

Report to Congress

**Submitted pursuant to U.S. Policy in Iraq Act,
Section 1227 of the National Defense
Authorization Act for Fiscal Year 2006
(PL 109-163)**

APRIL 6, 2006

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Introduction

This report is submitted consistent with section 1227 of the National Defense Authorization Act for Fiscal Year 2006 (Public Law 109-163) concerning United States Policy in Iraq. The Report covers current military, diplomatic, political, and economic measures that are being or have been undertaken to complete our mission in Iraq successfully. The Report is organized into the following areas: (1) current mission and measures taken to support it; (2) Iraqi progress towards a sustainable political settlement; (3) conditions necessary for a transfer of security responsibility; (4) Iraqi Security Forces capacity and readiness, which contribute to the transfer of security responsibility; (5) criteria used to evaluate progress in that area; and (6) our plan for successfully completing the mission.

As outlined in the National Strategy for Victory in Iraq (NSVI), our strategy is to “help the Iraqi people build a new Iraq with a constitutional, representative government that respects civil rights and has security forces sufficient to maintain domestic order and keep Iraq from becoming a safe haven for terrorists. To achieve this end, the United States is pursuing a comprehensive approach that involves the integrated efforts of the entire United States Government, the Iraqi Government, and coalition governments, and that encourages the active involvement of the United Nations, other international organizations, and supportive regional states.” As noted in the NSVI, our approach outlines goals and measures progress along three tracks – political, economic, security. These three tracks move forward simultaneously and successes in each are mutually reinforcing.

Building on the foundation of two prior electoral successes, the January 30, 2005 elections for a Transitional National Assembly (TNA) and the October 15, 2005 constitutional referendum, over 12.2 million Iraqi voters (78 percent of eligible voters) went to the polls again on December 15, 2005 to elect a Council of Representatives (CoR), the first step in the formation of a government under Iraq’s new constitution. Iraqis braved threats and intimidation to exercise their right to vote to determine their government, despite a climate of violence in which terrorists and insurgents sought to undermine Iraq’s economy, security, and political process.

The Independent Electoral Commission of Iraq (IECI) certified final election results February 10, 2006. With the announcement of final,

certified results, political parties and leaders entered negotiations to form the executive branch of a new Iraqi government. The U.S. remained actively and constantly engaged in supporting the desire of Iraqis for the speedy formation of an inclusive, national unity government that serves the interests of all Iraqis.

Progress on government formation continued despite an upsurge in sectarian violence that stemmed from the February 22, 2006 bombing of the Golden Mosque in Samarra. Those who attacked the Golden Mosque sought to exploit divisions among the Iraqi public and the political leadership to start a civil war. Iraqi government and religious leaders alike, in a demonstration of national unity, condemned the attacks and called for an end to sectarian unrest, and for security forces free from sectarian and militia loyalties. They also reaffirmed their commitment to the political process. The U.S. and international community joined Iraq in denouncing the attacks and underscored the importance of national unity and defying the terrorists and extremists who seek to provoke such conflict.

Despite concerted efforts by terrorists and insurgents to derail assistance efforts, there was measurable progress along the economic track. Iraq's economy grew from \$18.9 billion in 2002 to \$33.1 billion in 2005. The International Monetary Fund (IMF) estimates that the real gross domestic product (GDP) grew by 2.6 percent in 2005, and expects real GDP to grow by 10.4 percent in 2006. While the Iraqi economy continued to be overwhelmingly dependent on oil exports, which accounted for approximately two-thirds of GDP and over 95 percent of government revenue in 2005, other sectors began to pick up activity, including the services and trade sectors. International economic assistance came primarily from the United States¹, but also from other international partners, who pledged \$13.5 billion in economic aid. This international aid has been critical to helping boost overall Iraqi economic growth and rehabilitate its infrastructure, which in 2003 (i.e., before the insurgency and before the international community had a better understanding of the true dilapidated state of Iraq's infrastructure) the World Bank estimated would cost about \$55 billion. U.S. assistance efforts will continue to transition from a primary

¹ To date, Congress has appropriated \$20.9 billion for relief and reconstruction programs in Iraq through IRRF 1 and IRRF 2. In addition, Congress has appropriated \$1.3 billion for the Commanders Emergency Response Program (CERP), \$710 million for training and equipment, and \$5.4 billion for the Iraqi Security Forces Fund (ISFF). The President has also recently requested \$5.6 billion in his FY 2006 supplemental request and \$771 million in the FY 2007 budget request for additional programs to support Iraq's development, transition to self-reliance, and security forces.

focus on reconstruction projects to stabilizing areas of conflict, accelerating economic growth, and building Iraq's capacity to manage its own affairs. Ongoing U.S. assistance projects will help Iraq enact the economic reforms it needs to sustain long-term growth, including the commitments under its IMF Stand-By-Arrangement, and the reforms needed to join the World Trade Organization.

Developing effective national and provincial governance in Iraq is a key component of Iraqi self-reliance and defeating the insurgency. The new Constitution devolves more responsibility to the governorates (provinces): Provincial Reconstruction Teams (PRTs) provide a crucial link between national and provincial capacity-development efforts. PRTs are designed to provide training and development efforts at the national level, complement them at the provincial level, and provide a link between provincial-level and national level efforts. Four PRTs are currently operational, including Kirkuk, Mosul, Babil and the recently launched Baghdad PRT. Additional PRTs may be put in place; as many as eight would be U.S.-led, with the others led by coalition partners or Iraqis. The UK and Italy agreed to lead PRTs in Basrah and Dhi Qar, respectively. These Coalition-led PRTs would follow a functional structure similar to those led by the U.S. Other coalition partners expressed an interest in leading or participating in PRTs in other provinces.

