
Status of Iraq Reconstruction

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INTRODUCTION

This is the fourth Report in which SIGIR provides a sector-by-sector review of Iraq reconstruction. In the January 2006 Report, SIGIR analyzed progress in three essential infrastructure sectors—electricity, oil and gas, and water. The April 2006 Report added four new sectors: security and justice; health care; transportation and communications; and economic and societal development. In the July 2006 Report, SIGIR added a new subsection on agriculture projects and provided additional focus on non-construction activities.

To assess overall progress, SIGIR reviews three aspects of reconstruction—activities,⁴ outputs, and outcomes:

- *Activities*: reconstruction at the project level (e.g., an electric turbine, a water treatment plant, a primary healthcare center (PHC), a training program for teachers)
- *Outputs*: results of the reconstruction projects (e.g., increased electricity generation, increased capacity to treat wastewater, more trained teachers)
- *Outcomes*: potential effects of the project outputs for the people of Iraq (e.g., hours of power, more Iraqis with access to clean water, more Iraqi children vaccinated for polio, higher literacy rates)

Overview

During this quarter, the average national electricity generation peak capacity surpassed pre-war levels—4,770 vs. 4,500 megawatts (MW). Because of interdictions on the northern transmission lines and the reluctance of the south to send power, electricity in Baghdad this quarter

was less available than before the 2003 conflict.

This quarter, oil production again approached production levels of 2.5 million barrels per day (BPD) for one week in early August and averaged a little more than 2.2 million BPD for the entire quarter. Oil exports averaged 1.66 million BPD, slightly surpassing the Iraqi goal of 1.65 million BPD.

The PHC program continued to face challenges. To date, only 7 PHCs have been handed over to Iraqi control (6 are operational) out of a combined total of 142 PHCs funded by the Iraq Relief and Reconstruction Fund 2 (IRRF 2).

This section also provides information on contracts, including costs to complete reconstruction projects in Iraq, updates on the sources of funding for Iraq reconstruction, and a review of the continuing effort to support Iraqi anticorruption programs.

SIGIR, the Gulf Region Division-Project and Contracting Office (GRD-PCO), the Department of State (DoS) *Section 2207 Report*, and Public Law 108-106, as amended, use different definitions of the Iraq reconstruction sectors. To compare the various definitions of sectors, see Appendix C.

General Challenges

Based on the sector reviews, SIGIR makes these general observations about the reconstruction program in Iraq:

- The contracting phase of the IRRF is ending. All of the funds have been allocated, around 98% have been obligated, and approximately 74% have been

expended. Any IRRF funds not obligated by September 30th are “expired,” and can only be used for limited activities, as identified under U.S. law.⁵

All IRRF 2 financial data in Section 2 is derived from the DoS *Iraq Weekly Status* report. The financial data in these status reports was the most accurate and current on IRRF 2 funding available at the time of publication.

- Approximately 88% of U.S. projects have been completed, and only slightly more than 4% are left to start. With approximately 74% of IRRF 2 expended, many key projects are still not finished.
- With the obligation of the IRRF nearly complete, the importance of effectively transitioning U.S.-funded infrastructure improvements, programs, and projects to Iraqi control has become an even more significant issue. A SIGIR audit of transition released last quarter found no overall strategic plan for transitioning program control to the Iraqi government, although several working groups are addressing key issues. The Iraq Reconstruction Management Office (IRMO) is leading the short-term plan for the National Capacity

Development program (\$65 million) to address the high-priority needs of the Iraqi government.⁶ The U.S. Agency for International Development (USAID) is leading the medium- and long-term effort (\$165 million), which includes institution-building and training programs.⁷ Recently, the FY 2006 supplemental provided \$285 million for further operations and maintenance (O&M) activities in key sectors.⁸

For an overview of reconstruction status, see Figures 2-1 and 2-2.

Figure 2-1
SECTOR SHARES OF IRRF FUNDS
 Percent of \$18.44 Billion⁹
 Source: DoS *Iraq Weekly Status* report (9/27/2006)
 Note: Percentages do not total due to rounding.

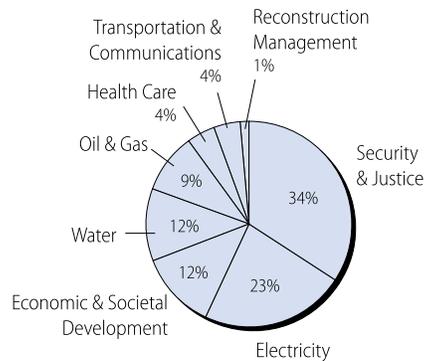
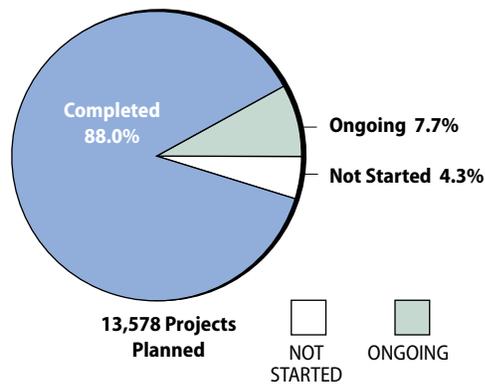
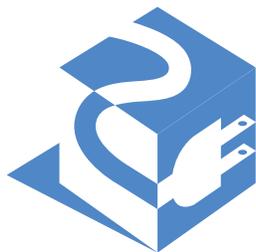


Figure 2-2
STATUS OF IRRF PROJECTS, ALL SECTORS
 Source: IRMS and USAID Activities Report
 (10/6/2006)



Subsector	Not Started	Ongoing	Total
Economic and Societal Development	277	305	582
Electricity	129	183	312
Water	79	142	221
Security and Justice	76	137	213
Health Care	2	150	152
Transportation and Communications	27	92	119
Oil and Gas	0	31	31
Total	590	1,040	1,630





STATUS OF THE ELECTRICITY SECTOR

This review updates the status of U.S. reconstruction projects to restore Iraq's capacity to generate, transmit, and distribute electricity.

SIGIR makes these observations about progress in the electricity sector this quarter:

- By the end of this quarter, 48.2% of planned projects were complete, and 62% of the allocated dollars were expended. As of September 27, 2006, nearly 98% of allocations were obligated. For the status of IRRF funds, see Figure 2-3.
- U.S. projects have contributed 2,710 megawatts (MW) to Iraq's generation capacity. Peak capacity was above pre-war levels (4,500 MW) for most of the quarter, averaging 4,770 MW. The average daily load served, however, is a better measure of how much power reaches Iraqis. During this quarter, the load served averaged 101,900 megawatt hours (MWh), continuing an upward trend begun during the early summer months.
- Iraqis outside Baghdad continue to receive more hours of power than before the U.S.-led invasion (11.3 hours per day). In Baghdad, the power loss caused by sabotage of feeder lines became acute in mid-October, with available power dropping to only two hours per day over the course of several days. Thus, Iraqis in Baghdad rely more and more on generators that use



Al Qudas Power Plant

refined fuels. This has had an inflationary effect on overall fuel prices.¹⁰

- Slow progress in this sector can be attributed to many challenges: lack of funding, rising demand, O&M, fuel shortages, and, paramount for this quarter, security.

IRRF-funded Activities in the Electricity Sector

In this sector, 129 projects (21.4%) have yet to begin, although 48.2% have been completed. All projects in this sector will be completed by January 2008.¹¹ All but two electrical generation projects have started, and 80.8% have been completed.¹² However, nearly a quarter of distribution and transmission projects have yet to start, mainly because these projects have been added later in the reconstruction program. The

Figure 2-3
ELECTRICITY SECTOR AS A SHARE OF IRRF FUNDS
Percent of \$18.44 Billion
Source: DoS *Iraq Weekly Status Report 9/27/2006*

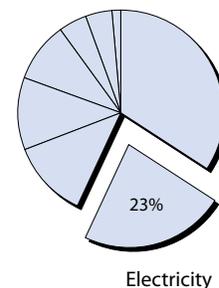
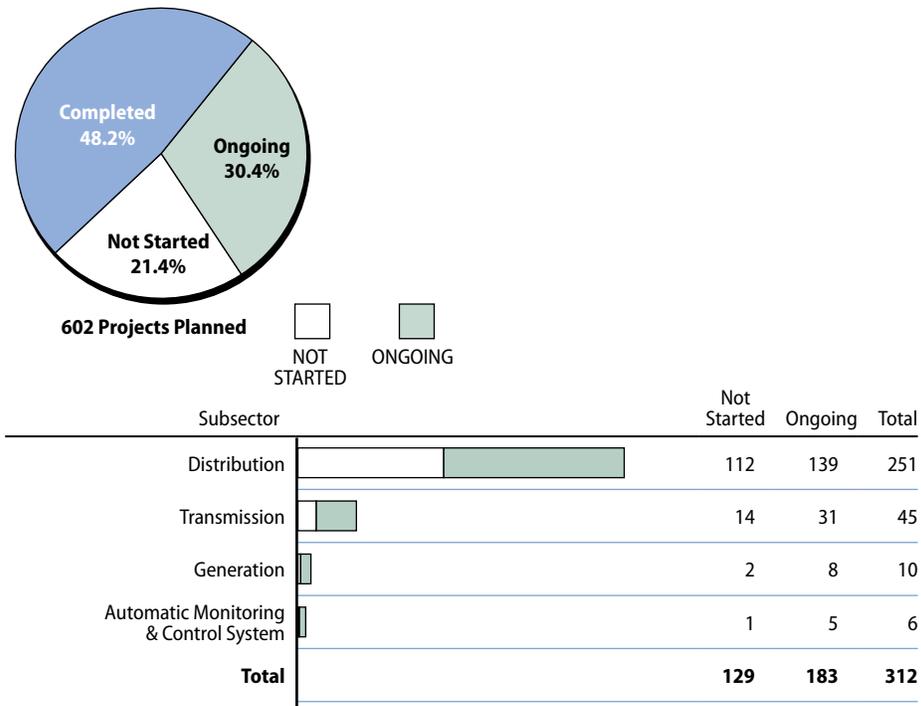




Figure 2-4
STATUS OF ELECTRICITY PROJECTS
 Source: IRMS and USAID Activities Report 10/6/2006



remaining distribution and transmission projects are generally smaller and less complex than the large-scale generation projects.¹³

For the status of electricity projects by sector, see Figure 2-4.

During this reporting period, \$270 million was expended in this sector—down from last quarter’s expenditure of \$320 million—bringing total sector expenditures to \$2.62 billion. At the end of last quarter, \$740 million was left to be obligated. As of September 27, 2006, \$100 million (2.4%) was reported as unobligated. GRD-PCO later updated that total, reporting all but \$8,000 in IRRF 2 sector funds obligated by September 30, 2006.¹⁴

Key Projects Completed and Underway

The U.S. reconstruction program funds three major types of projects in the electricity sector:

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

Additionally, seven U.S. projects valued at \$108 million will provide an automatic monitoring and control system for selected strategic portions of the electric grid (SCADA). To date, one of these SCADA projects is complete.¹⁵



GENERATION FACILITIES

All remaining generation projects will be finished by January 2008.¹⁶ The **Al-Doura Power Plant** will add 280 MW to the power grid, serving more than 1.5 million people in the Baghdad area.¹⁷ Last quarter, one Al Doura unit was commissioned, and a second is scheduled for commissioning in February 2007.¹⁸

Many of the sector's remaining generation projects address sustainability, including training. Maintenance is nearly complete at the **Baiji Power Plant** (\$59 million) to sustain 320 MW of generation capacity. Work at Baiji was estimated to be completed by June 6, 2006, but the ongoing work¹⁹ has been rescheduled for a December 2006 completion.²⁰

TRANSMISSION NETWORKS

Only 12 transmission projects have been completed to date, and 14 have yet to begin

because funds from this sector were reallocated from the program in 2005.²¹ These are the highlights of the transmission projects this quarter:

- Construction was completed this quarter on the **Washash Substation** in the Kadhamiyah district of Baghdad. The \$20.3 million project will benefit more than 500,000 Iraqis.²²
- This quarter, \$550 million was awarded and executed in transmission projects, according to GRD-PCO.²³

DISTRIBUTION NETWORKS

Distribution projects are key to getting generated power into Iraqi homes, but 112 of 487 total distribution projects have yet to start. For summaries of ongoing projects by region, see Table 2-1.

This quarter, SIGIR completed an inspection in Mosul (PA-06-073) of the **Bab Eshtar**

ELECTRICITY DISTRIBUTION PROJECTS

REGION	TOTAL CONSTRUCTION COST	ESTIMATED COMPLETION DATE	CURRENT STATUS
North	\$177 million	8/17/2007	86% complete
Baghdad Local Network Infrastructure	\$75 million	4/22/2007	17% complete
Central (excluding Baghdad Local Network, Sadr City, and Fallujah)	\$112 million	5/02/2007	74% projects complete
Sadr City	\$95 million	7/29/2007	6% construction, 79% materials (Note: according to Electricity Sector PM)
South	\$277 million	4/11/2007	72% complete
Fallujah	\$45 million	6/30/2007	46% complete

Source: GRD-PCO, vetting comments, October 17, 2006.

TABLE 2-1



Substation 11 kV Feeder Cable project to install the underground feeder cable system to the new Bab Eshtar substations. SIGIR assessment teams found that the contractor had sufficiently planned, designed, and constructed the project. For a summary of this and other inspections, see Section 3 of this Report.

The Outputs of IRRF-funded Electricity Projects

The outputs of U.S. electricity projects are measured by generation capacity added to the grid in MW. To compare the current U.S. contributions with the U.S. goal for contributions, see Table 2-2. U.S. reconstruction projects have contributed 2,710 MW of generation capacity—no change from the previous two quarters.

Although U.S. contributions to generation capacity did not increase this quarter, the quarter average for peak generation capacity was above pre-war levels. The increase can be attributed partly to the cyclical nature of generation: generation units are taken off-line during periods of lower demand.²⁴ Although the current level is above pre-war levels, it is still well below the Iraqi goal for summer 2006. To compare the pre-war level and summer goal to the average capacity for the quarter, see Table 2-3.

The 2007 action plan for electricity does not have a specific target for outputs or outcomes: the objective of the plan is to “provide electricity in a reliable and efficient manner to as many Iraqi citizens as possible, and for as many hours as possible.”²⁵

ELECTRICITY OUTPUT OF U.S. PROJECTS

CURRENT U.S. CONTRIBUTION, AS OF SEPTEMBER 30, 2006	TOTAL PLANNED U.S. CONTRIBUTION	U.S. PROGRESS TOWARD END-STATE GOAL
2,710 MW	3,710 MW	73%

Source: DoS response to SIGIR data call, October 11, 2006.

TABLE 2-2

CURRENT ELECTRICITY GENERATION CAPACITY VS. PRE-WAR LEVEL (MEGAWATTS)

OUTPUT METRIC	PRE-WAR LEVEL, AS OF MARCH 2003	IRAQI GOAL FOR JULY 2006	QUARTER AVERAGE
Generation Capacity	4,500	6,000	4,770

Source: Pre-war level: UN/World Bank Joint Iraq Needs Assessment, 2003, p. 28.
 Note: GAO recently reported the pre-war level as 4,300 MW (GAO Report 06-697T, April 25, 2006, p. 19).
 Goal: Joint U.S.-Iraqi Electricity Action Plan, March 12, 2006, p. 2.
 Current Status: IRMO, *Weekly Status Reports*, July-September 2006.

TABLE 2-3



Outcomes of IRRF Projects

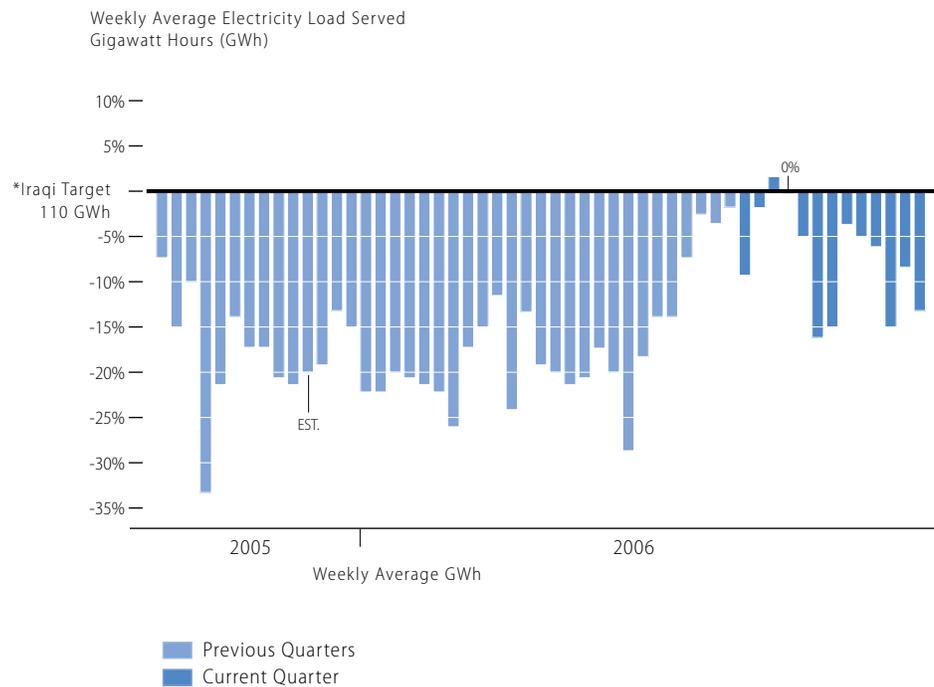
During this reporting period, the daily load served averaged 101,900 MWh—an increase over last quarter’s average of 94,000 MWh. The daily average load served during this quarter is closer to the target of 110,000 MWh and actually exceeded the target for a couple of weeks in the quarter, as shown in Figure 2-5.

Distributing power from generation facilities to Iraqi homes remains a major challenge. For the hours of power available to Iraqis compared to pre-war levels, see Table 2-4.

Although the goal of 12 hours of power per day has been met in other areas of Iraq,

Baghdad continues to lag below that goal because of the increase in attacks on power lines feeding Baghdad. Another part of Baghdad’s power deficit stems from the system’s inability to transfer power from plants in the north and the reluctance of the south to send power to Baghdad.²⁶ The capital has received no significant power from the north since September 1, 2006, receives only limited power from the south, and receives no power from Haditha Dam.²⁷ The current plan is to build more generation facilities around Baghdad to decrease the reliance on power transfers from other parts of the country.²⁸ Figure 2-6 shows

Figure 2-5
ELECTRICITY LOAD SERVED
 Source: IRMO *Weekly Status Reports*
 (9/28/2005 - 9/26/2006)



* Target is a constant based on a goal set in summer 2005



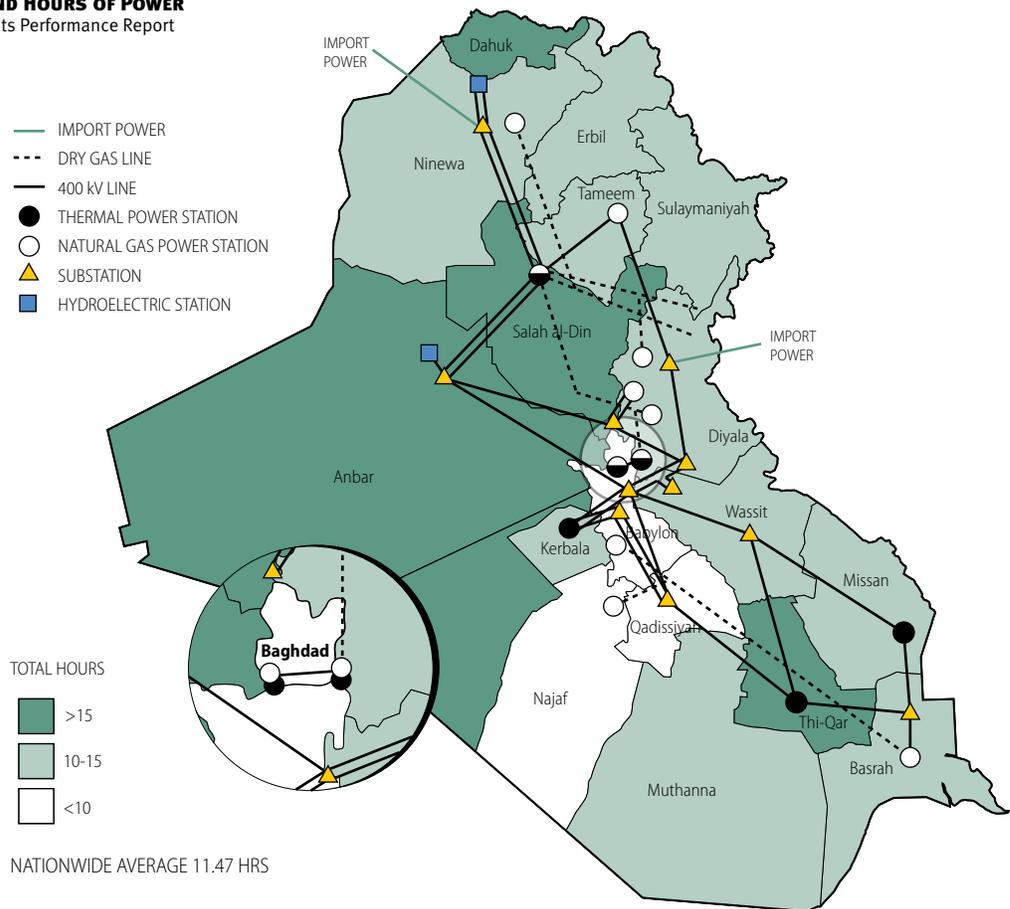
CURRENT OUTCOMES VS. PRE-WAR LEVELS AND GOALS

OUTCOME METRIC	PRE-WAR LEVEL	IRAQ GOAL FOR JULY 2006	DAILY AVERAGE, LAST WEEK OF SEPTEMBER 2006
Iraq Hours of Power/Day	4-8	12	11.3
Baghdad Hours of Power/Day	16-24	12	4.7

Sources: Pre-War level: DoS Briefing by U.S. Embassy Baghdad, November 30, 2005; Goals: Joint U.S.-Iraqi Electricity Action Plan, March 12, 2006, p. 2.; Current Status: DoS, Iraq *Weekly Status Report*, September 27, 2006, p. 14.

TABLE 2-4

Figure 2-6
ELECTRICITY DISTRIBUTION AND HOURS OF POWER
 Source: IRMO Electricity Daily Units Performance Report (7/1/2006 - 9/29/2006)





the distribution of power throughout the country in relation to the hours of power by governorate.

Challenges

Major challenges in this sector include limited funding, rising demand, sustaining U.S. projects through O&M programs, fuel shortages, and security.

FUNDING CONCERNS

With more than 74% of the IRRF expended, a major challenge for the sector continues to be funding. Iraq will need an estimated \$20 billion in investment in this sector by 2010 to bring generation capacity to 18,000 MW.²⁹

From 2005 to 2006, the Ministry of Electricity operating budget increased by nearly 130% (\$367 million to \$840 million), but almost all of the increase went to electricity projects.³⁰ The Minister of Electricity told SIGIR this quarter that the increase still leaves the budget at only a fraction of what the Ministry needs per year.³¹

RISING DEMAND

Demand for electricity continues to surpass Iraq's peak generation capacity: nearly 9,200 MW demanded on average this quarter compared to a peak generation average of 4,770 MW. Figure 2-7 shows the generation capacity versus demand. The high demand is attributable to government subsidies, a growing economy, and a surge in the consumer purchases of appliances and electronics.

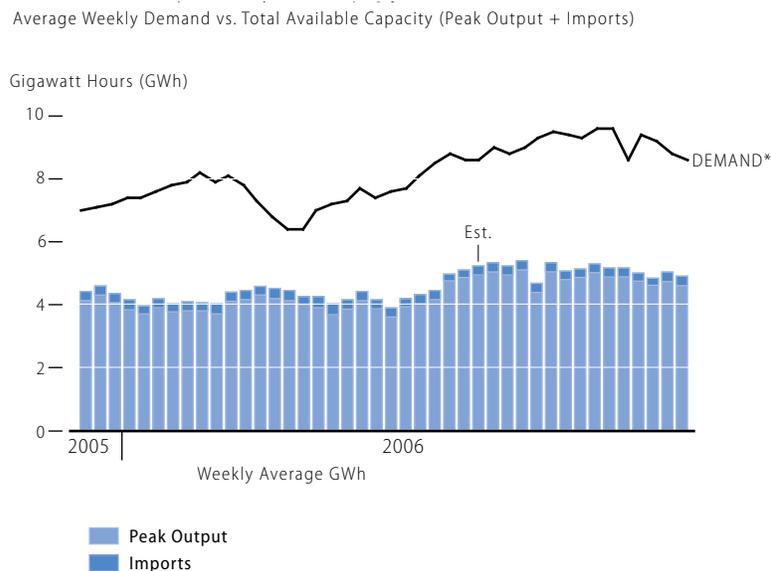
OPERATIONS AND MAINTENANCE

When U.S. funding for O&M programs ceases, and responsibility for IRRF-funded projects shifts to the Iraqi government, this sector will face a significant maintenance challenge, according to GRD-PCO. All U.S. organizations are "working to assist the [Iraq Ministry of Electricity] in a number of ways to facilitate a smooth and successful transition from U.S.-funded O&M support to an Iraqi-led effort," GRD-PCO reports.³² The following U.S. programs aim to meet this goal:

- Last quarter, SIGIR reported on a planned \$80 million long-term O&M program. This quarter, the program chose a contractor that will provide support to develop, implement, and sustain an effective O&M plan. The contractor will help the Ministry develop an O&M program, while providing O&M services at thermal and gas turbine power plants. According to GRD-PCO, the onsite O&M team already assisted in restarting three units at Al Qudas, which added approximately 120 MW to the Baghdad ring.
- The Electricity Ministerial Advisory Team (MAT) agreed to develop a specific scope of work for the capacity-development program in the Ministry of Electricity. The MAT draws input from the Ministry, IRMO, USAID, GRD-PCO, World Bank, and the United Kingdom to implement recommendations from previous studies to train 750 ministry employees. The MAT focuses on training several hundred engineers in strategic planning, contracting,



Figure 2-7
ELECTRICITY DEMAND VS. CAPACITY
 Source: *IRMO Weekly Status Reports*
 (12/14/2005 - 9/26/2006)



*The demand for electrical output is not constant; during this period the demand ranges from 6.39 to 9.61 GWH per week.

management organization, tariffs, metering and billing, and regulation.³³

- The FY 2006 Supplemental provided \$278.6 million for O&M in the electricity sector.³⁴ As of September 2006, \$224 million was programmed for Operations, Maintenance, and Sustainment (OMS), with 17 projects (\$124 million) in progress and 5 (\$96 million) complete. The OMS program is scheduled to finish by October 2007.³⁵

FUEL SHORTAGES

As reported in previous quarters, fuel shortages continue to pose a challenge in the elec-

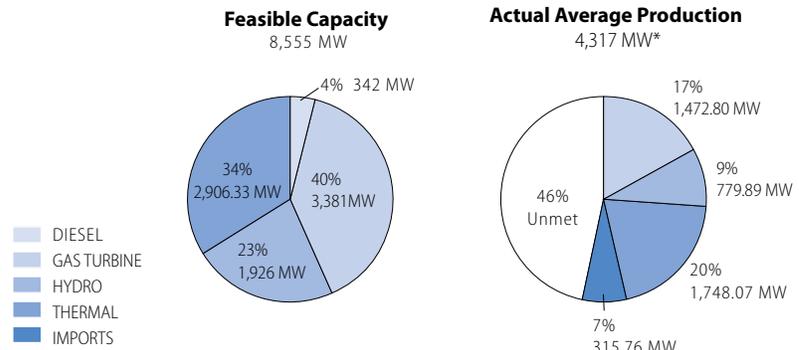
tricity sector. U.S. reconstruction projects have installed 35 natural gas turbines in power generation plants in Iraq. However, 16 of the 35 gas turbines are using diesel, crude, or heavy fuel oil instead of natural gas.³⁶ This causes rapid deterioration of parts, longer maintenance downtimes, and more pollution.³⁷

The actual average production of gas turbines is far below feasible production, as Figure 2-8 shows. According to DoS, the solution to fuel shortages requires coordination between the Ministries of Oil and Electricity, but joint discussions have not yet produced a coordinated plan.³⁸



Figure 2-8
QUARTERLY AVERAGE OF ELECTRICITY PRODUCTION CAPACITY BY GENERATION TYPE
 Source: IRMO Electricity Daily Units Performance Report (7/1/2006 - 9/30/2006)

Figure Represented as Percentage of Feasible Capacity (MW)=8,555



Note: Due to rounding, figures do not add up to 100%.
 * Actual diesel generated production represents only 0.01367% and 1.17 MW

SECURITY

Security continues to challenge the electricity sector, leading to project delays and increased costs for security services.³⁹ Last quarter, SIGIR Audit 06-009 found that a security program for the electricity sector—the Electrical Power Security Service (EPSS)—was unsuccessful and “barely got started before it was cancelled.”⁴⁰

A new audit this quarter reviewed the efforts to increase the protection of the energy infrastructure. This audit (SIGIR-06-038), which is summarized in Section 3 of this Report, found that IRMO and the Ministry of Electricity took steps to improve data on attacks on the electricity infrastructure. Attack rates varied between January 2005 and April 2006, but they were down from April to June 2006. Despite fewer attacks, the audit highlights that power generation was still far below demand, and the Iraqi government has much to do to implement U.S. proposals on security of the energy infrastructure.

