

Major U.S. Reconstruction Assistance to Iraq, by Area, as of 6/30/2011

\$ Billions; total obligations from five major funds: \$47.4 billion



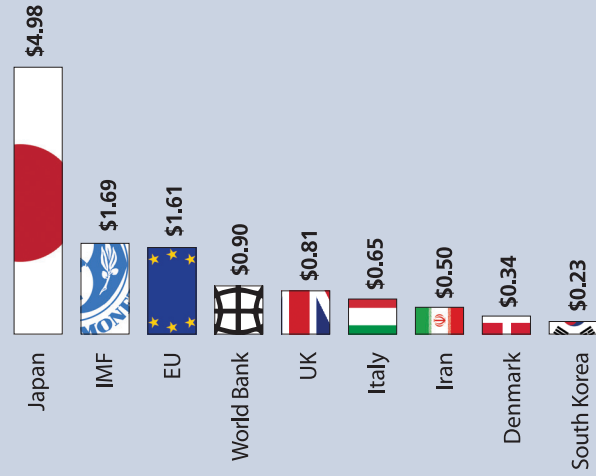
Selected U.S.-funded Reconstruction Support for Iraq's Economic Recovery*

- **Iraq Relief and Reconstruction Fund 1**, \$66 million. Funds used to provide technical assistance to banking, regulatory, and oversight institutions; implement currency conversion; provide vocational training and small-business credit; and restore marshlands.
- **Iraq Relief and Reconstruction Fund 2**, \$860 million. Funds used to forgive Iraqi debt; design and implement market-based and institutional reforms; promote agriculture; provide vocational and business skills training; expand micro-, small, and medium-sized enterprises; and expand network of employment.
- **Innaq Agrusiness Development (ESF)**, \$145 million. Focuses on building competitiveness of Iraqi agriculture, showing potential for profitability, creating jobs, and expanding sales.
- **Izdirhar Private-sector Growth and Employment Generation (ESF)**, \$33 million. Focused on sustainable financing for medium-sized enterprises, business development, training, investment promotion, and trade reform.

*Amounts indicate only those funds spent directly on economic-sector reconstruction.

Selected Non-U.S. Loan and Grant Donor Commitments, as of 6/30/2011

\$ Billions



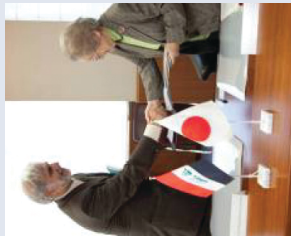
A total of \$18.02 billion in aid has been pledged to Iraq by various international actors. Of this amount, \$13.03 billion has been committed. The table above does not reflect U.S. commitments.



Orchard cultivation. (USAID photo)

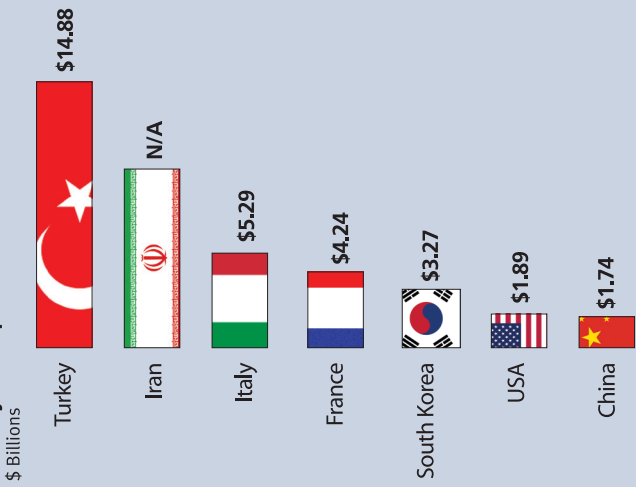


The 5-star Rorana Hotel in Erbil is an example of recent private investment in Iraq. (Management Corp. photo)



Japan is second only to the United States in its level of aid to Iraq. (Japan International Cooperation Agency photo)

Countries with the Largest Commercial Activity in Iraq, 2010*



Foreign companies operating in Iraq work mainly on development projects financed by the Iraqi government.
*Foreign commercial activity constitutes projects underway or final contracts signed.



Anham billed the U.S. government \$80 for this PVC plumbing elbow, 5,574% more than a competitor's offer of \$1.41.

