GOI offices in 15 provinces (not including Dahuk, Sulaymaniyah, and Erbil).

Source: GOI, COI, "Summary of Bribery Indicators in Provinces," 5/24/2012, www.nazaha.iq/pdf_up/383/sec2_apr12-E.pdf, accessed 6/6/2012.

The Challenges of Oversight in Iraq

The Coalition Provisional Authority (CPA) Order 57 established the Iraqi inspectors general (IGs) in February 2004. The nature and scope of IG responsibilities were largely modeled on the U.S. federal government's IG system. Under Order 57, IGs possess the authority to audit ministry records, conduct administrative investigations, recommend corrective actions to the minister, and cooperate with investigative agencies and the judiciary in matters requiring their attention. To accomplish these broad objectives, the IGs were to be accorded unrestricted access to all ministry offices. However, having no precedent under previous Iraqi regimes, some IGs have struggled to establish themselves as effective actors within the GOI.

As of July 1, there were 34 IGs serving in most ministries as well as some other GOI institutions, such as the Sunni and Shia Endowments. The IGs confer regularly under the auspices of the IG *Diwan*, which is currently chaired by Minister of Industry and Minerals IG Salim Polis. This quarter, SIGIR officials met with IG Polis on several occasions to solicit his views on the system's current efficacy and future prospects. Topics addressed included:⁴¹⁸

Occupants of IG offices. As of late June, more than 50% of IG offices were managed by acting or deputy IGs. But the heads of all offices—be they temporary or permanent—have at least one year of experience working in an IG office. New IGs are appointed by the Prime Minister based on a recommendation from a joint committee, comprising members from the COI, Board of Supreme Audit (BSA), IG *Diwan*, and Joint Anti-Corruption Council. According to Polis, the Prime Minister accepts the recommendation

of the committee about 75% of the time. The Prime Minister's nominee is then submitted to the CoR for approval.

Relations with ministries. Polis stated that the relationship between IGs and their ministers is largely dependent on the character and professionalism (or lack thereof) of each party. He noted that some ministries view the IG system as an impediment to the efficient execution of their mission. In these cases, Polis said that both sides share the blame because unprofessional IG employees sometimes fail to execute their duties and interfere with the day-to-day operations of the ministry. Polis stressed that the IGs, as a relatively new, U.S.-created institution, do not have firmly established professional relationships with many GOI offices.

Supporters and opponents. According to Polis, the IGs' most effective ally is the Iraqi public. He also spoke of receiving support from the COI, BSA, and some—but most definitely not all—members of the CoR. As for opponents, Polis said the most significant criticism of the IGs comes from corrupt political party leaders with ties to ministry officials. He added that many companies that do business with the GOI often exert a negative influence on the government-contracting process and obstruct the work of the IGs, denying them access to documents essential to the performance of their jobs.

Effect of the IGs on ministry operations. Polis acknowledged that, in some ministries, employees often hesitate to make decisions because of fear

that the IG might open an investigation on them for official misconduct.

He blamed this on certain IGs who act too much “like police officers,”

noting that 70% of IG duties should involve helping to improve the performance of ministry employees in the management, accounting, legal, and technical realms, while only about 15% should be spent on investigating or questioning employees (with 5%

spent on training and 10% dedicated to answering questions by employees seeking guidance).

Clarifying IG authorities. The IGs are still governed by CPA Order 57. For several years, a new IG law has been debated, but he stated that prospects for its passage are uncertain. According to Polis, the proposed law would weaken the IGs, decreasing their independence and limiting their jurisdiction. Polis emphasized that any new law should include legal safeguards that would ensure the autonomy of the IGs, making them less prone to being influenced by their ministers. He added that a new IG law should also clearly delineate jurisdictional boundaries among the IGs, the COI, the BSA, and the Iraqi judiciary.

Main weaknesses. Polis identified three major weaknesses with the IG system:

- the poor relationships that exist between some IG offices and ministry employees
- persistent clashes between some IGs and ministers over IG roles and responsibilities
- the relatively low level of support for the IG system in the CoR



Minister of Industry and Minerals IG Salim Polis.

ECONOMY

Reflecting a more pessimistic global economic outlook, the International Monetary Fund (IMF) this quarter revised Iraq's projected GDP growth for 2012 downward, from 12.6% to 11.1%. Still, the lower growth projection remains among the highest for oil-producing nations in the Middle East and North Africa (MENA) region.⁴¹⁹ Figure 4.11 compares Iraq's projected GDP and inflation rates for 2012 and 2013 with those of regional countries.

Iraq increased its crude oil exports—and receipts—to post-2003 record levels this quarter, and as major new infrastructure development work continued to take shape, the National Investment Commission (NIC) estimated that capital investment will double in 2012 to \$100 billion.⁴²⁰

However, continued political uncertainty cast a shadow over these developments, dimming prospects for passage of a compromise package of hydrocarbon laws needed to define basic rules for operating in the oil and gas sector. With 98% of Iraq's foreign-exchange income derived from crude oil, further declines in oil prices would affect the GOI's 2012 budget, which is calculated on oil at \$85 per barrel.⁴²¹ In April, the selling price of Iraq's crude oil averaged about \$118 per barrel, but it dropped to about \$103 per barrel in June.⁴²²

Other key indicators of Iraq's economic position this quarter include:

