

# SIGIR OBSERVATIONS

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1

## CORRUPTION AND CONTROVERSY

This quarter, a number of Government of Iraq (GOI) officials told SIGIR that corruption was on the rise, diverting significant amounts of Iraq's increasing oil income away from pressing economic and social needs. Moreover, Prime Minister Nuri al-Maliki's opponents remained concerned about the continuing political imbroglio, which has been exacerbated by constitutionally questionable acts. For example, the decision by the Council of Ministers (CoM) to dismiss the Governor of the Central Bank of Iraq (CBI) and appoint a temporary successor created controversy both inside and outside Iraq. Other signs of political strain:

- **An increase in violence.** On September 9, when a Baghdad court sentenced Vice President Tariq al-Hashimi to death, the country suffered its bloodiest day of violence in more than two years.
- **Problems in the GOI's relations with Turkey.** Iraq's relations with its northern neighbor and major trading partner grew worse this quarter because of Turkey's independent dealings with the Kurdistan Regional Government (KRG) and the continued presence in Istanbul of Iraq's estranged Vice President, al-Hashimi.
- **Challenges from Syria.** The civil unrest in Syria caused thousands of Syrians to seek refuge in Iraq and more Iraqi refugees to return home from Syria. Concerns increased that the conflict in Syria would spill over into Iraq.

Notwithstanding these difficulties, Iraq showed tangible signs of progress. Crude oil production and exports both reached levels not seen in more than two decades. Iraq overtook Iran as the second-largest producer of crude oil in the Organization of the Petroleum Exporting Countries, and its projected gross domestic product (GDP) growth rate for 2012 was among the highest of oil-exporting nations in the Middle East and North Africa

region. In the still-struggling electric power sector, production increased by unprecedented amounts. A GOI agreement with the KRG secured the resumption of crude oil exports from the Kurdistan Region, temporarily assuaging the dispute over the control of hydrocarbon resources within the KRG.

## U.S. MISSION

### Diplomatic Presence

On October 14, Ambassador Robert Stephen Beecroft presented his credentials as the new U.S. Ambassador to Iraq to Foreign Minister Hoshiyar Zebari. A career Foreign Service Officer and deeply experienced Middle East diplomat, Ambassador Beecroft was nominated by President Barack Obama on September 10 and was quickly confirmed by the U.S. Senate. Ambassador Beecroft, who previously served at U.S. missions in Syria and Saudi Arabia and as Ambassador to Jordan from 2008 to 2011, has worked in Iraq since July 2011, first as Deputy Chief of Mission and then, since June 2012, as Chargé d'affaires.<sup>1</sup>

In testimony before the Senate Foreign Relations Committee on September 19, 2012, Ambassador Beecroft discussed the current state of the U.S. Mission and developments in the GOI:<sup>2</sup>

- **On the Embassy size**—“Since the beginning of the year, we have reduced personnel by more than 2,000. We're now somewhere between 13,000 and 14,000 personnel in Iraq, down from over 16,000.... So we are reducing not just the number of personnel, but we're reducing the number of pieces of property that we occupy and we use.”
- **On Embassy security**—“We have our own security at the Embassy. We think it is sizable. It is robust—and we're very confident that it's what we need at this time. At the same time, we're fully engaged with Iraqi officials ... to ensure that they give us the cooperation that we feel we need. They have pledged to protect us, and we're

GOI officials told SIGIR that corruption was on the rise, diverting significant amounts of Iraq's increasing oil income away from pressing economic and social needs.

## Corruption at the Central Bank of Iraq?

On October 16, 2012, the Council of Ministers dismissed CBI Governor Dr. Sinan al-Shabibi, replacing him, on an interim basis, with the President of the Board of Supreme Audit (BSA), Dr. Abdul Basit Turki al-Sae'ed. The decision to replace Dr. al-Shabibi came amid claims that the CBI's role in supervising the country's banking system was compromised and that corruption was growing to unprecedented levels. Dr. al-Shabibi was said to be under investigation for possible misconduct, and a warrant was issued for his arrest.<sup>3</sup>

The former CBI Governor is credited by many analysts for maintaining the stability of the Iraqi dinar and for keeping inflation and interest rates low—all viewed as crucially important

prerequisites for the kind of well-managed economic growth Iraq hopes to achieve with its enormous oil wealth.<sup>4</sup>

Political opponents of Prime Minister al-Maliki, along with many banking and financial experts, expressed immediate concern that the dismissal of Dr. al-Shabibi—who is widely viewed as personally honest and professionally effective—was an attempt to bring the CBI and its \$63 billion in reserves under executive branch control. They pointed to the CoM's action as just one of among several steps the Prime Minister has taken to concentrate power within his office. For example, in 2010, al-Maliki won a legal case that effectively shifted control of independent agencies, such as the CBI, from the Council of Representatives (CoR) to the CoM. In an advisory opinion issued in February 2012, the Higher

Judicial Council affirmed the earlier ruling, this time naming the CBI. The ruling drew criticism at the time as a violation of the CBI's independence as guaranteed under the 2005 Iraqi Constitution.<sup>5</sup>

An audit of the CBI and its daily currency auctions completed by the BSA this quarter and personally supervised by Dr. Abdul Basit concluded that, of the \$1 billion transferred out of Iraq each week, at least \$800 million is laundered money—that is, transferred illegally under false pretenses. In a meeting with the Inspector General in mid-September, Dr. Abdul Basit talked about the BSA audit and what he called a triangle of sectarianism, corruption, and violence, in which each element feeds off the others in a dynamic that threatens the well-being of the state.<sup>6</sup>



Iraqi television reports the dismissal of CBI Governor Dr. Sinan al-Shabibi (right) and appointment of Dr. Abdul Basit Turki al-Sae'ed (left) as his acting replacement in an October 16, 2012, newscast.



