

# SIGIR OBSERVATIONS

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## SECTION

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# 1

## IRAQ RECONSTRUCTION 2009: FROM SURGE TO SOVEREIGNTY

On June 30, 2009, the Iraqi people celebrated what Prime Minister Nouri al-Maliki dubbed “National Sovereignty Day,” marking the complete withdrawal of U.S. combat forces from Iraq’s cities. Although incidents of violence marred the run-up to and immediate aftermath of this historic event, the June 30 transition underscored Iraq’s strengthening sovereignty.

The Iraqi state showed mixed progress in three key areas this quarter:

- **Security.** Overall violence levels remained at record lows. But the success of Iraqi democracy depends on the capacity of the Iraqi Security Forces (ISF) to keep the peace. The United States committed nearly half of all its reconstruction dollars (\$24.42 billion) to train, equip, and support the Iraqi military and police. Although the ISF continues to improve, a few significant weaknesses still must be remedied before it could be deemed ready to ensure Iraq’s internal and external security. This quarter, SIGIR’s audit and inspection teams examined several U.S. projects supporting the ISF, finding progress. But the continuing danger of operating in Iraq was tragically underscored on May 25, 2009, when the Deputy Director of the U.S. Embassy’s Iraq Transition Assistance Office, Terrence Barnich, and two others were killed by an improvised explosive device near Falluja.
- **Governance.** Electoral factors will shape Government of Iraq (GOI) decision-making for the balance of 2009. The Kurdistan Region scheduled regional parliamentary and presidential elections for late July, 6 months after Iraqi provincial elections selected new provincial governments in 14 largely Arab provinces. National parliamentary elections, scheduled for January 2010, will be the first true plebiscite on the al-Maliki government.
- **Economy.** In the midst of international economic turmoil, Iraq has displayed a certain macroeconomic stability. Inflation remains low, and the Central Bank of Iraq still maintains significant reserves. But dependence on oil sales for almost all of its revenue means that the GOI’s fortunes fluctuate with the price of oil, which hovered between \$50 and \$75 per barrel this quarter, about half of what it was a year ago. On July 19, 2009, the Iraqi cabinet approved a supplemental budget of around \$3 billion, prompted by the expectation of higher revenues from increased oil exports and fees from communication firms. It now must be approved by the Council of Representatives (CoR). ♦

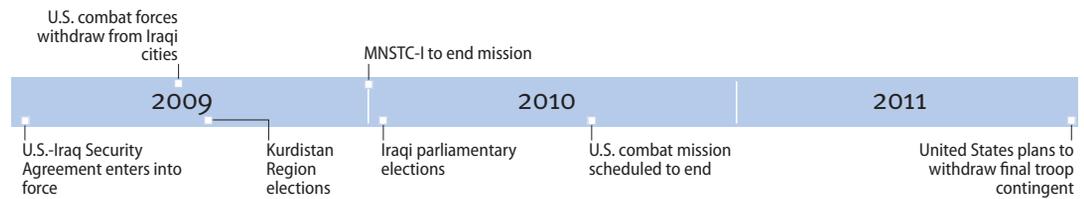
## DRAWDOWN OF U.S. FORCES

Over the next 30 months, the United States will withdraw most of its troops and dismantle much of its military support infrastructure in Iraq. One of the paramount issues raised by the withdrawal is what to leave behind for the GOI's use and what to transport back to the United States. The Government Accountability Office has noted that at least 173,000 pieces of equipment worth

about \$16.5 billion are subject to return to the United States.<sup>1</sup>

The military withdrawal will occur against the backdrop of several other milestone events that will reshape the U.S.-Iraq bilateral relationship. Figure 1.1 highlights some of these significant events that will unfold from now until December 2011. ♦

FIGURE 1.1  
TIMELINE OF KEY EVENTS



Source: SIGIR analysis of open source and official documents.



MNF-I partially dismantles a U.S. base. (MNF-I photo)

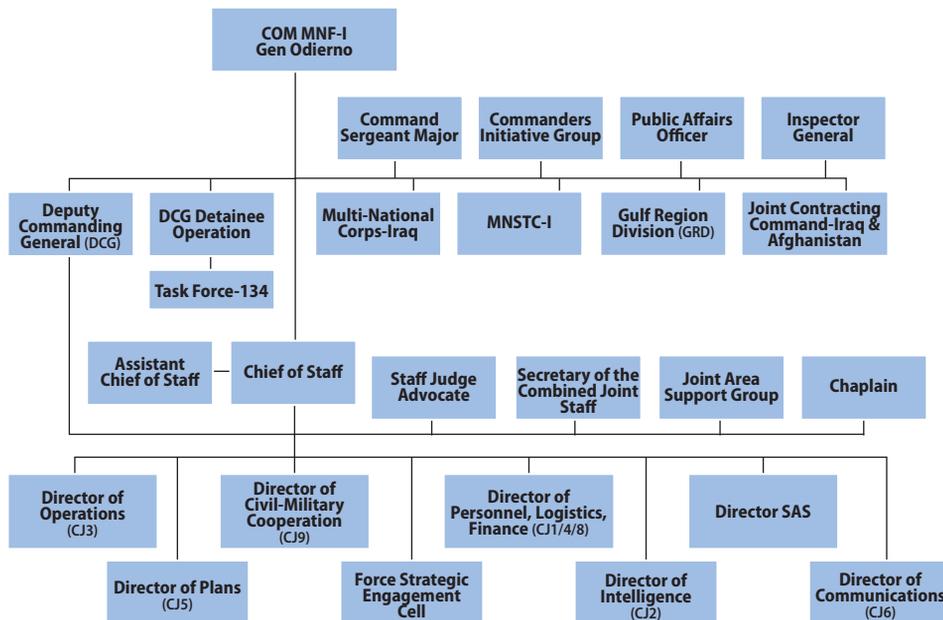
## RESHAPING RECONSTRUCTION

The military drawdown will directly affect continuing U.S. reconstruction efforts. For example, by the end of July 2009, several of the major reconstruction support entities—including the Gulf Region Division of the U.S. Army Corps of Engineers (USACE) and the Joint Contracting Command-Iraq/Afghanistan—will move from the International Zone to Camp Victory on the outskirts of Baghdad. Additional USACE pull-backs will include the closure of its northern Iraq district office. For the rest of 2009, the Provincial Reconstruction Teams (PRTs) will maintain current levels—16 PRTs and 7 embedded PRTs (ePRTs)—but more program drawdowns will begin in 2010. Figure 1.2 displays the current

command structure of Multi-National Force-Iraq (MNF-I).

