

Measuring Stability and Security in Iraq

**August 2006
Report to Congress
In accordance with the
Department of Defense Appropriations Act 2006
(Section 9010)**

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This report to Congress on measuring stability and security in Iraq is submitted pursuant to Section 9010 of the Department of Defense Appropriations Act 2006, *Public Law 109-148*. This is the fifth in a series of reports on this subject and the third under Section 9010. The most recent report was submitted in May 2006.

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Executive Summary

This report is divided into three sections. The first section, “Stability and Security in Iraq,” describes trends and progress toward meeting goals for political stability, strengthened economic activity, and a stable security environment in Iraq. The second section, “Iraqi Security Forces Training and Performance,” describes progress in the training, development, and readiness of the Iraqi Security Forces (ISF), including the forces of the Ministry of Defense (MOD) and the police and paramilitary forces of the Ministry of Interior (MOI). The third section, “Transition,” describes the transfer of security responsibility from Coalition forces to the Iraqi government, including prerequisite conditions and criteria for assessing the readiness of provinces to assume responsibility for security.

A classified annex to this report provides data concerning security force training and performance and addresses possible U.S. military force rotations.

The information in this report is made available with the assistance of many departments and agencies of the U.S. Government, the U.S. Embassy in Iraq, Multi-National Force-Iraq (MNF-I), and the Government of Iraq. The report complements other reports and information about Iraq provided to Congress and does not replace them. The intent of this document is to report on the measures of stability and security specified in Section 9010.

Measures of Stability and Security and the National Strategy for Victory in Iraq

The President’s National Strategy for Victory in Iraq lays out the goals and general framework to achieve security and stability in Iraq. The goal of the strategy is to help the Iraqi people build a new Iraq with a constitutional

and representative government that respects political and human rights and with sufficient security forces both to maintain domestic order and to prevent Iraq from becoming a safe haven for terrorists. To this end, the United States is pursuing an integrated strategy along three broad tracks:

- **Political:** Helping the Iraqi people forge a broadly supported compact for democratic government
- **Economic:** Assisting the Government of Iraq in establishing the foundations for a sound market economy with the capacity to deliver essential services
- **Security:** Contributing to an environment where Iraqis are capable of defeating terrorists and neutralizing insurgents and illegal armed groups

Each track is integrated with the other two, and success in each affects success in the others. Security depends, in part, on a democratic political process, which in turn depends, in part, on economic opportunity. Economic progress depends on securing the Iraqi infrastructure against sabotage and attack and protecting the Iraqi people from violence that undermines individual participation in economic development and the political process.

Although the National Strategy for Victory in Iraq is not a detailed plan for achieving specific objectives, consistent with the public nature of that document, it delineates measurable trends along each of these tracks to indicate where programs are achieving success and where it is necessary to increase efforts or adjust implementation of the strategy.

Major Milestones Toward a Democratic Iraq

Oct 15, 2005	National Referendum on the Constitution
Dec 15, 2005	National Elections under the New Constitution
Mar 16, 2006	First Session of Council of Representatives
Apr 22, 2006	Election of Presidency Council by Council of Representatives Nomination of Prime Minister by Presidency Council
May 20, 2006	Naming of Cabinet by Prime Minister Designee Vote of Confidence for Prime Minister, His Cabinet, and His Program
Jun 8, 2006	Nomination and Approval of Minister of Defense, Minister of Interior, and Minister of State for National Security Affairs
Jul 13, 2006	Transfer of Muthanna to Provincial Iraqi Control
Jul 26, 2006	Prime Minister al-Maliki Addresses Joint Session of U.S. Congress

The President's strategy also identifies eight objectives, or pillars, of the integrated political, economic, and security strategy:

- Defeat the terrorists and neutralize the insurgency
- Transition Iraq to security self-reliance
- Help Iraqis forge a national compact for democratic government
- Help Iraq build government capacity and provide essential services
- Help Iraq strengthen its economy
- Help Iraq strengthen the rule of law and promote civil rights
- Increase international support for Iraq
- Strengthen public understanding of Coalition efforts and public isolation of the insurgents

Key indicators of progress since the last report are discussed below.

Political Progress. This report marks the first 90 days of the first representative government

in Iraq. The appointments of the Ministers of Interior, Defense, and State for National Security Affairs, on June 8, 2006, marked the completion of a national unity government. Within one month of seating this government, Prime Minister Nouri al-Maliki presented a "National Reconciliation and Dialogue Project" to the Iraqi Council of Representatives (CoR). This project is a broad initiative aimed at reconciling past inequities; rallying Iraqis around a principle of equality, devoid of sectarian divisions; firmly establishing the basis of national unity via a democratic political process; and creating the conditions for Iraq to assume a leading role both in the region and internationally. Additionally, the CoR began its work in June with an accelerated schedule of sessions. Most of the 24 Council Committees have formed and named chairs. The CoR is making some progress on key legislation required to implement the provisions of the Iraqi Constitution.

Economic Activity. The Iraqi economy continues to show progress, but still needs to overcome serious challenges. As the Government of Iraq was formed just 90 days ago, its institutions are still forming or are immature and consequently struggle with many macro-economic issues. The new government has affirmed its commitment to programs supported by the Stand-By Arrangement with the International Monetary Fund (IMF) by taking important and decisive measures, notably price increases for refined petroleum products that meet IMF targets. The Executive Board of the IMF subsequently completed its first and second reviews of Iraq's performance under the Stand-By Arrangement on August 2, 2006.

Iraq continues to make progress reducing its Saddam-era debt. As of July 2006, 17 of 18 Paris Club creditors have signed bilateral agreements to forgive 80% of Iraq's sovereign debt. Russia is the only Paris Club creditor that has not yet signed a bilateral agreement with Iraq. It has, however, agreed in principle on debt relief terms and will finalize an agreement shortly. Middle Eastern creditors, which hold the majority of the present debt, have not signed bilateral debt reduction agreements.

Average peak electrical generating output increased 15.8% this quarter to 4,573 megawatts (MW) and continued to increase over the quarter. Iraq averaged 14 hours of power per day this quarter, an improvement of 3 hours per day over the previous quarter.

Crude oil production for the second quarter improved 18% to 2.2 million barrels per day (mbpd), and exports improved by 20%, to 1.6 mbpd. Also during this quarter, Iraq resumed exports from northern fields for the first time since the autumn of 2005. However, oil production and exports still fell short of the Iraqi goals of 2.5 mbpd and 2.0 mbpd,

respectively. Approximately 90% of the Government of Iraq's revenue comes from oil exports, and higher prices for Iraqi oil continue to somewhat offset lower than desired export volumes.

The Security Environment. Setbacks in the levels and nature of violence in Iraq affect all other measures of stability, reconstruction, and transition. Sectarian tensions increased over the past quarter, manifested in an increasing number of execution-style killings, kidnappings, and attacks on civilians, and increasing numbers of internally displaced persons. Sunni and Shi'a extremists, particularly al-Qaeda in Iraq and rogue elements of Jaysh al Mahdi (JAM), are increasingly interlocked in retaliatory violence and are contesting control of ethnically mixed areas to expand their existing areas of influence. Concern about civil war within the Iraqi civilian population and among some defense analysts has increased in recent months. Conditions that could lead to civil war exist in Iraq. Nevertheless, the current violence is not a civil war, and movement toward civil war can be prevented. Breaking the cycle of violence is the most pressing goal of Coalition and Iraqi operations.

In the current reporting period the average number of weekly attacks increased 15% over the previous reporting period average, and Iraqi casualties increased by 51% compared to the previous quarter. Much of this violence occurred in Baghdad, as terrorists, insurgents, and illegal armed groups recognized and exploited the political and economic significance of conducting operations in the capital city. However, the Coalition and the Government of Iraq continued to make progress this quarter, improving the security environment in Fallujah and some parts of northern Iraq. Although sectarian violence threatens the effectiveness of the Government of Iraqi, terrorists have failed to derail Iraq's political

process, or to widen their political support among the Iraqi people. Polling data continue to show the confidence of most segments of the Iraqi people in the Iraqi Army and their rejection of al-Qaeda's vision of Iraq's future.

Iraqi Security Forces. MOD and MOI security forces continue to increase in size and capability and are increasingly assuming the lead combat responsibility from Coalition forces.

Training, equipping, and fielding security forces continues. Approximately 277,600 Iraqi soldiers and police have completed initial training and equipping, an increase of more than 14,000 in the three months since the last report. As of August 2006, approximately 84% of the objective end-strength of MOD forces have been trained and equipped, while more than 92% of authorized Iraqi Army battalions have been generated. Remaining train-and-equip efforts will focus on building combat support and combat service support forces.

More Iraqi units are able to take the lead in combat operations against the insurgency and

to assume security lead in their territory. The number of counter-insurgency operations conducted independently by Iraqi forces as a percentage of total combat operations continues to increase steadily. Approximately one-third of the company-sized operations in Iraq during the reporting period were conducted independently by Iraqi forces. As of August 7, 2006, there were 85 Iraqi Army battalions (5 divisions, 25 brigades) that have assumed the lead for counter-insurgency operations, a 35% increase since the last report. All 27 National Police battalions are currently conducting counter-insurgency operations, and 2 National Police battalions have the security lead for their areas of responsibility.

