

SIGIR OBSERVATIONS

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1

AFTER THE NEW DAWN

This quarter marked the first time in more than nine years that the United States had no operational military presence in Iraq. Working chiefly out of the U.S. Embassy in Baghdad and consulates in Erbil, Basrah, and Kirkuk, the Department of State (DoS) now oversees the remaining—and still rather significant—U.S.-funded relief and reconstruction efforts.

As of April 3, 2012, DoS reported that 12,755 personnel supported the U.S. Mission in Iraq, down about 8% from the previous quarter. Current staffing comprises 1,369 civilian government employees and 11,386 contractors. In February, Deputy Secretary of State Thomas Nides said that DoS will continue to reduce the number of contractors over the coming months in an attempt to “right size” Embassy operations.¹

As currently constituted, the U.S. reconstruction program devotes the preponderance of its financial resources to providing equipment, services, and advice to the Iraqi Security Forces (ISF). The Office of Security Cooperation-Iraq (OSC-I) manages U.S. security assistance to the Government of Iraq (GOI). OSC-I is staffed by 145 U.S. military personnel, 9 Department of Defense (DoD) civilians, and 4,912 contractors. DoS’s Bureau of International Narcotics and Law Enforcement Affairs (INL) administers the Police Development Program (PDP), whose 86 advisors mentor senior police officials at the Ministry of Interior (MOI).²

While the ISF is currently capable of conducting most counterinsurgency missions, it still lacks the capability to mount an effective defense against possible hostile foreign incursions, and it is not able to police the entirety of Iraq’s lengthy borders. This quarter, in the ISF’s most significant test since the withdrawal of U.S. troops, more than 100,000 Iraqi soldiers and police blanketed Baghdad to secure the 33rd summit of the League of Arab States. But gaps in the ISF’s domestic-security capacities persist, as a series of mass-casualty attacks this quarter in Baghdad, Kerbala, and Anbar made apparent.



Arab League summit attendees, March 2012. (GOI photo)

The Elusiveness of Reconciliation

Along with the serious threat still posed by terrorism, an array of interlocking governance and economic issues endanger the health of the Iraqi state. Foremost among them is the lack of reconciliation among the major political blocs, which stems from disputes over the March 2010 Council of Representatives (CoR) election and its unsettled aftermath. The so-called “Erbil Agreement,” reached in December 2010, ostensibly crafted a road map for resolving these disputes, though that map has not been followed. Prime Minister Nuri al-Maliki thus sits atop a fractious coalition government wracked by internecine rivalries.

Last December’s events, including the Prime Minister’s attempt to oust Deputy Prime Minister Salih al-Mutlaq and the Higher Judicial Council’s (HJC) issuance of a warrant for the arrest of Vice President Tariq al-Hashimi, continued to cause turmoil this quarter. Al-Mutlaq did not attend Council of Ministers (CoM) meetings (and called the Prime Minister a “dictator”), while al-Hashimi remained outside the effective jurisdiction of the HJC, primarily in the Kurdistan Region. Al-Mutlaq and al-Hashimi are both Sunni members of the al-Iraqiya political bloc, a heterogeneous union of political parties dominated by Sunni interests.³ In

The U.S. reconstruction program devotes the preponderance of its financial support to providing equipment, services, and advice to the Iraqi Security Forces.

early April, efforts by Iraqi President Jalal Talabani and CoR Speaker Osama al-Nujaifi to convene a national reconciliation conference to address the issues dividing the government foundered, and the April 5 meeting was abruptly canceled. The disputing factions have yet to agree on a new date.

Vice President al-Hashimi’s decision to seek refuge in the Kurdistan Region aggravated an increasingly troubled relationship between the GOI and the Kurdistan Regional Government (KRG). This dispute was also worsened by ExxonMobil’s decision to pursue contracts with the KRG, despite GOI threats to exclude the company from further operations under its contract for work in southern provinces. The GOI appears to have sidestepped the issue for the moment, announcing that ExxonMobil had “frozen” its dealings with the KRG. But the relationship between the central government in Baghdad and the KRG remains tense, with the flames recently fanned by the KRG’s April 1 shutdown of all oil exports leaving its territory in retaliation for the GOI allegedly withholding about \$1.5 billion from the KRG.

Iraq’s political strife continued in mid-April with the arrest on corruption charges of Faraj al-Haidari, the head of the Independent High Electoral Commission (IHEC). Al-Haidari, who previously clashed with the Prime Minister after the 2010 CoR elections, stands accused of improperly using state funds. Members of al-Iraqiya, the Kurdistan Alliance, and the Sadrist Trend immediately

questioned the arrest. The IHEC is responsible for administering Iraqi elections, including the upcoming provincial elections in 2013 and CoR elections in 2014.⁴

U.S. RECONSTRUCTION PRESENCE, FUNDING, AND PROGRAMS

Reconstruction Funding and Personnel

From FY 2003 through FY 2012, the United States has appropriated or otherwise made available \$61.11 billion for Iraq relief and reconstruction, primarily through five major funds: the Iraq Security Forces Fund (ISFF), the International Narcotics Control and Law Enforcement (INCLE) account, the Economic Support Fund (ESF), the Iraq Relief and Reconstruction Fund (IRRF), and the Commander’s Emergency Response Program (CERP).⁵

For FY 2012, the Congress made available an estimated \$2.55 billion for Iraq relief and reconstruction efforts. The new appropriation occurred despite the fact that almost 78% of FY 2011 funds appropriated to the ISFF, INCLE, and ESF remain unobligated.⁶ Table 1.1 summarizes the status of the 2011 appropriations for these three funds, as of March 31, 2012. The IRRF and CERP are no longer available for new obligations.