- **Oil Export Receipts.** The GOI earned \$22.78 billion in receipts from the sale of crude oil this quarter. The total was 18% more than last quarter and 13% above the same quarter in 2011, the previous post-2003 record.⁴²³
- **Inflation.** Year-on-year core inflation remained in the 6% range during the first two months of the quarter. However, proposed import tariffs could push this rate higher if they are implemented, as could the impact of money supply growth, which increased at an annual rate of more than 24% in May. Inflation

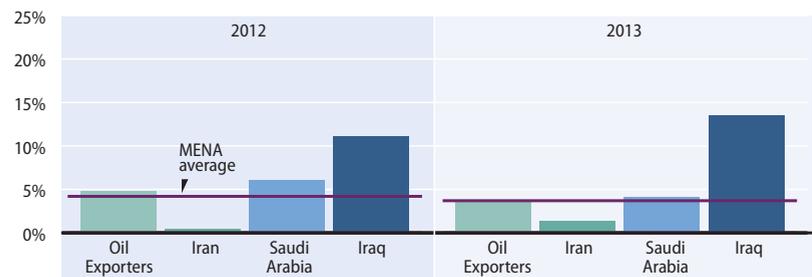
rates are already higher than neighboring Kuwait and Saudi Arabia, although still below the average for oil-producing countries in the MENA region.⁴²⁴

- **Currency and Interest Rates.** The CBI's policy interest rate remained stable at 6% during the quarter, and the official exchange rate was unchanged at 1,166 Iraqi dinar per U.S. dollar. The unofficial street exchange rate narrowed to within 4% of the official rate, and the CBI pledged to narrow the gap further to 2%. The unofficial dinar exchange rate was driven lower this quarter by strong demand for

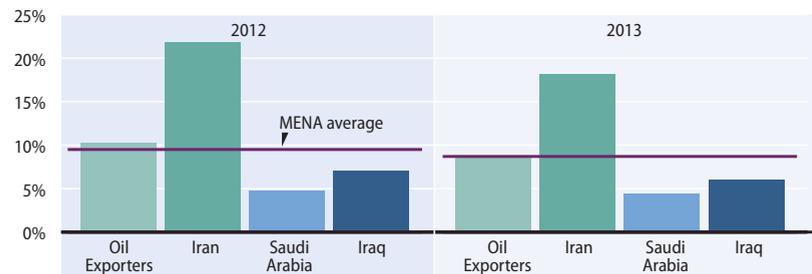
Iraq increased its crude oil exports—and receipts—to post-2003 record levels this quarter.

FIGURE 4.11
PROJECTED GDP GROWTH AND INFLATION, SELECTED MENA ECONOMIES
Annual % change

Real GDP Growth Projections



Inflation Projections



Note: MENA includes Bahrain, Libya, Oman, Yemen, Iran, Saudi Arabia, Algeria, the United Arab Emirates, Qatar, Kuwait, Iraq, and Sudan.

Source: IMF, "World Economic Outlook," 4/2012, p. 72, www.imf.org/external/pubs/ft/weo/2012/01/pdf/text.pdf, accessed 5/10/2012.

dollars from Iranian and Syrian merchants who came to Baghdad for hard currency because of sanctions and unrest in their home countries. At one point, the street exchange rate topped 1,300 dinar per dollar.⁴²⁵

- **Unemployment.** Significant discrepancies continue to exist between GOI official unemployment rates of 12%–15% and far-higher non-GOI estimates. The Iraq Knowledge Network survey, taken in early 2011, found that 23% of Iraqis aged 15–24 were unemployed—more than twice the figure for older age groups.⁴²⁶
- **Stock Exchange.** Investment analysts blame political uncertainty and a perception of government gridlock for the Iraq equity market’s lack of growth this quarter. As Figure 4.12 shows, the Iraq Stock Exchange (ISX) index remained essentially flat. The index stood at 1,321 at the end of June, 15 points below its level of early April. In May and June, foreign investors accounted for only 3% of all trades—the lowest two-month foreign participation rate in two and a half years. Between mid-2010 and the end of 2011, foreigners’ share in total trading volume tended to fluctuate in the 8%–16% range.⁴²⁷

- **Debt and Reserves.** The GOI continued its payment of war reparations related to Saddam Hussein’s 1990 invasion of Kuwait with a transfer of \$1.02 billion to Kuwait. Iraq has now paid a total of \$36.4 billion to more than one hundred governments and international organizations for distribution to 1.5 million claimants. Just over \$16 billion in claims remain to be paid, mainly to Kuwaiti claimants. Even with these payments, Iraq’s hard currency reserves held by the CBI rose from \$58 billion to \$63 billion during the first half of 2012.⁴²⁸

Oil and Gas

The GOI-KRG dispute over control of oil exploration and extraction in the Kurdistan Region escalated further this quarter, clouding the outlook for Iraq’s oil and gas sector. The heightened tensions reduced the prospects for compromise on long-delayed legislation setting basic rules for the petroleum sector and resurrected fundamental questions about both revenue sharing and the division of powers between Baghdad and Iraq’s provincial and regional governments. Both GOI and

23% of Iraqis aged 15–24 were unemployed—more than twice the figure for older age groups.

