

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)

April 6, 2007

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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. The report covers the security, political, and economic measures that are being or have been undertaken primarily during the reporting period January 6, 2007-April 5, 2007 (for convenience, referred to here as the First Quarter of 2007).

Following this introduction, 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) conditions necessary for a transfer of security responsibility to Iraqi Security Forces (ISF); (4) ISF capacity and readiness; (5) criteria used to evaluate progress in that area; and (6) our plan for successfully completing the mission.

The focus of United States policy in Iraq remains on helping the Iraqi people to 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 an Iraq that is peaceful, united, stable, democratic, and secure, with institutions capable of providing just governance and security for all Iraqis. These goals will require the integrated efforts of the United States Government, the Government of Iraq (GOI), governments of Coalition states, and the active participation of the United Nations, other international organizations, and regional states. U.S. policy outlines goals and measures progress along three tracks: security, political, and economic. Ultimately, responsibility for success in these efforts lies with the Iraqi people.

Security Track

Iraq remains a central front in the global war on terror. Success or failure in Iraq will affect every nation in the region, as well as the United States and its allies. The President laid out a revised military approach when he addressed the nation on January 10, 2007, and announced the “New Way Forward in Iraq.” As part of the joint U.S.-Iraqi plan, Prime Minister al-Maliki has ordered the deployment of three additional Iraqi Army brigades to Baghdad and has appointed a single, overall commander for Iraqi forces in the city.

The revised Baghdad Security Plan, called by the Iraqis “Operation Imposing the Law” (*Fardh al-Qanun*), divides Baghdad into ten security framework districts with each Iraqi brigade partnered with a U.S. battalion. More than 40 Joint Security Stations will be established to facilitate cooperation between Coalition and Iraqi forces and to build trust and confidence with the local population. On March 1, Iraqi Security Forces assumed command of Operation Imposing the Law. This Iraqi-led effort will clear key districts and, with Coalition support, should provide a 24-hour presence in the city to protect the population from hostile re-infiltration. This represents an important shift away from operating out of forward-operating bases and instead permits a continued presence in the city.

During this reporting period, the United States announced the deployment of 21,500 more military forces in support of the Baghdad plan and to support operations in the Anbar province. Five additional U.S. brigades will augment the Coalition forces already in place. The last of nine additional Iraqi battalions and the second of five U.S. surge brigades are now operating in Baghdad. This buildup will continue throughout the spring, with all forces dedicated to the mission in place by about early June. In addition to this buildup, Defense Secretary Gates announced March 7 his request for approximately 2,400 military support personnel and 2,200 additional U.S. military police to assist with detainee requirements.

The Coalition also is focusing on improving the proficiency of all Iraqi military and police units, primarily through the efforts of embedded transition teams. These teams, composed of 6,000 advisors in more than 480 teams, are embedded at all levels of Iraqi units in all major subordinate commands. As a part of the President’s new strategy, embedded training teams will increase in size and number over the course of the operation.

Political Track

During this reporting period, Iraq’s Council of Representatives (CoR) made some progress on key legislative goals for Iraq. On January 23, the CoR passed legislation to create an Independent High Electoral Commission (IHEC) and on February 27 President Talabani signed it into law. At the end of the reporting period, the CoR was debating the selection process for new commissioners. The CoR voted on January 25 to support the principles of the Baghdad Security Plan. The CoR passed Iraq’s 2007 budget on February 8, and the Presidency Council approved it on February 25.

However, many important challenges remain concerning national reconciliation. Among them are the CoR passage of a set of hydrocarbon laws and a de-Ba'athification reform law. On February 26, the Council of Ministers approved a draft hydrocarbon framework law that now must go before the CoR along with a draft revenue-sharing law and other reforms of Iraq's oil sector. On March 26, Iraqi Prime Minister Nuri al-Maliki and President Jalal Talabani announced their agreement on a draft de-Ba'athification reform law entitled the "Accountability and Reconciliation" law. However, it is not yet clear whether Sunnis support this draft law, which will be key to its passage in the CoR. Consultations are underway with Iraq's Sunni Arab communities, and after further discussions we expect the Iraqi government to send a draft to the Cabinet and CoR for approval.

The issue of increased Iraqi refugees and internally displaced persons (IDPs) moved to the forefront of regional and international attention. Following the February 2006 bombing of the Samarra Mosque, 712,000 Iraqis have been displaced inside Iraq. According to the most recent estimates provided by the United Nations High Commissioner for Refugees (UNHCR), close to 2 million Iraqis are displaced within Iraq with an additional 2 million Iraqis seeking refuge outside Iraq (primarily in Syria and Jordan). Although many Iraqis had been internally displaced or had sought refuge outside Iraq prior to 2003, Iraqi displacement continues unabated. In response, the UNHCR launched a \$60 million appeal on January 9 to fund its work for hundreds of thousands of Iraqi refugees and IDPs. The United States committed to funding \$18 million (30 percent) of this amount. The United States also urged the Governments of Jordan and Syria to assist vulnerable Iraqis who have fled because of the violence. On March 10-16, Assistant Secretary of State for Population, Refugees, and Migration (PRM) Ellen Sauerbrey visited Syria and Jordan to discuss the growing number of Iraqi refugees in the region.

During this quarter, the United States announced an increase in the number of Provincial Reconstruction Teams (PRTs) in Iraq from 10 to 20. PRTs are a key element in the President's new strategy to accelerate Iraq's transition to self-reliance. On February 22, the Departments of State and Defense signed a Memorandum of Agreement that codifies the civilian-military partnership and demonstrates the inter-agency unity of effort. These civilian-military teams will bolster moderates, promote reconciliation, support the counterinsurgency strategy, foster economic development and build provincial government capacity. In March, over 40 new PRT officers, civilian and military, received the first PRT specific training course designed by the inter-agency process. These core teams

will establish ten new PRTs in Baghdad (6), Al Anbar (3) and North Babil (1). The PRT officers arrived in theater in late March. Prior to their departure the officers met with the President and Secretary Rice to discuss their important work. Finally, an inter-agency team, including State, DOD, USAID, Agriculture and Commerce began recruiting specialists to staff the new PRTs and augment existing PRTs, the passing of the 2007 Supplemental permitting. This will more than double the number of PRT officers working in the PRTs, significantly expanding our diplomatic outreach to the provinces.

