



Although Iraq still struggles to meet increased electricity demand, average daily electricity production set a post-war record this quarter. Since 2003, the United States has expended about \$4.4 billion to improve Iraq's electricity sector. One U.S.-supported project, the Diwaniyah 132kV AIS Substation in Qadissiya, was completed this quarter. (USACE photo)

The role of private security contractors in Iraq remains controversial. A new SIGIR review lists more than 300 companies that have provided security services in Iraq at a cost of about \$6 billion. The difficulty SIGIR encountered in accomplishing this review underscores the need to implement better systems for tracking security costs. Moreover, the role of security contractors in Iraq could be subject to significant change if the SOFA lifts contractor immunity.

Relief and reconstruction funding in Iraq supports a significant amount of non-construction work, such as the nearly \$2 billion allocated for democracy-building programs. SIGIR reviewed the U.S. strategy for these programs this quarter and found that, although there were clear goals and performance measures, three areas needed strengthening: invoice review, outcome accountability, and integration with Iraqi and international organizations. The audit reported on two U.S. Agency for International Development contracts, amounting to nearly \$600 million in investment provided through its Local Governance Program. Although improvements occurred over the life of the contracts, SIGIR's auditors found it difficult to determine

outcomes achieved. The lesson from this audit is that the success of large "soft program" contracts depends on the government's ability to closely oversee the contract and to track outcomes.

Three new convictions and one new indictment this quarter highlight the ongoing work of SIGIR's Investigations directorate, which continues to pursue actions in more than 67 open cases, in conjunction with an array of law enforcement partners.

Corruption

Corruption affected progress on several Iraq-funded projects overseen by the United States. SIGIR's inspections of three I-CERP schools in Sadr City found that, although the construction work was generally acceptable, one of the Iraqi contractors had quit because of repeated solicitations for bribes by Iraqi officials—and threats after he refused to pay. Iraq's Commission on Integrity reported to SIGIR this quarter that it had a large number of cases eliminated by operation of the new Amnesty Law.

Reconstruction Reform

On October 14, 2008, the Reconstruction and Stabilization Civilian Management Act (RSCMA) became law. Some five years into the Iraq reconstruction experience, lessons identified by SIGIR, the General Accountability Office, and others have now produced congressional action promoting systemic change in the U.S. approach to contingency relief and reconstruction operations. Much remains to be done, though, before this reform effort stabilizes the U.S. approach to this critical mission—but the RSCMA is a good start. SIGIR will add a significant contribution to this reform effort in early 2009 when it releases its comprehensive report on lessons learned from Iraq reconstruction.

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SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

SIGIR



Regarding U.S. relief and reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:

- oversight and review through comprehensive audits, inspections, and investigations
- advice and recommendations on policies to promote economy, efficiency, and effectiveness
- prevention, detection, and deterrence of fraud, waste, and abuse
- information and analysis to the Congress, the Secretary of State, the Secretary of Defense, and the American people

Stuart W. Bowen, Jr., was appointed Inspector General in January 2004. This past August, the IG completed his 20th trip to Iraq to review progress on the reconstruction effort.

A Nascent Normalcy in Iraq

Improved security through U.S. support of Iraq's police and army, rising funding for reconstruction by the Government of Iraq, incremental political progress reflected in the passage of the new Provincial Election Law, and better service delivery evidenced by record electricity outputs: these are among the indicators of a nascent normalcy that may be taking hold in Iraq. But the country remains in fragile condition. If security again devolves, the slowly improving situation could quickly reverse itself.

Evolving U.S. Assistance

This year has witnessed an evolution in U.S. assistance to Iraq, which may be accelerated in the coming months by the passage of the pending Status of Forces Agreement (SOFA). The SOFA could dramatically alter the scope of continuing U.S. assistance, particularly if it lifts immunity for U.S. contractors in Iraq. Anecdotally reflective of the evolution in U.S. support, MNF-I expects to transfer much of the "Green Zone" to Iraqi control by the end of 2008. This year's drop in U.S. funding is similarly reflective of the changing U.S. mission, but the GOI's current reserves of approximately \$34 billion mean that it is quite capable of funding its future reconstruction activity.

To progress beyond a nascent normalcy, Iraq must, among other things, carry out new provincial elections in January 2009 and new parliamentary elections in December 2009. Within these varying contexts, U.S. officials continue to tighten up targeted capacity building and technical assistance in support of Iraq's efforts to move beyond what has been a violent and unstable period.

