

SIGIR OBSERVATIONS

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SECTION

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Iraq Reconstruction October 2009: Transition and Change

In less than three months, Iraq's citizens will choose a new Council of Representatives (CoR) in the country's first parliamentary elections since 2005. When the new CoR convenes next year, its first order of business will be to select a prime minister—either the incumbent or someone new—to form the government. The CoR then will have to address an array of significant challenges in security, governance, and the economy:

- **Security.** Under the terms of the U.S.-Iraq Security Agreement (SA), all U.S. military forces must leave Iraq by December 31, 2011. Troop draw-downs will begin in earnest after the January 2010 elections. Their phased departures will place the responsibility for Iraq's internal and external security exclusively on the shoulders of the Iraqi Security Forces (ISF), which currently rely on substantial U.S. logistical and intelligence support. Moreover, the Government of Iraq (GOI) must assume full funding responsibility for its Army, police, and other security institutions.
- **Governance.** National reconciliation remains a fragile, ongoing process. The new CoR will need to resolve disputes over the control of Kirkuk and continue the process of integrating former Sunni insurgents into the GOI. It will also be called on to pass a comprehensive package of hydrocarbon laws, addressing the contentious issue of revenue sharing between the national government in Baghdad and the Kurdistan Regional Government (KRG).
- **Economy.** Iraq's economy remains almost entirely dependent on the state-owned oil industry. Thus, price shocks in the world's oil market ripple through every sector of the economy. One of the GOI's main challenges in 2010 will be to reform its legal infrastructure so as to make it

more transparent and more capable of fighting public corruption.

To prepare for the new realities in Iraq, the Department of State (DoS) appointed a Deputy Chief of Mission (DCM) for Transition Assistance earlier this year to manage the next phase of the U.S. reconstruction program, while the Department of Defense (DoD) progressed with plans to consolidate command structures and reduce its footprint.

Transition Concerns

Transitional periods create vulnerabilities. In an August 18, 2009, letter to Ambassador Christopher Hill and Multi-National Force-Iraq (MNF-I) Commander General Raymond Odierno, SIGIR called attention to three potential areas of concern that could affect the U.S. reconstruction effort as it evolves over the next several months:

- **Transferring police training from DoD to DoS.** Since 2005, MNSTC-I has trained Iraq's police. On December 31, 2009, MNSTC-I will shut down, and USF-I's ITAM will formally assume police-training duties until 2011, when U.S. Embassy-Baghdad and DoS's Bureau of International Narcotics and Law Enforcement Affairs (INL) will assume complete control. Planning is underway for redesign of the police support mission.
- **Managing reconstruction as the Embassy and military downsize.** Since the establishment of the Coalition Provisional Authority in 2003, U.S.-funded reconstruction projects have been managed by a series of temporary agencies, most recently the DoS Iraq Transition Assistance Office (ITAO). DoS reports that ITAO's responsibilities will be assigned to the Office of Provincial Affairs (OPA) as early as January 2010. The U.S. Army Corps of Engineers (USACE) presence in Iraq is also downsizing; the Gulf Region Division (GRD) is deactivating, with its division-level responsibilities transferring to the Stateside Transatlantic Division and construction management responsibilities staying with the smaller district command. With \$6.31 billion unexpended from

the four major funds, management of these continuing reconstruction efforts will need to be carefully considered.

- **Operating in the provinces.** Currently, there are 23 Provincial Reconstruction Teams (PRTs) in Iraq managed by OPA. Consistent with the President’s plan to reduce U.S. presence, DoS will cut the number of PRTs to 16 by August 2010. This reduction will occur against the backdrop of continual U.S. troop withdrawals. With fewer U.S. troops, the remaining PRTs will face greater security challenges, forcing them either to operate at a reduced tempo or to accept more risk when traveling.

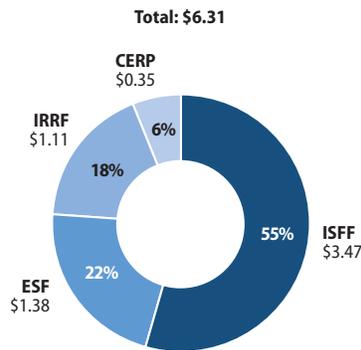
New Initiatives

This quarter, the Administration began two new studies that may further affect the nature of the transitions in Iraq. Although the scope of these

reviews encompasses much more than Iraq policy, their respective findings will affect the future of the U.S. effort.

- **Quadrennial Diplomacy and Development Review (QDDR).** On July 10, 2009, the Secretary of State initiated the first-ever QDDR to assess DoS’s diplomatic and development strategies, stressing the need for more effective interagency coordination.
- **Presidential Study Directive (PSD) on Global Development Policy.** In August 2009, the President signed a Presidential Study Directive authorizing the National Security Advisor and the Chairman of the National Economic Council to lead a government-wide review of U.S. global development policy.

FIGURE 1.1
UNEXPENDED FUNDS
\$ Billions



Note: Data not audited. Numbers affected by rounding. Unexpended funds include expired appropriations. ISFF data provided by OSD is preliminary for the quarter ending September 30, 2009. OSD does not report CERP allocation, obligation, and expenditure data for project categories on a quarterly basis for all fiscal year appropriations; CERP allocation, obligation, and expenditure data is pulled from IRMS for project category analysis, and therefore top-line totals here may not match values found in the Funding Uses subsection of this Report. U.S. Embassy-Baghdad did not provide updated allocation, obligation, and expenditure data for the Democracy and Civil Society, Iraqi Refugees (Jordan), and Regime Crimes Liaison Office sectors; values for these sectors are carried over from the previous quarter.

Sources: NEA-I, response to SIGIR data call, 10/7/2009; DFAS, response to SIGIR data call, 4/10/2009; DoS, response to SIGIR data call, 4/5/2007; Treasury, response to SIGIR data call, 4/2/2009; USAID, responses to SIGIR data call, 4/13/2009 and 10/14/2009; USTDA, response to SIGIR data call, 4/2/2009; OSD, responses to SIGIR data call, 10/13/2009 and 10/14/2009; U.S. Embassy-Baghdad, responses to SIGIR data call, 7/6/2009, 7/16/2009, and 10/3/2009; USACE, GRD, response to SIGIR data call, 10/2/2009.

U.S. Reconstruction Funding and Management

This quarter, U.S. reconstruction efforts continued to focus on increasing the capacity of GOI ministries. Since 2003, the United States has committed \$52.80 billion to the Iraq reconstruction program.¹ Most of this money has been appropriated to four major funds: the Iraq Relief and Reconstruction Fund (IRRF), the Iraq Security Forces Fund (ISFF), the Economic Support Fund (ESF), and the Commander’s Emergency Response Program (CERP). Figure 1.1 details the unexpended U.S. reconstruction funds dedicated to Iraq.

Concerns about the Commander’s Emergency Response Program

The Congress authorized CERP to allow local commanders to support small-scale projects that address urgent relief and reconstruction projects in their areas of responsibility. Since 2004, the Congress has appropriated \$3.65 billion to the CERP

for projects in Iraq; DoD requested an additional \$300 million for FY 2010.