In early April, DoS asserted that only 6 U.S. government employees and 48 contractors work on what it considers reconstruction programs.⁷ This total does not include any of the several hundred personnel working under the auspices of the PDP, which remains the single-most expensive ongoing initiative financed by DoS for the benefit of Iraq. Nor does it include any of the hundreds of employees and contractors supporting the missions of OSC-I and the U.S. Agency for International Development (USAID), though both agencies oversee projects paid for with U.S. reconstruction funds.

Iraq’s political strife continued in mid-April with the arrest of the head of the Independent High Electoral Commission.

TABLE 1.1
STATUS OF FY 2011 ISFF, ESF, AND INCLE, AS OF 3/31/2012
\$ Millions

	APPROPRIATED	OBLIGATED	EXPENDED	UNOBLIGATED	UNEXPENDED OBLIGATIONS
ISFF	1,500	217	170	1,283	47
ESF	326	157	6	169	151
INCLE	115	61	52	54	9
Total	1,940	435	228	1,505	207

Note: Data not audited. Numbers affected by rounding.

Sources: P.L. 112-10; OUSD(C), response to SIGIR data call, 4/2/2012; NEA-I, responses to SIGIR data calls, 9/28/2011 and 3/27/2012; USACE, response to SIGIR data call, 4/3/2012; USAID, response to SIGIR data call, 4/2/2012; INL, response to SIGIR data call, 4/9/2012.

Police Development Program

This quarter, DoS reported that it had allocated approximately \$500 million in FY 2012 INCLE funds for the PDP. Based at three main hubs in Baghdad, Basrah, and Erbil, the PDP is attempting to develop the management and operational capacities of the MOI's police forces. Of the more than 500 engagements with MOI officials that INL reported this quarter, about 77% were conducted by Baghdad-based personnel.

In April, INL reported that it will cease operations at its main Baghdad site—the Baghdad Police Academy Annex (BPAX)—by the end of the fiscal year, consolidating its Baghdad operations onto the Embassy compound in the International Zone (IZ). This decision comes after INL spent significant resources refurbishing and securing BPAX. The consequences of this retrenchment are uncertain. For example, logistical and security considerations may inhibit significant numbers of MOI personnel from traveling to the IZ on a regular basis. SIGIR is currently auditing the PDP and will issue its findings later this year. Section 3 of this Report provides more information on the PDP.

Office of Security Cooperation-Iraq

OSC-I manages the U.S. security assistance and cooperation mission, helping procure equipment and services for the ISF through the Foreign Military Sales (FMS) program and the ISFF. However, the departure of the U.S. military and the lack of a permanent GOI Minister of Defense have complicated the execution of these programs.

Information on FMS cases and ISFF execution rates this quarter provided evidence of some of the consequences of these complications:

- **FMS.** Total funds committed to both GOI-funded FMS cases and U.S.-funded “pseudo-FMS” cases increased by only \$240 million from October 2011 through March 2012—down significantly from the \$1.6 billion increase that occurred during the preceding six months.⁸

- **ISFF.** As of April 2, nearly 86% (\$1.28 billion) of available FY 2011 ISFF funds had yet to be obligated. These funds are set to expire on September 30, 2012.⁹

OSC-I is also responsible for executing the \$850 million in FY 2012 Foreign Military Financing (FMF) funds (U.S.-provided grants) allocated for equipping, training, and advising the ISF; neither OSC-I nor DoS responded to SIGIR requests for information about their FMF plans.¹⁰

INL reported that it will cease operations at its main Baghdad site—the Baghdad Police Academy Annex.

GOVERNANCE

New Report on Public Services and Government Institutions

Polling results released by the Gallup organization in March show a high level of dissatisfaction among Iraqis with the state of public services and the effectiveness of GOI institutions. Based on face-to-face interviews with 1,000 Iraqi adults in September 2011, Gallup documented rising discontent among the Iraqi public:¹¹

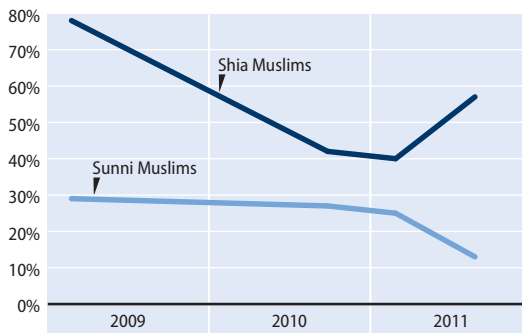
- 18% were satisfied with the state of the roads and highways, down from 46% in early 2009.
- 25% were satisfied with the availability of quality health care, down from 34% in early 2009.
- 34% were satisfied with the education system, down from 66% in early 2009.

