

Report to Congress
Submitted Pursuant to U.S. Policy in Iraq Act, Section 1227(c) of the National
Defense Authorization Act for Fiscal Year 2006 (PL 109-163), as amended by
Section 1223 of the National Defense Authorization Act for Fiscal Year 2008
(P.L. 110-181)

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Introduction

This report is submitted pursuant to Section 1227(c) of the National Defense Authorization Act for Fiscal Year 2006 (Public Law 109-163) concerning United States Policy in Iraq, as amended by Section 1223 of the National Defense Authorization Act for Fiscal Year 2008 (Public Law 110-181). The report covers the security, political, diplomatic, and economic measures that are being or have been undertaken primarily during the reporting period July 1 to September 30, 2008 (for convenience, referred to here as the Third Quarter of 2008).

This report is organized into the following sections: (1) the current mission in Iraq and measures taken to support it; (2) Iraqi progress towards a sustainable political settlement; (3) a description of the Joint Campaign Plan; (4) Iraqi Security Forces' (ISF) capacity and readiness; (5) criteria used to evaluate progress in that area; (6) the plan for successfully completing the mission; (7) an assessment of the U.S. force levels required in Iraq for the next six months and their missions; and (8) a description of conditions that could prompt changes in U.S. force levels.

The focus of U.S. policy in Iraq remains helping the Iraqi people build a constitutional, representative government that respects the rights of all Iraqis and has security forces capable of maintaining order and preventing the country from becoming a safe haven for terrorists and foreign fighters. The ultimate goal is a peaceful, united, stable, democratic, and secure Iraq with institutions capable of providing just governance and security for all Iraqis. In order to accomplish these goals, the efforts of the U.S. government (USG), the Government of Iraq (GOI), governments of other Coalition states, and the international community must be integrated. Active participation of the United Nations (UN) and states and international organizations involved in the International Compact with Iraq (ICI) and the Expanded Neighbors of Iraq processes will also be important in achieving success. U.S. policy outlines goals and measures progress along four tracks: security, political, diplomatic, and economic. Ultimately, responsibility for success in these efforts lies with the Iraqi people.

Security Track

The security environment in Iraq continues to improve, with security incidents now at their lowest levels in over four years. The growth of capable Iraqi Security Forces; the surge of Coalition Forces, diplomats, and civilians; the contributions of the Sons of Iraq (SOI); the Sadrist Trend "freeze;" and an

increased willingness by the GOI to confront extremists are major contributing factors to the reduced levels of violence throughout the country. While the progress in Iraq remains fragile, these factors have provided a degree of durability in the security situation which has withstood the drawdown of Coalition Forces to pre-surge levels. Civilian deaths across Iraq declined dramatically; in August 2008, they dropped to a level 77 percent lower than in August 2007. The key component of the surge strategy – to protect the population – has emboldened more Iraqis to turn against violence and invest in their own communities with enhanced confidence and hope for the future.

Although periodic high-profile vehicle and suicide vest bombings continued throughout the reporting period, the number of these attacks, and the resulting casualties, has decreased dramatically. Nevertheless, in late July 2008, several suicide attacks targeted Shi'a pilgrims in Baghdad and Kurdish protestors in Kirkuk. These attacks failed to rekindle the cycle of ethno-sectarian violence that plagued Iraq in late 2006. The GOI and the Coalition are now focused on maintaining and increasing momentum in the security environment to allow Iraqis to address their differences via the political process rather than through violent means, and to re-enforce the success of recent ISF-led operations in Basrah, Sadr City, Mosul, Amarah, and Diyala against Al Qaeda in Iraq (AQI) and illegal militias, particularly Jaysh al-Mahdi (JAM) and the Iranian-supported JAM Special Groups. These operations have spawned an attitudinal shift in the population, which is now beginning to reject violence perpetrated by militias. This rejection of militia violence, while still developing, is potentially as significant for overall security in Iraq as was the Sunni rejection of the indiscriminate violence, oppressive practices, and extremist ideology of AQI.

The SOI program continues to enhance security. The SOI continue to provide significant security benefits to their local communities by protecting their neighborhoods, securing key infrastructure and roads, and identifying extremists among the population. What began primarily as a Sunni effort has now taken hold in several Shi'a and mixed Sunni and Shi'a communities. As of September 2008, there were 98,000 SOI contributing to local security in partnership with Coalition and Iraqi forces. The SOI have begun transitioning into the ISF and into Ministry of Oil Security positions, as well as into non-security education, training, and jobs programs. The success of these latter programs will depend on the GOI's commitment to re-integrating the SOI into civilian employment programs.

Iraqi forces assumed the lead in major operations and, after overcoming initial difficulties in Basrah, effectively deployed to, and performed well in, four

other provinces. With support from Coalition forces, particularly in the form of enablers and transition teams, ISF-led operations in Basrah, Baghdad, Mosul, Amarah, and Diyala produced encouraging results by further degrading AQI's freedom of movement and reducing illegal militia control in strategic Iraqi cities. As a result of these operations and the increasing number of Iraqi units able to conduct operations on their own, Iraqi forces have significantly extended their control across Iraq. Following the recent clearing operations in Diyala province, the Iraqi Army (IA) is now in close proximity to Kurdish forces providing security beyond the traditional Kurdistan Regional Government (KRG) border. In late August 2008, elements of the 1st Iraqi Army division approached Khanaqin, a city just south of the Green Line and near the Iranian border in Diyala, where the 34th Peshmerga Brigade currently provides security. The subsequent standoff between the IA and Kurdish Peshmerga forces strained relations between Kurdish leaders and the Maliki government. While an impasse currently exists between the Maliki government and the KRG leadership on the date and criteria for withdrawal from Khanaqin, both parties have taken measures to defuse the situation.

Although the GOI has shown a willingness to confront criminal activity across the sectarian spectrum, the perception of sectarian bias remains a problem that the GOI must address. Iraqi forces are displaying an increased capability to develop integrated planning and execution of operations, which has led to the ISF earning greater levels of public support. After months of elevated security incidents, overall violence indicators in Ninewa have fallen almost 50 percent since the spring of 2008 and are now at their lowest levels since early June 2006.

Currently, 11 of Iraq's 18 provinces are under Provincial Iraqi Control (PIC) with the Qadisiyah and Anbar Provinces' security transfer ceremonies conducted on July 16 and September 1, 2008, respectively. In support of the Coalition's strategic objective to strengthen the Iraqi forces and transition primary security responsibility to the GOI, Wasit and Babil Provinces are planned to transition to PIC in the fall of 2008.

The ISF continues to grow in size, capability, and effectiveness. During recent military operations, elements of the Iraqi Special Operations Forces, National Police (NP), and special police units operated with minimal or no Coalition support or side-by-side with Coalition forces, demonstrating proficiency in counter-terrorism and counterinsurgency operations. Over the past several months, Iraqi Joint Headquarters and Division staffs have demonstrated an improved ability to deploy and sustain units in combat. Improved understanding and planning for combat enablers, such as logistics support, has been impressive.

Local Iraqi police have also shown an improved range of capabilities. For example, in some population centers, such as Ramadi, Kirkuk, and Baqubah, the Iraqi police are in the lead and performing well. Challenges remain; for example, corruption continues to plague many elements of the Iraqi Police Service (IPS).

The GOI continues to assume greater ownership of Iraq's security programs. Iraq's security ministries have slightly improved their ability to execute their budgets but require increased capacity in order to properly man, train, sustain, and field forces. The Ministry of Defense (MoD) and Ministry of Interior (MoI) must improve their procurement processes, particularly their ability to delegate decision making and to allocate resources. The training capacities of the MoD and MoI continue to expand, but training backlogs will persist as the ISF absorbs security personnel from the SOI program and the training curriculum expands to provide leadership and professional development classes, in addition to criminal investigation courses for MoI entities. The shortage of key leaders in the ISF, particularly at the mid-grade officer level, remains a challenge that may be alleviated with the rehiring of former non-commissioned officers and mid-grade officers.

Political Track

This reporting period has seen gains in Iraq's sense of national unity, though significant political rifts resurfaced. After months of divisive negotiations over elections in Tamim (Kirkuk) Province, the Council of Representatives (CoR) passed the Provincial Elections Law on September 24, voting unanimously in favor of a compromise on Article 24, the article on Kirkuk. Also notably, the Sunni Arab bloc, Tawafuq, returned to the national Cabinet after a nearly year-long boycott. Iraq continues to face serious challenges related to its displaced population and Iraqi refugees abroad. However, Iraq made important progress in its relations with its neighbors and other members of the international community during the reporting period.

The biggest single issue the CoR faced during this reporting period was the Provincial Elections Law, passed on September 24, which defines the terms under which provincial elections will be held. The law must now be approved by Iraq's Presidency Council and published in the official gazette to be enacted into law. The CoR had passed an earlier version of the law on July 22 (over the objections of Kurdish parliamentarians), but it was promptly vetoed by the Presidency Council with Kirkuk as the primary issue of contention. The key to compromise was a revised Article 24 that (i) delays elections in Tamim Province and creates an

independent committee to establish the terms of elections in that province; and (ii) places provincial and federal authorities on equal footing on the committee.