Politically, Iraq will confront many challenges in the next year: implementing national reconciliation; adopting a hydrocarbon framework law and related legislation; reforming the de-Ba'athification process; completing the constitutional review process; possibly holding a constitutional referendum and a referendum on the status of Kirkuk; and holding provincial elections.

Economic Track

Although the Iraqi economy has enjoyed some modest growth, the GOI still faces economic policy challenges it must address. The GOI must continue the reforms agreed upon in its December 2005 Stand-By Arrangement (SBA) with the International Monetary Fund (IMF), including measures to reduce inflation, phase out fuel subsidies, and improve budget oversight and execution. Prime Minister al-Maliki is supportive of a series of measures to address Iraq's most pressing economic issues, such as developing a modern market economy, improving the efficiency of the oil sector, building capacity to manage the economy, fighting corruption, and improving the investment and business environments.

The Government of Iraq is also working to implement its \$41 billion 2007 budget, particularly its \$10 billion capital budget. A new GOI budget execution task force hosted a March 7 Budget Execution Conference for senior Ministerial and provincial officials to underscore the priority that the GOI is placing on improved budget execution. Moreover, the GOI has formally adopted and expanded its use of the USAID-supported financial management information system (FMIS) by issuing five ministerial orders that will make it the official accounting system-of-record by this summer, which will help track budget execution across the national and provincial governments and will help the GOI prepare its 2008 budget. Further, on February 15, the GOI issued new procurement regulations (developed with the assistance of USAID and Iraq Reconstruction Management Office), which provide for international standards in public procurement and abolish the contradictory regulations left from the old

regime. These new rules offer prospects for improved budget execution at an important time when the GOI has financial resources to spend on reconstruction but is facing increased skepticism from domestic and international audiences over its ability to deliver.

As noted above, Prime Minister al-Maliki's government also has announced its intention to pass hydrocarbon framework legislation by the end of May 2007 that would attract foreign investment as well as international management expertise and technology in the petroleum sector. The Council of Ministers approved a national hydrocarbon framework law on February 26. An oil revenue sharing law is currently being drafted, along with other parts of a reform program for the Ministry of Oil.

Compared to the fourth quarter of 2006, crude oil production declined 12 percent in the first quarter of 2007, while exports decreased 2 percent. Shutdown of the Al-Basrah Oil Terminal to install meters, a long-desired project to help reduce corruption, was the major reason for this decline. Crude oil prices are slightly below the target of \$50 per barrel. Non-oil GDP growth in 2006 was 7.5 percent.

On the monetary front, the Central Bank of Iraq (CBI) took significant steps to combat inflation, including aggressively appreciating the Iraqi dinar against the U.S. dollar and raising interest rates. February 2007 figures showed price declines in some areas, which suggests the policy may have begun to demonstrate the desired effect. A March 18, 2007 CBI press release stated the present monetary policy will continue until inflation is firmly under control.

In addition to these domestic measures, Iraq has turned to the international community for economic support. While the United States remains the largest single contributor, other donors pledged over \$13.5 billion in assistance for Iraqi reconstruction at the Madrid Conference in 2003. As of March 2007, \$3.7 billion of the pledges of non-U.S. assistance have been disbursed. Approximately \$3 billion of these disbursements were from other donor governments, either in bilateral projects or through the World Bank and UN-administered International Reconstruction Fund Facility for Iraq (IRFFI). As of January 31, 2007, \$1.15 billion had been committed to specific projects, and \$669 million had been disbursed through the IRFFI. All of the \$458 million pledged to the World Bank-administered Iraq Trust Fund has been committed, with \$94 million already disbursed. The IMF approved \$436 million in balance-of-payments support in

September 2004 and an additional \$685 million of such support through the SBA in December 2005, although the GOI has not drawn on these funds.

Iraq's creditors also have provided significant debt relief. The U.S. Government has forgiven all Iraqi debt and is encouraging Paris Club and other creditors to go beyond Paris Club terms (at least 80 percent debt relief) as well.

The United States works with other donors to coordinate efforts on assisting Iraq. Among the most important initiatives in this area is the International Compact with Iraq (ICI), launched by the Iraqi government and the United Nations on July 27, 2006. The Compact will provide a new framework for mutual policy commitments between Iraq and the international community, including Iraq's neighbors. The international community, the UN, and the GOI met in New York March 16 to close the draft text of the ICI and to seek commitments from partners on how they will support the goals of the ICI.

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

In fulfillment of the Multinational Forces-Iraq (MNF-I) mandate under United Nations Security Council Resolution (UNSCR) 1546, as extended most recently on November 28, 2006, by UNSCR 1723, through December 31, 2007, MNF-I, in partnership with the Iraqi government, conducts full-spectrum counter-insurgency operations with the goal of isolating and neutralizing the enemy. MNF-I also helps the Iraqi government organize, train, and equip the Iraqi Security Forces (ISF) in order to create and maintain a security environment that will help advance Iraq's political and economic development.

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

In his January 10 address to the American people on the New Way Forward in Iraq, President Bush mentioned a number of goals toward which the Government of Iraq is working and for which the United States is providing assistance. These goals include providing security for the Iraqi people, moving toward national reconciliation, fulfilling constitutional commitments, and building a vibrant Iraqi economy. The government is working to reform its de-

Ba'thification laws and is considering possible constitutional amendments. Iraqis also may hold provincial elections later this year and aim to elect more representative local leaders. The United States is committed to helping Iraq meet these goals.