FIGURE 4.12

IRAQ STOCK EXCHANGE VS. S&P PAN ARAB COMPOSITE INDEX, 1/2010–6/2012

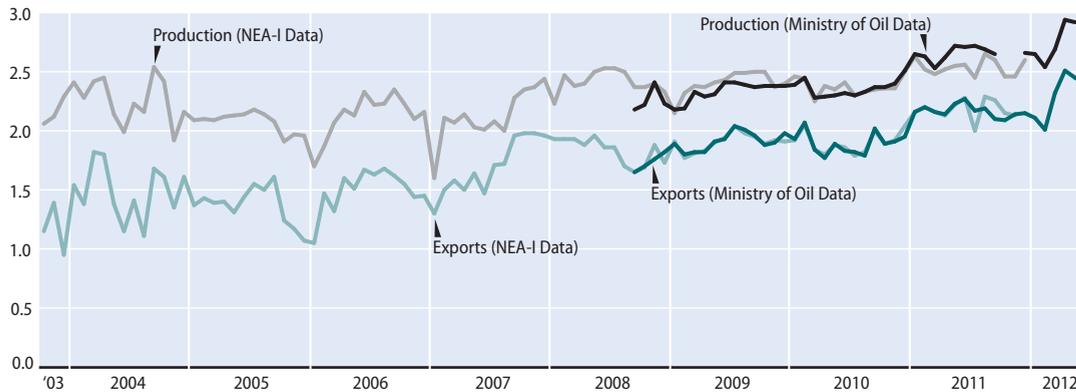
% Change



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

Sources: Standard & Poor’s, “S&P Pan Arab-Indices,” 12/2010, www.standardandpoors.com, accessed 10/4/2011; Standard & Poor’s Indices Client Services, information provided to SIGIR, 4/7/2011, 7/18/2011, 10/3/2011, 1/3/2012, 4/3/2012, and 7/2/2012; Iraq Stock Exchange, “Indices,” www.isx-iq.net/isxportal/portal/sectorProfileContainer.html?sectorid=1, accessed 7/3/2012.

FIGURE 4.13
CRUDE OIL PRODUCTION AND EXPORTS, BY MONTH, 10/2003–6/2012
 MBPD



Note: In previous Quarterly Reports, the data that SIGIR reported on crude oil production and exports was obtained from NEA-I. Because NEA-I is no longer able to provide that data, SIGIR is now using data reported by the Ministry of Oil. Both sets of available data are shown in this figure. Exports include crude oil from the Kurdistan Region; production figures do not.

Sources: NEA-I, responses to SIGIR data calls, 6/4/2010, 7/6/2010, 1/11/2011, 4/5/2011, 7/7/2011, 10/17/2011, and 1/6/2012; GOI, Ministry of Oil, "Domestic Consumption," oil.gov.iq, accessed 4/23/2012 and 7/23/2012.

KRG officials cite the nation's 2005 constitution to support their claim to control the sale of crude oil in the Kurdistan Region.⁴²⁹

To protest what it said has been a lack of reimbursement from the GOI for earlier exports of oil from the Kurdistan Region, the KRG this quarter provided none of the 175,000 barrels per day of crude oil exports it had committed to earlier this year. The Kurds reportedly also began blocking the import of oil-field equipment entering Iraq from the north on its way to Iraq's large southern fields. International oil companies had begun importing goods through the Kurdistan Region to avoid long delays at the country's major seaport of Umm Qasr in the south. For its part, the GOI reportedly moved to block shipments into the Kurdistan Region of oil products refined in the south.⁴³⁰ Collectively, these and other developments appeared to make CoR passage of hydrocarbon legislation acceptable to both sides increasingly unlikely in the short term.⁴³¹

Crude Oil Production and Development

Oil production for April and May averaged 2.93 million barrels per day (MBPD), an increase of almost 10% from the same two-month period

TABLE 4.5
CRUDE OIL PRODUCTION IN SELECTED MAJOR FIELDS IN 2009, CURRENT, AND 2012 TARGET

OIL FIELD	OPERATORS	MINIMUM RESERVES (Billion Barrels)	2009 PRODUCTION (BPD)	CURRENT PRODUCTION (BPD)	2012 TARGET (BPD)
Al-Rumaila		17.0	1,100,000	1,400,000	1,600,000
West Qurna-1		8.5	244,000	400,000	500,000
Kirkuk ^a		8.7	400,000	260,000	N/A
Al-Zubair		7.9	184,000	250,000	350,000
Majnoon		11.0	45,000	54,000	175,000
Halfaya		4.1	none	70,000	100,000
West Qurna-2		12.9	none	Drilling started	N/A

^a Operator is state-owned North Oil Company; 2009 production is 2007–2008 estimate.

Sources: U.S. Chamber of Commerce/Dunia Frontier Consultants, "Investing in Iraq," 5/2012, p. 11; *Iraq Oil Report*, "\$39 billion in Oil Revenue Through May, Though Exports Drop," 6/4/2012; MEES, *Weekly Report*, Vol 55 No 9, 2/27/2012, p. 5; GOI, Ministry of Oil, "Domestic Consumption," oil.gov.iq/moo/domestic.php?lang=en&page_name=domestic&id=21, accessed 7/7/2012.

in 2011 and nearly 12% above the production rate in the first quarter of 2012. It marked the highest output since 2003, yet still fell short of the Ministry of Oil's 3.0 MBPD average production target for 2012.⁴³² Figure 4.13 shows Iraq's crude oil production and export levels since 2003.