Transition. Iraq achieved a historic milestone on July 13, 2006, with the transfer of security responsibility in Muthanna Province from MNF-I to the Provincial Governor and the civilian-controlled Iraqi Police Service (IPS). Moreover, since the May report, MNF-I has transferred an additional 10 Forward Operating Bases (FOBs) to the Government of Iraq. Forty-eight of 110 FOBs are now under Iraqi control.

1. Stability and Security in Iraq

1.1 Political Progress

The goal of the political process in Iraq is to help the Iraqi people forge a broadly supported national compact for democratic government, thereby isolating enemy elements from the broader public. The United States is supporting this effort by:

- supporting Iraqi leaders in their efforts to include all Iraqis in the political process, through dialogue and inclusive institutions;
- offering advice and technical support for effective governance;
- helping build national institutions that transcend regional, sectarian, and tribal lines; and
- assisting Iraqis in replacing the corrupt and centralized Ba'athist system with effective government bodies at local, provincial, and national levels.

Measures of political progress and stability include:

- achievement of political goals set forth in the Iraqi Constitution, as well as those in United Nations Security Council Resolution 1546 and the Transitional Administrative Law;
- formation of a national unity government representative of all Iraqi communities;
- participation in the political process by all Iraqi communities and evidence that they view the process as legitimate and effective;
- adherence to rule of law institutions; and
- expansion of international support.

With the seating of its constitutional government, Iraq, with the support of the Coalition, completed all the milestones required under United Nations Security Council Resolution 1546.

The National Strategy for Victory in Iraq lays out a specific three-pronged political plan to assist the Government of Iraq in building a broadly supported national compact for democratic governance. The plan seeks to:

- “✓ **Isolate** enemy elements from those who can be won over to the political process by countering false propaganda and demonstrating to all Iraqis that they have a stake in a democratic Iraq;
- ✓ **Engage** those outside the political process and invite in those willing to turn away from violence through ever-expanding avenues of participation; and
- ✓ **Build** stable, pluralistic, and effective national institutions that can protect the interests of all Iraqis, and facilitate Iraq's full integration into the international community.”

Building a Government of National Unity

After successful national elections in December 2005, Iraqis made the commitment to establish a broad unity government. Rather than allocating all government positions to the majority party or coalition, this unity government sought to provide fair representation in the ministries and other government posts among all major parties that won seats in the CoR. Consistent with this commitment, Prime Minister al-Maliki announced and won CoR approval for his cabinet, which draws minis-

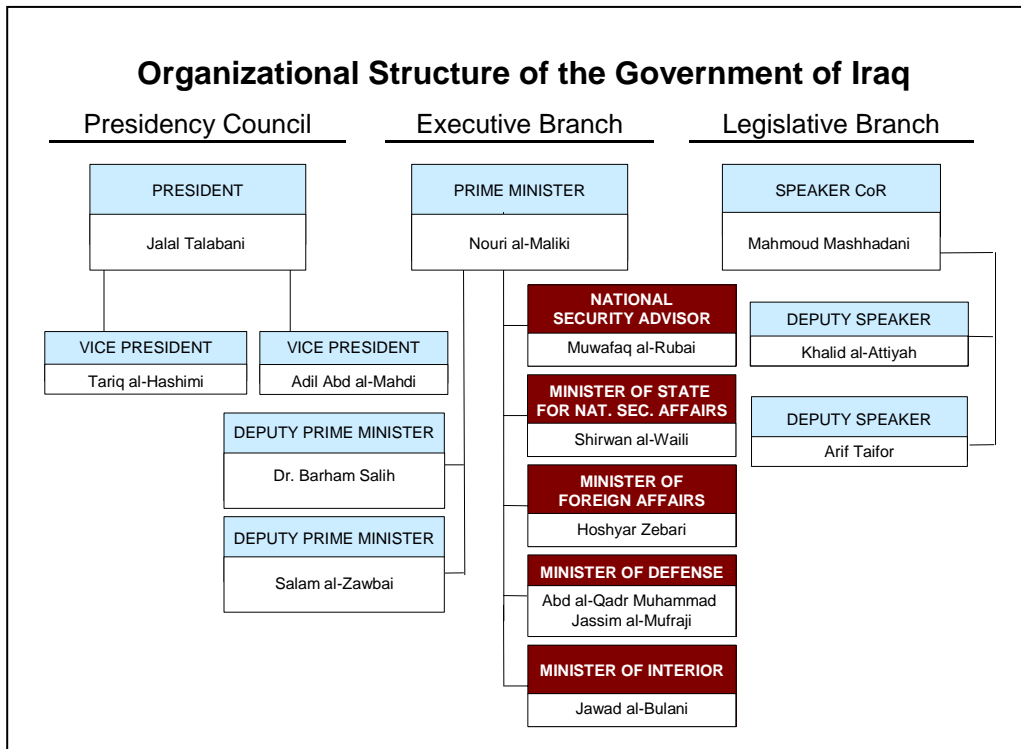
ters and senior officials from parties representing all regions, sects, and ethnic groups. The announcement met the constitutionally mandated deadline, but Prime Minister al-Maliki opted to delay filling the positions of Minister of Defense, Minister of Interior, and Minister of State for National Security Affairs to ensure broad support within the CoR for these sensitive positions.

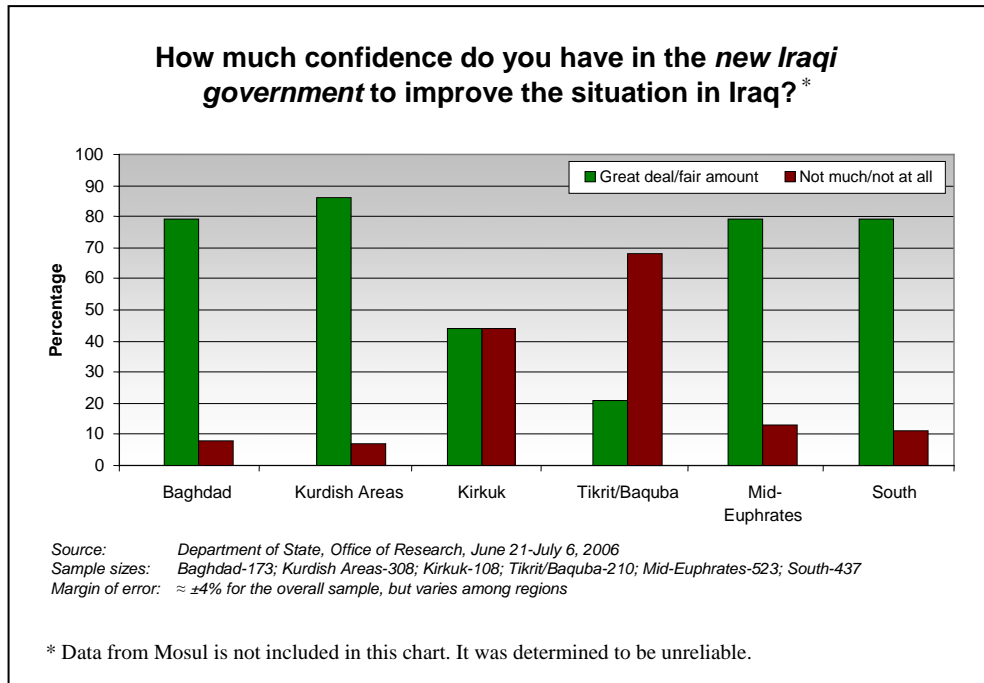
On June 8, 2006, after additional negotiations and compromise, the Prime Minister presented his nominees for the two security ministries. The CoR approved the appointments by a majority, confirming Jawad al-Bulani as Minister of Interior and Abd al-Qadr Muhammad Jassim al-Mufraji as Minister of Defense. The CoR also approved

the appointment of Shirwan al-Waili as Minister of State for National Security Affairs.

The appointment of the Ministers of Interior, Defense, and State for National Security Affairs marked the completion of Iraq's first representative government. The resulting cabinet is remarkably inclusive. The new government reflects the diversity of the Iraqi people and, with a freely elected parliament and a popularly ratified constitution, is a striking contrast to the oppressive, one-man rule of Saddam Hussein just three years ago.

Poll data indicates that the majority of Iraqis have confidence in the new government; notably, however, confidence levels are lowest in mixed and predominantly Sunni areas, such as Kirkuk and Tikrit/Baquba.