To see the effects of these challenges on recent available power in Iraq, see Table 2-5.

HOURS OF AVAILABLE POWER IN IRAQ ON OCTOBER 16, 2006

GOVERNORATE	LOAD PEAK	LOAD SHED	HOURS OF POWER
Baghdad	590	1569	0.20
Dahuk	145	31	19.50
Erbil	530	134	19.10
Sulaymaniyah	205	171	12.10
Ninewa	270	154	14.10
Tameem	160	104	14.20
Salah al-Din	210	78	17.00
Anbar	240	8	23.10
Diyala	132	100	13.20
Babylon	140	92	13.60
Kerbala	130	14	21.30
Najaf	140	60	16.00
Qadissiya	80	64	12.50
Wassit	120	80	13.90
Muthanna	95	25	18.50
Thi-Qar	220	36	20.00
Missan	95	25	18.00
Basrah	630	82	20.80
Iraq	4132	2827	15.95

Source: IRMO Electricity, October 18, 2006

TABLE 2-5



ELECTRICITY



STATUS OF THE OIL AND GAS SECTOR

This review updates the status of U.S. reconstruction projects designed to increase Iraqi oil production and exports, improve natural gas production, and enhance critical fuel-refining capabilities. Project work in this sector is designed to maintain major production fields and to repair key facilities and infrastructure.

Although U.S.-funded projects have helped increase crude oil production capacity and exports, the security situation, poorly maintained infrastructure, corruption, and a constrained budget and procurement execution process at the Ministry of Oil continue to pose significant challenges to sustained development in the sector.

SIGIR makes these observations about progress in the oil and gas sector this quarter:

- As of September 27, 2006, more than 97% of the sector's original allocation was obligated, and 66% was expended.
- Oil production this quarter peaked at 2.47 million barrels-per-day (BPD) for one week in late-August/early-September, but averaged 2.27 million BPD for the quarter.
- Exports averaged 1.66 million BPD throughout the quarter and closed at 1.62 million BPD in September; the Iraqi goal for exports is 1.65 million BPD.
- Fuel shortages, particularly for kerosene and liquefied petroleum gas (LPG), have been a serious problem throughout the



Al Basrah Oil Terminal (ABOT)

quarter and may continue through the winter.

- Cumbersome funding procedures between the Ministry of Finance and the Ministry of Oil are constricting needed sustainment activities.

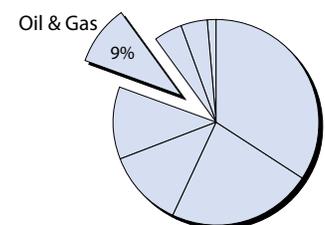
Funding the Oil and Gas Sector

The original allocation to this sector was \$1.72 billion. For the current allocations in oil and gas sector funding as a percentage of total IRRF funding, see Figure 2-9.

IRRF-funded Activities in the Oil and Gas Sector

A number of significant oil and gas facilities are nearing completion. U.S. reconstruction officials estimate that all U.S. construction projects in the sector will be completed by July 2007.⁴¹ For a summary of U.S.-funded construction projects to date, see Figure 2-10.⁴²

Figure 2-9
OIL AND GAS SECTOR AS A SHARE OF IRRF FUNDS
Percent of \$18.44 Billion
Source: DoS *Iraq Weekly Status Report* (9/27/2006)



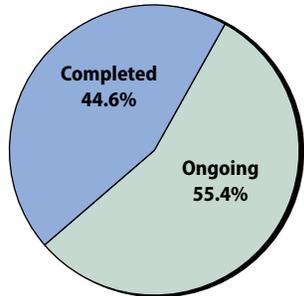


Figure 2-10
STATUS OF OIL AND GAS PROJECTS
 Source: IRMS and USAID Activities Report
 (10/6/2006)

56 Construction Projects Planned

ONGOING

Subsector	Not Started	Ongoing	Total
Water Injection Pump Station	0	10	10
Northern Region Projects	0	7	7
LPG/LNG Plant Refurb	0	6	6
Southern Region Projects	0	5	5
Dedicated Power	0	2	2
General Projects	0	1	1
Total	0	31	31

During this reporting period, \$140 million was expended. As of September 27, 2006, a total of \$1.14 billion had been expended, and \$1.68 billion had been obligated.⁴³

IRRF-funded Project Status

Currently, 185 projects are planned in this sector; 129 non-construction, and 56 Engineering, Procurement, and Construction (EPC) projects.⁴⁴ For the completion status for non-construction and EPC projects, as of the end of this quarter, see Table 2-6.

Key Oil and Gas Projects Completed and Underway

IRRF-funded construction initiatives in the oil and gas sector have focused mostly on production and transmission, but some construc-

tion and non-construction projects have also helped rehabilitate refining and gas facilities. Figure 2-11 shows the critical oil and gas infrastructure across Iraq.

CONSTRUCTION

The **Al Basrah Oil Terminal (ABOT)** task order was 38% complete as of September 29, 2006.⁴⁵ As of August 2006, 7 of the 14 projects under this task order had been completed. These projects focus mostly on sustainability and measurable operations, rather than providing additional capacity to help reduce the likelihood of a catastrophic failure at this crucial export node.⁴⁶ The **ABOT metering system**—33% complete last quarter—made little progress this quarter and is now reported

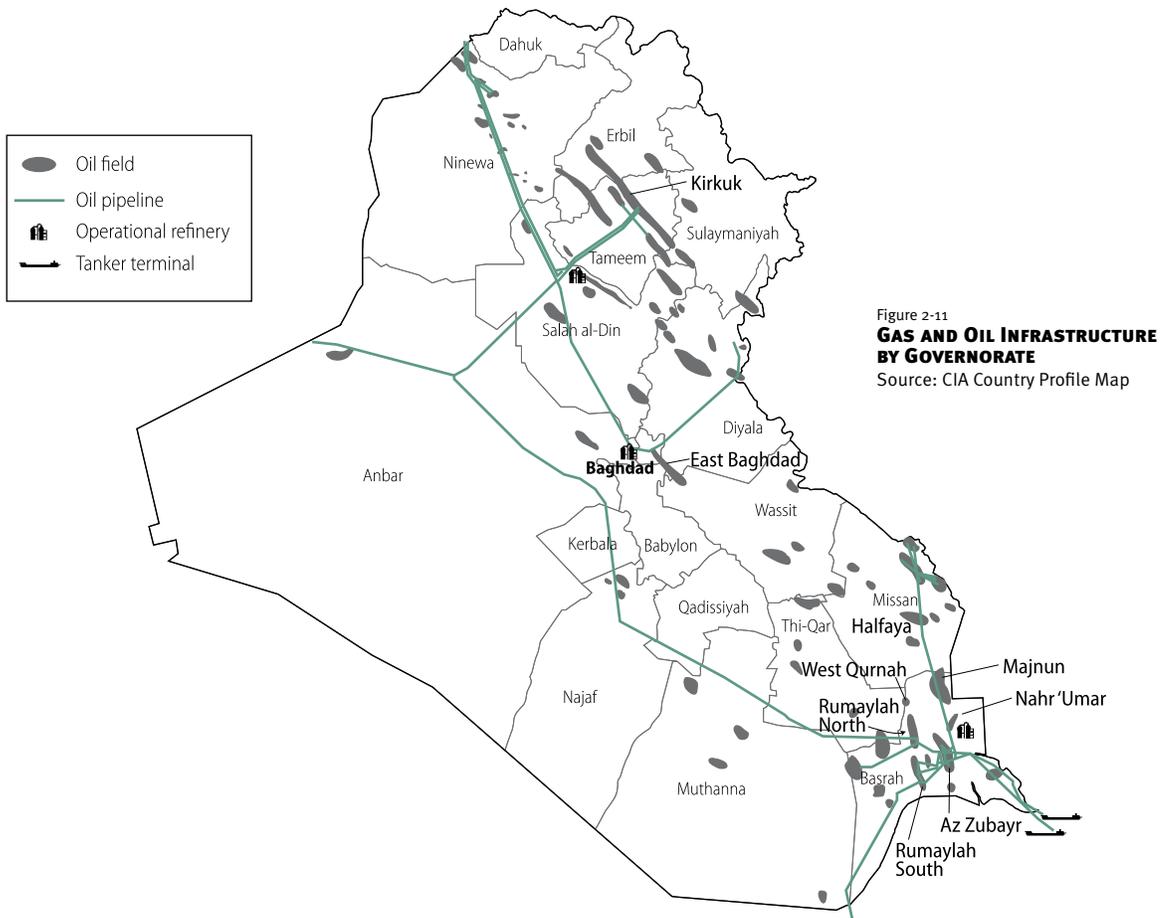


EP vs. EPC PROJECT STATUS SUMMARY

TYPE	TOTAL PROJECTS	NOT STARTED	ONGOING	COMPLETED
Non-construction	129	0	60	69
EPC	56	0	32	24

Source: Non-construction info: USACE-GRD, Bi-weekly Situation Report, September 29, 2006, p. 11; EPC info: GRD-PCO vetting comments, October 17, 2006.

TABLE 2-6





Oil meter at ABOT

to be 38% complete. The slow rate of progress on this initiative has been caused by technical issues associated with terminal shutdown.⁴⁷ The estimated completion date for the ABOT task order is April 5, 2007.⁴⁸

The **Qarmat Ali project** is designed to provide treated water for injection wells to maintain oil reservoir pressure and to help sustain production levels in one of the largest southern oil fields. Phase I is complete. Phase II is currently 28% complete, and GRD-PCO reports that it is scheduled for completion by the end of December 2006.⁴⁹ The schedule has slipped because of the poor condition of original pumps, motors, and valves. Phase II of the task order is expected to increase water injection to full capacity, resulting in a crude oil production increase of 200,000 BPD.⁵⁰ An oil expert with IRMO, however, disputes this projected production increase, stating that the project “has actually taken wells out of production in Rumailya because of watercut” that drives excess water into the reservoir. The IRMO expert also noted that “this project will not increase capacity by 200,000 BPD.”⁵¹

As of late September 2006, 12 **gas-oil separation plants** (GOSPs) were undergoing refurbishments throughout southern Iraq to increase processing capacity by 600,000 BPD. All eight GOSP projects in the north have been completed, increasing processing capacity by 300,000 BPD.⁵² The GOSP projects in the south were 93% complete as of late September 2006

and are expected to be complete by November 15, 2006.⁵³

On September 28, 2006, one **gas compressor station** was completed in the Basrah governorate to supply the gas feed for production of 3,000 tons per day of LPG at Khor Zubair.⁵⁴ Rehabilitation continues for one natural-gas liquids (NGL) plant at North Rumaila, one NGL plant and two LPG plants at Khor Zubair, and bulk storage facilities at Umm Qasr.⁵⁵

The refurbishment of the **Shuaiba Refinery Power Plant** in Basrah was 97% complete as of late September; final completion is expected by November 2006. The objective of this project is to improve the continuous long-term power supply to the Basrah Refinery.⁵⁶ GRD-PCO reported that a training project for plant operators currently underway is expected to be complete by December 28, 2006.⁵⁷

South Well Workover in the Basrah governorate began on August 1, 2006, and is currently 8% complete. This project aims to refurbish wells throughout the governorate, including the workover of 30 wells in the Rumaila fields and completion and replacement of tubing in 30 wells in West Qurna. The objective is to increase crude oil production capacity in the south by more than 300,000 BPD.⁵⁸ GRD-PCO reports that this project is scheduled to be finished by July 2007.⁵⁹



NON-CONSTRUCTION

Although construction projects are vital to rebuilding the oil and gas sector, non-construction initiatives maintain and sustain those projects. These non-construction initiatives focus on administrative task orders, training, spare parts, long-term service agreements, and ministerial capacity development.⁶⁰

In addition to current capacity development and training initiatives by the U.S. Trade and Development Agency and the National Capacity Development Program, GRD-PCO is heavily involved in non-construction, sustainment, and activities to develop capacity in the ministries. To date, \$184 million has been allocated to procure vehicles and heavy equipment. As of September 10, 2006, \$179 million worth of equipment had been delivered, and \$11 million had been allocated to capacity development initiatives for operating company personnel. Overall, GRD-PCO has overseen the training of 1,027 oil and gas workers throughout Iraq.⁶¹

IRMO notes that its advisors have helped introduce the latest management techniques to the Ministry of Oil, emphasizing an increase in transparency of oil revenue and procurement. These activities include advising the Ministry of Oil on the proper methods to repair and upgrade existing export meters, developing a financial management information system, and supporting programs to improve oversight by the Board of Supreme Audit and the ministerial inspectors general.⁶²

Outputs of IRRF-funded Oil and Gas Projects

Last quarter, SIGIR reported that crude oil production had reached 2.5 million BPD for one week in mid-June. IRMO reported that those production gains were largely the result of the South Oil Company's well completion efforts and U.S. reconstruction and rehabilitation projects.⁶³ These gains from rehabilitation projects are expected "to be overtaken by production losses in the near future due to inadequate expenditures for maintenance and lack of replacement of critical parts, material, and equipment if nothing is done to change the current constricting budgetary system for the Ministry of Oil."⁶⁴ Funding sustainment activities appropriately continues to pose a significant challenge for the development of Iraq's oil and gas sector.

Although many IRRF-funded construction projects in this sector have continued to add to Iraq's production capacity, the work underway under the ABOT task order has suffered chronic schedule slippages. The Inspector General plans to visit ABOT on an inspection during the next quarter. GRD-PCO reported to SIGIR that these delays were caused by a variety of challenges, including a large number of scope changes during the engineering and design phase, minimizing terminal shutdowns to mitigate southern export losses, and establishing a safer working environment.⁶⁵



Outcomes of IRRF-funded Oil and Gas Projects

Table 2-7 presents reconstruction project metrics against pre-war levels and U.S. and Iraqi end-state goals.

The 2006 Iraqi budget assumes a crude oil production average of 2.3 million BPD.⁶⁶ As of October 2, 2006, the Ministry of Oil's production target for the north was reported as being 580,000 BPD, and the target for the south was 2 million BPD.⁶⁷ The overall capacity and production target for Iraq is expected to reach 2.8 million BPD by September 30, 2007.⁶⁸ For the production breakdown between northern and

southern fields, see Figure 2-12.

The crude oil production surge in late August/early September to a high of 2.47 million BPD was a result of the old 40-inch pipeline flowing in the northern pipeline system; it was subsequently taken off line because of an interdiction.⁶⁹ An IRMO oil expert noted that when this and other key pipelines are flowing in the north and tankers are in proper alignment in the Persian Gulf, total crude oil production could easily reach approximately 2.6 million BPD.⁷⁰ Figure 2-13 shows crude oil production nationwide.

CURRENT OIL AND GAS PROJECT BENEFITS VS. PRE-WAR LEVEL AND GOAL

OUTCOMES METRICS	PRE-WAR LEVEL (2003)	QUARTER AVERAGE	U.S. END-STATE GOALS	IRAQI END-STATE GOALS
Oil Production Capacity (million BPD)	2.8	2.5	3.0	2.8
Oil Production (Actual) (million BPD)	2.58	2.27	Not Available	2.8
Export Levels (million BPD)	Not Available	1.66	2.2 (capacity)	1.65
Natural Gas Production Capacity (MSCFD)	Not Available	600*	800	Not Available
LPG Production Capacity (TPD)	Not Available	1,200*	3,000	Not Available

*Data for these figures is taken from a GRD-PCO report of September 10, 2006, and does not constitute a full quarterly average.

Sources: Pre-war numbers—DoE Country Analysis Brief, meeting with DoE officials on May 31, 2006. Quarter Average—GRD-PCO, "Iraq Reconstruction Report," October 5, 2006, p. 3 (production capacity); DoS, *Iraq Weekly Status Reports*, July-October, 2006 (oil production and exports); GRD-PCO, "Sector Consolidated Results Update Meeting," September 10, 2006, p. 3 (natural gas production capacity and LPG production capacity). U.S. end-state goals—GRD-PCO, "Iraq Reconstruction Report," October 5, 2006, p. 3 (production capacity); DoS response to SIGIR data request, July 24, 2006 (export capacity); Iraqi end-state goals—meetings and discussions with DoS officials for April 2006 Quarterly Report; DoS, *IRMO Weekly Status Report*, May 16, 2006, p. 9 (Iraqi export target).

TABLE 2-7



EXPORTS

The oil and gas sector remains Iraq's economic mainstay: crude oil exports are projected to account for approximately 90% of the government's revenue in 2006.⁷¹ In early October, year-to-date Iraqi revenues from oil exports for 2006 reached \$24.8 billion.⁷² From January 2004 to March 2006, however, Iraq lost a potential \$16 billion in revenue from oil exports because of limitations on its ability

to export crude oil, in addition to incurring billions of dollars in fuel import costs to meet domestic demand. SIGIR Audit 06-038, summarized in Section 3 of this Report, discussed this loss. For a timeline of monthly exports and associated revenues, see Figure 2-14.

Exports averaged 1.62 million BPD for September and 1.66 million BPD throughout the quarter; the Iraqi goal is 1.65 million BPD.⁷³ However, Iraq's revenue base from crude oil exports remains vulnerable if global oil prices

Target Oil Production and Actual Oil Production
Millions of Barrels Per Day (MBPD)

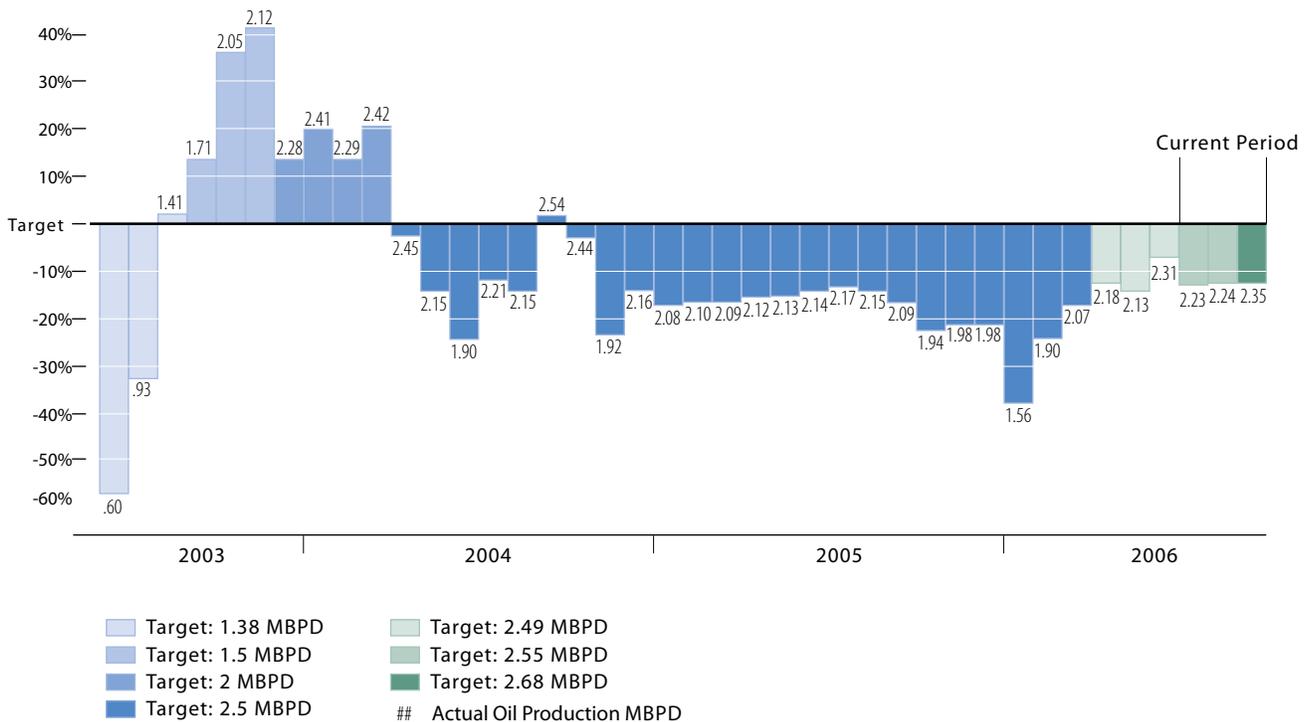
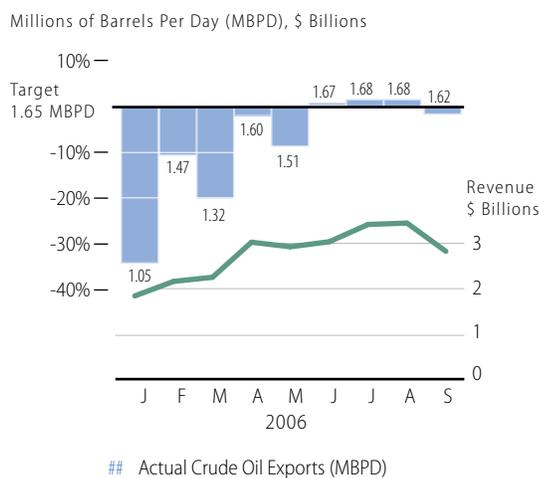


Figure 2-13
MONTHLY CRUDE OIL PRODUCTION
Source: IRMO Monthly Import, Export and Production Report (9/2006)



Figure 2-14
MONTHLY CRUDE OIL EXPORT AND REVENUE RAISED
 Source: DoS *Iraq Weekly Status Report* (6/03-9/2006), IMF SBA (1/2006)



continue to decline and domestic crude production levels cannot be sustained.⁷⁴ Persistent insurgent attacks on the northern pipeline system will continue to put the export burden almost exclusively on the south. This increases the southern system’s susceptibility to long-standing vulnerabilities, including low storage capacity and volatile winter weather conditions affecting shipping at southern ports.

REFINING

The main fuels produced and used throughout Iraq are kerosene, gasoline, diesel, and LPG. This summer Iraqis suffered from severe shortages in all fuels. The shortage resulted from high summer demand for power⁷⁵ and O&M issues with pipelines in the Baiji-Kirkuk

corridor—mostly because of sabotage and dilapidated infrastructure. The unreliability of these fuel pipelines has forced Iraq to transport fuel from Baiji to Baghdad via truck fleets, which are scarce throughout Iraq and susceptible to smuggling and attack.⁷⁶ The shortage has also been exacerbated by a recent lack of Turkish imports caused by the Iraqi Ministry of Finance’s failure to pay its debt to Turkey.

GAO reported on Iraq’s weak domestic refining capacity in late April, citing attacks, dilapidated infrastructure, and poor O&M budgeting practices as the main causes.⁷⁷ This weak domestic refining capacity, in addition to import-related difficulties, has contributed significantly to Iraq’s inability to supply enough of the critical refined fuels to meet market demand. The Ministry of Oil reported that storage levels of refined products, especially kerosene and LPG, for September were sharply down and noted that this could lead to a serious shortage during the winter.⁷⁸

Throughout the quarter Iraq imported 8.5 million liters per day of gasoline (approximately the same as its quarterly average daily production rate of 8.8 million liters per day). And Iraq produced 40% of LPG domestically this quarter, relying on imports to help address supply needs. For assessments of Iraq’s critical refined fuel production rates, see Figure 2-15.

The combination of domestically produced refined fuels and fuels imported from abroad failed to meet any of the four Iraqi targets cited under the Consumption Plan for September 2006.⁷⁹ In fact, Iraq did not meet any of its total



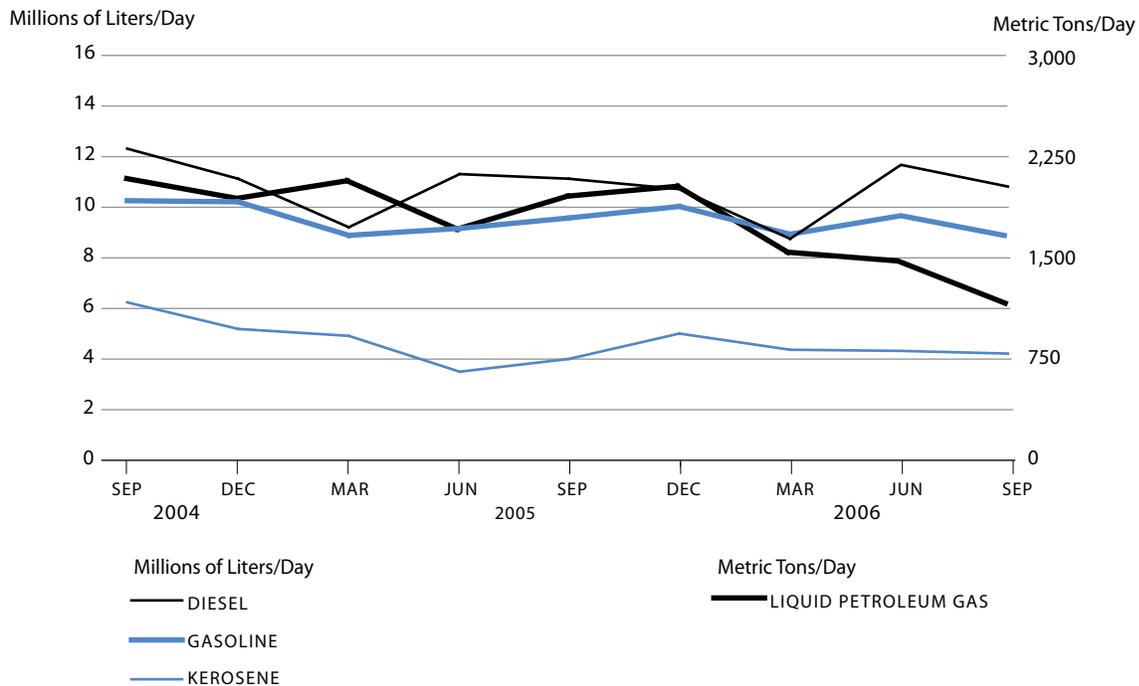
critical refined product targets this quarter, although it briefly met the national stock level target of 15 days worth of supply for kerosene in July and August.⁸⁰ See Figure 2-16.