Interagency coordination on CERP improved this quarter, with MNC-I asking DoS and the U.S. Agency for International Development (USAID) for input as it considers which provincial projects to fund. Closer coordination between DoD and DoS could address some of the questions that SIGIR has identified regarding the appropriate use of CERP. For example, CERP has financed:

- a *Financial Times*-affiliated magazine supplement naming Anbar province's governor as a "Global Personality of 2009"
- a sports complex in Baghdad costing several hundred thousand dollars
- a \$2.7 million hotel at Baghdad International Airport

SIGIR has an ongoing audit examining the \$34 million-plus Baghdad Airport Economic Zone.

Security Concerns Persist

The security situation remains mixed. This August, at least 456 people were killed in Iraq—the highest number of deaths from violence in 13 months. But in September, violent deaths dropped by more than half. October brought mass-casualty bombings to two provinces that had been relatively peaceful during 2008 and 2009: Kerbala and Anbar.

Bombing of Ministries of Finance and Foreign Affairs

On August 19, 2009—the sixth anniversary of the bombing that destroyed United Nations (UN) headquarters in Baghdad—a series of coordinated attacks severely damaged the Ministries of Finance and Foreign Affairs. These bombings killed at least 75 Iraqis and injured more than 750, including highly skilled professionals from both ministries.



Aftermath of the August 19, 2009, bombings of the Ministries of Finance and Foreign Affairs. (ATF photo)



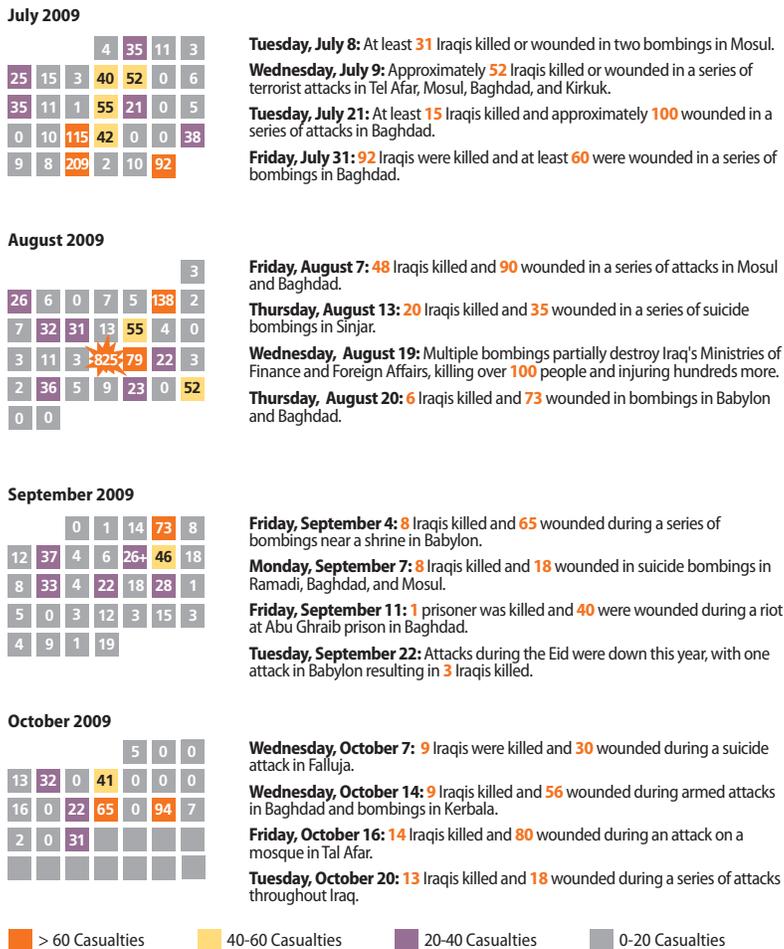
A concrete blast barrier, known as a "t-wall," being emplaced in Baghdad. (MNF-I photo)

In the wake of these attacks, Iraq and Syria recalled their ambassadors, and Iraq's Prime Minister publicly blamed Syria for harboring the perpetrators of these bombings. These attacks also led the GOI to backpedal from previously announced plans to remove the ubiquitous concrete security barriers ("t-walls") that have become a defining feature of Baghdad street life.

Violence Trending Down Overall

Notwithstanding the recent bombings, overall attacks have decreased 85% during the past 2 years,

FIGURE 1.2
SIGNIFICANT SECURITY INCIDENTS, 7/1/2009–10/20/2009



Note: The numbers represented in the calendar graphic are comprehensive estimates of total Iraqi casualties throughout the entire country on that particular day. The text to the right briefly describes significant attacks on select days and does not purport to comprehensively detail all security incidents that occurred on the specified day.

Sources: Information presented herein is based on SIGIR's analysis of open source and official English and Arabic documents, studies, and analyses. All figures based on best available casualty information and represent the sum of killed and wounded for each incident.

from 4,064 in August 2007 to 594 in August 2009.² Further, there were only 19 ethnosectarian attacks this Ramadan, down a remarkable 98% from Ramadan 2006.³ Figure 1.2 charts the approximate number of Iraqi casualties by day from July 1, 2009, to October 20, 2009, noting some of the most significant security incidents that occurred over this 112-day span.

Internal Divisions Persist

In recent congressional testimony, MNF-I Commanding General Raymond Odierno noted that violent groups continue to try to exploit Iraq's internal political tensions, especially in the northern regions. In an effort to ameliorate these tensions, MNF-I announced that it is discussing with the GOI and KRG the possibility of temporarily deploying U.S. forces to northern Iraq. These troops would operate alongside the ISF and the Kurdish Peshmerga in the disputed territories along the internal Iraq-KRG boundary.⁴ According to MNF-I, joint patrols would begin in Ninewa province and then expand to areas around the city of Kirkuk.

Along with Baghdad, the greater Mosul area in Ninewa province remains the primary site of continuing violence in Iraq. On October 16, 2009, a suicide bomber detonated himself inside a Sunni mosque northwest of Mosul, killing at least 14 and injuring more than 80. Figure 1.3 displays the approximate location of this quarter's most serious security incidents in Baghdad and Mosul.

Evolution of U.S. Military Presence

This quarter, U.S. troop redeployments continued pursuant to the schedule articulated by the President in February 2009. However, the Secretary of Defense stated that this schedule could be accelerated if conditions on the ground remain relatively stable. As of late September 2009, the United States had 11 Brigade Combat Teams (BCTs) in Iraq (about 124,000 troops)—down from 14 BCTs (more than 143,500 troops) in January 2009.

By August 31, 2010, approximately 50,000 U.S. forces will remain in Iraq—a nearly 60% decrease from current force levels. This transition force will be centered on six Advise and Assist Brigades (AABs) and three division headquarters. AABs are structured specifically for training the ISF, working closely with the PRTs to provide an added element of security for civilian reconstruction personnel operating in Iraq. The 50,000-person training and

advisory contingent is scheduled to withdraw by the end of 2011.