The Inspector General meets with BSA President Dr. Abdul Basit Turki al-Sae'ed on September 18, 2012.

- doing everything to ensure that they keep to that pledge.”
- **On Iraqi reluctance to control Iranian overflights to Syria**—“They’re taking the manifests at face value. And what we’re urging them to do is either disapprove the flights or, per United Nations resolutions, ask them to land.”

- **On reports of authoritarianism within al-Maliki’s government**—“Iraq is ... a democracy. It does face a lot of issues that are challenging to that democracy. It is fragile in many ways. We are working constantly with all sides ... In short, what we’re doing is pushing them all to engage to pursue their interests in the legislative process,



Ambassador Beecroft is sworn in on October 11, 2012. (DoS photo)

in an independent reform process that they've agreed to.”

- **On the GOP's ability to manage political differences within the political process and what the U.S. government can do to encourage cooperation or consensus**—“Now, it's oftentimes a slow, protracted process. It certainly doesn't move at the pace that we would like to see, or with the efficiency we would like to see. But as I see it, our role is largely to continue to encourage this, to ... be helpful in pointing out ways forward, ways things might be done, the way they might be able to compromise or reach consensus on issues.... But again, I'd like to reiterate, the encouraging thing is that Iraq has not fallen apart. That it has held together.”

## U.S. Reconstruction Funding

As of the end of September, \$212.32 billion had been made available for the relief and reconstruction of Iraq through three main sources (see Figure 1.1):

- Iraqi funds overseen by the Coalition Provisional Authority (CPA) and the Iraqi capital budget—\$138.08 billion, including \$31.88 billion made available for capital expenditure in Iraq's 2012 budget<sup>7</sup>
- U.S. appropriations—\$60.48 billion, including \$2.22 billion made available through FY 2012 appropriations<sup>8</sup>

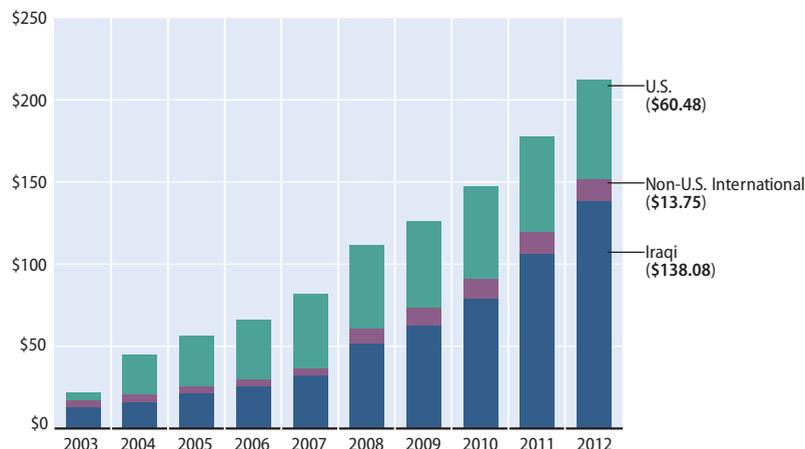
- International commitments of assistance and loans from non-U.S. sources—\$13.75 billion<sup>9</sup>

Of the \$60.48 billion in total U.S. reconstruction appropriations for Iraq, \$55.19 billion had been obligated and \$53.26 billion had been expended as of September 30.<sup>10</sup> More than 85% of the U.S. funding has been provided through five major funds. Of these five, three remain active: the Iraq Security Forces Fund (ISFF), the Economic Support Fund (ESF) and the International Narcotics Control and Law Enforcement (INCLE) account. These three funds collectively have \$1.35 billion in unexpended obligations and \$453 million in appropriations still available for obligation to new activities.<sup>11</sup>

As of September 30, the Office of Security Cooperation-Iraq (OSC-I) had obligated 99.2% of FY 2011 ISFF funding by the end of the fiscal year<sup>12</sup>—\$425.7 million in this quarter alone.<sup>13</sup> Plans call for \$850 million in Foreign Military Financing (FMF) to be made available for Iraq in FY 2012 for critical sustainment and equipment support to the Iraqi Security Forces (ISF). However, OSC-I reported

“The encouraging thing is that Iraq has not fallen apart.”

FIGURE 1.1  
CUMULATIVE U.S., IRAQI, AND NON-U.S. INTERNATIONAL SUPPORT FOR RECONSTRUCTION, 2003–2012  
\$ Billions



Note: Data not audited. Numbers affected by rounding. U.S. contributions are represented by U.S. fiscal year. Iraqi and non-U.S. International contributions are represented by calendar year. Iraqi funding reflects capital budgets for 2003–2005 and 2011–2012, as well as actual capital expenditures for 2006–2010.

Sources: Refer to Section 2 of this Report for individual sources.

that none of these FMF funds had yet been made available for use as of September 30, 2012, which may affect the logistics support for several Iraqi Air Force platforms.<sup>14</sup>

### U.S. Government and Contractor Personnel

Although Ambassador Beecroft told the Senate Foreign Relations Committee on September 19 that the size of the U.S. Mission in Iraq continued to decline this quarter,<sup>15</sup> reporting to SIGIR on the personnel totals indicated some ambiguity about actual numbers. U.S. Embassy-Baghdad reported that 16,035 persons supported the U.S. Mission in Iraq at the end of the quarter, including 1,075 U.S. government civilian employees and 14,960 contractor personnel. The Embassy said the discrepancy was due to earlier underreporting of certain staff categories. The contractor levels reported from the Synchronized Predeployment and Operational Tracker (SPOT) database appeared to be more consistent with the numbers cited by Ambassador Beecroft.<sup>16</sup>