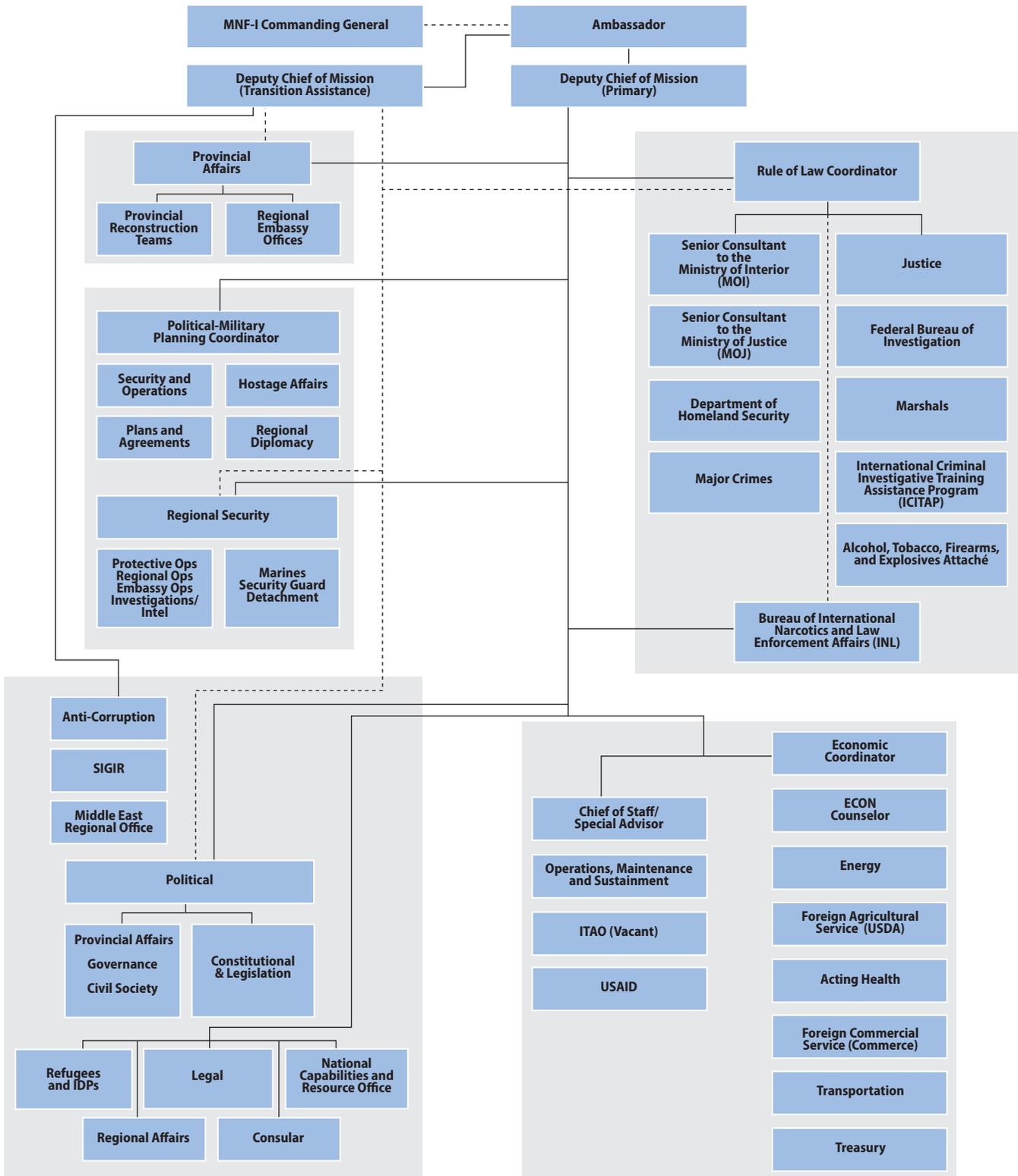
The U.S. Embassy in Baghdad is reorganizing to meet the evolving mission in Iraq. Since 2004, the Embassy has operated the reconstruction program through a series of temporary offices. As the program has wound down, these offices have concomitantly been reduced in size and scope. Recently, the Embassy established a second Deputy Chief of Mission position for transition assistance specifically to manage continuing U.S. reconstruction initiatives and to improve the transfer process of projects and programs to the GOI. Figure 1.3 shows the U.S. Embassy’s new management structure. ♦

FIGURE 1.2  
MNF-I CHAIN OF COMMAND



Source: MNF-I, response to SIGIR data call, 7/17/2009.

FIGURE 1.3  
U.S. EMBASSY-BAGHDAD ORGANIZATIONAL CHART, 7/2009



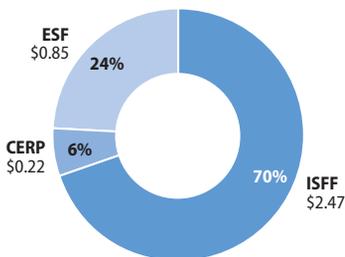
## FUNDING IRAQ'S RECONSTRUCTION

U.S. reconstruction efforts now focus on building the capacity of Iraq's governing institutions, completing remaining projects, and strengthening Iraq's security forces. Moreover, as the security situation has improved, the international community has gradually re-engaged and now supports a modest array of capacity-development programs aimed at improving Iraq's political, social, and economic infrastructure. Figure 1.4 illustrates the remaining unobligated U.S. reconstruction funds.

FIGURE 1.4

### MAJOR U.S. FUNDS AVAILABLE FOR OBLIGATION

\$ Billions, Total \$3.54 Billion



Sources: U.S. Embassy-Baghdad, responses to SIGIR data call, 7/6/2009 and 7/16/2009; GRD, responses to SIGIR data call, 7/4/2009 and 7/18/2009; ITAO, *Essential Indicators Report*, 5/14/2009; MNC-I, *Quarterly Report*, 4/7/2009 and 7/4/2009; OSD, responses to SIGIR data call, 7/2/2009 and 7/13/2009.

### U.S. Funding

Since 2003, the United States has committed \$52.27 billion for the reconstruction of Iraq. The Congress appropriated more than 89% of this money to four major funds: the Iraq Relief and Reconstruction Fund (IRRF)—\$20.86 billion; the Iraq Security Forces Fund (ISFF)—\$18.04 billion; the Economic Support Fund (ESF)—\$4.18 billion; and the Commander's Emergency Response Program (CERP)—\$3.63 billion.

As of June 30, 2009, more than \$42.59 billion had been obligated from these four major funds, and \$38.49 billion had been expended. Nearly \$3.54 billion remains available to be obligated, and \$8.22 billion is unexpended. The preponderance of unexpended U.S. funds is in the ISFF, which supports Iraq's military and police forces.<sup>2</sup>

### Increased Funding for the ESF and CERP

The Supplemental Appropriations Act enacted this quarter made \$439 million available for ESF programs, including \$118 million specifically for democracy and civil society initiatives.<sup>3</sup> The act also provided an additional \$453 million in CERP funds for Iraq and Afghanistan.<sup>4</sup>

This quarter, MNF-I stated that it will reduce the amount of CERP funds that it originally intended to spend in Iraq during FY 2009 by \$247 million—from \$747 million to \$500 million.<sup>5</sup> One reason for the reduction was the termination this past spring of U.S. financial responsibility for the Sons of Iraq (SOI) program. The SOI units were paid with CERP funds until earlier this year, but the program has now fully transitioned to the GOI.