ISF Manages Security

Iraqi forces are responsible for security operations across the country. As of October 1, 2009, the ISF numbers approximately 663,000 personnel, including 245,000 soldiers and more than 400,000 police.⁵ In July and August, the ISF successfully managed security for two mass Shia pilgrimages. However, Iraq's Army and police forces continue to rely on U.S. forces for support in training, logistics, air operations, and intelligence.

Update on the Sons of Iraq

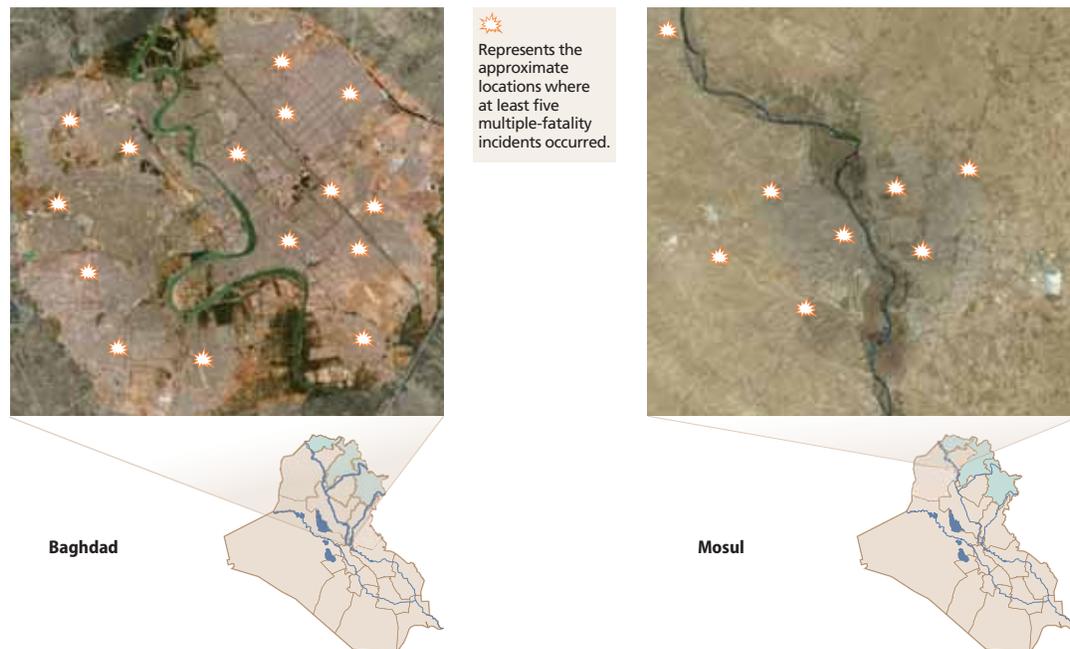
The Sons of Iraq (SOI) program began in 2007 as a U.S.-funded initiative to employ former Sunni insurgents as security guards. The GOI has

repeatedly declared its intention to help integrate SOI members, including hiring approximately 19,000 into the ISF, with the remainder being pensioned off, hired by other government ministries, or placed in positions in the private sector.

In May 2009, the GOI assumed full responsibility for the payment and management of all 95,000 SOI. Despite some delays, the GOI reported to MNF-I that all SOI personnel are being paid.⁶ MNF-I reports, however, that the ISF has absorbed into its ranks only about half of the planned 19,000, while an additional 15,600 have found other employment, leaving more than 70,000 Sunnis uncertain about their future employment in a country where the overall unemployment rate is estimated to be at least 30%.⁷

To address this potential problem, U.S. forces stationed near the restive city of Kirkuk initiated a

FIGURE 1.3
BAGHDAD AND GREATER MOSUL: SELECTED SECURITY INCIDENTS, 7/1/2009–10/15/2009



Sources: Information presented herein is based on SIGIR's analysis of open source and official English and Arabic documents, studies, maps, and satellite imagery.

new program this summer aimed at hiring former SOI leaders as “employment assistance managers” (EAMs). These EAMs will be charged with assisting ex-SOI members in obtaining full-time employment with either the GOI or with local businesses.

NATO Extends Its Training Mission

On July 26, 2009, Iraq’s Minister of Defense and the Deputy Secretary General of the North Atlantic Treaty Organization signed an agreement that will provide the legal basis for NATO to continue training and mentoring the ISF. NATO Training Mission-Iraq (NTM-I) was established in November 2004 and has maintained a continuous presence in Iraq. NTM-I’s training programs emphasize police tactics, border security, and institutional reform. Currently, NTM-I comprises about 210 personnel from 12 NATO countries.

Governance: Elections in the Kurdistan Region

On July 25, 2009, voters in the semi-autonomous Kurdistan Region (Erbil, Dahuk, and Sulaymaniyah provinces) elected a new president and parliament. The elections were the second ever held in the Kurdistan Region. Turnout was high: about 78% of the 2.5 million eligible voters cast ballots at more than 5,400 polling stations.⁸ All 111 seats in the Iraqi Kurdistan Parliament were at stake. Approximately 350 foreign election monitors and more than 7,000 local observers oversaw the elections.

Presidential and Parliamentary Results

In the presidential elections, the status quo prevailed as voters elected incumbent president Masoud Barzani of the Kurdistan Democratic Party (KDP) to another term in office. Barzani garnered about 70% of the vote against four other candidates.

Opposition parties fared better in the parliamentary elections, dramatically reducing the size



GOI and NATO officials agree to extend NATO’s training mission in Iraq. (NATO photo)

of the ruling KDP-Patriotic Union of Kurdistan (PUK) coalition’s majority. The Kurdistan List—the formal name for the KDP-PUK alliance—captured 57% of the vote and 59 seats, down from 100 seats. The Change List party, led by a former high-ranking PUK official, won 24% of the vote and 25 parliamentary seats. Another opposition grouping, the Reform and Services List, won 12% of the vote and 13 seats. Under the Kurdistan Region’s constitution, the remaining 11 seats were allocated among ethnic and religious minorities—6 for Christians and 5 for Turkomen. Figure 1.4 compares the 2005 KRG parliamentary election results to the 2009 outcomes.⁹

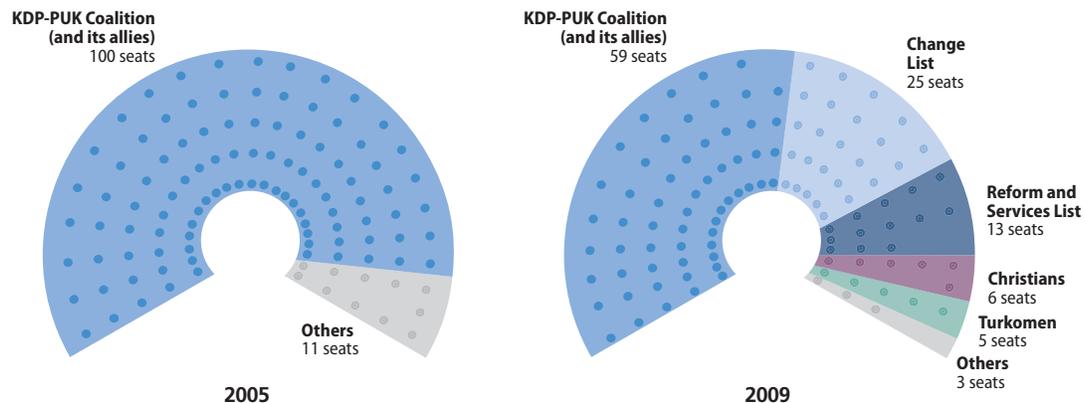
The Kurdistan Regional Government Selects a New Prime Minister

On September 16, 2009, the Kurdistan Parliament chose the PUK’s Barham Saleh as the KRG’s new prime minister. Saleh, the former GOI Deputy Prime Minister, won the support of 73 parliamentarians. In early October, Saleh began forming a new Kurdish government.