When asked whether they were satisfied with their overall standard of living, 32% of residents outside the Kurdistan Region replied favorably (down from 46% in February 2010), while 64% expressed dissatisfaction (up from 49% in February 2010). Only 10% of all respondents expressed satisfaction with the availability of good job opportunities in their communities.¹²

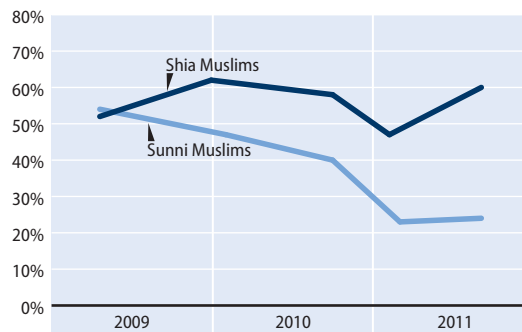
The data indicated significant differences between how Shia and Sunni respondents viewed the government. Figure 1.1 shows the stark contrasts between Shias, the majority of whom express

FIGURE 1.1
**CONFIDENCE IN GOI INSTITUTIONS,
 BY RELIGIOUS AFFILIATION**

Confidence in National Government



Confidence in Judiciary



Note: Survey excludes residents of the Kurdistan Region.

Source: Steve Crabtree, Gallup, "Opinion Briefing: Discontent and Division in Iraq," 3/6/2012, www.gallup.com/poll/153128/opinion-briefing-discontent-division-iraq.aspx, accessed 3/12/2012.

confidence in state institutions, and Sunnis, who overwhelmingly distrust both the national government and judicial system. These disparities are all the more striking given that the results are based on interviews conducted *before* the GOI's mass arrests of alleged Ba'athists in October 2011 and Prime Minister al-Maliki's public confrontations with leading Sunni officials in mid-December.¹³

Electricity

This quarter, the total supply of government-controlled electricity set a new post-2003 high, averaging about 7,918 megawatts (MW)—a 24% increase from the first quarter of 2011. Of the gains achieved

over the last year, 60% resulted from increased production from power plants in the Kurdistan Region, which supply power only to the three KRG provinces and the city of Kirkuk, and 22% was attributable to increased imports from Iran. Power plants on the GOI Ministry of Electricity's grid accounted for about 18% of the year-on-year increase in supply.¹⁴

Cognizant of the need to increase power production in the non-KRG provinces, the Minister of Electricity publicly criticized Hyundai in late January for being behind schedule on electricity projects in Anbar and Baghdad. He also called this quarter for work to be completed more quickly on three "fast-track" projects that would add 660 MW of potential capacity to the GOI-administered grid.¹⁵

**SECURITY AND
 THE RULE OF LAW**

Record Low Casualty Figures for March

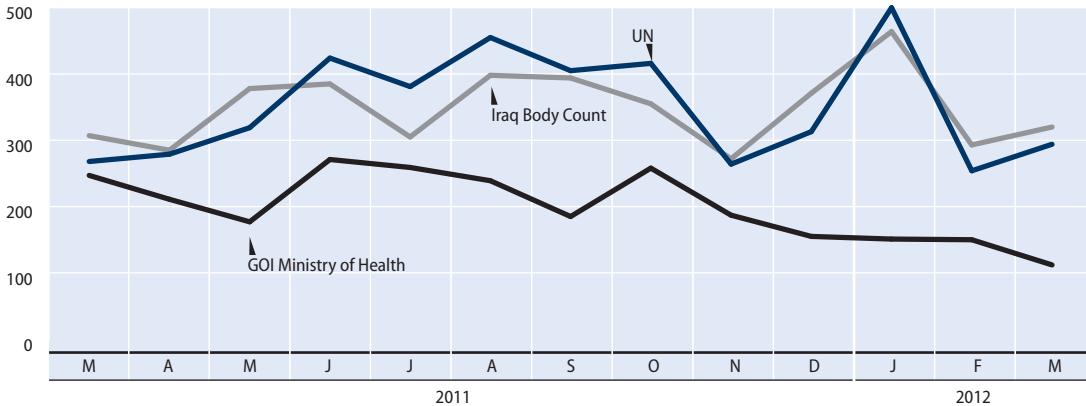
The GOI reported that 112 Iraqis—78 civilians and 34 ISF personnel—died as a result of violent attacks in March 2012, the lowest monthly death toll reported by the GOI since the U.S.-led invasion nine years ago. For the quarter, the GOI reported that 413 Iraqis died in violent incidents, with 151 deaths in January and 150 in February. However, according to data collected by the UN, 1,048 Iraqis died this quarter, more than twice the total provided by the GOI. Figure 1.2 compares recent monthly death statistics reported by the GOI, the UN, and data and information collected by the private group Iraq Body Count.¹⁶

Major Security Incidents

On February 23, in one of the worst days of violence this quarter, more than 20 separate attacks in 12 cities killed at least 42 Iraqis and injured almost 300 others. Less than one month later, coordinated attacks in Kerbala, Kirkuk, Baghdad, and elsewhere killed at least 40 and injured more than 200.¹⁷ Figure 1.3 shows this quarter's significant security incidents.

The total supply of electricity on the national grid set a new post-2003 high.

FIGURE 1.2
VIOLENT DEATHS IN IRAQ, 3/2011–3/2012



Note: The MOH collects data from the MOI and MOD on ISF casualties and adds it to its own tally of Iraqi civilian deaths. The IAU figures are “collated from various sources around the country.” The UN does not guarantee the accuracy of the information. Iraq Body Count states that its data is drawn from media reports, official GOI reports, NGO data, and reviews of Iraqi hospital and morgue figures. As of April 17, Iraq Body Count was still finalizing its March death toll of 320.

Sources: GOI, MOH, information provided to SIGIR, 4/2012; UN, IAU, “Security in Iraq,” <http://incidents.iauiraq.org/>, accessed 4/10/2012; Iraq Body Count, www.iraqbodycount.org/, accessed 4/10/2012.