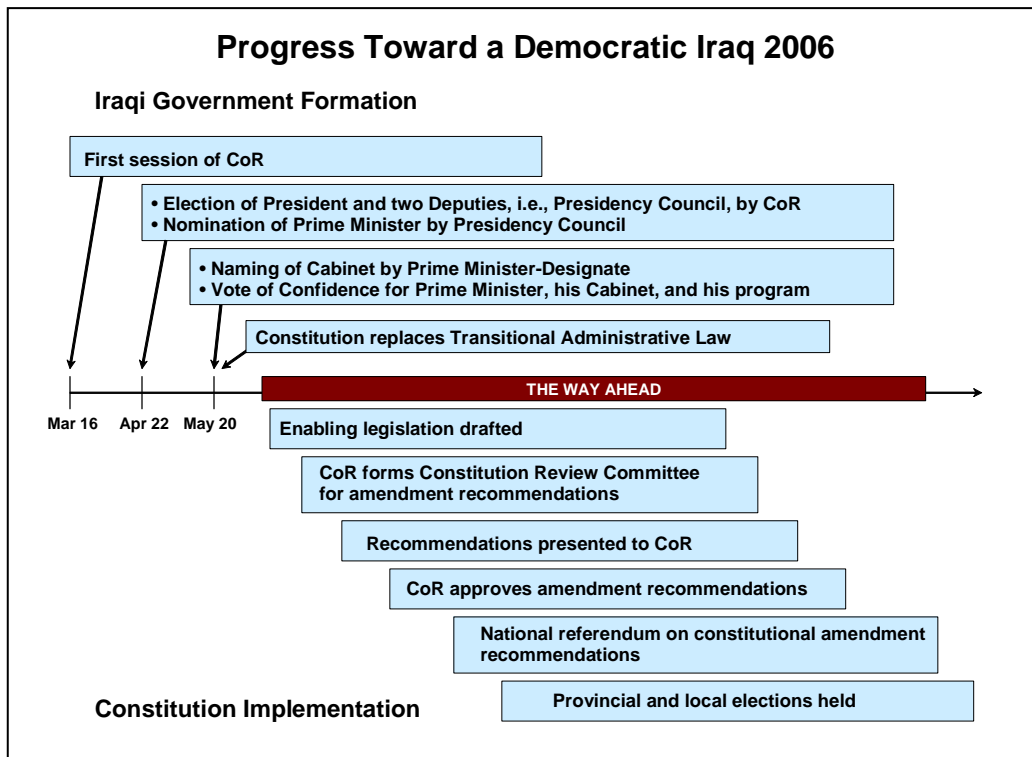


The Iraqi Constitution, adopted by popular referendum on October 15, 2005, requires approximately 55 enabling or implementing acts, in such significant and broad areas as judiciary development and economic reform, to make the Constitution operative. Passing and enforcing this legislation will be a key indicator of progress for the new Government of Iraq.

Additionally, the CoR began its work in June with an accelerated schedule of sessions. Most of the Council Committees have been

formed and have named chairs. The CoR has made some progress on key legislation, including progress toward new Electoral Commission legislation, the first step on the path to provincial elections. However, little substantive legislation was passed in the session that ended in July.

The two critical political events facing the CoR and the Government of Iraq over the next few months are the constitutional amendment process and provincial elections.



The National Reconciliation Process

On June 25, 2006, Prime Minister al-Maliki presented to the CoR a “National Reconciliation and Dialogue Project,” a 24-point initiative aimed at reconciling past inequities, rallying Iraqis around a principle of equality devoid of sectarian divisions.

The National Reconciliation and Dialogue Project is intended to open dialogue, reduce sectarian tensions and violence in Iraq, and increase commitment to the democratic process and the new national unity government.

The project will operate on three levels. At the national level, the High National Commission of the National Reconciliation and Dialogue Project will be composed of representatives from a diverse cross-section of political, religious, ethnic, tribal, and cultural groups under the leadership of the Minister of State for National Dialogue. The second level will be provincial subcommittees, and the third

level will be field committees, which will focus on key components of national reconciliation and will evaluate progress.

As part of the National Reconciliation and Dialogue Project, a conference of tribal leaders took place on August 26, 2006, in Baghdad that resulted in a statement condemning sectarian violence, and endorsing the reconciliation plan. In the coming months, the government will convene a conference of religious scholars. The government is supposed to convene a conference of political parties to encourage the democratic process and to solidify support for the Government of Iraq.

Government Institutions

To achieve unity, security, and prosperity, Iraq must develop the capacity to deliver government services to its citizens at the national, provincial, and municipal levels. The Government of Iraq must transform the country from

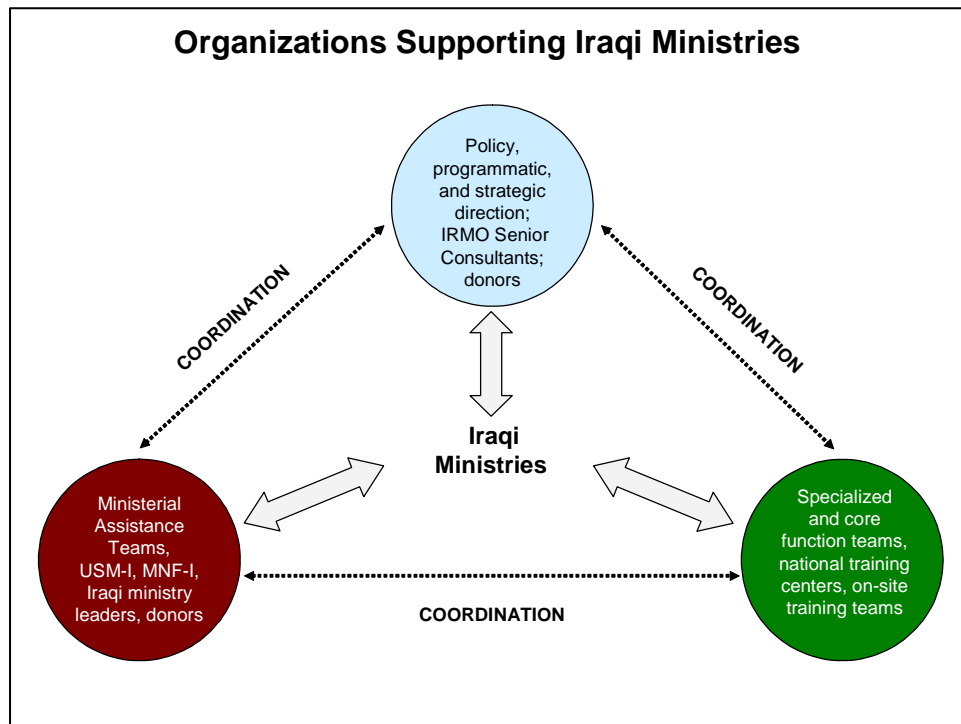
a centralized state, with delivery of essential services traditionally controlled by powerful bureaucrats, to a responsive federal government with decentralized control. This change will take time, consistent mentorship, and an emphasis on both promoting transparency and reducing corruption. The Coalition is supporting these efforts at all levels of the Government of Iraq.

National Institutions

National institutions and forces are essential to displace illegal armed groups and to serve moderate sectarian and local loyalties. The United States supports the development of non-sectarian institutions and the growth of independent media and civil society institutions, while continuing to encourage the Government of Iraq to proceed with the

announced and planned national reconciliation process.

The diagram below shows the organizations currently helping Iraq develop its capacity to govern effectively. Ministerial capacity development is the main focus of the U.S. Embassy’s Ministerial Assistance Teams (MATs). These teams, composed of civilian and military experts in governance and organizational development, mentor and train both the Iraqi ministers and their senior staffs in such areas as budget development and execution, inter-ministry coordination, personnel management, and procurement. Iraq Reconstruction Management Office (IRMO) officials provide expertise in key sectors, such as oil, electricity, and health, to Iraqi ministers and other high-level government officials.



Assistance to Provincial Governments

Provincial Reconstruction Teams (PRTs) work with provincial governors and elected councils to improve execution of provincial government responsibilities and to increase citizen participation in governmental decision-making processes. The teams are intended to develop core competencies in public administration, finance, budgeting, planning, and accountability by boosting government capacity and transparency at the provincial level. Four U.S.-led PRTs are fully operational: PRT Tamim (Kirkuk), PRT Ninewah (Mosul), PRT Babil (Hillah), and PRT Baghdad. The security situation in some provinces hampers interaction between the team and provincial leaders.

Promoting the Rule of Law

Political stability in Iraq is predicated on the effective rule of law in the country. (Note: Police and associated institutions are discussed in Section 2 of this report.) Effective rule of law in Iraq, as in any country, requires four conditions to be met: effective laws, police to enforce them, courts to administer them, and prisons to incarcerate offenders. If any one of these institutions fails, or cannot work with the others, the Iraqi regime will be unable to enforce the rule of law. The United States, its Coalition partners, and international agencies are helping Iraq strengthen the rule of law. Although there have been some positive developments, delay in the formation of the Government of Iraq resulted in a loss of momentum; rule of law initiatives slowed, which contributed to the growth of crime, corruption, and illegal armed groups.