The UNSC-endorsed Multi-National Force-Iraq (MNF-I) leads the efforts on the security track. The military mission in Iraq is essential to the realization of the President's integrated goal of an Iraq that is peaceful, unified, stable, democratic, and secure. The Multi-National Security Transition Command-Iraq (MNSTC-I) continues to train, develop, and contribute to the readiness of Iraqi Security Forces (ISF), to include forces in the Ministries of Defense and Interior. Iraq is making steady progress in meeting the President's short-term and medium-term security goals: fighting terrorists and neutralizing the insurgency, standing up robust forces loyal to the legitimate Iraqi government, and having Iraqi forces assume increasing security responsibilities and control over battle space.

While MNSTC-I is making progress training and equipping the ISF, and the ISF are assuming increased security responsibilities, there is no deterministic relationship between increasing numbers of trained and equipped Iraqi forces or increasing control of battle space by Iraqi units and any associated drawdown of U.S. forces. Success in Iraq is a U.S. vital

interest and supporting both the building of ISF and fostering a secure environment must continue in order to achieve our strategic objectives. The appropriate level of U.S. forces in Iraq will continue to be based on existing political, economic, and regional conditions and the security environment.

Efforts in the political, economic, and security tracks are part of an integrated strategy by which the U.S. government, together with the international community, is helping Iraq build a new nation with a constitutional, representative government that respects human rights and has security forces sufficient to maintain domestic order and keep Iraq from becoming a safe haven for terrorists.

I. The current military mission and the diplomatic, political, economic, and military measures that are being or have been undertaken to successfully complete or support that mission:

In fulfillment of its mandate under United Nations Security Council Resolution (UNSCR) 1546 and extended by UNSCR 1637, MNF-I, in partnership with the Iraqi government, conducts full-spectrum counterinsurgency operations to isolate and neutralize the enemy. MNF-I also organizes, trains, and equips Iraqi Security Forces (ISF) in order to create and maintain a security environment that permits Iraq's political and economic development.

(A) Efforts to convince Iraq's main communities to make the compromises necessary for a broad-based and sustainable political settlement;

The United States continued to engage with Iraqi political, religious and civil society leaders to encourage the formation of a government of national unity that will yield a sustainable national compact for governance. The National Strategy for Victory in Iraq (NSVI) promotes a national compact as a means to divide terrorists opposed to the political process from insurgents willing to stop fighting and participate in Iraq's political process; to engage and expand opportunities for all Iraqis to participate in the political process; and to build effective and stable national institutions that will facilitate Iraq's full integration into the international community. As this Report explains in more detail below (Section II) these efforts have been part of a consistent strategy to expand political participation and build consensus on issues that have long divided Iraqi communities. Expanding

political space for all groups to participate, and encouraging Sunni participation in a new democratic process has been a long-term effort, and it has made available the opportunity for the creation of a unity government that fairly represents all Iraqis.

Efforts over the past year focused on empowering the transitional government, ensuring the ratification of a democratic constitution, and creating the conditions for large voter turnout across Iraq when elections were held under that constitution. These efforts included active and direct engagement from the highest levels of the United States Government. They also included focused military operations to create the security environment that is necessary for political expression. The result is a political process that now includes all of Iraq's major communities for the first time.

The Iraqi constitution, which passed by more than 80 percent of approximately 11 million voters, was another historic achievement that is now guiding government formation talks. Though some commentators noted that constitution was not passed with broad support of Iraq's Sunni community, those commentators failed to understand the structure of the document and the space it provided for all groups to work together. The government formation process, for example, requires a two-thirds supermajority in the Council of Representatives for appointment of key posts. This means that all electoral lists must work together, negotiate, and compromise to get a constitutional outcome. Such a requirement has established the structure through which Iraqis are now working to form a unity government. Though the Iraqis themselves produced this key provision, the United States throughout last summer and fall helped facilitate agreement on it and other key provisions – whether on religion, oil allocation, or federalism.²

Iraq is now in the midst of government formation negotiations, facilitated by the United States in an active and sustained manner. The Iraqis must follow their constitutional requirements and stand up a government as soon as possible. The United States has made this clear in all appropriate channels. In the past six weeks alone, for example:

² The United States also helped facilitate an amendment package by which Iraq's newly elected parliament can revisit certain provisions over the course of 2006. This secured endorsement of the constitution by Iraq's largest Sunni party, the Iraqi Islamic Party. The U.S. intends to work closely with the Iraqis in the coming months, whether through constitutional review or through the vital pieces of legislation that must be enacted to implement the constitution to build an enduring national compact.

- The United States worked intensively with Iraqi national political and religious figures to secure forward progress on a national government program and a national unity government. Broad agreement on a unity government program will be instrumental to any sustainable political settlement.
- Beginning immediately after the final confirmation of vote results, Embassy Baghdad hosted Iraqi leaders to focus immediate attention on the formation of a unity government, including promoting the selection of candidates who will be able to build consensus and possess the professional competence to be effective leaders who govern from the center and not from ideological extremes.
- On February 20, Embassy Baghdad delivered a message to Iraq's political leadership, emphasizing the importance of an inclusive government with ministries that are not controlled by sectarian interests.
- Embassy Baghdad repeatedly stated that key ministries must be in the hands of those who would unify Iraq and not seek to divide it based on sectarian agendas and that discussions of government formation should not be focused on the distribution of posts, equities, and the entitlements of individuals.
- Following the February 22 Golden Mosque bombing, Embassy Baghdad immediately reached out to Iraqi political leaders, calling for them to join together in unity and turn away from sectarian violence.
- The President also called Iraqi leaders from all major political parties to express support for a unity government and thank them for their leadership. Ambassador Khalilzad spearheaded a meeting of all major political leaders February 25 that condemned the sectarian violence.
- Iraqi political and religious leaders responded in a demonstration of unity and a public commitment to move forward with progress on reaching consensus.
- Secretary of State Rice and UK Foreign Secretary Straw traveled to Baghdad on April 2 to meet with Iraqi officials and urge consensus among Iraq's political leaders on the prompt formation of a unity government.