Referendum on New Constitution for the Kurdistan Region

In June 2009, the Kurdistan Parliament approved for referendum a new constitution that would claim Kirkuk as a geographic part

FIGURE 1.4
KRG/IRAQI KURDISTAN PARLIAMENT ELECTION RESULTS, 2005 VS. 2009



Source: GOI, www.ihec.iq, "KRG Final Election Results 2005," "KRG Final Election Results 2009," accessed 10/14/2009.

of the Kurdistan Region. The draft constitution would also augment the powers of the Kurdistan Region's president.

In July 2009, Iraq's Independent High Electoral Commission (IHEC) postponed a referendum on this constitution it may be conducted in January 2010.

Governance: Parliamentary Elections

Since the Coalition deposed the former regime in spring 2003, Iraq has had two national elections (both in 2005) and two provincial elections (in 2005 and 2009). These elections have widely been regarded as some of the freest and best managed in the Middle East.

CoR Considers Changes to Elections Law

As of October 24, 2009, the CoR had not finalized the law that would govern the national parliamentary elections scheduled for January 16, 2010. The CoR is considering whether to use the 2005 closed-list procedures, wherein voters selected a party and not an individual, or switch to a more



Iraqi Kurdistan Parliament building. (KRG photo)

transparent open-list system. The Grand Ayatollah Ali al-Sistani has advocated the adoption of an open-list system.¹⁰

The parliamentary elections will see candidates from 296 political entities vying for all 275 seats in the CoR.¹¹ Figure 1.5 shows the distribution of seats in the CoR after the December 2005 parliamentary election—a distribution that may be profoundly altered after the next elections.

Governing Coalition Fractures in Run-up to National Elections

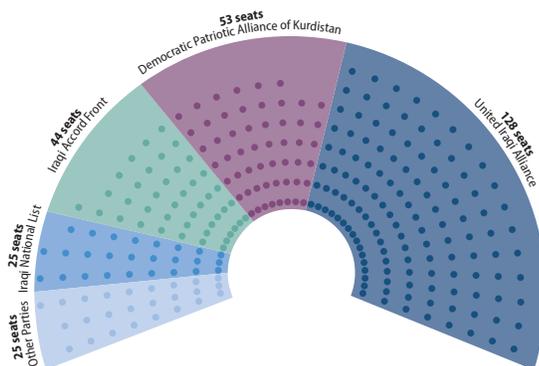
The Shia-led coalition formerly known as United Iraqi Alliance (UIA) currently controls the CoR. In April 2006, the UIA selected Nouri al-Maliki as Prime Minister. This quarter, however, the current governing coalition declined to promise al-Maliki reappointment as Prime Minister if it wins control of the CoR next January. Instead, Prime Minister al-Maliki's former UIA allies formed the Iraqi National Alliance (INA) without him.

As currently structured, the INA includes many of the leading Shia parties, including the Supreme Islamic Iraqi Council (SIIC), the Sadrist Trend, and some allies of former Prime Minister Ibrahim al-Ja'afari. SIIC, the largest member of this bloc, is itself in transition after the death of its longtime leader Abd al-Aziz al-Hakim on August 26, 2009. Shortly after Hakim's death, his 38-year-old son became the leader of the SIIC.

The State of Law Coalition Reorganizes

In the January 2009 provincial elections, the Prime Minister's State of Law Coalition won majorities or pluralities on the provincial councils in 6 of the 14 contested provinces. The State of Law Coalition was a largely Shia movement, although its rhetoric was decidedly nationalistic in tone.

FIGURE 1.5
COUNCIL OF REPRESENTATIVES: 2005 ELECTIONS



Source: GOI, www.ihec.iq, "Final Report of the December 15, 2005, Iraq Council of Representatives Elections," accessed 10/14/2009.

On October 1, 2009, the Prime Minister transformed the State of Law Coalition into a trans-sectarian alliance comprising elements of his Da'awa party, other Shia factions, several Sunni parties, some independents, and the Shia Felyi Kurds, among others. Notably, the Prime Minister has been unable to entice two influential Sunnis into running with him: Sheik Abu Risha (one of the leaders of the Anbar Awakening) and former CoR Speaker Mahmoud al-Mashhadani.

Kurdish Parties Will Participate

The KDP-PUK alliance will run a slate of candidates in the parliamentary elections. In an attempt to build on its strong performance in July's regional elections, the Change List also has announced that it intends to field candidates for national office next year.

Formation of Iraq's Unity Alliance

On October 21, Minister of the Interior Jawad al-Bolani joined forces with Sheik Abu Risha to form Iraq's Unity Alliance, a new political coalition that will contest January's scheduled parliamentary elections. Al-Bolani was formerly affiliated with the United Iraqi Alliance.

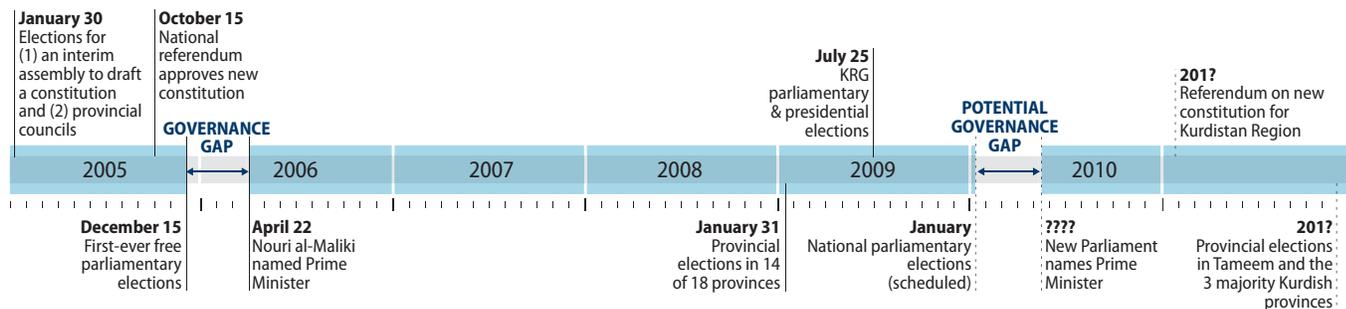
Governance Gap Redux?

Iraq's upcoming parliamentary elections will change the current distribution of power in the CoR. But January's elections will not produce instantaneous changes: a government must be formed thereafter. A prolonged interregnum could occur.