Holding provincial elections is an important step toward national reconciliation as it gives Sunnis and others that boycotted elections in 2005 the opportunity to gain more representation in their local governments. The Provincial Elections Law sets January 31, 2009 as the deadline for holding provincial elections. The law only applies to provinces not incorporated into regions; it does not apply to the three provinces incorporated in the KRG. For details on the provincial elections law debate and voter registration, please refer to Sections (I)(A) and (II)(B).

Tawafuq, a Sunni Arab political coalition, returned to the Council of Ministers in July, assuming six ministerial seats. This was an important step toward national unity, as it represented participation of Iraq's major ethnic communities in their government. This is discussed in further detail in Section (I)(A).

Iraq continues to face serious challenges related to both its displaced population and to Iraqi refugees. The Office of the UN High Commissioner for Refugees (UNHCR) estimates that 4.8 million Iraqis are currently displaced: 2.8 million internally and 2 million in the region. There has been little new displacement within Iraq since September 2007, and Iraqi refugee populations in the region are stable, with few new arrivals and relatively few departures. The number of internally displaced persons (IDPs) being recorded continues to increase due to improved survey methods and the increased capacity of the Iraqi Ministry of Displacement and Migration (MoDM) to deliver emergency services. Conditions for the displaced population inside and outside the country are steadily deteriorating. As needs of the displaced increase, so do calls for donors to increase their contributions to UNHCR and international humanitarian organization programs for displaced Iraqis. The USG has responded to requests for contributions and will have approximately \$370 million available for humanitarian assistance programs for displaced Iraqis in Fiscal Year (FY) 2008 and into FY09. This is more than double the \$171 million the USG spent in FY07. The GOI continues to focus on preparing for the eventual return of displaced Iraqis. Please refer to Section (I)(A) for further information on IDPs and refugees.

During this reporting period, Iraq strengthened its ties with its neighbors and other members of the international community. Jordan, Bahrain, the United Arab Emirates (UAE), Kuwait, Syria, and the Arab League named ambassadors to Iraq

(the previous Arab League envoy resigned last year). For its part, Iraq named ambassadors to fill vacant ambassadorial posts in several regional countries, including Saudi Arabia, Qatar, and Syria. Several high-level visits took place, including Prime Minister Maliki's visit to the UAE and to Germany, Italy, and the Vatican. There were visits to Iraq by Turkish Prime Minister Recep Tayyip Erdogan, King Abdullah II of Jordan, Lebanese Prime Minister Fouad Siniora, Lebanese Parliamentary bloc leader Sa'ad Hariri, and British Prime Minister Gordon Brown.

The United States is working with the Iraqi government to engage Iraq's neighbors and the international community on the future of Iraq and regional stability. The involvement of the international community remains steady, and the United States continues to promote the normalization of diplomatic relations between Iraq and its regional neighbors. International engagement is discussed in more detail in Section (I)(B).

Looking ahead, several complex issues remain for the GOI to address. These include: carrying out provincial elections; reaching agreement on hydrocarbons legislation; completing the constitutional review; implementing the Law on Accountability and Justice (de-Baathification reform); transitioning SOI to civilian employment or positions with the ISF; and addressing the future status of Kirkuk and other disputed internal boundary areas. These issues have become increasingly interconnected. As part of its expanded mandate under UN Security Council Resolution (UNSCR) 1770, renewed for an additional year by UNSCR 1830 (August 7, 2008), the UN Assistance Mission to Iraq (UNAMI) continues to work with Iraqi leaders to provide technical assistance on implementing a process for resolution of disputed internal boundaries and on preparations for provincial elections.

Economic Track

Iraq's economy continues to improve throughout the country on the heels of improved security, increased oil revenue, and increased government spending. The International Monetary Fund (IMF) projects 9 percent real Gross Domestic Product (GDP) growth in 2008 – much higher than the estimated 1.5 percent real GDP growth in 2007. Similarly, the Central Bank of Iraq (CBI) has been able to maintain relatively low levels of inflation through the first half of 2008 through monetary discipline, including exchange rate appreciation and interest rate policies. In August 2008, year-on-year core inflation (which excludes “fuel and electricity” and “transport and communications” prices) was 12 percent, and year-on-year

headline inflation was -5.2 percent. Prices for categories excluded under core inflation dropped significantly over the past year, likely due to improved security and increases in supply. To help stimulate greater bank lending to the private sector, in August the CBI reduced its policy interest rate (the rate it pays banks for their deposits with the CBI) from 20 percent at the beginning of 2008 to 16 percent. The Iraqi dinar continues to appreciate.

The GOI currently has a relatively stable fiscal situation, largely thanks to higher-than-projected oil revenues. This opens up space for additional government investment in large-scale infrastructure projects, as well as increases in necessary operating expenditures. With the CoR's passage of the 2008 supplemental budget on August 6, the Iraqi budget for 2008 now stands at \$72 billion. Of this, \$21 billion is allocated for capital investment expenditures and nearly \$11 billion is allocated for security expenditures. Additionally, more than \$6 billion of the capital budget is allocated directly to non-KRG provinces in 2008. Please see Section (II) (E) for detailed discussion of Iraqi spending on reconstruction.

As budgets increase, so does the ability of ministries and provincial governments to spend this money. There was significant progress in 2007, which we expect will continue in 2008 and beyond. Nevertheless, budget execution varies across ministries and provinces, and there are still some impediments to spending. U.S. Embassy, Provincial Reconstruction Team (PRT), and military officials are working through programs – including the Public Finance Management Action Group (PFMAG) inaugurated in June 2008 – and daily interaction with ministries and provinces to troubleshoot some of these problems and unlock greater amounts of GOI funds. Please see Section (I)(C) for additional discussion of Iraqi budget execution.

Crude oil production averaged 2.47 million barrels per day during the third quarter of 2008, the same rate as the second quarter of 2008, and above the GOI's 2008 target of 2.2 million barrels per day. Crude oil exports averaged 1.73 million barrels per day during the third quarter of 2008 – a 9 percent decrease from second quarter 2008. This decrease came almost entirely in the South, which experienced some recent natural decline in production (with no offsetting new production) and bouts of bad weather that prevented tankers from docking at the offshore terminal. Both production and exports continue to be higher than Ministry of Oil (MoO) targets for 2008, although exports in September averaged roughly 1.65 million barrels per day, which is slightly below the MoO initial 2008 target of 1.7 million barrels per day. Crude oil prices averaged approximately \$110 per barrel during the third quarter of 2008, well above the \$91 per barrel projection in the 2008

supplemental budget, giving the GOI a significant revenue surplus. MoO officials continue to review and plan ways to improve upstream and downstream infrastructure to enhance production, export, and refining; however, Iraqi officials have not come to agreement. Iraqi officials continue to discuss outstanding issues regarding national hydrocarbon framework legislation in an effort to achieve consensus. According to the MoO, 34 major international oil companies (down from the previously announced number of 35 because Premier was disqualified in September) and six national oil companies have pre-qualified to bid in Iraq's proposed first tender for rehabilitating and expanding production at six oil fields and two gas fields. The MoO hopes to award the tenders in June 2009.

The Iraqi agricultural sector, the second largest employment sector and the second largest contributor to GDP after oil, has been impacted by severe drought since 2007. Agricultural production is down sharply, particularly of grains in the northern provinces. For now, Iraqis are largely protected from the full weight of increased global food costs by the GOI's Public Distribution System of food aid.

Iraq continues to work closely with its international partners and creditors. Iraq is on track to successfully complete its current Stand-By Arrangement (SBA) with the IMF in March 2009. On September 4, the IMF Board of Directors favorably reviewed Iraq's progress on the major economic structural reforms that Iraq agreed to implement under the SBA. These reforms include strengthening public financial management and the accounting framework of the CBI, restructuring the two largest public banks, reducing subsidies in the oil sector, and conducting a census of public sector employees. In December 2008, Iraq's expected continuing satisfactory performance under the SBA will trigger the final 20 percent tranche of debt reduction under its agreement with the Paris Club – bringing the total debt reduction to 80 percent.

Iraq continues to benefit from donor countries' financial or technical assistance, soft loans, and/or debt relief. Please see Section (I)(E) for more detailed discussion of international donor assistance in Iraq.

Iraq made progress toward its long-term goal of World Trade Organization (WTO) accession. The embassy and the Office of the U.S. Trade Representative are monitoring Iraq's progress, and the U.S. Agency for International Development (USAID) has technical advisors in Iraq assisting the GOI with WTO-consistent legislation. Iraq is presently finalizing its national tariff schedule to replace the current 5 percent reconstruction levy. The USG has advised the GOI to implement

low tariff rates that are as flat as possible. We continue to have robust dialogue with Iraq on its trade-related legislation.

In view of the gains that Iraq is making in the political and security spheres, much of its new engagement with regional neighbors and the international community aims at greater economic cooperation and lays the groundwork for rising private sector trade and investment. Iraq signed new economic cooperation agreements with Turkey, Germany, and the UN Conference on Trade and Development (UNCTAD). Iraq has had new or reinvigorated economic discussions with Oman and Lebanon and deepening discussions with Syria and Iran.

Improvements in security over the last quarter have led the private sector to increasingly consider Iraq as a destination for investment. Several high-level gatherings on investment opportunities have provided the venue for these discussions. In recent months, Iraq has seen some early but significant successes in attracting foreign (and, to a lesser extent, domestic) investment. The Ministry of Industry and Mining (MIM) moved several state-owned enterprises toward point of sale or joint venture status and received 56 joint venture bids. The National Investment Commission (NIC) is finding its mission and announced a handful of major foreign investments, especially in the hospitality sector.

