

## **Executive Summary**

*Section 2207 of the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (Public Law 108-106), requires the submission of a quarterly report to Congress outlining the current conditions for programs and initiatives supported by the appropriation dedicated to the Iraq Relief and Reconstruction Fund (IRRF). The Office of Management and Budget (OMB) submitted the first three quarterly reports to Congress, with the last OMB submission occurring July 2, 2004. Subsequent reports have been submitted by the Department of State, beginning October 5, 2004.*

The Government of Iraq (GOI) continues to build the foundation for long-term political and economic governance. Important business development legislation was recently enacted, namely the Fuel Import Liberalization Law. Capacity development initiatives are underway. Security, however, continues to be a major impediment to economic recovery. The Baghdad Security Plan (BSP), launched August 2006, was intended to improve security, but did not meet expectations. Alternative security strategies are currently under review. IRRF programs in the security sector that have helped train and equip Iraqi Security Forces are in their final stages of completion. IRRF and FY06 Economic Support Funds (ESF) will continue to support the stabilization of local communities through a variety of programs and will link into the Administration's FY07 and FY08 requests.

During the last quarter, Iraq and the UN made significant progress on the International Compact with Iraq. By the end of December, the document was largely complete. Under this process, Iraq has identified a range of specific reforms, largely in the economic sphere, which will be critical in enabling it to be self-sufficient over the five year course of the Compact. In exchange, donors will match Iraqi performance under these commitments with new support, including debt forgiveness, new assistance and investment. During the quarter, the 14 countries in the Compact Preparatory Group endorsed the Compact, and the document was approved unanimously by the Iraqi Council of Ministers.

### **IRRF Program Summary**

IRRF continues to wind down, with 306 IRRF projects completed over the last quarter, bringing the total of IRRF construction and non-construction projects completed since the fall of 2003 to 11,217. As of December 30, there are 875 ongoing IRRF projects and training programs. Half will be completed by April 2007, with the vast majority completed by December 2007. In addition to the security and law enforcement IRRF projects, other sectors, including oil, electricity, transportation, water resources and sanitation, agriculture, health care and telecommunications, continue to pay dividends in supporting Iraq's development.

September 30, 2006 was the deadline to obligate IRRF funds, by which time \$18.08 billion was obligated, accounting for 98% of the fund. As of December 30, \$14.5 billion,

or 79%, has been disbursed in payments for completed work. Approximately \$373 million remained in expired funds, which is available for upward adjustments and limited in-scope changes to complete existing contracts.

Highlights of projects completed this quarter include:

Communication:

- Completed construction of the National Power Lines Communications (PLC) network rehabilitation, which provides internal communication systems over the 132kV electrical power lines and integrates with the Regional Wireless Communication Network. (\$32 million)
- Completed construction of the Regional Wireless Communication Network. It provides an internal communications system using microwave and UHF and integrates with the PLC Network to provide protected, voice and data communications. (\$5 million)

Electricity:

- Restarted the V94.3a combustion gas turbine at Kirkuk, restoring 260MW to the national electricity grid. (\$4 million)
- Completed a combustion inspection of a Siemens V-64.3 turbine (65 MW) at the Kirkuk Power Plant, sustaining generation capacity capable of serving 59,000 Iraqi homes. (\$3 million)
- Completed rehabilitation of the Diyala 400kV substation and Agarguf 132kV substation (\$22 million). Completed work for the expansions and rehabilitations of the Baghdad East, Baghdad West, Baghdad North and Baghdad South 400kV Substations (\$75 million). Completed installation of equipment and master computers at the Central Regional Control Center as well as at 37 substations providing supervisory control of the 132kV grid in that region (\$13 million). These projects significantly increased the capacity and reliability of the regional transmission grids, which will help Iraq deliver more power to consumers.