These efforts are continuous and ongoing. We expect to see rapid and substantial results in the government formation process in the near future.

(B) Engaging the international community and the region in efforts to stabilize Iraq and to forge a broad-based and sustainable political settlement;

The United States is committed to working with the Iraqi government to engage Iraq's neighbors and the international community on the future of Iraq and the stability of the region. A sustained dialogue with key international partners is essential to help Iraqis forge a broad-based and sustainable government.

The involvement of the international community remained steady, and the U.S. promoted the normalization of diplomatic relations between Iraq and its regional neighbors, as well as with the larger international community. Along with the EU, the United States helped organize the June 2005 Brussels Conference, attended by nearly 80 countries and international organizations, which helped establish a new spirit of international partnership with Iraq. In an effort to engage more Arab support for Iraq, the Secretary of State's Special Coordinator for Iraq initiated intensive consultations with key Arab states. The Secretary of State, the U.S. Ambassador to Iraq, and other senior officials have also encouraged Arab support for Iraq. The U.S. built on and supported initiatives such as those by the Arab League, which sponsored a preparatory meeting in November 2005 for a national accord conference later this year in Iraq. The Arab League meeting resulted in a call for all Arab states to cancel or reduce debt owed to them by Iraq, increase assistance, and enhance their diplomatic presence in Iraq.

In addition to the 35 nations who contribute to stability and security operations in Iraq, which include the U.S., MNF-I members, and NATO, the larger international community continued in a spirit of partnership, both in the political and economic arenas, to support Iraqi government institutions and the Iraqi economy. The U.S. helped to identify expanding and changing roles for international partners, such as securing or encouraging commitments by the United Kingdom, Italy, and others international partners in the PRT effort. The U.S. also raised awareness of the need for the international community to call publicly for an end to violence, support the political process, disburse pledged assistance, provide debt relief, and make additional contributions to Iraq's economic reconstruction and development.

The United Nations Assistance Mission to Iraq (UNAMI) remained integrally involved in Iraq and provided technical assistance to the electoral processes and constitutional development, as well as other areas including humanitarian assistance and donor coordination. The U.S. remained engaged in discussions with the United Nations, urging continued support for the political process and an enhanced presence supporting expanded activities in Iraq. The U.S. also continued to encourage an expanded World Bank presence in Iraq.

(C) Strengthening the capacity of Iraq's government ministries;

Under the Iraq Relief and Reconstruction Fund (IRRF) I and II, the U.S. has funded advisory support and projects providing Iraqis with training and technical assistance to improve their capacity in accomplishing core government functions. The ongoing work of the Iraq Reconstruction Management Office (IRMO) senior consultants across all sectors is a critical facet of the reconstruction effort, as are continuing and ongoing USAID programs. Senior consultants provide strategic guidance for institutional capacity building within ministries in addition to overseeing and coordinating the implementation of IRRF-funded projects in conjunction with specific ministries and staff. These projects and programs include: assisting the Ministry of Finance in preparing and implementing banking and financial reforms; helping the Ministry of Trade in preparing documents necessary to be considered for accession into the World Trade Organization (WTO) and establishing an investment promotion agency; assisting the Ministry of Labor and Social Affairs in developing a social safety net and viable pension system; providing assistance to the Ministry of Agriculture in the development of a national water strategy, and implementing pilot programs in wheat and animal husbandry; improving the institutional capacity of the Ministry of Health to provide care and fight disease; and developing an Education Management Information System for the Ministry of Education to improve management of human and physical resources. The U.S., through work done by USAID and the Project and Contracting Office (PCO) also dedicated significant resources to rehabilitating and building new infrastructure, while working alongside the staff at the Ministries of Electricity, Public Works and Water, Water Resources, and Oil in improving the ability of their national, regional, and local staff to operate and maintain USG-funded facilities, systems, and equipment on a sustainable basis.

While all of these activities improved the capacity at various levels of Iraqi ministries to manage their own portfolios, it became increasingly apparent that the U.S. needed to provide more resources through a broader program directly focused on improving the capacity of key ministries to carry out core functions, such as strategic planning, budgeting, managing a personnel system, and training.

To address that need, the U.S. designed a National Capacity Development Program (NCDP), which will help the new Government of Iraq strengthen the core functions necessary for the efficient administration of its key national ministries (i.e., Finance, Electricity, Oil, Municipalities and Public Works, Water Resources, Planning, Justice and Agriculture), the Prime Minister's Office, Inspectors General of the participating ministries, and anti-corruption organizations such as the Commission on Public Integrity (CPI) and the Board of Supreme Audit (BSA). The list of key ministries and institutions covered by the NCDP will be finalized after consultation with the new Iraqi government, once formed, and may expand or contract, contingent upon the availability of USG funding and the interest of other donors in helping to provide some assistance as well.