U.S. Mission Baghdad has taken a number of diplomatic steps to engage Iraq's main communities to reach political settlements. Former Ambassador to Iraq Zalmay Khalilzad engaged all segments of the Iraqi community and traveled in the region to promote reconciliation. In the first quarter of 2007, Prime Minister al-Maliki and his government initiated attempts to improve Iraq's national reconciliation efforts, and Iraq's political process showed some further signs of maturation. However, meaningful reconciliation has not yet been achieved; slow political progress, sectarian concerns within GOI ministries and elements of the security forces, and GOI failure to follow through with resource commitments continue to impede progress.

A major element of the national reconciliation effort, de-Ba'thification reform, was the subject of considerable debate among Iraqis during this reporting period. On March 26, Iraqi Prime Minister al-Maliki and President Talabani reached agreement on a draft "Accountability and Reconciliation" law. However, it is not yet clear whether Sunnis support this draft law, which will be key to its passage in the CoR. Further discussions are expected to continue in the second quarter of 2007. This legislation could give thousands of former Ba'thists the option of returning to their former government jobs or drawing a pension for past government employment.

The Constitutional Review Committee (CRC), whose role is to implement the review of the constitution and provide amendment recommendations to the CoR, continued its work during the CoR's abbreviated February recess and is considering constitutional amendment proposals. The CRC is scheduled to submit proposed amendments to the CoR by May 15. Both reform of the de-Ba'thification law and review of the constitution are important to Sunni Arab engagement in the reconciliation process. As noted in last quarter's report, three of the four planned national reconciliation conferences have been held. The final conference, of religious leaders, has not yet been scheduled.

There was progress on important legislative issues during this reporting period. On January 23, the CoR passed the law establishing the IHEC, which replaces the Independent Electoral Commission of Iraq (IECI) and on February 27 President Talabani signed it into law. The CoR must now appoint commission

members and pass legislation that will set a date for the provincial elections. On January 24, the CoR passed the Military Court Procedures Law, the first of two laws required to establish a criminal justice system for the Iraqi military, which will include due process protections and judicial review. The Law of Governorates not Part of a Region (Provincial Powers Law), which would regulate the structure and power of individual governorates and define how officials would be elected, had its second of three readings before the CoR on February 7. Following weeks of deliberations, the CoR passed Iraq's 2008 budget on February 8.

To address the security situation in Baghdad, which the Iraqi and U.S. Governments both believe is critical to providing the breathing space necessary for political progress and to building trust in the Iraqi government, the two governments in January launched a new Baghdad security plan, Operation Imposing the Law (*Fardh al-Qanun*). As a part of this plan, Iraqi and Coalition forces are clearing and securing neighborhoods, trying to protect the local population, and aiming to ensure that the Iraqi forces left behind are capable of providing the security and essential services that Baghdad needs. With this new plan, the objective is that daily life will improve, Iraqis will gain confidence in their leaders, and the government security forces will be able to address other key areas of the city, such that reducing the violence in Baghdad will help to make reconciliation possible. Prime Minister al-Maliki urged politicians not to interfere in the plan, and he stated that Baghdad would not offer a safe haven for outlaws, regardless of their political or ethnic affiliations.

The CoR endorsed the new phase of the Baghdad Security Plan on January 25, and the Prime Minister has pledged that there will no longer be any political interference in military operations. On March 11-14, Iraqi Vice President Adil Abd al-Mahdi visited Washington and met with the President and other U.S. officials. In his meetings with President Bush, Vice President Cheney, Secretary of State Rice, Secretary of Defense Gates, and Deputy Secretary of the Treasury Kimmitt, Vice President Abd al-Mahdi expressed optimism about the implementation of Operation Imposing the Law.

(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 government continued to work with the international community to promote security, economic growth, and political progress in Iraq. At present, in addition to the United States, 25 countries provide

a total of 13,500 troops to MNF-I, with the United Kingdom, Poland, the Republic of Korea, and Australia among the major contributors. Eight countries that are not part of MNF-I contribute forces to the NATO training team. One country contributes to United Nations Assistance Mission for Iraq. On February 21, British Prime Minister Tony Blair announced that Britain will reduce its troop levels in Iraq by 1,600 in the coming months. However, British troops will remain in Iraq through 2008. Denmark will withdraw its troop contingent in August; however, they will continue to support Iraqi forces with surveillance helicopters and civilian advisors. Bulgaria will extend its troop presence in Iraq until the end of the year, and Australia has committed to sending 70 additional trainers to assist the Iraqi army and police forces. Georgia is expected to send additional troops.

To improve Iraq's economic outlook, international partners continued preparatory work on the International Compact with Iraq (ICI), in addition to other initiatives during this period. The international community, the UN, and the GOI (led by Vice President Adil Abd al-Mahdi during his visit to the United States) met in New York March 16 to close the draft text of the ICI and to seek commitments from partners on how they will support the goals of the ICI. Other developments included the restoration of Iraq-Syrian relations for the first time in twenty-five years and an Iraq-Iran meeting in Tehran in November.

Regional states increased their involvement in Iraq, hoping to find a solution to reducing sectarian violence. On January 14, President Jalal Talabani became the first Iraqi head of state to visit Syria in nearly three decades. On March 3, Iranian President Mahmud Ahmadinejad met with Saudi King Abdullah to discuss ways to quell sectarian violence in Iraq. In addition, Iraq hosted a sub-ministerial meeting on March 10 in Baghdad, the first such international gathering in Iraq since 1990. This Neighbors Conference included all neighboring states, permanent members of the UN Security Council, Egypt, Bahrain, and representatives from the Arab League, OIC, and UN. Iraq is planning to convene a comparable gathering at the ministerial level in the near future.

The Arab League's involvement in Iraq experienced a setback with the resignation of their chief of mission in Baghdad, Mukhtar Lamani, but the Arab League said it is determined to maintain its presence in Iraq; a chargé remains in Baghdad, and a new ambassador will be named soon. An Arab League representative attended the March 10 subministerial in Baghdad. An Arab League summit took place in Riyadh on March 28 and 29, with much of the focus on stabilizing Iraq and reducing sectarian tensions in the region.