Iraqis use kerosene mostly as a home heating fuel. The national stock level of kerosene surged this quarter and last quarter as Iraqis built their supply in advance of winter. LPG, diesel, and gasoline are not seasonal fuels, however, and are generally produced at steady rates year-round, assuming a constant production capacity. According to a

DoS energy expert, saboteurs have focused mostly on interdicting gasoline and LPG lines because these products are in higher demand throughout Iraq.⁸¹

To help alleviate this problem and provide a stable supply in the future, the Iraqi government has begun to make plans to upgrade two of its main refineries and to build two new ones in northern and central Iraq.⁸² In the shorter term, however, Iraq is trying to import more refined products from abroad. Currently, Iraq receives refined fuels from Turkey, Kuwait,

Figure 2-15
QUARTERLY AVERAGE OF CRITICAL REFINED FUELS PRODUCTION RATE
 Source: IRMO Monthly Import, Production, and Export Report (9/2006)

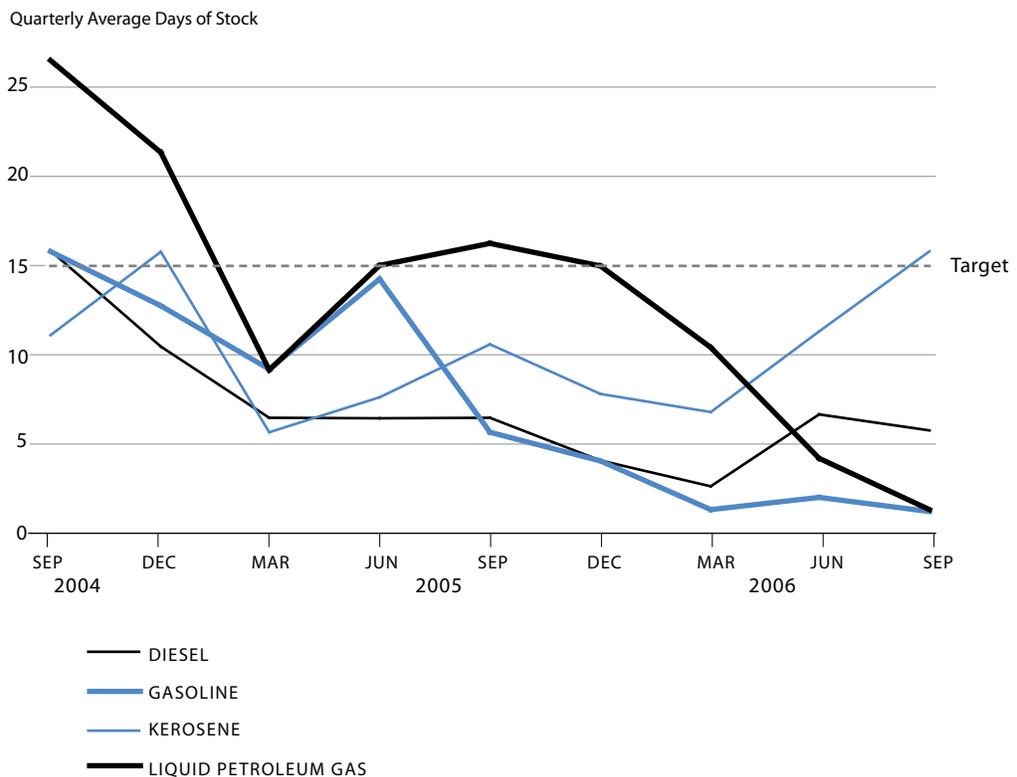




the United Arab Emirates, Iran, Turkmenistan, and Syria. Most imports, however, come from Turkey,⁸³ and the failure of the Ministry of Finance to pay its debt has strained this relationship considerably. An agreement to remedy this problem is currently in place: Iraq paid \$80 million on October 20 and will do so again on November 20, 2006; it will pay another \$40 million by December 20.⁸⁴

Finally, on September 6, 2006, the Iraqi Council of Representatives approved the Fuel Import Liberalization Law, which allows private companies to bid for import licenses to supply fuel directly to the open market in an attempt to ease gasoline shortages and reduce smuggling. Before the approval of this law, the State Oil Marketing Organization conducted all oil imports.⁸⁵

Figure 2-16
QUARTERLY AVERAGE INVENTORY OF CRITICAL REFINED FUELS
 Source: DoS *Iraq Weekly Status Report* (09/2004–09/2006)





Challenges

Projects in this sector continue to face a number of challenges, including difficulty in budget execution, attacks on key infrastructure, corruption, smuggling, and providing for the sustainment of operations.

BUDGET EXECUTION

During his visit to Iraq this quarter, the Inspector General visited the Ministry of Oil to confer with the Deputy Minister, the Chief Budget Officer, and the Director of Plans. It became clear during those meetings that the Ministry of Oil has a capacity problem in executing its capital budget. Only a fraction of the budget was executed last year, and that problem apparently continues this year. This is a government-wide problem in Iraq, but it is most serious at the Ministry of Oil because of the importance of capital investment in this sector. The Ministry of Oil is the major revenue-generating ministry in the country; therefore, investment in this sector is critical for the nation's revenue growth.

The Ministry of Oil also does not provide IRMO with complete budgets. This lack of transparency must be corrected if the U.S. is to be able to reasonably advise the Ministry of Oil on its strategic investment plan.⁸⁶

SECURITY

The challenge of providing security for oil facilities and installations continued throughout this quarter. GAO reported “that

major oil pipelines continue to be sabotaged, shutting down oil exports and resulting in lost revenues.”⁸⁷ In late August, DoD also reported that, in addition to worksites, “terrorists have attacked crude export and petroleum product pipelines, impeding exports and the refining and distribution of petroleum products, such as gasoline and diesel.”⁸⁸ For instance, the late August/early September surge in crude oil production was tempered by a subsequent interdiction that crippled the 40-inch pipeline along the ITP. In response to this event, the Iraqi government deployed Iraqi Army units to better protect this key pipeline.⁸⁹ For more information on SIGIR's audit of protection for the energy infrastructure, see Section 3 of this Report.

IMPLEMENTING AND FUNDING SUSTAINMENT ACTIVITIES

Sustaining U.S.-funded projects continues to be a critical challenge for successfully developing the oil and gas sector. U.S. reconstruction agencies have been administering programs to bolster capacity development and to improve O&M practices at oil and gas facilities. These agencies have also launched a number of initiatives to address petroleum refining, project management, distribution and marketing, leadership, human resource management, and financial methods.

The Ministry of Oil has struggled to operate, maintain, and replace aging and deteriorated infrastructure, according to IRMO. IRMO recently noted that even though the Ministry



of Oil “has a good chance in reaching its stated production goals, it stands little chance in maintaining it unless it starts a serious rehabilitation program of the facilities [that] were designed and constructed decades ago.”

This problem is compounded by the funding procedures implemented by the Ministry of Finance, the Ministry of Planning, and the Council of Ministers High Contracting Committee to control procurement corruption. As of mid-June 2006, the Ministry of Oil had received only a fraction of its 2006 budget of \$3.5 billion.⁹⁰ These financial and procurement restrictions are the main cause of the Ministry of Oil’s lack of spending on new capital projects for infrastructure rehabilitation, which include completing natural gas pipelines and improving key refinery facilities.⁹¹ As a result of these sustainment and budgeting issues, the International Monetary Fund (IMF) has reported that Iraq’s main source of economic growth for both 2005 and 2006 is expected to come from non-oil economic activity.⁹²

CORRUPTION AND SMUGGLING

Corruption continues to impede the development of Iraq’s oil and gas sector. In August 2006, the IMF reported that corruption “damages Iraq’s ability to manage its oil resources effectively and siphons off much needed wealth to improper ends.” The Ministry of Oil reported to SIGIR that corruption is a challenge in storage and depots, transport and supply, and maintenance. Major concerns include robbery and bribery, as well as truancy

by employees, external agents, and procurement committees.

The Minister of Oil has acknowledged that corruption is significant in the production and distribution of refined fuels, but the Ministry of Oil is reportedly working to combat this problem.⁹³ The Ministry of Oil has completed 454 audits thus far in 2006 and has developed revised practices/standards for 33 aspects of the ministry’s work, including marketing of crude oil, salary scales, and transportation of oil products. Many Iraqi inspectors general still complain, however, about insufficient budgets, shortage of experienced auditors and investigators, and a lack of independence within the ministry.

The Iraqi government is also planning to combat corruption and smuggling in the oil and gas sector by installing production metering systems throughout the country. This project is funded by the Ministry of Oil, which has leveraged the advice of international oil companies to expedite the process, though it is unlikely that these meters would be operational for some time.⁹⁴

In mid-June and early July 2006, the Iraqi government raised prices for diesel, kerosene, gasoline, and LPG,⁹⁵ as required by the December 2005 IMF Stand-By Arrangement (SBA). These steps were part of price adjustments, slated to occur at three-month intervals, to bring domestic fuel prices in line with the prices of neighboring countries and diminish the incentive to smuggle fuel. IRMO also reports that the official price of diesel was raised on October 1, 2006 (in accordance with



the SBA), but the government has delayed raising the prices of the other fuels until Turkey resumes exports to Iraq.⁹⁶

Despite these structured price increases, the gray market rate for petroleum was approximately \$4 per gallon—almost eight times the official price—as of early September 2006.⁹⁷ Overall, the combined amount of fuel that Iraq produces domestically and imports from abroad is still not enough to meet current domestic demand, which fuels the gray market for such scarce commodities.⁹⁸

Most smuggling occurs in-country and that smuggled fuel tends to be sold around the same area from where it was stolen.⁹⁹ Furthermore, DoD noted in August that “a significant portion of illegal trade results in constraining the supply of gasoline in Baghdad, giving motorists few alternatives to purchasing black-market fuel at increased prices.”¹⁰⁰

ENABLING LEGISLATION

The passage of the Fuel Import Liberalization Law was one important step toward improving the oil and gas sector, but the passage of a national hydrocarbon law remains the most important future milestone. There are significant discrepancies, however, between the hydrocarbon legislation being considered by the Kurdistan Regional Government and that being considered by the central Iraqi government. The legislation differs in many ways, but most prominently in the question of regional rights to receive direct revenue from both current and future fields, as well as the status of Kirkuk.¹⁰¹



STATUS OF THE WATER SECTOR

This review updates the status of U.S. reconstruction projects to increase access to clean water and sewerage services in Iraq and improve water resource management capabilities.

SIGIR makes these observations about progress in the water sector:

- Allocations to this sector total \$2.13 billion. Figure 2-17 shows this sector’s funding as a share of the total IRRF. Only about 8% of projects have yet to start, and 79% are complete.
- As of September 27, 2006, formal reporting information for the sector showed that funding was almost completely obligated (98.1%). GRD-PCO later updated this information, reporting that all funds were obligated by September 30, 2006.
- One of the major challenges is to ensure that U.S. efforts are sustainable. The Water Sector Sustainment Program (WSSP) is underway, providing \$116 million for facility assessments, technical assistance, supplying parts and other consumables, specialized follow-on repair, and other sustainment activities.



Al Kasik Water Treatment Facility

- U.S. projects have provided an estimated 4.6 million people with access to water—more than half the anticipated end-state of 8.2 million people. Also, 5.1 million people have access to sanitation services from U.S. projects; the end-state goal is 5.3 million people.

IRRF-funded Activities in the Water Sector

More than two-thirds of sewerage projects are finished, and 80.2% of potable water projects are complete. For the status of projects in the water sector, see Figures 2-18 and 2-19.

This quarter, \$150 million was expended in the water sector, a decrease from previous quarters:

- \$250 million last quarter
- \$202 million two quarters ago
- \$295 million three quarters ago

Figure 2-17
WATER SECTOR AS A SHARE OF IRRF FUNDS
 Percent of \$18.44 Billion
 Source: DoS Iraq Weekly Status Report (9/27/2006)

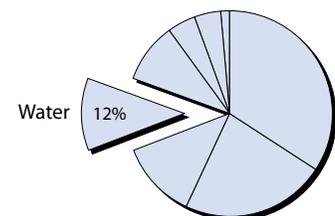
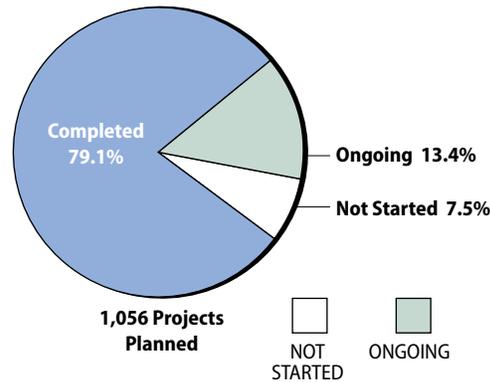




Figure 2-18
STATUS OF WATER PROJECTS
 Source: IRMS and USAID Activities Report (10/6/2006)



Subsector	Not Started	Ongoing	Total
Potable Water	66	124	190
Sewerage	11	11	22
Pumping Stations and Generators	0	6	6
Dam Repair, Rehabilitation, & New Construction	0	1	1
Major Irrigation Projects	1	0	1
Umm Qasr/Basrah Water Supply Project	1	0	1
Miscellaneous*	0	0	0
Other Solid Waste Management*	0	0	0
Water Conservation*	0	0	0
Total	79	142	221

*All Completed

As of September 27, nearly all (98.1%) of the sector's funding had been obligated, but only 60.6% had been expended. According to GRD-PCO, all IRRF funds under its control were obligated by the September 30, 2006 deadline,¹⁰² but published reports of the data were not available to verify the data.

Key Projects Completed and Underway

All U.S.-funded projects in this sector are scheduled to be complete by October 2008.¹⁰³

After a short delay, one of the largest projects in this sector—the **Erbil Water Treatment Plant**¹⁰⁴—was completed in July. The contractor is now providing O&M training and support.¹⁰⁵ The \$201 million project provides 144,000 cubic meters (m³) of water per day to 333,000 residents of Erbil and the surrounding area.¹⁰⁶

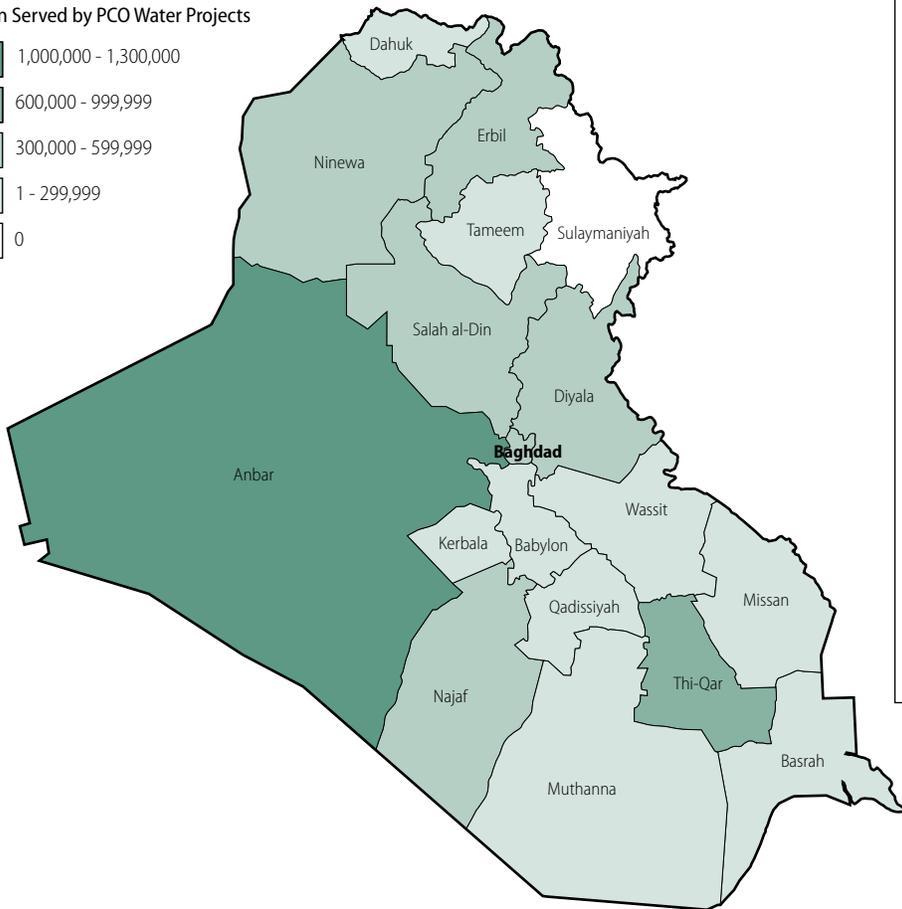
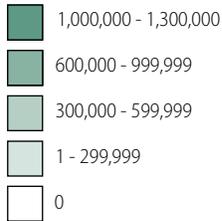
The \$262 million **Nassriya Water Treatment Plant** project is 97% complete, as of October 2006.¹⁰⁷ The original completion date of June 2006¹⁰⁸ was pushed back to October 2006¹⁰⁹ and



WATER

Figure 2-19
PCO POTABLE WATER PROJECTS
 Source: PCO Water Metrics (9/2006)

Population Served by PCO Water Projects



PCO Project Status by Governorate

	Completed	Total
Nationwide	1	32
Sulaymaniyah	3	4
Qadissiyah	3	5
Salah al-Din	5	14
Tameem	4	8
Muthanna	4	12
Kerbala	5	8
Erbil	6	20
Missan	6	7
Thi-Qar	6	11
Wassit	7	9
Babylon	11	18
Diyala	12	22
Basrah	14	30
Dahuk	20	36
Anbar	21	80
Najaf	21	27
Ninewa	24	56
Baghdad	32	64
TOTAL	205	463

now back to March 2007. The delay stems from an increased scope to provide network connections to five cities.¹¹⁰ The completed water treatment plant will provide 240,000 m³ of water per day to more than 555,000 people.¹¹¹ The **Nassriya Drainage Pump Station** is scheduled for completion in March 2007.¹¹²

The recently completed \$63.1 million **Rural Water Program** provided 70 water treatment sites in underserved rural areas of Iraq, with

the capacity to serve 492,000 Iraqis nationwide. The \$22.9 million project to restore the **Sharq Dijla Water Treatment Plant** is nearly complete. After restoration, the plant will produce an additional 216,000 m³ per day, serving an additional 432,000 people.¹¹³

GRD-PCO initiated a number of programs this quarter that focus on contracting directly with Iraqi construction firms to construct small water projects. In total, the programs



are receiving \$122 million in funding to conduct multiple small potable water projects throughout all 18 governorates in Iraq. There are many benefits from contracting directly with Iraqis, including:

- increasing local employment
- strengthening private business infrastructure and capacity development
- using resources more effectively
- reducing security and overhead costs

The largest such program is the **Small Water Rehabilitation Program** (\$63 million), which will benefit 1.65 million Iraqis.¹¹⁴

As of September 2006, those programs had completed 158 of the 324 total planned projects.¹¹⁵

Other progress this quarter included the start of automatic operations at the **Wathba Water Treatment Plant**. The **Basrah Sewerage Facility** is expected to be finished by October 2006.¹¹⁶

Outputs of IRRF-funded Projects

To date, the United States has repaired or rehabilitated 21 potable water treatment facilities and 56 smaller water treatment plants.¹¹⁷ Addi-

tionally, nine centralized sewage treatment facilities have been completed to date.¹¹⁸ The outputs of these IRRF-funded projects appear in Table 2-8, which shows the current and anticipated capacity provided by completed water projects.

Outcomes of IRRF-funded Projects in the Water Sector

To determine the outcome of U.S. projects, IRMO measures the number of people estimated to benefit from these projects. For a summary of the data on the effects of U.S. projects on Iraqi access to water and sanitation services, see Table 2-9.

U.S. projects have provided potable water access to an estimated 4.6 million people—an increase from last quarter’s 4.2 million and more than half the anticipated end-state of 8.2 million people. The United States has now completed 80.2% of planned potable water projects. If all planned projects are completed, end-state goals will be reached, according to IRMO. A number of large projects have yet to be completed, including Sadr City, Balad Rooz, and Nassriya water-supply projects.¹¹⁹

CURRENT U.S. WATER PROJECT OUTPUTS AND ANTICIPATED END-STATE

OUTPUTS METRIC	CURRENT STATUS, AS OF 9/30/06	ANTICIPATED END-STATE (APRIL 2007)
Potable Water—Maximum Additional System Capacity	1.4 million cubic meters per day	2.5 million cubic meters per day
Sanitary Sewage—Maximum Additional System Capacity	1.2 million cubic meters per day	1.2 million cubic meters per day

Sources: DoS response to SIGIR data call, October 11, 2006.

TABLE 2-8



CURRENT U.S. WATER PROJECT OUTCOMES AND ANTICIPATED END-STATE

OUTCOME METRIC	CURRENT STATUS, AS OF 9/30/06	ANTICIPATED END-STATE ¹
Potable Water—additional people potentially served at a standard level of service, considering actual system conditions	4.6 million people	8.2 million people
Sanitary Sewage—additional people potentially served at a standard level of service, considering actual system conditions	5.1 million people	5.3 million people

Sources: DoS response to SIGIR data call, October 11, 2006.

¹The estimated end-state is based on the estimated date for completing all water projects. All planned PCO projects will be completed by April 2007 (IRMO, Information Memorandum from Acting IRMO Director to Deputy Chief of Mission, April 19, 2006).

TABLE 2-9

Challenges

SIGIR continues to track the major ongoing challenge in the water sector—sustaining U.S.-funded projects. As programs shift to Iraqi control, ensuring the sustainability of these new projects has become a priority for U.S. agencies and contractors.

SUSTAINMENT

A 2005 GAO audit noted the challenge of sustaining U.S.-funded facilities in the water sector.¹²⁰ In response to this challenge, a new \$116 million sustainment program was initiated for 2006. The WSSP intends to “assist the Iraqi people in the proper operation and maintenance of 40+ selected U.S.-government supported water and wastewater facilities.” The program includes facility assessments, technical assistance, supplying parts and

other consumables, and providing follow-on specialized repair.¹²¹ The WSSP builds on these other sustainment projects that have been completed:

- USAID’s **Water Sector Institutional Strengthening Program** (\$25 million)¹²² ended in April 2006, providing O&M support for 11 major water and wastewater treatment facilities.¹²³
- GRD-PCO’s **Management Systems Training Program** (\$14.5 million) for the Ministry of Municipalities and Public Works¹²⁴ will help build capacity in Baghdad and eight local governorates.¹²⁵

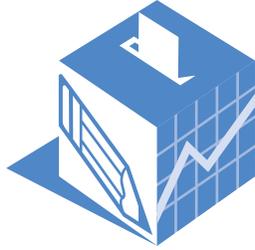
The ongoing WSSP program is scheduled to be completed in March 2007. The program will provide O&M support at almost all of the major water facilities that the United States has constructed or restored. The program uses a



scorecard to rate key operational areas at each of the facilities.¹²⁶ These program activities occurred during the quarter:

- Plant optimization contracts for 40 facilities were completed, and 18 more optimizations are underway.
- Operations support at 11 major facilities and 69 rural water projects continued. Rural water O&M support activities include providing operators, maintenance technicians, instruction material, security, chemicals, and minor repair support.
- Productivity of the **Najaf Water Treatment Plant** was increased to 100% of the design capacity over three months.
- Emergency generator O&M services were provided throughout Iraq for assigned generators of the Ministry of Water Resources, including necessary spare parts and consumable supplies.
- Contractors for O&M oversight and supervision support were hired for 13 major **Basrah Sewerage Pump Stations**.
- Diesel and chemicals were provided to all 40 U.S.-government supported water facilities throughout Iraq.¹²⁷

The WSSP is also implementing Phase II of the Capacity Development Initiative. This will provide training for personnel at the Ministries of Water Resources, Municipalities and Public Works, as well as the Baghdad Amanat (the public works directorate for the city of Baghdad).¹²⁸



Iraqi voting guide

STATUS OF THE ECONOMIC AND SOCIETAL DEVELOPMENT SECTOR

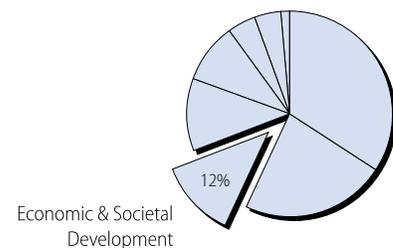
SIGIR makes these observations about progress in this sector:¹²⁹

- IRRF allocations total \$2.21 billion, and \$1.88 billion had been expended, as of September 27, 2006.
- 94% of projects have been completed in this sector, and only 3% have yet to start.
- The ARDI program (Agriculture Reconstruction and Development Program for Iraq) in the agriculture subsector is closing out. MNF-I and MNC-I have already begun to replicate similar activities in many areas in Iraq.
- In the democracy subsector, the security situation continues to limit the fielding and effectiveness of Provincial Reconstruction Teams (PRTs).
- In the education subsector, most project funding will be exhausted this quarter. Unless there are further updates, SIGIR will not report on this subsector in the future.
- Financial management and economic development activities focus on economic governance, trade, bank lending, capital markets, and microfinance.
- There are more than 200 independent media sources in Iraq, but only \$3 million of the IRRF has been obligated in this subsector.

Figure 2-19 shows the percentage of IRRF funding committed to this sector.

By the end of this quarter, more than 98% of the sector's funding had been obligated, and 85.1% had been expended. As of early October 2006, 8,770 projects (94%) had been completed in this sector.¹³⁰ For the status of projects in this sector, see Figure 2-20.

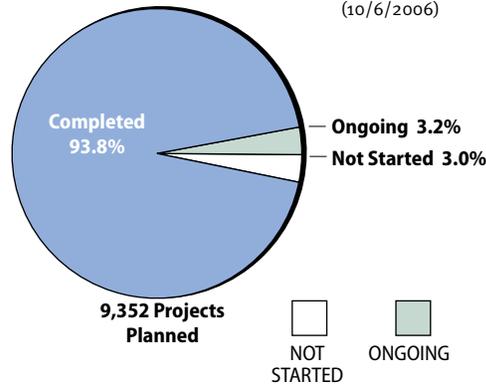
Figure 2-19
**ECONOMIC AND SOCIETAL DEVELOPMENT SECTOR
AS A SHARE OF IRRF FUNDS**
Percent of \$18.44 Billion
Source: DoS Iraq Weekly Status Report (9/27/2006)





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Figure 2-20
STATUS OF ECONOMIC AND SOCIETAL DEVELOPMENT PROJECTS
 Source: IRMS and USAID Activities Report
 (10/6/2006)



Subsector	Not Started	Ongoing	Total
Democracy-building Activities	273	231	504
Agriculture	0	70	70
Schools	3	1	4
Vocational Training	0	2	2
Market-based Reforms	0	1	1
Public Buildings Construction and Repair	1	0	1
Civic Programs*	0	0	0
Education*	0	0	0
Migration and Refugee Assistance*	0	0	0
Total	277	305	582

*Completed

Agriculture

Agriculture supports a rural population of 7 million people, provides employment to approximately 20% of the nation's workforce, and accounts for 8% of Iraq's GDP.¹³¹ As SIGIR reported last quarter, however, this subsector has a record of low productivity and negative growth rates caused by years of poor policy decisions under the former regime, sanctions, isolation, and war.¹³² Post-war looting also

damaged a variety of government and private agricultural production and service facilities, especially in central and southern Iraq.¹³³

USAID estimated this past summer that Iraq's grain yields were less than half the yields of neighboring countries because of variable rainfall in the north, increasing soil salinity in the south, and years of poor planning.¹³⁴ Addressing the subsector's short- and medium-term needs—not including operations and



maintenance would cost approximately \$3.03 billion, according to 2003 World Bank estimates.¹³⁵

USAID has been responsible for almost all IRRF funding for the agriculture subsector. ARDI is designed to help Iraqi farmers increase productivity and income through these components:

- revitalizing agricultural production
- generating income and employment through agro-enterprise and market development
- promoting rural finance
- reclaiming and improving the management of soil and water resources

The initial ARDI contract was awarded in October 2003 with IRRF 1 funds and later extended with IRRF 2 funds. The ARDI program has spent nearly all of the \$101.4 million it was allocated; the program is currently demobilizing. Additionally, the \$4 million allocated for the Iraq Marshlands Restoration Program was almost fully expended this quarter.¹³⁶ The ARDI contract will not be extended, but other organizations, like the U.S. Department of Agriculture (USDA), still have IRRF funds to support agriculture programs.¹³⁷

MNF-I and MNC-I are also currently working to carry forward certain ARDI initiatives and project ideas, including:

- purchasing and distributing more seed cleaners throughout Iraq
- assisting in setting up beekeeper operations for honey production
- cleaning and rehabilitating irrigation infrastructure

- expanding vocation training programs throughout Iraq
- preparing SOWs for greenhouse construction, sheep dip tanks, and mushroom farms¹³⁸

AGRICULTURE PROJECTS COMPLETED AND UNDERWAY

Current ARDI activities focus on increasing crop production, expanding market-oriented reforms, improving livestock management, and enhancing agriculture-related private sector development. As of early October 2006, 304 of the 374 IRRF-funded projects in the agriculture subsector had been completed, and an additional 70 were still in progress.¹³⁹

OUTPUTS OF IRRF-FUNDED AGRICULTURE PROJECTS

The ARDI program works directly with the Ministry of Agriculture, presenting an “Iraqi face” that helps keep security costs relatively low.¹⁴⁰ Although outputs are important measurements of current improvements in the agriculture subsector, one IRMO official notes that “outputs are not what are needed... Outcomes are the measurables that make a difference to the sector’s sustainability and, therefore, the difference for the country’s future.”¹⁴¹ For the ARDI outputs to date, see Table 2-10.