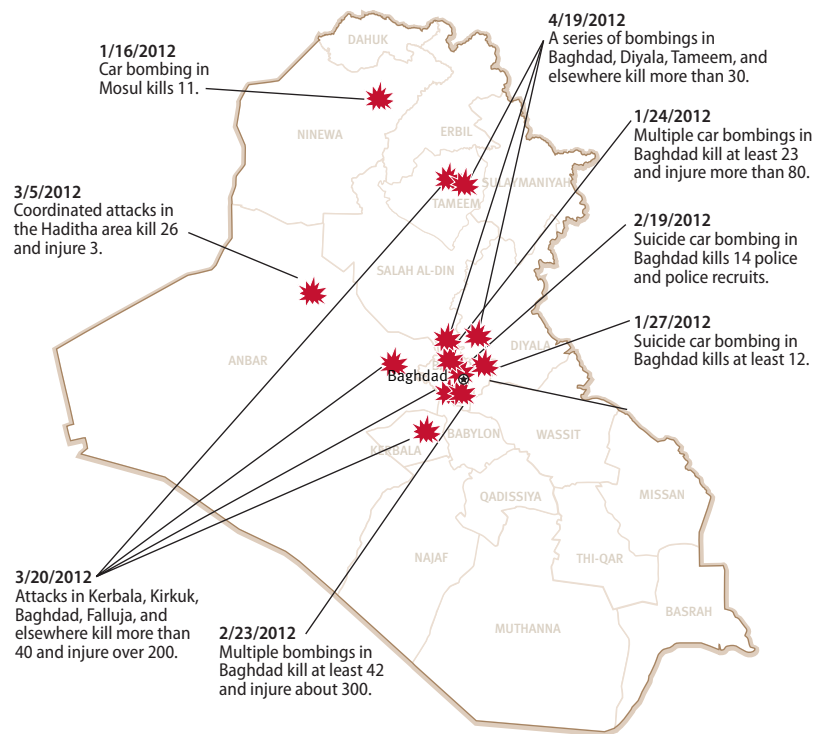
Assassinations

In a five-day span beginning on February 14, three Ministry of Defense (MOD) brigadier generals were targeted for assassination; one was killed. Assassins also targeted Iraqi judges this quarter, killing a criminal court judge in Anbar province, but failing to kill two other judges in Babylon province. Overall, according to data compiled by SIGIR, at least 73 GOI officials and prominent civilians were assassinated between January 11 and April 10, 2012. Of these, about 17 could be considered senior officials or community leaders, down slightly from the 23 such persons killed between mid-October 2011 and mid-January 2012 (the other victims were primarily low-to-mid-ranking ISF personnel). For more on this quarter’s assassinations, as well as information on continued violence against Sons of Iraq, see the Security subsection of this Report.¹⁸

Challenges Facing the ISF

This quarter, the GOI announced that the oft-delayed transition of domestic-security responsibilities from the MOD to the MOI will be completed by July 2012. Forced by the ongoing insurgency to spend an inordinate amount of time policing Iraq’s

FIGURE 1.3
SELECTED MAJOR SECURITY INCIDENTS, 1/16/2012–4/19/2012



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, 1/16/2012–4/19/2012.



ISF troops on parade, January 2012. (GOI photo)

cities and towns, the MOD only recently began to reorient itself toward external defense. As it does so, one of its main priorities will be securing Iraq's airspace. While the F-16s purchased by the GOI through the FMS program will eventually provide Iraq with modern interception capabilities, delivery of all 36 aircraft, and the training of a sufficient number of capable pilots, will not be completed for several years. In the interim, Iraq will be unable to defend its airspace.

Illustrating this manifest air-defense capability gap, U.S. Ambassador James Jeffrey held discussions with GOI officials this quarter over Iran's reported use of Iraqi airspace to fly arms to the embattled Syrian government. According to DoS, the GOI assured the Ambassador that Iraqi airspace would not be used for such purposes.¹⁹ Absent an integrated air-defense network, though, the GOI is left with little recourse if foreign air forces elect to overfly Iraq on their way to conduct missions in a third country.

Anticorruption

The head of Iraq's chief anticorruption agency, the Commission of Integrity (COI), like two of his three predecessors, has not been confirmed by the CoR, possibly leaving him exposed to political pressure.

In February, the COI announced that 1,661 individuals had been convicted of corruption-related offenses in 2011. While the total number of persons convicted was up 21% from 2010, the COI has yet to release data on the types of offenses that resulted in these convictions. If recent trends held true, it is likely that the majority of these 2011 convictions involved the forgery of academic or professional credentials. This was the case in 2010, when approximately 77% of all persons convicted had committed a forgery-related offense.²⁰

Executions

The GOI executed at least 65 individuals in the first two months of 2012, most of whom were convicted of committing terrorist acts in 2006–2008. This nearly matched the total number of executions in all of 2011, when the GOI executed approximately 68 persons.²¹

Absent an integrated air-defense network, the GOI is left with little recourse if foreign air forces elect to overfly Iraq on their way to conduct missions in a third country.