The record output this quarter was driven by sharp increases from the southern fields that were enough to offset production declines in the north around Kirkuk.⁴³³

Al-Rumaila field in Basrah province, operated by BP and the China National Petroleum Corporation, remained Iraq's single largest producing field, contributing 1.4 MBPD—nearly half of Iraq's total output and more than three times that of any other field in Iraq. Output from other large southern fields, including ExxonMobil's West Qurna-1 also

continued to rise this quarter, while Russia's Lukoil announced it had begun production drilling the West Qurna-2 field. In mid-June, French oil company Total said it had begun production at the Halfaya field in southern Iraq and planned to reach an output of 70,000 barrels per day (BPD) by mid-July (above the 60,000 BPD initial production target).⁴³⁴ See Table 4.5 for a comparison of 2009 production, current production, and 2012 targets.

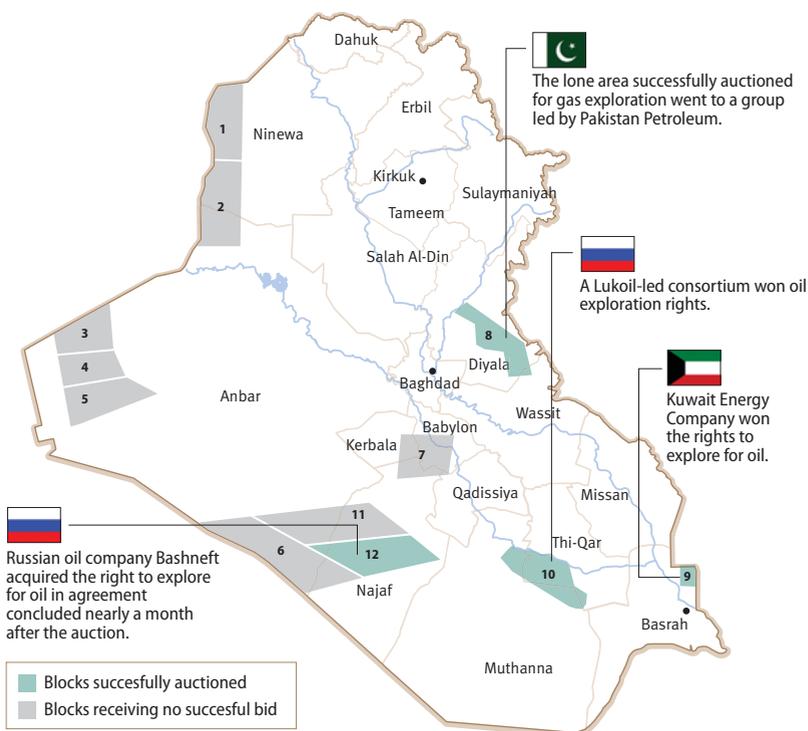
Amid these production increases, the GOI has begun to renegotiate contracts signed in 2009 that required operators to make accelerated production benchmarks now widely seen as overly ambitious and unnecessarily costly. Shell, the lead operator for the Majnoon field was negotiating with the Ministry of Oil to lower its peak production target by nearly half, from 1.8 MBPD to 1.0 MBPD—a level that would enable it to extend peak production from 7 to 20 years. According to industry analysts, such an adjustment would save the field's operators about \$10 billion in development costs over the life of the contract. Similar negotiations are underway with other southern field operators. A senior GOI official this quarter reportedly said that production of 9.5 MBPD by 2017 was the preferred target, adding that Iraq would be unable to produce more than 4.5 MBPD by the end of 2014.⁴³⁵

Fourth and Fifth Licensing Rounds

The long-awaited fourth petroleum licensing round conducted May 30–31, 2012 in Baghdad generated successful bids for just 3 of the 12 exploration blocks offered. Only 39 of 48 individual companies and groups initially pre-qualified to bid by the GOI decided to participate. Eleven of those companies generated just seven bids. A month following the auction, the Ministry of Oil announced it had struck a deal for exploration of one additional block. In a round designed to generate more exploration for natural gas, only one of the four agreements was for a field designated potentially viable for gas. Figure 4.14 shows the locations of the blocks offered, including the four where deals were struck.⁴³⁶

Al-Rumaila remained Iraq's single largest producing field.

FIGURE 4.14
FOURTH LICENSING ROUND RESULTS



Source: Information provided by the Ministry of Oil's Petroleum Licensing and Contracts Directorate for MEES, *Weekly Report*, Vol. 55 No. 23, 6/4/2012, p. 3.

The fourth round also did not meet its goal to spread Iraq's petroleum wealth beyond the oil-rich southeast and Kirkuk areas, with three of the four fields awarded located in the southeastern quadrant of the country. No successful bid was received for any of six large gas exploration blocks offered in northern and western Iraq. The chairman of the Prime Minister's Advisory Commission (and former Minister of Oil) Thamer Ghadban suggested that the fourth round's mixture of oil and gas blocks plus the proximity of several blocks to the political unrest in neighboring Syria combined to dampen bidding.⁴³⁷ The Ministry of Oil later announced that the state-run Company for Oil Exploration would begin work in blocks for which there were no winning bids.⁴³⁸

The Ministry of Oil also announced it would prepare for a fifth bidding round to offer 10 to 15 of the 60-plus exploration blocks it said were ready for auction. Ghadban later said a fifth round would offer only gas fields and would likely take place in late 2012 or early 2013.⁴³⁹

Crude Oil Exports and Capacity Expansion

The Ministry of Oil reported that crude oil exports averaged 2.45 MBPD this quarter—14% more than last quarter's average daily exports. It also marked a 11% increase over the same period in 2011. Although exports for the quarter were below the 2.60 MBPD average for the year assumed in the GOI's 2012 budget, higher market prices than projected during this period generated receipts that were ahead of budget estimates.⁴⁴⁰