According to USAID officials, the ARDI grants program implemented more than 250 grants, which directly impacted more than 385,000 people. Furthermore, the number of workers employed by ARDI on any given day



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ARDI OUTPUTS

CROP AND LIVESTOCK MANAGEMENT	The first batch of approximately 225,000 fish fingerlings was successfully distributed on July 3, 2006, to the Al Hammar Marsh in Basrah. ^a
	ARDI demonstrated 40% average wheat-yield increases on one-hectare test plots in three northern governorates by using a cost-effective technical package in 2004 and 2005. From 2005 to 2006, ARDI implemented large seed multiplication programs in those three northern governorates in different one-hectare areas, showing yield increases of over 50%. ^b
	ARDI planted 83,500 date palm offshoots in 18 mother orchards in 13 governorates. ^c
	68 veterinary clinics were reconstructed, serving more than 5.7 million animals and 135,000 breeders. ^d
LAND IRRIGATION	ARDI has rehabilitated irrigation systems impacting 283,500 hectares (700,300 acres). ^c
	ARDI-rehabilitated irrigation infrastructure has benefited 85,300 families, or approximately 511,800 rural residents. ^c
TRAINING AND CAPACITY DEVELOPMENT	7,400 farmers cleaned their saved seeds between September 2005 and January 2006, producing 31,500 metric tons of cleaned seed. This amount would be enough to plant 242,000 hectares, benefiting an estimated 48,000 farmers. ^c
	ARDI trained more than 215 mechanics, mostly in rural areas, as part of the tractor-repair program to improve infrastructure for repair and maintenance services for agricultural machinery. ^c
	More than 3,400 Iraqi government and private sector-stakeholders have participated in ARDI training, conferences and workshops designed to improve their ability to form policies and collect and manage information. ^c
	ARDI has also provided business management, association-building, and facilitation training to more than 700 entrepreneurs. ^c
PRIVATE SECTOR DEVELOPMENT	Activities developed and strengthened the capacity of 98 private sector organizations. ^c
	A wholesale price information system was established in 18 major urban markets for dissemination to producers and merchants. ^c
MECHANICAL REPAIRS	4,633 tractors were rehabilitated out of a goal of 5,000. ^c

^a DoS *Iraq Weekly Status* report, July 19, 2006, p. 18.

^b USAID responses to SIGIR data calls, October 17 and 18, 2006.

^c USAID responses to SIGIR data call, October 17, 2006.

^d USAID Agricultural Development Fact Sheet, October 2, 2006.

TABLE 2-10



reached as high as 29,000, including both temporary and permanent jobs.¹⁴²

The ARDI program will close out by the end of the year, and the next USAID agriculture project will focus more on agribusiness development, although some funding will remain for technical assistance to agricultural production. The private sector will need to provide farm machinery to assist in agricultural production, and credit programs are being set up to assist where necessary.¹⁴³

USDA has two officers operating at the U.S. Embassy in Baghdad, as well as three others who have been identified for a one-year temporary duty assignment. They will help with planning, food safety/veterinarian services, and extension,¹⁴⁴ through a program funded with \$7.8 million reallocated from the IRRF.¹⁴⁵

OUTCOMES OF IRRF-FUNDED AGRICULTURE PROJECTS

Project outcomes in the agriculture subsector depend mainly on activities that can offer returns on investment over the long term. IRRF projects have demonstrated that such returns are feasible. For example, wheat production per hectare has dramatically increased: the governorates of Erbil, Dahuk, and Sulaymaniyah reported yields of 1,160 kilograms of wheat per hectare (kg/ha), up from 804 kg/ha last year. The barley yield estimate in these governorates also rose from 664 kg/ha last year to 832 kg/ha this year.¹⁴⁶

USAID offers several possible reasons for these increases, including a better distribution of rainfall during the growing season;

improved seed from USAID's cleaning program; increased access to needed agricultural inputs; better access to fertilizers; and plans by the Iraqi government to buy more wheat from farmers.¹⁴⁷

Overall, Iraq's Public Distribution System (PDS) requires 4 million metric tons per year of wheat—the amount needed to distribute the full ration of wheat flour to all PDS recipients. Domestic production, however, ranges between 1 and 2 million metric tons per year (of which less than half is of grade 1 quality), significantly below the PDS requirement.¹⁴⁸ As a result, Iraq imports almost \$3 billion in wheat and other commodity foodstuffs annually for the PDS.¹⁴⁹

CHALLENGES

SIGIR sees three major challenges in this subsector: security, the need to develop market-friendly laws and policies, and the project selection process.

Security

As with all sectors in Iraq, security problems affect the rehabilitation of Iraq's agricultural infrastructure. USAID officials reported to SIGIR last quarter that security has accounted for only 5-8% of ARDI's total budget; nevertheless, the lethal environment has slowed the rate of investment in this subsector.¹⁵⁰ Moreover, an IRMO agriculture expert noted that the greatest challenge is deciphering how to work efficiently and effectively in light of the present security climate and difficulties.¹⁵¹



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Develop Market-friendly Laws and Policies

Last quarter, SIGIR reported that moving the subsector to a market-driven system will require substantial training, capacity building, investment capital, mercantile infrastructure development, and coordination. These issues are being addressed as the Iraqi government moves to gradually reduce food subsidies, which would help create a more rational market for agricultural products and allow farmers to respond to market demand by increasing production accordingly.¹⁵² This challenge is also being addressed through programs to build ministerial capacity and support agricultural business development, as well as a USDA program to improve the Iraqi extension service.¹⁵³

Project Selection Process

Another significant challenge is choosing the most appropriate projects to initiate, according to an IRMO agriculture expert. The key is to select projects that will be sustainable and promote Iraqi ownership within a short timeframe. The question is how much forward movement can be generated by Iraq's public and private sectors in this area.¹⁵⁴

Democracy

In mid-September 2006, the UN Secretary General's Special Representative reported to the Security Council that the Iraqi government's key challenge is to develop a national agenda that would be responsive to the needs and aspirations of all Iraqis. This quarter, the foundation for such an agenda has been estab-

lished with the presentation of the National Reconciliation and Dialogue Project to the Council of Representatives.¹⁵⁵

DEMOCRACY PROJECTS COMPLETED AND UNDERWAY

Most IRRF funds in this subsector have been used to support the national elections, draft the constitution, and conduct the constitutional referendum. Concurrently, there has been an effort to strengthen Iraq's new democracy at the grassroots level by bolstering the legitimacy of the political system, developing institutional capacity, strengthening civil-society organizations, and inculcating a stronger sense of civic involvement among Iraq's citizens.¹⁵⁶ As of early October 2006, 7,204 of the 7,708 IRRF projects in the democracy subsector had been completed (93.5%).¹⁵⁷

This quarter, ten PRTs have been assessed as operational.¹⁵⁸ The PRTs focus on generating short-term employment opportunities and civic education initiatives.¹⁵⁹ PRT staff work with leaders in the governorates to prioritize initiatives to address the needs of the local people. These initiatives are funded as funds become available.¹⁶⁰

According to SIGIR Audit 06-034, the security situation continues to pose a significant challenge for every aspect of the PRT mission. The audit found that the PRTs and the local governance satellite offices have varying degrees of ability to carry out their respective missions. Finally, the adverse security conditions prevent many civilian billets from being



filled adequately, leaving a void of requisite skills. For an executive summary of this audit, see Section 3 of this Report.

The National Capacity Development Program (NCDP) aims to help the Iraqi government strengthen its core functions. Its activities include further developing important ministries, the Prime Minister's office, participating inspectors general, and various anticorruption organizations. The short-term goal of the NCDP is to use Ministry Advisory Teams to provide public policy and programmatic advice and work with the ministries to develop and address their respective priorities. Over the longer term, the NCDP focuses on increasing capacity of national public administration centers to train ministry employees and develop core competencies.¹⁶¹ Finally, the International Republican Institute (IRI), National Democratic Institute (NDI), IFES, and other grantees continue to conduct IRRF-funded democracy activities at the national level.

OUTPUTS OF IRRF-FUNDED DEMOCRACY PROJECTS

Persistent difficulties and delays in deploying PRTs throughout Iraq have slowed the effort to help develop capacity in the provincial governments. Other efforts to engage at the local level of governance have been more successful. The Community Action Program (CAP) has operated throughout Iraq since 2003 to promote democracy and help mitigate conflict at the local level. This program has established more than 1,400 community action groups

(CAGs) throughout the country, creating more than 88,000 short-term jobs.¹⁶² The Iraqi Civil Society Program (ICSP) has issued 413 small grants, totaling more than \$3.4 million, for initiatives in civil society, human rights, civic education, anticorruption, and women's advocacy.¹⁶³ Many initiatives have focused on developing a more robust media in Iraq.

Last quarter, SIGIR reported on the activities that NDI and IRI are engaged in throughout Iraq. Those activities continued this quarter, primarily with funding through the 2006 Emergency Supplemental Funds. This quarter, NDI continued to focus on democratic development seminars, promoting women's rights, voter training, and a variety of other issues. In September, NDI held a 3-day Voter Contact Academy with 16 members of the Iraqi National Party to help them better communicate with and address the concerns of their constituents.¹⁶⁴ Also in September, members of several Iraqi political parties participated in training forums in Dahuk to clarify concepts of democracy.¹⁶⁵

IRI has also continued its democratization efforts in Iraq by supporting civil society groups, working with political parties to strengthen their structures and broaden their bases of support, and by supporting the development of institutions in the Council of Representatives. IRI reports that it held two sets of three-day training programs for the major Shiite parties and the major Sunni party in Amman, Jordan, in September 2006. Training focused on the importance of intra-party democracy, leadership and candidate selection



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within political parties, platform and message development, the use of survey research and focus groups in politics, and candidate recruitment.¹⁶⁶

OUTCOMES OF U.S. AND INTERNATIONAL DEMOCRACY PROJECTS

These are the milestones reached in the democracy subsector this quarter:

- On August 26, 2006, a conference of tribal leaders issued a statement condemning violence and endorsing the national reconciliation plan.¹⁶⁷
- On September 24, 2006, Iraqi political parties reached a deal under which the Council of Representatives established a Constitutional Review Committee to review the constitution and debate the bill on creating federal regions.¹⁶⁸
- The Council of Representatives approved the federal regions law on October 11, 2006. This law will allow Iraq's provinces to hold referenda to merge themselves into larger federal regions, but delays the merging process for another 18 months.¹⁶⁹

The National Reconciliation and Dialogue Project is a very important test of whether the Iraqi government will be able to confront and mitigate the escalating violence throughout Iraq through political means; this project will operate at national, provincial, and field-committee levels.¹⁷⁰

GAO recently cited information from

the Defense Intelligence Agency that “the December 2005 elections appeared to heighten sectarian tensions and polarize sectarian divides.” GAO also cited a March 2006 U.S. Institute of Peace report noting that Iraq’s political process has sharpened ethnic and sectarian identities, while simultaneously weakening notions of nationalism and Iraqi identity.¹⁷¹

Well-trained and well-equipped security forces can help foster a more permissive environment for a political dialogue to occur, but these forces alone cannot guarantee peace in the long term until Iraq reaches a political understanding. Milestones in the future include passing and enforcing enabling legislation and holding provincial elections.¹⁷²

CHALLENGES

General concerns for this subsector include “implementation of the National Reconciliation Plan, passage of enabling legislation for the constitution, a constitutional review process and possible constitutional referendum and provincial elections.”¹⁷³ These concerns stem from the following challenges.

Governing Effectively and Cooperatively

GAO has reported that, although strengthening “national and provincial institutions is a key step in improving governance and supporting efforts to build Iraqi self-reliance and defeat the insurgency,” coalition assessments show that Iraqi ministries have limited



capacity to provide government services to the people. These assessments showed “limitations in managers’ skills and training, weak technical expertise, outdated work processes and procedures, and an inability to identify and articulate strategic priorities.”¹⁷⁴ The Iraqi government has moved to remedy some of these governing concerns at the strategic level, and there may be some leadership changes in the near term.

On the national level, the federal regions law was approved on October 11, 2006, with the largest Shiite political party advocating the creation of autonomous southern regions similar to the model followed in Kurdistan. However this remains a controversial issue among Sunni and some Shiite groups: some leaders fear that it could lead to the break-up of Iraq.¹⁷⁵ This is a valid concern given the power that the Constitution as currently written accords regions once they are formed. If the Constitution is not amended, regional law would trump all federal law in conflict; the federal government would not be able to tax the regions; and the regions, once formed, would be able to establish their own militias.

A challenge on the provincial level is that Iraqi governorates have limited capacity to provide governmental services.¹⁷⁶ Although NDI, IRI, other organizations, and the CAP program have made significant contributions under the USAID democracy and governance program, their overall strategic impact appears to be relatively modest thus far. The challenges facing those governing Iraq are not simply structural: much of the population mistrusts

the political institutions after “a generation of divide-and-conquer politics.”¹⁷⁷

Security

The security situation in Iraq has hampered progress on democracy efforts funded by the IRRF. Security for PRTs remains a constraint to effective democracy-building activities throughout Iraq, and DoD has reported that “[t]he security situation in some provinces hampers interaction between team and provincial leaders.”¹⁷⁸ Additionally, the UN recently reported that women are increasingly limited in their ability to move freely outside their homes, access health and educational services, and participate in public life. Reports of “honor killings” are on the rise, and lawyers are reportedly unwilling to work on such cases, for fear of being targeted by extremists.¹⁷⁹

In August 2006, the U.S. Ambassador to Iraq noted that “the next three to four months are critical for this government to reverse the sectarian violence, particularly in Baghdad.” Further, he stated that the militias must be brought under control for Iraq to progress as a successful state.¹⁸⁰ Using the Iraqi Security Forces to mitigate violence throughout the country is necessary, but the UN has made clear that “there can ultimately be no military solution to the many challenges facing Iraq.”¹⁸¹ This places a significant premium on the successful development and sustainment of a functional democratic structure.



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Education

Funding in the education subsector was fully expended by the end of this quarter although some residual expenditures remain, involving additional school equipment.¹⁸² The FY 2006 supplemental funding does not provide additional funding directly to the subsector, but funding for capacity development will affect training in the subsector. Unless there is further development, this is the last quarter that SIGIR will review the subsection.

The final outputs in the education subsector are reviewed in Table 2-11. A total of 5,270 school projects have been completed with funding from all sources (Development Fund for Iraq, Commander’s Emergency Response Program, etc). U.S. projects also trained more than 60,000 teachers¹⁸³ and provided hundreds of thousands of desks, chairs, and chalkboards, and more than 3 million school kits.¹⁸⁴

Refugees, Human Rights, and Governance

This quarter, the United Nations High Commissioner for Refugees (UNHCR) shifted focus from aiding returning Iraqis to pro-

viding help for displaced citizens who continue to flee because of increased sectarian violence. Since last quarter, when SIGIR reported one million internally displaced Iraqis, UNHCR has increased that estimate to over 1.5 million displaced persons living within Iraq itself. After the war, more than 500,000 Iraqis were estimated to reside in neighboring countries. That number is now estimated at 1.6 million living outside their country, most of them in Jordan and Syria.¹⁸⁵ The United States has allocated \$186 million to migration and refugee assistance.¹⁸⁶

UNHCR operates in Iraq on an FY 2006 budget of \$29 million, relying significantly on donor governments. At the end of this quarter, UNHCR was running a \$9 million deficit in funds.¹⁸⁷ Last quarter, \$15 million in IRRF funding was approved for UNHCR and International Committee of the Red Cross projects.¹⁸⁸

Despite Iraqi government efforts to establish standards for human rights and the rule of law, the UN Assistance Mission for Iraq reports human rights violations occurring at increasing rates.¹⁸⁹ Security has been a sig-

SCHOOLS REPAIRED BY U.S. RECONSTRUCTION PROJECTS

TOTAL SCHOOLS (2003)	SCHOOLS NEEDING REPAIR (2003)	PROJECTS COMPLETED	PROJECTS IN PROGRESS	PROJECTS NOT YET STARTED
14,121	11,000	2,358 – USAID IRRF 1	N/A – USAID IRRF 1	N/A – USAID IRRF 1
		741 – USAID IRRF 2	77 USAID IRRF 2	N/A USAID IRRF 2
		806 – PCO IRRF 2	1 (PCO)	3 – PCO IRRF 2
		1,365 – MNF-I	N/A – MNF-I	N/A – MNF-I

Sources: DoS, *Section 2207 Report*, Executive Summary, July 2006, p. 17 (Total Schools and Schools Needing Repair, MNF-I data); GRD-PCO vetting comments, October 17, 2006 (PCO projects); all other metrics unchanged since last quarter.

TABLE 2-11



nificant challenge in addressing these rising humanitarian issues. According to the UN, local aid groups have been receiving threats for helping displaced families of different religious affiliations.¹⁹⁰ As a result, many volunteers are leaving their agencies, reducing the capacity of these organizations to respond.¹⁹¹ The United States allocated \$15 million to promote human rights in Iraq; current funding status is unavailable.¹⁹²

Financial Management and Economic Development

This section presents the key U.S. financial management and economic development projects, as well as a general overview of the outputs of these projects.

PROJECTS COMPLETED AND UNDERWAY

Financial management and economic development programs have been allocated \$805 million of the IRRF; \$360 million was required to offset Iraqi debt forgiven by the United States.¹⁹³ Of the remaining \$445 million, more than \$100 million was allocated to the agriculture subsector; the remainder went to programs in economic governance and private sector development. All funding in the sector has been obligated.¹⁹⁴

USAID manages the vast majority of the funds in all three of these subsectors. USAID's private sector development funds (other than agriculture) are concentrated in two major contracts: one for economic governance and

one for private sector development. USAID also manages the microfinance program, under Izdihar, that was started by the CPA.¹⁹⁵

The IRMO Office of Private Sector Development (OPSD), established under the Coalition Provisional Authority (CPA), was allocated \$64 million from the IRRF.¹⁹⁶ OPSD manages contracts for several important components of the private sector, including automation of the Iraq Stock Exchange (ISX), support for a sustainable Business Center model, analysis and recommendations for establishment of Economic Zones, and the drafting of the permanent Securities Law. Additional funds—\$25.9 million—were provided to the Overseas Private Investment Corporation (OPIC) for expanding the Iraq Middle Market Development Fund (IMMDF), a loan program that provides Iraqi companies with credit facilities of \$35,000 to \$5 million.¹⁹⁷

OPIC has provided \$100 million of its own (non-IRRF) funds to the IMMDF program managed by an international non-governmental organization (NGO). To date, OPIC has expended more than \$28 million and approved another \$8 million.¹⁹⁸

Additionally, USAID has used most of the funding in the subsector—\$95 million in initial funds and \$29.6 million in emergency funds—for a number of programs to create an enabling environment for the private sector to grow and generate employment. USAID has focused on trade policy and World Trade Organization (WTO) accession, capacity building within business associations and the banking sector,



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investment promotion, privatization efforts, strengthening accounting and auditing functions, and microfinance activities.¹⁹⁹

Economic Governance

The USAID Economic Governance (EG) program is designed to help “create an enabling environment for private sector development.”²⁰⁰ This is particularly important for the Iraqi economy, which has been constrained by government subsidies and state-owned enterprises for decades. The \$146 million contract has a base period completion date of September 2007 and two one-year options, which USAID can exercise in response to continuing need, performance, and the availability of funding. Current funding will take the activity through early spring 2007.²⁰¹

The EG program involves working with Iraqi ministries to help them reform outdated macroeconomic policies—fiscal, tax, customs, budget, insurance, pensions, and others. The program also includes capacity development for Iraqi officials. These efforts feed into the overall goal of helping Iraq comply with the Stand-By Arrangement (SBA) with the IMF. The EG program involves 35 international advisors and more than 100 Iraqi advisors who work directly with ministry officials.²⁰² The project works to support the Iraqi government reforms required to meet 28 of the 58 IMF targets. USAID collaborates closely with Treasury on this program.²⁰³

PRIVATE SECTOR DEVELOPMENT PROGRAM (IZDIHAR)

The EG program has focused on helping reform an antiquated banking system; the private sector development program (Izdihar)²⁰⁴ has implemented programs to increase lending opportunities for Iraqis. Izdihar helped create the Iraq Company for Bank Guarantees (ICBG), which will offer loan guarantees to private banks. The ICBG will allow Iraq’s microfinance industry to receive loans from private banks rather than just international donors.²⁰⁵ Eleven private Iraqi banks have contributed \$3.7 million of their own funds to provide the ICBG initial capital. Also, USAID is awarding a \$5 million grant to capitalize the ICBG.²⁰⁶

Izdihar has awarded nearly \$10.5 million of \$20 million in grants to microfinance institutions.²⁰⁷ USAID’s overall support to the microfinance and private banking industry is more than \$35 million, which reflects a combination of grants for loan capital, operational and infrastructural support, and technical assistance.²⁰⁸

At the end of last quarter, the program also developed a competitiveness study on the Iraqi economy. The study identified “industries which possess intrinsic advantages (or relatively fewer disadvantages), and therefore should be able to compete in an open market with as little assistance from the public sector as possible.”²⁰⁹ The study identified 30 high-potential industries in Iraq, describing in detail the competitive characteristics of 10 of these



industries, including cement, tourism, and plastics.²¹⁰

WTO accession is being supported by a program designed to draft accession documentation, respond to questions posed by WTO member countries, conduct conformity assessments, and ultimately train Iraqi government officials to assess, respond, draft documentation, and move forward independent of external assistance as much as possible.²¹¹

OUTPUTS OF U.S. PROJECTS IN FINANCIAL MANAGEMENT AND ECONOMIC DEVELOPMENT

U.S. projects have helped generate some clear outputs in this subsector. The 2003 currency exchange in Iraq under CPA—a combined effort of Iraq, the IRRF 1 Economic Governance contract, and the United Kingdom—was universally heralded as a success.²¹² For the

Iraqi dinar’s exchange rate during the past few years, see Figure 2-21.

Also, Iraq continues to comply with the December 2005 SBA with the IMF, which calls for a series of economic reforms, including the gradual removal of subsidies on oil, electricity, and food. EG and Izdihar experts have helped the Iraqi government develop strategies to meet the SBA requirements.²¹³

This quarter, the Iraqi government affirmed its commitment to the SBA, and IMF released the first and second reviews under the SBA.²¹⁴ The reviews show that inflation remains a serious concern as the ongoing insurgency, shortage of goods, and supply disruptions in the non-oil economy push prices upward.²¹⁵

- Consumer price inflation in 2004 was 31.7% and is estimated at 31.5% for 2005—below the SBA goal of 20%.²¹⁶

Figure 2-20
CURRENCY EXCHANGE RATE
 Dinars against the U.S. Dollar, index (June 2004 = 100)
 Source: IRMO *Weekly Status Report* and Central Bank of Iraq (10/6/2006)





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- The 2006 goal of 15% is also in jeopardy: Iraq's Central Office for Statistics reported an 8.3% surge in July to bring the year-to-date total to 32%. From July 2005 to July 2006, inflation in Iraq was nearly 70%.²¹⁷

For further information on inflation in Iraq, see the insert to this Report. Other economic indicators in Iraq include:

- Per capita GDP is rising in Iraq, from \$949 per person in 2004 to an estimated \$1,189 in 2005 and \$1,635 in 2006. These increases are above the pace set by the SBA.²¹⁸
- External debt remains large in Iraq. The latest estimates show that debt was \$63 billion (183% of GDP) at the end of 2005. Iraqi external debt is expected to decline to about \$48 billion (102% of GDP) by the end of 2006.²¹⁹

Media

This section presents the key projects in media development and reports on outputs. According to USAID, the two primary aims of media development projects in Iraq are strengthening Iraq's commercial media sector and increasing capacity within the independent news and public affairs sector.²²⁰

PROJECTS COMPLETED AND UNDERWAY

The Development Fund for Iraq (DFI) financed the creation of the Iraq Media Network (IMN) through a \$95 million contract awarded in 2004. From the existing organization of integrated media networks, IMN established

the Republic of Iraq Radio (RIR) network; al-Iraqiya satellite television channel; and Iraq's largest newspaper, *Al Sabah*.²²¹

The second major media development project is a \$3 million USAID contract funded by the IRRF that supports training and technical assistance for media outlets. These programs focus on training journalists in professional writing and business techniques, sustaining the National Iraqi News Agency (NINA), and providing grants to media outlets for equipment upgrades.²²²

Outputs of U.S. Media Projects

The Iraq Media Network (IMN) serves as the public service broadcaster in Iraq, operating from newspapers, television, and radio. IMN is operated and maintained by Iraqis to provide quality, independent coverage of international and local news. Iraq boasts 218 media outlets nationwide, with Erbil, Baghdad, and Basrah showing the highest concentrations of media. Iraq's media outlets are shown in Figure 2-22.