## New GOI Reconstruction Spending Plan

In late April, the GOI's Council of Ministers approved a draft five-year \$65.7 billion reconstruction spending initiative that would focus on housing, agriculture, transportation, water, electricity, and schools. About \$25 billion would be dedicated to the housing sector, \$17.8 billion for agriculture, \$9.3 billion for improving Iraq's transportation network, and \$5.5 billion for water- and sewage-related programs. The remaining funds would be allocated among other sectors. Whether this ambitious plan ultimately comes to fruition will depend on how the fluctuations in the global oil market affect the GOI's revenue stream.<sup>6</sup>

## International Involvement in Iraq Reconstruction

Since 2003, international donors have pledged approximately \$17 billion to assist with Iraq reconstruction efforts, including \$5.26 billion in grants and \$11.75 billion in loans. These donors have committed \$9.86 billion (or 58%) of the funds initially pledged.<sup>7</sup>

The GOI continued negotiations this quarter with the International Monetary Fund to finalize the terms of a new \$5.5 billion loan. Included in the loan's conditions may be a set of banking reforms aimed at modernizing Iraq's opaque financial sector.<sup>8</sup> ♦



U.S. Ambassador Christopher Hill (second from right) and GOI officials visit the Qudas Power Plant in Baghdad, where the largest U.S.-funded power plant expansion project was completed this quarter. (DoS photo)

# SECURITY

Although the average number of monthly security incidents remained low this quarter, multiple mass-casualty attacks contributed to the deaths of about 1,000 Iraqis. In one four-day period (June 20–24), at least 136 Iraqi citizens were killed, and more than 300 were wounded in multiple bombings.<sup>9</sup> Figure 1.5 displays information about some of this quarter’s major security incidents.

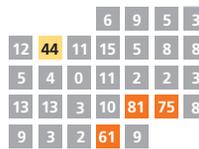
## Implementing the U.S.-Iraq Security Agreement

The U.S.-Iraq Security Agreement and the Strategic Framework Agreement now govern the relationship between the United States and Iraq. Section 24 of the agreement mandates that all U.S. combat forces withdraw from Iraqi “cities, villages, and localities” no later than June 30, 2009.<sup>10</sup> In compliance with these terms, MNF-I moved its final combat units out of the cities in late June. However, U.S. advisory and training detachments remain in Iraq’s cities and towns to mentor Iraqi army and police units. Further, U.S. combat forces, in partnership with the ISF, continue to conduct operations outside of Iraq’s cities and towns.

As of July 2009, approximately 130,000 U.S. troops were serving in Iraq, but that number will be significantly reduced over the next year as the U.S. combat mission in Iraq is scheduled to conclude by August 2010. Thereafter, approximately 35,000 to 50,000 U.S. military advisors and trainers will remain to assist the ISF through December 2011, when almost all remaining U.S. troops are expected to leave Iraq.<sup>11</sup>

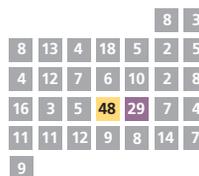
FIGURE 1.5  
SIGNIFICANT SECURITY INCIDENTS, 4/1/2009–7/21/2009

April 2009



**Wednesday, April 15:** 11 Iraqis were killed in a bombing in Kirkuk.  
**Thursday, April 23:** Suicide bombers killed 60 Iraqis in attacks in Baghdad and Diyala.  
**Friday, April 24:** Two suicide bombers killed more than 60 Iraqis and religious pilgrims and wounded more than 125 outside a shrine in Baghdad.  
**Wednesday, April 29:** 16 Iraqis were killed and 45 more were wounded in three car bombings in Baghdad.

May 2009



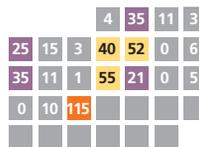
**Wednesday, May 6:** 11 Iraqis were killed and at least 44 more were wounded in two car bombings in Baghdad.  
**Monday, May 11:** A car bombing killed 11 Iraqis in Kirkuk.  
**Wednesday, May 20:** 35 Iraqis were killed and at least 72 more were wounded in a car bomb attack outside a restaurant in Baghdad.  
**Thursday, May 21:** Suicide bombers in Baghdad and Kirkuk killed 20 Iraqis and wounded 33 more.

June 2009

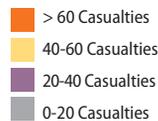


**Wednesday, June 10:** Terrorists killed 26 civilians in a car bomb attack in Nassriya.  
**Saturday, June 20:** Approximately 70 Iraqis killed and more than 200 wounded in an attack on a mosque in Kirkuk.  
**Monday, June 22:** 14 Iraqis killed and approximately 60 wounded in a series of attacks in Baghdad and Abu Ghraib.  
**Saturday, June 27:** 13 Iraqis killed in a motorcycle bombing in Central Baghdad.

July 2009



**Wednesday, July 8:** At least 31 Iraqis killed or wounded in two bombings in Mosul.  
**Thursday, July 9:** Approximately 52 Iraqis killed or wounded in a series of terrorist attacks in Tel Afar, Mosul, Baghdad, and Kirkuk.  
**Monday, July 20:** 10 Iraqis killed in a series of attacks, including 5 policemen in Mosul.  
**Tuesday, July 21:** At least 15 Iraqis killed and approximately 100 wounded in a series of attacks in Baghdad.



**Note:** The numbers represented in the calendar graphic are comprehensive estimates of total 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.



MNF-I turns over a base to the Iraqi Army. (MNF-I photo)

Since January 1, 2009, the United States has closed or turned over to the GOI at least 142 military bases, reducing the total number of bases currently manned by U.S. forces to about 320.<sup>12</sup> Remaining facilities include larger Forward Operating Bases, such as Camp Victory, and smaller border forts. Most urban Combat Operations Bases occupied by U.S. forces during the height of the “surge” have been turned over to the ISF or restored to their former civilian uses.

### Multi-National Security Transition Command-Iraq To End Mission in December 2009

The Multi-National Security Transition Command-Iraq (MNSTC-I) was established on June 28, 2004, to direct and support training and equipping the ISF. On December 31, 2009, MNSTC-I is scheduled to formally conclude its mission. As currently planned, the Iraq Security

Assistance Mission (ISAM) and the Iraq Training and Advisory Mission (ITAM) will assume MNSTC-I’s duties by the end of the year. ISAM will be the operational center of the U.S. Embassy’s Office of Security Cooperation. ITAM will eventually transfer the police-training mission to the Department of State (DoS)<sup>13</sup>; the DoS Bureau of International Narcotics and Law Enforcement Affairs (INL) will assume full responsibility for training Iraqi police.