Exports from Iraq's southern fields rose in March and April 2012 after two new single-point mooring stations (SPMs) off al-Faw Peninsula came on line. Completion of a new onshore pipeline system that ties pumping hubs near al-Zubair with al-Faw loading facilities eased one export bottleneck this quarter, although other problems remained. Weaknesses in onshore pumping and pipeline infrastructure prevent the two completed SPMs from

operating simultaneously—effectively reducing the 850,000–900,000 barrel-per-day nameplate capacity of each by half.⁴⁴¹

The Ministry of Oil this quarter began implementing debottlenecking measures proposed by U.S. officials at an April 2012 meeting of the U.S.-Iraq Energy Joint Coordinating Committee in Washington. They identified infrastructure improvements at al-Basrah Oil Terminal, upgrades to the Zubair 2 pumping station, and construction of the Common Seawater Supply Project as priorities.⁴⁴²

Aside from officially documented exports, there are reports that crude oil is being smuggled in significant volumes by truck from the Kurdistan Region to Iran. Iraq's increase in official exports also came as the contribution from the large northern field around Kirkuk field continued to fall. Coupled with the rise of exports in the south, the contribution of northern fields to Iraq's total exports has dropped from 22% in October 2011 to 13% in June.⁴⁴³

Pipelines

Iraq's effort to upgrade its aging export pipeline network continued this quarter, with the GOI awarding three large contracts:⁴⁴⁴

- Italian contractor Progetti Europa & Global will install Siemens gas-powered turbo pump sets at a new pumping station at Habaniya, about 40 miles west of Baghdad. The pumps will enhance the flow of crude oil on the main north-south Strategic Pipeline that links Iraq's large southern fields with northern export routes through Turkey to the Mediterranean port at Ceyhan.
- A 25-year contract valued at \$198 million was awarded to India's tubular steel product manufacturer Jindal SAW to build and operate a pipeline manufacturing plant in southern Iraq.
- A 35-year, \$86 million contract was awarded to an affiliate of the Danish construction company Phoenix International to build and operate a pipeline manufacturing plant at Umm Qasr.

Weaknesses in onshore pumping and pipeline infrastructure prevent the two completed SPMs from operating simultaneously.

The KRG announced plans this quarter for construction of a 400,000 BPD crude oil pipeline from the Kurdistan Region's Taq Taq field to the Khurmala oil depot. From Khurmala, oil would reach the main GOI-controlled Ceyhan export pipeline via an existing link. A second pipeline with a capacity of 1 MBPD would run north from Khurmala and tie into the Ceyhan route at Iraq's border with Turkey. KRG representatives also discussed a new politically sensitive export route that would link the Region's major oil fields directly to Turkey without crossing Iraqi territory outside the Kurdistan Region. Plans for this 1 MBPD pipeline, which once inside Turkey would tie into a pipeline parallel to the existing Iraq-Ceyhan line, were discussed at a conference in Erbil attended by the Turkish Minister of Energy.⁴⁴⁵

Refineries and Petroleum Products

This quarter, Iraq failed to attract international investors to build any of four long-planned new oil refineries. So far, enticements, including discounts to the refinery operator on crude oil supplies of up to \$5 per barrel, have produced no deal. A conference this quarter in London for potential investors also brought no immediate breakthrough. The GOI is now studying an alternative approach that would enable a contractor to recoup investment costs in about five years—the international norm—rather than the 30–35 years that would be required under the current crude-oil discount plan.⁴⁴⁶

Both Royal Dutch Shell and Chevron Phillips Chemical Company signed agreements with the GOI this quarter to study the feasibility of building major petrochemical plants in southern Iraq. The plants would take advantage of the large crude oil and associated natural gas supplies in the area to produce industrial chemicals that in turn serve as raw material for plastics and other commonly used consumer products.⁴⁴⁷

OPEC

Iraq this quarter appeared to support Iranian efforts within the Organization of the Petroleum



As President of OPEC, Minister of Oil Abdul-Kareem al-Luaibi (left) presided over the organization's June 2012 meeting in Vienna. At right is OPEC Secretary General Abdalla Salem El-Badri of Libya. (AP photo)

Exporting Countries (OPEC) to reduce production quotas of member countries in order to strengthen the global price of crude oil. Saudi Arabia opposed such a move. Differences among OPEC members over how best to respond to falling crude oil prices amid slackening global demand led to a postponement in selecting the organization's next secretary general. Iraq's Former Minister of Oil Ghadban is one of four candidates for the job. Iraq's current Oil Minister, Abdul Kareem al-Luaibi, serves as OPEC's president. Iraq has been exempt from OPEC quotas since 1990. Ghadban indicated this quarter that no new production quota for Iraq was imminent.⁴⁴⁸

Natural Gas

Iraq produced an average of 1,756 million cubic feet per day (MCFD) of natural gas during the first two months of the quarter—1,292 MCFD in the south and 464 MCFD in the north. However, Iraq also set a record this quarter by flaring more than 1,000 MCFD. The additional flared gas came from the Halfaya field, which produced 70,000 BPD of crude oil this quarter in the first phase of its development. On average, Iraq flared 1,167 MCFD of gas during the first two months of the quarter. The majority of the gas flared—945 MCFD—came out of the southern oil fields.⁴⁴⁹