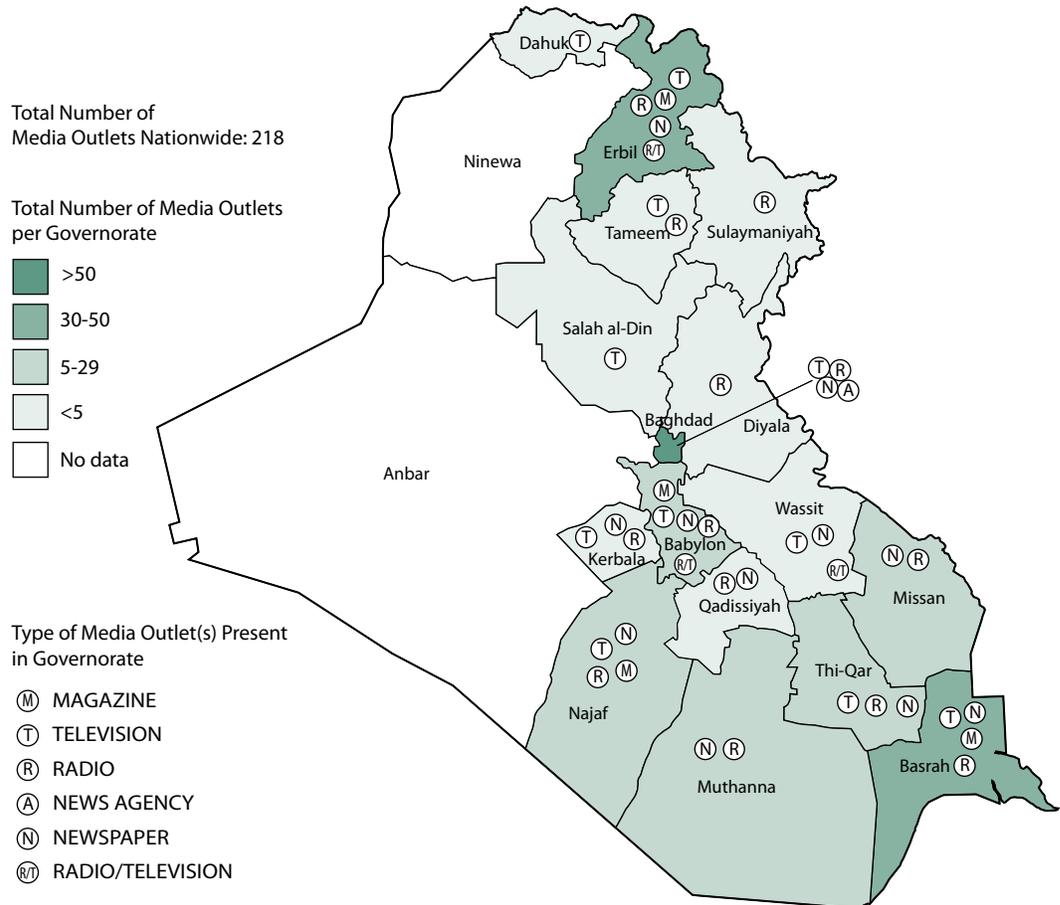
CHALLENGES

Media development in Iraq faces many challenges. Journalists and news publications in Iraq continue to be the target of threats and attacks. According to the Committee to Protect Journalists, 85 journalists and 35 media support workers have been killed since March 2003.²²³ In August of this quarter, a suicide bomber attacked *Al Sabah*, killing two people and wounding 20.²²⁴



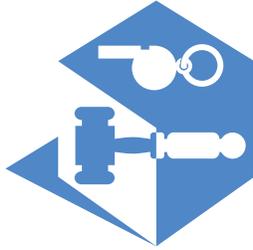
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Figure 2-22
MEDIA OUTLETS IN IRAQ BY GOVERNORATE
 Source: IREX - ICSP Media Team, 10/1/06



Violence affects more than just the safety of journalists: broadcasts of violence are believed to inflame sectarian tensions in the country. In late August, the Iraqi government banned the airing of violent images.²²⁵ In September, the Iraqi government ordered the Arabic satellite network, Al-Arabiyyz, to shut down its Baghdad operations for one month. The United States responded by urging Iraq's government to respect press freedoms.²²⁶





Amzick Border Fort

STATUS OF THE SECURITY AND JUSTICE SECTOR

This section covers IRRF funding for the security and justice sector. It does not include security-related funding obligated for projects in other sectors.

DoD has reported that the levels and nature of the violence continue to pose a serious challenge to the reconstruction effort. Further, DoD sees conditions in Iraq that could potentially lead to civil war.²²⁷

GAO cited a DoS assessment that “a baseline of security was a prerequisite for moving forward on the political and economic tasks.” GAO also reported that the lack of adequate security has diverted considerable resources from the reconstruction effort that have precipitated project cancellations or scope reductions.²²⁸

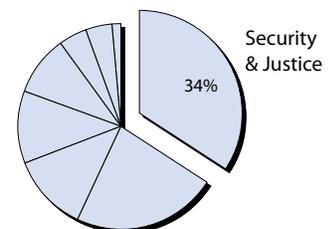
IRRF funding intended to support the progress of security and justice resources in Iraq has been almost fully obligated and expended, but more funding has been added through the Iraq Security Forces Fund (ISFF) from the FY 2007 DoD budget. Figure 2-23 shows the sector funding as a portion of the IRRF.

SIGIR makes the following observations about IRRF- and ISFF-funded activities in this sector:

- More U.S. funds have been committed to security and justice than any other reconstruction sector; almost \$15 billion of the IRRF and ISFF has been allocated.

- As of September 27, 2006, more than 88% of the \$6.31 billion IRRF allocation in this sector had been expended.
- As of October 18, 2006, 43% of the cumulative \$8.4 billion ISFF allocation had been expended.
- An additional \$1.7 billion was approved for ISFF in the FY 2007 Defense Appropriations Bill. These funds will remain available until September 30, 2008.
- As of October 18, 2006, 312,400 members of the Iraqi Security Forces, which include both military and police personnel, have reportedly been trained, equipped, and fielded, according to DoS. Some questions persist about whether all the trained police are actually operational.
- As of October 6, 2006, 88% of IRRF-funded projects had been completed in the security and justice sector.²²⁹

Figure 2-23
SECURITY AND JUSTICE SECTOR AS A SHARE OF IRRF FUNDS
 Percent of \$18.44 Billion
 Source: DoS *Iraq Weekly Status Report* (9/27/2006)





SECURITY AND JUSTICE

Activities in the Security and Justice Sector

As the number of trained and equipped members of the Iraqi Security Forces approaches the targets set by coalition and Iraqi officials, activities in the sector have shifted to improving logistical, command and control, and leadership capabilities—particularly within the Ministry of Defense and the Ministry of Interior.

For executive summaries of two SIGIR audits this quarter of non-construction activities in the security and justice sector, see Section 3 of this Report. For summaries of inspections of the Ninewa Provincial Police Headquarters and Baghdad Police College, see Section 3.

The Inspector General visited the Baghdad Police College during his visit to Iraq this quarter. This project stands out as one of the most problematic major IRRF construction projects that SIGIR has inspected in Iraq.

Programs and Activities Completed and Underway

IRRF projects focus on facilities construction and refurbishment. For a detailed list of projects funded by the IRRF, see Figure 2-24.

Approximately 88% of IRRF funds for military and police forces have been expended.²³⁰ As of October 18, 2006, 43% of ISFF-funding had been expended.²³¹

MILITARY/POLICE FORCE DEVELOPMENT AND SUPPORT

Work in this sector has focused on building military and police forces, mostly with ISFF-funding; the effort has resulted in 312,900 trained and equipped military and police personnel, as of October 18, 2006.²³² The initial force generation plans for the Ministry of Interior and the Ministry of Defense are expected to be completed by the end of 2006, when the effort will shift to replacing force losses.²³³

CONSTRUCTION

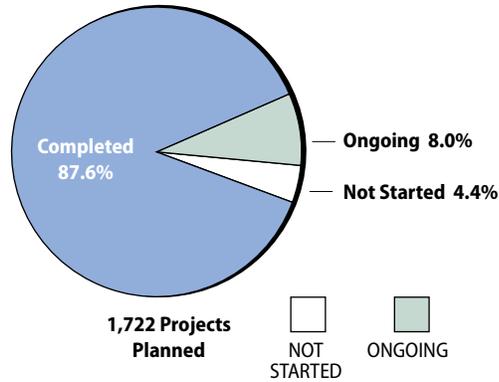
In this sector, IRRF has funded the construction and rehabilitation of border forts, fire stations, police stations, public safety training academies, prisons and corrections facilities, courthouses, and witness-protection facilities.²³⁴ These projects have been implemented steadily, and the last IRRF-funded construction project in the sector is scheduled to be completed by December 2007.²³⁵

Last quarter, SIGIR reported that work on the **Baghdad Police College** was scheduled to be completed in summer 2006. This quarter, however, SIGIR Inspections identified a variety of construction deficiencies associated with this facility and health concerns that require prompt attention. SIGIR Inspections also completed an assessment on the construction performed at the **Ninewa Provincial Police Headquarters** in Mosul, which has suffered major schedule delays because of the contractor's inability to correct deficiencies and complete tasks outlined by the contract. GRD-PCO



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Figure 2-24
STATUS OF SECURITY AND JUSTICE PROJECTS
 Source: IRMS and USAID Activities Report
 (10/6/2006)



Subsector	Not Started	Ongoing	Total
Facilities Repair	7	38	45
Iraqi Civil Defense Corps	18	26	44
Establish New Iraqi Army	10	29	39
Police Training & Assistance	19	12	31
Miscellaneous	8	6	14
Border Enforcement	2	10	12
Judicial Security & Facilities	2	7	9
Reconstruction of Detention Facilities	2	2	4
Security & Law Enforcement	2	2	4
Witness Protection Program	2	2	4
Penal Facilities	2	1	3
Public Safety Training & Facilities	2	0	2
Commanders Humanitarian Relief & Reconstruction Program	0	1	1
Investigations of Crimes Against Humanity	0	1	1
Facilities Protection Services*	0	0	0
National Security Communications Network*	0	0	0
Total	76	137	213

*Completed



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terminated the contract and turned it over to MNSTC-I to be re-awarded. As of September 22, 2006, the construction of this project was 50% complete.²³⁶ Finally, SIGIR Inspections assessed the quality of work performed at the now-operational **Al Kut Training Academy**. For the executive summaries of these three inspections, see Section 3 of this Report.

As SIGIR reported last quarter, two correctional facility design-build contracts were cancelled. They have since been re-awarded to local Iraqi firms as fixed-price contracts. The design-build contract for the **Khan Bani Saad Correctional Facility** in central Iraq was re-awarded on September 15, 2006, and is estimated to be completed by June 2007. The **Nassriya Correctional Facility** was re-awarded on September 25, 2006, and is estimated to be completed by May 2007. Both facilities are 65% complete.²³⁷

Renovations on the **Al-Zab Courthouse** in Kirkuk began in October 2005 and were reported as being complete as of September 28, 2006.²³⁸ Finally, 265 border forts have been constructed to date, 10 are ongoing, and 2 have not yet begun.²³⁹

NON-CONSTRUCTION INITIATIVES

In addition to training and fielding the Iraqi Security Forces, several initiatives are in progress to promote oversight and transparency in the security and justice sector. The Department of Justice (DoJ) has been working with DoS to support the expansion and functioning of the Central Criminal Court of Iraq (CCCI), in addition to advising and training Iraqi judges.

The CCCI has 12 panels operating throughout Iraq but focuses most of its work in Baghdad, processing an average of 118 insurgency-related cases per month. As of August 2006, the CCCI had 826 criminal cases pending or under active prosecution.²⁴⁰

The Ministry of Defense reported to SIGIR that corruption in its ranks seems to be under control and that Iraqi inspectors general recorded 69 complaints for 2006, resulting in 51 investigations. The Ministry of Interior, however, reported corruption in its contracting process, including bribery. The Ministry's inspectors general received 573 complaints in 2006, resulting in 350 investigations. Several U.S. government agencies—including GAO, INL, and USAID—have programs to help the Iraqi government mitigate corruption. For a more detailed assessment of current U.S.-funded anticorruption activities in the security and justice sector, see “Anticorruption Activities,” later in this section.

Outputs of Programs Funded by IRRF 2 and ISFF

Outputs of U.S. projects in this sector include prison construction, as well as several non-construction outputs, including the fielding, training, and equipping of Iraqi military and police forces.

FIELDING AND EQUIPPING TRAINED TROOPS AND POLICE

As of October 18, 2006, the breakdown of the 312,400 Iraqi military and police forces that



have been trained and equipped for security operations:

- 131,600 Iraqi Army, Navy, and Air Force personnel²⁴¹
- 180,800 police, highway patrol, and other Ministry of Interior officers²⁴²

The coalition and the Iraqi Ministry of Interior intend to field 188,200 trained and equipped personnel, and the force-generation plan for Iraqi Army Forces under the Ministry of Defense proposes an end-strength of approximately 137,500 soldiers.²⁴³

SIGIR Audit 06-033 reports that 277,600 weapons had been issued as of August 2006, with plans to equip the entire Iraqi Security Force. For an executive summary of the SIGIR audit of weapons provided by DoD and funded by the IRRF, see Section 3 of this Report.

The coalition is also focusing its efforts on building combat service support forces to provide key enablers to Iraqi combat forces, such as logistics and transportation support, intelligence, surveillance, and reconnaissance.²⁴⁴ For an executive summary of the SIGIR audit of U.S. efforts to develop logistics capabilities within the Iraqi Security Forces, see Section 3 of this Report.

The United States has invested more than \$320 million to improve Iraq's capability to protect its oil and electric infrastructure, a responsibility that is shared by the Ministries of Defense, Oil, and Electricity. Such U.S.-funded initiatives include training and equipping the Strategic Infrastructure Battalions (SIBs) and partnering coalition forces with Iraq's various energy infrastructure protection

forces.²⁴⁵ For the executive summary of the SIGIR audit of energy infrastructure protection, see Section 3 of this Report.

To determine the readiness of Iraqi security and police forces, the coalition uses the Transition Readiness Assessment (TRA) process.²⁴⁶ These metrics have changed over time as key personnel rotate, equipment is added or replaced, and the tempo of unit operations changes. Because the unit-level TRA assessments are classified,²⁴⁷ however, this Quarterly Report will not assess the unit-level readiness of the Iraqi Security Forces in terms of personnel, command and control, equipment, and leadership shortfalls.

Since September 18, 2006, 114 Iraqi Army, Special Operations, and SIBs were at various levels of assessed capability and regularly conducting counter-insurgency operations. Of these, 92 battalions are assessed as capable of operating "in the lead" or independently, and 88 Iraqi Army battalions control their respective areas of responsibility. All 27 of the National Police battalions conduct counter-insurgency operations, and two of these currently have the lead in their respective areas of responsibility. Finally, one-third of the company-sized operations in Iraq were reportedly being conducted independently by Iraqi forces.²⁴⁸

CONSTRUCTION

When all of the prison facilities currently underway are completed, which is tentatively scheduled for April 2007, Iraq's prison capacity is expected to increase by 4,800 beds. Despite



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this increased capacity; however, it is estimated that an additional 20,000 beds will still be needed to meet Iraq's correctional facility needs. DoD reported that the "Iraqi Corrections System has not demonstrated the capability to effectively resource and run a major facility."²⁴⁹

This lack of prison capacity contributes to an environment that allows abuses in Iraqi detention facilities and forces detainees to wait for long periods of time before charges against them are resolved. The inability of the judicial infrastructure to process cases quickly, train an adequate number of judges, and shield officers of the court from coercion enhances this problem. To mitigate the challenge of threats to judges, U.S. marshals have assisted in providing security for judges and judicial facilities and have worked with the MNF-I to begin training an Iraqi Marshals Service.²⁵⁰

TRAINING INITIATIVES

The 2006 Training Plan for the Ministry of Interior establishes common training standards and emphasizes human rights, ethics, and the rule of law. However, these programs do not appear to have yet succeeded in changing the culture of the police, who have traditionally relied on coercive measures to obtain confessions.²⁵¹

Training academies are expected to be turned over to Iraqi control by the end of 2006.²⁵² But the largest training facility, the **Baghdad Police Academy**, has a number of significant infrastructure problems and may not be ready to transfer on schedule. In

August, the Iraqi Police Service graduated 1,100 officers from its advanced specialty courses in Baghdad and Erbil, as well as 5,326 police recruits from various 10-week basic training courses throughout the country. Overall, more than 84,000 Iraqi Police have completed basic training courses, and an additional 43,000 have completed the Transitional Integration Program.²⁵³ There is no accurate data to account for how many of these trainees are operational.

Aside from in-class training, the coalition has fielded more than 160 Police Transition Teams (PTTs), as of August 2006. These teams include International Police Liaison Officers who go out to police stations throughout Iraq to assist with in-station training and development. In addition to the PTTs, there are 27 Border Transition Teams (BTTs) and 38 National Police Transition Teams.²⁵⁴

There has been a particular focus this quarter on further developing the National Police, a paramilitary force that can bridge the gap between the police and the military. In early August 2006, a three-step phased training process was initiated for the National Police:²⁵⁵

Phase 1: Assessment teams of coalition and Ministry of Interior forces conduct leadership assessments and unit inspections.

Phase 2: An entire brigade travels to a training area for three weeks to focus on civil policing skills at both the individual and unit levels. This phase was slated to begin in October 2006.

Phase 3: A National Police Training Center of Excellence is established to evaluate police officers and battalions on their



combat and policing skills. This is slated to begin in 2007.

Outcomes of Programs Funded by IRRF and ISFF

To better assess the outcomes of IRRF and ISFF projects in the security and justice sector, this section reviews the current transition of security responsibilities to Iraqi control and the status of capacity development at both the Ministries of Interior and Defense.

TRANSITION TO IRAQI CONTROL

These transition milestones were reached during this reporting period:

- On July 13, 2006, security responsibilities for the southern governorate of Muthanna were transferred to the Iraqi Police Service, leaving security for that area in the hands of the provincial governor and police force.²⁵⁶
- On September 21, 2006, the governor of the Thi-Qar governorate in southern Iraq took over governmental and security responsibilities from coalition forces. This event is particularly significant because Thi-Qar is three times the size of Muthanna, contains critical oil and transportation infrastructure, and includes the city of Nassriya.²⁵⁷
- 51 Forward Operating Bases have been turned over to Iraqi control, out of a total of 110.²⁵⁸
- The Iraqi Ground Forces Command (IGFC) assumed command and control responsibilities for the 8th Iraqi Army Division in early September and for the 4th Iraqi Army Division in mid-September. During the

next few months, the IGFC is expected to assume control of the remaining ten Iraqi Army divisions.²⁵⁹

There are significant concerns, however, that sectarian divisions permeate the leadership ranks of the Iraqi Security Forces, with Sunni, Shia, and Kurdish soldiers serving mostly in their respective geographic areas and under commanders from their own sectarian or regional backgrounds.²⁶⁰

CAPACITY DEVELOPMENT

As the initial force generation plans for the Ministries of Defense and Interior approach completion, there is increased emphasis on developing Iraq's institutional capacity to direct, support, and sustain security forces. DoD reports that the overall TRA for the Ministry of Interior is "partly effective." DoD stresses that the Ministry's Transition Team is working to improve this assessment and that DoD has requested \$151 million for Ministry of Interior sustainment in the FY 2007 Budget Amendment request. Throughout the next quarter, this team will focus on improving the logistics system for the Ministry of Interior.²⁶¹

This quarter, a SIGIR audit (06-032) found that some progress has been made in building logistics capabilities within the Iraqi Army and in transitioning these capabilities to the Ministry of Defense. The audit notes, however, that successfully transitioning the logistics operation to the Ministry of Defense by January 1, 2008, will face significant challenges. The audit further notes that the planning for logistics



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capabilities for the Ministry of Interior is incomplete and that there will be serious challenges in successfully implementing and transitioning logistics capabilities to support the Iraqi police force in the near term.

Challenges

Violence in Iraq continues to pose a significant challenge to progress in this sector.

MITIGATING THE VIOLENCE

On September 14, 2006, the UN Secretary General's Special Representative told the Security Council that Iraq has become one of the most violent conflict areas in the world and that the challenges facing Iraqis have never been more daunting.²⁶² In late August, DoD reported that the average number of weekly attacks increased by 15% since May 2006, and Iraqi casualties increased by 51% over that same timeframe, with much of the violence occurring in Baghdad. Violence has also been on the rise throughout southern Iraq, particularly in Basrah.²⁶³ And at publication time, October 2006 was the most lethal month for U.S. forces since January 2005.

The Inspector General of the Ministry of Human Rights told SIGIR in an interview last quarter that kidnappings, killings, corruption, and overall security are all getting worse,²⁶⁴ and the DoD has reported that conventional criminal elements are increasingly capitalizing on instability and that their activities are becoming more difficult to distinguish from those of insurgents and terrorists.²⁶⁵

Two recent efforts to mitigate the volatile security situation were announced late last quarter:

- On June 14, Operation Together Forward was launched to increase security throughout Baghdad. The second phase of this operation was launched in early August 2006; as of early October, there were more than 60,000 coalition and Iraqi forces in Baghdad.²⁶⁶ The UN subsequently reported that the number of casualties in Baghdad dropped from July to August, though the rate began to increase again toward the end of August for both Baghdad and the other governorates.²⁶⁷ The overall effectiveness of this operation has yet to be determined, but coalition assessments reported in the media suggest that it has not achieved its objectives (see Table 2-12).
- On June 25, the Prime Minister announced the National Reconciliation Plan, and the High Committee for National Reconciliation held its first session on July 22, 2006. On August 26, 2006, a conference of tribal leaders took place in Baghdad, resulting in a condemnation of sectarian violence and endorsement of the plan.²⁶⁸

According to DoD, “[s]ectarian tensions increased over the past quarter, manifested in an increasing number of execution-style killings, kidnappings, and attacks on civilians, and increasing numbers of internally displaced persons.” Sectarian violence has also been increasing in Kirkuk and in the Diyala governorate.²⁶⁹ The UN Secretary General recently issued a report expressing concern “that militia



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OPERATION TOGETHER FORWARD ASSESSMENT

BALADIYAHS	AVERAGE ATTACKS BY BALADIYAH COMPARISON			
	3/14/2006– 6/13/2006	6/14/2006– 8/06/2006	8/7/2006– 9/23/2006	9/24/2006– 10/6/2006
Mansour	7.0	6.1	7.3	10.7
Bayaa	2.3	2.8	3.5	6.0
Kadhamiya	1.1	1.1	1.8	3.2
Thawra	0.8	0.9	0.4	0.2
New Baghdad	1.7	1.4	2.1	1.5
Karrada	1.1	1.1	0.9	1.3
Rusafa	0.9	1.3	1.3	1.9
Doura	3.8	5.6	5.6	6.5
Karkh	0.5	0.9	0.6	0.9
Adhamiya	3.1	4.1	4.7	3.9
Totals	22.3^a	25.3^b	28.2^b	36.1^c

Sources: DoS, *Iraq Weekly Status* report, October 18, 2006, p.7.

Notes: a Scales of Justice daily average

b Operation Together Forward daily average

c Operation Together Forward daily average (Ramadan)

TABLE 2-12

elements have infiltrated governmental and law enforcement institutions, thus undermining the confidence of the Iraqi people in State institutions.²⁷⁰

INFRASTRUCTURE SECURITY

Critical infrastructure remains a high-value target for insurgent attack. Although the SIBs continue to increase in size and capacity, only one has been assessed as capable of planning and executing independent operations. All of the SIBs still require logistical support from the coalition.²⁷¹

This issue was particularly evident this month in the areas around Baghdad. The capital has been virtually isolated from the national power grid by attacks targeting the electrical lines into the city. Repair of these

power lines has become nearly impossible because of death threats and sniper attacks on repair crews. As a result, the city has had to rely solely upon production from within the Baghdad Ring, where only about 800 MW of power is available—barely enough to provide a few hours of electricity to the 7 million people living in the capital. The other provinces, in contrast, have 14-22 hours of power per day.

Sabotage of this type, combined with aging and poorly maintained infrastructure, and criminal activity continues to constrain Iraq's oil and electricity production nationwide. It also affects oil exports, and the availability of refined oil products for domestic use. All of these factors have contributed to electric production and distribution that is far below the ever-increasing consumer demand.





STATUS OF THE HEALTH CARE SECTOR

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

SIGIR makes these observations about progress in the health care sector:

- More than 65% (\$530 million) of the sector's \$819 million had been expended by the end of this quarter. For sector allocations as a share of the total IRRF, see Figure 2-25.
- Approximately 36% of all projects in this sector funded by the IRRF have been completed, but progress has been impeded by security and management problems.
- GRD reported to SIGIR that management of the Primary Healthcare Center (PHC) program has improved during this quarter because GRD has taken a more direct

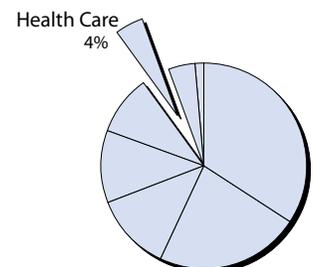
role in management oversight of the direct contracts with Iraqi companies. Construction started between August and September for the majority of these re-awarded PHC contracts;²⁷² only 7 of 142 planned Model PHCs, however, have been completed to date.

- Of the 20 hospitals undergoing rehabilitation, 12 have reportedly been completed. The original design-build contract was cancelled for eight hospitals, and the work on those hospitals was re-awarded under a series of fixed-price contracts to Iraqi firms.

IRRF-funded Activities in the Health Care Sector

As of September 27, 2006, approximately 95% of the sector's funding had been obligated, and more than 65% had been expended.²⁷³ By early October, 85 of 237 health care sector projects

Figure 2-25
HEALTH CARE SECTOR AS A SHARE OF IRRF FUNDS
 Percent of \$18.44 Billion
 Source: DoS *Iraq Weekly Status Report* (9/27/2006)





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were reportedly completed,²⁷⁴ with security delays and contractor failure significantly limiting construction initiatives to date.

Figure 2-26 shows hospital construction projects in Iraq by governorate.

Figure 2-27 shows the status of projects in the health care sector.

Key Projects Completed and Underway

MODEL PRIMARY HEALTHCARE CENTERS

SIGIR reported in a previous audit that 150 PHCs were originally planned for Iraq using IRRF 2 funding, but because of cost increases, that planned total was reduced to 142. One of those projects was funded separately through the Commander's Emergency Response Program. After the PHC design-build contract was cancelled for all but 20 of these PHCs, GRD re-awarded the remaining 121 to on-site Iraqi firms under fixed-price contracts.²⁷⁵ As of late September 2006, 37 PHCs were slated to be completed by the end of November 2006.²⁷⁶ Moreover, seven PHCs have been delivered to the Ministry of Health, with six of those currently open to serve patients and the seventh set to open by the end of October 2006.

During his visit to Iraq this quarter, the Inspector General met with the Deputy Minister of Health, who reported that the quality of construction work at one of the PHCs in Baghdad was very poor and that, although it had been "turned over," it was not being used.²⁷⁷

- Of the unfinished PHCs, 32 are 90-100% complete, and 31 are 75-90% complete.
- The remaining 72 are at various stages of completion between 10% and 75% complete, averaging a completion rate of approximately 53%.

Overall, the PHC program administered by GRD-PCO is 69% complete, and it is estimated that it will be finished by August 2007.²⁷⁸

HOSPITALS

The hospital rehabilitation program has also been delayed. The program's original goal was to renovate 17 maternity and children's hospitals, but this number was increased to 20 in December 2004.²⁷⁹ Currently, GRD-PCO oversees the refurbishment of 20 hospitals under the original design-build contract, as well as the construction of one additional hospital that was being overseen by USAID until this quarter.

- Of the 20 hospitals under the design-build contract, 12 have been completed by the contractor, and the other 8 have been re-awarded with \$17 million of the IRRF in fixed-price contracts to Iraqi contractors. One hospital—the Ramadi Women's and Children's Hospital—was completed on September 16, 2006.²⁸⁰ GRD-PCO reported that all hospital rehabilitations in its hospital program are currently 85% complete, with completion expected by February 1, 2007.²⁸¹



Figure 2-26
HOSPITALS BY GOVERNORATE
 Number of Projects
 Source: IRMS and USAID Activities Report
 (10/6/2006)

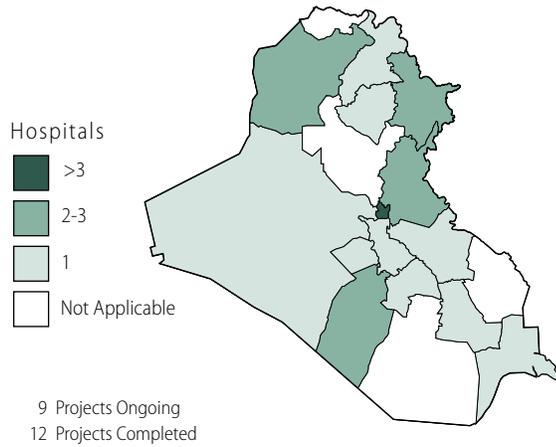
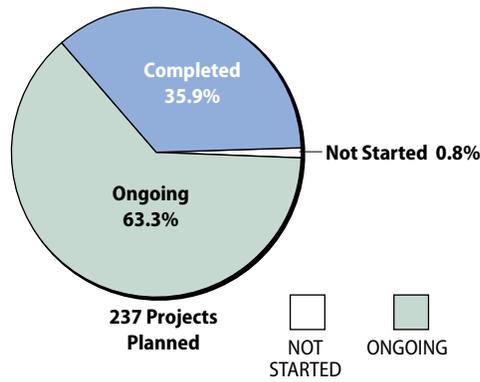


Figure 2-27
STATUS OF HEALTH CARE PROJECTS
 Source: IRMS and USAID Activities Report
 (10/6/2006)



Subsector	Not Started	Ongoing	Total
Primary Healthcare Centers	0	135	135
Hospitals	2	11	13
Equipment Procurement	0	4	4
Nationwide Hospital and Clinic Improvement*	0	0	0
Total	2	150	152

*Completed



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BASRAH CHILDREN'S HOSPITAL

*Until this quarter, USAID was managing construction of the Basrah Children's Hospital. In early June, however, USAID issued a stop-work order to the contractor, and the subcontract was terminated in early August 2006. A new fixed-price contract was awarded on September 30, 2006. Management of the contract was subsequently turned over from USAID to GRD-PCO.²⁸² GRD-PCO reported to SIGIR that **30% of the construction was completed** as of mid-October. The hospital is estimated to be finished by **July 2008**, with equipment integration and other move-in items slated to continue into **early 2009**. Once completed, the hospital will have 94 beds, two utility buildings, and a 36-bed residence building; its total cost will be funded from a number of funding streams, including IRRF 2.²⁸³*

NON-CONSTRUCTION ACTIVITIES

USAID's non-construction activities in the health care sector were expected to be closed out by August,²⁸⁴ but one of the contractors was granted a no-cost extension until the end of December. The extension will provide training for between 2,700 and 3,100 health care providers in a range of important topics, such as infection prevention, referral and follow-up, team building, problem solving, and PHC management. The contractor reports excellent cooperation and collaboration from the Ministry of Health.²⁸⁵

Outputs of IRRF-funded Health Care Projects

HEALTH CARE FACILITIES

The prime contractor for IRRF-funded health facilities was to provide and install medical and dental equipment sets for each of the 150 PHCs. Medical equipment and furniture sets have been purchased for all PHCs using \$120 million in IRRF funding.²⁸⁶ The equipment and sets that have not already been installed have been warehoused for future installation. To date, only six PHCs are serving the needs of Iraqi patients, though GRD-PCO notes that it has assumed more direct involvement in managing the re-awarded fixed price contracts in the PHC program this quarter.²⁸⁷

The PHC program was expected to provide health care services to an average of approximately 35,000 people, or 112 people per clinic daily. The strategic purpose was to provide service in remote locations at which there were few previous services available.²⁸⁸ See Table 2-13 for the status of health care facilities funded by IRRF 1 and IRRF 2.