Precedent for such delay exists. On December 15, 2005, Iraq held its first-ever free parliamentary elections, but Nouri al-Maliki was not named Prime Minister until April 22, 2006. Moreover, another month passed until the new Prime Minister named his cabinet ministers in May 2006, effectively paralyzing the upper echelons of the Iraqi government during the peak of the insurgency. Figure 1.6 charts the course of Iraq's democratic evolution.

FIGURE 1.6

IRAQI ELECTIONS, 2005–2010



Note: All events scheduled to occur after October 31, 2009, are subject to postponement. Their placement on the timeline is only an estimate of when they may take place.

Source: SIGIR, *Quarterly Reports to the United States Congress*, 1/2006, 7/2006, and 4/2009.

Referendum on Security Agreement

In the delicate negotiations leading up to the CoR's endorsement of the SA, its backers agreed to conduct a national referendum submitting the SA to the Iraqi electorate for approval. The vote was originally scheduled to be held by mid-2009, but the date was pushed back to January 2010 and may be postponed again.

The referendum's potential consequences are profound. If Iraq's voters decline to endorse the SA, U.S. forces could be compelled to significantly accelerate their withdrawal. This quarter, the U.S. general in charge of redeploying U.S. forces from Iraq cautioned that an accelerated withdrawal would require a focus on the logistical challenges of such a mission at the expense of other tasks, such as training the ISF.

Council of Representatives Activity

The CoR's Ramadan break limited the number of sessions it could hold this quarter. It did not pass any significant new laws, but there were some legislative developments:¹²

- The chairman of the CoR's Hydrocarbons Committee announced that the Parliament will not consider the long-delayed package of hydrocarbon laws before next year's elections.
- The Council of Ministers (CoM) submitted to the CoR a draft law re-establishing the Iraq National Oil Company (INOC), which was

disbanded in 1987. Under the provisions of this bill, INOC would report to the CoM—not to the Ministry of Oil. No action is expected on this proposal until the new CoR is seated in 2010.¹³

- According to DoS, the CoM approved draft legislation prohibiting senior GOI officials from holding dual citizenship. If approved, the bill would affect more than half of Iraq's cabinet ministers. Here again, no action is expected on this proposal until next year at the earliest.

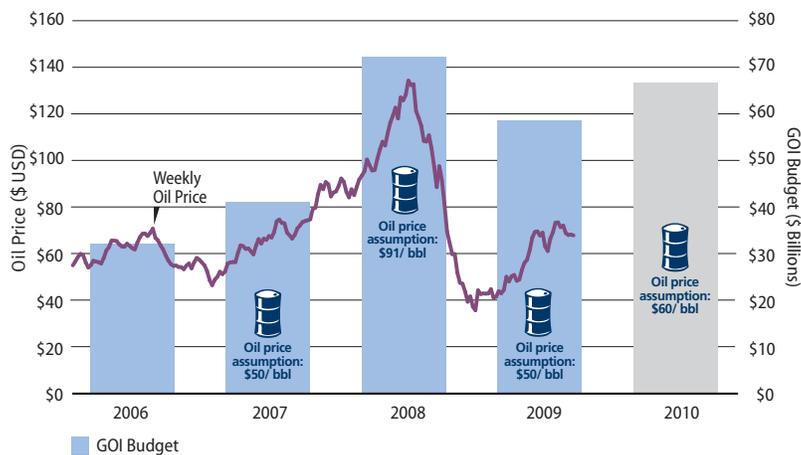
Economy

Oil exports provide the vast majority of the GOI's revenue, making the size of Iraq's assets—and, hence, its ability to deliver services—largely dependent on the global oil market.

The Government of Iraq's 2009 Proposed Supplemental Budget

This quarter, the CoR debated a supplemental budget bill of about \$5 billion that would increase the overall size of the GOI's 2009 budget to \$63.6 billion.¹⁴ This proposal was submitted because oil prices had risen and remained above the \$50 price per barrel on which the 2009 budget was initially based. In mid-October, prices hovered around \$75 per barrel.

FIGURE 1.7
WEEKLY OIL PRICE, GOI BUDGET, AND OIL PRICE ASSUMPTIONS,
2006–2010



Note: Oil prices reflect the average weekly price of Kirkuk crude oil. The Iraqi Council of Ministers approved the 2010 budget on 10/13/2009, and it must now be reviewed and approved by the Council of Representatives.

Sources: U.S. Energy Information Administration, "World Crude Oil Prices: OPEC Average," 9/30/2009, <http://www.eia.doe.gov>, accessed 10/5/2009; "GOI Budget" (as approved by TNA and written into last December 2005); U.S. Treasury, responses to SIGIR data call, 1/4/2008 and 4/9/2009; GOI, Cabinet of Ministers, <http://www.cabinet.iq>, accessed 10/14/2009.

First Draft of Iraq's 2010 Budget

On October 13, 2009, the CoM submitted its draft budget for 2010 to the CoR. This \$66.7 billion proposal is 14% more than the 2009 budget of \$58.6 billion.¹⁵ Two crucial assumptions underlie the financial projections made in this draft:

- **Price.** The draft 2010 budget is based on the assumption that oil prices will average \$60 per barrel next year.¹⁶ This is 20% higher than the export price of \$50 per barrel assumed for 2009. This quarter, the average price per barrel of Kirkuk crude oil on the global market was \$68.54.¹⁷
- **Export levels.** The draft budget also assumes export levels of 2.15 million barrels per day (MBPD) for 2010. This is an increase of 7.5% over the 2009 target of 2 MBPD. Iraq, however, averaged exports of 1.85 MBPD between October 1, 2008, and October 1, 2009—or 8% less than its desired target for 2009 and 16.2% under the 2010 goal.¹⁸

Figure 1.7 shows the relationship between the price of oil and the size of the GOI's budget between 2006 and 2010.

If a budget for 2010 is not approved by January 1, 2010—as was the case in 2009—the Ministry of Finance is authorized to approve one-twelfth of the funds from the previous year to fund government operations for the month of January.¹⁹

Energy Developments

Oil: Output Up

This quarter, crude oil production averaged 2.49 MBPD, up 3% from last quarter's average and slightly above the previous post-invasion high.²⁰ However, production has yet to reach the 2009 target of 2.01 MBPD. From July to September, exports averaged 1.97 MBPD, up 7% from last quarter.²¹

Legal uncertainty caused by the failure of the GOI and KRG to reach an accord on revenue sharing deterred many of the more risk-averse multinationals from investing in Iraq's oil industries. One consequence of the ongoing dispute between the KRG and the GOI is that the three international companies operating in the Tawke and Taq Taq oil fields have yet to be paid for their services.²²

On October 9, 2009, the KRG's Minister of Natural Resources announced that oil exports from the Kurdistan Region would be halted until Baghdad honors the contracts signed between the KRG and the international oil companies operating there.²³ Baghdad regards the pacts as illegal and the KRG contends that it cannot afford to pay the firms for their services.