OSC-I reported that it was responsible for approximately 6,200 people, including 240 military personnel, as of September 30, 2012. Before mid-October, however, it revised downward its total personnel count (including contractors) by 1,861.<sup>17</sup>

### Police Development Program

On October 1, 2012, the Department of State (DoS) Bureau of International Narcotics and Law Enforcement Affairs (INL) launched a descoped Police Development Program, known as PDP 2. INL's original plan envisioned a program with 350 advisors.<sup>18</sup> However, in response to SIGIR audits, the findings of the first six-month program review, and the desires of the MOI, the program wisely was revised and scaled down, saving substantial taxpayer dollars in the process.<sup>19</sup>

PDP 2 requires 36 advisors, divided evenly between Baghdad and Erbil.<sup>20</sup> Reduced staffing

demands for the program left FY 2012 INCLE funds available for expenditure in FY 2013 and a reduced need for additional funding in FY 2013. INL initially requested \$703.1 million for the PDP in FY 2013 but notified the Congress this quarter that it had reduced its requirements to \$149.6 million, or 21% of the originally planned amount.<sup>21</sup>

As of September 30, INL reported it had 69 PDP staff working with the MOI in Baghdad and Erbil.<sup>22</sup> That is a reduction of 31 employees from the end of the previous quarter.<sup>23</sup> This quarter also saw the turnover of the Baghdad Police Academy Annex to the Ministry of Interior (MOI). The annex had been intended to provide the housing and support structures for the originally planned, more expansive PDP.<sup>24</sup>

### USAID

The U.S. Agency for International Development (USAID) concluded the Community Action Program (CAP), its largest and longest-running program in Iraq at the end of this quarter, and launched three new programs. The CAP began in May 2003 and was designed to develop the capacity of local governments to identify and address the needs of their constituents. Nearly \$728 million was expended during the program's three phases.<sup>25</sup> USAID's three new programs have a combined total contract value of \$244 million and focus on improving primary school education, revitalizing agricultural production, and strengthening participatory democracy.<sup>26</sup>

### OSC-I and the Future of U.S. Security Cooperation and Assistance in Iraq

OSC-I completed its first year of operation on September 30. The office serves as the hub for managing U.S. security interests in country and provides a wide range of security assistance to Iraq, particularly through the large-scale Foreign Military Sales (FMS) program.

The DoS Police Development Program wisely was revised and scaled down, saving substantial taxpayer dollars.

At quarter's end, OSC-I was managing 172 FMS cases funded by the GOI, with 20 additional GOI requests pending implementation. An additional 74 cases await U.S. approval. The value of current and proposed cases now totals about \$19.1 billion.<sup>27</sup>

The year 2012 has seen regional security deteriorate, primarily driven by the chaos in Syria. Domestic security also has declined amid regular reports of a reviving al-Qaeda in Iraq and two very violent months: July and September. Overall in Iraq, violence this quarter was the worst in two years. These conditions appear to have reinvigorated the GOI's interests in the U.S.-Iraqi security relationship. However, there are several near-term barriers to developing this relationship, including: growing Iraqi concerns about the responsiveness and cost of the FMS program, the uncertain status of OSC-I into 2013, the GOI's continuing close relations with Iran, and Iraqi increases in purchasing from other suppliers such as Russia and the Czech Republic.<sup>28</sup> For example, in October 2012, the GOI announced new defense purchase agreements with Russia valued at \$4.2 billion, including the purchase of 30 Mi-28NE attack helicopters and 50 Pansir-S1 short-range air defense systems.<sup>29</sup>

Iraq's plans for bolstering its security forces position the country as a major new consumer on the world armaments market. Currently, the GOI allocates 3% of its budget for security equipment,<sup>30</sup> but growing oil revenues mean that Iraq will have substantial funds with which to continue to expand its armament procurements. During 2008–2011, the total value of Iraq's arms transfer agreements ranked fourth among Middle East and North Africa nations, behind Saudi Arabia, the United Arab Emirates, and Egypt.<sup>31</sup> Purchase agreements with the United States accounted for 72% of the total (see Figure 1.2),<sup>32</sup> assisted by U.S. appropriations for the ISFF, which augmented GOI funding for FMS purchases.<sup>33</sup>

While the GOI likely will continue to be a big consumer of U.S. security equipment through the FMS program, the expiration of ISFF obligation authority on September 30, 2012, means that the U.S. total share of arms transfers to Iraq could drop.

**FIGURE 1.2**  
**VALUE OF ARMS TRANSFER AGREEMENTS WITH IRAQ, 2008–2011, BY SUPPLIER**  
\$ Millions



Source: CRS, *Conventional Arms Transfers to Developing Nations, 2004–2011*, 8/24/2012, p. 45.

Over the past 10 years, the U.S. government obligated \$27.19 billion in reconstruction funding for a broad range of troop training, security equipment purchases, and physical infrastructure projects to rebuild Iraq's security capabilities.<sup>34</sup> Throughout FY 2012, OSC-I worked with GOI security agencies to target final obligations of the ISFF on the capability gaps left by the withdrawal of U.S. forces.

In the aggravated security environment now facing Iraq, GOI leaders have emphasized that the needs of the ISF extend well beyond the provision of armaments. Chief among them is the need for better intelligence capabilities.<sup>35</sup> In this context, the GOI proposed expanding the Strategic Framework Agreement (SFA). However, even without a formal SFA expansion, the two sides have so far worked well together. The engagement of U.S. Special Operations Forces with Iraqi Counterterrorism Forces for counterinsurgency training in Iraq is one example of that.<sup>36</sup>

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The Inspector General meets with Prime Minister Nuri al-Maliki in September 2012.

## GOVERNANCE

The GOI and KRG reached an agreement this quarter securing the resumption of crude oil exports from the Kurdistan Region.