\$11.4 million reviewed. As a result of the problems identified in this report, SIGIR has formally questioned all costs on this contract and recommended that the U.S. military initiate a systematic review of billing practices on all Anham contracts in Iraq and Afghanistan.

In another notable audit, SIGIR reviewed DoD use of FY 2011 Commander's Emergency Response Program (CERP) funds, concluding that many of the capacity-development projects undertaken were not linked to specific military objectives. This audit found that DoS officials played a significant role in planning and executing CERP projects, raising questions about whether the CERP has simply become another U.S. development program. In a related audit, SIGIR reviewed the Iraq CERP (I-CERP), a program under which the U.S. military has implemented reconstruction projects using Iraqi funds. SIGIR determined that USF-I's management led to U.S. funds being spent unnecessarily. SIGIR found that \$24.4 million in I-CERP funds remain that could be used to finance reconstruction projects with Iraqi funds instead of U.S. taxpayer dollars.

Three other SIGIR audits published this quarter found that:

- Plans for monitoring serious incidents involving private security contractors (PSCs) after the U.S. military withdraws from Iraq remain uncertain.
- About 40% of surveyed U.S. government CORs responsible for monitoring Theater-wide Internal Security Services (TWISS) contracts had not received adequate training. In addition, the CORs are not preparing, and the Defense Contract Management Agency is not maintaining, adequate documentation necessary for determining whether security contractors comply with the terms of task orders.
- DoS has taken sufficient action to warrant closing 13 of 45 SIGIR audit recommendations. Although DoS claims to have closed 38 of the 45 recommendations, SIGIR was unable to close 25 of them because DoS did not provide sufficient documentation.

To date, SIGIR has issued 194 audit reports and is working on 12 ongoing audit projects. In June, SIGIR announced its third audit on the U.S. management of Iraqi funds in the Development Fund for Iraq (DFI). A SIGIR audit in 2005 had found weak controls for approximately \$8.8 billion in DFI funds, and a 2010 audit determined that another \$8.7 billion in DFI funds was not properly accounted for. SIGIR is working with the GOI and DoD to account for all DFI funds and, to date, has found nothing to support contentions that these funds were stolen.

SIGIR Investigations

SIGIR's investigative work has resulted in 35 arrests, 64 indictments, 54 convictions, and more than \$153.9 million in fines, forfeitures, restitution payments, and

other court-ordered monetary penalties. Significant investigative accomplishments this quarter included:

- DynCorp International LLC and its subcontractor, The Sandi Group, agreed to pay more than \$8 million to the United States as part of a settlement agreement resolving allegations of submitting false claims for payment under DynCorp's police-training contract with DoS.
- Two former U.S. Army majors pled guilty in related cases for accepting bribes from contractors that provided bottled water to U.S. troops. The two were part of a wide-ranging conspiracy to defraud the U.S. government that SIGIR has been investigating since 2006 and that, to date, has resulted in 18 convictions.
- A former U.S. Army sergeant first class pled guilty to conspiring with a U.S. Army translator to steal eight generators from a U.S. base in Mosul and resell them on the black market. He admitted to receiving more than \$40,000 for his role in the plot and faces up to five years in prison.
- A U.S. Army sergeant first class and a former U.S. Army master sergeant were indicted for their role in a bribery and money-laundering scheme centered on the improper disclosure of information to two contracting firms that ultimately received almost \$25 million in U.S. government contracts.
- The former president of a DoD contractor pled guilty to conspiracy and bribery charges related to multi-million-dollar contracts with the Coalition Provisional Authority for warehouses and with the U.S. Army for support of operations in Iraq. As of July 15, SIGIR investigators were working on 104 open cases.

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SIGIR QUARTERLY REPORT

SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

JULY 2011

A SUMMER OF UNCERTAINTY

Negotiations continued this quarter between the U.S. government and the Government of Iraq (GOI) on the possibility of a continuing U.S. military presence in Iraq after December 31, 2011. While Prime Minister Nuri al-Maliki is open to that possibility, the fractious Iraqi political situation—and the ominous opposition of Muqtada al-Sadr and his restive supporters—have made it difficult to forge support for an extension within the GOI.