Perspectives on Doing Business in Iraq

In February 2012, SIGIR conducted a series of interviews with international business executives whose firms are operating in Iraq. While all the executives acknowledged the vast potential of the Iraqi market, most recognized that profound challenges remain. SIGIR also met with the Deputy Chairman of the GOI's National Investment Commission (NIC), whose optimism about Iraq's long-term economic development was tempered by a realistic assessment of the near-term challenges faced by both the GOI and international investors. Topics covered in these meetings included:²²

Recent GOI reforms. The NIC Deputy Chairman stated that the GOI has instituted several reforms in recent years aimed at transforming Iraq into a more hospitable environment for international investors. In mid-2011, it reduced the amount of rent charged to firms with projects on GOI-owned land from 10% of the value of the parcel to 10% of the previous occupant's rent. Moreover, the GOI levies only a nominal rental fee for housing projects. In addition, the GOI is also focused on improving the capacities of the provincial investment commissions (PICs). According to the NIC Deputy Chairman, the GOI dedicated significant resources in recent years to training the PICs in basic business-development tasks, such as advertising and contracting. He stated that he is now "very optimistic about 2012" because "the PICs are making us proud—they are growing up."

Security. Security remains a top priority for foreign firms operating in Iraq. One executive noted that, with a consumer market of approximately 31 million people, Iraq would be fertile ground for big-box stores specializing in consumer products. But he added that, as long as the security situation remains uncertain, such companies will stay away, stating that while Iraq has several malls,



Cargo ship off Umm Qasr. (USF-I photo)

many people avoid them because of their perceived vulnerability to terrorist attacks. Several executives also expressed a concern that the GOI's push to reduce the number of foreign private-security contractor (PSC) firms working in Iraq could adversely affect their operations, stating that the GOI's efforts to foster the development of indigenous PSC firms that would primarily employ Iraqis may be premature. Further complicating the security environment for foreign firms is the lack of an established legal framework governing PSCs.

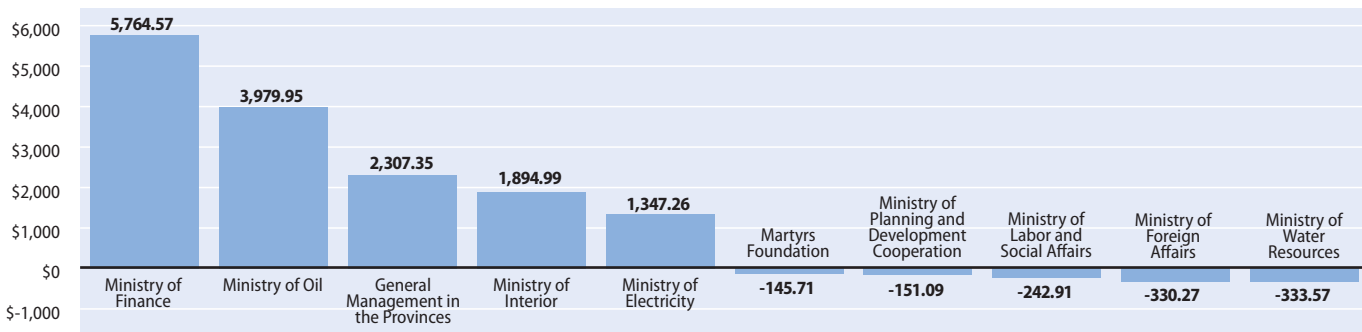
Visas. Most businessmen identified the complex and often inconsistent visa-issuance process as one of the main impediments faced by their firms. Part of the problem involves outdated visa laws dating from the 1970s, a time when most foreign businesses were banned from operating in the country. One executive stated that the lack of clear, consistent visa regulations—and the multiplicity of GOI agencies involved in the process—made it impossible for him to bring to Iraq the technicians needed to conduct demonstrations of his equipment for potential Iraq customers. Describing the visa process and its associated bureaucracy as "daunting, opaque, and unpredictable," he added that companies can "spend so much time getting into Iraq . . . [that] there's little time to do any business in Iraq." However, one executive remarked that, by working through the NIC, obtaining entry visas for their personnel has grown somewhat easier in recent months.

Standards. The GOI's lack of uniform, modern, and internationally recognized product standards interferes with companies' efforts to import goods into Iraq. The absence of such standards, especially in the area of consumer products, results in lengthy delays at ports and border crossings as customs officials attempt to discern what, if any, items can be permitted to enter Iraq.

Fiscal and legal environment. Businesses operating in Iraq must also adapt to a legal environment frequently dissimilar to more familiar Western models. For example, it is common practice to pay many taxes and fees in cash, forcing investors to transport substantial amounts of paper currency around the country. Additionally, some investors expressed a reluctance to commit substantial resources to Iraq until the rule of law—especially as it pertains to obtaining redress through the courts for nonpayment of contractual obligations—becomes more firmly established.

Corruption. The proliferation of new, U.S.-created anticorruption agencies since 2003—the COI and the ministry inspectors general (IGs)—has also affected the timeliness with which mid-level GOI managers make decisions. One executive stated that crucial decisions are often postponed because Iraqi officials fear that any negative outcome will result in an IG investigation. He added that "there's fear at all levels—a fear of losing your job [and] a fear of being accused of corruption."

FIGURE 1.4
GREATEST INCREASES AND DECREASES IN GOI 2012 BUDGET ALLOCATIONS COMPARED WITH 2011
 \$ Millions



Source: GOI, CoR, “General Budget Law for the Federal Republic of Iraq for the Financial Year 2012,” 2/23/2012, www.parliament.iq, accessed 2/23/2012.