### Advise and Assist Brigades

In May 2009, the Department of Defense (DoD) announced the formation of the first Advise and Assist Brigades (AABs), which will deploy to southern Iraq this year. The AAB is specifically designed to enhance interagency reconstruction and stability operations. Pre-deployment training for soldiers assigned to AABs emphasizes civil affairs, city management, and border security, in addition to traditional combat operations. The AAB slated for southern Iraq will have the primary mission of supporting the PRTs and helping to train the ISF. DoD reports that at least six AABs are in the pipeline.<sup>14</sup>

### Challenges Facing the Iraqi Security Forces

The Ministry of Defense (MOD) budget for 2009 is down 21% from 2008, while the Ministry of Interior (MOI) budget for 2009 is up 2%. These budgetary constraints have forced the ISF to make difficult decisions about the composition of its forces, training emphasis, and spending plans for the future. MOI is operating under a hiring freeze and has not hired any new personnel since

December 2008. Moreover, MNSTC-I reports that MOI will not be able to hire the personnel necessary for a fifth national police division and will not be able to employ additional border guards.<sup>15</sup>

The Iraqi Army continues to grapple with integrating new, U.S.-built weapons and vehicles with Warsaw Pact equipment purchased under the previous regime. Interoperability remains an issue, as does maintenance. Some within the Iraqi Army's leadership have voiced doubt about whether the purchase of heavy conventional equipment—such as Abrams main battle tanks—is the best way for the ISF to spend its limited funds when training and intelligence remain more pressing needs.<sup>16</sup>

This quarter, SIGIR audited the latter phases of a \$350 million ISFF contract to complete the Taji National Maintenance Depot. SIGIR found deficiencies in certain aspects of the facilities and a shortage of Iraqi trainees caused, in part, by the push to keep forces in the field fighting, rather than learning logistical skills. MNSTC-I estimates that the depot had just 62% of its assigned soldiers, only 46% of whom were present for duty on any given day.<sup>17</sup>

## Integration of the Sons of Iraq into the GOI

In April 2009, MNF-I completed the process of transferring approximately 94,000 SOI to the administrative control of the GOI. Formerly paid with U.S. CERP funds, the GOI is now responsible for paying the largely Sunni SOI contingents. As of May 2009, the GOI had provided jobs or grants to only about 17,000 SOI; about



Iraq's Navy takes shape with the arrival of its flagship, the Italian-built *Fatah*. (MNF-I photo)

13,000 were placed in the ISF. Since April 2009, however, no SOI members have been hired by the GOI. This has led elements within the Sunni community to question the GOI's commitment to the SOI program. Compounding these difficulties have been the arrests of at least 41 SOI leaders since November 2008.<sup>18</sup> ♦

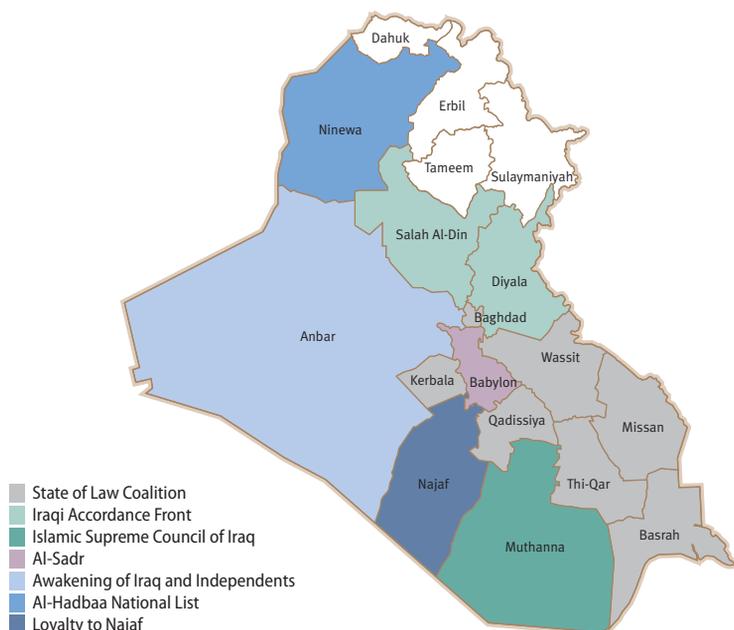
## GOVERNANCE

### New Provincial Councils

In accordance with Iraq's 2008 Provincial Powers Law, the 14 Provincial Councils elected on January 31, 2009, chose governors this quarter. Prime Minister al-Maliki's State of Law Coalition dominated the elections but failed to win outright majorities in all but Baghdad and Basrah provinces. Consequently, the Coalition was forced to enter into multiple, province-specific alliances to secure seven governorships. Figure 1.6 shows which parties control the provincial governor's office in the 14 provinces that conducted elections in January.

The precise scope of these provincial officials' power remains ambiguous, with much depending on the degree to which the national government delegates actual authority over spending and personnel. For example, their ability to execute budgets will soon be tested. In late June, the Ministry of Finance released 50% of the provinces' 2009 budgets and urged the provincial governments to use this money to finalize overdue projects and rehabilitate local infrastructure.<sup>19</sup> The GOI's provincial funding measures will be supplemented throughout the remainder of 2009 by CERP- and ESF-funded projects specifically aimed at empowering new provincial governments.

FIGURE 1.6  
PROVINCIAL GOVERNORSHIPS BY PARTY



Source: GOI, Independent High Electoral Commission, [www.ihec.iq/arabic](http://www.ihec.iq/arabic), accessed 7/4/2009.

### Kurdish-Arab Tensions

On June 24, 2009, the Iraqi Kurdistan Parliament passed a draft constitution, which will be submitted to the region's electorate for approval in a referendum—most likely later this year. The draft constitution states that the city of Kirkuk is geographically part of the Kurdistan Region, but concedes that Article 140 of the Iraqi Constitution will determine the political border between the Kurdistan Regional Government (KRG) and Iraq.<sup>20</sup> Other salient provisions include:

- a guarantee of religious freedom for Christians and Yazidis
- quotas for women (30%) and ethnic and religious minorities (11 of 111 seats) in the regional parliament
- a provision stating that Turkomen, Arabs, Assyrians, and other groups have a right to

autonomy in the areas and communities where these groups form a majority<sup>21</sup>

Five days after the Iraqi Kurdistan Parliament passed the draft constitution, 50 members of Iraq's national parliament (CoR) signed a petition criticizing it as incompatible with the Iraqi Constitution. This reflects a continuing rise in tensions between the Arab and Kurdish communities in Iraq. In mid-July, a Kurdish leader voiced concerns that these tensions could boil over into armed conflict.

## Postponement of National Elections and Referendum on Security Agreement

In May, the GOI postponed parliamentary elections from December 2009 to January 2010. The GOI also pushed back the national referendum on the Security Agreement to January 2010. Next January's balloting will determine the

composition of Iraq's 275-seat CoR for the next 4 years and will provide Iraq's electorate with its first direct opportunity to judge Prime Minister al-Maliki's performance.