Legislation

The Iraqi Constitution sets forth a comprehensive list of rights and freedoms, but additional legislation is needed to implement those guar-

antees. The Constitution maintains the independence of the judicial branch, but vests considerable authority in the CoR to define the functions of the courts, raising the risk of undue influence by political or religious groups. Iraq's criminal legal framework is not presently robust enough to adequately address contemporary criminal activity, such as organized crime, trafficking, and some technology-related crimes. Legal experts from the U.S. Government are assisting Iraqi legal scholars in creating a legal system that can balance the requisites of modern international law with Iraqi cultural and legal traditions. The Coalition continues to provide administrative support as well as technical and legal assistance in drafting legislation.

Judiciary

The Coalition has helped the Government of Iraq improve the judicial system in several areas, including building or renovating courthouses, expanding the Central Criminal Court of Iraq (CCCI), and improving security. The CCCI, for example, now has 12 panels operating throughout Iraq. It processes, on average, 118 insurgency-related cases each month. Due to the limited capacity of the 11 panels outside Baghdad, the Baghdad CCCI is the primary facility for hearing insurgency cases.

Poor security for judges and judicial facilities, an insufficient number of judges, and an inadequate court infrastructure undermine advancements in the rule of law in Iraq. Judges are subject to intimidation and in many areas are afraid to prosecute insurgents. The U.S. Government, through the U.S. Marshals Service, responded by providing secure housing, personal security details, courthouse protection, and personal protection firearms to some members of the Iraqi judiciary. In Baghdad, the Coalition has provided facilities for 22 judges to reside in the

International Zone. Working in conjunction with MNF-I, the U.S. Marshals Service has begun training an Iraqi Marshals Service. The U.S. Department of Justice, along with the U.S. Department of State and the U.S. Department of Defense, is proceeding with plans for the renovation and construction of Iraqi courthouses and other related court facilities, including witness protection buildings. As of July 21, 2006, approximately 20 projects to improve judicial capacity have been completed, and 13 more are under way. Five additional projects are planned.

The U.S. Department of Justice estimates that Iraq needs 1,500 judges, yet only about 740 judges are currently serving. The Iraqi Ministry of Justice's (MOJ) Judicial Training Institute has enrolled a new class of 180 students (40 judges and 140 prosecutors) in a 2-year program to train new judges and prosecutors. When this class graduates in the fall of 2007, there will still be a significant shortfall in judges. To help address this need, the Iraqi Chief Justice recently nominated 200 lawyers to serve as investigative judges. If these judges are confirmed, the number of judges will rise to 940. By the fall of 2007, approximately 980 judges will be serving in Iraq, an increase of 32%, but still well short of the requirement.

Prisons

The MOJ is responsible for imprisoning convicted criminals and insurgents in Iraq. MOJ prisons generally meet international standards, but are already at maximum capacity. As a result, many detainees spend time in MOI or MOD facilities, which generally fall short of internationally accepted standards. To address this issue, the U.S. and Iraqi governments are funding construction of seven new MOJ prison facilities, one each in Basrah, Khan Bani Sa'ad, Nasiriyah, Dahuk, and Baladiyat, and two in Rusafa. Work has

stopped at Khan Bani Sa'ad and Nasiriyah due to problems with the primary contractor. Bridge contracts have been awarded to local Iraqi contractors to provide site security and to perform some continuing construction work. The Gulf Region Division of the U.S. Army Corps of Engineers anticipates that contracts will be issued to a new contractor in September and that both facilities will be completed in April 2007. Construction at the two Rusafa facilities has been delayed due to a title dispute between the Ministers of Justice and Interior. The title dispute is currently in litigation in the Iraqi courts. Dahuk, a 1,200-bed facility in the Kurdish region, is scheduled for completion in February 2007. Construction at Baladiyat was completed and the prison facility there has been activated and is currently in use by the Iraqi Corrections Services. Upon completion in mid-2007, all of these facilities will add a combined 4,800 beds. Even with these additions, however, projections show another 20,000 beds will ultimately be needed. Thus, the Government of Iraq must address insufficient bed space, enactment of custody transfer laws, abuses in MOI and MOD detention facilities, and the need for more guards and trained supervisors. The Government of Iraq also faces the problem of prisoner-detainees awaiting adjudication/resolution of the charges against them. The MOI and MOD are believed to be detaining between approximately 2,000 and 10,000 people in pre-trial status, many in crowded, substandard facilities.

Security Internees

In addition to criminal detainees and convicts held by the Government of Iraq, MNF-I holds security internees (or detainees) under the authority of United Nations Security Council Resolution 1637. As of July 16, 2006, Coalition forces held 12,388 such security internees outside the Iraqi criminal system. Detainees in MNF-I custody are treated in accordance with

Geneva Convention principles. The U.S. Government has initiated a dialogue with the Government of Iraq in an effort to transfer these internees to Iraqi custody. However, Iraq currently lacks the legal authority to hold security internees outside of the judicial system. Therefore, neither MNF-I-held detainees nor MNF-I-run detention facilities can presently be transitioned to MOJ control. The Coalition continues to urge the Government of Iraq to accept transfer of security internees in a way that ensures their humane treatment. Those detainees who do not pose a serious threat to the citizenry are released as promptly as possible. (The detainee release program is described in more detail later in this report.)

Anti-Corruption Institutions and Programs

The Government of Iraq has made a public commitment to eradicate corruption and to empower anti-corruption institutions. Coalition support for this effort is focused largely on the three main anti-corruption institutions in Iraq: the Board of Supreme Audit (BSA), the Commission on Public Integrity (CPI), and the Ministerial Inspectors General (IG). Both the BSA and CPI have new constitutional status, and the CPI has become the lead Iraqi anti-corruption agency. The CPI has investigated 1,158 cases this year.

The CCCI, which has jurisdiction for public corruption cases, does not have the capacity to process all its corruption cases. There are 826 criminal cases pending or under active prosecution. Over the past 20 months, 56 officials in Iraq's ministries were either convicted or subject to arrest warrants. The fact that there is a functioning process for investigating and prosecuting corruption, and that some corrupt officials are being brought to justice, is a positive sign. However, the ability of the government to prosecute corruption cases successfully is hampered by the lack of enabling

legislation, lack of CCCI capacity, and intimidation of investigators and judges.

Obstacles to Political Progress

Since the liberation of Iraq, there have been significant successes in the development of legitimate political institutions and processes. The unfolding of the democratic electoral process over the course of 2005 was a crucial success. Despite these achievements, however, the political process has encountered obstacles.

Violence

The nature of violence in Iraq is multifaceted. Illegally armed groups that reject the political process often do so because of long-standing grievances, extremist beliefs, tribal affiliations, and/or personal vendettas. No one strategy can address every grievance. A vocal minority of Iraqis (e.g., religious extremists) fundamentally opposes the idea of a democratic Iraq. Further, some Iraqis who have joined the political process are condoning or maintaining support for violent means as a source of political leverage.

The continued violence in some areas, especially in Baghdad, hampers the formation of legitimate national institutions. In some towns and neighborhoods, local illegal armed groups are seen as the primary providers of security and basic social and essential services. With the extended delay in formation of the national government and capable ministries, these armed groups have become more entrenched, especially in some primarily Shi'a sections of Eastern Baghdad and certain Sunni neighborhoods in Western Baghdad.

Security issues (e.g., the attempted kidnapping of a deputy minister and threats to ministry personnel who work with Embassy teams) have made some ministers reluctant to have

U.S. personnel visit them. This reluctance hampers coordination between the Coalition and some ministry personnel. Internal politics (e.g., political party affiliation) is also an obstacle to progress in some ministries.

Inexperience

Some Iraqi ministers tend to focus on near-term performance, rather than on long-term capacity building. A lack of effective procedures within the ministries, such as policy development, procurement, and budgeting, was endemic to the Iraqi government under Saddam Hussein, and three years is not enough time to reverse decades of organizational incapacity. This situation should improve with time.

Lack of proper “tools,” such as information technology, finance systems, and planning capabilities, inhibit the governing of complex issues. The result is that Iraqi planning, budgeting, and execution processes are less than fully effective. IRMO is currently procuring and developing these tools, but it will take time—years rather than months—before Government of Iraq staff is able to use these tools fully and to manage the ministries to full effectiveness.

Foreign Interference

Iran and Syria undermine the Government of Iraq by providing both active and passive support to anti-government forces that tend to fuel ethno-sectarian tensions. The Coalition and the Government of Iraq have acted to counter the Iranian and Syrian influence by tightening security at the borders. However, the borders are porous, and eliminating the transfer of illegal material and foreign fighters into Iraq is a formidable challenge.

Corruption

Corruption in the ministries has further hampered their capabilities. Experienced or talented employees are often purged and replaced with party elements/cronies as a result of a spoils system. Many of Iraq’s political factions tend to view government ministries and their associated budgets as sources of power, patronage, and funding for their parties. Ministers without strong party ties often face significant pressure from the political factions, and sometimes have little control over the politically appointed and connected people serving under them. Still entrenched in the culture of the former regime, some ministry personnel are reluctant to exercise independent initiative or to take any bold action to address Iraq’s problems of corruption.