On July 31, MIM's tender period ended for bids on joint venture, production-sharing agreements with 36 state factories. Fifty-six investors bid on agreements to rehabilitate and manage a share of the production from factories in the cement, steel, petrochemical, food, tobacco, and textile industries. In April, MIM signed two joint venture, production-sharing agreements worth approximately \$150 million each with a Romanian and a German consortium for cement plants in Anbar and Kirkuk Provinces.

The NIC also licensed significant projects, including a \$120 million hotel in Baghdad's International Zone, the first foreign investment to be licensed and approved through the NIC. Other investment licenses include \$248 million for the construction of 8,000 apartment units in Najaf, a \$21 million investment license to develop a luxury hotel in Baghdad's al-Utifiya district, a \$5 million license for development of a commercial mall in the Rusafa district, and a \$50 million license to a Kuwaiti firm to further develop Najaf International Airport.

An increasing number of business missions demonstrate concrete interest in the Iraqi private sector. The Department of Defense's Task Force for Business and

Stability Operations – Iraq has provided logistical support for several visits by well-known multinational companies exploring investment opportunities in Iraq. On July 2-3, the Government of Japan sponsored the First Annual Japan-Iraq Business Forum in Amman, Jordan, bringing together more than 200 participants, including more than 100 Japanese companies in the trading, oil and gas, cargo, construction, and heavy industry sectors. In late June and early July, an Omani delegation of 19 government officials and business executives visited Baghdad to discuss investment protocols to facilitate public-private sector joint ventures and partnerships, including a bilateral tax agreement.

Potential investors from the United States, Europe, Asia, and the Middle East are beginning to show interest in investing in Iraq, but much work remains to be done to create a suitable business climate. Challenges remain for private sector investors in Iraq, such as security, the perception of pervasive corruption, and a nascent regulatory environment. Iraq needs to enact legislation to bolster investor confidence, to recognize international arbitration protection for investors, to strengthen anti-corruption investigations and rule of law, and to sign key conventions relating to commercial dispute resolution.

The rapidly growing wireless telecommunications industry continues to be an exemplar of private investment in Iraq's economic development. The three licensed nationwide carriers now claim over 13 million subscribers, roughly 50 percent of the population, compared to 1 percent or less in 2003. Almost all of this growth has come from the investment of private companies.

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.

The United States and Iraq continue bilateral negotiations on an agreement that will reflect the two countries' mutual interests and govern the presence and status of U.S. forces in Iraq following the expiration of the Multi-National Force – Iraq (MNF-I) mandate in UNSCR 1790. Negotiations were elevated to a senior political level and intensified during the reporting period.

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

Iraq's central government and provincial governments continued to take steps to reconcile Iraq's political, religious, and ethnic communities. Senior USG officials, including Secretary of State Condoleezza Rice, Ambassador to Iraq Ryan Crocker, Senior Advisor and Coordinator for Iraq David Satterfield, and other embassy officials continue to encourage and facilitate such steps. The GOI continues to grapple with complex and diverse issues, whose solutions require that Iraq's leaders work together and make difficult compromises. This section will discuss the passage of the Provincial Elections Law, Tawafuq's return to the Cabinet, some of the CoR's other work during the reporting period, provincial and local reconciliation and the efforts of PRTs, the IDP and refugee situation, and the importance of transitioning SOI into civilian employment or positions with the ISF.

The Provincial Elections Law, passed on September 24, was a key priority for the CoR during this reporting period. The law must now be approved by the Presidency Council and be published in the official gazette. Holding provincial elections is an important step toward national reconciliation as it gives Sunnis and others that boycotted elections in 2005 the opportunity to gain more representation in their local governments. The Provincial Elections Law sets January 31, 2009 as the deadline for holding provincial elections. For more information about provincial elections, please refer to Section (II)(B).

The CoR dealt with a number of contentious issues in order to pass the law, and, in doing so, demonstrated its continued commitment to working through the issues involved in the important pieces of legislation before it. The CoR remained in session during most of July and the first week of August to work on the law, despite its by-laws calling for a two-month recess during July and August. The circumstances of the provincial elections law debate also highlighted some positive trends in the CoR – at one point during the proceedings the CoR had the largest quorum it has ever achieved, with 236 of 275 members attending.

A significant step toward reconciliation achieved during this reporting period was the return of the Sunni Arab bloc, Tawafuq, to Prime Minister Maliki's Cabinet, ending a boycott that began in August 2007. On July 19, the CoR voted into office six Cabinet ministers from Tawafuq to fill positions that had been vacant: Deputy Prime Minister Rafie Hyiad Chyiad al-Eisawi, Minister of Higher

Education and Scientific Research Dr. Abd Dhiyab al-Ajili, Minister of Culture Mahir Dally Ibrahim al-Hadithi, Minister of State for Foreign Affairs Dr. Mohamed Menajid al-Dulaimi, Minister of State for Women Affairs Dr. Nawal Majed al-Samaraie, and Minister of Communications Dr. Faruq Abdul Qadir Rahman.

Tawafuq's return to the Cabinet is the culmination of months of high-level negotiations between the GOI and Tawafuq members, as well as actions taken by the GOI that demonstrated their commitment to reconciliation. Adnan Dulaimi, a senior Tawafuq leader, indicated that the passage of Iraq's Amnesty Law in February 2008, which led to the release of many Sunni detainees, played a vital role in Tawafuq's return. Tawafuq also applauded Prime Minister Maliki as he confronted rogue Shi'a militias in the southern provinces, placing the good of the state of Iraq before any religious or political affiliation.

The CoR also approved four ministers from the United Iraqi Alliance to replace ministers from Muqtada al-Sadr's movement who continued to boycott the government. As a result, all positions in the Cabinet, except the Minister of Justice, are currently filled.

During the reporting period, the CoR enacted a wide variety of legislation. On September 23, it passed an important census law, establishing a commission to carry out a census. Other legislation passed included: the 2008 Budget Supplemental, an additional budget supplemental for the CoR's operations, oil smuggling, the Ministry of the Environment, the structure of institutes for forensics, stipends for trainees of technical institutions of the Ministry of Labor and Social Affairs, accession to the Arab Counter-Terrorism Convention, as well as the Iraq-Italy Friendship Agreement, Iraq's accession to the UN Convention against Torture, and the Rio de Janeiro Convention on Biological Diversity. Bills introduced or debated included those relating to the federal supreme court, drugs and psychotropic substances, the federal civil service, the Ministry of Water Resources, protection of the disabled, the Ministry of the Environment, protection of the environment, the establishment of an agency to recover funds embezzled during the oil-for-food program and other funds misappropriated during the sanctions period, a law on antiquities, Iraq's accession to the Singapore Treaty on the Law on Trademarks, Iraq's accession to the Basel Convention on the Control of Transboundary Movement of Hazardous Wastes and their Disposal, Iraq's accession to the Arab League Center for the Prevention of Damage from Earthquakes, Iraq's accession to the International Convention for the Protection of All Persons From Enforced Disappearance, a permanent committee on statistics

concerning housing and population, an amendment to the law concerning smuggled money, and a law on the census.

Reconciliation at the provincial and local level, in addition to the national level, is important for Iraq's continued security, political, and economic progress. During the reporting period we have seen such reconciliation, as evidenced by several instances of local Iraqi leaders working together to create more peaceful living environments, re-establish unified provincial governments, and create more efficient bureaucratic institutions.

PRTs continued to play an important role in helping Iraqis with the reconciliation process. As of August 2008, PRTs in Iraq consisted of approximately 800 civilian and military personnel and were actively engaging in all 18 provinces. These PRTs improved communication and cooperation across Iraqi society by facilitating dialogue between local and national leadership to encourage equitable use of Iraqi resources for the benefit of all Iraqis and gain better funding and essential services for their communities. PRTs also played a critical role in facilitating dialogue and actions that aim at reconciliation.

An example of this dynamic is found in the province of Salah ad Din, which has been making steady progress on the road to reconciliation. There is a marked difference in interaction between local officials and the national government and in the increase in Sunni-Shi'a cooperation at all levels of government. The improved security situation in the province also opened the door for community reconciliation. According to the Deputy Governor of Salah ad Din, Prime Minister Maliki's willingness to take on armed Shi'a groups earlier in 2008 paved the way for rapprochement with Sunni Arabs. Until recently, the PRT had facilitated the Deputy Governor's trips to Baghdad because he feared being arrested and thus refused to travel. The Deputy Governor now travels without U.S. escort. Furthermore, since May 2008, over 600 men in Salah ad Din have taken advantage of a window of opportunity to turn in their weapons and reconcile with the local community. The PRT continues to work with local leadership to help solidify these gains by focusing on ways to help leadership reintegrate these individuals back into society.

On Iraqi displacement, the number of Iraqis displaced in the region and inside Iraq has remained stable since fall 2007. However, improvements in surveying methods and the security environment resulted in an increase in the number of IDPs reported by the International Organization for Migration (IOM).

IOM reports that there are 2.8 million Iraqi IDPs, about 1.6 million of whom were displaced following the February 2006 Samarra Mosque bombing.