SIGIR Oversight

SIGIR continued its expansive oversight efforts this quarter, providing 14 new audit recommendations and 3 lessons learned. Key among new SIGIR audits is an examination of the Embassy's reconstruction information systems requested by Ambassador Ryan Crocker after he discovered a breakdown in reporting on problems that were afflicting the Falluja Wastewater Treatment Plant. The Embassy has acted on SIGIR's recommendation to establish new policies that will ensure all



Iraqi Prime Minister Maliki and Chief Justice Medhat cut the ceremonial ribbon opening the new Rusafa Justice Palace in Baghdad on September 10, 2008. The U.S.-constructed, \$11.3 million courthouse will serve more than one million citizens. (USACE photo)

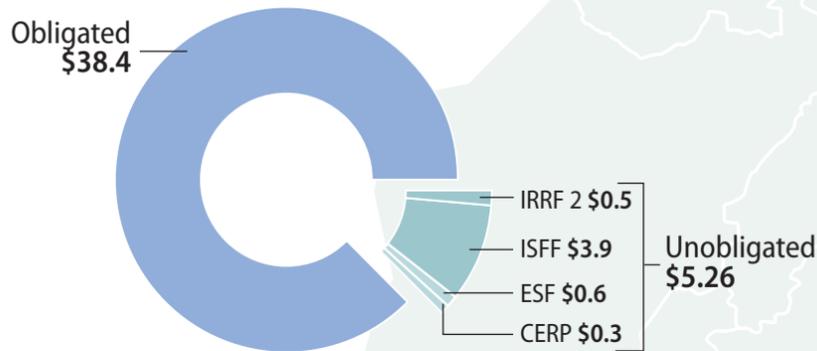
reconstruction projects, regardless of funding source, are accurately and adequately reported to the Ambassador. Approximately 83% of ongoing projects are within the purview of the Department of Defense, meaning that these new measures must aim at enhancing coordination between the Departments of Defense and State. SIGIR's inspection of the Falluja project,

also carried out at Ambassador Crocker's request, details how and why this important water-sector effort incurred a 200% cost increase and will serve 60% fewer homes than originally planned. The project's per capita cost per household will end up being around \$10,000, and city residents will have to connect to the system themselves.

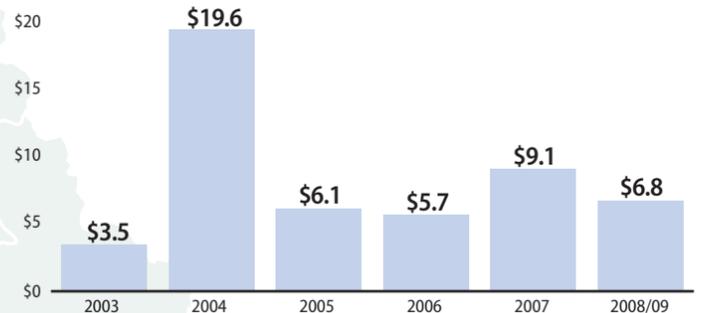
SIGIR's auditors reviewed more than 1,200 terminated contracts this quarter, finding the need for better contractor screening to ensure that suspended or debarred contractors do not continue to receive work from the federal government. Keeping track of and debarring poor performers is essential to avoiding needless waste.

U.S. RECONSTRUCTION FUNDING

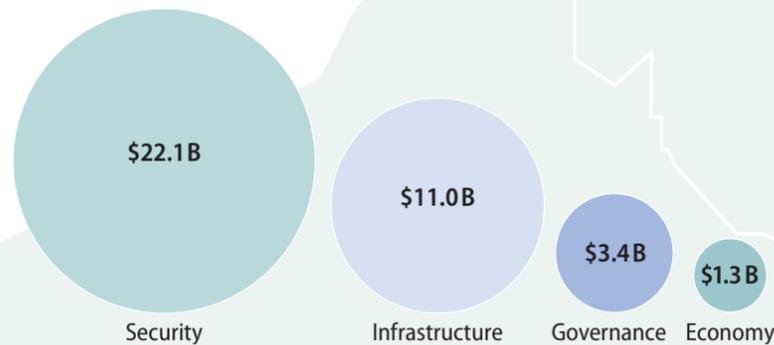
Balances by Major Fund (\$ Billions)^a



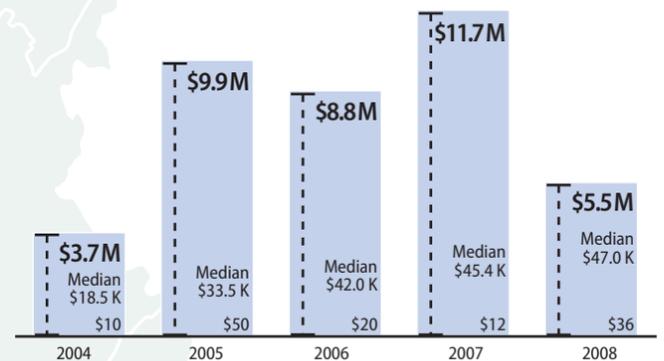
Appropriations by Fiscal Year (\$ Billions)^b