The State Department notified Congress in December 2005 of its intent to reallocate \$25 million to a new project code under the IRRF to begin this program. In the President's FY 2006 supplemental request, the Administration requested an additional \$125 million in Economic Support Funds (ESF) for ministerial capacity building. The Supplemental also includes a \$13 million request for Treasury Department technical assistance specific to the Iraqi Ministry of Finance and the Central Bank of Iraq. The President's FY 2007 budget request also includes \$25 million for these capacity building programs through FY 2007.

The United States continues to work with other donors to coordinate efforts with Iraq. Donors such as the European Commission and development institutions such as the World Bank have expressed interest in supporting similar initiatives with related ministries.

(D) Accelerating the delivery of basic services;

Reconstruction has faced security challenges on the ground, which have driven up the cost of doing business, both in terms of financial costs and human resources. Despite this and other unanticipated challenges, we have been successful in rehabilitating water and sewage services and immunizing children against childhood diseases. Work in the oil and electricity sectors, however, has been challenged by several ongoing factors: (1) Decades of Saddam's mismanagement, corruption, decay and wars took their toll, and led to dilapidated and insufficient infrastructure and poor maintenance practices that continue to hamper output; (2) targeted attacks on Iraq's infrastructure by terrorists who seek to undermine the Iraqi government and call into question its ability to provide essential services for the Iraqi people; and (3) in the case of electricity and fuel, dramatic increases in demand, driven by the liberalization of border trade and increased salaries of Iraqis but unchecked by the implementation of rational, market-based pricing. U.S. assistance programs helped to build or refurbish the basic infrastructure that will enable Iraqis to significantly expand the delivery of basic services. In addition to ongoing projects, this expansion will be further enhanced by improvements in Iraqi capacity, subsidy, and pricing reforms and a decrease in infrastructure attacks.

Under the IRRF, the U.S. programmed \$4.2 billion for electricity, \$2.1 billion for water, \$1.7 billion for oil, \$739 million for health services and \$99 million for education. The initial focus of these activities was to restore large plants neglected by the former regime, with the expectation that rehabilitating existing water and electricity plants and/or building new plants would create an initial injection and a stable base for Iraq's economic growth for years to come. Most of these projects are well underway, and almost all of the large infrastructure projects are expected to be completed by the end of calendar year 2006. These projects are already having a significant impact on the lives of average Iraqis. IRRF projects have added, rehabilitated or maintained more than 2,700 megawatts (MW) of electricity generation capacity on the grid, increasing feasible generation capacity by 30 percent; improved access to fresh water, benefiting 3.1 million Iraqis; and improved access to sewage, benefiting 5.1 million Iraqis. Approximately 32 percent of Iraq's 14,121 school buildings were rehabilitated or refurbished, 36,000 teachers have been trained, and 8.7 million new textbooks were provided to Iraqi school children. It is also estimated that nearly all Iraqi children have been inoculated against crippling diseases such as polio and

measles, and hundreds of health clinics throughout Iraq have been rehabilitated.

While these achievements are impressive when viewed in the current context, initial hopes and projections were higher, but the security environment, insurgent and terrorist attacks against critical infrastructure components and on-going projects have reduced the impact of IRRF projects on improving basic service delivery.

The process of IRRF close-out has begun, and almost all IRRF infrastructure projects will be completed by the end of 2006. More than \$16.3 billion of the total \$18.4 billion of IRRF II has already been obligated, in addition to all of the \$2.5 billion in IRRF I. For remaining funds, the administration is focusing on programs to improve Iraqi capacity to carry out core government functions, based on lessons learned to ensure maximum effectiveness of the remaining funding. In particular, greater emphasis is being placed on projects that:

- are issued under fixed cost contracts, as opposed to the design/build contracts;
- use direct contracting with Iraqi ministries and Iraqi firms;
- focus on delivery of the services to end users and Iraqi citizens;
- are smaller and provide more immediate and visible impacts;
- increase resiliency and redundancy of infrastructure to enhance its integrity;
- recognize the importance of operation and maintenance; and
- build Iraqi capacity.

Involvement of large multi-national firms has been reduced and more work directed to Iraqi firms that have proven to be successful contractors. A “cost-to-complete” system was instituted to ensure sufficient funds are available to complete projects in the future. The program is continually adapted based on experience and the dynamic Iraq environment to ensure responsible and effective use of the limited resources to achieve lasting and tangible results.

In keeping with that concept, the United States continues to work with Iraq to improve its ability to sustain critical infrastructure. The USG allocated \$180 million of IRRF to support these efforts in specific sectors

(\$110 million in the water sector, \$61 million in the electricity sector, and \$9 million in the combined areas of communications/transportation/health) to help Iraq sustain its infrastructure. An initial \$121 million had previously been allocated to the electricity sector to support sustainable operations for generation facilities, which increased funding for sustainment of projects in the electricity sector total to \$182 million. In addition, USAID is completing a \$25 million program to improve operations and maintenance in 12 water and sewage treatment plants. These programs are expected to have a significant impact on the long-term viability of existing infrastructure and in keeping these Iraqi plants online, thereby improving the levels of service offered to average Iraqis. The Administration requested \$355 million in the FY 2006 supplemental and \$154 million in the FY 2007 budget request to continue both sustainment and capacity development efforts at the plant-level, providing a more comprehensive program to help Iraq maintain its essential service infrastructure for years to come.

(E) Securing the delivery of pledged economic assistance from the international community and additional pledges of assistance;

The United States is working very closely with Iraq and international donors to maximize international reconstruction assistance. At the October 2003 Madrid International Donors' Conference, donors other than the United States pledged over \$13.5 billion in assistance. This includes \$8 billion in assistance from foreign governments and up to \$5.5 billion in lending from the World Bank and International Monetary Fund (IMF) to be disbursed over four years (2004-2007).