Although refugee and IDP populations have been stable, the needs of these displaced populations are intensifying over time. As UNHCR and non-governmental organizations in the field report, the caseload of vulnerable and needy Iraqi refugees and IDPs is expanding even as the rate of new displacement falls. Many refugees and IDPs, especially those displaced by sectarian fighting after the Samarra mosque bombing, fled without being able to fully liquidate their assets, particularly their homes. Many of the displaced depend on their savings, which are quickly depleting due to prohibitions against working in host countries or the difficulty of finding jobs in Iraq. According to IOM's September 2008 report on Iraqi displacement, nearly 73 percent of the IDPs surveyed expressed that access to employment is a priority need. Caring for an increasingly impoverished displaced population is straining the hosting capacities of countries in the region, such as Jordan and Syria, and communities in Iraq.

The United States is the largest donor to the international humanitarian effort for displaced Iraqis. The Iraq Supplemental passed by Congress on June 30 designated \$315 million to the Migration and Refugee Assistance Account, of which \$128 million was allocated by the Administration for Iraq-related assistance programming. Together with funding made available earlier in the year by the State Department, USAID's Office of Foreign Disaster Assistance, and Food for Peace, this has made available in FY08 a total of more than \$370 million for Iraq humanitarian assistance efforts. This represents more than a doubling of the \$171 million spent in FY07 and is a clear signal of the serious commitment of the United States to meet its humanitarian obligations to Iraq and displaced Iraqis. The Department also continues to encourage contributions from others in the donor community.

The State Department continues to work closely with the Department of Homeland Security (DHS) on resettling Iraqi refugees in the United States. The USG admitted 13,823 Iraqi refugees in Fiscal Year 2008, exceeding its goal of 12,000. The Department and Embassy Baghdad worked with IOM to establish a permanent processing facility in Baghdad.

In 2008, Section 1244 of the National Defense Authorization Act created a second Special Immigrant Visa (SIV) category for Iraqi USG employees. In July, Embassy Baghdad announced the launch of this program, which provides 5,000 SIVs per year for five years for Iraqis who have experienced serious threats as a

result of working for, or on behalf of, the USG in Iraq. Spouses and minor children of applicants can also receive SIVs, but their visas do not count against the 5,000 number. SIV recipients will be eligible for resettlement benefits that are normally offered to refugees. Under the Section 1059 SIV program for translators and interpreters, the Department of State issued 988 SIVs to Iraqi and Afghan translators and interpreters and their families in FY07 and 1,130 SIVs to date in FY08.

The GOI continues to focus on displacement issues. The Iraqi MoDM held its first National Conference to Address Displacement on July 8 and 9. Participants – including national and local GOI representatives, CoR members, UNHCR and other international organizations, religious and community leaders, and IDPs – discussed the new national policy on displacement, property restitution, returns, and refugees. The conference is a welcome initiative and indicates GOI willingness to address displacement issues, the most important of which is returns. Displaced Iraqis are returning in trickles, both from abroad and from displacement within Iraq. According to IOM, 21,066 displaced families (estimated to total around 125,000 individuals) have returned so far this year. This tracks closely with UNHCR figures, which estimates that 134,000 individuals returned during the same period, the vast majority of whom were IDPs. In August and September, the GOI facilitated the return to Iraq of over 1,000 Iraqi refugees from Egypt, which was the first GOI-facilitated refugee return effort this year. The USG and UNHCR continue to work with the GOI to improve coordination among ministries to foster voluntary, safe, and dignified returns.

A future challenge of national reconciliation is the integration of SOI into civil society through vocational skills training and follow-on job placement or incorporation into the ISF as Iraqi Police. The SOI are local, mostly Sunni, residents who provide security in support of the Coalition Forces' fight against AQI and have been instrumental to the recent security gains in provinces that support this critical program. The SOI program is in the early stages of transferring from a Coalition-supported security force to a GOI-led employment transition program. It is important to the overall national reconciliation program to integrate this almost 100,000-member program into society as productive citizens.

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

During this reporting period, the Iraqi and U.S. governments continued to work with the international community to promote security, economic growth, and political progress in Iraq.

Thirty-one countries contribute to stability and security operations in Iraq, including the United States, MNF-I members, and NATO members. In addition, the larger international community continued in a spirit of partnership, both in the political and economic arenas, to support Iraqi government and economic institutions. Complementing the training effort is the NATO Training Mission – Iraq (NTM-I). NTM-I provides a variety of professional mentorship programs for the ISF. Its core contributions are institutional training for Iraqi military officers, gendarmerie training for the NP, and mentoring and training in support of national command and control centers. NTM-I has trained thousands of GOI security personnel in areas such as civil and military staff training, police training, and officer and non-commissioned officer leadership training. Iraq recently affirmed the value of the NTM-I mission and proposed continued NATO-Iraq cooperation. The NATO mission also is considering expanding its support in response to Prime Minister Maliki’s request to include training programs for border enforcement and for mid-level Iraqi Army and Navy officers.

The international community took several additional steps to show its support for Iraq during the reporting period, including through the UN, the International Reconstruction Fund Facility for Iraq (IRFFI), and the European Union (EU). The GOI also engaged effectively with countries in the region and beyond through a number of high-level visits. Several Arab countries appointed ambassadors to Iraq, and Iraq appointed several new ambassadors to countries in the region.

UNAMI, under Special Representative of the Secretary General Staffan de Mistura, continues to take an active role in addressing the future of Kirkuk and other disputed territories, assisting Iraqis in preparations for provincial elections, advancing national reconciliation, and assisting Iraqi refugees and IDPs. On August 7, with the adoption of Resolution 1830, the UN Security Council unanimously extended UNAMI’s expanded mandate for an additional 12 months. Also in August, the UN and Iraq signed an agreement defining the terms of their cooperation over the next three years, including on reconstruction and

humanitarian needs. The UN is expected to present the GOI with its second set of proposals regarding disputed internal boundaries in late October.

During the July 11, 2008 U.S.-UN Strategic Dialogue, UNAMI indicated its willingness to expand its footprint in Iraq. There are currently over 120 civilian staff in Baghdad, some 35 in Erbil, seven in Basrah, and one in a new office in Kirkuk. In addition, during this reporting period UNHCR opened a Baghdad office manned by a resident coordinator and five permanent staff, the Office of Coordination of Humanitarian Affairs-Iraq added an officer for regional humanitarian coordination, the World Health Organization stationed a permanent representative in Iraq, and Governance Liaison Officers were deployed to Baghdad, Dhi Qar, Babil, Karbala, Muthanna, Najaf, Ninewa, Qadisiyah, Salah ad Din, and Wasit Provinces.

On September 1, Iraq's Minister of Science and Technology signed a Memorandum of Understanding with UNCTAD in Geneva that calls for a joint review by the UN and the Ministry to analyze Iraq's science, technology, and innovation capabilities and policies; evaluate how these capabilities could be strengthened; and recommend how these policies might be revised, or new ones formulated, to contribute to Iraq's economic development.

Turkish Prime Minister Recep Tayyip Erdogan visited Baghdad on July 10 in the first such visit in nearly two decades and met with Prime Minister Maliki. Also on July 10, Iraq and Turkey agreed to establish a strategic cooperation council that would include the ministers of trade, energy, security, investments, and water resources, and to cooperate on issues including border security, combating terrorism, and trade promotion.

On July 12, a delegation led by Iraq's Minister of Education met with Syrian counterparts in Damascus to discuss cooperation in science and technology. They focused on advanced technologies for developing and managing water resources; cooperative projects are planned that will also include Turkey. The same week, representatives of the chambers of commerce of Iraq and Syria met to plan for greater cooperation and joint trade and investment promotion. A high-level delegation from the Sultanate of Oman visited Baghdad earlier to discuss economic cooperation. The main focus of the meeting was on business issues and encouraging Oman's private sector to increase trade with, and investment in, Iraq.

On July 19, British Prime Minister Gordon Brown traveled to Iraq to meet with President Talabani, Prime Minister Maliki, Foreign Minister Zebari, and other

senior Iraqi officials to discuss the continued close relationship between their countries. In a subsequent statement to Parliament on July 22, Brown confirmed that the focus of British forces would be on completing training and mentoring of the IA in Basrah and predicted a “fundamental change of mission” in the first few months of 2009. He added that any decisions on troop numbers would be based on the advice of commanders on the ground.

King Abdullah II of Jordan visited Baghdad on August 11 for meetings with Prime Minister Maliki and other senior Iraqi officials. This was the first visit to Iraq by an Arab head of state in the post-Saddam era. King Abdullah’s visit followed the government of Jordan’s appointment of its ambassador to Iraq in late June, and signals Jordan’s intention to increase its engagement with the GOI.

Lebanese Prime Minister Fouad Siniora met with Prime Minister Maliki in Baghdad on August 20. Prime Minister Siniora publicly expressed the importance of developing stronger ties with Iraq and discussed greater economic cooperation during his visit. In July, Lebanese member of parliament Saad al-Hariri, the son of Lebanon’s late Prime Minister Rafik Hariri, visited Iraq and also met with Prime Minister Maliki.