Multilateral and bilateral engagement on strengthening the Iraqi economy also increased during this reporting period. Japan announced additional funding to Iraq through a number of United Nations agencies – a total of \$104.5 million to the UN Development Program, the UN Children’s Fund, the Office of the UN High Commissioner for Refugees (UNHCR), the International Organization for Migration (IOM), the World Food Program, and the World Health Organization. The International Reconstruction Fund Facility for Iraq (IRFFI) held its Fifth Meeting in Istanbul, Turkey, on March 19-20. An important result was the strengthening of the Iraqi government role in UN agency policy-making and operations in Iraq and the designation of Iraq as a co-chair with Italy of the IRFFI Donor Committee.

On February 4, USAID hosted a U.S.-Iraqi microfinance partners’ working meeting in Amman with discussions focused on the implementation of the Iraq National Microfinance Strategy. Additionally, Iraq will hold its first international trade exhibit since before the start of the war, March 24-26 in Manama, Bahrain. The World Bank pledged to deliver a \$500 million loan to Iraq to improve the economic situation, and it pledged to support the Iraqi energy sector as soon as the GOI allows international investment in oil resources.

UNHCR committed to increasing its support for Iraqi refugees and to sending more workers to the region. Iraq’s Ministry of Displacement and Migration reported that the IDP population has risen markedly (and continues to rise) following the Al-Askariyya Mosque bombing in February 2006. IOM reported on January 30, 2007, that more than 300,000 Iraqis were displaced in 2006, more than the total from 2003-2005. In response to this growing crisis, the United Nations, U.S. Government, and others in the international community are working to protect displaced Iraqis and resettle the growing Iraqi refugee communities. On March 10-16, Assistant Secretary of State for Population, Refugees, and Migration Ellen Sauerbrey visited Syria and Jordan to discuss the growing number of Iraqi refugees in the region. In Syria, A/S Sauerbrey met with Syrian Deputy Foreign Minister Faisal Mikdad to discuss the humanitarian needs of Iraqi refugees. A/S Sauerbrey asked the Syrians to continue to allow Iraqi refugees to enter, remain, and access services in Syria. The Syrians agreed to continue to meet their obligations towards Iraqi refugees and expressed their preference to work through UN agencies to provide assistance to Iraqis. A/S Sauerbrey also held constructive discussions with Jordanian authorities.

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

The United States is pursuing several initiatives to improve the capacity of Iraq's ministries, both in Baghdad and at the local level. A number of projects using the Iraq Relief and Reconstruction Fund (IRRF) will have an ongoing impact on building capacity, such as assisting the Ministry of Finance to prepare and implement banking and financial reforms; assisting the Ministry of Labor and Social Affairs to develop a social safety net and a viable pension system; providing assistance to the Ministry of Agriculture in the development of a national water strategy; improving the institutional capacity of the Ministry of Health to deliver care and fight disease; and developing an Education Management Information System for the Ministry of Education to improve management of human and physical resources.

The Embassy is also implementing a broad program to improve the capacity of key ministries to carry out core functions, such as strategic planning, budgeting, training, and managing a personnel system. The National Capacity Development Program (NCDP) and other targeted bilateral assistance programs are helping the Iraqi government to strengthen the core functions necessary for the efficient administration of its key national ministries, the Prime Minister's Office, inspectors general of the participating ministries, and anti-corruption organizations such as the Commission on Public Integrity and the Board of Supreme Audit. The program is organized into two phases to enable rapid response to short-term priorities while concurrently building the foundation for long-term needs. Ministry Advisory Teams, composed of experts from the U.S. Mission, Iraqis, and other international donors, provide policy and programmatic advice and work jointly with the ministries to develop and address ministry priorities. The longer-term NCDP track focuses on increasing the training capacity of the national public administration centers, as well as on a long-term, cross-ministry training program in core functions—financial management, human resources, strategic planning, leadership, and communications. The first training sessions on budget and procurement have already taken place and were well received by the Iraqi participants from the Ministries of Oil, Water Resources, Electricity, Planning and Development Cooperation, as well as from the national training center.

U.S. Government officials in Iraq work closely with the U.S. military to ensure that U.S. development funds are directed to projects that are coordinated and meet the real needs of Iraqi communities. Although the military maintains authority over the use of Commanders Emergency Response Program (CERP)

funds, the U.S. Government shares information and provides development expertise to help guide CERP spending.

In order to coordinate U.S. Government and U.S. Military efforts across an entire city or province, Provincial Reconstruction Teams (PRTs) bring together State Department Team Leaders, military officers, USAID development advisors, and other civilian agency representatives who then coordinate with Iraqi local and provincial officials. PRTs help to prioritize project ideas proposed by Iraqi community leaders and match them with an appropriate source of funds to ensure that projects are sustainable.

USAID and the U.S. military also have collaborated on the expansion of microfinance institutions in Iraq through the strategic use of CERP funds over the past two years. Approximately, \$450,000 of CERP funding has been used to pay for operational expenses for several microfinance offices in cities across Iraq, including Baghdad, Fallujah, and Kirkuk. These funds paid for office space, furniture, equipment, and salaries for loan officers and supervisors. Since CERP cannot be used to directly support private businesses, USAID has contributed approximately \$750,000 in loan capital to these microfinance institutions, which is currently being provided to small businesses in these cities. USAID has supported these organizations with essential technical assistance and staff training. This partnership between USAID and the U.S. military is likely to continue since the expansion of microfinance services in Iraq has been identified as a strategic priority of the U.S. Government to promote economic development in Iraq.

Additionally, the Agricultural Reconstruction and Development Program for Iraq (ARDI), a primary mechanism for interfacing with the U.S. military, enhanced the Civil Affairs Officers' understanding of best practices in agriculture and enabled the U.S. military to form partnerships with several NGOs working with the USAID ARDI project. CERP funding to these NGOs strengthened the operational capacity of these organizations and thus contributed to their financial sustainability, while at the same time assisting the military achieve some significant results in agriculture around the country.