Oil: Auctioning Production Rights To Entice Foreign Investment

On June 30, 2009, Iraq auctioned production rights for 6 oil and gas fields in a bidding process open to foreign companies for the first time in more than 30 years. More than 20 international firms participated in the June round of bidding, but the only

development agreement awarded went to a joint venture between British Petroleum (BP) and the China National Petroleum Corporation (CNPC) for the Rumaila oil field in southern Iraq. In mid-October, the CoM reportedly approved final contract terms with the BP-CNPC consortium.²⁴

In late 2009 or early 2010, Iraq intends to conduct a second round of bidding covering ten additional fields, which are largely undeveloped. As of September 30, 2009, more than 40 foreign oil companies had pre-qualified to participate in the second round of bidding, including at least 7 firms from the United States, 5 from Japan, 4 from Russia, and 4 from the People's Republic of China.²⁵

Oil: Transparency in Managing Revenue

Since 2003, Iraq's oil revenues have been deposited into the Development Fund for Iraq, which is overseen by the UN-appointed International Advisory and Monitoring Board (IAMB). However, the IAMB's mandate—along with protections against the seizure of Iraqi oil from creditors—expires at the end of 2009, at which time it must be renewed, or it will lapse.

In July 2009, the UN Secretary General released a report cautioning that “much remains to be done before a fully operational control and measurement system over oil production, distribution, and export sales can be comprehensively implemented” in Iraq. It estimated that the earliest such measures could be put in place would be 2011.²⁶

Electricity: Record Set

For the first time since 2003, Iraq's average electricity output has surpassed the 6,000 megawatt (MW) goal set in August 2003. The daily electricity supply—including domestic production and imports—averaged 6,439 MW this quarter.²⁷ This constitutes almost a 10% increase over last quarter's supply figures; however, many Iraqis report that the national grid remains inadequate, forcing them to rely on costly private generators.

On August 1, 2009, Prime Minister al-Maliki announced that the GOI would be unable to

pay General Electric for \$2.4 billion in electrical infrastructure equipment because the CoR declined to approve the bond sale that would have financed the deal. Subsequently, the Central Bank of Iraq allowed the Ministry of Finance to borrow funds from Iraq's banks to fund the purchase of this equipment, which is scheduled to be installed between 2010 and 2012.

The Water Crisis

Another year of below-average rainfall and reduced water flows into the Tigris, Euphrates, and other rivers have caused sustained drought conditions in Iraq. The consequences of this include:

- a drop in hydroelectric power generation
- the precipitous decline of Iraq's once-robust date industry
- increased desertification

Iraq does not control the headwaters of the Tigris and Euphrates rivers, making regional cooperation on water issues a matter of great importance for the GOI. Iraqi officials regularly express concern over Turkey's refusal to release more water for use by its downstream neighbors. On September 3, 2009, GOI representatives met with Turkish and Syrian officials to discuss water issues.²⁸ Later



U.S. forces attached to an Advise and Assist Brigade patrol the Euphrates River with the Iraqi police. (MNF-I photo)

in September, Turkey agreed to release more water from the Euphrates River to Iraq, but only on a short-term basis.

Anticorruption

Board of Supreme Audit

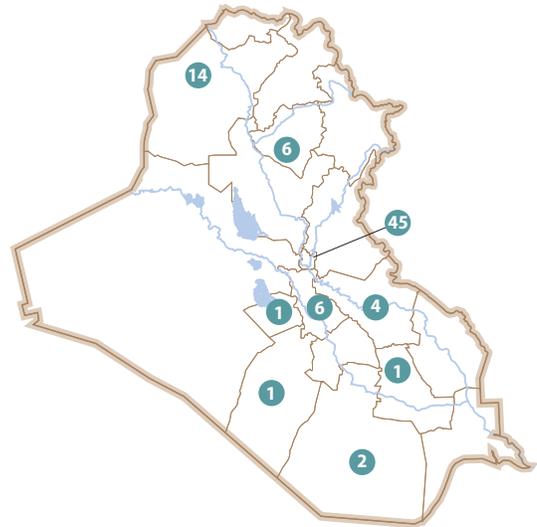
The Board of Supreme Audit (BSA) is Iraq's largest and oldest anticorruption institution. It is charged with oversight of the GOI's public expenditures. Although the BSA continues to face myriad obstacles to fulfilling its mandate of preventing, detecting, and deterring corruption, it is generally regarded as Iraq's most competent oversight body.

Earlier this year, SIGIR and the BSA agreed to conduct a joint review of the Iraq-Commander's Emergency Response Program (I-CERP), under which MNF-I manages reconstruction projects funded by the GOI. In July 2009, the BSA issued its own I-CERP report. It concluded that U.S. data on the I-CERP is incomplete, thereby hindering GOI's oversight of the U.S.-managed program. SIGIR's review of I-CERP found that MNF-I has generally managed the I-CERP program in accordance with the terms of its agreement with the GOI. Nevertheless, SIGIR determined that MNF-I could improve the thoroughness of the quarterly reports it is providing to the GOI. For more details on this report, see SIGIR Audits in Section 4.

Commission on Integrity

Iraq's Commission on Integrity (COI) has three primary missions: increasing governmental transparency, investigating allegations of corruption against GOI officials, and educating the Iraqi public about the dangers of public corruption. But the GOI's anticorruption institutions and judiciary continue to face difficulties in establishing robust enforcement capacities, especially outside of Baghdad. Figure 1.8 summarizes the number of persons convicted on corruption charges in 9 of Iraq's 18 provinces from January to early August 2009.

FIGURE 1.8
CONVICTIONS FOR CORRUPTION, BY PROVINCE,
1/1/2009–8/3/2009



Note: Numbers refer to individuals convicted in that province's courts from January 1 to August 3, 2009. The COI did not provide data on the provinces without a number. This should not be construed as implying that no corruption convictions occurred in those provinces during the specified timeframe.

Source: GOI, Commission on Integrity, "Statistical Report for Baghdad and the Provinces," 8/3/2009.

In August, the Inspector General met with the COI Commissioner to work on better collaboration. After this meeting, the COI provided SIGIR with information about recent enforcement activities. According to COI records on individuals convicted for corruption-related offenses between January 1, 2009, and August 3, 2009:²⁹

- 5% of those convicted were found guilty of receiving bribes.
- 12% of the convictions were for embezzlement.
- The amount of the corruption could not be valued in 79% of the cases.
- In the 14 cases where COI could estimate it, the value of the corruption was about \$136,000.
- 42% of those convicted were absent from their sentencing hearing.
- 12 worked for the Ministry of Defense, 9 for the Ministry of Finance, 7 for the Ministry of the

Interior, and 1 each from the Ministries of Oil, Transportation, Labor, Justice, Electricity, and Displacement and Migration.

- Of the convictions, 42% were for crimes involving the use of fake documents or credentials (usually diplomas).

Corruption within the Government of Iraq

This quarter, the GOI made some progress in investigating allegations of corruption at the highest levels of the Iraqi government.

- In September, a COI operation led to the arrest of Iraq's Deputy Minister of Transportation for corruption. He was allegedly videotaped accepting a bribe of about \$100,000 from a company seeking to do business with the GOI.³⁰
- Trial preparations continued in the corruption case of the former Minister of Trade who was arrested last quarter as he tried to fly to Dubai. The former Minister is accused of stealing state funds and mismanaging Iraq's food-distribution system.³¹
- The CoR resumed questioning GOI ministers on matters involving corruption and ineffective management of their departments. Most recently, the CoR questioned the Minister of Electricity about Iraq's persistent power shortages.