## Legislative Developments

Although the package of hydrocarbon laws remains stalled, the CoR's new Speaker initiated a program to accelerate approval of other pending legislation, promote the CoR's oversight role, and prepare for parliamentary elections. Developments affecting the legislature included:

- the first reading of a law regulating the operations and funding of non-governmental organizations, which have proliferated throughout Iraq since 2003
- the Council of Ministers' approval of a bill legalizing foreign ownership of property
- continued work on a law to combat human trafficking after a 2008 DoS report highlighted the severity of this issue in Iraq
- the assassination outside a mosque in Baghdad of prominent Sunni parliamentarian Harith al-Obeidi, who was known as an advocate for detainees' rights and was chosen to lead the Iraqi Accordance Front after his predecessor in that role became Speaker of the CoR in April 2009 ♦



Iraqi Army parades near the Tomb of the Unknown Soldier in Baghdad. (MNF-I photo)

## ECONOMY AND INFRASTRUCTURE

### Oil

More than 85% of the GOI's revenue is derived from oil exports, rendering Iraq especially vulnerable to price fluctuations.<sup>22</sup> Figure 1.7 charts the price of Kirkuk crude oil over the past two years.

Iraq's oil production this quarter rose to an average of 2.40 million barrels per day (MBPD), up 5% from last quarter, but still slightly below the 2008 average of 2.42 MBPD.<sup>23</sup> Exports averaged 1.88 MBPD, also below Iraq's post-2003 highs. Iraq's aged and fragile oil infrastructure continues to limit the growth of exports.

On June 30, 2009, Iraq held an auction for production rights in six existing oil fields and two underdeveloped gas fields. British Petroleum and the China National Petroleum Corporation won the only development agreement awarded during the televised auction. The Ministry of Oil and the Anglo-Chinese joint venture agreed

to a 20-year service contract for the Rumaila oil field, which contains 17 billion barrels of oil (15% of Iraq's current proved reserves). The ministry rejected terms offered by other international oil companies. Iraq plans to hold a second auction round for other oil and gas fields later this year.

This quarter, for the first time since 2007, the Kurdistan Region exported oil via the GOI-controlled pipeline that terminates in Ceyhan, Turkey. Initially, KRG officials reported that up to 100,000 barrels per day could be exported via this route, but exports from there could increase significantly with improved infrastructure and continued political stability.<sup>24</sup> Developing the capacity of all of Iraq's oil fields is crucial to the country's economic development because Iraq under-produces relative to other members of the Organization of the Petroleum Exporting Countries. With estimated proved reserves of 115 billion barrels of oil, Iraq produces 2.4 MBPD.

FIGURE 1.7

#### WEEKLY OIL PRICE, 7/2007–6/2009

Dollars per Barrel



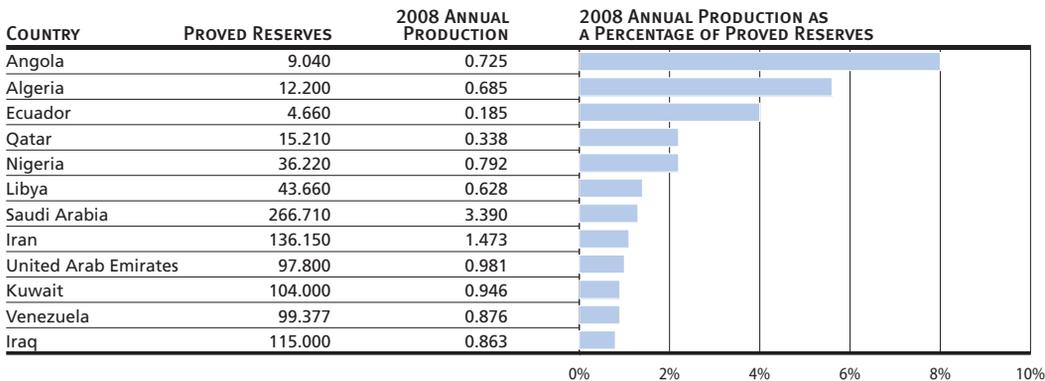
Note: Values reflect the average weekly price of Kirkuk crude oil.

Source: U.S. Energy Information Administration, "World Crude Oil Prices: OPEC Average," 6/30/2009, [www.eia.doe.gov](http://www.eia.doe.gov), accessed 7/15/2009.

FIGURE 1.8

## OPEC COUNTRY PROVED RESERVES VS. PRODUCTION

Billion Barrels



Note: Numbers affected by rounding. Proved reserves as of 1/1/2009.

Source: EIA, "World Proved Reserves of Oil and Natural Gas, Most Recent Estimates," <http://www.eia.doe.gov/emeu/international/reserves.html>, accessed 5/7/2009. EIA cites the source of this data as PennWell Corporation, Oil & Gas Journal, Vol. 106.48 (12/22/2008).

Yet Kuwait, with proven reserves of 104.0 billion barrels, produces about 3.0 MBPD.<sup>25</sup> Figure 1.8 places Iraq's relative under-production in a broader regional context.

the same quarter in 2007. From January 1, 2009, to June 30, 2009, the feasible capacity of Iraq's power plants increased by about 850 MW.<sup>26</sup>

## Electricity

Iraq's total electricity production increased for the fifth straight quarter. Daily average production from April to June 2009 was 124,713 megawatt hours (MWh), a 44% increase from the second quarter of 2007.

This quarter, Iraq imported an average of 16,327 MWh of electricity per day, an 82% increase from the same quarter in 2008 and a 118% increase from

## Agriculture

Despite possessing ample arable land, Iraq is a net importer of food. This imbalance was aggravated by a severe drought in 2008, from which the country has yet to recover. Drought-driven water shortages, have caused a second consecutive year of reduced wheat harvests.<sup>27</sup> The U.S. Department of Agriculture estimates that 2009–2010 wheat production in Iraq will be 45% less than normal harvest levels.<sup>28</sup> ♦

## ANTICORRUPTION

In July 2009, MNF-I Commanding General Raymond Odierno unveiled a new approach to MNF-I's anticorruption efforts that will focus on four key provinces: Baghdad, Anbar, Basrah, and Tameem. MNF-I will emphasize supplementing ongoing PRT-sponsored efforts, strengthening public outreach programs, and increasing legal and budgetary transparency. Close coordination between MNF-I's new initiative and extant programs overseen by the DoS Anticorruption Coordination Office is essential if U.S. anticorruption efforts in Iraq are to make progress.