ECONOMY

The hydrocarbon sector continues to dominate Iraq’s economy, with the International Monetary Fund estimating that oil revenue will account for 98% of export earnings and more than 90% of GOI income in 2012.²³ Improved security, however, has led to a marked increase in international investment. According to one estimate, foreign firms reported \$55.7 billion in investments, service contracts, and other commercial activities in Iraq during 2011—a 40% increase from 2010.²⁴

GOI Budget for 2012

In early February, the CoR approved a \$100.4 billion budget for 2012 with a projected deficit of about \$12.7 billion. Financed almost entirely by oil revenue, the 2012 budget assumes an average price of \$85 per barrel and average exports of 2.60 million barrels per day (MBPD). Government operating expenses, such as salaries and pensions, account for 68% of the budget (\$68.6 billion)—20% higher than 2011—while capital investment accounts for about 32% (\$31.88 billion) of the 2012 budget—24% higher than 2011. Figure 1.4 shows the GOI agencies receiving the largest annual increases and decreases in 2012 relative to what they were allocated in 2011.²⁵

Oil production averaged 2.59 MBPD for January and February—well below the 3.4 MBPD production target set for 2012.

Oil Exports, Production, and Infrastructure

The Ministry of Oil stated that March oil exports averaged 2.32 MBPD—a post-2003 monthly record, but 11% below the annual average (2.60 MBPD) assumed in the 2012 budget.²⁶ For the entire quarter, exports averaged about 2.15 MBPD.²⁷ The Ministry of Oil reported that oil production averaged 2.59 MBPD for January and February—well below the 3.4 MBPD production target it set for 2012.²⁸

Iraq’s inadequate infrastructure, especially portions of the pipeline system that transports crude oil to terminal facilities near Umm Qasr, has long hampered GOI efforts to increase oil exports. In February, after several false starts, the first of five planned single-point mooring (SPM) facilities started operating off the coast of al-Faw peninsula. When all SPMs are operational, Iraq’s nominal export capacity would increase by approximately 4.25 MBPD.²⁹

GOI-KRG Oil Dispute Intensifies

This quarter, tensions increased between the GOI and the KRG over control of oil fields in the Kurdistan Region and in the disputed territories to its south and west. The controversy centered on whether international oil companies doing business with the GOI can also enter into contracts with the KRG. Despite the uncertainty, companies

are nonetheless attracted to the Region because of its safer security environment and the more favorable contractual terms offered by the KRG. By the end of the quarter, no less than three major international oil companies had become enmeshed in GOI-KRG dispute to various degrees, with BP and Total joining ExxonMobil in having to navigate a potentially volatile political landscape.³⁰

Until the CoR passes the long-stalled package of hydrocarbon laws, disputes over the control of certain northern oil fields and the distribution of oil revenue will continue to adversely affect relations between the GOI and the KRG. For a more complete analysis of oil-related issues, see Section 4 of this Report.

Foreign Commercial Activity











Firms from more than 45 countries invested in Iraq in 2011, with those from countries outside the region, including South Korea and the United States, apparently capturing a greater percentage of the deals than they did in 2010. Foreign investors committed the most money to the residential real estate sector (\$14.5 billion), followed by the hydrocarbon (\$12.8 billion), electricity (\$11.2 billion), and water and sanitation (\$4.3 billion) sectors.³¹

Oil-rich Basrah province attracted more than 27% of all foreign commercial activity in Iraq last year, followed by Baghdad (20%) and the Kurdistan Region (15%). Once again, 2011 saw little investment flow to strife-ridden Diyala province (2%) or the sparsely populated Sunni province of Anbar (1.2%). Table 1.2 lists the top countries whose firms invested in Iraq last year, and Table 1.3 provides information on the most significant commercial engagements, as measured by dollar value.³²



Prime Minister al-Maliki meets with Najaf officials in April 2012 to review development plans. (GOI photo)

TABLE 1.2
GEOGRAPHIC ORIGIN OF FOREIGN COMMERCIAL ACTIVITY IN IRAQ, 2011







COUNTRY	VALUE (\$ Billions)	% OF TOTAL
 South Korea	12.0	21.5
 United States	6.9	12.4
 United Kingdom	4.1	7.4
 Netherlands	3.8	6.9
 Turkey	3.7	6.6
 Germany	3.2	5.7
 People's Republic of China	3.1	5.6
 United Arab Emirates	3.0	5.3
 Italy	2.8	5.1
 Iran	2.2	3.9

Note: Other countries with approximately 1%–2% of reported deal volume: France, Cyprus, Japan, Russia, Sweden, Kuwait, Australia, India, and Ukraine. Numbers affected by rounding. Dollar values associated with this table do not necessarily reflect values of contracts or other binding engagements.

Source: Dunia Frontier Consultants, "Foreign Commercial Activity in Iraq: 2011 Year in Review," 3/2012, p. 12.

Until the CoR passes the long-stalled package of hydrocarbon laws, disputes over the control of certain northern oil fields and the distribution of oil revenue will continue to adversely affect relations between the GOI and the KRG.