Prime Minister Maliki made several important international visits. In early July he visited the UAE. During the visit, UAE President Sheikh Khalifa bin Zayed al-Nahyan announced his country would cancel Iraq’s debt going back to the Saddam era. A new UAE ambassador presented his credentials in Baghdad on September 4 and a new UAE embassy is expected to open later this year. UAE Foreign Minister Sheikh Abdallah bin Zayid al-Nahyan extended an official invitation to Prime Minister Maliki during his Baghdad visit in June.

Prime Minister Maliki visited Germany, Italy, and the Vatican from July 21-25 to improve economic ties, encourage foreign investment, and discuss other issues of importance to the GOI and the aforementioned countries. Germany announced that it plans to open a consulate in Erbil in 2009. In Rome, Prime Minister Berlusconi returned to Maliki 13 looted ancient Iraqi artifacts and committed to increasing the number of Carabinieri training advisors in the NTM-I. Both leaders called for closer economic ties. During his meeting with Pope Benedict XVI, Prime Minister Maliki discussed Iraq’s Christian community and assured the Pontiff he would do everything possible to ensure a secure and peaceful future for Christians in Iraq. He also extended an invitation to the Pope to visit Iraq.

On September 24, foreign ministers from the Gulf Cooperation Council countries and Egypt, Jordan, and Iraq met on the margins of the United Nations General Assembly in New York. Iraq's participation in such meetings contributes to strengthening Iraq's relations with its Arab neighbors and the broader region.

Other important developments in Iraq's relationships with Arab countries during this reporting period included Bahrain naming an ambassador to Iraq in early July, Kuwait's July 17 announcement that it would open an embassy in Iraq and had appointed an ambassador, and the arrival of the new Arab League envoy in August. On September 16, Syria appointed an ambassador. Bahrain, Jordan, and Kuwait are moving forward with preparations needed to open their new missions.

The international community is also engaged in enhancing the rule of law in Iraq. The State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) in Baghdad has led several recent meetings with donors from the United Kingdom's Department for International Development, the UN Development Program, and the EU "JUSTLEX" program with the goal of enhancing donor coordination on rule of law efforts. As the USG has long sought more international assistance and coordination on these issues, this is a very desirable outcome. While INL and most (but not all) other USG rule of law efforts tend to focus on criminal justice development, international donors' programs will be geared more toward non-criminal aspects of rule of law, human rights issues, and public information campaigns.

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

U.S. capacity development assistance is focused on the areas of budget execution, governance, rule of law and public administration. This quarter we have increased our attention to supporting the GOI as it improves its budget execution.

As reported last quarter, efforts to develop GOI capacity in budget formulation and capital execution have become more refined and targeted. The PFMAG, inaugurated in June, is designed to combine and coordinate civilian and military resources to work directly with Iraqi ministries and provincial councils to improve their budgeting, procurement, and budget execution processes. The PFMAG is operationally led by the Treasury Attaché and will soon include 12 public finance and banking experts from Treasury, 10 MNF-I officers, and personnel from various other civilian agencies. PFMAG personnel work with the

Iraqis to identify and troubleshoot problem areas in key ministries and provinces with the goal of leveraging U.S. foreign assistance to enable the Iraqis to spend their own resources more efficiently and effectively.

Improving information technology (IT) systems continues to be a priority for GOI and U.S. capacity building efforts. In August, the embassy sponsored a capacity development initiative aimed at training Iraqi government ministries on developing and implementing IT policy and practices. Regional Reconstruction Team Erbil supported the 10-day training session for approximately 20 Chief Information Officers and IT professionals from Iraqi ministries. In the same month, USAID and the Ministry of Labor and Social Affairs (MoLSA) signed a Memorandum of Understanding launching the Social Safety Net IT system being introduced by the Economic Governance II Project. This demonstrates the Minister's and the GOI's support against corruption. USAID's assistance in helping MoLSA adopt a modern IT system will help guide the social safety net policy. As part of the agreement, MoLSA will assume ownership and responsibility for maintaining the system in January 2009.

On July 5, the GOI and USAID restarted the Iraq Financial Management Information System (IFMIS). This marks the system's redeployment and indicates renewed commitment on the part of the Ministry of Finance (MoF). As of July 22, 14 spending units were entering budgetary expense and journal vouchers using IFMIS. By January 2009, ownership of the IFMIS will be transferred to the MoF. All spending units identified in the GOI budget are expected to be using this system.

The Ministry of Planning (MoP) continues to strengthen the project design and review process. This quarter *Tatweer* assisted the MoP in improving the quality of capital project feasibility studies. The MoP is introducing an automated system for preparing and submitting the feasibility study part of project proposals using existing software known as Computer Model for Feasibility Analysis II (COMFAR II). COMFAR II will provide a standardized and automated system in Arabic for feasibility studies preparation, submission by line ministries and review and decision by the MoP. This will strengthen and improve the process of capital budget preparation with better cost estimates. The stronger review process will improve the project implementation.

During the second week of August, 17 GOI project planners from the Ministries of Planning, Oil, Electricity, Health, Water Resources, Municipalities and Public Works, and Agriculture attended software training in Jordan. Each of

these trainees is committed to train 20 colleagues upon returning from the workshop.

The embassy's Office of Constitutional and Legislative Affairs facilitated a four-day symposium in July for senior representatives from all three branches of the Iraqi government to resolve issues concerning the legislative and constitutional process. This Iraq-led event included members of the legislative, executive, and judicial branches as well as representatives from the Iraqi Bar Association. The meeting resulted in the establishment of a coordinating group among the three branches to ensure promptness in executing legislation from inception to publication in the Gazette. Further meetings between the branches were planned to enhance the legislative process and resolve differences.

In the area of essential services, Prime Minister Maliki directed the Prime Minister's Advisory Commission to form a "high committee" chaired by the Prime Minister or Deputy Prime Minister to prepare a national energy strategy. Membership will include the relevant line ministries: Oil, Electricity, Water Resources, Planning, and Finance.

(D) Accelerating the delivery of basic services;

The period beginning September 2007 saw the first consistent year-on-year increases in electricity supply since early 2004. The increase exceeded 20 percent for some months; for September 2007-August 2008, the year-on-year increase averaged 14 percent.

The gains continued in September 2008, but at a much-reduced level. September 2007 already had seen a gain of 20 percent from September 2006. The further gain between September 2007 and September 2008 was less than one percent.

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

The ICI served well as a framework for international assistance for Iraq. On July 7, in Abu Dhabi, the UAE announced it will cancel about \$7 billion in Saddam Hussein-era debt. Once the UAE agreement is finalized, approximately \$25 billion in Iraqi debt will have been cancelled since the launching of the ICI in

May 2007, including about \$12 billion from Russia, \$3.2 billion from the former Yugoslav republics, and \$2.3 billion from Bulgaria.

The total of pledges in assistance from non-U.S. countries and institutions is now \$17 billion. This represents \$14.58 billion in pledges made at the Madrid Donors Conference in 2003 (including some \$10.5 billion in soft loans, trade credits, or balance of payments support facilities), plus \$2.42 billion in pledges made at or since the launching of the ICI (including \$1.7 billion in soft loans from Korea, Italy, and Iran). Against grant or direct assistance pledges totaling \$5.26 billion, international donors have committed more than \$5.55 billion, or nearly \$300 million more than total pledges. Japan is the largest donor after the United States, with \$5 billion in pledges: \$1.5 billion in grants and \$3.5 billion in soft loans (of which \$2.1 billion has been disbursed). The European Commission is the second largest non-U.S. donor with \$1.2 billion in disbursements since 2003. The United Kingdom, Italy, Spain, Denmark, Canada, Australia, and Korea also maintain large assistance programs.

In addition to their own bilateral assistance activities, many of the other donor countries provide assistance through IRFFI, which is a multilateral donor assistance facility.

The Donors Committee of the IRFFI met in Baghdad on July 7. The Donors Committee received the findings of the “Multi-donor Stocktaking Review,” prepared by the Norwegian analysts Scanteam. The summary findings of the Review were that since its inception in 2004, the IRFFI has contributed substantially to the engagement among the international community, the GOI, and the Iraqi people, and has resulted in the delivery of substantial assistance through the two Iraqi Trust Funds, to which international donors contribute. The IRFFI has provided the basis for an expansion of services in key sectors, the filling of “gaps” in essential public services, and building the capacity of the Iraqi state to govern and meet the needs of its people at the national and sub-national levels.

The World Bank and the UN Development Group (UNDG) reported on the operations of their respective Iraqi Trust Funds. The World Bank received \$556 million in resources, of which \$494 million is from donors and \$62 million is interest on deposits. Its total of commitments for completed, ongoing, or tendered projects amounts to about \$515 million; it has expended about \$28 million (5 percent of total resources) for project appraisal, supervision, and management fees. As of the end of June, total disbursements for completed or semi-completed projects amounted to \$148 million. A total of \$1.32 billion had been deposited in

the UNDG Iraq Trust Fund, of which \$1.1 billion had been approved for 180 projects and joint programs. About \$230 million in donor deposits are yet to be committed, along with about \$55 million in accumulated interest. The UN's new Strategy for Iraqi Assistance, signed in Baghdad on August 18, aims at accelerating the pace of project approvals and completions while infusing all UN programs with a focus on three priority themes: decentralization, public sector reform, and public financial management. The IRFFI Donors Committee reaffirmed its decision, reached in Bari, Italy, in October 2007, to end the new activities of the IRFFI on December 31, 2010.