Prime Minister al-Maliki faced several challenges this quarter. His lobbying of the CoR for legislation that would enable the GOI to back loans for large infrastructure projects failed to sway the debate, and his effort to enlarge the Independent High Electoral Commission from its current 9 members to as many as 15 did not succeed.<sup>37</sup>

Notwithstanding these challenges, public opinion polls indicate that Iraqis approve of the

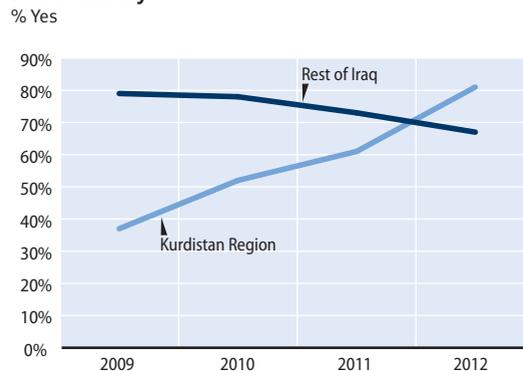
Prime Minister’s performance. A Gallup survey conducted in April gave him the highest approval ratings among all politicians in the country. And this quarter, another Gallup poll, testing public perceptions of corruption, showed that the number of those residing in provinces outside of the Kurdistan Region who considered corruption widespread had dropped over the past three years (see Figure 1.3).

Over the same time period, the percentage of those who felt public services had improved was greater. On the streets of Baghdad this quarter, there were no outward signs that the Prime Minister is attempting to establish a cult of personality. The only notable image of a public figure in Baghdad was the likeness of Iran’s Grand Ayatollah Ali Khamenei appearing on billboards in several of the city’s Shia neighborhoods.<sup>38</sup>

### Baghdad-Erbil Dispute

Nearly six months after the KRG halted crude oil exports to protest a lack of reimbursement for oil-field development costs, the GOI and KRG reached an agreement this quarter securing the resumption of crude oil exports from the Kurdistan Region.

FIGURE 1.3  
PERCEPTIONS OF GOVERNMENT CORRUPTION  
Is corruption widespread throughout the government in this country?



Source: Gallup, “In Iraqi Kurdistan, Satisfaction with Infrastructure Crumbles,” 9/7/2012, [www.gallup.com/poll/157298/iraqi-kurdistan-satisfaction-infrastructure-crumbles.aspx](http://www.gallup.com/poll/157298/iraqi-kurdistan-satisfaction-infrastructure-crumbles.aspx), accessed 10/4/2012.



Billboard in a Baghdad Shia neighborhood shows Iranian leader, the Grand Ayatollah Ali Khamenei (right), next to the revered Iraqi Shia religious figure, Mohamad Mohamad Sadiq al-Sadr, who was assassinated in 1999 for his defiance of Saddam Hussein. Their message advertises an annual event in support of the Palestinian cause. (AP photo)

For a timeline of important events in the dispute, see Figure 1.4. Talks also resumed in the CoR regarding the Hydrocarbon Laws, which are key to the growth of Iraq’s oil and gas industry. Notwithstanding this progress, relations between the KRG and Baghdad remain tense. In July, Kurdish *Pesh-merga* troops and Iraqi Army forces briefly engaged in a tense standoff near the Syrian border as they responded to potential spillover from the Syrian conflict. Another such confrontation occurred in Kirkuk this quarter in a dispute over the transfer of former U.S. military facilities in the city, following the OSC-I’s departure.<sup>39</sup>

## Regional Issues

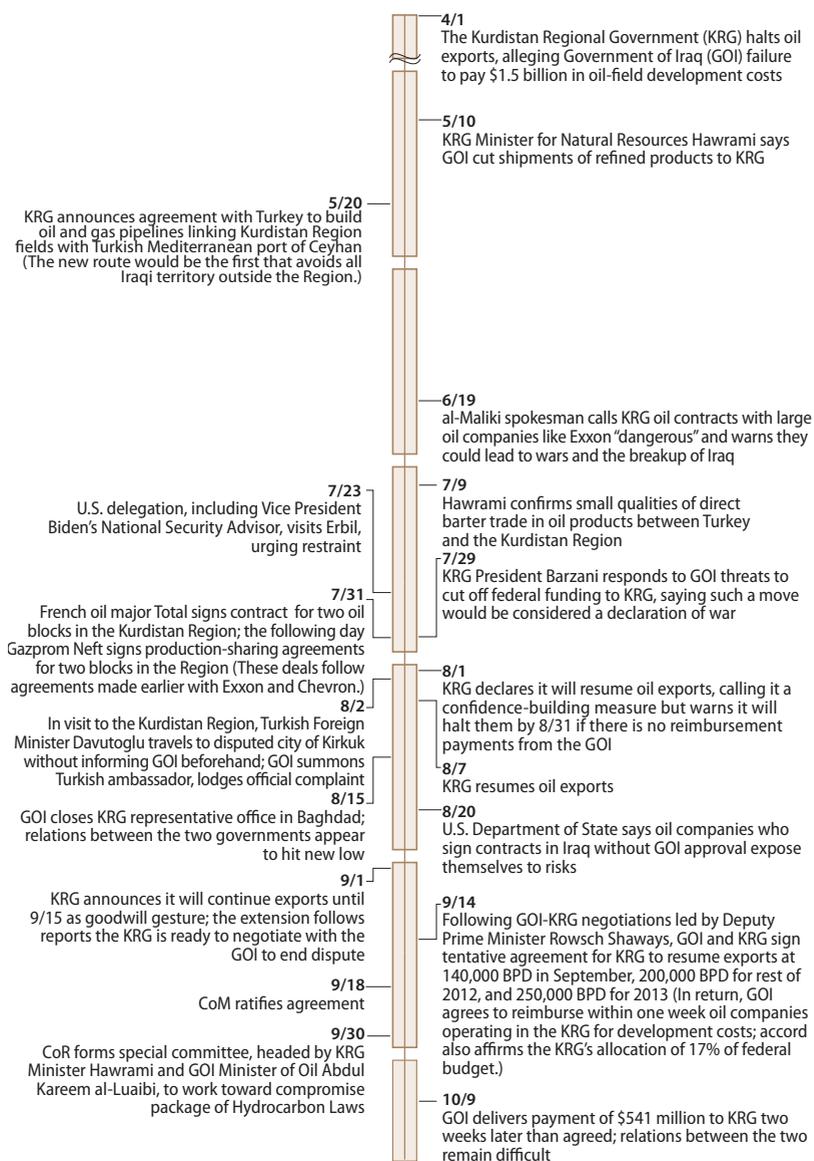
The regional environment became more difficult for Iraq this quarter as rising tensions in many parts of the Middle East brought added challenges to Iraq’s borders.<sup>40</sup>