NON-CONSTRUCTION PROJECTS

The United States has supported a broad range of non-construction activities, including the training program previously mentioned. Projects have also included vaccination campaigns for measles, mumps, rubella, and polio, as well as vaccine supplies to ensure the availability of routine immunizations. For details on these programs, see Table 2-14.



HEALTH CARE

**IRRF-FUNDED HEALTH CARE FACILITY CONSTRUCTION:
CURRENT & PLANNED**

HEALTH CARE FACILITIES	CURRENT STATE, AS OF 9/30/06	IRRF PLANNED END-STATE
Hospitals Rehabilitated ¹	12	20
Hospitals Built ¹	In progress	1
Primary Healthcare Centers Rehabilitated ²	147	147
Primary Healthcare Centers Equipped ²	600	600
Small Primary Healthcare Centers Built and Equipped ²	6	6
Model Primary Healthcare Centers Completed to Operational Stage ¹	6	142

Sources: GRD vetting response, October 17, 2006 (Hospitals and Model PHCs); DoS *Section 2207 Report*, Tab 5 (Selected Metrics), July 2006, p. 16 (all other data);
(¹ represents work overseen by GRD-PCO; ² work overseen by USAID)

TABLE 2-13

VACCINATION AND TRAINING PROGRAMS

OUTPUTS METRIC	CURRENT STATUS, AS OF 6/30/06
Vaccination Programs	3.6 million children vaccinated against MMR (98% of target population) 4.6 million children vaccinated against polio (97% of target population)
Number of Ministry of Health Professionals Trained in Maternal and Child Health Service Delivery	3,707 [3,200 from IRRF 1]
Community Leaders and Other Non- ministry Personnel Trained in Health Promotion	3,100 All IRRF 1 Funding

Sources: DoS response to SIGIR data request, July 3, 2006.

TABLE 2-14

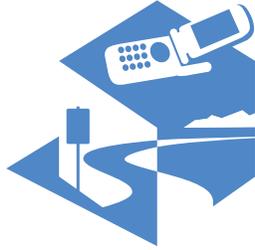
- Other non-construction projects included:
- providing vitamin A and iron folate to two million lactating mothers and young children²⁸⁹
 - training health workers at more than 2,000 community child-care units to conduct growth monitoring and manage malnutrition, including screening of more than 1.3 million children²⁹⁰

The United States has also procured and delivered approximately \$214 million in new medical equipment and supplies for Iraqi hospitals and PHCs.²⁹¹

**Outcomes of IRRF-funded
Health Care Projects**

Although the hospital rehabilitation program seems to be making slow progress following the re-awarding of fixed-price contracts to local Iraqi firms, the Model PHC Program has not yet delivered many operational facilities to Iraqi patients. Although it is too early to tell how the Model PHC Program will benefit the Iraqi people over the long term after it is fully closed out, the short-term gains to date have been largely marginal.





STATUS OF THE TRANSPORTATION AND COMMUNICATIONS SECTOR

This section examines the progress of reconstruction in the transportation and communications sector. Projects in this sector improve transportation systems in Iraq, such as ports, railways, roads, bridges, and airports. This sector also includes U.S.-funded telecommunications projects.²⁹²

SIGIR makes these observations about progress in the transportation and communications sector this quarter:

- As of September 27, 2006, 64% of the \$798 million allocated to this sector had been expended. Figure 2-28 shows sector funding as a portion of total IRRF allocations. Sector projects are 78.5% complete.
- U.S. reconstruction efforts at the Port of Umm Qasr on the Iraq-Kuwait border were 75% complete, as of the end of this quarter.
- U.S. projects have completed repairs at 86 of 98 railway stations, but the effects of these projects are not yet apparent. Although the weekly average number of train trips nearly doubled during the quarter, only a small number of trains continue to run nationwide because of security concerns.
- Iraqis continue to subscribe to landline and mobile phone services at a rapid pace. More than 7 million Iraqis now have access to mobile phone service, financed by the private sector.

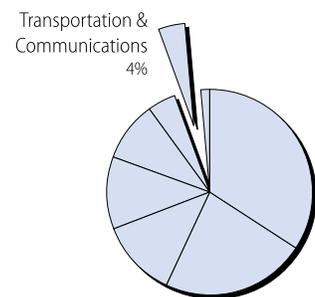
IRRF-funded Activities in the Transportation and Communications Sector

As of September 27, 2006, 95% of the sector's funding had been obligated, and \$510 million had been expended.

Projects in the transportation and communications sector focus on five major areas:

- shipping
- railways
- air transportation
- roads and bridges
- telecommunications

Figure 2-28
TRANSPORTATION AND COMMUNICATIONS AS A SHARE OF IRRF FUNDS
 % of \$18.44 Billion
 Source: DoS Iraq Weekly Status report (09/27/2006)





TRANSPORTATION AND COMMUNICATIONS

For the status of projects in this sector, see Figure 2-29. Sector construction is expected to be completed by December 2008.²⁹³

For the sector projects by location, see Figure 2-30.

SHIPPING

Shipping projects have focused on improving the **Port of Umm Qasr** with rehabilitations and equipment funded by \$45 million of the IRRF. All funds had been obligated by the end of the reporting period.²⁹⁴ GRD-PCO has completed four of seven projects, and the overall program is 75% complete.²⁹⁵ No projects were completed at the port last quarter²⁹⁶ or this quarter.²⁹⁷ The program is expected to be finished in February 2007.²⁹⁸

Outputs of IRRF-funded Shipping Projects

As a result of U.S. projects, 16 docks are now functioning.²⁹⁹ Other projects focus on increasing handling capacity, enhancing operational efficiency, and strengthening security, all of which will allow for increased movement of cargo in and out of the port.³⁰⁰

Outcomes of IRRF-funded Shipping Projects

The number of berths averaged 18 per week this quarter, the same as last quarter.³⁰¹ Umm Qasr is a busy port with long queues of ships waiting to dock. IRMO reports that more berths must be refurbished to meet the demands for docking.³⁰²

RAILWAYS

Current allocations in this subsector amount to \$198 million.³⁰³ The bulk of expenditures in this sector—\$125 million—is for non-construction material. Most of this funding has been used to purchase track maintenance machinery, spare parts, and tools and materials.³⁰⁴ Phase 1 (\$16 million) of the \$60 million project is expected to be completed in March 2007, providing communications for a train-control system. The backbone portion of the project (\$41 million) was awarded this quarter.³⁰⁵

Outputs of IRRF-funded Railway Projects

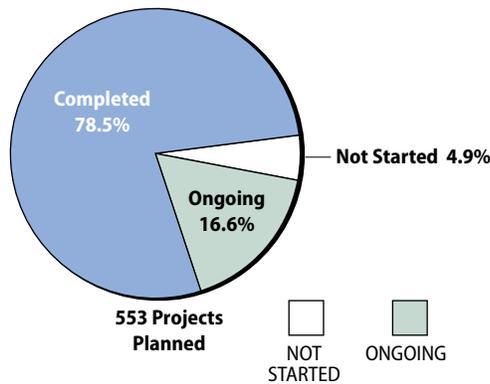
U.S. projects have helped bring the number of operational locomotives up to 125 (from 25 immediately after the war).³⁰⁶ Most railway funding has been allocated to non-construction projects, but construction projects have repaired 86 of 98 stations planned as part of the \$51 million program.³⁰⁷

Outcomes of IRRF-funded Railway Projects

This quarter, an average of 27 trains ran per week—almost double last quarter's average of 15.2 per week and the previous quarter's average of 13 per week.³⁰⁸ The increase is attributed to the start-up of new train operations in western Anbar province, and the growth is expected to continue. The Iraqi Republic Railway is currently meeting demands for materials movement—including transporting sulphur from Mosul to Al-Ka'im and potash



Figure 2-29
STATUS OF TRANSPORTATION AND COMMUNICATIONS PROJECTS
 Source: IRMS and USAID Activities Report 10/6/2006



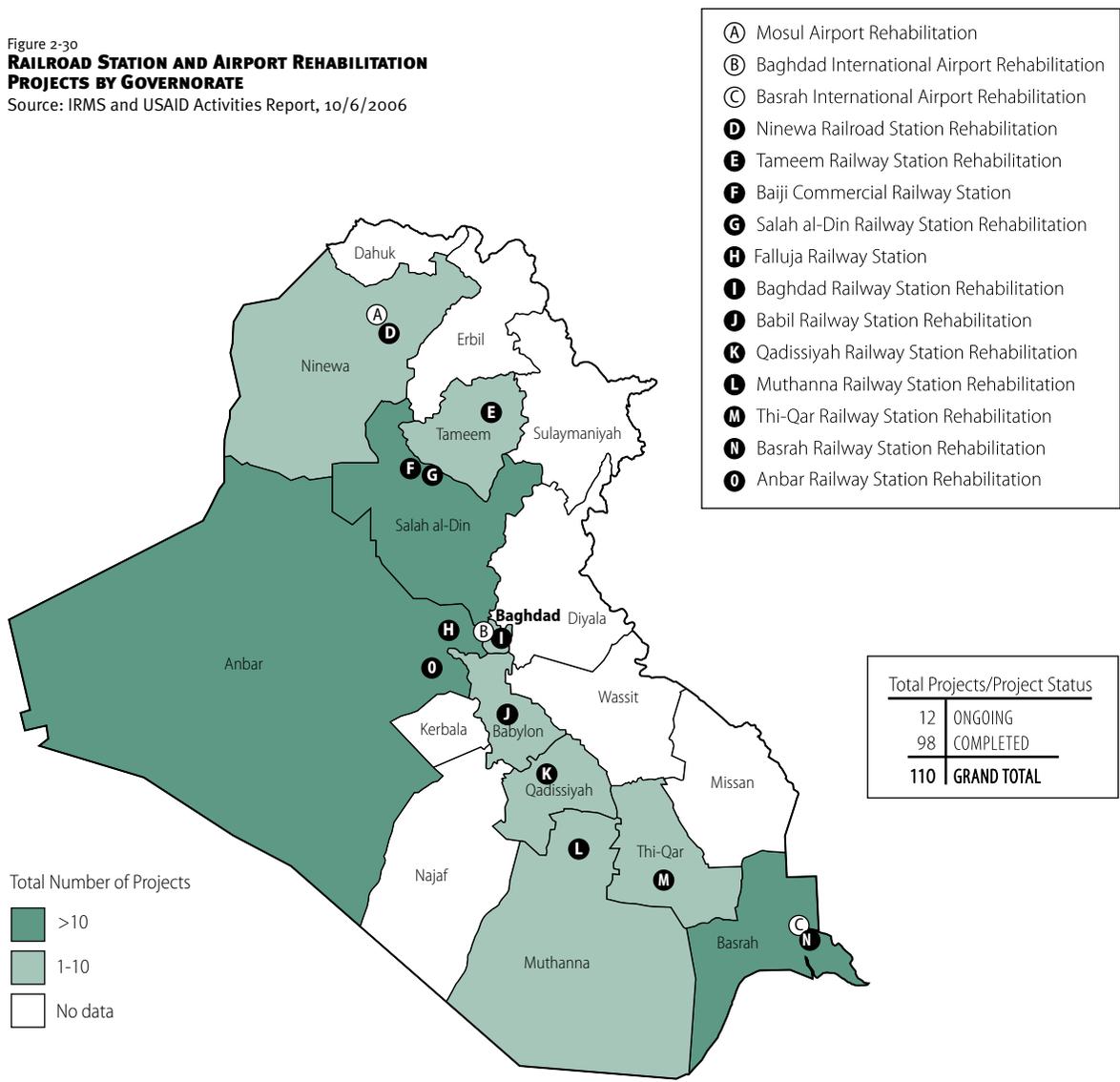
Subsector	Not Started	Ongoing	Total
Roads and Bridges	18	66	84
Railroad Rehabilitation & Restoration	3	10	13
Umm Qasr Port Rehabilitation	0	7	7
Civil Aviation	4	2	6
Expressways	1	3	4
Telecommunications Business Modernization	1	2	3
Miscellaneous	0	1	1
Telecommunications Systems	0	1	1
Consolidated Fiber Network*	0	0	0
Telecommunications Operations/Regulatory Reform*	0	0	0
Total	27	92	119

* Completed



TRANSPORTATION AND COMMUNICATIONS

Figure 2-30
RAILROAD STATION AND AIRPORT REHABILITATION PROJECTS BY GOVERNORATE
 Source: IRMS and USAID Activities Report, 10/6/2006



Total Number of Projects

- >10
- 1-10
- No data



from Akashat to Al-Ka'im. IRMO expects significant future demand for agricultural and mineral materials.³⁰⁹

Despite the increase in rail travel this quarter, the rate is still far below the planned number of trains for previous quarters. Data is not available for this reporting period, but the plans for the past two quarters totaled 266 trains per week—far more than the 27 average number of trains running this quarter.³¹⁰ This shortfall is primarily because of security, which continues to hinder the flow of rail traffic in Iraq. No trains have operated along the Baghdad-Basrah-Umm Qasr route since February 2006.³¹¹ The railway is also under insurgent threat at Baiji and Dora, which especially affects the capacity of train operations.³¹²

AIR TRANSPORTATION

Civil aviation has been allocated \$67 million of the IRRF.³¹³ This quarter, a number of repairs and renovations were completed at the **Baghdad International Airport (BIAP)**. The work, valued at \$7 million, was required to meet the International Civil Aviation Authority Cat 2 standards of safety and operational effi-

ciency.³¹⁴ An additional project was also added this quarter at BIAP, with completion expected by October 2006.³¹⁵

Three new projects were awarded at the **Basrah International Airport (BIA)** this quarter, including upgrades and repairs of navigational aids and communications, a new radar system, and renovations of the airport's water system. Completion of these projects is expected by March 2007. The other projects at BIA are nearly complete.³¹⁶

Table 2-15 summarizes the work done at BIAP, BIA, and Mosul and shows that U.S.-led reconstruction efforts in this subsector are near completion.

Outputs and Outcomes of IRRF-funded Air Transportation Projects

U.S. projects have helped rehabilitate five Iraq airports that were not functioning at the end of the war.³¹⁷ During this quarter, BIAP averaged 473 flights per week—an increase from last quarter's 414 and 371 two quarters ago.³¹⁸ This total includes both military and civil operations, and the rise is attributed to a recent increase in military operations. Currently, only charter flights are approved for entry into the

STATUS OF U.S.-LED PROJECTS AT IRAQI AIRPORTS

AIRPORT	CONTRACT SIZE	NUMBER OF PROJECTS	ESTIMATED COMPLETION DATE	STATUS AS OF 9/30/2006
Baghdad (BIAP)	\$17 million	7	October 2006	99% complete
Basrah (BIA)	\$25 million	10	March 2007	27% complete
Mosul	\$10 million	1	September 2006	100% complete

Source: GRD-PCO response to SIGIR data call, October 4, 2006.

TABLE 2-15



TRANSPORTATION AND COMMUNICATIONS

Iraqi airspace. IRMO reports an increase in civil operations at the Erbil Airport, including a number of international charter flights entering Iraq through this airport.³¹⁹

ROADS AND BRIDGES

U.S.-funded projects in this sector will not be completed until December 2008. The projects have focused on smaller village roads, several highways important for commerce and general transportation, and bridges.³²⁰

Key Road and Bridge Projects Completed and Underway

To date, no bridge or expressway projects have been completed. The highway between Baghdad and Kirkuk will be upgraded to four lanes by December 2008. Also, Diwaniya and Al-Samawa will be connected by an upgraded four-lane highway; this \$15.5 million project is scheduled to be completed in January 2008.³²¹

The **Village Roads Program**, budgeted at \$38.5 million, will improve 263 miles of roads throughout 15 governorates in Iraq.³²² Originally estimated to be finished by August 2006,³²³ the project is now estimated to be finished by March 2007.³²⁴ At the end of this quarter, 29 of 93 planned projects were complete.³²⁵ A SIGIR project assessment (PA-06-059) completed this quarter found that the **Thi-Qar Village Roads Segment 3** project was completed according to contract specifications. For a summary of this and other inspections, see Section 3 of this Report.

Projects being issued through the Provincial Reconstruction Development Committees (PRDCs) are moving forward. PRDCs prioritize the road projects in their respective provinces.³²⁶ There are 59 projects valued at \$56.5 million, and none have been completed to date. GRD-PCO reports that additional funding may be provided for PRDC projects from the FY 2006 Emergency Supplemental Funds.³²⁷

Outputs of IRRF-funded Road and Bridge Projects

U.S.-led road and bridge projects will repair and pave 405 miles of road, including 263 miles of village roads, 125 miles of city carriageways, and 17 miles of major roads.³²⁸ Ten bridges will be repaired by the end of the reconstruction program—five from IRRF funding and five from DFI funding.³²⁹ The Village Roads Program (\$38.5 million) is estimated to be finished by March 2007, and 138 miles have been completed as of August 31, 2006. GRD-PCO reports that less than three miles were completed during the quarter because of the lack of bitumen, a tar-like substance used in paving roads. Security issues have also hindered progress. GRD-PCO reports that no miles of the carriageway projects have been completed, but work is in progress.³³⁰

TELECOMMUNICATIONS

Projects to modernize the **Iraq Telecommunications and Postal Commission** were funded with \$21 million from IRRF, and \$19



million had been obligated, as of July 2006.³³¹ This includes 34 projects, valued at approximately \$3 million, which focus on constructing and renovating post offices. At the end of this quarter, the projects were 65% complete, up from 60% last quarter. The last post office project, which was recently awarded, is expected to be completed in July 2007. When finished, the projects will bring mail service to one million Iraqis.³³²

The Iraqi Telecommunications System has been allocated \$48 million, and almost all had been obligated by the end of this quarter.³³³ Funding is being used to construct a primary switching facility at Al-Mamoom and a wireless broadband network (WBBN). The \$26 million Al-Mamoom switch facility is 11% complete and is estimated to be finished by July 2007. The Ministry of Communications has requested additional work at the station; a future contract modification for additional work will include a negotiated extension to the estimated completion date.³³⁴ A \$15 million project to establish a WBBN in Baghdad is providing high-capacity data and voice communications to 35 government sites in Baghdad.³³⁵ The network is currently operational, and the transition of WBBN assets to the Iraqi government was completed last quarter. A contract valued at \$2 million has been awarded for WBBN O&M.³³⁶

Outputs and Outcomes of IRRF-funded Telecommunications Projects

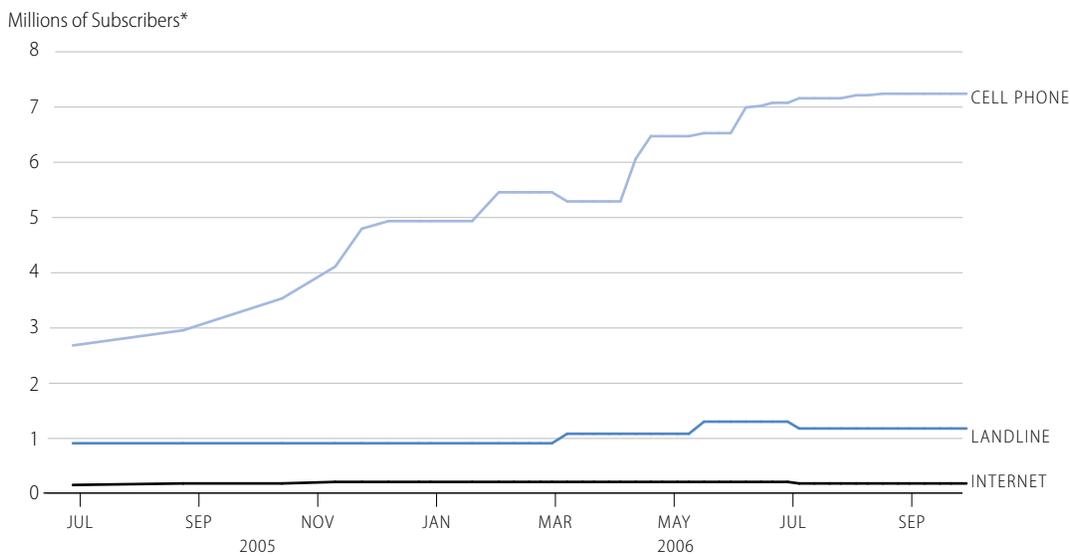
In late 2003, the Iraq Ministry of Telecommunications granted three licenses for Global System for Mobile Communications (GSM).³³⁷ The two-year license periods were re-extended to September 2006.³³⁸

Although the United States has provided funding for wireless licenses, most of the development of the mobile phone infrastructure has come from the private sector. Figure 2-31 shows the steady rise in cell phone subscribers, and Table 2-16 compares the current number of telephone subscribers with the pre-war numbers. Mobile phone subscribers continue to increase at a rapid pace, from 7 million last quarter to more than 7.2 million this quarter. Landline telephone subscribers decreased this quarter. Currently, approximately 194,420 Internet subscribers in Iraq use State Company for Internet Services (SCIS).³³⁹ Most Iraqis continue to gain access through cafes and hotels.



TRANSPORTATION AND COMMUNICATIONS

Figure 2-31
TELECOMMUNICATIONS SUBSCRIBERS
 Million of Subscribers
 Source: IRMO Weekly Status Reports



*July data is an estimate

CURRENT TELEPHONE SUBSCRIBERS VS. PRE-WAR LEVELS

Outputs Metric	Pre-war Level (2003)	Last Quarter Status, as of 6/27/2006	Current Status, as of 9/26/2006
Landline Subscribers	833,000	1,250,000	1,046,027
Mobile Phone Subscribers	80,000	7,046,526	7,214,650

Sources: Pre-war Levels: Economist Intelligence Unit, Country Profile 2005-Iraq, 2005, p. 34; International Telecommunication Union, World Telecommunication/ICT Indicators, no date, p. A-30. Available online at http://www.itu.int/ITU-D/ict/statistics/at_glance/cellular03.pdf; last quarter status: IRMO Iraq Weekly Status Report, June 27, 2006, p. 18.; current status: IRMO Iraq Weekly Status, September 26, 2006, p. 23.

TABLE 2-16

CONTRACTS

During this quarter, \$1.3 billion of the IRRF was obligated, raising cumulative IRRF 2 obligations to \$18 billion. Cumulative expenditures rose by \$1 billion, to \$13.75 billion.

To date, SIGIR has compiled more than 6,500 contracting actions in the SIGIR Iraq Reconstruction Information System (SIRIS), accounting for approximately \$14.74 billion in obligations and \$11.1 billion in expenditures. Approximately 98% of IRRF contracting activity is managed by GRD, USAID, and DoS. Of these executing agencies, SIGIR has

received contract data from GRD and USAID but not from DoS; therefore, although SIGIR can account for more than 80% of total IRRF obligations and expenditures, a complete picture of this funding is not possible. In order to fulfill its Congressional mandate and account for all IRRF-funded activities, SIGIR will continue its efforts to obtain complete data in a timely manner.

Table 2-17 provides a breakdown of obligated and expended funds identified by the agencies that reported to SIGIR this quarter,

SIRIS IRRF 2 TOTALS VS. ACTUAL IRRF 2 TOTALS (IN BILLIONS)

SOURCE	OBLIGATED	EXPENDED
IRRF 2 Financial Summary	\$18.03	\$13.75
SIRIS: GRD	\$11.80	\$8.51
SIRIS: USAID	\$2.94	\$2.59
SIRIS Total	\$14.74	\$11.10
Unaccounted for by SIRIS	\$3.29	\$2.65

TABLE 2-17

subtracted from the IRRF financial summary balance reported by DoS for the month ending September 2006.

Contractor Analysis

Table 2-18 shows the top 10 contractors, sorted by obligation amount, reported in SIRIS. During the quarter, significant obligations were made to Symbion Power, LLC contracts due to project starts in the electricity sector. The percentage of unexpended orders for Kellogg Brown & Root Services, Inc. (KBR) decreased from 42% in the previous quarter to 22% as a result of increasing expenditures in the oil sector. Also among the top 10 contractors this

quarter was Anham Joint Venture, a U.S./Jordanian group headed by an American company that provides supplies to the Iraqi Army.

Contract Activity by Sector

GRD-PCO contracting actions account for approximately 99% of the total record set in SIRIS. Table 2-19 breaks out these records by SIGIR-defined sectors and obligation range. Relative to sector totals, the oil and gas sector reports the greatest share of contracting actions valued at or greater than \$5 million. The security and justice sector shows the highest overall number of such awards with 181.

TOP 10 CONTRACTORS

CONTRACTOR	OBLIGATED	EXPENDED	UNEXPENDED	% UNEXPENDED
Bechtel	\$1,262,411,678.00	\$1,049,445,822.00	\$212,965,856.00	17
Fluor-Amec, LLC	\$982,703,857.82	\$842,585,856.76	\$140,118,001.06	14
Parsons Global Services, Inc.	\$733,006,787.13	\$610,970,685.82	\$122,036,101.31	17
Parsons Iraq Joint Venture	\$640,480,740.69	\$389,437,438.44	\$251,043,302.25	39
Kellogg Brown & Root Services, Inc.	\$558,003,285.92	\$435,732,562.13	\$122,270,723.79	22
Washington Group International	\$531,018,470.91	\$389,803,224.13	\$141,215,246.78	27
Development Alternatives, Inc.	\$440,039,843.00	\$436,383,520.00	\$3,656,323.00	1
Environmental Chemical Corporation	\$356,041,907.67	\$346,898,498.95	\$9,143,408.72	3
Anham Joint Venture	\$259,122,019.53	\$258,207,373.22	\$914,646.31	.4
Symbion Power, LLC	\$249,189,864.54	\$33,567,351.72	\$215,622,512.82	87

TABLE 2-18

As required in P.L. 108-106, Section 3001
(i)(1)(F), as amended, Appendix D lists con-

tracting actions funded by the IRRF that have
been recorded in SIRIS.