In a July 31 report, the European Commission said that it planned to provide about €94 million (about \$140 million) in new assistance to Iraq during 2008. This is in addition to €829 million (about \$1.3 billion) in assistance provided from 2003 through 2007. That includes about €120 million for humanitarian assistance, economic reconstruction, and rule of law. The overall objectives of the European Community 2008 assistance are to strengthen the capacity of Iraqi institutions and to improve the quality of life of the population through the provision of basic services and specific support for displaced persons.

On August 16 in Baghdad, the Minister of Planning and Development Cooperation convened a meeting of major donor partners to discuss the newly proposed Terms of Reference for Iraq's implementation of the principles of the Paris Declaration for Aid Effectiveness. The declaration emphasizes the importance of host country ownership and leadership over its own development process, eliminating duplication of efforts, aligning donor contributions with partner country priorities as expressed in a national development strategy, and mutual accountability. It commits donors to use host country systems for implementing programs and to provide multi-year aid commitment, to support host country planning.

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

Since late 2003, Iraqi and Coalition forces trained more than 531,000 Iraqi MoD, MoI, and Counter Terrorism Bureau personnel. As of August 15, 2008, Iraqi MoD, MoI, and Counter Terrorism Bureau forces numbered approximately 591,700 personnel. This continuing expansion is a result of three major factors: the opportunity to recruit SOI members, the consolidation of units from various government agencies and ministries, and the GOI's reassessment of the ISF end

strength necessary to assume more responsibility for security. As of August 1, 2008, 159 IA combat battalions were conducting operations and were rated at the top three levels of operational readiness. Five battalions were rated at the lowest level of operational readiness; 21 battalions are currently in force generation. Four Special Operations Battalions are capable of conducting operations with minimal Coalition support, and another two are in force generation. Of all formed IA combat battalions, 64 percent are rated as being able to plan, execute, and sustain operations with minimal or no assistance from Coalition forces, or are rated at the top two levels of operational readiness.

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.

(A) Enacting a broadly-accepted hydrocarbon law that equitably shares revenue among all Iraqis;

Although there is no formal hydrocarbon revenue sharing law in place, *de facto* the GOI is distributing revenues equitably. Funds are allocated directly to provincial governments for capital investment, reconstruction, and essential services based on provincial population. Non-KRG provinces have direct spending authority over more than \$6 billion allocated through the base and supplemental budgets in 2008, as well as unexpended funds rolled over from previous years. Additionally, the KRG receives a 17 percent share of non-sovereign expenditures. Nevertheless, the GOI is discussing a four-law package that includes a national hydrocarbon framework law, a revenue sharing law, the reconstitution of the national oil company, and the restructuring of the federal MoO. None of the laws are before the CoR at this time. A draft of the hydrocarbon law was submitted to the CoR last year, but it is now pending resolution of differences among the various parties within the GOI over subsequent changes to the draft.

In an effort to come to consensus, Iraqi officials continue to discuss outstanding issues regarding the hydrocarbon framework law, which would among other things set forth procedures for international investment. However, even in the absence of a signed hydrocarbon law, Iraqis are benefiting from the impact of expanded oil revenue created through increased production and export volumes, as well as higher oil prices.

(B) Adopting laws necessary for the conduct of provincial and local elections, taking steps to implement such laws, and setting a schedule to conduct provincial and local elections;

The CoR passed Iraq's Provincial Elections Law, which sets the legal basis and structure of provincial elections, on September 24. To be enacted into law, it must be approved by the Presidency Council and be published in the official gazette. The law calls for Iraq's Independent High Electoral Commission (IHEC) to set a date for provincial elections no later than January 31, 2009. The Provincial Powers Law, enacted in February 2008, which defines the relationship between Iraq's central and provincial governments, will enter into effect after new provincial councils have been elected.

The Provincial Elections Law caused significant debate over issues, including elections in Tamim (Kirkuk) Province, representational quotas for women, and whether to use an open-list or closed-list system. (Previous elections have been conducted under a "closed-list" system in which Iraqis voted for political parties, instead of individual candidates.) An earlier version of the law, passed by the CoR on July 22, was vetoed by the Presidency Council. During the July 22 session, parliamentarians (primarily Kurdish and Shi'a members), walked out in protest because the CoR held a secret vote on a provision regarding elections and a provincial council power sharing arrangement in Tamim Province. When vetoing the law, the Presidency Council objected to, among other points, the use of secret ballots for the vote on that provision. The question of elections in Tamim Province is controversial because of the disputed internal boundary issues involved.

On September 24, the CoR unanimously voted in favor of a compromise version of the provision concerning elections in Kirkuk. The CoR also voted unanimously on the provision authorizing IHEC to set an election date no later than January 31, 2009.

Technical preparations for provincial elections progressed during the reporting period. On July 15, IHEC opened over 560 voter registration centers. Iraq's voter registration system is based on the records of the Public Distribution System for food rationing. Data from these records are used to automatically register voters, but the centers allow Iraqis to verify and update their information to ensure that they are registered correctly. There have been some reports of low turnout at such centers. However, that may be due to the passive nature of the registration system. IHEC extended the length of the registration period and

deployed 400 mobile teams to increase participation. A survey of independent elections observers conducted by the non-governmental organization Iraqi Democratic Future Network in conjunction with UNAMI indicated that, overall, registration proceeded smoothly, with adequate security, high levels of transparency, and ample responsiveness on the part of IHEC officials.

(C) Reforming current laws governing the de-Baathification process in a manner that encourages national reconciliation;

In February, the GOI passed the Law on Accountability and Justice (also known as de-Baathification reform). Iraq's leaders pledged to pursue implementation that would bolster reconciliation efforts. The law would allow an estimated 38,000 former members to return to government employment.

In 2003, Coalition Provisional Authority Order 1 abolished the Ba'ath Party and removed the top four levels of Ba'ath Party members from government positions; the order also banned them from future government service. Although the implementation procedures for the Accountability and Justice Law have yet to be determined, the law allows former fourth level (firqa) Ba'ath Party members to return to government employment, with some exceptions. The law also creates a limited appeals process by creating a committee of judges to adjudicate de-Baathification cases.

In addition to the Accountability and Justice Law, December 2007 amendments to the Unified Pension Law restore pension rights to former civil servants and military officials without regard to former party affiliation.

(D) Amending the Constitution of Iraq in a manner that encourages national reconciliation;

On August 6, CoR Speaker Mashadani extended the mandate of the CoR Committee on Constitutional Amendments. It had previously been extended from December 31, 2007 through July 2008. The committee has been tasked with analyzing the current constitution and suggesting necessary amendments. Although the committee has not completed its recommendations, passage of key legislation like the Region Formation Law and the Provincial Powers Law lessens the urgency for the committee to address some constitutional issues.

(E) Allocating and beginning expenditure of \$10 billion in Iraqi revenues for reconstruction projects, including delivery of essential services, and implementing such reconstruction projects on an equitable basis;

GOI ministries and provincial governments continue to improve their ability to allocate and spend their own money to meet the needs of their citizens. On the heels of higher-than-projected oil revenues, the CoR passed a \$22 billion supplemental in early August, indicating a firm commitment to pass along increased revenues to the Iraqi people. The GOI spent \$3.4 billion on reconstruction in 2007, which was significantly higher than capital expenditures in both 2005 (\$1.4 billion) and 2006 (\$1.6 billion). In addition, during 2007 the GOI funded irrevocable letters of credit for purchases to be delivered in 2008 totaling about \$2.6 billion. The most recent MoF data indicate that through June 2008, the GOI spent \$3.6 billion on reconstruction at all levels of government (including for new letters of credit). Of this, provincial governments (excluding the KRG provinces) were responsible for spending \$790 million (including for letters of credit), which was almost as much as the provinces spent in all of 2007 (\$870 million).

Although there has been significant progress, there is room for improvement in the second half of 2008 and beyond. A variety of factors affect budget execution across ministries and provinces, including technical capacity, security, bureaucratic bottlenecks, and absorption capacity. USG civilian and military personnel are working with ministry and provincial officials to address these issues through targeted assistance and capacity building programs.

(F) Making significant efforts to plan and implement disarmament, demobilization, and reintegration programs relating to Iraqi militias;

In collaboration with the GOI, the Coalition has piloted a series of programs aimed at transitioning ex-insurgents and ex-militia. The three primary transition programs are the Joint Technical Education and Reintegration Program (JTERP), the Civil Service Corps (CSC), and the Community Based Worker's Program.

JTERP is an Iraqi-directed program that provides classroom-based vocational training to the SOI. It is a collaboration of efforts among multiple ministries, including the MoLSA, Ministry of Education, and the Ministry of

Higher Education and Scientific Research, as well as the National Reintegration Committee. The USG provided \$35.5 million from the Iraq Security Force Fund (ISFF) for the refurbishing and equipping of vocational schools. The JTERP Pilot Program was conducted in Tikrit and Mahmudiyah. The first 255 JTERP students graduated in the last week of August 2008.

The CSC is an on-the-job apprenticeship training program designed to teach vocational skills while improving the infrastructure of the community. The USG provided \$120 million from the ISFF to support these local projects. Currently there are 26 CSC projects in progress.