U.S. Transitions

As of mid-July, approximately 43,800 personnel of the U.S. Forces-Iraq (USF-I) continue to prepare for their planned withdrawal from Iraq by year's end. As USF-I rapidly draws down, the Department of State (DoS) will concomitantly increase its presence, and the scope of its mission will expand. This quarter, DoS inaugurated new consulates in Basrah and Erbil, providing a permanent diplomatic presence in the oil-rich south and Kurdish north. DoS also intends to open a temporary consulate in Kirkuk, but plans for a presence in Mosul have been placed on hold.

On October 1, 2011, DoS will assume responsibility for two key security missions now managed by the U.S. military:

- The Office of Security Cooperation-Iraq (OSC-I) will be responsible for ties with the Iraqi armed forces. OSC-I will fall under the authority of the Chief of Mission and will advise, train, and assist the Iraqi military and manage U.S.-funded security-assistance programs.
- The DoS Bureau of International Narcotics and Law Enforcement Affairs (INL) will take charge of continuing to build the capacity of the Iraqi police. About 190 INL staff will operate out of 3 sites, visiting more than 20 subsidiary locations to train police across 10 provinces.

Increased Violence

These transitions are being executed against the backdrop of an increasingly violent Iraq. This quarter, Iranian-backed Shia militias launched deadly attacks on U.S. troops, and the International Zone (IZ) came under multiple indirect-fire attacks. In one attack, 11 rockets struck the IZ—the highest number for a single day in more than two years. Attacks continued against GOI personnel, with several large bombings targeting Iraqi police. Scores of senior officials, including judges, generals, and mayors, were assassinated or wounded this quarter.

Iraq's Economy

The Iraqi economy continues to boom as crude oil prices remained high and both production and exports edged past previous quarterly records. Oil revenues contributed to an increase in real gross domestic product growth that the International Monetary Fund projects may exceed 12% for 2011 (compared with an estimated 0.8% in 2010). Maintaining this robust growth rate in the years to come will be challenging because of a series of interrelated problems that continue to affect the Iraqi economy. For example:

- The GOI's oil production target of 12 million barrels per day by 2017 might be unrealistic given Iraq's weak infrastructure and the uncertain security and legal environments.
- Electricity shortages continue because the amount of power supplied to the national grid remains far below demand. While dozens of electricity-related construction projects are underway or planned, the Deputy Prime Minister for Energy Affairs acknowledged that significant improvements are unlikely to occur before mid-2012.



On July 16, 2011, a bomb in a minibus parked outside a Baghdad restaurant killed or wounded several people. (AP Images/Khalid Mohammed)

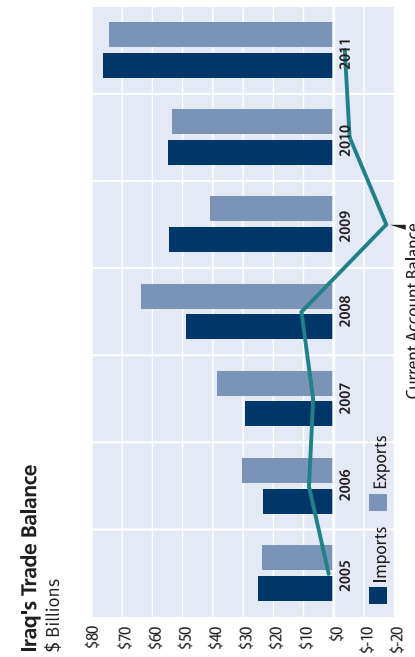
Iraq's large public sector continues to occupy a dominant position in the non-oil economy, and corruption remains an enduring challenge. This quarter, however, one of the main impediments facing the GOI's anticorruption agencies was removed with the repeal of Article 136(b) of the Iraqi Criminal Procedure Code. This provision, which had allowed ministers to block investigations into the activities of subordinates, was frequently invoked to shield corrupt government officials from prosecution.