### U.S. Anticorruption Strategy: A Status Report

The U.S. Embassy's efforts to foster accountability and transparency within the GOI focus on bringing Iraq into compliance with the UN Convention Against Corruption (UNCAC), which the GOI ratified in 2008. The Embassy is working to build the capacity of Iraq's three main anticorruption agencies: the Commission on Integrity, the Board of Supreme Audit, and the ministerial inspectors general (IGs). To be in full compliance with the UNCAC, the GOI must improve the performance of these three entities and enact legislative reforms, including

the revision or repeal of Article 136(b) of Iraq's Criminal Procedure Code of 1971. This law grants ministers the authority to shield their employees from prosecution for fraud. In late July, the Prime Minister declared that former GOI officials will no longer be afforded protection by Article 136(b).

This quarter, the CoR's Integrity Committee questioned several ministers about allegations of corruption within their ministries. The Minister of Trade resigned shortly after his appearance. He was later arrested on his way to Dubai on charges of stealing public money and mismanaging the ministry by importing spoiled foods. The Ministry of Trade is a particularly important institution because it manages the Public Distribution System—Iraq's national food ration program.

### Iraq's National Anticorruption Board

In late 2008, the GOI created the National Anticorruption Board (NACB) to monitor the work of the IGs. The NACB is empowered to make recommendations to the Prime Minister's Office on whether to retain or replace individual IGs. Because many IGs are concluding their five-year terms this year, the NACB may play a prominent role in further developing the IG system in Iraq. ♦

## RULE OF LAW

This quarter, the SIGIR met with Chief Judge Medhat, the head of Iraq's Higher Judicial Council (HJC). The centralized nature of Iraq's judiciary places significant power in the Office of the Chief Judge. For example, the Chief Judge influences the selection of judges at all levels of Iraq's judicial system. This quarter, when SIGIR asked the long-serving Chief Judge about whether the HJC had any formal leadership succession plans, Judge Medhat acknowledged that none exist.

### Judicial Security

No judges have been assassinated since summer 2008, but the lack of judicial security still remains an obstacle to establishing the rule of law in Iraq. In mid-June, a judge on the Mosul branch of the Central Criminal Court of Iraq was wounded when an improvised explosive device damaged his vehicle. Moreover, many judges throughout Iraq still lack dedicated personal security details (PSDs) because the funds to pay and train these guards have not been made available by the Ministry of Finance. For judges who do not reside in secure judicial housing facilities, such as those funded by the United States in Baghdad, the lack of PSD support renders them vulnerable to threats, intimidation, and violence.

### Detainee Issues

At the peak of the "surge," the United States held more than 25,000 detainees in a number of prison facilities, including Camp Cropper (near Baghdad airport), Camp Taji (just north of Baghdad), and Camp Bucca (near the Iraq-Kuwait border). This quarter, the number of detainees remaining in U.S. custody sank to about 10,000, the lowest level in four years. Since the Security Agreement entered into effect in January 2009, the United States has released about 3,700 detainees and transferred another 800 to the GOI. As a consequence of these reductions, Camp Bucca's detention facilities are scheduled to close in September 2009, after which detainees in U.S. custody will be held only at Camp Cropper and Camp Taji.<sup>29</sup>

As the United States reduces its detainee population, the GOI continues to try to increase the capacity of its prisons. This quarter, SIGIR inspected the Chamchamal Prison in northern Iraq. This U.S.-funded facility was designed to hold 1,000 high-security and 2,000 medium-security inmates. In February 2009, the United States turned over control of Chamchamal to the Ministry of Justice (MOJ). Currently, however, this prison sits empty because it does not receive enough electrical power from the national grid to be operational, and the MOJ does not have sufficient funds to hire the 1,200 guards necessary for the prison to conduct full-time operations. SIGIR's complete assessment of the Chamchamal Prison will be published next quarter. ♦

## INTERNATIONAL ENGAGEMENT

Although Iraq continues its efforts to integrate more fully into the community of nations, security concerns still limit the level of international engagement on the ground in Iraq.

### World Bank

Earlier this year, the World Bank issued a new Interim Strategy Note outlining its plan for assisting Iraq between now and the end of 2011.<sup>30</sup> The Bank estimates that Iraq's public sector employs about 2.8 million workers—about 1 in every 10 Iraqi citizens. It also notes the marked difference that exists between the *de jure* structure of government, as described in the Iraqi Constitution, and the *de facto* reality on the ground. For example, despite a stated national commitment to decentralization and local control, virtually all real power—outside of the Kurdistan Region—remains in the hands of the national government in Baghdad.

The World Bank is also involved with reforming the GOI's budget-planning processes. It cautioned that a lack of clear lines of responsibility among the various GOI institutions involved in budgeting has fostered confusion about revenue and expenditure management. The Bank further recommends the following reforms:

- prioritizing government expenditures
- strengthening the Central Bank of Iraq's regulatory and supervisory roles
- liberalizing fuel prices
- reforming tariff and taxation policies to provide additional revenue sources
- improving the delivery of services in the provinces

### International Compact with Iraq

In May 2009, the GOI initiated planning for the next multilateral ministerial conference on the International Compact with Iraq (ICI), which is scheduled for later this year. Before the meeting, the GOI will have to prepare a substantive set of “deliverables” that it would commit to achieve at the meeting. The GOI has established an ICI working group to develop these deliverables in consultation with the UN. The deliverables will focus on good governance, economic growth, and national reconciliation.

### United Nations Assistance Mission in Iraq

The United Nations Assistance Mission for Iraq (UNAMI) has been helping the GOI develop processes to resolve disputed internal boundaries in northern Iraq. On April 22, 2009, UNAMI presented senior GOI and KRG officials a substantial report on these issues, suggesting potential resolutions for the contested regions near Kirkuk. UNAMI's proposals for resolving the Kirkuk issue included joint governance by the KRG and Baghdad, transforming Kirkuk into a semi-autonomous micro-region of its own, and inter-communal power sharing similar to the arrangements reached in Northern Ireland.<sup>31</sup>

## Iraq-Kuwait: Chapter VII Sanctions

This quarter, the GOI continued its diplomatic push to have Iraq removed from international sanctions placed on it after Iraq's 1990 invasion of Kuwait. Pursuant to UN Security Council Resolution 1859, passed under Chapter VII of the UN Charter, Iraq is required to pay

a portion of its oil proceeds into two funds; one of the funds pays reparations to Kuwait for Iraq's 1991 invasion of that emirate. Iraqi diplomats and parliamentarians visited the UN and Kuwait in July for high-level talks, the results of which were inconclusive. Iraqi funds held in the Development Fund for Iraq remain protected from attachment by creditors under Resolution 1859.<sup>32</sup> ♦

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## SIGNIFICANT LEGAL DEVELOPMENT

In the wake of Saddam Hussein's 1990 invasion of Kuwait, the United States declared Iraq to be a state sponsor of terrorism. Six years later, the U.S. Congress exempted state sponsors of terrorism from the Foreign Sovereign Immunities Act, effectively allowing such states to be sued in federal court.