Capacity building efforts for the Ministries of Defense and Interior are led by the DoD and are addressed in Section IV (D).

(D) Accelerating the delivery of basic services;

Over the past three years, U.S. assistance programs have helped to build or refurbish the basic infrastructure supporting the delivery of basic services. However, the focus of U.S. assistance now has shifted away from reconstruction toward technical assistance and building the capacity of the Iraqi Government to deliver basic services. For example, in the electricity sector, U.S. Government programs are training Ministry of Electricity personnel in the operation and maintenance of power stations and in system planning.

The embassy is implementing a \$180 million program to continue sustainable efforts in the electricity and water sectors and provide support to additional sectors to help Iraq maintain its infrastructure. Of the \$180 million, \$110 million is in the water sector, \$61 million is in the electricity sector, and \$9 million is in the additional areas of communications, transportation, and health. These programs are having a significant impact revitalizing infrastructure. The challenge remains maintaining the plants, which will make it possible to improve the levels of service offered to the average Iraqi. The Embassy is augmenting this program with \$355 million from the FY 2006 Supplemental to continue both sustainment and capacity development efforts at plant-level facilities.

Insurgent attacks continue to hinder reconstruction and drive up reconstruction costs, both in terms of financial costs and human resources. Protection of oil pipelines and electrical power transmission lines has proven especially difficult because they are stationary targets spread over a wide area. Targeted attacks on Iraq's infrastructure, as well as dramatic increases in the demand for electricity and fuel driven by subsidized prices, also have contributed to the challenges of increasing hours of available electricity. Moreover, progress in the oil and electricity sectors has been slowed by decades of mismanagement, corruption, decay, dilapidated and insufficient infrastructure, and poor maintenance. Despite these and other challenges, the U.S. Government, in cooperation with the Iraqi government, has rehabilitated water and sewage services.

The Government of Iraq's target crude oil production is 2.1 million barrels per day (mbpd), and the export target is 1.7 mbpd. The budget assumes a \$50 per barrel price. Compared to the fourth quarter, crude oil production for the first quarter decreased another 12 percent to 1.92 mbpd while crude oil exports increased by 2 percent to 1.50 mbpd. Production declined due to the shutdown of the Al-Basrah Oil Terminal for the installation of meters, a management

improvement and anti-corruption tool long sought by the United States. Exports remained strong due to a relatively mild storm season, even with the temporary shutdown of the terminal.

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

The International Compact with Iraq (ICI) should help to enhance the effectiveness and increase the impact of donor assistance. The Compact should help broaden the base of international support and interest in Iraq's reconstruction, including from Iraq's neighbors. The Compact will not replace the IRFFI, but rather the IRFFI will serve as one channel through which donors can provide assistance to Iraq through the Compact. Finally, the Compact aims to attract increasing amounts of private capital into Iraq. International private businesses and investors can ultimately have a greater impact on Iraq's economic future than official assistance to the GOI. Iraq's commitments under the ICI to basic economic reforms and good governance will be particularly important to its economic success over the long term.

At the October 2003 Madrid International Donors' Conference, partners other than the United States pledged over \$13.5 billion in assistance. This included \$8 billion in assistance from foreign governments and up to \$5.5 billion in financing arrangements from the World Bank and International Monetary Fund (IMF) to be disbursed over four years (2004-2007). Since Madrid, donors have pledged an additional \$514 million to support Iraq's reconstruction and development. There are currently 131 IRFFI projects (116 UN, 15 World Bank) in various stages of completion in the water, electricity, education, health, and other sectors. The most recent data available shows that, of the more than \$1.1 billion in the UN-administered Iraq Trust Fund, \$704 million has been committed to specific projects and \$599 million has been disbursed. All of the \$458 million pledged to the World Bank Iraq Trust Fund has been committed to specific projects, over \$183 million in contracts has been awarded, and \$94 million has been disbursed.

The IMF approved \$436 million in balance-of-payments support through its Emergency Post-Conflict Assistance program in September 2004. It approved a \$685 million in balance-of-payments support as part of its Stand-By Arrangement (SBA) for Iraq in December 2005, although Iraq has not asked for any disbursements thus far under the SBA. The Iraqi government is to set the priorities for reconstruction and assistance programs and to coordinate annual budgets with the IMF in order to meet agreed upon targets in the SBA. The United States and

other donors work closely with the Iraqi government and with each other to ensure that the projects and programs are not duplicative and that they are integrated with the Iraqi government's development planning. In July 2005, the Iraqi government set up a Baghdad Coordination Group consisting of United States and other donor representatives to improve further donor coordination.

Reduction of Iraq's external debt burden to sustainable levels, another top priority for Iraq's economic development, is a key component of U.S. donor coordination. Although little specific progress was made in the reporting quarter, overall Iraq has achieved significant progress on debt relief and continues to seek further debt reduction. To date, sovereign and commercial creditors reached debt relief agreements with Iraq that will eventually reduce Iraq's foreign debt by more than \$50 billion, or about 40 percent of Iraq's estimated \$125 billion in external debt. In November 2004, the Paris Club group of creditors agreed to forgive, in three tranches (two of which have been carried out), 80 percent of the approximately \$40 billion in Iraqi debt held by its members. As of March 2007, 17 out of 18 Paris Club members have now signed bilateral debt agreements with Iraq, which, if fully implemented, will provide at least an 80 percent reduction in \$37 billion of Iraqi debt. Russia, the only Paris Club member that has not yet signed a bilateral agreement with Iraq and whose debt claim is over \$5 billion, has reiterated its intention to write off 80 percent of Iraq's Saddam-era debts. The Russian-Iraq bilateral agreement has been written but not signed. The United States itself went beyond Paris Club terms and has forgiven 100 percent of the \$4.1 billion in U.S.-held Iraqi debt.