As of April 2006, over \$3.5 billion of the pledges of non-U.S. assistance has been disbursed. Approximately \$2.7 billion of this was from other governments either in bilateral projects or through the World Bank and the UN-administered International Reconstruction Fund Facility for Iraq (IRFFI), and the remainder was from multilateral institutions. Donor government "disbursements" are defined here as the funds having left donor government treasuries. Because, however, much of the assistance is being channeled for implementation through the IRFFI trust funds, contractors, NGOs, international organizations, and Iraqi institutions, there is normally a lag time between disbursement by the donor and impact on the ground in Iraq. In addition, the security situation inside Iraq contributed to delays and reduced donor presence on the ground. There are currently 93 IRFFI

projects (83 UN, 10 World Bank) in various stages of completion in the water, electricity, education, health, and other sectors.

In addition, the IMF approved \$436 million in balance-of-payments support through its Emergency Post-Conflict Assistance (EPCA) program in September 2004. It approved a \$685 million precautionary Stand-By Arrangement for Iraq in December 2005.

The Government of Iraq sets the priorities for reconstruction and assistance programs. The United States and other donors work closely with the Iraqi government and with each other to ensure that the projects and programs are not duplicative, and that they are integrated with the Iraqi government's development planning. Since the Madrid conference in 2003, there have been four meetings of the IRFFI Donors' Committee, which have been instrumental in improving donor coordination.

Reduction of Iraq's external debt burden to sustainable levels, another top priority for Iraq's economic development, is a key component of U.S. donor coordination. In November 2004, the Paris Club group of creditors agreed to forgive, in phases, 80 percent of approximately \$40 billion in Iraqi debt held by its members. As of March 2006, 16 of 18 members of the Paris Club have signed bilateral debt agreements with the Iraqis implementing the 2004 agreement. The U.S. itself went beyond Paris Club terms and has forgiven 100 percent of the \$4.1 billion in U.S.-held Iraqi debt. In total, over \$30 billion in Iraqi debt either has been forgiven, or will be, by Paris Club countries, provided Iraq meets agreed-upon conditions (i.e., successful completion of three years under a program with the International Monetary Fund, (IMF)). Some non-Paris Club members also have provided debt relief on Paris Club or better terms. The U.S. continues to encourage all non-Paris Club countries to provide debt reduction to Iraq at terms at least comparable to those offered by the Paris Club. Iraq has also made excellent progress in dealing with its commercial external creditors on Paris Club terms. Of its approximately \$22 billion estimated total commercial debt, creditors accounting for about \$18.4 billion worth have accepted offers at Paris Club-comparable terms, which will result in approximately \$14.7 billion in debt reduction. Efforts to reconcile and achieve Paris Club-comparable debt relief for the remaining amount continue.

The United States, in coordination with the Iraqi government, actively encourages its international partners and allies to make new pledges of

assistance, including debt relief, and, bilateral or multilateral aid, as well as to disburse existing pledges. The U.S. is in regular high-level and working-level contact with current and prospective international donors. Since January, new IRFFI pledges include 200 million Euro (approximately \$240 million) from the European Commission and \$10 million from Germany, \$2.38 million from Spain, and \$0.99 million from New Zealand. On November 29, 2005, the World Bank Board approved the first concessional loan under its “International Development Association” (IDA) program, the first World Bank loan to Iraq in over thirty years. The \$100 million IDA education project, which is part of the \$500 million IDA funds for Iraq approved by the World Bank board in September 2005, will help the Government of Iraq alleviate school overcrowding and lay the groundwork for educational reform. On March 28, Japan announced \$655 million in concessional yen loans for three projects: Umm Qasr Port Rehabilitation; Irrigation Sector Development; and Al-Mussaib Thermal Power Plant Rehabilitation. The loans will be finalized with the new Government of Iraq.

(F) Training Iraqi Security Forces and transferring additional security responsibilities to those forces and the government of Iraq.

Progress in the development of Iraqi Security Forces (ISF) is measured through a variety of indicators that include: the number of trained and equipped ISF personnel; readiness assessments of operational units; and ISF progress in assuming control of battle space, or area of tactical responsibility, within Iraq. MNF-I continues to support and assist the ISF as they move towards the capability for fully independent operations and security self-reliance.

Key measures of training progress include:

- Continued increases in the numbers of individuals trained, equipped, and formed into operational units: As of March 20, U.S. and coalition forces have trained and equipped more than 111,000 soldiers, sailors, and airmen. More than 89,000 police have been trained and equipped. Police work alongside 41,700 other Ministry of Interior forces, such as the National Police (formerly the Special Police). Overall, over 240,000 Ministry of Defense and Ministry of Interior forces have been trained and equipped.

- Continued increases in unit readiness and ability to take the lead in combat operations against the insurgents: As of March 20, 102 Iraqi Army regular and special operations battalions are conducting counter-insurgency operations. Sixty-two of these battalions are able to lead in such operations. There are 27 National Police Force battalions (formerly the Special Police Forces) and one Emergency Response Unit conducting combat operations. Seven of the National Police battalions and the Emergency Response Unit are able to lead such operations.
- Progress in assuming responsibility for their battle space: As of March 20, forty-nine Iraqi Army battalions now control their own battle space. Iraqi units have primary responsibility for 65 percent of Baghdad.

The Secretary of Defense's quarterly report to Congress, "Measuring Security and Stability in Iraq," provides more extensive measure and indicators of the training and performance of ISF and of the security environment more generally.