In May 2003, the President, pursuant to an act of Congress, made inapplicable with respect to Iraq all laws that apply to state sponsors of terrorism on the grounds that the former regime had been deposed. Lower federal courts, however, refused to dismiss two suits against Iraq despite

the President's action. Consequently, the U.S. Supreme Court had to resolve the issue.

On June 8, 2009, in *Republic of Iraq v. Beaty et al.*, the Supreme Court agreed with the GOI's argument—and that of the United States—and unanimously held that U.S. citizens imprisoned or abused by the Ba'athist regime during and after the 1991 Gulf War could no longer sue Iraq in federal court. The Court found that Iraq's sovereign immunity had been restored when the President exempted Iraq from "any provisions of law that applies to countries that have supported terrorism."<sup>33</sup> ♦

## SIGIR OVERSIGHT

### Audits

SIGIR published 7 audit reports this quarter, bringing to 149 the total number of audits issued since 2004. One of this quarter's audits was jointly conducted by SIGIR and the DoS Office of the Inspector General, which evaluated the performance of the private security contractor Blackwater. Other projects, facilities, and issues reviewed include progress on constructing an ISF logistics support base in Tikrit, incidents involving private security contractors firing their weapons, the Taji National Maintenance Depot, a CERP-funded hotel at the Baghdad International Airport, the movement of contractors through territory controlled by MNF-I, and a CERP-funded electrical distribution project in a Baghdad neighborhood:

- **Joint Audit of Blackwater Contract and Task Orders for Worldwide Personal Protective Services II Contract (WPPS II).** SIGIR and its audit partners addressed four objectives pertaining to the Blackwater task orders under a Department of State contract. The audit found that two of the three task orders were competitively awarded to Blackwater, the noncompetitively awarded order was justified, and the total cost for the task orders was more than \$1 billion. The report criticized the fact that Blackwater was not assessed an estimated \$55 million in penalties for failing to provide all contractually required personnel.
- **Tikrit Location Command Project.** This \$37.8 million ISFF-funded contract is financing the construction of a new area support base for the Iraqi Army. The project should be completed by the end of September 2009, but

MNSTC-I already is working with the GOI to establish transfer and sustainment protocols. This is an example of a project that applied best practices, was well staffed and well managed, and benefited from lessons learned.

- **Records Concerning Incidents of Weapons Discharges by PSCs.** Incomplete record-keeping continues to impair the oversight of incidents involving private security contractors in Iraq. SIGIR's analysis of 106 weapons discharges shows that required investigative and disciplinary actions are not always tracked.
- **Taji National Maintenance Depot.** SIGIR auditors found that this ISFF project is struggling to achieve its goals. Poor performance by contractors, including the poor wiring of water heaters—which could have resulted in electrocutions—has negatively affected the functioning of the facility. Training classes have also been canceled or scaled back because of poor planning and lack of sufficient trainees. Although contract management has improved over earlier periods, it appears that the Iraqi Army may not have sufficient capability to repair its own equipment when the facility is turned over at the end of the year.
- **Baghdad International Airport Caravan Hotel.** This CERP project was initially estimated to cost \$2.7 million. Ultimately, it cost \$4.2 million. The hotel is operating as planned—providing rooms for investors and guests at \$225 per night—but the project has not been transferred to the GOI for fear that the Ministry of Transportation may remove the equipment and close the facility. Furthermore, questions persist about the authority of the U.S. military to continue operating a hotel and conference



SIGIR Audits team inspects the Muhalla 312 electrical distribution grid.

facility in which the profits are split between the managing contractors and the GOI.

- **Field Commanders on Controlling and Coordinating Private Security Contractor Missions in Iraq.** SIGIR concluded that U.S. military commanders in the field generally believe that the coordination procedures set up in late 2007 following the Blackwater shooting incident in Nisoor Square have been effective in ensuring that PSC operations are not inconsistent with ongoing combat operations.
- **Muhalla 312 Electrical Distribution Project.** In the largest CERP-funded project to date, the U.S. government spent about \$12 million to deliver power to about 12,000 people residing in one 10-square-block neighborhood in Baghdad. Although the project took longer to complete than anticipated, SIGIR found the contract was well-managed and that coordination with the GOI was excellent. The

project was transitioned to Iraq's Ministry of Electricity in January 2009.

SIGIR also continued to work with Iraq's Board of Supreme Audit on a joint review of select projects funded by the Iraq-Commander's Emergency Response Program (I-CERP). Through I-CERP, the United States assists the GOI in spending Iraqi funds on smaller reconstruction projects.

In March 2009, a joint SIGIR-DoD investigation led to the return of more than \$13 million in Iraqi funds to the Central Bank of Iraq. This money was part of the DFI. This quarter, SIGIR announced an audit that will follow up on this investigation to ensure that other U.S. government agencies have properly accounted for the DFI funds they received or held.

For additional information on SIGIR's audit activities this quarter, see Section 4, SIGIR Audits.

## Inspections

SIGIR published 6 inspection reports this quarter, including assessments of projects in the health, security, and transportation sectors. Overall, SIGIR has produced 154 project assessments. This quarter's reports included:

- **Mujarrah Canal Bridge.** This CERP-funded project's objective was to repair the Mujarrah Canal Bridge to increase traffic between the two main cities in Anbar province—Ramadi and Falluja. The bridge had been damaged by a vehicle-borne improvised explosive device. SIGIR concluded that the project results are or will be consistent with original objectives despite some minor construction defects and performance delays.
  - **Roll-On/Roll-Off Berth at the Port of Umm Qasr.** The purpose of this IRRF project was to construct a second roll-on/roll-off berth at the North Port of Umm Qasr, which would allow additional vessels to dock there and thus increase the port's overall capacity. SIGIR found the berth operating as envisioned by the contract, aside from some minor wear and tear.
  - **Iraqi Army Brigade Headquarters Barracks at Missan.** The goal of this \$1.2 million project was to construct new buildings and renovate existing structures for the 4th Brigade of the Iraqi Army's 10th Infantry Division. SIGIR determined that the headquarters facilities were adequately constructed and that the Iraqi Army personnel in residence were taking the initiative to perform routine maintenance and cleaning chores.
  - **Basrah Children's Hospital.** The objective of this public-private multi-funded project was to construct a "state-of-the-art" pediatric hospital in Basrah. SIGIR found that the ongoing construction appeared to meet the standards of the statement of work for the U.S.-funded main hospital building. To date, project results are partially consistent with the project objective; however, project results are not consistent with a "state-of-the-art" pediatric specialist hospital with respect to medical equipment and its operation. Current estimates are for the hospital to be fully functional in 2011.
  - **Missan Surgical Hospital—Phases I and II.** The project was significantly behind schedule. Phase I was to be complete on March 24, 2009; Phase II, on September 7, 2009. SIGIR estimated that, as of January 2009, each phase was only approximately 10%–15% complete. SIGIR also observed construction deficiencies. The GOI was responsible for providing all equipment and staff to operate and maintain the hospital, but no funds are currently available to finance these requirements. Until these assets are in place, the hospital will serve no beneficial purpose.
  - **Ammana Market Renovation.** The aim of this project was to construct and renovate the Ammana Market in Baghdad, creating a more efficient use of space and time for people buying and selling goods. Although SIGIR found several construction deficiencies, the market was open for business with merchants selling goods to the local populace.
- For more information on these inspections, see Section 4.