1.2 Economic Activity

The National Strategy for Victory in Iraq underscores three objectives in helping the Iraqis build their economy:

- Building the capacity of Iraqi institutions to maintain infrastructure, rejoin the international economic community, and improve the general welfare of all Iraqis
- Reforming Iraq’s economy, which has been hindered by war, dictatorship, and sanctions, so that it can be self-sustaining in the future
- Restoring Iraq’s neglected infrastructure so that it can meet an increasing demand and the needs of a growing economy

This strategy rounds out the National Development Strategy (2005-2007) of the

Government of Iraq, whose national economic objectives are:

- Strengthening the foundations of economic growth
- Revitalizing the private sector
- Improving the quality of life
- Strengthening good governance and security

Building the Iraqi Economy

The formation of a new government allowed Iraq to refocus on its economic agenda. In the second quarter, the new government affirmed its commitment to the reform program supported by the Stand-By Arrangement and is moving forward with implementation of that program. The new government maintained fiscal discipline, raised domestic fuel prices to the targeted levels in the Stand-By Arrangement, sent a fuel import liberalization law to the CoR, and increased targeted support for the poor. The Executive Board of the IMF subsequently completed its first and second review of Iraq's performance under the Stand-By Arrangement on August 2, 2006.

Although the Government of Iraq missed the March 2006 deadline for the state fuel-price increase required by the Stand-By Arrangement for refined petroleum products, on July 1, 2006, the new Government of Iraq increased prices (reducing subsidies) for regular and premium gasoline, benzene, liquefied petroleum gas (LPG), kerosene, and diesel products, thus meeting or exceeding the IMF Stand-By Arrangement-mandated price increases.

Inflation threatens the overall macroeconomic stability that Iraq has maintained since the war ended. Ongoing violence and supply disruptions are pushing prices higher. The Central Bank of Iraq (CBI) must further tighten monetary and exchange rate policy to

prevent high inflation from becoming entrenched.

Iraq continues to make progress reducing its Saddam-era debt. Iraq's debt was estimated at US\$125 billion after the war. This was almost five times the gross domestic product (GDP) in 2004, an unsustainable burden on the Iraqi economy. The historic November 2004 debt relief agreement with the Paris Club members and subsequent agreements with commercial and other official creditors, as well as some non-Paris Club creditors, are helping bring Iraq's debt to sustainable levels.

As of July 2006, all 18 Paris Club creditors except Russia had signed bilateral agreements to forgive 80% of Iraqi sovereign debt owed. Russia is expected to sign an agreement with Iraq soon. In addition, Iraq has completed its program to restructure commercial claims from commercial and other official creditors.

- Paris Club – US\$41.7 billion owed before signed bilaterals; US\$34.2 billion will be forgiven under Paris Club terms, including a future Russian agreement.
- Non-Paris Club sovereign debt – approximately US\$63 billion owed (US\$2.75 billion worth of debt relief agreed to on US\$3.3 billion worth of debt, thus far).
- Commercial and other official creditors – debt relief deals completed on US\$19.7 billion of commercial and other official debt.

As long as Iraq continues its progress on implementing the economic reforms in the IMF Stand-By Arrangement, the country will remain eligible for the final 20% of debt reduction agreed under the Paris Club terms. Sixty percent of the Government of Iraq's debt to Paris Club members has already been forgiven, and continued successful comple-

tion of the Stand-By Arrangement will qualify Iraq for a final tranche of 20% in late 2007 or early 2008. The United States forgave all of Iraq's debt (US\$4.1 billion) and is encouraging other creditors to follow this example. Debt relief from non-Paris Club creditors is expected in accordance with Paris Club terms or better, and Iraq is beginning to approach these creditors to ask for debt forgiveness. The Gulf countries hold the largest amount of Iraq's non-Paris Club debt, estimated to be US\$45 billion.

In addition to loans, Iraq owes nearly US\$32 billion in war reparations (as of May 1, 2006). These reparations are the result of claims against Saddam's regime following the Gulf War in 1991. Every year, 5% of Iraq's oil revenue goes to repayment of war reparations. As of May 2006, Iraq had paid more than US\$20 billion in reparations. The United Nations Compensation Commission, which oversees the payment of reparations, awarded US\$21.5 billion in compensation to oil companies, which lost profits and equipment during the Gulf War. Paying these reparations each year, while simultaneously attempting to rebuild its economy, places a significant strain on Iraq's limited resources.

Building the Capacity of Iraqi Institutions

The economic institutions of the new Iraqi government are still developing. On July 12, Prime Minister al-Maliki outlined his vision for economic reform to build a prosperous Iraq based on private sector activity and investment, economic diversification, and integration into the global economy. The Coalition is working with the Government of Iraq to appoint an Ambassador to the World Trade Organization (WTO) and to complete the necessary documentation to hold its first WTO Working Party. In addition, the United States continues to work with the Ministry of Finance to implement a Financial Manage-

ment Information System (FMIS) that will provide greater transparency and accountability in the government's budget and expenditure processes.

As of July 1, 2006, halfway through Iraq's fiscal year, the Government of Iraq's ministries have spent far below their planned capital budget expenditures. Iraq's new ministries do not have experience executing ministerial budgets, and lack of a modern electronic transfer system, which has hampered transferring funds in locations around the country, compounded by security problems, contributes to an under-expenditure. The Government of Iraq's continued inability to execute its budget places delivery of basic services, as well as future economic expansion, at risk, and demonstrates the need for continued joint U.S.-Iraqi capacity development efforts. IRMO will soon develop contracts to install government-wide budgeting and procurement modules to add to the FMIS, which was installed approximately two years ago; however, the Government of Iraq is just now starting to use this system. These new modules will increase the transparency of the financial system and will improve the effectiveness of in-year and forecasted budgeting. It is proposed that the Minister of Finance require all Government of Iraq financial transactions to use this enhanced FMIS system. Budgets are not effectively delegated from the Ministry of Finance (MOF) to other ministries and provinces. The procedures to enable contracts through the MOF are proving too cumbersome, and officials are not willing to risk applying perceived "incorrect procedures," as several officials have been detained with investigations pending into possible breaches of regulations. Communications between the CBI and the MOF have all but stopped; several employees at the CBI have been intimidated and have therefore failed to show up for work.

Integrating Iraq into the World Economy

The United States is working with the Government of Iraq to engage Iraq's neighbors and the international community on the future of Iraq and the stability of the region. A sustained dialogue with key international partners remains a critical element in assisting Iraq's nascent democracy. In this context, last month Prime Minister al-Maliki traveled to Saudi Arabia, Kuwait, and the United Arab Emirates to promote his national reconciliation plan and to encourage international support for Iraq.

In late July, the Government of Iraq and the UN, with the strong support of the United States, the United Kingdom, and other donor states and international financial institutions, launched an International Compact with Iraq. The International Compact will, over the next five years, bring together the international community and multilateral organizations to help Iraq achieve its national vision. The government's vision is that, five years from now, Iraq will be a united, federal, and democratic country, at peace with its neighbors and itself, well on its way to sustainable economic self-sufficiency and prosperity, and well integrated in its region and the world.

The International Compact will provide assistance to Iraq under a contractual agreement; Iraq will undertake specific economic and political reforms designed to bring it into the global economy. In return, international donors will increase their financial support for Iraq's reconstruction. Meanwhile, the Government of Iraq will continue to enact political and security measures to achieve national reconciliation and to build an economic environment conducive to sustained economic

growth. The UN now occupies its compound in Irbil, and a UN Liaison Detachment has been established in Kirkuk.

The Arab League issued a strong statement following its November 2005 "Preparatory Meeting for the National Accord Conference," calling for all Iraqi parties and Arab states to support Iraq and respect the political will of the Iraqi people. The United States welcomes the planned Arab League-sponsored Iraqi National Accord Conference (to be scheduled) as an opportunity for Iraqis inside and outside of government to discuss the many crucial issues facing their country and to support a process of national reconciliation. Since the November 2005 conference, the Arab League has opened its office in Baghdad and has appointed Mukhtar Lamani as its envoy.

Macroeconomic Indicators

Economic indicators are collected and published regularly, largely through the Iraqi Ministry of Planning and Development Cooperation and international organizations, such as the World Bank, the UN, and the IMF, although gathering accurate statistics on which to base such indicators in the present security situation in Iraq is a challenge. As outlined in the table below, projections from the IMF assume that economic growth over the medium term will remain dependent on the performance of the oil sector, as it accounts for more than two-thirds of Iraq's GDP. The outlook also assumes that the Government of Iraq's investment in the oil sector will generate increased oil production and strong GDP growth over the medium term.