Obligations by Reconstruction Area^a

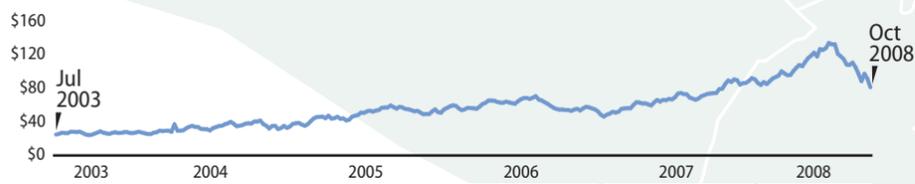


Range and Median Cost of CERP Projects^c

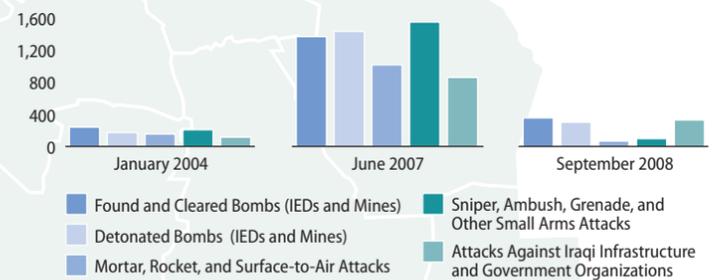


PROGRESS IN IRAQ

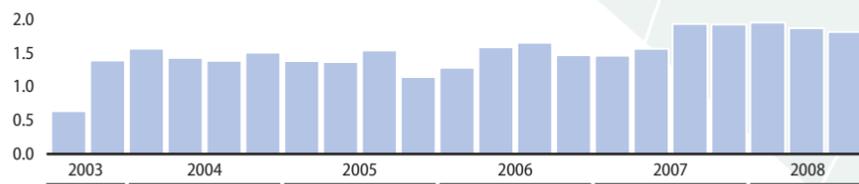
Oil Prices (dollars per barrel)^d



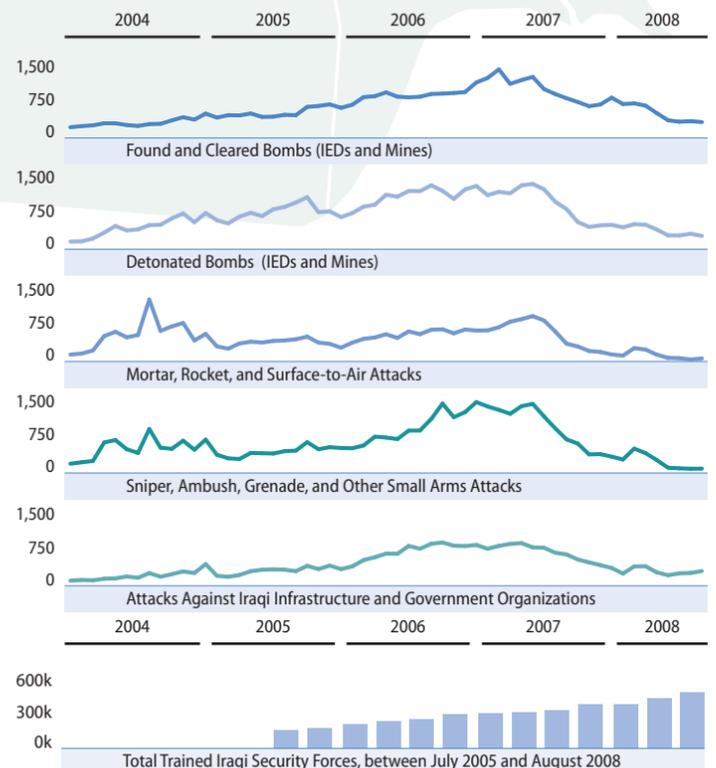
Security Incidents: Three Snapshots in Time^g



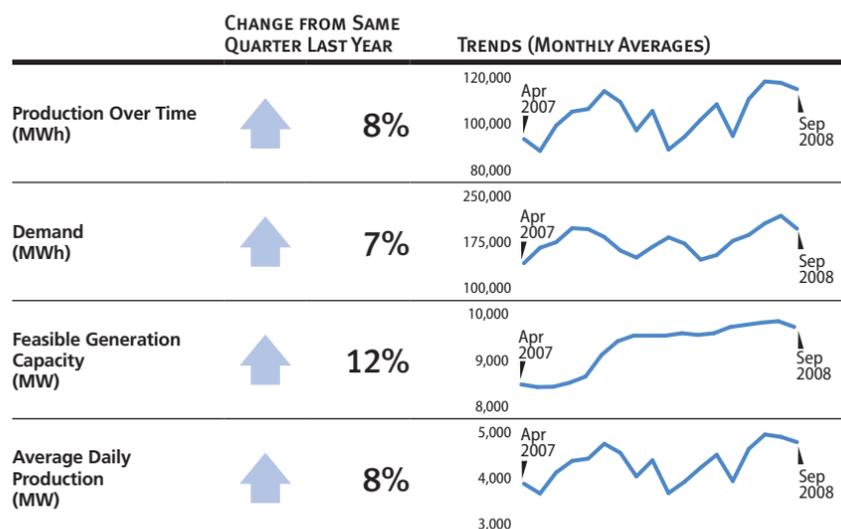
Oil Exports (millions of barrels per day)^e



Security Incidents and Troop Training^h



Electricity Production, Demand, and Capacity^f



For the sources of information used to create this insert (notes a-h), please see the last endnote in this Report.