The Community Based Worker's Program is an on-the-job apprenticeship training program teaching vocational skills aimed at establishing a Public Works workforce to build and maintain primarily municipal projects and infrastructure. The program was conceived to be GOI led and funded and has been started with some initial funding from the CSC. The GOI has directed \$196 million in "matching" Demobilization, Disarmament, and Reintegration funds.

Additionally, Coalition forces are working with the GOI to transfer control of SOI contracts to the GOI. Prime Minister Maliki has recently signed an order that stipulates that the GOI will assume responsibility for SOI in Baghdad and its environs (over 50,000 individuals) beginning in October 2008. Coalition forces continue to pay the salaries of SOI personnel. Prime Minister Maliki's order would transition more than half of the SOI to the GOI payroll.

III. A detailed description of the Joint Campaign Plan, or any subsequent revisions, updates, or documents that replace or supersede the Joint Campaign Plan, including goals, phases, or other milestones contained in the Joint Campaign Plan.

The current U.S. Embassy Baghdad/MNF-I Joint Campaign Plan (JCP) is regularly reviewed and continues to be refined by Embassy and MNF-I planners in response to changing conditions. While the overarching strategic goals remain firmly in place – a unified, democratic and federal Iraq that can govern, defend, and sustain itself and is an ally in the war on terror – the tasks are adjusted as conditions on the ground warrant.

The plan recognizes the imperative of enhancing security and protecting the Iraqi population, and it underscores the importance of advancing the political line

of operation to help the Iraqis establish legitimate, representative governance in their country at both the national and provincial levels. All lines of operation – economic, diplomatic, security, and political, along with the rule of law – support this end. The upcoming revision of the JCP will continue to emphasize the importance of transitioning responsibility to the GOI as well as the need for Iraq to establish an effective rule of law framework.

Coalition Forces and U.S. Embassy Baghdad are committed to helping set the conditions for the Iraqis to achieve sustainable security, advance reconciliation, and secure political and economic development.

(A) An explanation of conditions required to move through phases of the Joint Campaign Plan, in particular those conditions that must be met in order to provide for the transition of additional security responsibility to the Iraqi Security Forces, and the measurements used to determine progress;

The JCP's four main lines of operation encompass political, security, economic, and diplomatic efforts. The plan outlines efforts to build government capacity, promote good governance, communicate strategically, develop the rule of law, and bring about reconciliation among Iraq's competing actors. Integrated efforts along these lines of operation aim to foster the Iraqi political accommodation necessary for Iraq to achieve sustainable security while advancing political and economic development.

In determining when to transfer additional security responsibility to the GOI, the Prime Minister of Iraq and the MNF-I Commander use the PIC process to determine when a province is ready to transition security responsibility, based upon the recommendation of the respective Provincial Governor and Multi-National Division Commander. The criteria used to determine a province's readiness extend well beyond the security portfolio and focus on the province's governance capacity and ability to deliver essential services to its population.

(B) An assessment of which conditions in the Joint Campaign Plan have been achieved and which conditions have not been achieved. The assessment of those conditions that have not been achieved shall include a discussion of the factors that have precluded progress;

The U.S. Ambassador in Iraq and the MNF-I Commander oversee a process of continuous review, assessment and revision of the JCP and have the latitude to revise the document in response to changes in the operational environment. The JCP acknowledges that efforts must be integrated with the GOI. It also recognizes that transition of security responsibility to the GOI must take place at a responsible rate, based upon existing security threats and conditions and the GOI's capacity to assume further responsibility and protect its population.

(C) A description of any companion or equivalent plan of the Government of Iraq used to measure progress for Iraqi Security Forces undertaking joint operations with Coalition Forces;

The Iraqi MoD and Multi-National Corps-Iraq jointly conduct a thorough assessment of Iraqi forces using the Operational Readiness Assessment (ORA) process to determine a unit's readiness to lead operations. There is no stand-alone Iraqi readiness measurement system. The compilation of ORA data is a combined effort. ORA data is submitted separately to Congress on a quarterly basis pursuant to Section 3303 of Public Law 110-28.

The Iraqi Joint Headquarters (JHQ) further demonstrated its capacity development by presenting its first Iraqi-led Transition Readiness Assessment (TRA) to the MoD this reporting period. The senior leaders from both the JHQ and MoD assessed the training capability of the Iraqi forces under the MoD and focused on three critical areas: infrastructure, maintenance, and spare parts. The JHQ identified the most significant challenges facing the joint forces, which are largely a result of the accelerated growth in the security forces. Most of the challenges brought to light in this TRA relate to the centralized decision-making process and lack of direction and decisions from the MoD.

The Coalition must continue to mentor and advise the JHQ and MoD of key decision points required for resourcing decisions and provide them with the necessary information to make decisions in a timely manner. As part of the continued effort to develop the capacity of the JHQ and MoD, these Iraqi-led TRAs are planned to occur quarterly.

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 counter-insurgency operations and the defense of Iraq's territory;

The USG continues to work with the GOI to ensure the appropriate size, capability, and leadership of ISF, such that they can assume additional security responsibility from Coalition forces. There is no requirement that identifies a minimum number of IA battalions necessary that must be rated at the highest level of operational readiness.

IA battalions have increased in number and capability. As of August 1, 159 IA combat battalions were conducting operations and were rated at the top three levels of operational readiness. Five battalions rated at the lowest level of operational readiness, and 21 battalions are currently in force generation. Four Special Operations Battalions are capable of conducting operations with minimal Coalition support, and another two are in force generation. Of all formed IA combat battalions, 64 percent are rated as being able to plan, execute, and sustain operations with minimal or no assistance from Coalition forces, or are rated at the top two levels of operational readiness. Although the overall number of proficient units has increased, eight IA battalions were rated as less proficient and less capable of conducting operations with Coalition forces; this is in large part due to attrition from continuing operations over the past few months and due to the Iraqi practice of taking skilled commissioned and non-commissioned officers from high-performing units to generate new units.

The Iraqi Air Force is gaining proficiency, as well. Over the past nine months, its sortie rate has increased and its proficiency in scheduling and conducting flight operations has continued to improve, with the Air Operations Center currently exercising command-and-control of over 269 operational and training sorties per week. The Iraqi Air Force provides support to counter-insurgency operations through Intelligence, Surveillance, and Reconnaissance (ISR) patrols of Iraqi borders and critical electrical and oil infrastructure. These efforts have resulted in the capture of insurgents and the identification of damaged infrastructure, allowing the GOI to expedite repairs and re-establish essential services. Additionally, the Iraqi Air Force proved itself very capable during combat operations in Basrah (43 C-130 transport missions and over 118 rotary-wing reconnaissance, transport, ISR, and pamphlet drops), Sadr City (ISR and

pamphlet drops), Mosul (88 missions including fixed- and rotary-wing transport, ISR, and casualty evacuation), Amarah (five missions, including rotary wing transport and ISR), the Karbala Pilgrimage (71 fixed- and rotor-wing ISR missions), and Diyala (ISR).

The Iraqi Navy has also grown in capacity and capability. It now conducts an average of 42 independent patrols per week in Iraqi territorial waters, with an average of 25 boardings per week. Also, since the conclusion of Basrah operations, the Iraqi Navy has maintained security responsibility, along with the Coalition Forces, for the port of Umm Qasr and for the point-defense of the two offshore oil platforms; the Iraqi Navy and Coalition forces serve side-by-side in a combined operations center on one of the two platforms. Two battalions of Iraqi Marines are now forming, though they are currently manned at 69 percent and are inadequately trained, billeted, and equipped.

(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 in fighting the insurgency;

The NP continues to improve its proficiency and professionalization. As of August 2008, 13 NP battalions were capable of planning, executing, and sustaining operations with limited Coalition support. Eighteen battalions were rated as partially capable of planning, executing, and sustaining operations with Coalition support. One newly formed battalion is currently rated at the lowest level of readiness. Additionally, there are 12 battalions that are authorized but not yet formed. The NP is also continuing its efforts to achieve, through both recruiting and assignments, better ethno-sectarian balance within the force, so that force demographics reflect the Iraqi population.

Most NP forces are based in Baghdad, where they support the Baghdad Operations Command; however, NP forces have conducted more than 15 operational deployments outside of Baghdad, most recently in Mosul and Diyala. This increased effectiveness and deployability marks the beginning of a transition of the NP from a static, Baghdad-centric force to a nation-wide, deployable rapid response force for the GOI.

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

As of August 15, the IPS consists of 299,170 patrol, station, and traffic personnel. The GOI has authorized 333,324 IPS patrol, station, and traffic personnel throughout Iraq. The IPS mission remains unchanged: to enforce the rule of law, safeguard the public, and provide local security. The USG continues to work with the GOI to ensure the appropriate size, capability, and leadership of the IPS so that the IPS can accomplish its mission.

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

Recent operations in Amarah, Sadr City, and Diyala demonstrated the MoD's ability to plan, coordinate, and execute counterinsurgency operations. In Amarah, the MoD and MoI coordinated command and control requirements to assign the 6th NP Brigade under the authority of the 1st IA Division. Additionally, the 38th and 10th Brigades were ordered to move to Amarah and were assigned to the 1st IA Division. In Diyala, the JHQ and the Iraqi Ground Forces Command planned and coordinated the movement and repositioning of four brigades. All four brigades were detached from other ISF divisions, integrated under the command and control of the Diyala Operations Command, and were assigned the mission of security and stability operations.