Rule of Law

Thirty-eight judges have been killed in Iraq since 2003. Although no judges were killed this quarter, in September an improvised explosive device went off in front of the house of a criminal court judge in Ninewa province, underscoring the dangers faced daily by Iraq's jurists.

Detainees

Under the terms of the Security Agreement, all Iraqi detainees held by the U.S. military must be released if the GOI has not issued an arrest warrant or detention order for them. To comply with

this mandate, MNF-I has been regularly transferring detainees to Iraqi custody or releasing them. Since January, more than 5,200 detainees have been released, and more than 1,100 others have been transferred to the GOI. As of late September, the number of Iraqi citizens in U.S. custody numbered 8,305.³²

On September 17, 2009, MNF-I closed Camp Bucca, the isolated desert prison that once housed more than 23,000 detainees. All remaining prisoners were transferred to either Camp Cropper or Camp Taji, the only two remaining U.S.-administered detention facilities. Camps Cropper and Taji are scheduled to close down in 2010.

The imminent closure of all U.S.-administered prisons highlights the importance of the GOI's ongoing efforts to develop corrections facilities and trained personnel capable of running modern penal institutions. This quarter, SIGIR issued an inspections report assessing the \$29 million, U.S.-funded Chamchamal Correctional Facility in the Kurdistan Region finding that it was well constructed. As of October 14, 2009, DoS reports that Chamchamal houses more than 2,600 inmates, but is still not linked to the national electricity grid.

International Developments

This quarter, the newly appointed Special Representative of the UN Secretary-General Ad Melkert arrived in Baghdad, and the mandate of the UN Assistance Mission in Iraq was renewed for another year.

International Monetary Fund

According to DoS, the International Monetary Fund (IMF) agreed to provide Iraq with \$1.8 billion in assistance funds in late September. A spokesman for the Central Bank of Iraq stated that these funds would be used to finance infrastructure projects.³³

Iraq also continued to negotiate with the IMF for a \$5.4 billion stand-by arrangement. In early October 2009, the GOI and IMF held inconclusive negotiations on the terms of this loan agreement.

SIGIR Oversight

Audits

SIGIR's Audit Directorate issued six reports this quarter. Since 2004, SIGIR has issued 155 audit reports. SIGIR's audits this quarter reviewed the following:

- **USACE accounting for the DFI funds it received.** SIGIR identified a number of policy issues related to the management of DFI funds that require DoD attention and \$14.4 million that may potentially be available for return to the GOI. Issues that need to be addressed include the use and disposition of DFI funds that USACE and one of its contractors is holding, whether GOI funds should have been used to pay reimbursable work order expenses associated with DFI contracts, and how interest that might have been earned by several contractors on disallowed payments should be used.
- **DoD's management of the Iraq-Commander's Emergency Response Program (I-CERP).** MNF-I has generally managed the I-CERP program in accordance with the terms in an agreement with the GOI. But although MNF-I is accounting for how the funds are used and disbursed, it can improve the thoroughness of the reports it is providing to the GOI, particularly for those projects valued at \$50,000 or more. In these cases, MNF-I provided files on only 206 of the 344 projects, and some of these lacked detailed project information. Moreover, sustainment letters, which MNF-I and the GOI sign at the start of a project, were missing in 13 files. When sustainment letters were included, more than 20 lacked a GOI signature, and over 30 lacked a U.S. military signature.
- **More than \$1.1 billion spent under two contracts to the Environmental Chemical Corporation, primarily for the construction of Iraq security facilities.** SIGIR determined that numerous facilities were constructed with these funds, but that security concerns and changes in the nature of the work led to increased costs from \$655 million to about \$1.12 billion.
- **DoD's oversight of invoices for the Global Maintenance and Supply Services (GMASS) contract, which was meant to assist the Iraqi Army in improving its logistics capability.** As of September 2009, \$683 million had been obligated from the ISFF on three task orders issued under this contract. However, weak invoice-review processes and a dearth of experienced personnel left the U.S. government vulnerable to undetected overcharges. SIGIR's analysis of selected GMASS contract invoices showed the contractor, AECOM, potentially overbilled or cannot support about \$4.4 million in costs. Specifically, SIGIR analyzed purchases of vehicle parts on four invoices totaling \$29.9 million and identified about \$4.1 million in potential overbillings. For example, although the price agreed to in the contract for a package of 10 washers was \$1.22, the contractor charged \$196.50 for each package. SIGIR also found that the contractor did not provide cost support for 31 transactions, resulting in an additional \$340,000 in questioned costs.



A SIGIR audit identified more than \$4 million in potential overbillings by a government contractor. For example, the contractor charged \$196.50 for a package of washers; the price should have been \$1.22.

SIGIR's enabling legislation requires a forensic audit of all U.S. funding provided for the reconstruction of Iraq, which to date totals about \$50 billion in program funding. This quarter, SIGIR published the first in a series of reports describing the methodology and preliminary results of SIGIR's forensic auditing efforts. The report discusses that SIGIR's 17 audits of major construction contracts involving about \$6.4 billion in Iraq reconstruction funds identified a number of internal weaknesses, such as inadequate oversight of contractors and their invoices, and excessive changes in numbers of task and change orders. Additionally, the report discusses that SIGIR plans to forensically examine \$35.2 billion in DoD financial transactions under IRRF, ISFF, ESF, and CERP appropriations, and that SIGIR is in the process of auditing about 22,000 DoD expenditure transactions involving about \$10.7 billion. To date, SIGIR has identified a number of anomalous transactions, such as payments that appear to be duplicative and payments that appear to be to fictitious addresses and to contractors that were possibly suspended or debarred. SIGIR will continue to provide reports on its forensic work as appropriate.

Finally, SIGIR issued a letter in response to concerns raised by the BSA about potential duplicate payments paid by the U.S. government to contracting companies. SIGIR analyzed reconstruction data provided to the BSA and determined that, although no duplicate projects or payments were identified, the information provided to the GOI was unclear and gave the appearance of duplicate projects and payments. This reinforces the need to maintain accurate records on U.S.-funded reconstruction initiatives. For more information on these reports, see Section 4.

Investigations

On October 20, 2009, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) presented its annual Award for Excellence to three members of SIGIR's Investigations Directorate and seven of their colleagues from the federal law-enforcement community. The award recognized

their work to unravel the Bloom-Stein conspiracy to defraud the Coalition Provisional Authority of several million dollars, which resulted in seven convictions or guilty pleas.