Iraq prepared to finalize an agreement with Iran this quarter to purchase nearly 900 MCFD of natural gas over a five-year period. The gas will

Royal Dutch Shell and Chevron Phillips Chemical Company signed agreements with the GOI this quarter to study the feasibility of building major petrochemical plants in southern Iraq.

be delivered to two power plants in the Baghdad area via a 220-mile pipeline already under construction. More than half the pipeline length will be within Iraq, transiting Diyala province to Baghdad.⁴⁵⁰

Also this quarter, Turkey said it was interested in importing associated natural gas from oil fields in both the Kurdistan Region and other parts of Iraq when it became available. KRG Natural Resources Minister Ashti Hawrami said he expected natural gas to begin flowing to Turkey within two years. He reportedly told a meeting in Istanbul that the KRG would not wait for an agreement with the GOI to begin gas exports, but added that revenue from the sale of such gas would not be only for the KRG but for “all Iraqi people” according to the constitution.⁴⁵¹

The \$17 billion-plus Shell-led project to capture much of the associated gas currently flared at al-Rumaila, West Qurna-1, and al-Zubair fields moved forward this quarter. More than 40 contracts related to the project have been signed so far, with another 10 prepared for tender. Site preparation work is also underway for construction of a large natural gas liquids plant.⁴⁵²

Developments in Non-hydrocarbon Sectors

National Development Plan

The GOI this quarter began the process of creating its next National Development Plan, which will cover the years 2013–2017. The plan’s overarching goal will be to diversify an economy that today is driven almost exclusively by crude oil income. Significant elements of the current plan, *National Development Plan (2010–2014)*, addressed this challenge, but so far there has been little progress.

At an inaugural meeting in Baghdad, Minister of Planning and Development Cooperation Ali Yousif al-Shukrie noted that the new plan required

an effective partnership between the public and private sectors of the economy to attain its goals. He cautioned that, if private Iraqi capital continued to flow to neighboring countries because of an adverse investment climate at home, the GOI would need to step in to finance the development of manufacturing. He added that planners also needed to take into account Iraq’s population growth of 2.8% per year as they developed new goals.⁴⁵³

Communications

There was little reported movement this quarter regarding two important developments in the communications field:⁴⁵⁴

- Initial public offerings (IPOs) on the Iraq Stock Exchange by the three mobile telephone service providers operating in the country, originally expected around mid-2012, did not take place. However, analysts believed that at least two providers—Asiacell and Zain—were positioned to carry out their IPOs before the end of 2012. Iraq is currently viewed as one of the least-developed national markets in the Middle East, with significant potential for growth. Zain calculated average monthly revenue per user in Iraq at \$11, lowest among five Middle Eastern countries surveyed and less than one-quarter that of the \$45 per user in Kuwait.
- Minister of Communications Mohamad Tawfiq Allawi reaffirmed plans to prepare for the auction of a fourth mobile-telephone license around “mid-year.” Initial plans had called for the auction by the end of 2011.

This quarter, India-based communications service provider Reliance Globalcom and the GOI’s Postal and Telecommunications Company activated a major subsea cable that links Iraq with other countries in the Middle East and, through them, to the rest of the world. The undersea cable was connected to Iraq’s domestic telecom network at al-Faw. It is expected to improve both broadband and high-speed Internet services in the country. Although the cable has the ability to handle up

The GOI this quarter began the process of creating its next National Development Plan, which will cover the years 2013–2017.

to 680 gigabits per second (Gbps) of data, only 50 Gbps of this capacity had been activated as of July 2—enough to handle the demand in Iraq, where broadband penetration is still low. In an effort to encourage more of the country's population to go online, the Ministry of Communications this quarter announced plans to reduce subscriber costs for Internet users by up to 70%.⁴⁵⁵

Transportation

Ports and Railroads

The Ministry of Transportation tendered the first major contract for construction of the \$6 billion al-Faw port this quarter. The contract calls for a 5-mile rubble-mound breakwater, a 260-foot floating pier, and two 80-foot temporary jetties. The new port is expected to be one of the largest in the Persian Gulf area, capable of easing congestion at Umm Qasr, Iraq's current main port. GOI planners say al-Faw will be able to handle 5,000 to 6,000 ships annually, including the world's largest vessels. By comparison, Umm Qasr handled an

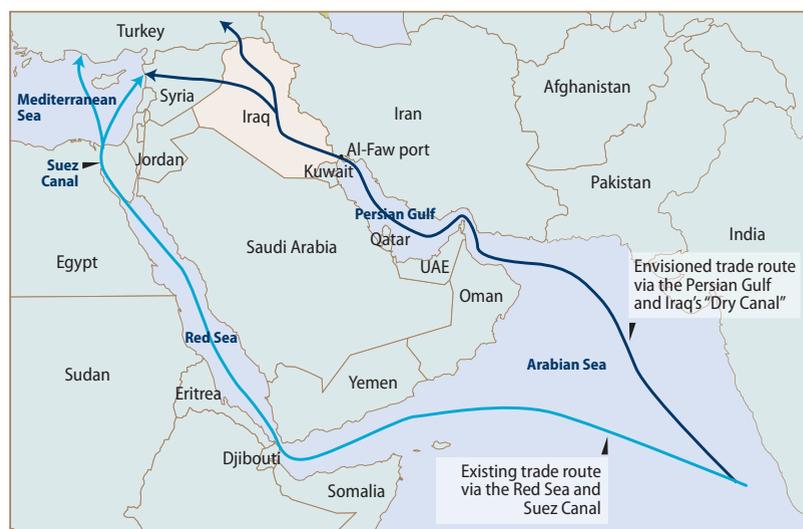
average of about 300 vessels per year between 2003 and 2009.⁴⁵⁶