CONTRACT SUMMARY

SIGIR SECTOR	DOLLAR RANGE	QUANTITY	QUANTITY %
Economic and Societal Development	>= \$5 Million	9	4%
	>=\$1 Million and <\$5 Million	16	6%
	<\$1 Million	223	90%
Economic and Societal Development Total		248	
Electricity	>= \$5 Million	88	8%
	>=\$1 Million and <\$5 Million	183	18%
	<\$1 Million	756	74%
Electricity Total		1,027	
Health Care	>= \$5 Million	24	4%
	>=\$1 Million and <\$5 Million	69	12%
	<\$1 Million	500	84%
Health Care Total		593	
Oil and Gas	>= \$5 Million	65	15%
	>=\$1 Million and <\$5 Million	101	23%
	<\$1 Million	273	62%
Oil and Gas Total		439	
Security and Justice	>= \$5 Million	181	6%
	>=\$1 Million and <\$5 Million	388	13%
	<\$1 Million	2,494	81%
Security and Justice Total		3,063	
Transportation and Communications	>= \$5 Million	26	6%
	>=\$1 Million and <\$5 Million	78	17%
	<\$1 Million	357	77%
Transportation and Communications Total		461	
Water	>= \$5 Million	48	6%
	>=\$1 Million and <\$5 Million	87	10%
	<\$1 Million	690	84%
Water Total		825	
Grand Total		6,656	

TABLE 2-19

COST-TO-COMPLETE DATA

Cost-to-complete (CTC) data helps identify reconstruction sectors that are under-funded so appropriate action can be taken before project completion. U.S. agencies executing reconstruction projects are mandated by Section 2207 of P.L. 108-106 to provide estimates of the cost-to-complete for each IRRF-funded project.

In past Quarterly Reports, SIGIR highlighted consolidated CTC information from the Project Assessment Reports (PARs). However, this quarter DoS reported CTC data for only GRD-managed projects. No CTC data was provided for projects managed by MNSTC-I or USAID. Last quarter, SIGIR commented on the comprehensiveness of the PAR because, for the first time since September 2005, it included information on projects managed by MNSTC-I. SIGIR also reported that, because the PAR did not identify the source of funds, SIGIR could not be assured that the report represents all funding data. P.L. 108-106 only requires U.S. agencies to provide estimates of the CTC for each IRRF-funded project. Because projects are now funded by more than just IRRF appropriations, the purpose of the PAR, while important, is not relevant for management.

These are the SIGIR observations of the GRD-PCO PAR, as of September 30, 2006:

- GRD-PCO's most recent PAR includes a newly added column labeled "Extended Cost to Complete," which is the Estimate at Completion (EAC) plus the FY 2006

O&M/sustainability costs. SIGIR does not believe that sustainment costs should be included in CTC estimates because they skew the actual cost of the projects. SIGIR believes that the O&M and sustainability costs should be clearly distinguished from costs to complete project construction and listed separately because blending the two overstates the real value of a construction project and masks the actual use of the funds. SIGIR also believes that Iraqi ministries should assume all sustainment costs on U.S. projects as soon as possible and that this should be a priority issue for discussions with Iraqi ministries on improving their budget execution.

- The total estimate at completion for all GRD projects is \$6.295 billion, which exceeds authorized funds (\$6.076 billion) by \$219.0 million (3.5%). Also, projected sustainment costs are \$578.2 million, and when added to the total estimate at completion, the shortfall in authorized funds increases to \$797.2 million.
- SIGIR could not determine if projected contractor claims are included in the CTC estimates. In FY 2006, SIGIR was told that GRD had set aside funds for claims. Although these were set aside in miscellaneous obligation documents, these monies were de-obligated, and they expired on September 30, 2006.

Other SIGIR observations related to cost to complete:

- The FY 2006 Defense Supplemental Appropriation contains a de-obligation/re-obligation provision to allow existing IRRF 2 obligations made through September 30, 2006, to remain available through September 30, 2007, for re-obligation. This provision will allow reprogramming between sectors and subsectors to the extent that obligated IRRF funds become available for reapportionment. SIGIR is in the process of an audit to review unliquidated IRRF obligations (SIGIR Project No. 6026, July 21, 2006), and if unliquidated obligations are found to be invalid, the funds could be de-obligated and re-obligated to cover unfunded IRRF requirements through the reapportionment process. However, SIGIR has not seen a defined policy or process for

the de-obligation/re-obligation provision. SIGIR questions the lack of clear policy over this process. SIGIR also believes that this policy is necessary as a critical element for management control over the process.

- P.L. 108-106, Section 2207, only requires quarterly reports to Congress for IRRF 2 funds and not for the Iraq Security Forces Fund (ISSF) and the Economic Support Fund (ESF). SIGIR believes that without cost-to-complete estimates for ISSF and ESF projects, Congress will not have the transparency and accountability it intended when it established the IRRF for Iraq relief and reconstruction. To date, \$10.098 billion has been appropriated to the ISFF, and \$1.595 billion was appropriated to the ESF.

SOURCES OF FUNDING FOR IRAQ RECONSTRUCTION

SIGIR is required to report on the oversight of and accounting for funds expended in Iraq relief and reconstruction, under P.L. 108-106, Section 3001 (as amended). In addition to the IRRF, three funding sources support reconstruction and relief activities:

- other U.S. appropriated funds
- international donor funds
- Iraqi funds

As of September 30, 2006, SIGIR has identified \$38.281 billion in *U.S. appropriated funds* for Iraq as “relief and reconstruction.” This total includes \$20.914 billion in IRRF funding and \$17.367 billion in other U.S. appropriated funds. In the absence of an internationally recognized definition of “relief and reconstruction,” SIGIR includes 26 non-IRRF activities that are related to relief and reconstruction—for example, the construction of U.S. military installations that will eventually be turned over to the Iraqis.

Table 2-20 presents the best information available for U.S. appropriated funding but does not provide a complete picture of all U.S. relief and reconstruction activities. SIGIR does not have information on funding for narrowly focused programs of some agencies, or the use of agency operating funds for projects in Iraq. Finally, SIGIR made some estimates for select accounts, which are reflected in the footnotes to the table.

As of September 30, 2006, international donor funds totaled \$15.018 billion—\$13.593 billion pledged at the 2003 Madrid Donors Conference and \$1.425 billion in post-Madrid pledges. About 25% of these pledges—\$3.5 billion—has been expended.

Iraqi funds comprise vested and seized funds, the Development Fund for Iraq (DFI), and the Iraq Capital Budget. Iraqi funds were an important funding source for reconstruction efforts, particularly during CPA’s tenure. As of September 30, 2006, these funds total \$41.167 billion, including:

- vested (frozen) funds of \$1.724 billion
- seized funds, including confiscated cash and property, of \$926.8 million
- DFI funds, drawn primarily from oil proceeds and repatriated funds of \$23.754 billion
- budgeted Iraqi funding of \$14.762 billion from 2004 to 2006 (although much less has actually been expended)

Figure 2-32 provides an overview of all sources of Iraq reconstruction funding. More details are provided in Appendices E, F, and G.

U.S. Appropriated Funding

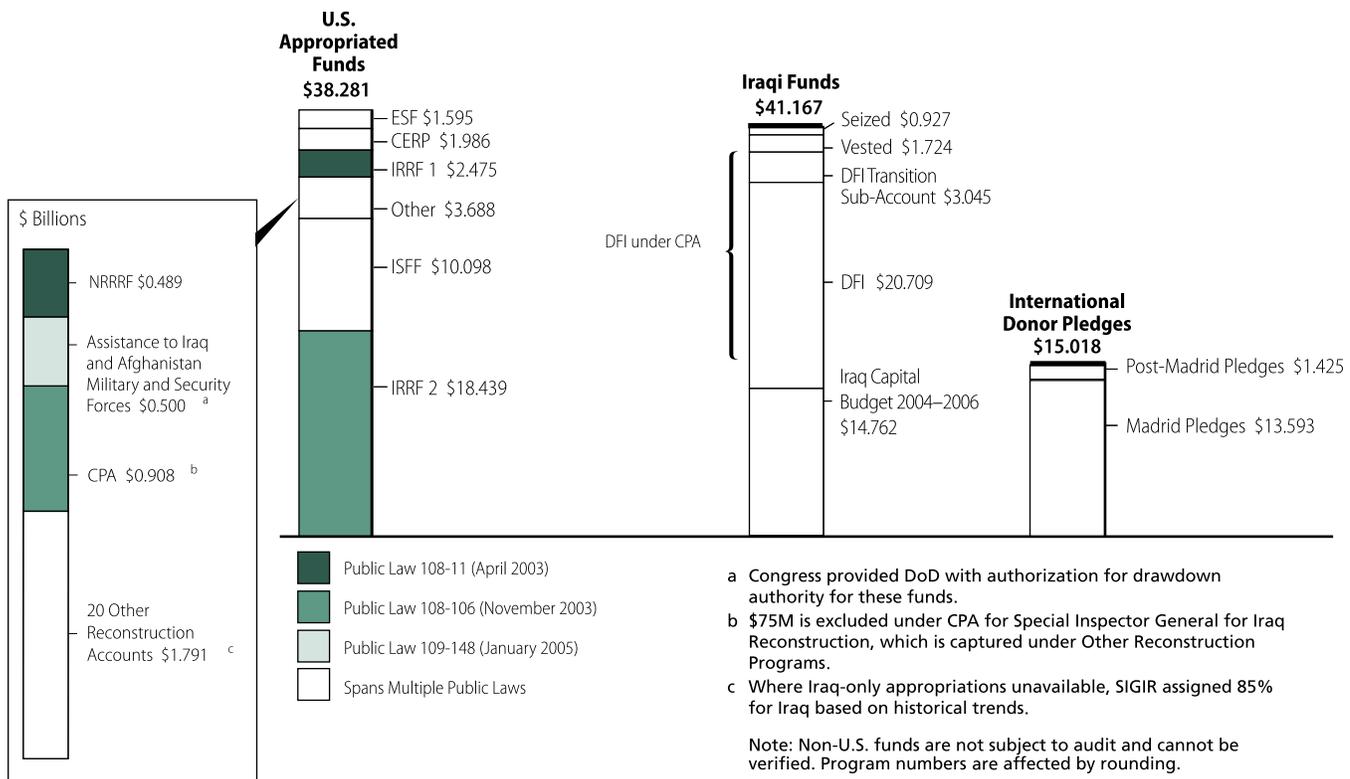
Since the 2003 conflict began, Congress has passed eight bills that provided more than \$38.3 billion in Iraq reconstruction funding. Included in this amount is \$2.08 billion, which is a component of the Department of Defense Appropriations Act for FY 2007 (P.L. 109-289) that was signed by the President on September 29, 2006.

Over the last three years, more than half of U.S. reconstruction funding has come from the

Iraq Relief and Reconstruction Fund (IRRF 1 and IRRF 2), created under P.L. 109-11 and P.L. 108-106 in 2003.

U.S. agencies involved with the administration of reconstruction funding include DoD, DoS, and USAID. Projects range from infrastructure development to refugee and migration assistance. The appropriated funds are highlighted in Table 2-20.

FIGURE 2-32
SOURCES OF IRAQ RECONSTRUCTION FUNDING—\$94.466 (BILLIONS)



SECTOR SUMMARIES

FUNDING MECHANISM	CONOLIDATED APPROPRIATIONS, 2003 RESOLUTION, 2003	EMERGENCY WARTIME SUPPLEMENTAL APPROPRIATIONS ACT, 2003	EMERGENCY APPROPRIATIONS ACT FOR THE DEFENSE AND FOR THE RECONSTRUCTION OF IRAQ AND AFGHANISTAN, 2004	DEPARTMENT OF DEFENSE APPROPRIATIONS ACT, 2005	EMERGENCY SUPPLEMENTAL APPROPRIATIONS ACT FOR THE GLOBAL DEFENSE, THE GLOBAL WAR ON TERROR, AND TSUNAMI RELIEF, 2005	APPROPRIATIONS FOR THE DEPARTMENT OF DEFENSE, FY 2006	APPROPRIATIONS FOR THE DEPARTMENT OF DEFENSE, FY 2006	EMERGENCY SUPPLEMENTAL APPROPRIATIONS FOR FY 2006	DEPARTMENT OF DEFENSE APPROPRIATIONS ACT, FY 2007	TOTAL APPROPRIATIONS
PUBLIC LAW #	P.L. 108-7	P.L. 108-11	P.L. 108-106	P.L. 108-287	P.L. 109-13	P.L. 109-102	P.L. 109-148	P.L. 109-234	P.L. 109-289	
DATE OF ENACTMENT	02/20/03	04/16/03	11/06/03	08/05/04	05/11/05	11/14/05	12/30/05	06/15/06	09/29/06	
Iraq Relief and Reconstruction Fund (IRRF 2)			\$18,439,000,000					\$3,007,000,000	\$1,700,000,000	\$18,439,000,000
Iraq Security Forces Fund (ISFF)					\$5,391,000,000					\$10,098,000,000
Iraq Relief and Reconstruction Fund (IRRF 1)		\$2,475,000,000								\$2,475,000,000
Commander's Emergency Response Program (CERP)				\$140,000,000	\$718,000,000		\$408,000,000	\$345,000,000	\$375,000,000	\$1,986,000,000
Economic Support Fund (ESF) ^a	\$40,000,000	\$10,000,000			\$60,390,000			\$1,485,000,000		\$1,595,390,000
Coalition Provisional Authority (CPA) ^b			\$908,000,000							\$908,000,000
Assistance to Iraq and Afghanistan Military and Security Forces ^c						\$500,000,000				\$500,000,000
Natural Resources Risk Remediation Fund (NRRRF)		\$489,300,000								\$489,300,000
Military Construction ^d				\$210,000,000			\$341,900,000	\$34,900,000		\$376,800,000
New Iraqi Army ^e										\$210,000,000
Project and Contracting Office (PCO/DoD) ^f								\$200,000,000		\$200,000,000
International Disaster Assistance		\$143,800,000								\$143,800,000
Combatant Commander Initiative Fund (CINC Initiative Fund) ^g		\$29,750,000	\$12,750,000	\$21,250,000	\$21,250,000	\$21,250,000	\$21,250,000	\$21,250,000		\$127,500,000
USAID Administrative Expenses		\$21,000,000			\$24,400,000			\$79,000,000		\$124,400,000
Department of State, International Narcotics Control and Law Enforcement (DoS/INL)		\$20,000,000						\$91,400,000		\$111,400,000
Diplomatic and Consular Programs ^h					\$49,659,000	\$56,908,000				\$106,567,000
Special Inspector General for Iraq Reconstruction (SIGIR) ⁱ			\$75,000,000					\$24,000,000		\$99,000,000
Child Survival and Health		\$90,000,000								\$90,000,000
P.L. 480 Title II Food Aid		\$68,000,000								\$68,000,000
Voluntary Peacekeeping Operations		\$50,000,000								\$50,000,000
Emergency Refugee and Migration Assistance		\$37,000,000								\$37,000,000
Overseas Humanitarian, Disaster and Civic Aid ^j			\$17,000,000							\$17,000,000
International Affairs Technical Assistance								\$13,000,000		\$13,000,000
United States Agency for International Development, Office of Inspector General (USAID OIG)		\$3,500,000	\$1,900,000		\$2,500,000					\$7,900,000
DoD Office of the Inspector General								\$5,000,000		\$5,000,000
Department of Treasury (Salaries and Expenses)								\$1,800,000		\$1,800,000
Department of State, Office of Inspector General								\$1,000,000		\$1,000,000
Legal Activities and U.S. Marshals (Salaries and Expenses)								\$1,000,000		\$1,000,000
TOTAL	\$108,000,000	\$3,369,350,000	\$19,453,650,000	\$371,250,000	\$6,206,809,000	\$117,298,000	\$1,271,150,000	\$5,309,350,000	\$2,075,000,000	\$38,281,857,000

^a \$40M from FY 2003 ESF base account that was not reimbursed; \$10M from P.L. 108-11
^b Excludes \$75M for Special Inspector General for Iraq Reconstruction under P.L. 108-106
^c Congress provided DOD with authorization for drawdown authority for these funds
^d As identified in GRD bi-weekly reports and P.L. 109-234
^e Where Iraq-only appropriations unavailable, based on historical trends SIGIR split 85% for Iraq and 15% for Afghanistan
^f Congress provided funding for PCO in other appropriations bills; more details will be available in future SIGIR reports
^g Includes Iraq Reconstruction Management Office salaries and expenses, mission travel, public diplomacy programs, and other operating expenses related to reconstruction.
^h CPA operating expenses under P.L. 108-106

TABLE 2-20

International Donor Funds

The total funds pledged at Madrid and by non-U.S. donors increased from \$14.58 billion to \$15.02 billion this quarter, with additional pledges from the European Commission, Australia, Germany, Spain, Jordan, and France. Accurate information on the expenditures of these funds, however, continues to be difficult to obtain. Donors asked the World Bank to update the status of the Madrid pledges, but the World Bank has not yet received sufficient reporting from donors to provide a more precise figure. For information on these pledges, see Table 2-21.

The Donor Committee for the International Reconstruction Fund Facility for Iraq (IRFFI)—created at the 2003 Madrid Donors Conference and managed by the World Bank and the United Nations (UN)—remains active. This quarter, Germany joined the Donor Committee with a pledge of \$10 million. As reported last quarter, external assessors gave positive marks to the management of these trust funds and noted that the speed of donor disbursements to them had been relatively high. The results of these assessments are expected to be made public soon. For a list of the members of the Donor Committee, see Table 2-22.

The future of international donor support to Iraq is expected to be shaped by the International Compact for Iraq, an initiative of the Iraqi government that is supported by the UN. The Compact was launched in July 2006 after a trip to Iraq by the UN Deputy Secretary General. The goal is to develop a framework under

which Iraq's economy can be transformed to a market-based economy, fully integrated with the region and the rest of the world. Under the Compact, Iraq would undertake economic, political, and security reforms to receive financial and political support from the international community.

The Deputy Prime Minister and the UN Deputy Secretary General co-chaired the preparatory committee for the Compact,³⁴⁰ which met in Abu Dhabi on September 10, 2006, and in Singapore from September 18-20. On September 18, 2006, the UN hosted a meeting in New York in which the Iraqi delegation, headed by Finance Minister Al Zubaidi, committed Iraq to tackling corruption, building effective national institutions, and encouraging private investment. The Compact—including key priorities, benchmarks, and timelines—is expected to be adopted by the end of 2006. Another major international donor conference is expected to follow the finalization of the Compact.

The IRFFI Donor Committee Chair is a member of the preparatory group for the Compact. The donor committee, which has accumulated considerable expertise on Iraq's reconstruction needs, will play an important part in the implementation of the Compact.

DONOR COORDINATION

As the major U.S. reconstruction funding is expended, the Iraqis and international donors have become more conscious of the need to target donor funds with more planning and

PLEDGES OF RECONSTRUCTION AID TO IRAQ, AS OF 9/30/2006

DONOR	ORIGINAL MADRID PLEDGE OCTOBER 2003	ADDITIONAL PLEDGES SINCE MADRID CONFERENCE	TOTAL PLEDGES JUNE 2006
Australia	\$45,590,974	\$81,042,221	\$126,633,195
Austria	5,478,165		5,478,165
Belgium	5,890,500		5,890,500
Bulgaria	640,000		640,000
Canada	187,466,454		187,466,454
China	25,000,000		25,000,000
Cyprus	117,810		117,810
Czech Republic	14,659,023		14,659,023
Denmark	26,952,384	40,000,000	66,952,384
Democratic Governance Thematic Trust Fund		100,000	100,000
Estonia	82,467		82,467
Finland	5,890,500		5,890,500
France		32,288	32,288
Germany	-	10,000,000	10,000,000
Greece	3,534,300		3,534,300
Hungary	1,237,005		1,237,005
Iceland	2,500,000		2,500,000
India	10,000,000		10,000,000
Iran	5,000,000	5,000,000	10,000,000
Ireland	3,534,300		3,534,300
Italy	235,620,020		235,620,020
Japan	4,914,000,000	50,000,000	4,964,000,000
Jordan		75,000	75,000
South Korea	200,000,000		200,000,000
Kuwait	500,000,000	65,000,000	565,000,000
Lithuania	-	30,000	30,000
Luxembourg (EURO)	2,356,200		2,356,200
Malta	27,000		27,000
Netherlands	9,424,801		9,424,801
New Zealand	3,351,975	990,000	4,341,975
Norway	12,867,617		12,867,617
Oman	3,000,000		3,000,000
Pakistan	2,500,000		2,500,000
Qatar	100,000,000		100,000,000
Saudi Arabia	500,000,000		500,000,000
Slovenia	419,382		419,382
Spain	220,000,000	2,380,000	222,380,000
Sri Lanka	-	75,500	75,500
Sweden	33,000,000		33,000,000
Turkey	50,000,000		50,000,000
United Arab Emirates	215,000,000		215,000,000

DONOR	ORIGINAL MADRID PLEDGE OCTOBER 2003	ADDITIONAL PLEDGES SINCE MADRID CONFERENCE	TOTAL PLEDGES JUNE 2006
United Kingdom	\$452,326,416		\$452,326,416
United States	10,000,000		10,000,000
Vietnam		\$700,000	700,000
Subtotal	7,807,467,293	255,425,009	8,062,892,302
European Commission	235,620,000	669,680,000	905,300,000
Subtotal	8,043,087,293	925,105,009	8,968,192,302
INTERNATIONAL FINANCIAL INSTITUTIONS			
IMF (low range)	2,550,000,000		2,550,000,000
World Bank (low range)	3,000,000,000		3,000,000,000
Islamic Development Bank	-	500,000,000	500,000,000
Subtotal	5,550,000,000	500,000,000	6,050,000,000
Total Non-U.S. Donor Assistance	\$13,593,087,293	\$1,425,105,009	\$15,018,192,302

Source: DoS and Iraqi Donor Assistance Database

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

Pre-Madrid pledges for humanitarian assistance are not included in this table.

TABLE 2-21

precision. Improving donor coordination continues to be a top priority for the United States; the Baghdad Coordination Group and sector working groups continue to meet with progressively stronger Iraqi leadership. Improved donor coordination mechanisms are expected to be part of the Compact.

The Ministry of Planning's Donor Assistance Database (DAD), supported by the UN Development Programme (UNDP), shows the progress of pending and ongoing donor-supported projects. The DAD, which is available online at www.mop-iraq.org, breaks down projects, requests for projects, and donations by these categories: donor, sector of assistance, and governorate. It also allows the user to filter the data to develop customized reports. Currently, the DAD includes 7,249 projects, totaling \$11.53 billion, associated with 20 donors. Against these projects, \$8.68 billion has been committed, and \$3.84 billion has been expended. Of the estimated 13,578 U.S. projects, 6,748 are listed by the DAD, totaling

MEMBERS OF THE INTERNATIONAL RECONSTRUCTION FUND FACILITY FOR IRAQ DONOR COMMITTEE

Canada (Chair)	Kuwait
United Kingdom	Iran
Italy	Norway
India	South Korea
Turkey*	Qatar
Sweden	Spain
Finland*	European Commission
Japan	United States
Australia	Denmark

Germany
* Rotating members

TABLE 2-22

\$8.01 billion. Against these projects, the DAD reflects that the United States has committed \$5.9 billion and expended \$2.05 billion.

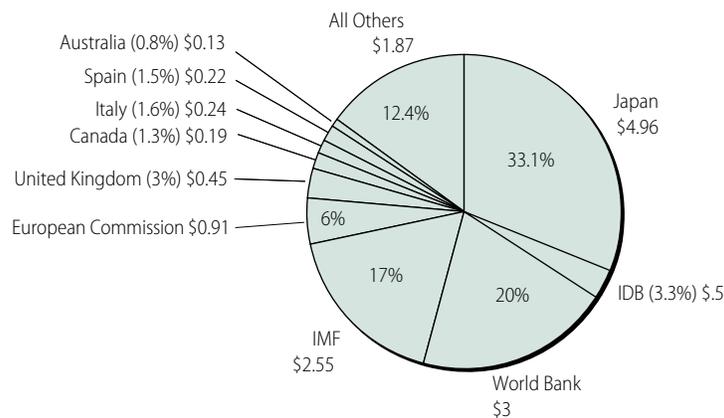
The UNDP has launched a regional component of the DAD in Basrah and is helping the Iraqis to gather province-level data. A regional component is also being planned for the Kurdistan Regional Government (KRG).

Plans to incorporate loans, grants, and projects from Iraq’s National Budget into the DAD have not yet been implemented. The DAD continues to improve as an assistance management tool; however, it cannot yet be used to fully monitor, analyze, and prioritize aid to the Iraqi government.

MAJOR BILATERAL AND MULTILATERAL PROGRAMS

The United States continues to encourage other donors to implement their Madrid pledges. Figure 2-33 provides information on donor pledges.

Figure 2-33
PLEDGES FROM OTHER NATIONS
\$15.02 BILLION
 As of August 2006
 \$ Billions
 Source: Various



Note: Figures may not total correctly because of rounding.

Japan

Of Japan’s pledge of \$5 billion at Madrid, the \$1.5 billion in grants—plus an additional \$50 million was completely obligated more than a year ago:

- \$911 million to direct assistance, including technical assistance
- \$490 million through IRFFI trust funds
- \$116 million directly through international organizations, such as UNDP
- \$27 million through non-governmental organizations (NGOs)
- \$10 million to the International Finance Corporation

Japan’s financial aid supported these sectors: Electricity, Water and Sanitation, Health, Roads and Bridges, Education and Culture, and Security. Officials from Japan continue to work with Iraqi officials to develop projects for the \$3.5 billion in concessional loans. Projects include the recently announced engineering services for the Basrah Refinery (\$18 million)

and the rehabilitation of Khor Al-Zubair fertilizer plant (\$154 million),³⁴¹ as well as these projects from previous quarters:

- \$28 million to rehabilitation of bridges and roads in Samarra
- \$259 million to rehabilitation of the Port of Umm Qasr
- \$81 million to improvement of irrigation channels
- \$315 million to rehabilitation of the Al-Mussaib thermal power plant³⁴²

United Kingdom

Total United Kingdom (UK) pledges to Iraq, including both Madrid (\$452 million) and pre-war humanitarian contributions (\$468 million), remain at \$920 million. With an estimated \$917 million expended as of September 2006, the UK is close to fulfilling its obligation. Table 2-23 shows UK expenditures by program. The UK Department for International Development (DFID), which is responsible for implementing UK pledges, has been involved

**UK DONOR PLEDGES, AS OF SEPTEMBER 2006
(IN MILLIONS)**

DFID Bilateral Program	\$488
IRFFI Trust Funds	127
Contribution to EC Program	113
FCO Programs	64
Global Conflict Prevention Pool	66
MoD Quick Impact Projects	59
Total	\$917

Source: email from DFID, July 24, 2006; exchange rate used: \$1.69 per pound sterling.

TABLE 2-23

in many of the same types of projects that the United States is funding, but on a smaller scale and focused in the south:

- rehabilitating power and water infrastructure
- organizing the Prime Minister's office and the governors' offices in the south
- training the Government Communications Directorate
- planning and budgeting the strategic development in the southern provinces
- intergovernmental coordination
- macro-economic and budget reform
- strengthening independent broadcasting
- developing civil society

The UK has a quick-impact program financed by the Ministry of Defense, which has a similar mission to that of the Commander's Emergency Response Program (CERP).

DFID reports similar challenges: security, constantly changing government counterparts, and weak overall government capacity. DFID's program for 2006-2007 will focus on economic reform, delivering power and water improvements in the south, governance and institution-building in Baghdad and the south, support for civil society and political participation, and capacity building in the Ministry of Interior. DFID funds a World Bank advisor in Baghdad to speed up engagement in oil and electricity issues and to help the Iraqi government develop a plan for the energy sector.³⁴³

European Commission

To date, the European Commission (EC) has pledged \$905.3 million of which \$779.3 million was for reconstruction assistance. The bulk of the funds was channeled through the IRFFI Trust Funds, although some funding went through the U.N. Development Programme (UNDP) Thematic Trust for Crisis Prevention and Recovery before IRFFI was established in 2004. In addition, the EC has allocated some of the funds to short-term bilateral assistance. For the allocation of EC reconstruction funds from 2003 to 2005, see Table 2-24.