GDP Estimates and Projections, 2004-2008					
	2004	2005 e	2006 p	2007 p	2008 p
Nominal GDP (in USD billion)	25.7	34.5	47.0	61.0	71.0
Government Oil Revenue (in % of GDP)	69.6	69.4	66.9	66.5	67.4
Per Capita GDP (USD)	949.0	1,237.0	1,635.0	2,060.0	2,319.0
Real GDP (% change)	46.5	3.7	4.0	14.4	12.9
Primary Fiscal Balance (in % of GDP)	-40.6	9.8	-6.1	-2.1	-0.8
Consumer Price Inflation (annual %)	32.0	32.0	30.0	17.0	10.0

Source: IMF Estimates (e) and Projections (p), July 7, 2006

Estimates of unemployment in Iraq vary widely. The UN World Food Program's 2005 estimate is 13.4%; other estimates are as high as 50%–60%. As of July 2006, the Government of Iraq Central Organization for Statistics and Information Technology (COSIT) estimated that unemployment was 18% and underemployment was 34%. The COSIT estimates were corroborated by a 2005 United States Agency for International Development (USAID) survey and recent nationwide polling. This year, the Government of Iraq budgeted to increase employment from 1.1 million to 1.9 million civil servants. State-owned enterprises are expected to add another 100,000 people to their rolls. Although this hiring will reduce unemployment, government and state-owned-enterprise employment is not a long-term panacea; for example, most state-owned enterprises are operating under capacity or are closed. The key to long-term, sustained reduction in unemployment can be achieved only through private sector-led growth. The U.S. Government is working with the Government of Iraq to develop the Iraqi private sector by reforming the banking system, providing micro-credit lending and vocational training, and enacting legislation in

such areas as privatization and investment to spur economic growth.

Using data collected in 2004, the UN World Food Program estimates that 15.4% of the surveyed population in Iraq lacks adequate food. Including both severe and moderate forms, about 25.9% of the Iraqi children examined were stunted in their physical growth, a symptom of chronic malnutrition. The lowest rate observed (14.2%) was in Sulamaniyah Province, while the highest (36.5%) was in Salah ad Din Province.

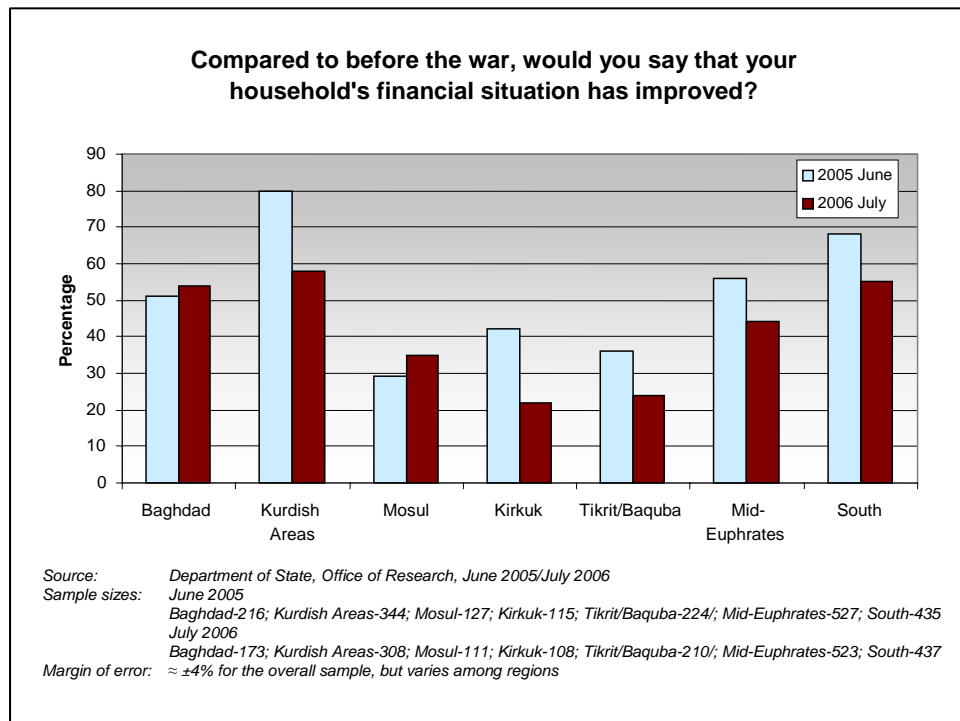
With support from USAID, the Ministries of Finance, Labor, and Social Affairs have developed a more effective social safety net for Iraq's poorest citizens. This initiative helps low-income families manage the effects of subsidy reform, using needs-adjusted cash benefits and services that help families raise themselves above the poverty level. The social safety net program is an essential step in reforming national subsidies as required by the IMF Stand-By Arrangement. The Government of Iraq is still registering eligible households in a continuing effort to reach those Iraqis most in need of help. To date, the

Government of Iraq has enrolled more than 520,000 people in the social safety net program.

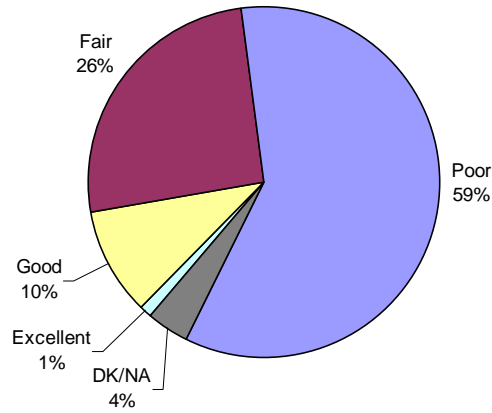
High inflation is threatening Iraq's overall macroeconomic stability. Inflation continues to be volatile, with spikes generally caused by commodity shortages and seasonal variations. The annual inflation rate from June 2005 to June 2006 was 52.5%, according to COSIT. The CBI needs to take steps to control inflation. Polling data indicate that the Iraqi public's perceptions of the household financial situation are mixed, although public

perceptions are generally more pessimistic than they were a year ago.

There is evidence that Iraqi private sector activity continues to expand. The IMF estimates that non-oil GDP growth in 2006 will be 10%. Various U.S. Government agencies are attempting to spur private sector activity with microfinance loans, bank lending to small- and medium-sized enterprises, capital market development, business skills development, vocational training, investment promotion, business center support, and creation of economic zones.

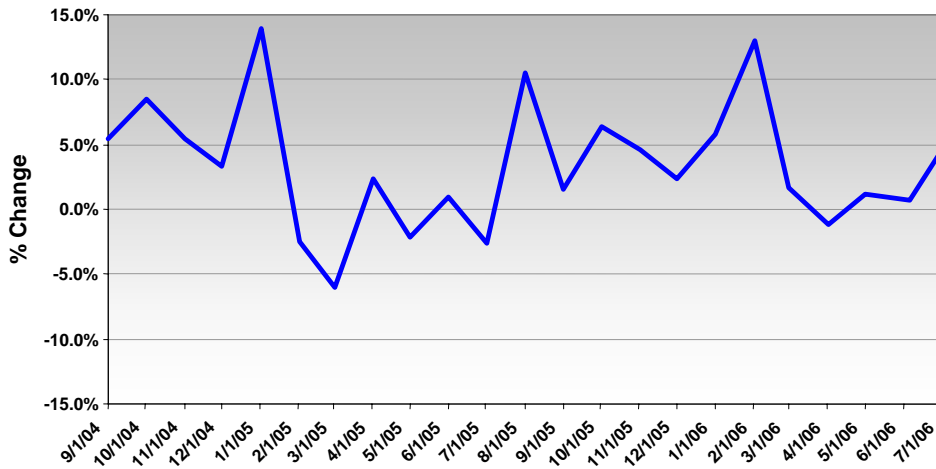


How would you rate economic conditions in Iraq today?

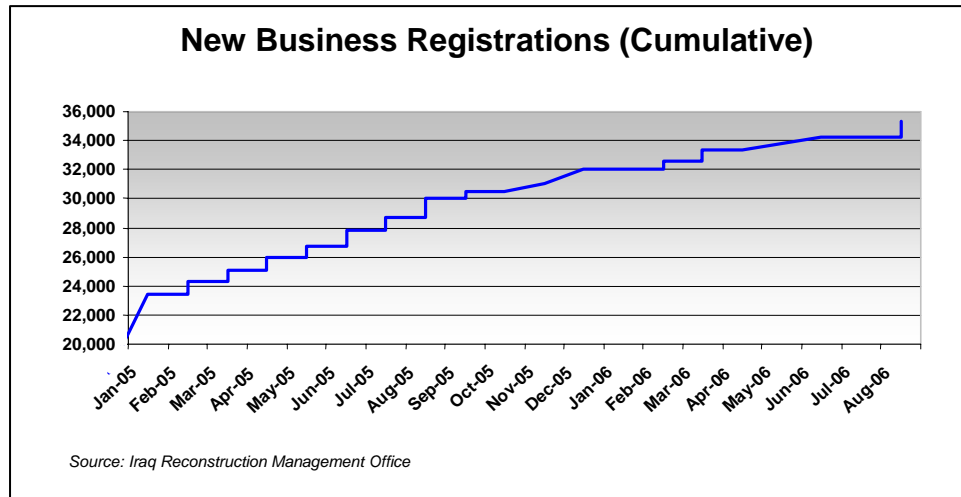


Source: Derived from International Republic Institute Polling Data, June 14-24, 2006
 Sample size: 2,849
 Margin of error: ±3% (see IRI website for further methodology)