Al-Faw port plays a central role in the GOI's long-term vision of positioning Iraq as a preferred transit point on one of the world's busiest trade routes connecting East Asia with Europe (see Figure 4.15). A north-south rail and highway route running the length of Iraq, sometimes referred to by planners as a "dry canal," would connect al-Faw with other transit points along routes to Europe.⁴⁵⁷

As part of this vision, the NIC worked this quarter with the Ministry of Transportation to develop a Railway Master Plan that includes more than 1,200 miles of new or upgraded rail lines and will require billions of dollars in new construction and equipment to complete. The plan is scheduled for completion next quarter. The upgrade would help revive a system largely neglected since the 1980s. The centerpiece of this work is a major new north-south rail link for both freight and passenger traffic that would connect Basrah in the south with Iraq's northern railhead at the border with Turkey.⁴⁵⁸

The Ministry of Transportation tendered the first major contract for construction of the \$6 billion al-Faw port this quarter.

FIGURE 4.15
EXISTING AND PROPOSED TRADE ROUTES LINKING EAST ASIA WITH EUROPE



Source: GOI, NIC, "Investment Opportunities for the Iraqi Ministry of Transport's Companies," no date, p. 42, www.investpromo.gov.iq/tl_files/transport_invest_min_op.pdf, accessed 6/13/2012.

Aviation

This quarter, the GOI announced plans to loan Iraqi Airways \$300 million to upgrade its fleet with Airbus A320 and A321 aircraft. The decision followed settlement of a \$1 billion claim against the airline stemming from Saddam Hussein's 1990 invasion of Kuwait and his regime's subsequent theft of 10 Kuwait Airways aircraft. The Kuwaiti claim prevented the Iraqi airline from owning planes it flew on routes outside the country for fear they would be impounded. Iraqi Airways already owns short-haul Bombardier CRJ900 aircraft and has Boeing 787 and 737 planes on order.⁴⁵⁹

Finance

Efforts to restructure and clear balance sheets at two major state-owned Iraqi banks remained stalled, as have U.S.-supported efforts to develop the country's privately owned financial sector.

There has been little progress in GOI efforts to create a financial sector led by strong private-sector banks—a model it committed to in the International Compact for Iraq, its 2007 agreement with the international community. Instead, the GOI seems to prefer a centrally run system it can more easily control.⁴⁶⁰

Iraq's private-sector banks, which collectively account for less than 15% of the country's banking activity, remained relatively small players, with many of them hard-pressed to meet more robust capital requirements. Of the 21 private banks listed on the ISX, about one-third were expected to reach the CBI's target of having 150 billion dinar (\$128 million) in capital reserves by the June 30, 2012, deadline. As a final strengthening step, private banks must possess reserves of 250 billion dinar (\$214 million) by June 2013.⁴⁶¹

The large debt load and inefficient banking practices prevent government-owned Rafidain and Rasheed banks from playing a significant role in financing major development projects. The CBI estimates that together the two banks have deposits of about 36 trillion dinar (\$33 billion), roughly a third of which are GOI ministry deposits. The rest belong to other public-sector entities. The result of this is that the two banks have huge deposits but little liquidity—and thus little lending power.⁴⁶²

Financial restructuring at the two banks remains incomplete, with the removal of Saddam-era bad loans and the effects of improper accounting still to be addressed. The CBI claims restructuring the balance sheets is politically difficult because the banks contain large sums of corrupt money. A GOI plan to infuse Rafidain Bank with 400 billion dinar and Rasheed with 300 billion dinar in new capital, while at the same time working to liquidate debt, has reportedly met with “hidden resistance” despite pressure from the IMF and others outside of Iraq.⁴⁶³

SOE Reform

Those involved with a 2010 GOI plan to reform the country's state-owned enterprises (SOEs) this quarter reported that there has been limited progress. *The Roadmap for Restructuring State Owned Enterprises in Iraq*, which outlined the GOI's plan for SOE reform, falls under the Prime Minister's Task Force for Economic Reform. However, the task force has no permanent staff and has therefore been unable to fully engage in the reform process with international entities also working on the issue. The reform strategy is predicated in part on finding internationally competitive companies to partner with SOEs, a move that offers foreign companies access to the Iraqi market and the SOEs access to modern technology and business practices. But the antiquated condition of most state enterprises—which struggle with obsolete equipment, large payrolls, and non-competitive business practices—have made such joint ventures difficult to forge. The GOI currently devotes 3%–4% of its annual budget for subsidies to keep the SOEs afloat, most of it to pay the 600,000-plus SOE employees. Business specialists have concluded that about 60% of this work force is redundant.⁴⁶⁴

The Ministry of Industry and Minerals, which controls the single largest number of SOEs (about 70), is actively reforming its enterprises and searching for private partners. The CoR is currently considering draft legislation to support private-sector partnerships. Table 4.6 lists partnership agreements signed and under study among the SOEs in this ministry.⁴⁶⁵

Hoping to take advantage of an impending housing construction boom that could include 1 million–1.5 million low-income units, the World Bank has encouraged the Ministry of Construction and Housing SOE known as al-Mansour to search for a private-sector partner and narrow its market focus to specialize solely on low-income housing. The ministry has launched its own initiative to make its eight SOEs competitive by transferring surplus workers to an internal department of excess

A GOI plan to infuse Rafidain Bank with 400 billion dinar and Rasheed with 300 billion dinar in new capital has reportedly met with “hidden resistance.”