TABLE 1.3
TOP 5 FOREIGN COMMERCIAL DEALS IN IRAQ FOR 2011
 \$ Billions

VALUE	COMPANY	COUNTRY	DESCRIPTION	SECTOR	PROVINCE
7.25	Hanwha	South Korea 	100,000 housing units and related services in Besmaya	Real estate	Baghdad
6.98	Royal Dutch Shell/ Mitsubishi	Netherlands/ Japan  	Gas-capture infrastructure in southern oil fields	Hydrocarbon	Basrah
2.60	Bauer	Germany 	6-year rehabilitation of the Mosul Dam	Water	Ninewa
2.30	Lockheed Martin	United States 	F-16 combat aircraft, and related equipment and services	Defense	N/A
2.00	Majid al Futtaim Holding	United Arab Emirates 	Shopping centers	Real estate	Kurdistan Region

Note: Dollar values associated with this table do not necessarily reflect values of contracts or other binding engagements.

Source: Dunia Frontier Consultants, "Foreign Commercial Activity in Iraq: 2011 Year in Review," 3/2012, p. 27.

SIGIR OVERSIGHT

New Reports

In late April, SIGIR issued its seventh lessons learned report, *Iraq Reconstruction: Lessons Learned from Investigations, 2004–2012*.

Drawing on more than eight years of criminal investigative experience in Iraq involving over 600 different cases, this report identifies a series of lessons learned and recommends a set of best practices for use in future stabilization and reconstruction operations (SROs) to ensure that law-enforcement agencies have appropriate plans and procedures in place before an SRO begins.

SIGIR also issued its first special report this quarter—*Reconstruction Leaders' Perceptions of the Commander's Emergency Response Program*

SIGIR could not determine whether some items paid for were actually received—including 10,000 hand-held weapons.

in Iraq. This report provides the results of a survey of U.S. Army and Marine Corps battalion commanders and civilian agency officials about their experiences using CERP funds in Iraq. Key findings include:

- Persistent structural issues impeded coordination among military and civilian reconstruction officials.
- CERP projects were generally less effective in developing the capacity of GOI institutions.
- A significant number of battalion commanders surveyed estimated that at least some of the CERP money their battalions spent was lost to fraud and corruption.

Survey results also indicated the need for reconstruction managers to involve local officials early in the planning process. In addition, many of the commanders surveyed stated that small-scale projects that can be finished expeditiously are more likely to be successful than elaborate, complex programs that take a much longer time to implement.

Both of these reports are available at www.sigir.mil.

Audits

SIGIR issued four audits this quarter. To date, SIGIR has published 210 audit reports. This quarter's audits assessed:

- **Development Fund for Iraq (DFI) Electronic Fund Transfer (EFT) Payments.** In 2003 and 2004, the Coalition Provisional Authority (CPA) Administrator directed the Federal Reserve Bank of New York to make about 1,100 EFT payments totaling about \$5.9 billion for reconstruction activities funded by Iraqi money held in the main DFI account. SIGIR's analysis of the 25 EFT payments made in 2003 found that almost all contained the documents needed to support each transfer. But because the only three missing documents were important receiving and inspection reports, SIGIR could not determine whether some items paid for were actually received—including 10,000 hand-held weapons. SIGIR's examination of the 29 EFT

payments made in 2004 found far more missing documents, although the files for four of the largest—three payments to the World Food Program and one payment establishing a letter of credit—had all of the requisite documents. But 11 of the 75 documents (14.6%) were missing from the remaining 25 payments, causing SIGIR to expand the scope of its audit to cover 21 additional 2004 payments—12 for Hajj-related activities and 9 for fertilizer and pesticides. Of these, SIGIR found that 94.4% of the documents supporting the \$40.4 million in Hajj payments were missing, and 37% of the documents supporting the \$15.8 million for fertilizer and pesticide payments were missing. While SIGIR has not concluded that fraud, waste, or abuse occurred as a result of the missing documentation, the absence of these key financial documents raises serious questions of accountability.

- DoS Progress in Implementing SIGIR Recommendations Addressing Quick Response Fund (QRF) Management Controls.** An April 2011 SIGIR audit of the QRF raised concerns that fraudulent activities may have taken place. Since the QRF involved cash payments for projects, the program was particularly susceptible to fraud, waste, and abuse, and needed strong internal controls over program management and fund expenditures. The letter report released this quarter examined the extent to which DoS has implemented recommendations made by SIGIR last year. In response to SIGIR requests for information on this issue, DoS officials stated that they had implemented the recommendations, but did not directly address SIGIR's concerns. Consequently, SIGIR will continue with this audit and examine DoS documentation of its use of the QRF in 2007 and 2008.
- ISFF Spend Plans for FY 2011–FY 2012.** This report reviewed the status of the \$1.5 billion appropriated to the ISFF through the Defense and Full-Year Continuation Appropriations

Act, 2011 (P.L. 112-10). These funds cannot be used for new obligations after September 30, 2012. The audit found that DoD had obligated \$243.1 million of the FY 2011 ISFF, as of March 20, 2012. In addition, OSC-I informed SIGIR that, after reviewing the ISF's requirements, it now expects that it will not need the entire \$1.5 billion. The Under Secretary of Defense (Comptroller) requested and received congressional approval to reprogram approximately \$345 million to meet DoD's other needs. Notwithstanding this reprogramming, SIGIR concluded that the challenges faced in obligating the ISFF make it likely that some funds will be left unobligated on September 30.

- U.S. Army Corps of Engineers (USACE) Contract Terminations.** In this third report on USACE contract terminations, SIGIR determined that no unliquidated obligations remained on the 55 terminated contracts reviewed in the audit. For 46 of the 55 contracts, USACE financial reports showed the obligated funds were either used to pay contractors or deobligated. For the other 9 contracts, USACE officials stated that no financial transactions occurred after the funds were obligated, a conclusion confirmed by SIGIR's independent review of the contract files.