Progress with official non-Paris Club creditors remains slow; however, Iraq is reaching out to its other creditor countries, including the Persian Gulf states. The largest non-Paris Club creditors are Saudi Arabia and Kuwait, which hold an estimated \$45 billion in claims. During a recent meeting between the governments of Iraq and Saudi Arabia, the Saudis indicated a willingness to continue debt forgiveness discussions and, ultimately, to reduce debt by Paris Club levels. The United States continues to encourage all non-Paris Club creditors to provide debt reduction to Iraq on terms at least comparable to those offered by the Paris Club. With regard to commercial debt, three cash offers to small creditors and debt exchange offers to large creditors resulted in resolution of over 10,000 claims worth more than \$19.7 billion, with 96 percent (by value) of those creditors that received offers having accepted.

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

(bilateral or multilateral aid), as well as to disburse existing pledges committed to Madrid in 2003. The United States is in regular high-level and working-level contact with current and prospective international donors. In mid-2006 the World Bank opened an office in Iraq, to be headed by a Country Director, whom the World Bank is expected to name soon.

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

The Ministry of Defense (MOD) and Ministry of Interior (MOI) security forces continue to increase in size and capability and are increasingly taking over lead combat responsibility from Coalition forces. MNF-I continues to support and assist the ISF as they move toward conducting fully independent operations and self-reliance.

By the end of 2006, the United States and its Coalition partners met their force generation targets, while continuing their efforts to expand the size and capability of the ISF to meet emergent requirements. As of March 19, 2007, approximately 340,000 forces, including replenishments, have been trained. The actual number of present-for-duty soldiers is less than the total number of personnel trained due to scheduled leave, absence without leave, and attrition. The police also have experienced significant attrition of personnel who have received Coalition training. To offset this, provincial and local governments have hired additional police outside the train-and-equip program. Both the MOD and the MOI have assumed control of most force generation tasks and have developed a plan to continue routine replenishment of the force.

The majority of Iraqi police academies are now under Iraqi control. At the end of February, the Jordan International Police Training Center graduated its final class of Iraqi Police cadets from the basic training syllabus. Police training responsibilities are primarily conducted by Iraqi instructors in police training centers in Iraq. To assist the continued development of the Iraqi Police Service, over 200 Police Transition Teams (PTT) are deployed to 10 provincial, 44 district, and 149 local police stations. Each team has approximately 11-15 members of which 3-4 are International Police Liaison Officers hired as contractors by the Department of State. To conduct their missions, PTTs travel to stations to coach the Iraqi police and to conduct joint patrols with them. These joint PTT/Iraqi Police Service patrols promote active community policing and work to improve the reputation of the police among the Iraqi people.

Thirty-nine National Police Transition Teams (NPTTs) now support the development of National Police units by mentoring, training, and facilitating communication with Coalition forces. NPTTs assess the readiness and operational capability of the National Police, similar to the tasks performed by Military Transition Teams with Iraqi Army units.

Iraqis have fully staffed the Objective Counter-Insurgency and Civil Security Forces. The GOI, with Coalition support, is now executing several staffing initiatives to replenish the force to allow units to be temporarily relieved to refit and retrain and to increase present-for-duty levels in combat units. These initiatives will add more than 60,000 personnel to the ISF during 2007. MNF-I estimates that the MOI will require 32,000 new police annually to replenish the ranks. Training bases are established to achieve these replenishment goals.

As part of the process of transferring security responsibility, an Iraqi unit assumes the lead once it has been determined to have sufficient capability to plan and execute combat operations. As of March 19, 2007, 8 Iraqi Division Headquarters, 31 Iraqi Brigade Headquarters, and 94 Iraqi Army (IA) battalions had assumed the lead for counter-insurgency operations within their assigned areas of operations, and Iraqi Ground Forces Command (IGFC) had assumed command and control of 8 of 10 IA divisions. Two of the Iraqi divisions, the 6th and the 9th, are under the control of the Baghdad Operations Command. The 5th and 7th IA divisions remain under MNF-I operational control and remain on track for transition to Iraqi control by the summer of 2007. Although these units lead security in their respective areas of operations, most still require substantial logistics and sustainment support from Coalition forces.

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.

Following President Bush's January 10 speech on the New Way Forward, the Government of Iraq renewed its efforts to build consensus across ethnic and religious party lines and secured sustainable political settlements on a number of key issues. The Council of Representatives (CoR) voted on January 25 to support the principles of the new security plan, Operation Imposing the Law, which adopts an explicitly non-sectarian approach to security. The Prime Minister announced the new operation on February 13, stating that "the Baghdad security plan will not offer a safe shelter for outlaws, regardless of their ethnic and political affiliations,

and we will punish anyone who hesitates to implement orders because of his ethnic and political background.”

On February 8, the CoR passed the 2007 budget by an overwhelming majority. The \$41.1 billion budget enjoyed support from political representatives of all communities in Iraq. This budget, over \$10 billion of which is dedicated to reconstruction and capital investment, promotes both short-term economic activity and sustainable economic progress. Iraq’s Presidency Council approved the budget February 25. Following passage of the budget law, key Iraqi Ministries coordinated to complete the guidelines and regulations to implement the law and then gathered senior provincial and Ministerial officials into a March 7 Budget Execution Conference to stress proper and on-time execution of the 2007 budget.

Iraq’s Council of Ministers approved a national hydrocarbon framework law on February 26. The hydrocarbon law: (1) reaffirms that oil and gas resources are owned by all the people of Iraq; (2) establishes a framework and processes for federal-regional cooperation; (3) creates a principal policymaking body for energy—the Federal Council on Oil and Gas—that will have representatives from all of Iraq’s regions and oil-producing provinces; (4) ensures that all revenue from oil sales will go into a single national account and that provinces will receive direct shares of revenue, thereby significantly increasing local control of financial resources; and (5) establishes international standards for transparency and mandates public disclosure of contracts and associated revenue and payments.