## Investigations

This quarter, SIGIR achieved results in a number of significant criminal investigations related to Iraq reconstruction. SIGIR also continued to work closely with federal prosecutors, other U.S. agencies, and Coalition partner investigators. Here are the highlights of this quarter's investigative activities:

- On May 6, 2009, a 23-count indictment was unsealed alleging that a civilian contractor paid more than \$2.8 million in bribes to a U.S. Army major working as a contracting official in Kuwait and his wife.
- Also in May, the president of a Massachusetts-based corporation pled guilty to criminal information. This ongoing investigation involves an \$8.5 million contract between a British company and the former Coalition Provisional Authority. The contract called for the production and delivery of 53 armored and unarmored vehicles to be built in Russia and used by the Iraqi police.
- Diana Demilta, a defense contractor, pled guilty to wire fraud and admitted to engaging in other bribery-related conduct in connection with contracts in Iraq, according to the plea agreement filed in the U.S. District Court for the District of Columbia in 2007 and unsealed on May 27, 2009. The court documents reveal that Demilta instructed a co-conspirator to submit sham bids for a contract to provide bullet-proof vests. These bids were submitted with intentionally increased prices so that one company would win the contract at a lower price. She was sentenced to 6 months detention and 12 months home arrest, followed by 24 months supervised probation. She was also ordered to pay \$70,000 in restitution and a \$25,000 fine. SIGIR con-



SIGIR meets with Vice-President Tariq al-Hashimi.

- ducted this investigation in close cooperation with several other investigative agencies.
- On June 4, 2009, Deborah Harrison, a former lieutenant colonel in the U.S. Army Reserves, was sentenced to 30 months in prison for her participation in a scheme to defraud the U.S. government, the GOI, and CPA. Harrison was also ordered to serve two years of supervised release following her incarceration and pay more than \$360,000 in restitution.
- Later in June, a former DoD civilian employee pled guilty to filing false tax returns. He had worked as a contracting officer in Kuwait from 1994 until his arrest in May 2008. He admitted that he maintained overseas bank accounts in the United States and the Jersey Channel Islands, which he failed to report properly on his income tax returns. He faces up to three years in prison and a fine of \$100,000 for each of the five charged counts to which he pled guilty. His sentencing is scheduled for later this year.
- On July 2, 2009, a superseding indictment was returned by a federal grand jury in New Jersey charging the last defendant in the

Bloom-Stein investigation with four counts of money laundering.

- On July 17, 2009, David Ricardo Ramirez, a DoD contract employee, was sentenced in U.S. District Court, San Antonio, Texas, to 50 months in prison. The sentencing was based on Ramirez's 2008 guilty plea. As a result of the plea, Ramirez also agreed to forfeit a condominium, a motorcycle, and a Lamborghini.

SIGIR continues its support of the ongoing invoice review by the Defense Criminal Investigative Service (DCIS) of the Defense Finance and Accounting Service. DCIS is analyzing several billion dollars in payments related to U.S. Army purchases that have supported U.S. combat and reconstruction efforts in Iraq. For more on SIGIR Investigations, see Section 4.

### Applying SIGIR's Hard Lessons in Afghanistan

In a memorandum to the Secretary of Defense and the Chairman of the Joint Chiefs of Staff on April 24, 2009, General David Petraeus stated that he believes DoD can apply in Afghanistan 9 of the 13 lessons learned cited by SIGIR in its recent report *Hard Lessons: The Iraq Reconstruction Experience*. General Petraeus noted that SIGIR identified the necessity for a "whole of government approach" to reconstruction and stabilization operations and that the application of SIGIR's recommendations in Afghanistan would enable the United States to have a better chance of success there.<sup>34</sup>

### Contracting in Iraq

Section 2 of this Report expands SIGIR's coverage of contracting, analyzing how the U.S. government's use of contractors has changed since the Security Agreement became effective on January 1, 2009. This section also examines recent measures taken by DoD and DoS to strengthen oversight and enhance the contract-monitoring process. ♦

## THE HUMAN TOLL

Over the past three months, intermittent mortar and rocket attacks caused several casualties in the area of Baghdad once known as “the Green Zone,” which still houses thousands of U.S. citizens. On July 12, 2009, a roadside bomb exploded near a U.S. convoy transporting Ambassador Christopher Hill in Thi-Qar province; no injuries were reported. Meanwhile, some PRT members voiced concerns about restrictive security rules preventing them from effectively engaging with the local population.

### U.S. Civilians

On May 25, 2009, the Deputy Director of the DoS Iraq Transition Assistance Office, a U.S. civilian working for DoD and an American sailor were killed by a roadside bomb near Falluja. In total, DoS reported that four U.S. civilians died in Iraq this quarter, one of whom was murdered in the Green Zone. U.S. and GOI law-enforcement agencies continue to investigate this case, in accordance with the guidelines set forth in the Security Agreement.

### Contractors

This quarter, the Department of Labor reported 29 new death claims for civilian contractors working in Iraq. It also reported that 607 contractors suffered injuries requiring them to miss at least 4 days of work. Since March 2003, at least 1,395 contractor death claims have been filed with the Department of Labor.<sup>35</sup>

### Journalists

On May 31, 2009, a sports reporter from Cairo’s Al-Baghdadia television network died as a result of injuries sustained when an IED was planted

on his car. At least three Al-Baghdadia journalists have been killed in Iraq this year. A local radio journalist accompanying him was also wounded in the attack.<sup>36</sup>

In late May 2009, the International Federation of Journalists conducted a two-day conference in Baghdad, addressing the issues of journalists’ safety and freedom of the press. Prime Minister al-Maliki and the Special Representative of the UN Secretary-General for Iraq (SRSG) spoke to the crowd of more than 80 international journalists. The SRSG noted that approximately 70% of Iraqis have access to satellite television today, which allowed for a relatively open political dialogue during the recent provincial elections campaign.<sup>37</sup>

### Christians

On July 12, 2009, multiple terrorist bombings hit Christian churches in Baghdad, killing at least four civilians. On his May 2009 trip to the Middle East, the Pope called for inter-communal amity among Christians and Muslims in Iraq.

### Displaced Persons

Iraqi refugees and internally displaced persons slowly continued to trickle home this quarter, but more than 5 million Iraqis remain displaced.<sup>38</sup> Many of their homes are in communities that have been ethnically cleansed during years of sectarian strife. The odds are long that these people will ever be able to go home. ♦