II. Whether the Iraqis have made the compromises necessary to achieve the broad-based and sustainable political settlement that is essential for defeating the insurgency in Iraq.

The Independent Electoral Commission of Iraq (IECI) certified final results for the December 15, 2005 election February 10, 2006. The final results suggest that Iraqi politics reflect ethnic/sectarian identities – principally Kurdish, Sunni Arab, and Shi'a. The Arab Shi'a-based United Iraqi Alliance (UIA) won 128 seats in the 275-seat assembly, the largest bloc among the contestants. This plurality, however, was not sufficient for the Shi'a Alliance to form a government independently – instead a coalition government will be necessary, drawing from some or all of the other large blocs in the Council of Representatives (CoR), namely the Kurdish Alliance, the Sunni Arab parties, and the non-sectarian Iraqi List electoral coalitions. As an incentive to compromise, the constitution stipulates that the CoR must, by a two-thirds super majority, elect a three-person Presidency Council; which then names the nominee of the CoR bloc with the largest number to form a Cabinet.

While Iraqi leaders from all the major parties declared their intent to establish an inclusive government, furthering understanding and trust

between political groups with the objective of establishing a government of national unity remained a difficult challenge. Recent terrorist activity and a serious rise in sectarian violence impeded these efforts. Notwithstanding these setbacks, Iraqi government and religious leaders, in a demonstration of unity, unanimously condemned the bombing of the Golden Mosque in Samarra and the violence that followed, and called for an end to sectarian strife. Against this highly polarized political landscape, Sunni leaders publicly voiced confidence in re-engaging with their Shi'a and Kurdish counterparts across party lines, continuing a trend of increased Sunni involvement in the political process. Shi'a and Kurdish leaders have consistently and publicly welcomed and encouraged this increased Sunni involvement. The newly elected Council of Representatives (CoR) convened on March 16 for an initial protocol ceremony, and the parties continued working towards a unity government, engaging in intensive, daily negotiations, in which the U.S. Embassy has played a facilitating role.

When assessing U.S. efforts to help the Iraqis facilitate a “sustainable political settlement,” it is necessary to look beyond the snapshot of the current situation. A proper analysis requires an examination of political and diplomatic efforts that have been ongoing for almost three years. Beginning with the November 15th Agreement in 2003 and the Transitional Administrative Law, through the recent elections and current political negotiations, U.S. policy has specifically been designed to expand avenues of participation and ensure a broad-based buy-in from all major communities in Iraq. For example, the fundamental reason that the possibility for a “sustainable political settlement” exists is because of the broad-based participation by Sunnis in the December election (resulting for the first time in a large bloc of Sunni parliamentarians from two separate lists). A diverse set of outreach efforts, either carried out or encouraged by the United States throughout 2004 and 2005, helped to advance the political process and led to meaningful engagement by the Sunnis in the political process and an acceptance of their role by Iraq's other communities.

In this regard, the decision to stay with the January 2005 election date despite a widespread Sunni boycott should be understood as a necessary condition of a momentum-building political strategy. Iraqis, with U.S. encouragement, decided that only by meeting benchmarks and moving the process forward would they be able to bring all Iraqi communities into the process. Similarly, the Iraqi decision to stick as close to possible to the constitutional deadline of August 15th was necessary to keep commitments

made to Iraq's other communities, and to encourage the Iraqi Islamic Party – Iraq's largest Sunni party – to offer compromise and put forward negotiable demands. This policy, coupled with active and direct engagement from the highest levels of the United States Government, led to the amendment package agreed to on October 10, shortly before the constitutional referendum. The ability of the Iraqis to establish the institutions of a broadly-based political system shows that their commitment to go forward at each step in the political transition has been responsible for strengthening the prospects for a unity government.

In sum, the opportunity for a true unity government with broad-based buy-in from at least four major electoral lists and all of Iraq's communities is the direct result of these efforts by Iraqi leaders and the United States. This has been an ongoing process, and at every stage Iraqi leaders have had to bargain, negotiate, and compromise. The U.S. will continue to remain actively engaged, not only through the government formation process, but also throughout 2006 to help the new government build a sustainable and enduring national compact. Momentum building events over the next year include, but are not limited to, provincial elections, a constitutional amendment process, and implementing legislation for the constitution's broad outlines in areas such as the judiciary and natural resource management.

III. Any specific conditions included in the April 2005 Multi-National Forces-Iraq campaign action plan (referred to in United States Government Accountability Office October 2005 report on Rebuilding Iraq; DOD Reports Should Link Economic, Governance, and Security Indicators to Conditions for Stabilizing Iraq), and any subsequent updates to that campaign plan, that must be met in order to provide for the transition of additional security responsibility to Iraqi Security Forces.

Since the publication of the October 2005 GAO report, the President published the National Strategy for Victory in Iraq (NSVI). The NSVI provides a broader and more developed set of indicators of progress in Iraq than indicators linked to the narrower issue of conditions in the MNF-I campaign action plan for transition of security responsibilities to Iraqi forces.

Leaders of the Iraqi government, the U.S. government, and U.S. coalition partners in Iraq assess when conditions permit handing over security responsibility from Coalition forces to the ISF. These leaders include the U.S. Ambassador, the U.K. Ambassador, the Iraqi Ministers of Defense and Interior, the Iraqi National Security Advisor, Iraqi provincial governors, and the Commanding General and Deputy Commanding General of MNF-I. Transfers of responsibility are evaluated area-by-area and province-by-province.