Turkey’s diplomatic approach to Iraq’s Kurdistan Region—highlighted by Turkish Foreign Minister Ahmet Davutoglu’s visit to the Kurdistan Region in early August that included a side trip to Kirkuk on August 2—complicated GOI relations with one of its largest trading partners and added a new dimension to an already prickly internal dispute with the KRG over control of northern crude oil. The Turkish government’s overtures to Erbil led the GOI to summon Turkey’s ambassador in Baghdad and deliver an official complaint.

## Refugees

From March to mid-October 2012, at least 82,000 people streamed across the border into Iraq from Syria because of the civil conflict in that country. These included almost 43,000 Iraqis who had previously sought refuge in Syria, but were now returning to communities throughout Iraq, mostly in Baghdad. An additional 39,000 were Syrians fleeing their home country, 80% of whom were Kurds who took advantage of the Kurdistan Region’s open-door policy toward them.<sup>41</sup>

FIGURE 1.4  
KEY EVENTS IN THE KRG-GOI DISPUTE, 4/1/2012–10/9/2012



Sources: *Iraq Oil Report*, “Kurds Restart Exports, Extending Olive Branch,” 8/2/2012, “Baghdad Advances Threat to Kurdistan Budget,” 9/5/2012, and “Iraqi Cabinet Approves Kurdish Export Agreement,” 9/19/2012; Dunia Frontier Consultants, *Iraq Market Tracker*, “KRG-GOI Deal Surfaces,” 9/17/2012, and “Gazprom, Total Follow Chevron and Exxon into Kurdistan,” 8/6/2012; *Platts Commodity News*, “Iraq Cabinet Ratifies Deal with KRG, Paves Way for Oil, Gas Law,” 9/18/2012; Joost R. Hiltermann, “Baghdad and Erbil Battle for Iraq,” *The National Interest*, 8/17/2012; KRG, press release, “President Barzani Receives U.S. Delegation,” [www.krg.org/articles/detail.asp?lngnr=12&smap=02010100&rnr=223&nr=44782](http://www.krg.org/articles/detail.asp?lngnr=12&smap=02010100&rnr=223&nr=44782), accessed 10/21/2012; MEEs, *Weekly Report*, Vol. 55 No. 39, 9/21/2012, p.15; SIGIR analysis of open-source information in English and Arabic, 4/2012–10/2012.



Iraqi Security Forces on the Ninewa border with Syria. (Shafaq News photo)

By mid-October, about 13,000 Syrian refugees resided at the Domiz camp in Dahuk, and 19,000 were living in local communities elsewhere in the Kurdistan Region. The other 7,000 Syrian refugees in Iraq—mostly women, children, and the elderly—resided at the refugee camps at al-Qaim in Anbar province. With support from the U.S. government and others, United Nations agencies were working with the GOI and KRG to meet the Syrian refugees' needs for shelter, food, water, medical attention, and other services. Humanitarian agencies expected the population of Syrian refugees in Iraq to grow from 39,000 to 60,000 by the end of 2012.<sup>42</sup>

Violence spiked this quarter, hitting its highest level in two years.

### Relocation of Iranian Dissident Group

Relocating the Iranian Mujaheddin-e Khalq (MEK) was completed this quarter, with remaining members moved to Camp Hurriya near Baghdad. The MEK's "cooperation in the peaceful closure of Camp Ashraf" was a factor in the Secretary of State's decision, announced on September 28, to revoke the MEK's designation as a Foreign Terrorist Organization under the Immigration and Nationality Act and to delist the MEK as a Specially Designated Global Terrorist under Executive Order 13224.<sup>43</sup>

### Public Services

The total supply of electricity on the national grid surged to a record high this quarter, averaging about 7,300 megawatts (MW). But it was still only

enough to provide the average Iraqi consumer with 10–12 hours of power each day because demand vastly outpaces supply.<sup>44</sup> The Ministry of Electricity (MOE) currently has 41 power plants under construction, and it expects the available production capacity on the grid to reach 22,000 MW by the end of 2015.<sup>45</sup> The MOE also publicly pointed to the Ministry of Oil this quarter as contributing to the current shortfall in electricity supply, saying that low output at some power plants was caused by a scarcity of oil and low pressure in natural gas pipelines.<sup>46</sup>

## SECURITY AND THE RULE OF LAW

### Security

Violence spiked this quarter, hitting its highest level in two years. According to the MOI, 854 civilians died and another 1,640 were wounded in violent attacks this quarter. The quarter included both the holy month of Ramadan and the trial of Iraq's Sunni Vice President al-Hashimi, whose death sentence after being found guilty of operating death squads triggered a wave of violence on September 9 that claimed more than 100 lives—the bloodiest day in more than two years.<sup>47</sup> Figure 1.5 shows details of selected major attacks this quarter.