To date, SIGIR's investigative work has resulted in 24 arrests, 31 indictments, and 24 convictions, as well as more than \$49.1 million in fines, forfeitures, and recoveries. Highlights from this quarter's investigative activities included:

- On July 28, 2009, Nyree Pettaway pled guilty to conspiring with her uncle, U.S. Army Major John C. Cockerham, and others to obstructing the money-laundering investigation relating to Cockerham's receipt of more than \$9 million in bribes while he served as a contracting officer in Kuwait. Moreover, on September 17, authorities searched a safe deposit box leased by Melissa Cockerham, John's wife, and seized \$1.5 million and more than \$54,000 in foreign currency.
- On August 5, 2009, William Driver, a New Jersey accountant, pled guilty to laundering funds stolen from the CPA by his wife, Debra Harrison, a former U.S. Army lieutenant colonel who served in Hilla.
- On September 3, 2009, Marine Corps master gunnery sergeant Luis A. Lopez pled guilty during a court-martial proceeding to taking \$67,000 from three contractors while he was stationed in Iraq in 2005. Lopez was sentenced to total forfeiture of all pay and allowances, a \$10,000 fine, and 89 days of confinement. He was also required to return all of the money he had received and still possessed.

Currently, SIGIR has 96 open investigations. For additional details concerning these investigations, see Section 4.

Inspections

In October, SIGIR Inspections received CIGIE's *Sentner Award for Dedication and Courage*. The award recognized team members who regularly endure significant personal risk traveling throughout Iraq to provide information on relief and reconstruction.

SIGIR published five inspection reports this quarter, including assessments of a prison, an orphanage, a slaughterhouse, an ISF command facility, and a secure document-storage complex for holding court records of war crimes trials. To date, SIGIR has produced 159 project assessments. This quarter's reports included:

- **Chamchamal Correctional Facility (Kurdistan Region).** The objective of this \$29 million INL-funded project was to convert an existing fort into a modern correctional facility that could hold 2,000 medium-security and 1,000 high-security inmates. SIGIR inspectors identified some minor construction deficiencies, but the construction work was satisfactory. The project was transferred to the Iraqi Correctional Service (part of the Ministry of Justice) in March 2009. However, when SIGIR visited the site in June 2009, the facility had no guards and housed no prisoners because the KRG had not dedicated adequate budgetary resources to supplying the prison both with a steady supply of electricity and a full complement of correctional officers. The prison opened this quarter, and U.S. Embassy-Baghdad reports that it currently holds more than 2,600 inmates, but is still not connected to the national power grid.
- **Al Kasik Location Command (Ninewa Province).** The purpose of this ongoing \$6.3 million ISFF project is to design and construct a Location Command complex in Al Kasik for the Iraqi Army. SIGIR inspected the site in May 2009 and found it to be about 56% complete. While on site, SIGIR observed several construction issues, including problems with the sewage system and the foundation. SIGIR raised these issues with GRD representatives who stated that corrective actions would be taken. Overall, SIGIR determined the results to be consistent with the original objectives.
- **Orphanage and Senior Citizen Assisted Living Center (Kurdistan Region).** The goal of this \$3.7 million ESF-funded orphanage and senior assisted living center was to house 345 children and 60 senior citizens. A showcase project for

the KRG, SIGIR found it to be well constructed despite some minor “childproofing” issues that were rectified. At the time of SIGIR’s inspection in July 2009, the center had been operational for about five months.

- **Abattoir (Slaughterhouse) in Qaladze (Kurdistan Region).** The aim of this ongoing ESF-funded \$1.1 million project was to build a multi-building slaughterhouse complex that would provide approximately 120,000 local residents with regular access to meat prepared in the most hygienic manner practicable. SIGIR inspectors identified two construction issues, which the contractor quickly remedied. Moreover, SIGIR found the contractor’s three-phase quality-control management program and the U.S. government’s quality assurance program to be effective.
- **Secure Document Storage Facility (Baghdad Province).** The objective of this \$1.9 million IRRF-funded project was to provide a secure storage facility for sensitive documents that have been, or will be, used by the Iraqi High Tribunal (IHT) to prosecute alleged war crimes. SIGIR inspected the site on three separate occasions (February, March, and September 2009). On SIGIR’s first visits, inspectors noted several construction deficiencies, including problems with the roof and the ventilation system. By the time of SIGIR’s third visit, however, the contractor had fixed these problems. The IHT reports that it is pleased with the facility and has stated that it will help them carry out their mission.

For more on these inspections, see Section 4.

The Human Toll

In the first full quarter since U.S. forces stopped patrolling Baghdad’s streets on a regular basis, the International Zone remained largely quiet despite the occurrence of several mass-casualty attacks just outside its perimeter.

GOI Issues First Report on War's Consequences

On October 13, 2009, the GOI released its first comprehensive study of the war's human costs. The report, issued by Iraq's Ministry of Human Rights, studied casualty data from 2004–2008, estimating that 85,694 Iraqi citizens were killed during this time period and another 147,195 injured. Included in the report's death toll were 269 journalists and 263 university professors. The report's conclusions were based on the number death certificates issued by the Ministry of Health and did not include data from 2003 because of the difficulty in obtaining accurate information about violent deaths that occurred those initial chaotic months after the Coalition deposed the former regime.³⁴

U.S. Civilians

The Department of State reported that six U.S. civilians died in Iraq between July 1 and September 30, 2009. This tally includes one civilian contractor who was shot and killed on September 13, allegedly by a U.S. soldier on a military base in northern Iraq. At least 294 U.S. civilians have died in Iraq since March 2003.³⁵

Contractors

This quarter, the Department of Labor (DoL) received reports of 47 new deaths for civilian contractors working on U.S.-funded projects in Iraq. DoL also received reports of 519 injuries this quarter that caused the injured contractors to miss at least four days of work. Since 2003, 1,442 death cases have been reported to DoL.³⁶

Until the U.S.-Iraq Security Agreement entered into effect on January 1, 2009, CPA Order No. 17 afforded blanket immunity from Iraqi law to contractors working in Iraq. The SA lifted this immunity in most instances, but no foreign contractor has been tried in an Iraqi court for a capital crime. This soon may change. A British security contractor may be charged under the

Iraqi Penal Code with the August 2009 shooting deaths of two other expatriate security contractors. If convicted, he could face the death penalty or life in prison.

Journalists

On October 21, a journalist was killed in Iraq, bringing the total killed this year to four. From 2003 through 2008, Iraq was the deadliest country in the world for practicing journalists. But, as of September 30, 2009, Somalia appears on course to claim this dubious distinction: six journalists were confirmed killed there over the first nine months of 2009.³⁷

Internally Displaced Persons

The International Organization for Migration in Iraq (IOM) issued a series of reports this quarter attempting to measure the scope and nature of the problem of internally displaced persons (IDPs) in Iraq. IOM's findings included:³⁸

- 45% of IOM-assessed post-February 2006 IDPs currently reside in Baghdad.
- 58% of IDP families in Diyala are without a source of income.
- Nearly 5,600 families displaced from their homes in Anbar after 2006 have returned to the province.
- More than two-thirds of Ninewa's IDP families are members of Iraq's religious and ethnic minority communities, including Christians, Turkomen, and Kurds.

Regardless of their place of origin or current domicile, common problems confront all IDPs, including the need for employment and permanent housing. Although accurate and consistent estimates of returned IDPs are difficult to obtain, the most recent statistics from the UN High Commissioner for Refugees showed that of the approximately 2.65 million IDPs protected or assisted by the UN, only 195,890 had returned home.³⁹ ♦