Recommendations for transfer include an assessment of achieving specific conditions (in categories similar to those in the MNF-I campaign action plan), such as:

- levels of present and projected insurgent activity;
- readiness and capabilities of ISF;
- readiness and capabilities of relevant government institutions; and
- ability of Coalition forces to reinforce the ISF should this become necessary.

The recommendation to transfer security responsibilities is based on assessments according to the specific situation in any one area or region in the context of the overall security environment. An area does not necessarily need to meet all conditions in each category before transfer is recommended. Each and every transfer will ensure an effective and successful handover of security responsibilities.

Campaign plans support the strategy, and revisions and implementation of theater campaign plans will be consistent with the NSVI. MNF-I and Embassy Baghdad are currently in the process of updating a joint campaign plan.

IV. To the extent that these conditions are not covered under paragraph III, the following should also be addressed:

(A) The number of battalions of the Iraqi Armed Forces that must be able to operate independently or to take the lead in counterinsurgency operations and the defense of Iraq's territory;

The Iraqi government, together with the Coalition, has identified a force structure to maintain a security environment in Iraq to provide a basis

for transitioning Iraq to security self-reliance. The end-strength forces structure of the Iraqi Armed Forces is approximately 131,000 personnel, manning one Iraqi Ground Forces Command, 10 divisions and 36 brigade headquarters, 114 Army and special operations battalions, six Air Force squadrons, three Navy squadrons, and 18 combat support, combat service, and support battalions. As of March 20, 111,000 personnel or 85 percent of the authorized end strength has been trained and equipped. With the initial focus on establishing combat units, attention is now shifting toward the logistics backbone needed to facilitate independent operations. One hundred-two Iraqi Army and Special Operations battalions are now conducting counter-insurgency operations with 62 battalions “in the lead.” ISF have conducted more independent operations than MNF-I in three of the last five months.

There is no specific threshold for the number of Iraqi Armed Forces battalions that must be judged capable of operating independently before the number of U.S. forces in Iraq can be reduced. Force levels will continue to adapt to the circumstances on the ground and key events, such as the January and December 2005 elections and the October 2005 constitutional referendum. The Secretary of Defense and the Chairman, Joint Chiefs of Staff continue to advise the President on the appropriate level of U.S. forces in Iraq and in the surrounding theater of operations, based on current conditions. These conditions include, but are not limited to, key elements of the MNF-I campaign action plan, such as the increasing leadership of Iraqi Security Forces in counterinsurgency operations and battle space ownership, and progress in the political process. The assessment of the current conditions is derived through consultations with U.S. military commanders in Iraq and takes into account assessments by Embassy Baghdad, the Iraqi government, and U.S. coalition partners.

(B) The number of Iraqi special police units that must be able to operate independently or to take the lead in maintaining law and order and fighting the insurgency;

The Ministry of Interior forces consist of the Iraqi Police Service (IPS), the Iraqi Highway Patrol, National Police (formerly the Special Police, comprising the Police Commandos, Public Order Police, and the Mechanized Police), the Emergency Response Unit, Department of Border Enforcement, and the Center for Dignitary Protection.

The end-strength force structure for all Ministry of Interior forces is 195,000 trained and equipped personnel manning two division headquarters, nine brigade headquarters, twelve Public Order battalions, twelve Commando battalions, three mechanized battalions, and one Emergency Response Unit. The force structure plan is designed to enable a stable civil-security environment in which a prosperous economy and a democratic and representative government that respects and promotes human rights can evolve. As of March 20, 130,700 Ministry of Interior security personnel, or 67 percent of the authorized end strength of 195,000, have been trained and equipped. This includes 89,000 IPS personnel, as described in the next section, and 41,700 other Ministry of Interior forces, such as 27 National Police Force battalions and one Emergency Response Unit conducting operations with ten of these units "in the lead." There is no specific threshold for the number of Iraqi special police units that must be judged capable of operating independently or in the lead before U.S. force levels can be reduced.

The increased capability of Iraqi forces to lead operations was evident in their efforts to prevent violence from escalating after the February 22 bombing of the Golden Mosque. Their performance was a positive indication of their increasing ability to maintain law and order. Following the bombing, the Iraqi National Police responded to an armed demonstration in an area immediately adjacent to Sadr City, where an angry crowd had surrounded the Sunni al-Quds mosque. The Iraqi brigade commander placed his troops, who were 65 percent Shi'a, between the crowd and the mosque, and talked to the crowd using a megaphone, calling for calm and urging them to disperse. The crowd eventually left without incident and the National Police remained in position overnight to guard the mosque until the threat was over. This demonstration of Iraqi leadership helped to defuse a potential confrontation between Sunni and Shi'a and prevented the escalation of violence in the area.

(C) The number of regular police that must be trained and equipped to maintain law and order; and

The end-strength force structure of the IPS is 135,000 trained and equipped personnel. As of March 20, over 89,000 IPS, or 66 percent of the authorized end strength, have been trained and equipped, an increase of over 14,000 since the December 15, 2005 parliamentary election. These IPS

personnel work alongside the 41,700 other Ministry of Interior forces described in the previous section.

The IPS is the primary civilian police organization in Iraq. Their mission is to enforce the law, safeguard the public, and provide internal security at the local level. The IPS is organized into patrol, station, and traffic sections in all major cities and provinces in Iraq and is responsible for providing security in more than 130 districts and at nearly 780 stations throughout Iraq. The scope of their responsibility demonstrates the critical need to ensure the development of professional, capable police forces that utilize modern policing techniques, follow the rule of law, and respect human rights. The Civilian Police Assistance Training Team (CPATT) works closely with the Ministry of Interior to improve the performance and professionalism of these forces. Police Transition Teams mentor and assist the IPS in a role similar to that of the Coalition Military Transition Teams, evaluating their progress and instituting the necessary procedures to continue development of a professional police force.