More than 100 senior government officials were targeted for assassination this quarter, with 58 of them killed. Another 120 bystanders—including family members, bodyguards, and other citizens—perished in the attacks. Targets included judges, members of the CoR, and senior members of the ISF.<sup>48</sup>

In a meeting with SIGIR this quarter, Principal Deputy Minister of Interior Adnan al-Asadi suggested that previously weakened Sunni militant groups, including al-Qaeda in Iraq, had regained strength. He added that the government—because

of weak intelligence capabilities—was unable to detect and thus prevent attacks by these organized groups.<sup>49</sup>

## Corruption

Prime Minister al-Maliki and Iraq’s Chief Justice conceded in meetings with SIGIR that corruption remained a serious problem, but contended that the degree to which it affected government business has been exaggerated. Those actively fighting the problem see it differently. Dr. Abdul Basit, who was just named to take over the CBI amid reports

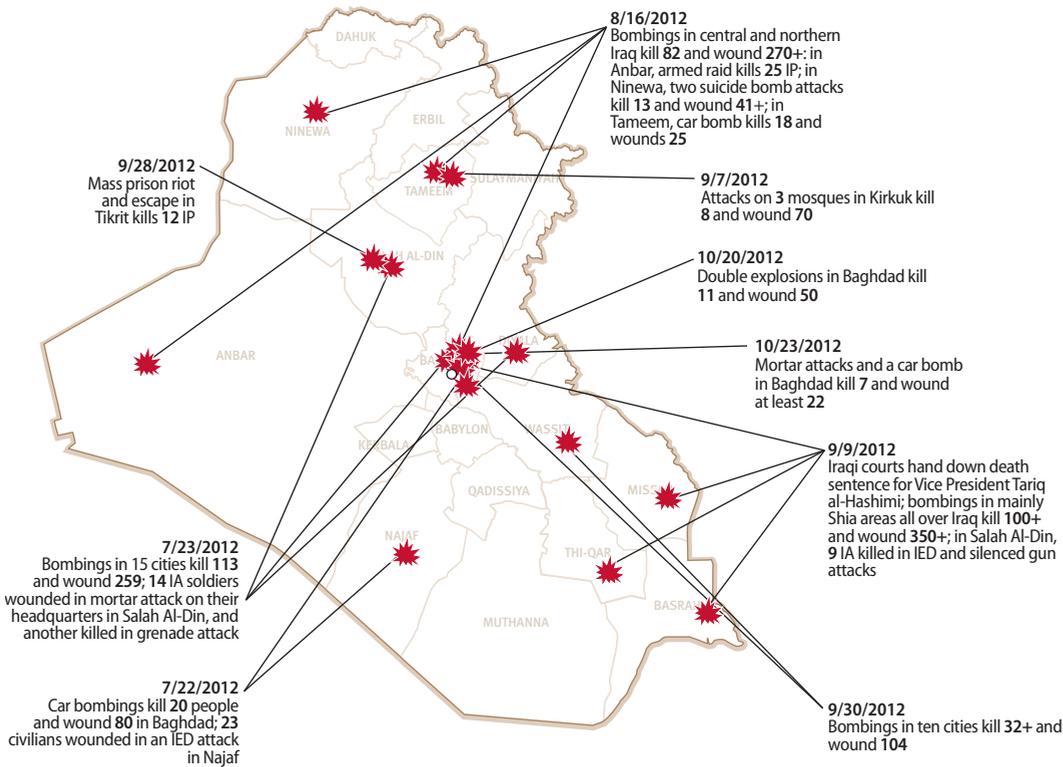
of improprieties there, said that corruption had become “an institution” in Iraq.<sup>50</sup>

## Money Laundering

Money laundering plays an important role in corruption. The recent BSA audit alleges that the principal mechanism for money laundering in Iraq is the daily currency auction operated by the CBI through which it sells U.S. dollars to commercial banks, which, in turn, provide those dollars to customers for a fee. The customer, who provides a large amount of Iraqi dinars—possibly obtained by taking a bribe or via fraudulent withdrawal of money from ministry accounts—“launders” the

Dr. Abdul Basit said that corruption had become “an institution” in Iraq.

FIGURE 1.5  
SELECTED MAJOR SECURITY INCIDENTS, 7/22/2012–10/23/2012



Note: All casualty figures are based on best-available information.

Source: SIGIR analysis of GOI and U.S. government documents and open-source information in Arabic and English, 7/22/2012–10/23/2012.

illegal funds, requesting the commercial bank to transfer the dinar-purchased dollars to a bank outside Iraq.<sup>51</sup>

Before the transaction can occur, the commercial bank is obligated to determine that the customer has a legitimate reason to transfer the money by demanding documentation, such as a contract to buy goods from a foreign company. Recent BSA reviews of the documentation offered for such purchases have shown that a large portion of the transactions have been based on fraudulent representations.<sup>52</sup> Improperly documented capital flight over the past year is draining Iraq of its capital, possibly reaching 80% of the estimated \$1 billion in U.S. currency that is transferred out of the country each week, according to recent BSA findings.<sup>53</sup>