Monthly Consumer Price Index (% Change)



Source: U.S. Treasury estimates



Sector Indicators

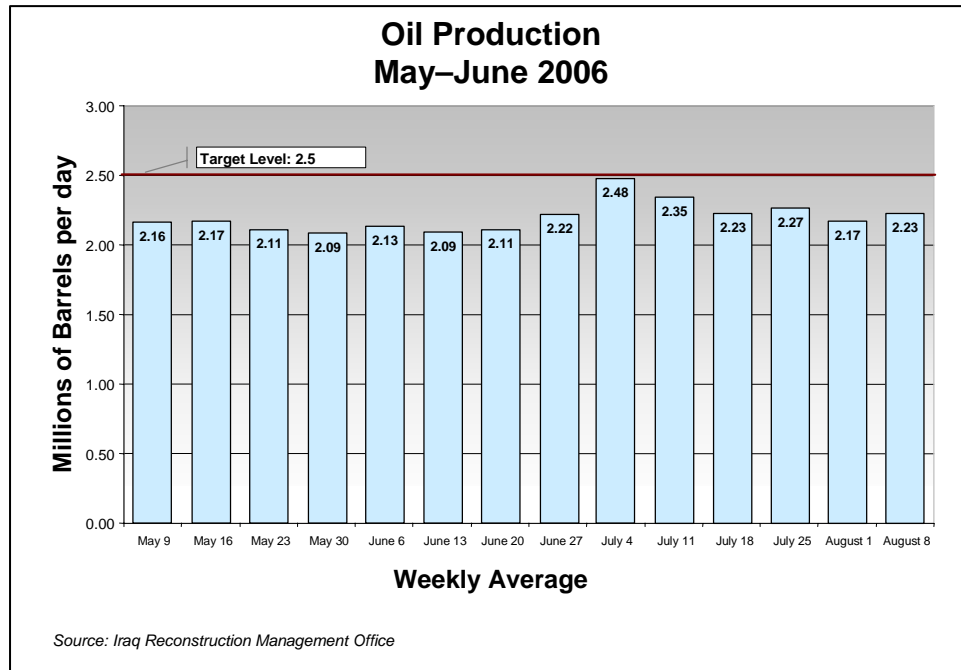
Oil Production, Distribution, and Export

When Coalition forces began Operation Iraqi Freedom, they entered a country whose energy infrastructure had deteriorated over many years. The Coalition set out to help the Government of Iraq restore oil facilities, increase production, improve refining of natural gas production, and maintain pipeline facilities. Poor maintenance, insurgent attacks, slow repair, and corruption have slowed progress. Beyond attacks on various worksites, terrorists have attacked crude export and petroleum product pipelines, impeding exports and the refining and distribution of petroleum products, such as gasoline and diesel.

Despite these challenges, crude oil production for the second quarter improved by 18% to 2.2 mbpd, and exports improved by 20% to 1.6 mbpd. Nevertheless, oil production and exports still fell short of the Government of Iraq's goals (2.5 mbpd and 2.0 mbpd, respectively). Due to a combination of increased exports and higher prices for crude, oil revenues improved in the second quarter, and will reach budgeted targets by August 2006.

During the past quarter, Iraq resumed exports from northern fields for the first time since the autumn of 2005, though on a very small scale. Exports are expected to increase once three major crude pipelines from Kirkuk, including a new 40-inch line, are put in service in September 2006.

Demand remains essentially unchecked for state-subsidized refined petroleum products. The Government of Iraq announced reductions in fuel subsidies on June 21, 2006; on July 1, 2006, in accordance with the Stand-By Arrangement, these subsidies started being phased in at government-run stations. In June 2006, the government increased prices for fuel sold through official outlets, in accordance with its commitments under its IMF reform program to decrease fuel subsidies. Regular gasoline (85 octane) in Iraq is currently regulated at about US\$0.55 per gallon, while premium gasoline (92 octane) is regulated at about US\$0.90 per gallon. The premium gasoline price is at the IMF target price. These prices are roughly equivalent to the pump prices in Kuwait and Saudi Arabia, but substantially less than in Turkey, where gasoline is heavily taxed. This disconnect between supply and demand leads to black market activities and corruption. Efforts are



under way to encourage the Government of Iraq to adopt legislation allowing private imports of premium fuels at market prices. This legislation should allow the refined fuel market to clear and help ease the frequent shortages. It should also help reduce the rampant crime and corruption associated with the current fuel production and distribution process.

The Bayji refinery in northern Iraq is a critical element in Iraq’s national oil infrastructure. Built in the 1980s, the Bayji refinery is Iraq’s largest and newest refinery. This refinery typifies many of the challenges Iraq faces as it attempts to modernize its aging infrastructure and increase its oil exports. Bayji has a nominal production capacity of 310,000 barrels per day. However, since May 2006, the refinery has not produced more than 170,000 barrels per day, and recent production has been as low as 7,500 barrels per day. Four primary factors have limited production at the Bayji refinery: maintenance issues with key components in the refinery, an inefficient refining

process, an unreliable flow of crude oil into the refinery, and security threats to personnel.

Maintaining the refinery’s outdated equipment is a challenge. Two of the refinery’s three plants have been shut down since May 2006 due to mechanical breakdowns, scheduled maintenance, power outages, and fires. One power outage damaged the refinery’s US\$20 million hydrocracker, a critical piece of equipment used to convert heavy fuel oil to usable products.

A second factor limiting production at Bayji is inefficiency in its refining process. For every two barrels of crude oil brought into the refinery, Bayji produces about one barrel of usable product, for an efficiency rate of about 50%; modern refineries can have efficiencies of 90% or higher. The result of the inefficient refining process is a large amount of heavy fuel oil (HFO) byproduct. Bayji does not have adequate facilities to refine further, store, or dispose of this byproduct; the excess HFO thus interferes with production and storage of usable products.

Production at Bayji is also affected by the interrupted flow of crude oil into the refinery from Kirkuk through three key pipelines. The flow has been periodically halted by corrosion, fires, maintenance, and attacks, all of which serve to hamper production of refined products and crude oil for export. Construction of a new 40-inch line is scheduled to be completed in September 2006.