There is no specific threshold for the number of IPS that must be trained and equipped to maintain law and order and thereby enable U.S. force levels to be reduced.

(D) The ability of Iraq's federal ministries and provincial and local governments to independently sustain, direct, and coordinate Iraq's security forces.

Self-reliant security forces require effective Ministries of Defense and Interior. In addition, Iraq's local and provincial governments, along with the federal government in Baghdad, must also be able to direct and coordinate Iraq's local (police) security forces effectively free from the influence of militias that undermine legitimate authority and pose a threat to public security. This effective control by the Iraqi local, provincial, and federal governments is part of what differentiates the assumption of security responsibility in a given area by the Iraqis from the control of battle space in a given area by Iraqi units.

The Ministries of Defense and Interior continued to experience challenges with critical institutional functions, including administrative processes, programming and budgeting, finance, and sustaining operations in

addition to ensuring that the security ministries and their respective subordinate chains of command are not undermined by militia or criminal influences. The mission to build the ministerial capability required to manage and sustain the operating forces shifted on October 1, 2005, from the Department of State's Iraq Reconstruction Management Office (IRMO) to the Multi-National Security Transition Command-Iraq (MNSTC-I). This realignment under the direction of MNSTC-I ensures that the development of pivotal ministerial functions is synchronized with the development of Iraqi Security Forces.

Iraq's local and provincial governments face significant challenges, a number of which stem from a long-standing history of a consolidated, centralized power structure in Baghdad and limited local authority. These governments continue to develop, while also attempting to perform various functions and deliver services. One of these functions is directing and coordinating Iraq's local security forces, especially Iraq's police forces, in conjunction with the national government as part of the overall system for maintaining civilian control over the ISF. The Coalition continues to increase the capacity of Iraq's local and provincial governments, with PRTs as the most recent initiative to bolster local and provincial governance.

V. The criteria to be used to evaluate progress toward meeting such conditions necessary to provide for the transition of additional security responsibilities to the Iraqi Security Forces.

Political and economic criteria used to evaluate progress toward meeting these conditions include: the formation of an inclusive and representative national government; ministries free from sectarian and militia influence; fully functioning government institutions with transparent practices, general accountability, and operating under general principles of good governance and the rule of law with a commitment to economic reform.

With respect to security, leaders of the Iraqi government, the United States government, and U.S. coalition partners in Iraq, assess when conditions permit handing over security responsibility of specific areas from the MNF-I to the Iraqis. This leadership includes the Iraqi Ministers of Defense and Interior, the Iraqi National Security Advisor, Iraqi provincial governors, the U.S. Ambassador, the U.K. Ambassador, and the Commanding General and Deputy Commanding General of MNF-I.

Transfers of responsibility are evaluated area-by-area and region-by-region and province-by-province.

Recommendations for transfer include an assessment of achieving specific conditions in categories similar to those in the MNF-I campaign action plan. These categories include: levels of present and projected insurgent activity; readiness and capabilities of the ISF; readiness and capabilities of relevant government institutions; and the ability of Coalition forces to reinforce the ISF should this become necessary.

The recommendation to transfer security responsibilities is based on assessments according to specific criteria in an area or region within the context of the overall security environment. An area does not necessarily need to meet all conditions in each category before transfer is recommended. Transfers will ensure an effective and successful handover of security responsibilities; the transition to the ISF and reduced presence of Coalition forces will be visible to the Iraqi people

VI. A plan for meeting such conditions, an assessment of the extent to which such conditions have been met, information regarding variables that could alter that plan, and the reasons for any subsequent changes to that plan.

The Secretary of Defense and the Chairman of the Joint Chiefs of Staff continue to advise the President on the appropriate level of U.S. forces in Iraq and the surrounding theater of operations, based on conditions on the ground. These conditions include, but are not limited to, key elements of the MNF-I campaign action plan, such as the increasing leadership of ISF in counterinsurgency operations and battle space ownership, and progress in the political process. The assessment of those current conditions is arrived at through consultations with U.S. military commanders in Iraq and takes into account assessments by Embassy Baghdad, the Iraqi government and U.S. coalition partners.

Arbitrary deadlines or timetables for the withdrawal of Coalition forces would be irresponsible and deadly, as they would suggest to the enemy that they can simply persevere to win. Lack of a timetable does not imply the Coalition's posture in Iraq is static, rather the Coalition continually adjusts its posture and approaches as conditions evolve and Iraqi capabilities grow.

In addition to the above descriptions of the plan for meeting conditions, please reference National Strategy for Victory in Iraq at www.whitehouse.gov; and Report to Congress, “Measuring Stability and Security in Iraq,” February 17, 2006, at <http://www.defenselink.mil/>, pages 55-56.

For additional details on Iraqi Security Forces training, performance, and progress reference February 17, 2006, “Measuring Stability and Security in Iraq,” <http://www.defenselink.mil/>, pages 34-54.

For more specific force generation and force requirement information, reference the classified annex to the Report to Congress, “Measuring Stability and Security in Iraq.”

For additional information on reconstruction, assistance, and the delivery of essential services, please reference the 2207 Quarterly Report to Congress on The Iraq Relief and Reconstruction Fund (IRRF), <http://www.state.gov/p/nea/rls/rpt/2207>, or for general information on the status of political, economic, and security efforts, the Weekly Status Report, <http://www.state.gov/p/nea/rls/rpt/iraqstatus/2006/c16536.htm>.