#### Anticorruption Institutions

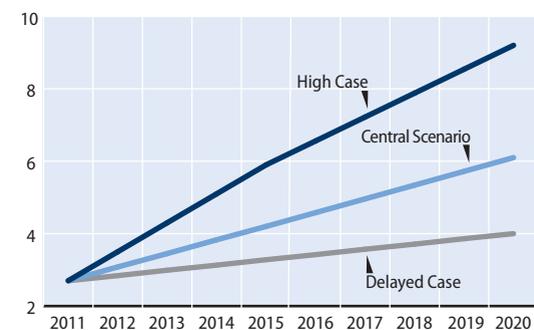
SIGIR received evidence this quarter that institutions within the GOI established to fight corruption have been weakened. Inspectors general have been eliminated in some smaller ministries, while those remaining face an evaluation board that includes representatives from the Office of the Prime Minister and the CoM. The Commission of Integrity (COI) is now headed by its third interim commissioner since 2007. The last confirmed permanent commissioner, Judge Radhi Hamza al-Radhi, resigned and fled to the United States five years ago. Another former COI Commissioner, Raheem al-Ugaili, told SIGIR he faced accusations of “administrative corruption” for such actions as providing U.S. officials with statistics on COI performance, a requirement for receiving U.S. grant assistance.<sup>54</sup>

rose to post-1990 record levels.<sup>55</sup> The GOI earned \$20.73 billion in receipts from the sale of crude oil during the quarter. But the total receipts were 9% less than the previous quarter, mainly because of lower crude oil prices.<sup>56</sup>

The International Monetary Fund’s 2012 *World Economic Outlook* published this quarter revised Iraq’s GDP growth forecast upward to a robust 14.7% for 2013—exactly three times that of the next strongest economy in the Middle East and North Africa region, Qatar. Iran’s economy, laboring under the impact of international sanctions, was projected to grow at less than 1% in 2013.<sup>57</sup> The forecast reflects the view that Iraq’s long-anticipated infrastructure-spending program is beginning to take hold and oil production and exports will grow briskly in the coming years.

On October 9, the Paris-based International Energy Agency (IEA) published its *Iraq Energy Outlook*, which examines the potential for increased energy production in Iraq, the way in which energy can contribute to the country’s social and economic development, and the way in which Iraq’s energy can affect global energy markets. Under the study’s central scenario for growth in the country’s oil and natural gas industries, the IEA projects that Iraq’s oil production will increase to 6.1 MBPD by 2020. Such a level would bring an average of \$200 billion

FIGURE 1.6  
IEA PROJECTIONS FOR IRAQI OIL PRODUCTION,  
2011–2020  
MBPD



Source: IEA, *Iraq Energy Outlook*, 10/9/2012, pp. 59, 78.

Iraq’s average crude oil output this quarter topped 3.0 million barrels per day over a two-month-long period for the first time in more than two decades.

## ECONOMY

Iraq’s average crude oil output this quarter topped 3.0 million barrels per day (MBPD) over a two-month-long period for the first time in more than two decades. Crude oil export volume also

per year to the country.<sup>58</sup> For a look at all three IEA production scenarios, see Figure 1.6.

Despite the bright picture painted by these new reports, there are issues that could limit the country's economic growth. Iraq's antiquated banking industry has been unable to finance the kind of massive development spending required for Iraq to reach its goals. Further, international bankers voiced concern that the dismissal of CBI Governor al-Shabibi could weaken Iraq's financial services industry.<sup>59</sup>

The GOI has been unable to broaden Iraq's economic base beyond oil and gas. Income from crude oil continues to account for about 95% of Iraq's foreign exchange earnings. Meanwhile, the CoR failed to move forward with draft legislation that would establish a legal framework for the private equity investments needed to revive state-owned enterprises that exist in other sectors. Broadening the economy beyond oil and gas is crucial to job creation in a country where unemployment is stuck in the double digits. Although oil accounts for 60% of Iraq's GDP, it provides just 1% of the jobs.<sup>60</sup>

## SIGIR OVERSIGHT

### Lessons Learned

This month, SIGIR published *Iraq Reconstruction: Lessons from Auditing U.S.-funded Stabilization and Reconstruction Activities*. A key aspect of SIGIR's 217 audits has been to capture lessons learned from the Iraq experience that could be applied to other contingencies, including Afghanistan, and those that may arise in the future.

This new report builds on an initial 2008 audit capping report that identified key recurring systemic management issues, and details a number of critical deficiencies in planning, oversight, management, accountability, and relationships with the host government. The report concludes that, if the causes and effects of these problems are not fully understood—and if actions are not taken

to forestall their recurrence—then similar negative outcomes could resurface in future stability and reconstruction operations.

### SIGIR Audits

Since 2004, SIGIR has issued 217 audit reports, 3 of which were issued this quarter. They reviewed:

- **U.S. management of efforts to improve the rule of law in Iraq.** This audit examined INL, Department of Justice, and USAID management of two programs: a \$209 million program to develop and establish an effective corrections system, reform pretrial detention programs, and modernize the prisons; and a \$198 million program to develop the Iraqi judiciary system, establish security for the judicial sector, and reform court administration. SIGIR found empirical evidence of improvements in the corrections systems but no written analyses of the outcomes of programs to reform the judiciary. As a result, SIGIR was unable to conduct any meaningful analysis to determine the effectiveness of those programs, although SIGIR did find some evidence that INL's programs contributed to a reasonably well-functioning judicial system in Iraq. Overall, SIGIR concluded that lasting institutional reform of the judicial system—and the entire rule-of-law system—is a generational undertaking, requiring a sustained commitment by the GOI to ensure effective progress.
- **Final review of State Department's management of Quick Response Funds in 2007 and 2008.** This is the third report on DoS management of the \$258 million program DoS initiated to provide Provincial Reconstruction Teams in Iraq with a flexible means to pay for local projects that supported community-based leaders and local Iraqi organizations and institutions to improve access to public services, employment, and education. SIGIR's previous reports had found inadequate recordkeeping for 2007–2008 micropurchases and indications of possible fraud. For this audit, SIGIR examined

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documentation on 185 judgmentally selected 2007–2008 micropurchases valued at about \$3.5 million. From the available records, SIGIR could generally determine how funds were intended to be used but could not assess whether all of the goods and services were actually purchased, received, or transferred to beneficiaries. This report demonstrated that requisite internal controls must be included in the design of any cash-transaction assistance program. Attempts to institute them after activities have begun may be too late to ensure that the transactions are not vulnerable to fraud, waste, and abuse.