Law Enforcement and Security:

- Completed security facilities, including National Guard facilities construction in Al Amarah and Habbaniyah. (\$12.8 million)
- Completed four police stations in Hamiya, Waffa, Saqawiha and Southwest in Falluja (\$3.6 million). Iraqi Police Academies are on track to transition to Ministry of Interior (MoI) responsibility by year end. Completed renovation of the Iraqi Police billeting at the Iraqi High Tribunal courthouse, which will

increase the security of courtrooms and improve judges' ability to try cases. (\$2.2 million)

#### Oil Infrastructure:

- Completed engineering and procurement to enable the State Company for Oil Projects to complete the rehabilitation of the Nassriya LPG Pumping Station. The rehabilitation will increase the amount of LPG, the primary cooking fuel in Iraq, pumped to Baghdad. (\$10.8 million)
- Completed compressor stations #2 and #5 in Rumaila, increasing the amount of flared gas that can be captured and sent to the LPG plant. It will help to achieve the 3,000 metric tons per day LPG goal. (\$5.5 million)
- Completed compressor station AB2, adding the potential to compress more than 50 million standard cubic feet per day of gas and more than 500 tons per day liquefied petroleum gas (LPG) feed to the north gas plant. (\$22 million)

#### Transportation:

- Completed the Mosul Air Traffic Control (ATC) Tower construction project. Enables Iraqi civilian air traffic controllers to assume responsibility for the movement of civilian aircraft flights. (\$11 million)
- Completed two of three phases of the ATC training. Advances the Iraq civil aviation authority toward ICAO compliant airspace control while promoting the safe management of air traffic. (\$6.5 million)
- Completed three road projects in Babil, three in Qadisiya and two in Wassit. (\$4.6 million)

#### **Government of Iraq**

On June 26 the Prime Minister announced the National Reconciliation Plan, a 24-point plan aimed at reconciling past inequities, moving beyond sectarian divisions and establishing democratic unity through political engagement. Since his announcement, the 25-member National Reconciliation Commission has held three of the four planned conferences. At the most recent Political Parties Conference December 19, representatives from a wide range of political parties discussed and made proposals for increasing political participation by Iraqis. Overall progress of the plan has been slowed by political, ethnic and religious factionalism that continues to prevent true cross-sectarian, issue-based political groups.

## **Capacity Development**

Throughout the coming year, the U.S. Government will place a greater emphasis on building the capacity of the GOI ministries to manage essential governmental functions. In particular, continuing difficulties some Iraqi ministries have had in budget execution have become a critical obstacle in meeting the demand for essential services. The Embassy will continue to build on programs begun under IRRF and continued in the FY 2006 Supplemental to install more effective financial systems in the government, improve budget planning and streamline contract procedures.

As part of the Mission's National Capacity Development Initiative, the Ministerial Coordination Team (MCT), working closely with senior Iraqi ministry officials through Ministerial Advisory Teams, developed both a short-term and a long-term capacity development program to help the GOI address key bottlenecks in public administration. USAID expanded its long-term national capacity development program that focuses on strengthening and expanding Iraq's existing civil service training institutes in Baghdad and the provinces, using money received and obligated during the quarter under the FY 2006 Supplemental. In partnership with the Ministry of Planning and Development Cooperation, USAID focuses on core public administration functions: fiscal management, personnel management and administration, strategic planning and information technology. For example, new training programs have been instituted for budgets and procurement procedures.

IRMO expanded its complementary short-term program to build capacity, using \$15 million in IRRF and \$45 million in FY06 ESF monies under the FY 2006 Supplemental. Approximately \$2 million of this \$45 million has already been obligated with the remainder to be executed in the second and third quarters of FY 2007. To date, emphasis has been placed on strengthening the capacity of the Prime Minister's Office on policy formulation, legislative drafting, inter-ministerial coordination and improving provincial-central government relationships.

### **Provincial Reconstruction Teams (PRTs)**

The development of capable provincial governments is a key objective that will facilitate Iraqi self-reliance. PRTs continue to provide a platform to assist the Iraqi government in developing the capacity of provincial governments and to increase Mission outreach.

In the past quarter, the Korean-led RRT (Regional Reconstruction Team) in Erbil (working in the Kurdish Region) joined Coalition PRTs under the leadership of the U.K. and Italy in Basrah and Dhi Qar provinces, respectively. PRTs in Anbar, Babil, Baghdad, Diyala, Kirkuk, Ninawa and Salah ad Din complete the slate of seven U.S. led PRTs.