TABLE 4.6

PRIVATE-ENTERPRISE PARTNERSHIPS WITH MINISTRY OF INDUSTRY AND MINERALS SOEs, AS OF 6/2012

	IRAQI SOE	PRIVATE SECTOR PARTNER	JOINTLY HELD PARTNERSHIP	CONTRACT DURATION (YEARS)
Signed Contracts	Iraqi General Company for Cement	Al-Misrh Company	Al-Qaim Cement Plant	15
	Iraqi General Company for Cement	Al-Time Company, IM Consulting Company, and Michelle Peter	Falluja Cement Plant	15
	Iraqi General Company for Cement	Al-Raudh Company, Kawski Company, and Mourini Company	Kabaisa Cement Plant	15
	Southern General Company for Cement	Al-Ruad Company and Lafarge (France)	Kerbala Cement Plant	15
	Northern General Company for Cement	Turkish Family Company and Austroplan Engineering Company	Sinjar Cement Plant	15
	Northern General Company for Cement	Al-Hagerah Company and Muruebena Company (Japan)	Plant of Northern General Company for Cement	15
Contracts under Consideration	Hamam al-Alil	Turkish Partner Technic (Specializing in cement industry)	–	15
	Badush Cement Plant	Mowher Turkish	–	15
	Sudh Cement Plant	Turkish Anta and Aurban/al-Mantah company	–	15
	General Company for Iron and Steel	Turkish UB Holding	–	21
	Al-Muthanna	Turkish Partner Technic	–	14
	Ninewa Pharmaceuticals and Samarra	Munir Sakhtian (Jordan)	–	18

Source: GOI, MIM, information provided to SIGIR, 6/2012.

labor, where they are offered either retraining courses or early retirement.⁴⁶⁶

Agriculture

Early this quarter, the USDA's Foreign Agricultural Service forecast Iraq's winter wheat harvest for the 2012–2013 crop-marketing year would be 2.18 million metric tons (MMT), roughly the same yield as last year, with increased planting in areas of irrigation-fed crops compensating for lower yields in northern areas where the crops are rain-fed. To meet domestic demand, the GOI was expected to import 3.95 MMT—nearly twice its domestic production. (The United States, which is a major wheat exporter, was excluded from bidding on a GOI wheat tender in January 2012 and failed to win subsequent tenders.) Iraq's barley crop was forecast at 710 MMT, down slightly from last year.⁴⁶⁷

Trade and Investment

Microsoft announced this quarter that it has established a presence in Iraq, partnering with the Baghdad-based al-Astura (Legend Land Co.), which expects to provide both products and technical support to GOI and private-sector Microsoft users. Public comments by al-Astura indicated the move would position Microsoft to better support Iraq's economic development, but had the additional goal of addressing software piracy in a country where bootleg copies of Microsoft products are sold for a fraction of their legal counterparts.⁴⁶⁸

This quarter, the GOI removed some of the many obstacles inhibiting private investment:⁴⁶⁹

- A law regulating the minimum size of family dwellings has been eased to permit housing units under 2,900 square feet to be built in non-urban areas.
- The NIC is working to bring greater clarity to land ownership in a country where property has often been seized arbitrarily over the past century.

This quarter, the GOI removed some of the many obstacles inhibiting private investment.

- Restrictions on foreigners investing directly in Iraqi hospitals have been removed, enabling non-Iraqis to contract with the GOI to both invest in and administer hospitals in the country.

The NIC expects the level of capital investment with foreign participation to top \$100 billion in 2012—roughly double the 2011 level. As commercial opportunities begin to expand, some U.S. companies that had previously sent only promotional materials to trade shows have reportedly become more active in searching for agents to represent them. Hiring an agent is a significant commitment in Iraq because it requires the business to register with the government and pay tax to the GOI. The shift, which a U.S. official called “a turning point,” is believed to be related to improved security conditions, expanding business opportunities, and a decision by some U.S. contractors already in Iraq to search for Iraqi business partners as work opportunities with the U.S. government decrease. The U.S. Business Council in Iraq, a group that supports U.S. companies with a presence in the country, this quarter increased its membership from 11 to 15.⁴⁷⁰

Excluding military sales, Iraq was the 58th largest export market for the United States in 2011, up from the 64th largest in 2010. During the same period, U.S. exports to Iraq rose nearly 50% to \$2.4 billion.⁴⁷¹ By contrast, under the Foreign Military Sales (FMS) program, the GOI share of deliv-



Artist rendering of the \$8 billion satellite town planned for Besmaya. (Hanwha illustration)

eries and commitments to purchase U.S. military goods and services in 2012 totaled \$2.9 billion.⁴⁷²

The GOI this quarter broke ground on a seven-year project to build a satellite town with 100,000 housing units near Besmaya, southeast of Baghdad. Expected to cost \$8 billion, it is one of the largest undertakings of its kind in the post-2003 period and the most ambitious government effort to address a housing shortage that is especially acute for low-income families. More than 150 international companies participated in the two-year preparatory work for the project. The lead contractor is South Korea’s Hanwha Engineering & Construction.⁴⁷³ ♦

Excluding military sales, Iraq was the 58th largest export market for the United States in 2011.