- **U.S. Army Corps of Engineers (USACE) management of Development Fund for Iraq (DFI) monies.** In this report, SIGIR discusses USACE management of the \$2.5 billion in DFI it received. SIGIR found that USACE did not establish effective internal controls to document that goods and services paid for using DFI funds were received. Receiving reports, which document the government’s inspection and acceptance of products delivered or services performed, were missing from more than 95% of the files, involving commodities vulnerable to fraud and theft, such as fuel, televisions, and vehicles. In addition, USACE had no evidence that showed whether the fuel for which it paid \$1.3 billion was received. USACE has not been able to determine the status of the DFI because key financial audits of contractors have not been completed. Without these audits, USACE cannot close out these contracts and task orders and assess whether the contractor owes the United States money, whether the United States owes the contractor money, and ultimately, whether the U.S. government needs to return unused DFI funds to the GOI.

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### SIGIR Investigations

Since 2004, the work of SIGIR’s Investigations Directorate has resulted in 97 indictments, 75 convictions, and more than \$180 million in court-ordered

fines, forfeitures, and other monetary penalties. This quarter, significant investigative accomplishments included:

- On October 7, 2011, Robert N. Boorda, the former chief of party in Baghdad for the United States Institute of Peace, pled guilty to a criminal information unsealed this quarter charging him with one count of conspiring to commit wire fraud. An arrest warrant was issued for Boorda’s co-conspirator, the owner of the security-services firm, on charges that include wire fraud and gratuities conspiracy, wire-fraud scheme, agreement to pay a gratuity to a public official, and payment of a gratuity to a public official. The contractor was arrested on July 6, 2012, by British law-enforcement authorities and is currently awaiting extradition to the United States to face charges.
- On August 9, 2012, Jill Charpia, former co-owner of a U.S. civilian contracting company, pled guilty to a criminal information charging her with one count of providing false statements to a government agency in connection with Iraq reconstruction government contracts that involved the purchase of two villas and armored vehicles. In October 2008, as a result of her false and fraudulent statements, the Department of Defense (DoD) caused \$1,270,075.50 to be wired to Charpia’s bank account. Charpia admitted that she fabricated invoices and forged the signatures on the documents. She also admitted that she did not purchase any armored vehicles and paid only half the submitted cost for the villas.
- On August 29, 2012, retired U.S. Army Master Sergeant Julio Soto, Jr., pled guilty to a criminal information charging him with one count of conspiracy to accept illegal gratuities. Soto, along with an alleged U.S. Army co-conspirator, was involved with the construction of a government building at Forward Operating Base Hammer by local Iraqi contractors. Soto and his alleged co-conspirator unlawfully sought, received, and accepted illegal gratuities for helping Iraqi contractors gain U.S. government contracts, and

then purchased U.S. postal money orders with the illegal proceeds and mailed them back to the United States.

- On August 15, 2012, a former U.S. Army captain was arrested in Los Angeles by SIGIR and Defense Criminal Investigative Service special agents following the return of an indictment alleging wire fraud, theft of government property, money laundering, and false statements in connection with his military service in Iraq. The former captain allegedly changed or caused to be changed certain invoices by increasing the total amount due for the invoice. The indictment alleges he then paid the contractor the original invoice amount and kept the difference in cash. As a result of the scheme he created, the indictment alleges he stole approximately \$110,000.
- On October 9, 2012, Gaines Newell, Jr., was sentenced to 27 months in prison, 3 years supervised release, and restitution of nearly \$1.1 million. In addition, the judge issued a forfeiture notice against Newell in the amount of \$861,027 to be applied against his restitution. On October 10, 2012, Billy Joe Hunt was sentenced to 15 months in prison, 3 years supervised release, and restitution and forfeiture of more than \$300,000. The sentencing is the result of guilty pleas by Newell and Hunt to conspiring to commit the federal offenses of kickbacks, wire fraud, and mail fraud, and to filing false tax returns. Ahmed Kazzaz, a British citizen, paid more than \$947,500 in unlawful kickbacks to Newell (a prime contractor's program manager) and Hunt (the deputy program manager) to obtain lucrative

subcontracts for himself and his company, Leadstay. Kazzaz pled guilty on May 21, 2012, to the federal offenses of conspiracy, kickbacks, wire fraud, and mail fraud, and he was scheduled to be sentenced on October 29, 2012.

- On September 12, 2012, Ismael Salinas was sentenced to time served (9 months), 2 years of supervised release, a fine of \$7,500, and forfeiture of \$807,904 for receiving hundreds of thousands of dollars in illegal kickbacks from subcontractors in Iraq. Salinas overbilled DoD by \$847,904, taking at least \$424,000 in kickbacks from six companies. Salinas said that he would also have the subcontractors submit inflated invoices, but accept less money so he could take some of the difference—much of which he smuggled back into the United States.
- On October 4, 2012, a U.S. Army captain was charged with conspiracy in a two-count criminal information alleging that the captain accepted gratuities. One contractor offered gratuities and favors, including approximately \$25,000 in cash payments, in exchange for the captain assisting on an Iraqi construction contract. The captain was also offered jewelry, a vacation on a private island, and approximately \$10,000 in cash payments in exchange for steering generator contracts to another contractor. The direct cash payments and the value of the jewelry received by the captain from the two contractors totaled approximately \$45,000.

As of late October, SIGIR had 77 open investigations, most of which were being conducted in close cooperation with other federal law-enforcement agencies. ♦

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