SIGIR Audits

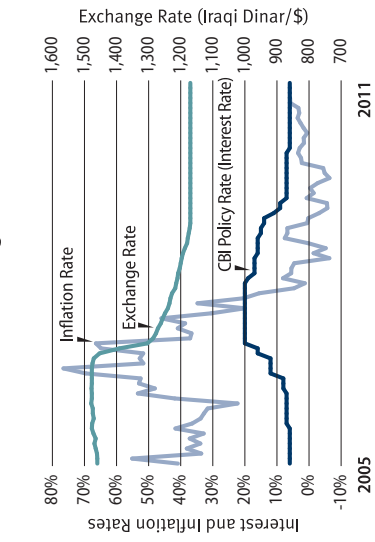
SIGIR issued six audit reports this quarter, including a review of U.S. government oversight of Anham, LLC, a large Department of Defense (DoD) contractor. The audit found weak government contract oversight in multiple areas. Government contracting officer's representatives (CORs) failed to compare vouchers with receiving documents and allowed Anham employees to sign for receipt of \$10 million in goods. Moreover, a limited incurred-cost review questioned 39% of the charges—\$4.4 million of the



Iraq's Trade Balance



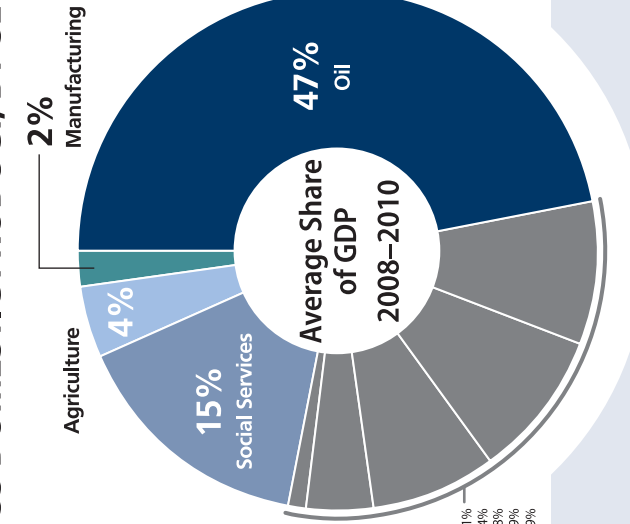
Interest, Inflation, and Exchange Rates



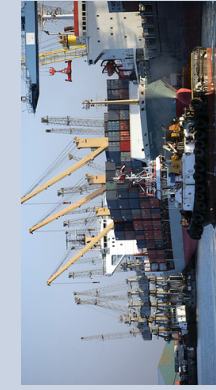
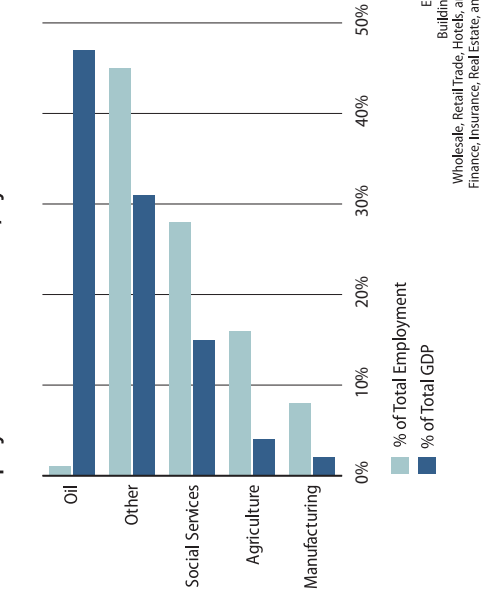
How the Iraqi Household Measures Up

HOUSEHOLD INCOME \$/MONTH	COMPUTER OWNERSHIP	CELL PHONE SUBSCRIBERS (PER 100 INHABITANTS)	CAR OWNERSHIP	ELECTRICITY SUPPLY (KWH/DAY FOR AC)
Iraq: 733	12%	64	27%	6-9 hours
Iran: 704	34%	71	36%	24 hours
Saudi Arabia: 2,624	50%	174	86%	24 hours
United States: 4,185	76%	91	84%	24 hours

GROSS DOMESTIC PRODUCT, BY SECTOR



Share of Employment vs. Share of GDP by Sector



Value of Foreign Commercial Activity in Iraq, 2005-2010

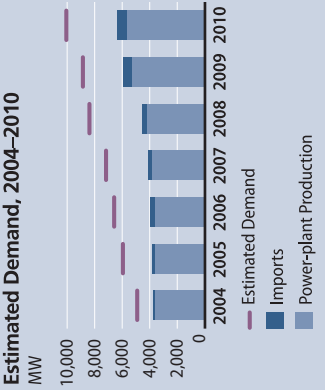


Turkey, Italy, France, and South Korea provided **65%** of foreign commercial activity in 2010. The largest investment sector with foreign commercial activity was in housing/real estate.