Investigations

As of March 31, 2012, work performed by SIGIR's Investigations Directorate, in collaboration with other U.S. law-enforcement agencies, has resulted in 86 indictments, 66 convictions, and 38 arrests, as well as court-ordered fines, forfeitures, and other monetary penalties of more than \$175 million. This quarter, significant investigative accomplishments included:

- On February 6, Eric Hamilton, a former U.S. Marine Corps gunnery sergeant, was sentenced to 18 months in prison for conspiring to steal at least 55 electrical generators from U.S. military bases in Iraq while he was stationed

DoS officials stated that they had implemented the recommendations, but did not directly address SIGIR's concerns.

there in 2008. Hamilton was also sentenced to three years of supervised release and ordered to pay \$124,944 in restitution.

- On February 14, Amasha King, a sergeant in the U.S. Army Reserves, pled guilty to one count of conspiracy to defraud the U.S. government. She admitted to receiving more than \$20,000 from a defense contractor in return for preferentially processing the contractor's invoices outside of the proper procedures. This allowed the contractor to be paid much faster than usual, and ultimately enabled it to bid for more contracts than it otherwise could have financed.
- On February 21, John Hayes was sentenced to five months in prison followed by two years of supervised release and ordered to pay \$12,000 in restitution for conspiring to steal U.S. government equipment (a truck and a generator) while working as an employee of a firm in Iraq under a DoS contract.
- On February 23, Eurica Pressley, wife of former U.S. Army Major Eddie Pressley, was sentenced to six years in prison and three years of supervised release for her participation in a bribery and money-laundering scheme involving the payment of bribes in exchange for the awarding of Iraq reconstruction contracts. She was also ordered to forfeit \$21 million, several automobiles, and property. The Pressleys were found guilty in March 2011 of multiple offenses, including bribery, conspiracy to commit bribery, honest-services fraud, and money-laundering conspiracy. Earlier this year, Eddie Pressley was sentenced to 12 years in prison for his role in these crimes.
- On February 28, three former officers of a U.S. defense contractor, the wife of one of the officers, and four foreign nationals were indicted for their alleged roles in a fraud and money-laundering scheme involving contracts for reconstruction projects in Iraq. The defendants were also are charged with an aggregate of 74 wire-fraud offenses. One of the company

officers and one of the foreign nationals were also charged with offering and receiving illegal kickbacks from potential subcontractors. In addition, the company officers and the wife of one of the officers were charged with multiple money-laundering offenses.

- On March 2, U.S. Army Major Kevin Schrock was sentenced to three-years probation and ordered to pay \$47,242 in restitution for stealing funds intended for humanitarian and reconstruction projects in Iraq in 2004 and 2005.
- On March 7, Michael Rutecki, a captain in the U.S. Army, pled guilty to accepting illegal gratuities from an Iraqi contractor. Among the items Rutecki accepted were \$10,000 in cash, two silver rings, and 15 gold coins worth more than \$10,000. He took these items with the understanding and belief that they were for assisting the contractor with obtaining a CERP-funded contract. Rutecki faces up to two years in prison and a fine of \$250,000.
- On March 13, a British citizen and his company were charged with conspiracy to defraud the United States and pay kickbacks in exchange for receiving more than \$23 million in DoD subcontracts from April 2006 to August 2008. The British contractor allegedly paid more than \$947,500 in unlawful kickbacks to two employees of a prime contractor to the U.S. government in order to obtain these subcontracts for work performed in support of the Coalition Munitions Clearance Program (CMCP). In a related matter, the prime contractor's program manager and deputy program manager were charged on the same day with conspiring to solicit and accept kickbacks to award subcontracts under the CMCP program and to commit mail and wire fraud by devising a scheme to defraud the U.S. government.
- On March 20, Terry Hall, a former U.S. Army contractor, was sentenced to 39 months in prison for his participation in the same bribery and money-laundering scheme that resulted

A British citizen and his company were charged with conspiracy to defraud the United States and pay kickbacks in exchange for receiving more than \$23 million in DoD subcontracts.

in the convictions of Eurica Pressley and 18 others. He was ordered to serve one year of supervised release following his prison term. In addition, the court ordered Hall to forfeit \$15,757,000 as well as a Harley-Davidson motorcycle and parcels of commercial real estate that he purchased with illicitly obtained funds.

- On March 23, Francisco Mungia, a former Marine, was sentenced to four months imprisonment, followed by three years supervised release, and ordered to pay \$30,000 in restitution for laundering approximately \$150,000 in bribes that his co-conspirator received from two Iraqi contractors.
- On April 2, David Welch, a former U.S. civilian contract employee, pled guilty to conspiring to steal 38 U.S. military generators and sell

them on the Iraqi black market. He also agreed to pay \$160,000 in restitution to the United States. At sentencing, he faces up to five years in prison and a \$250,000 fine.

- On April 9, U.S. Army Major Christopher Bradley pled guilty to accepting \$20,000 in illegal gratuities from a contractor performing construction work on a military base in Iraq in 2008. The allegations against Bradley included interceding on the part of the contractor concerning security changes at the base that ultimately imposed a much greater cost and inconvenience for all other contractors operating there.

As of April 10, SIGIR is continuing to work on 110 open investigations. ♦

The court ordered Hall to forfeit \$15,757,000 as well as a Harley-Davidson motorcycle and parcels of commercial real estate that he purchased with illicitly obtained funds.