In 2006, the EC pledged an additional \$252 million. It will continue to channel a significant portion of its pledges through the IRFFI mechanism while also increasing its bilateral assistance. On August 8, 2006, \$154 million of the EC's 2006 pledge was deposited into the UNDG Iraq Trust Fund (ITF) when the EC signed its eighth Contribution Agreement. This new contribution makes the EC the largest contributor to the UNDG ITF and the IRFFI.

The EC's 2006 contribution will focus on these programs:

- improving the quality of life of the Iraqis (\$138.6 million)
- furthering democracy in Iraq (\$50.4 million)
- promoting good governance (\$50.4 million)
- adjusting to new government priorities (\$12.6 million in reserve funding)

In addition to reconstruction assistance, the EC has contributed \$12.6 million to the Integrated Rule of Law Mission for Iraq

**TOTAL EC RECONSTRUCTION ASSISTANCE TO IRAQ,
2003-2005 (IN MILLIONS)**

Year	UN	World Bank	Bilateral	Total
2003	\$49.1	\$3.78	\$0	\$52.88
2004	121.6	100.8	0	222.4
2005	200.4	50.4	1.2	252
Total	\$371.1	\$154.98	\$1.2	\$527.28

Source: www.ec.europa.eu

TABLE 2-24

**TOTAL IRFFI DONOR CONTRIBUTIONS AND WORLD BANK IRAQ TRUST FUND ALLOCATIONS,
AS OF 9/1/2006**

DONOR	COMMITMENTS		DEPOSITS	
	WORLD BANK	UNITED NATIONS	WORLD BANK	UNITED NATIONS
Australia	\$16,100,000	\$16,775,000	\$16,100,000	\$16,775,000
Australia (Dept of Immigration)	-	3,292,000	-	3,292,000
Belgium	-	1,321,000	-	1,321,000
Canada	22,300,000	46,400,000	22,300,000	46,400,000
Denmark	-	10,666,000	-	10,666,000
Finland	2,600,000	6,234,000	2,600,000	6,234,000
Germany	-	10,000,000	-	-
Greece	-	3,630,000	-	3,630,000
Iceland	1,000,000	500,000	1,000,000	500,000
India	5,000,000	5,000,000	5,000,000	5,000,000
Ireland	-	1,226,000	-	1,226,000
Italy	-	29,782,000	-	29,782,000
Japan	130,000,000	360,951,000	130,000,000	360,951,000
South Korea	4,000,000	11,000,000	4,000,000	11,000,000
Kuwait	5,000,000	5,000,000	5,000,000	5,000,000
Luxembourg	-	2,319,000	-	2,319,000
Netherlands	6,200,000	6,697,000	6,200,000	6,697,000
New Zealand	-	3,365,000	-	3,365,000
Norway	6,700,000	7,009,000	6,700,000	7,009,000
Qatar	5,000,000	5,000,000	2,500,000	5,000,000
Spain	20,000,000	22,380,000	20,000,000	22,380,000
Sweden	5,800,000	10,622,000	5,800,000	10,622,000
Turkey	1,000,000	200,000	1,000,000	200,000
United Kingdom	71,400,000	55,542,000	71,400,000	55,542,000
United States	5,000,000	5,000,000	5,000,000	5,000,000
European Commission (Rapid Reaction Mechanism)	-	24,978,000	-	24,978,000
European Commission (Human Rights)	-	7,307,000	-	6,937,000
European Commission	149,800,000	438,129,000	149,800,000	428,961,000
Total Non-U.S. Donor Assistance	\$456,900,000	\$1,100,325,000	\$454,400,000	\$1,080,787,000

Source: www.irffi.org

TABLE 2-25

(EUJUSTLEX), which it established in 2005. Organized with the assistance of several EC member states, EUJUSTLEX trained 770 Iraqi officials from the police, judiciary, and penitentiary sectors.³⁴⁴

World Bank

In January 2004, donors authorized the World Bank to administer the World Bank ITF, which began receiving funds in March 2004. Table 2-25 summarizes World Bank ITF allocations. As of September 30, 2006, the World Bank ITF had received \$454 million from 17 donors, and \$266 million had been tendered. Of the tendered amount, \$150 million had been contracted, and \$79 million had been expended:

- \$399.7 million of the World Bank ITF has been allocated to 13 projects.
- \$60.5 million (including investment income) has been allocated to projects that are under preparation by World Bank and Iraqi authorities.

- Ten of the 13 grants, valued at \$388 million, are for projects implemented directly by Iraqi government authorities.
- The remaining three, valued at \$12 million, are capacity building and technical assistance activities implemented by the World Bank.
- One World Bank ITF project (first capacity building) is closed, and a second is now operationally complete and will formally close at the end of 2006.

Figure 2-34 reflects the status of World Bank ITF funds through September 30, 2006.

In addition, the World Bank has approved two projects, totaling \$235 million, through its International Development Association (IDA) loans. The projects include the Emergency Road Rehabilitation Project (\$135 million), approved in June 2006, and the Third Emergency Education Project (\$100 million) approved in November 2005. Two additional

Figure 2-34
WORLD BANK – INTERNATIONAL TRUST FUND (\$ MILLIONS)
 As of 9/30/2006

Commitments \$456.9 Million



Deposits \$454.4 Million

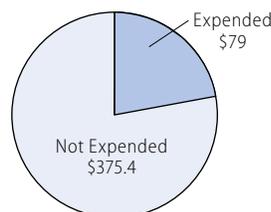
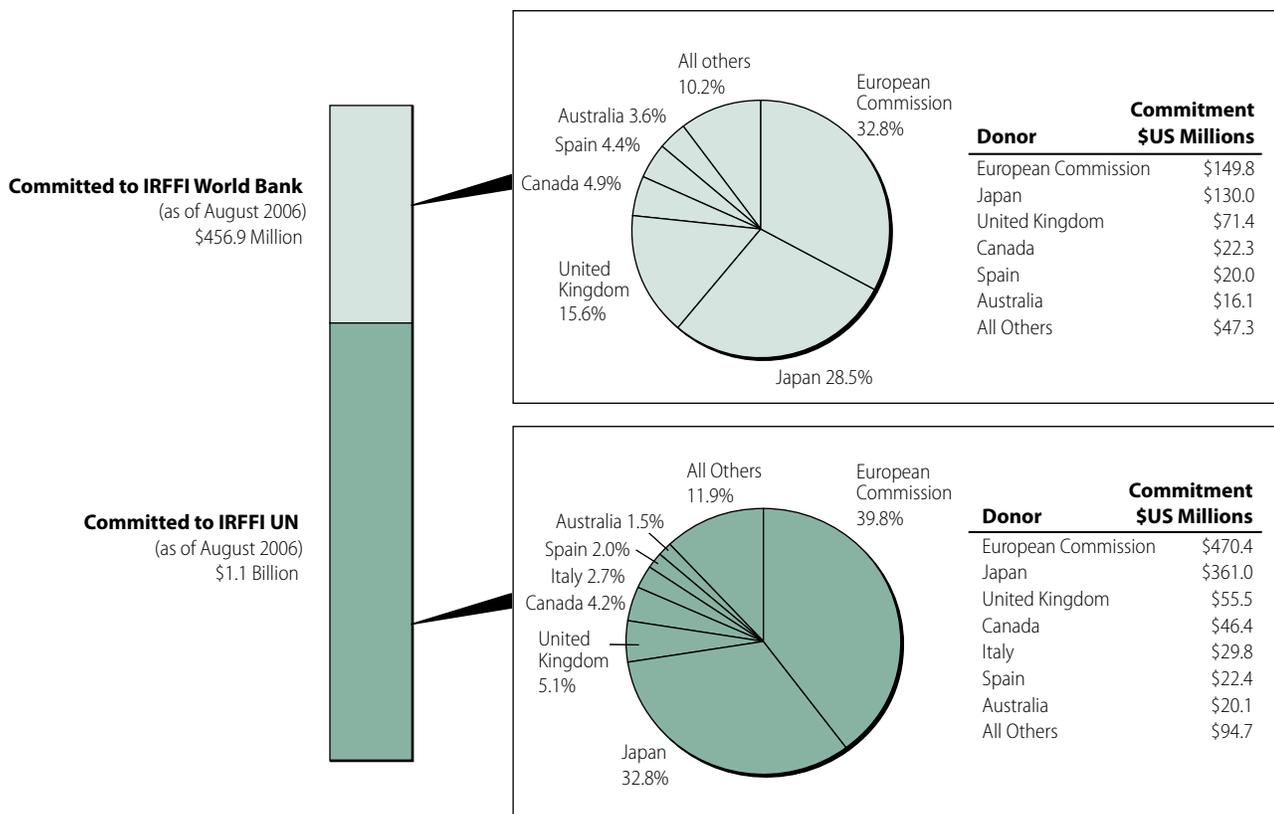


Figure 2-35
INTERNATIONAL DONOR CONTRIBUTIONS TO IRFFI
 As of 8/31/2006
 Source: www.irffi.org



projects, totaling \$150 million, are in an advanced stage of preparation and are likely to be approved by World Bank by the end of 2006. The remaining \$115 million are allocated to projects that are under preparation. The Iraqi Strategic Review Board (ISRB) continues

to approve World Bank projects. A long-term country director, with authority to make more decisions on project priorities in Baghdad, is still planned to head the World Bank office in the International Zone in the near future.

Recognizing that systemic corruption in

Iraq adds to the risk for international donors as they work to implement their programs, the World Bank has put in place various measures to mitigate corruption. These measures have slowed its procurement process in some cases.³⁴⁵ The World Bank also hosted an anticorruption workshop for Iraq in Dubai in late July to discuss techniques and to identify leading practices in reducing corruption. Participants included Iraqi representatives from the Judicial Branch (CCCI and the Supreme Court of Iraq), inspector general organizations, BSA, DoS, IRMO, CPI, World Bank, UNDP, Chair of the Nigerian Economic & Financial Crimes Commission, a prosecutor from the Supreme Court of Spain, and other World Bank speakers with anticorruption backgrounds.

The World Bank’s priorities for the coming months include helping Iraq to strengthen public-sector governance, including public finance and anticorruption; to further economic reforms; and to improve social safety nets during economic transition.³⁴⁶

Figure 2-35 shows International Donor Contributions to the IRFFI, as of August 31, 2006.

United Nations

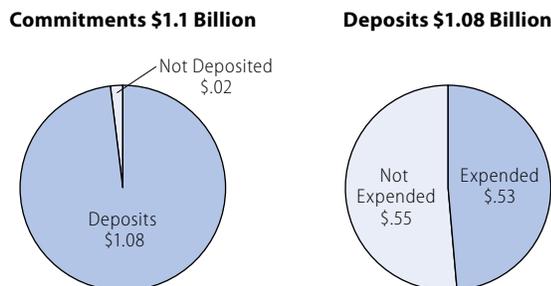
The UNDP administers the UNDG ITF. Table 2-25 summarizes UNDF ITF allocations. As of September 1, 2006, 25 donors have committed \$1.1 billion to the ITF, of which \$1.08 billion has been deposited. Fifteen UN agencies are implementing 101 projects with \$840 million in funding. UNDP has the most approved funding (31%), followed by the UN Office for Project Services (UNOPS) (18%) and United Nations International Children’s Emergency Fund (UNICEF) (12%):

- \$640 million (76%) has been obligated.
- \$534 million (64%) has been expended.
- Fourteen projects have been completed.

Figure 2-36 reflects the status of UNDG ITF funds through September 1, 2006.

Donors can earmark their contributions to the ITF. Infrastructure rehabilitation (21%) and support for the electoral process (20%)

Figure 2-36
UNITED NATIONS DEVELOPMENT GROUP – INTERNATIONAL TRUST FUND (\$ BILLIONS)
 As of 9/1/2006



are the most popular clusters among donors. Other popular sectors among donors and Iraqis include agriculture, education, and health.³⁴⁷

The UN website (www.irffi.org) posted \$473 million in contract awards: 15% went to Japan, 14% to Iraq, 11% to the UK, and 10% to China. U.S. firms account for less than 5% of these contracts. An outside audit of the UN program found no financial problems but recommended ways to make the cluster organization and project approval process more efficient. The results of the audit are expected to be made public soon.³⁴⁸

UN staff continues to operate in Amman, Kuwait, and Cyprus, and offices have been opened in Basra and Erbil. Also, a small assistance staff is now part of the UN mission quota in Baghdad. UN officials observe that the need to use primarily Iraqi staff has cut personnel

costs to about 5% of total program costs—down from 30%, when international staff was engaged. The UN plans to consider this model for other countries.³⁴⁹ Figure 2-37 shows the ITF by UN cluster.

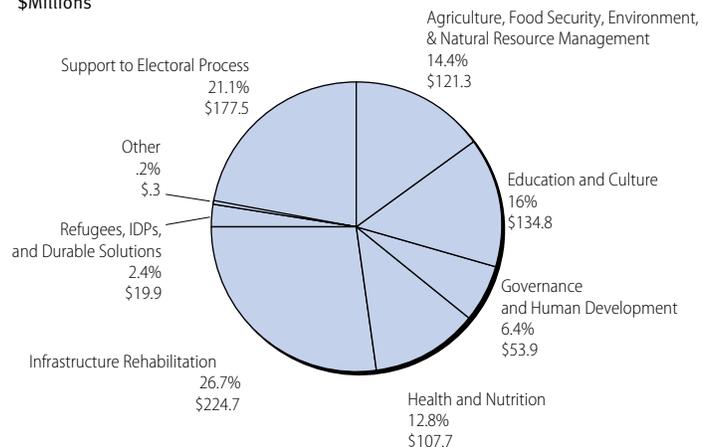
International Monetary Fund

International Monetary Fund (IMF) funding of \$1.15 billion remains available for balance of payments support:

- \$430 million from the Emergency Post-conflict Assistance (EPCA) package
- \$685 million from the Stand-By Arrangement (SBA)

Thus far, Iraq has not drawn against any of these funds. On August 3, 2006, the IMF Executive Board completed the first and second reviews of Iraq’s economic performance and a review of financing assurances under the

Figure 2-37
UNDG IRAQ TRUST FUND
 Approved and Funded Projects by UN Cluster
 As of 9/1/2006
 Source: www.irffi.org
 \$Millions



Stand-By Arrangement. The IMF deemed that the Iraqi SBA program was on track, although Iraq missed some performance criteria and targets, including oil revenue. The IMF approved the Iraqi authorities' requests for waiver of noncompliance because of Iraq's commitment to the SBA program and their implementation of other policies and measures. The Executive Board concurred and the waivers were granted.

This review was particularly significant because successful performance is a condition for moving forward with Paris Club debt relief. The IMF continues to train Iraqi economic and finance officials.³⁵⁰

Islamic Development Bank (IDB)

The Islamic Development Bank (IDB) has pledged \$500 million for Iraq's reconstruction and development and is an active participant in preparatory meeting for the International Compact for Iraq. The IDB traditionally focuses on human development projects and sectors that have a high social return, including rural water supply, with commitment to projects that can take as long as a decade to implement.

IRAQI FUNDS

Since April 2006, SIGIR has estimated that the Iraqi contribution to reconstruction after the CPA period was \$14.762 billion—the sum of the 2004-2006 capital budgets. There is no publicly available information about how much of these capital budgets have been expended, but it is clear that Iraqi ministries—particularly the Ministry of Oil—struggle to expend

their capital budgets quickly, using established procedures. SIGIR is concerned that several billion dollars—funding desperately needed for infrastructure repairs and sustainment—may be left unspent in the Iraqi budget at the end of this year. The United States and other donors are working with Ministry of Finance and the line ministries to identify ways to move funds faster while maintaining strict accountability.

The Iraqi government is now working on the 2007 budget.

LOANS FROM INTERNATIONAL DONORS

Loans available from international donors have not changed from the SIGIR April 2006 Quarterly Report:

- Japan: \$3.5 billion (\$683 million has been allocated.)
- Saudi Arabia: \$1 billion in trade credits and loans
- World Bank: \$3-5 billion in loans, \$500 million of which is in concessional loans (\$235 million in concessional loans have been allocated.)

COMMERCIAL BORROWING

Although there has been considerable progress settling Saddam-era debt, Iraq's debt continues to constrain its ability to borrow international funds. Iraq has creditors in these categories: Paris Club debt, non-Paris Club sovereign debt, and commercial debt.

In November 2004, Iraq's public debt was estimated at \$120.2 billion, of which \$38.9 bil-

lion was due to Paris Club creditors. As of late July 2006, 18 of the 19 Paris Club creditors³⁵¹ had signed agreements implementing the November 2004 commitment to forgive at least 80% of Iraq's debt.

Progress has been slower with non-Paris Club sovereign debt, especially with Saudi Arabia, Qatar, Kuwait, and the United Arab Emirates. Now that the new government is in place, negotiations can begin to resolve these claims in a timely manner. Contacts have already been made with Saudi Arabia at the ministerial level to facilitate resolution of these claims, and a technical working committee is being set up to begin the process of reconciliation.³⁵² U.S. and Iraqi diplomacy on debt relief is intensifying in anticipation of the negotiations for the international Compact. If Iraq meets the conditions, about \$30 million of

sovereign debt would be forgiven.

By May 2006, Iraq had resolved almost \$18 billion of claims submitted by private creditors through debt and cash exchanges and submitted almost \$1 billion of claims to arbitration, according to an IMF August 9, 2006 Staff Report. Although the process of commercial debt reconciliation is ongoing, the authorities will continue the current strategy of resolving the remaining arrears of about \$2 billion through debt or cash exchange offers, including the arbitration process, through July 2006. The authorities plan to develop a follow-up strategy for commercial claims still outstanding after July 2006. Because the amount of the remaining private arrears is relatively small—about 4% of the total external debt in 2006—they are unlikely to pose significant risk to the program.³⁵³



ANTICORRUPTION ACTIVITIES

Corruption in Iraq is a persistent problem that requires a long-term, multifaceted solution that the Iraqis can sustain. In 2005, Iraq ranked 137th out of the 158 countries included in Transparency International's (TI) Corruption Perception Index.³⁵⁴ Iraq ranks lower than Egypt, Syria, Iran, and other countries in the region that struggle with corruption.

A great deal of work has been done to establish and enhance institutions to combat corruption. Since 2003, various U.S. agencies have provided technical assistance to the pre-existing Iraqi Board of Supreme Audit (BSA) and the three new corruption-fighting institutions: the Commission on Public Integrity (CPI), the Iraqi inspectors general (IGs) in each of the ministries, and the Central Criminal Court of Iraq (CCCI).

U.S. programs continue to concentrate on helping the Iraqi government to:

- develop enhanced financial transparency and accountability
- develop and implement financial management systems
- strengthen contracting and procurement processes
- expand public integrity initiatives
- expand prosecution of corrupt government officials

Iraq's Response to Corruption

Iraq's ability to attract and use international donor assistance will depend in part on its ability to reduce perceived government-wide corruption. The Iraqi government anticipates that efforts to clamp down on corruption and to boost transparency and efficiency will also encourage foreign private-sector investment, particularly in the oil sector. As part of the International Compact for Iraq that is currently under negotiation, Iraq is expected to commit to specific steps to improve transparency and inhibit corruption. The Compact—including key priorities, benchmarks, and commitments—is likely to be adopted by the end of 2006.

On September 11, 2006, CPI publicly reiterated the policy requiring financial disclosure by senior Iraqi government officials, from the civilian level of director general and military rank of captain and upward. CPI has threatened to refer to court those who do not comply with these regulations. Also during this reporting quarter, CPI has been actively publicizing the arrests of Iraqi government officials suspected of corruption, including several high-level ministry employees.

Many IGs continue to cite major impediments to their jobs, including insufficient budgets, a lack of professional staff, and little independence. Some IGs, however, have reported progress gaining recognition and

support within their ministries, training staff, and developing mechanisms to identify and confront corrupt practices. The Ministry of Oil was among the more active ministries, completing 454 audits to date in 2006. The Ministry has also revised practices and standards for 33 aspects of its work, including the marketing of crude oil, salary scales, and the transportation of oil products.

U.S. Efforts to Help Iraq Stem Corruption

U.S. government efforts to support Iraq's anticorruption initiatives are coordinated by the Anticorruption Working Group (ACWG), led by the U.S. Embassy-Iraq. The ACWG comprises representatives from various federal agencies who advise and support a wide range of anticorruption initiatives in Iraq. SIGIR is an observer on the ACWG.

The delay in forming the Iraqi government made it more difficult to formally activate the U.S./Iraq Joint ACWG (launched at the November 2005 anticorruption summit attended by U.S. and Iraqi officials). Although the joint working group does not meet regularly, U.S. officials have found other opportunities to continue the anticorruption dialogue. The Iraqis plan to appoint an anticorruption coordinator in the near future to ensure greater consistency and minimize overlap with their own anticorruption activities.

Reconstituted in late 2005 after several months of inactivity, the Embassy ACWG recently released its strategic plan for helping Iraq reduce corruption, which focuses on

market reforms, financial transparency, and public integrity.

Last quarter, SIGIR released a survey of anticorruption efforts and provided several audit recommendations,³⁵⁵ including one that encouraged the U.S. Embassy to increase staff support for anticorruption efforts and establish a joint executive steering group to oversee all U.S. government anticorruption programs. These recommendations were supported by a companion inspection performed by the DoS Inspector General, who made similar recommendations for strengthening U.S. anticorruption efforts. Both audits recommended that the U.S. Embassy further engage its Iraqi anticorruption counterparts; DoS urged the early convening of a formal session of the U.S.-Iraqi anticorruption task force envisaged at the November 2005 summit on anticorruption.

On the recommendation of SIGIR, the U.S. Embassy has agreed to expand by four the staff supporting Iraq anticorruption efforts, including new senior consultants for the BSA and the IGs, a transparency coordinator, and a senior advisor to oversee the anticorruption strategy. These important additions to the staff have helped ensure that the U.S. Embassy can move more expeditiously to implement a new and broader plan to support each of the Iraqi anticorruption entities.

Other federal agencies are contributing as well. To assist the BSA, INL has allocated money to GAO to reengage with the BSA and translate into Arabic GAO's *Government Auditing Standards* (Yellow Book).³⁵⁶ These standards complement the various interna-

tional auditing standards, including the set developed by the International Organization of Supreme Audit Institutions (INTOSAI). GAO is a member of INTOSAI and has adopted other leading global standards.³⁵⁷ BSA will use these standards to augment the development of Iraqi standards.

In response to BSA's request, GAO agreed to review current BSA audit programs and provide feedback and recommendations. The BSA has initiated the process of translating the audit programs into English. GAO has also agreed to take three mid-level auditors from the BSA into the GAO's International Auditor Fellowship, a 3-4 month training program scheduled to begin May 2007.³⁵⁸

The U.S. government also supports increased financial transparency in Iraq. USAID manages a \$10 million contract to develop and implement a core financial management information system, centralized within the Ministry of Finance. This system, due to be completed by early 2007, includes a public payroll module and a procurement module funded by INL (\$5 million) and Treasury (\$2 million). Approximately 85% of the requirements for the core system have been completed, and the system will be installed at 178 fiscal institutions in two phases.³⁵⁹

The U.S. Department of Commerce (DoC) has committed to work directly with the Iraqi Ministry of Trade. DoC will use its Commercial Law Development Program to send seasoned advisors, requested by the Minister of Trade, to help identify corrupt systems and

recommend procurement procedures to avoid corruption. DoC also plans specific programs to promote best practices against corruption within the Iraqi business community.

U.S. agencies continue to allocate resources to train Iraqi anticorruption officials at the CPI, BSA, IIG, and CCCI. DoD has been conducting the Iraqi Anticorruption and Principled Governance Initiative and providing direct support for the Iraqi Ministry of Defense OIG. INL has allocated \$1 million for equipment training for the CPI and a train-the-trainer seminar in Washington, D.C., for selected Iraqi IGs. IGs from other countries will participate in the training and provide insights. INL has also allocated resources to assist in the integration of Iraqi police and prosecutors. INL continues to work with DoJ to provide instructors and relevant curriculum for the police training program. The Multi-National Security Transition Command-Iraq (MNSTC-I) has funded a military leadership center for the Ministry of Defense that includes training in ethics and values, which should provide long-term anticorruption benefits. Plans for a joint training facility for the CPI, BSA, and IIG are still under discussion.

International Response to Corruption

Anticorruption is also of interest to other international donors and is expected to be an important part of the International Compact for Iraq. The UN Development Group financed a \$4.8 million project to have the Audit Board

of Jordan provide training to the BSA over an 18-month period. The British National Board of Audits provided training for BSA's auditors in Amman.³⁶⁰

The UN and TI have led the international effort to develop an anticorruption framework available to any country interested in combating corruption. Although non-specific to Iraq, the tools available through the UN and TI offer Iraq a starting point to combat corruption by learning through the experience of other countries.

The UN has advocated anticorruption through the UN Convention against Corruption (UNCAC) and UN Anticorruption Toolkit. The General Assembly adopted UNCAC on October 31, 2003, and subsequently received 140 signatories. UNCAC was entered into force on December 14, 2005, after receiving the requisite number of instruments of ratifications/accessions. To date, there have been 65 ratifications/accessions. The U.S. Senate consented to the ratification of UNCAC on September 15, 2006, and the President is expected to sign the instrument of ratification soon. The United States has urged the Iraqis to join the UNCAC—both bilaterally and through the Good Governance for Development in the Arab States Initiative that the United States promotes in the Middle East. Iraq participated in the early UNCAC negotiations but has not yet signed the convention. Accession to the UNCAC is expected to be among the commitments Iraq undertakes in connection with the Compact.

UNCAC introduces a comprehensive set of standards, measures, and rules that all countries can apply to strengthen their legal and regulatory regimes to fight corruption. It calls for preventive measures and the criminalization of the most prevalent forms of corruption in both public and private sectors and requires member states to return assets obtained through corruption to the country from which they were stolen. An entire chapter of the Convention is dedicated to prevention, with measures directed at both the public and private sectors, including model preventive policies, such as:

- establishment of anticorruption bodies
- enhanced transparency in the financing of election campaigns and political parties
- safeguards that promote efficiency and transparency
- recruitment based on merit

The UN's anticorruption toolkit is based on successful anticorruption measures and lessons learned from the technical cooperation activities facilitated by the Global Program against Corruption. The UN toolkit is intended to provide a range of options that will enable each country to assemble an integrated strategy that will be as effective as possible in meeting its own needs.

TI, another international organization promoting better governance, seeks to bring together relevant players from government, civil society, business, and the media in a holistic approach to promote transparency in elections, in public administration, in

procurement, and in business. TI has also developed an anticorruption toolkit, similar to the UN's, that draws on the experience and best practices of other nations. Although approached by numerous NGOs, TI does not believe any have yet demonstrated the capacity to effectively support a TI presence in Iraq. The security situation has also influenced TI's decision to provide support from outside Iraq for the time being.

The World Bank has also made anticorruption in Iraq a priority, seeking funds from the European Union and other donors to support training for Iraqi institutions. In July, SIGIR attended the World Bank conference in Dubai, which brought together Iraqi officials, World Bank and UN experts, and international practitioners to discuss ways to move the anticorruption agenda in Iraq. At this forum, the Iraqis discussed their efforts to reduce corruption and the challenges they face. The World Bank also supports anticorruption efforts in Iraq through these activities:

- World Bank works with the IMF to reform public financial management systems. A Public Expenditure and Institutional Assessment will assist Iraq's government to modernize its public financial management practices in line with its commitments under the International Compact for Iraq.
- World Bank engages consultants to work with the Iraqi government to improve management and coordination of its development assistance for governance and public management.
- After its workshop in Dubai during late July, World Bank continued to work with CPI, the inspectors general, BSA, and the judiciary to foster greater coordination. World Bank has been working to promote development of benchmarks for each of these agencies in the projected Compact.³⁶¹