PRTs are continually monitored and assessed for their ability to meet the objectives of their mission. Assessments conducted earlier this year resulted in additional expert PRT staff in the areas of economic development, agricultural development, public diplomacy and the rule of law. These additions will substantially enhance the ability of the PRTs to

train, coach and mentor provincial leaders across a broader range of subjects identified by PRT monthly functional assessments. Moreover, the PRTs host meetings of Provincial Council economic representatives for discussions and seminars, and the Local Governance Project trains Council members in indispensable governmental arts, from budgeting and contracting to public hearings and media relations.

With the support of the U.S. PRTs, the Provincial Reconstruction Development Committees (PRDCs) have an expeditious and transparent infrastructure project nomination process that has ensured Iraqi buy-in and effective project implementation in the provinces.

As part of their mission to strengthen decentralization, and thereby the Provincial Councils, the PRDCs have provided Iraqi officials at all levels of government with greater involvement in determining how USG assistance funds should be used for infrastructure development. Further, the PRTs have worked closely with provincial governments to enable them to more effectively program and implement projects with funds allocated by the central government. Primary among these funds are the \$2 billion in GOI reconstruction and development funds allocated to provincial development.

Projects identified, prioritized and nominated by the PRDCs and funded by IRRF dollars to date include 159 infrastructure projects throughout 15 provinces. Of these projects, 60 have been funded in the electrical sector and total over \$40 million. Seventy-one projects have been approved in the roads and bridge sector totaling nearly \$50 million and 26 projects have been approved in the water sector totaling over \$20 million.

In 2007, FY06 ESF will continue development of the capacity of the Provincial Councils to provide for the needs of their citizens and gain a stronger understanding of transparency, efficiency and accountability. Over the first quarter, 69 projects totaling \$114 million in PRDC FY06 ESF projects were awarded, fifty percent in Baghdad.

## **Challenges**

The Nassriya drainage pump station has experienced considerable cost growth over the past few months. Since March 2006, the estimate at completion has increased by \$65.4 million. In light of the cost growth, IRMO is considering options to terminate the contractor during this coming quarter and transfer responsibility for completion of the project to the Ministry of Water Resources. The Ministry would be provided a specific amount of additional funding from the U.S. Government to complete the project under a grant agreement with continued U.S. oversight.

As part of an annual process to revalidate ongoing projects, IRMO and the U.S. Army Corps of Engineers are in the process of analyzing all projects worth over \$5 million for any potential pitfalls. Upon completion of this review, staff will conduct a similar analysis of all remaining projects underway. Given that there will be no new IRRF funding, this review will develop options for winding down any projects likely to exceed available funds.

## **Beyond IRRF**

As we complete most of the IRRF reconstruction projects, we continue to shift our efforts from large infrastructure projects funded with U.S. Government assistance to employing FY06 ESF and other forms of Foreign Assistance to stabilize communities through smaller scale essential services projects, infrastructure security and capacity development at the national and provincial level. In FY 2006, we received \$1.6 billion in Supplemental funding, in addition to the \$61 million we received for three democracy programs in the FY 2006 budget. All of the FY 06 money has been disbursed (to NDI, IRI and the Marla Ruzicka Fund). Of the \$1.6 billion in Supplemental funding, 86% has already been obligated, including:

- \$315 million Provincial Reconstruction Development Committee (PRDC) projects. Approximately \$9 million for each of 13 provinces and the Kurdish region, with \$50 million for emergency surge capacity. In Baghdad, \$50 million has been provided to the PRDC with an additional \$50 million provided for essential service infrastructure. Basrah PRDC was provided with \$40 million.
- \$155 million U.S. Agency for International Development (USAID) Local Governance Program to aid provincial and local governments on policy reform; decentralized mode of governance; government to citizen services; economic development; and transparent and accountable government.
- \$135 million Community Stabilization Project (CSP) to reduce Iraqi participation in violent conflict. \$95 million for Job Corps employment generation activity, skills development and vocational education; \$20 million for specialized youth programs; and \$20 million for micro, small and medium enterprise support linked to vocational training and the Job Corps.
- \$277 million for Infrastructure Security projects. Another \$60 million to strengthen essential service ministries through Operation and Maintenance (O&M) training. Additionally, \$285 million for Operation and Maintenance Sustainment.
- \$105 million for Capacity Development to strengthen the GOI core functions necessary for the efficient administration of its key national ministries. Of this total, \$60 million has already been obligated by USAID, and \$2 million of the remaining \$45 million has been obligated by IRMO.