Iraq Stock Exchange vs. S&P Pan Arab Composite Index



Average Iraqi Electricity Supply and Estimated Demand, 2004-2010



Between 2004-2010, the supply of electricity in Iraq has increased by **69%**, at the same time demand has risen by **105%**.



Collectively, Manufacturing, Agriculture, and Social Services amount to **21%** of Iraq's GDP, but provide more than half of all jobs.



Public-sector employment grew from less than **1 million** in 2004 to more than **3 million** in 2009.

OIL

Oil dominates Iraq's economy. It accounts for 98% of export earnings and about 90% of all government revenues, but employs only 1% of the work force.

Iraq sits on an estimated 143 billion barrels of proved oil reserves, the third highest country total in the world.

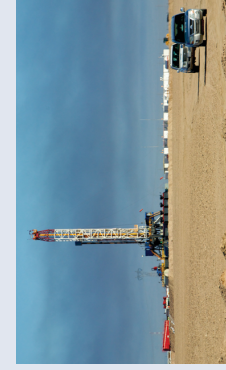
Oil production is projected by IEA to grow to 3.5 million barrels per day by the end of the 2009-2035 period. Natural gas production is expected to grow at three times the pace of any OPEC producer during the same period.

Average Annual Growth of Oil Production, 2009-2035



47%

Iraq's oil sector needs major investment to repair obsolete, decaying infrastructure and expand production, storage, and export facilities to handle projected growth in volume over the coming decades.



SOCIAL SERVICES

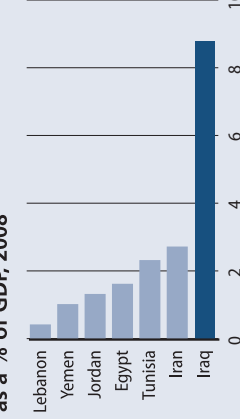
Government is the economy's single largest employer, providing almost 60% of all full-time jobs; subsidies for food and wages for the employees of state-owned enterprises constitute major national budget items.



15%

Iraq's government has worked to reduce spending on public safety nets and other subsidies.

Public Spending on Safety Nets as a % of GDP, 2008



AGRICULTURE

This sector has lost its international competitiveness, leaving the land once considered the cradle of modern agriculture a major food importer.

Important Agricultural Crops:

- Wheat
- Barley
- Sorghum

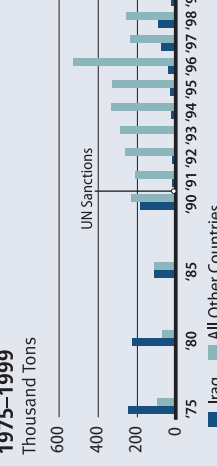
The Council of Ministers has passed and sent to parliament an infrastructure investment program that earmarks \$5 billion for irrigation and other agricultural needs.



4%

Dates—a symbol of agriculture's decline
In 1975, Iraq dates dominated world markets, but by 2000 they had disappeared—a victim of UN economic sanctions. In the global marketplace, Iraq is hampered by obsolete farm machinery, lack of water and soil salinity, and decaying infrastructure.

Date Exports (Iraq vs. All Other Countries), 1975-1999



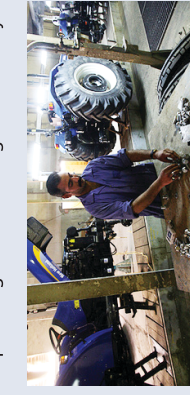
MANUFACTURING

The state-owned manufacturing sector was crushed by UN economic sanctions imposed after Iraq's 1990 invasion of Kuwait. Two wars and prolonged international isolation have left the sector in critical need of restructuring.