A major element of the national reconciliation effort, de-Ba’thification reform, was the subject of considerable debate among Iraqis during this reporting period. On March 26, Iraqi Prime Minister al-Maliki and President Talabani reached agreement on a draft “Accountability and Reconciliation” law. However, it is not yet clear whether Sunnis support this draft law, which will be key to its passage in the CoR. Further discussions are expected to continue in the second quarter of 2007. This legislation could give thousands of former Ba’thists the option of returning to their former government jobs or drawing a pension for past government employment.

Despite rising sectarian violence, there have been signs that some Iraqis are continuing attempts to make compromises towards a sustainable political settlement and defeating insurgents. Additionally, some Sunni governors in heavily populated Sunni areas in Iraq have recently begun to speak out against Al-Qaida and have begun implementing plans to rid Al-Qaida from their regions. However, insurgents continue to develop new tactics to undermine the work the

Government of Iraq and the Coalition are trying to complete. For example, a report in mid-March revealed that insurgents used children as suicide bombers to get past security checkpoints. Additionally, during this reporting period a number of chemical bombs infused with chlorine were used by terrorists to cause terror and physical injury among innocent Iraqis.

Most Iraqi officials agree that the insurgency cannot be defeated by military means alone and that a political solution is essential. Questions remain about the commitment of some members of the government to genuine reconciliation. Some Iraqis would prefer to see the present conflict continue until the other side concedes defeat, a perspective that most Iraqi government officials, as well as the U.S. Government and most outside observers, would say is entirely counter-productive.

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

The transfer of security responsibility from Coalition forces to the GOI reflects Iraq's ability to protect its citizens and safeguard its territory. As Iraqis take on more responsibility for security, Coalition forces move into supporting roles, while maintaining sufficient forces on the ground to help Iraq consolidate and secure its gains. The Joint Committee to Transfer Security Responsibility (JCTSR) has developed assessment criteria to guide the Provincial Iraqi Control (PIC) transfer recommendations to include: threat assessment, ISF readiness, local governance capability, and MNF-I ability to respond quickly to major threats. The appropriate Multi-National Force division commander and provincial governor, assisted by representatives of the Iraqi Ministries of Interior and Defense and U.S. and United Kingdom Embassies, conduct monthly assessments of provinces and provincial capitals. Once a decision is made to transfer security responsibilities, the JCTSR provides transition directives, develops a public affairs plan, and arranges a post-transfer security agreement between MNF-I and provincial governors.

Three of Iraq's 18 provinces have transferred security responsibilities to Iraqi civilian control: Najaf, Muthanna, and Dhi Qar. Events in January 2007 in Najaf showed the post-transfer security concept in action. When the local Najaf police were unexpectedly fired upon by unknown sources, they assessed the situation to be beyond their immediate capacity to control. The provincial governor then requested assistance from the Iraqi National Command Center (NCC), which alerted and deployed additional units from outside the province. Once those units arrived, an additional call for support was sent. The NCC requested helicopter and airplane support from Coalition forces, which also sent a Quick Reaction Force to assist. The violence was ended and authority restored to the provincial government.

The transfer of security for Dahuk, Irbil, and Sulaymaniyah to the Kurdistan Regional Government will be complete upon resolution of defense budgetary concerns with the GOI. These three provinces and three others, Qadisiyah, Maysan, and Ninewa, are expected to transition to PIC by the spring of 2007. The remaining provinces are expected to achieve PIC in 2007 except for Anbar, which is projected to transfer to PIC in early 2008.

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;

As of March 19, 2007, there were 119 Iraqi Army combat battalions fighting alongside Coalition troops. There are two functioning Special Operations Battalions, both conducting operations. Of the 17 planned Strategic Infrastructure Battalions, 14 are assessed as conducting operations at various levels. Of the 119 Iraqi Army combat battalions conducting operations, 94 have accepted the lead in counter-insurgency operations in their areas of responsibility. On March 1, the 6th and 9th Iraqi Army Divisions transferred operational control to the IGFC, which were further delegated to the Baghdad Operations Command, resulting in eight of 10 army divisions under Iraqi control.

The Iraqi MOD forces consist of the Joint Headquarters, the IGFC, the Iraqi Special Operations Forces, the Iraqi Army, the Iraqi Air Force, and the Iraqi Navy (including Marines). The Iraqi military has an authorized strength of approximately 175,000 personnel. The Iraqi military is centered on an army with

nine infantry divisions, one mechanized infantry division, and associated combat support units. Two additional infantry divisions are in development as part of Prime Minister al-Maliki's Expansion Plan.

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

The National Police is a bridging force between the local police and the Iraqi Army, allowing the Minister of Interior to project police capabilities across provinces. The National Police is also charged with maintaining law and order while an effective community police force is developed. Until October 2006, the National Police was trained and served primarily in a paramilitary role and had received little traditional police training. The Multi-National Security and Transition Command Iraq (MNSTC-I) is implementing a National Police Transformation and Retraining Program to reorient it toward police functions.

As of March 19, 2007, 25,400 members of the National Police have completed entry-level training, meeting the GOI's force-generation goal. The Prime Minister's ISF expansion plan will increase the authorized strength of the National Police to 26,900.

Additionally, 27 National Police battalions are operational, with 6 of the 27 leading operations. Currently, all but one of the National Police brigades not enrolled in the National Police Transformation and Retraining program are conducting counter-insurgency operations to support the Baghdad Security Plan. One battalion has been designated as part of the prime minister's operational reserve, and an additional (10th) National Police brigade has been requested by the Prime Minister to provide security to the Samarra Shrine reconstruction project.

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

MOI forces consist of the Iraqi Police Service, the National Police, the Directorate of Border Enforcement, and other, smaller forces. MNSTC-I has completed its initial training and equipping goal for the Objective Civil Security Force (OCSF) of 188,300 MOI security forces and is in the process of expanding the MOI forces to over 194,000. Although the MOI is implementing an automated personnel management system, there are currently no reliable data to indicate how many of the OCSF are still serving with the MOI. Additionally, the MOI has hired

a significant number of police to be trained by the Coalition. MNSTC-I estimates attrition for the MOI as approximately 20 percent per year, with the Iraqi Police Service and the National Police attrition remaining higher than the Directorate of Border Enforcement and other personnel due to the variance of risks in the duties.