During recent and ongoing events in Mosul, Sadr City, Amarah, and Diyala, Iraqi forces have demonstrated an improving capability to move units, conduct planning, and exercise command and control during simultaneous operations in various parts of the country. In all operations, the ISF continued to rely on Coalition enablers, including intelligence and close air support. The quality of operational and logistics planning has shown limited improvement, with increasing ability to plan and conduct combined and joint operations with integrated information operations, civil-military operations, and post-conflict reconstruction activity.

V. The criteria to be used to evaluate progress toward meeting such conditions.

The conditions established by the Joint Committee to Transfer Security Responsibility provide a framework with which to assess provincial readiness to transition to PIC. The ability of Coalition forces to reinforce the ISF if necessary, the readiness and capabilities of ISF, levels of present and projected insurgent activity, and the readiness and capabilities of relevant government institutions are considered prior to transitioning a province to Iraqi control. Of the required criteria for PIC, Iraqi security self-reliance is the most difficult to attain and is proceeding at a different pace in each province. Currently, 11 of Iraq's 18 provinces are under PIC with the Qadisiyah and Anbar Provinces' security transfer ceremony performed on July 16 and September 1, respectively. Wasit and Babil Provinces are planned to transition to PIC in the fall of 2008. This will bring the number of provinces for which the GOI has lead security responsibility to 13 of 18 provinces.

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.

In seeking to enhance Iraq's security and stability, the Coalition's four broad areas of emphasis in developing the MoD and MoI are: (1) support the force generation and force replenishment of the security ministries; (2) improve the proficiency of the Iraqi forces; (3) build specific logistics, sustainment, and training capacities; and (4) develop ministerial and institutional capacity.

The four near-term areas of special emphasis through mid-2009 remain unchanged. The first is to ensure that Iraqi forces are mostly self-sufficient in logistics, maintenance, and life support. The second is to ensure that the size, capability, professionalism, and leadership of the ISF enable assumption of additional security roles from Coalition Forces. The third is to enhance the capabilities of Iraqi special operations and counter-terrorist forces, and the fourth is to ensure that the growth of the Iraqi Air Force and Navy remains on track.

The ability of the ISF to support and sustain fielded forces is continuing to improve. Although further progress is needed, the ISF are currently on track to achieve the goal of attaining self-sufficiency by the end of 2008. Specific focus areas for improvement include improving logistic distribution and supply chain

management, supply planning, and acquisition of sustainment stocks. Logistics and sustainment at the strategic and operational level continue to be problematic.

The GOI will decide force levels based on national security requirements and its fiscal capacity to sustain a significantly expanded force structure. The MoI predicts growth to a total force of approximately 400,000 personnel in the IPS, NP and Directorate of Border Enforcement by the end of 2008. The MoD continues to focus on fielding the counterinsurgency force. The planned counterinsurgency force envisions 14 IA divisions (13 infantry, one mechanized) and supporting forces totaling approximately 203,000 to 210,000 personnel; a navy of 2,500 personnel, including two marine battalions; and an air force of 6,000 personnel. Additionally, a 5,400-man Iraqi National Counter-Terrorism Force will contribute to the counterinsurgency effort.

As Coalition forces turn over responsibility for the security of an area to the ISF, the GOI may make new assessments on ISF manning requirements. The GOI assessments consider the following: level of violence in the area; competency of the local ISF to conduct missions with minimal or no Coalition support; leadership challenges, maintenance concerns; and logistical and sustainment challenges.

VII. An assessment of the levels of U.S. Armed Forces required in Iraq for the six-month period following the date of the report, the missions to be undertaken by the Armed Forces in Iraq for such period, and the incremental costs or savings of any proposed changes to such levels or missions.

With the withdrawal of the last surge brigade combat team in July 2008, a period of constant evaluation was initiated to examine the conditions on the ground and, over time, determine when further reductions of Coalition forces are appropriate.

On September 9, the President announced that General Petraeus had just completed a review of the situation in Iraq and together with the Joint Chiefs of Staff had recommended additional force reductions. Over the next several months, about 3,400 combat support forces will return home, including aviation personnel, explosive ordnance teams, combat and construction engineers, military police, and logistical support forces. By November 2008, a Marine battalion that is now serving in Anbar Province will return home. In February 2009, another Army combat brigade will come home. This amounts to about 8,000 additional American troops returning home without replacement. If the progress in Iraq

continues to hold, our military leaders believe additional reductions will be possible in the first half of 2009.

Reduced levels of violence in Iraq have now been sustained for several months. While the progress in Iraq is still fragile and reversible, General Petraeus and Ambassador Crocker report that there now appears to be a "degree of durability" to the gains that have been made. While the insurgency in Iraq is still dangerous, Iraqi forces are becoming increasingly capable of leading and assuming their security.

MNF-I will continue to assess the conditions on the ground so that recommendations can be made for further force adjustments. MNF-I and the U.S. Embassy, in partnership with the GOI, will continue to integrate political, security, economic, and diplomatic efforts to maintain security and transfer responsibility for that security to the ISF.

VIII. A description of the range of conditions that could prompt changes to the levels of U.S. Armed Forces required in Iraq for the six-month period following the date of the report or the missions to be undertaken by the Armed Forces in Iraq for such period, including the status of planning for such changes to the levels or missions of the Armed Forces in Iraq.

U.S. Embassy and MNF-I continuously assess a wide range of factors across the political, diplomatic, security, and economic lines of operation. These factors are viewed collectively in understanding the Iraqi Operational Environment. As such, it is the collective assessment of demonstrated progression along all lines of operation that will lead to future U.S. force adjustments.

On the political front, progress will consist of broad ethno-sectarian reconciliation, the passage and implementation of important legislation, preparations for and implementation of provincial elections, reduction of corruption, and progress in establishing the rule of law and criminal justice institutions and systems accountable to the Iraqi people. The development of ministerial capacity and success in budget execution at both the national and provincial levels are also relevant considerations. Diplomatic metrics include the support of regional states in stemming the flow of foreign fighters and terrorists, international economic support, foreign trade and investment, and foreign diplomatic representation in Iraq.

On the security front, key conditions include: the capabilities and strength of AQI and other extremist groups, the strength and activities of criminal groups, the GOI's capacity to lead and conduct operations against insurgents and criminal groups, the GOI's capacity to secure its borders, and the reintegration of reconcilable individuals and groups into Iraq's political process and society. Finally, relevant economic factors include the status of Iraq's critical infrastructure, sustainable employment opportunities, provision of basic services, integration in the international community, and overall economic growth.

For additional details on ISF training, capability, and progress, please refer to the quarterly report to Congress entitled "Measuring Stability and Security in Iraq," http://www.defenselink.mil/home/features/Iraq_Reports/index.html.

For additional information on reconstruction, assistance, and the delivery of essential services, please refer to 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, available on the Department of State web site, <http://www.state.gov>.

List of Acronyms and Abbreviations

AQI	Al Qaeda in Iraq
BCT	Brigade Combat Team
CBI	Central Bank of Iraq
COMFAR II	Computer Model for Feasibility Analysis II
CoR	Council of Representatives
CSC	Civil Service Corps
DHS	Department of Homeland Security
EU	European Union
FY	Fiscal Year
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GOI	Government of Iraq
IA	Iraqi Army
ICI	International Compact with Iraq
IDP	Internally Displaced Person
IFMIS	Iraq Financial Management Information System
IHEC	Independent High Electoral Commission
IMF	International Monetary Fund
INL	Department of State Bureau for International Narcotics and Law Enforcement Affairs
IOM	International Organization for Migration
IPS	Iraqi Police Service
IRFFI	International Reconstruction Fund Facility for Iraq
ISF	Iraqi Security Forces
ISFF	Iraq Security Force Fund
ISR	Intelligence, Surveillance, and Reconnaissance
IT	Information Technology
JAM	Jaysh al-Mahdi
JCP	Joint Campaign Plan
JHQ	Joint Headquarters
JTERP	Joint Technical Education and Reintegration Program
KRG	Kurdistan Regional Government
MIM	Ministry of Industry and Minerals
MNF-I	Multi-National Force – Iraq
MoD	Ministry of Defense
MoDM	Ministry of Displacement and Migration
MoF	Ministry of Finance

MoI	Ministry of Interior
MoLSA	Ministry of Labor and Social Affairs
MoO	Ministry of Oil
MoP	Ministry of Planning
NATO	North Atlantic Treaty Organization
NIC	National Investment Commission
NP	National Police
NTM-I	NATO Training Mission-Iraq
ORA	Operational Readiness Assessment
PFMAG	Public Finance Management Action Group
PIC	Provincial Iraqi Control
PRT	Provincial Reconstruction Team
SBA	Stand-By Arrangement
SIV	Special Immigrant Visa
SOI	Sons of Iraq
TRA	Transition Readiness Assessment
UAE	United Arab Emirates
UN	United Nations
UNAMI	United Nations Assistance Mission to Iraq
UNCTAD	United Nations Conference on Trade and Development
UNDG	United Nations Development Group
UNHCR	United Nations High Commissioner for Refugees
UNSCR	United Nations Security Council Resolution
USAID	U.S. Agency for International Development
USG	U.S. Government
WTO	World Trade Organization