Important Manufacturing Branches:

- Cement
- Pharmaceuticals

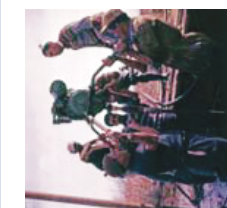
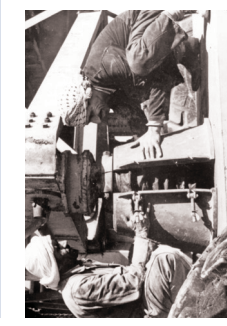
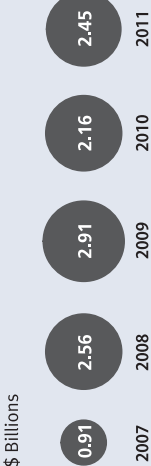
If the restructuring "roadmap" approved by the Council of Ministers restores competitiveness, a healthy manufacturing sector can diversify an oil-dominated economy, create jobs, boost productivity, draw foreign investment, and broaden Iraq's reintegration into the global economy.



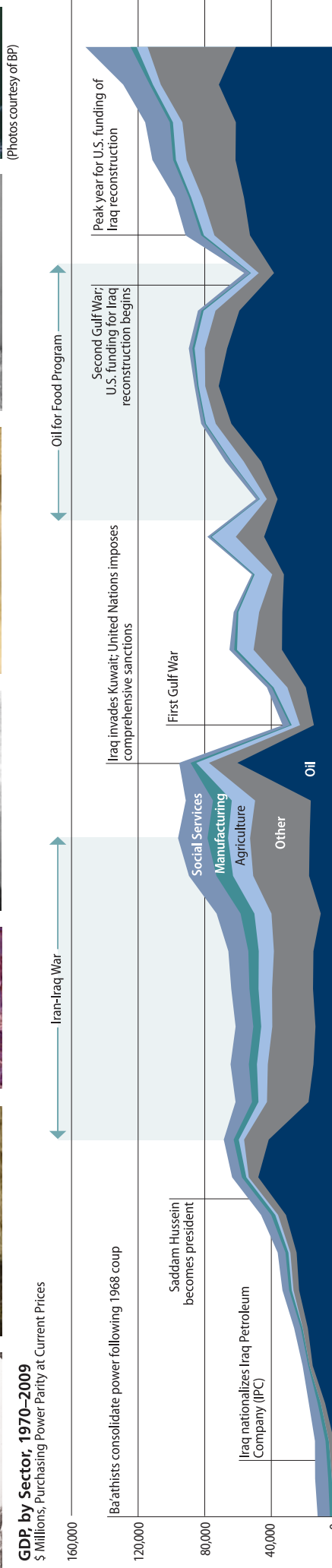
2%

Drawing foreign partners' interest will not be easy unless politically difficult reforms make government-owned enterprises competitive in a market economy by trimming payrolls and implementing modern production and management techniques.

Annual GOI Subsidies for SOEs



GDP by Sector, 1970-2009

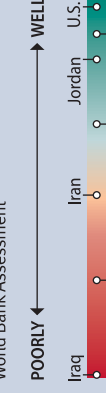


Starting a New Business: Time/Costs To Meet Government/Legal Requirements

COUNTRY	DAYS	COSTS (% OF PER CAPITA INCOME)
United States	6	1.4
Saudi Arabia	5	7.0
Iran	8	4.0
UAE	16	8.4
Syria	13	38.1
Jordan	13	44.6
Iraq	17	107.8

Only **1.4%** of Iraqis have a deposit account with a private-sector bank, and the percentage of those borrowing from such banks is even less.

How Well Countries Control Corruption



80% of all food consumed in Iraq is imported.

Ease of Doing Business Rankings, 2011

COUNTRY	RANK
United States	5
Saudi Arabia	11
UAE	40
Jordan	111
Iran	129
Syria	144
Iraq	166

A **1 percentage point** increase in the agricultural sector's share of the GDP could produce an additional **55,000 jobs** for the economy.

Exports/Imports, Ease and Cost

COUNTRY	POST PROCESSING TIME IN DAYS	COST PER CONTAINER (\$)
United States	6/5	1,050/1,315
UAE	7/7	521/542
Saudi Arabia	13/17	580/686
Iran	25/32	1,090/1,735
Syria	15/21	1,190/1,625
Iraq	80/83	3,550/3,650



In the 1980s, Iraq's campaign to end illiteracy was praised as among the best in the Arab World. Today, literacy rates are dropping, and **20%** of Iraqis aged 10-49 can neither read nor write.