The Iraqi Police Service is composed of patrol, traffic, station, and highway police, as well as specialists such as forensic specialists assigned throughout Iraq's 18 provinces. Its mission is to enforce the law, safeguard the public, and provide internal security at the local level. The Iraqi Police Service constitutes the majority of MOI forces, though the Government of Iraq's recent decision to consolidate the Facilities Protection Service (FPS) under MOI control will add tens of thousands of personnel.

The Civilian Police Advisory Training Team (CPATT) has met the nationwide OCSF goal of training 135,000 Iraqi Police Service personnel. However, distribution of that 135,000 has not been according to original program goals, leaving some provinces with more than their programmed allocation and some with less. Basic training continues in those provinces that are still working to meet their individual requirements. CPATT is working with the MOI to build institutional capacity and to identify annual requirements for force sustainability, or reconciling anticipated annual requirements with institutional capacity.

To meet local needs and dynamic requirements, the MOI authorized provincial governors to hire additional Iraqi Police Service officers, but the MOI and the governors are responsible for the additional officers' equipment and training. Every province except Anbar has more personnel than authorized. Many of these additional police are put on the job with minimal or no training. As the Coalition transfers the institutional training base to MOI control, training of these additional local police will continue.

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

The most significant shortcoming in both MOD and MOI forces' capabilities is in meeting ISF logistics and sustainment requirements. Factors underlying this deficiency include inadequate levels of sustainment stocks and limited capacity of both security ministries to execute the planning and acquisition sustainment cycle. DoD is addressing these challenges to reduce Iraqi reliance on U.S. support. For example, the 13th Sustainment Command (Expeditionary) is partnered with Iraqi

logistics units to assist in the development of Iraqi Army divisional support capabilities. Embedded civilian advisors are assisting senior MOD and MOI officials in developing their capacity to organize, train, equip, sustain, and upgrade their forces.

MOD logistics and sustainment is still a relatively immature system that requires significant Coalition assistance, especially in depot operations and transportation. Development and implementation of MOD strategic logistics policy is particularly immature. The Iraqi Army has been slow to support sustainment, and there is limited indigenous capability and capacity to replace battle-damaged equipment. MNSTC-I has oversight of approximately 60 transition teams (of the 480 total teams for the MOD and the MOI) assigned to assist in logistics and sustainment issues.

Thirty-nine NPTTs now support the development of National Police units by mentoring, training, and facilitating communication with Coalition forces. NPTTs assess the readiness and operational capability of the National Police, similar to the tasks performed by Military Transition Teams with Iraqi Army units.

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

Security transition can only occur after four criteria are met:

- **Implementation of Partnerships**—MNF-I and its Major Subordinate Commands must establish and maintain partnerships across the entire spectrum of Iraqi Security Forces units, from battalion to ministerial level;
- **Achievement of Iraqi Army Lead (IAL)**—Process during which Iraqi Army units progress through stages of capability from unit formation to the ability to conduct counter-insurgency operations;
- **Attainment of Provincial Iraqi Control (PIC)**—Iraqi civil authorities satisfy the conditions required to assume control and exercise responsibility for the security of their respective provinces. This is achieved by attaining the previously mentioned four criteria: the ability of Coalition forces to reinforce the ISF if necessary; readiness and capabilities of ISF; levels of present and projected

insurgent activity; and the readiness and capabilities of relevant government institutions;

• **Iraqi Security Self-Reliance**—The Iraqi government achieves PIC (or a combination of PIC and IAL) throughout Iraq; and the government, through its security ministries, is capable of planning, conducting, and sustaining security operations and forces. The four criteria—implementation of partnership, IAL, PIC, and Iraqi Security Self-Reliance—are proceeding at a different pace in each province. That is, some provinces will have achieved full Iraqi Security Self-Reliance while others are working to achieve an Iraqi Army Lead.

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

The New Way Forward in Iraq focuses on security where violence is highest—in Baghdad and Anbar. While the overarching strategic goals remain unchanged, securing the population will assume a top priority to help set conditions for political and economic progress. The additional Iraqi and Coalition forces will permit the military commanders an enhanced ability to hold previously cleared neighborhoods. Prime Minister al-Maliki has established a Baghdad Security Command with 10 Security Framework Districts, with an Iraqi brigade, partnered with a U.S. battalion, permanently located in each. More than 40 Joint Security Stations will be established to facilitate cooperation between Coalition and Iraqi forces and to build trust and confidence with the local population. In Anbar, over 4,000 additional U.S. Marines are available to provide military commanders the ability to retain momentum with recent operational gains against AQI networks. Throughout Iraq, our embedded teams advising Iraq units are being substantially increased in size to improve ISF operational capabilities more rapidly. As security improves, economic reconstruction programs enabled by Iraqi and Coalition funding and expanded Provincial Reconstruction Teams will move in to assist with basic services and improving economic opportunities for Iraqi citizens.

In January 2007, Prime Minister al-Maliki announced that the ISF would renew their efforts to secure Baghdad from insurgents and militias. Demonstrating support for the Prime Minister's efforts, the CoR voted to support the principles of his security plan on January 25, 2007. This newfound GOI willingness to challenge the militias, and the announcement that the ISF would pursue all illegally

armed groups regardless of affiliation, is a positive development—although ultimate success will require sustained and consistent commitments to action and even-handed application of the rule of law by all Iraqi leaders.

In addition to the above descriptions of the plan for meeting conditions, please refer to the National Strategy for Victory in Iraq at www.whitehouse.gov and the Report to Congress, “Measuring Stability and Security in Iraq,” March 2, 2007, at <http://www.defenselink.mil/>, pages 22-24.

For additional details on Iraqi Security Forces training, performance, and progress, refer to the March 2, 2007, “Measuring Stability and Security in Iraq,” <http://www.defenselink.mil/>, pages 25-32.

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>.