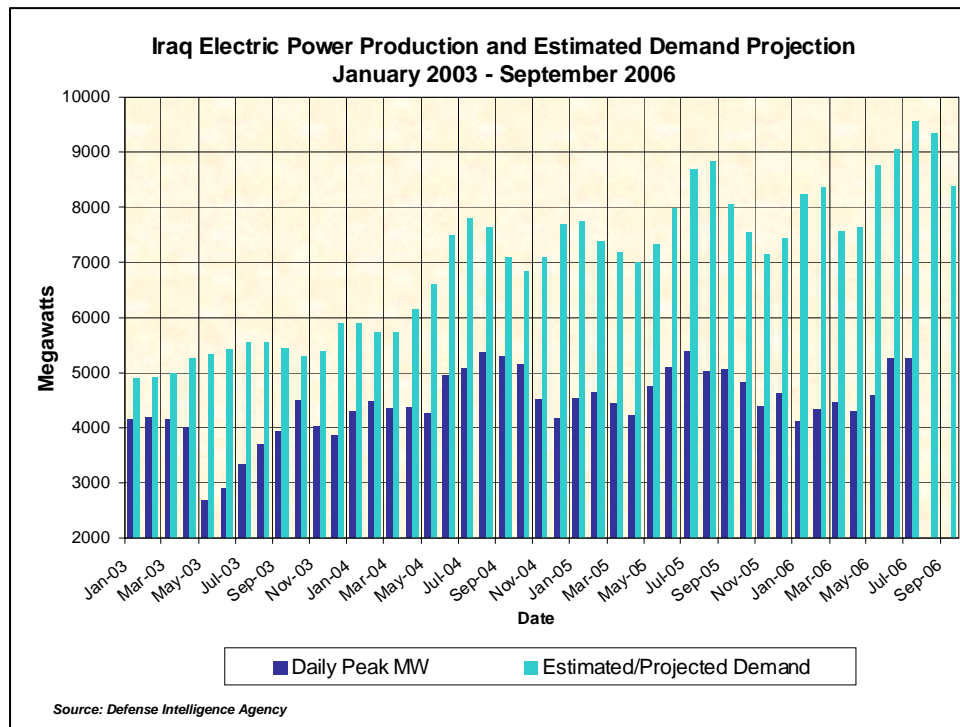
Electricity Production and Distribution

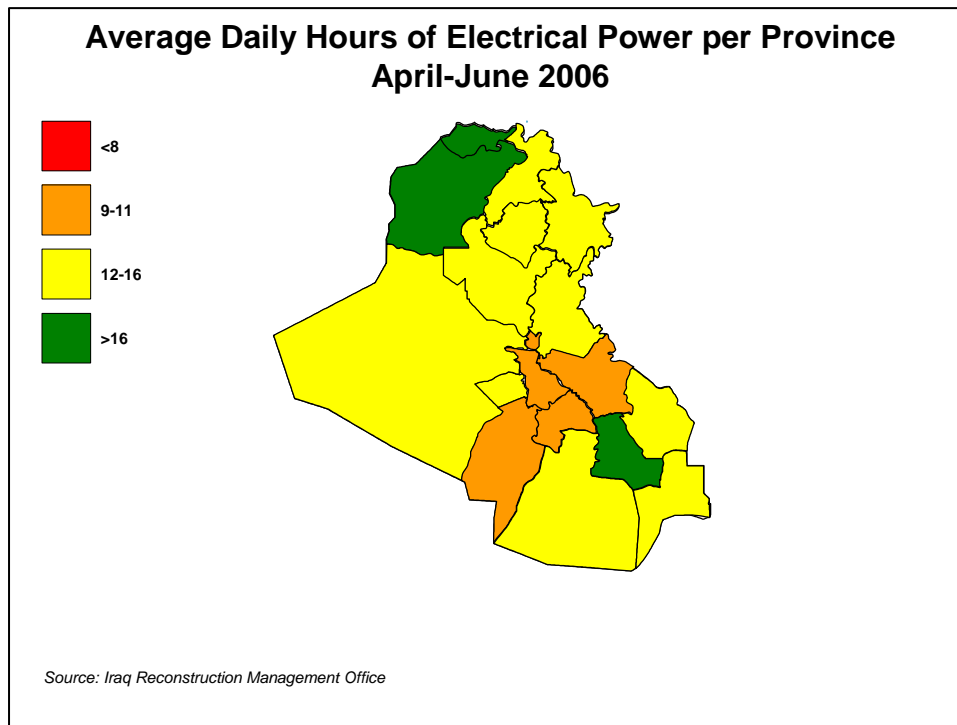
The electrical generation and distribution system in Iraq suffers from unscheduled downtime due to the fragile condition of the electric grid, sabotage, and poor maintenance practices. In addition, shortfalls in petroleum production and distribution lead to occasional fuel shortages for electric generators.

Despite problems, peak capacity and hours of power continue to improve. During this reporting period, peak generating output was 5,283 MW on July 17, 2006, with an average peak generating output of 4,573 MW over the

period. This is an improvement of 15.8% over the previous reporting period. Iraq averaged 14 hours of power per day this quarter, an improvement of 3 hours per day over the previous quarter. Baghdad averaged 8 hours of power per day, twice what it had averaged six months earlier.

As Iraqis purchase additional electric appliances, demand for electricity continues to increase. Estimated demand over the 30-day period ending July 15, 2006, was 8,928 MW. To date in 2006, the highest daily peak supply was 5,283 MW, 2% below the 2005 peak of 5,389 MW. With all state-owned generators running, theoretical maximum output is 8,551 MW, or 96% of this estimated new demand. However, that level of output has not been achieved, nor could it be sustained if it were achieved. The Government of Iraq's goal for average peak generating output by the end of December 2006 is 6,000 MW per day. During times when state-generated electricity is not available, many Iraqis meet their electricity requirements through private





generators. Electricity usage in Iraq appears to be in accordance with or less than regional norms. Nonetheless, the data support the contention that the current connected capacity is not sufficient to support a growing economy.

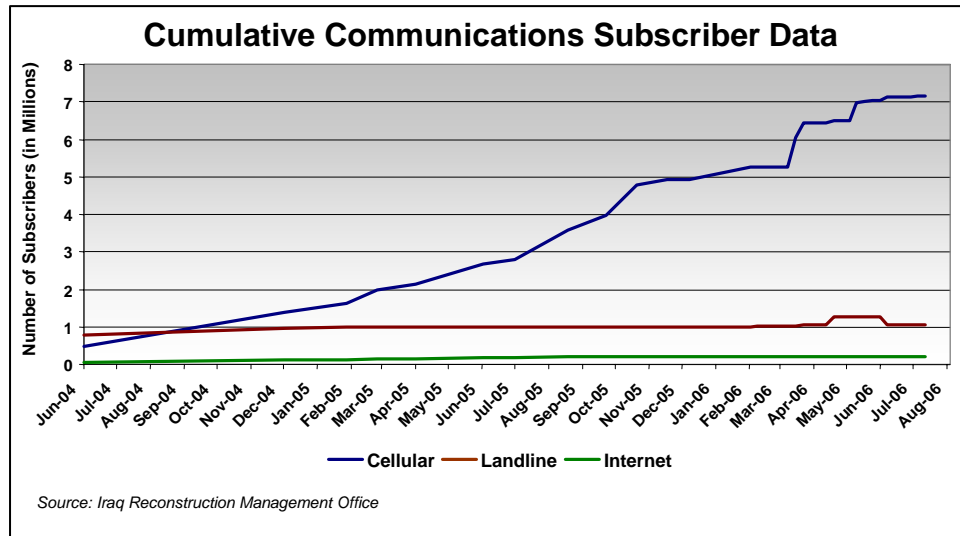
The subsidized state distribution rate affects electricity demand, and current electricity rates are nominal, well below regional averages. In addition, not all Iraqis pay for their state-supplied electricity. About 70% of homes have meters and are billed. Of those, about 70% pay their electric bills. The rate billed is equivalent to US\$.002/kwh. Owners of private neighborhood generators bill their customers at a rate about 40 times higher, around US\$.08/kwh.

Communications

The communications sector continues to expand, although this expansion is slowing down in comparison with its explosive growth immediately after the fall of the previous regime. Whereas the number of landline sub-

scribers is relatively stable, the three major cell phone companies continue to enroll subscribers. IRMO reports that, as of July 25, 2006, there were 7.1 million cellular telephone subscribers and 1 million landline connections. This reflects an increase in cellular subscribers since the last report. The number of cellular telephone subscribers has doubled over the last nine months. The state-owned Internet service provider (ISP) currently serves 197,310 subscribers, a slight decrease since May 2006. This figure excludes private ISPs and public Internet cafes. It is unknown whether expansions of private sector ISPs drew customers from the state-owned service.

U.S. Government projects continue to support improved communications among Iraqi ministries. Thirty-five of 42 government sites in Baghdad, the CBI, and two state-owned banks are now connected via the wireless broadband network. The U.S. Government continues to train Iraqi telecommunications engineers on proper operations and maintenance procedures to maintain and broaden this network.



Water

New projects have “added capacity to provide an estimated 4.2 million people with access to potable water—an increase of 1.2 million people since the May 2006 report—but direct measurement of water actually delivered to Iraqis is not available.”¹ Additional projects currently under way should increase infrastructure capacity to provide access to clean water to as many as 5 million more people.

Obstacles to Progress

There is significant black market activity in Iraq, much of it in oil products. Although crude oil can be sold on the black market, refined product requires less handling, can be sold almost anywhere, and is more difficult to trace, thereby making it more profitable. Much of the black market and corruption activity centers on refined products, such as gasoline, benzene, LPG, and diesel.

Although the increases in the official prices have reduced the economic incentive to smuggle fuel, smuggling fuel for resale inside

and outside the country remains a serious issue. Turkey, where high taxes keep gasoline priced near US\$5 a gallon, is a lucrative target for smugglers. However, a significant portion of illegal trade results in constraining the supply of gasoline in Baghdad, giving motorists few alternatives to purchasing black market fuel at increased prices. Some pipeline interdictions are due to insurgent attacks, while some are botched attempts to steal fuel by tapping into a flowing product line. Other incidents include deliberate acts of sabotage intended to manipulate the fuel supply to spur increased profits for black marketeers and corrupt officials.

Black market prices for fuel vary by refined fuel type: Benzene typically sells for 3–5 times the government established price, while LPG has recently been selling for 10–20 times the official price. This gap between the official price and the black market price provides a strong incentive for corruption. The U.S. Embassy has engaged the Government of Iraq to follow through on their stated commitment to encourage liberalization of the retail fuel market through enactment of the Fuel Import Liberalization Law being considered by the CoR. This reform will allow the private sector to import fuel and sell it at

¹ Special Inspector General Iraq Reconstruction (SIGIR) report, 30 April 06, <http://www.sigir.mil>.

market prices. This step is viewed with controversy in Iraq. Economists predict that private sector retail vendors of petroleum products would undercut the illegal market, thus driving them out of business once the Government of Iraq passes the import liberalization law.

1.3 The Security Environment

Defeating the enemy, breaking the cycle of violence, promoting reconciliation, and transitioning security responsibility to the Government of Iraq remain the top goals in the security track. To achieve these goals, the United States, its Coalition partners, and the Government of Iraq are focused on objectives that include:

- neutralizing enemy effectiveness, influence, and ability to intimidate;
- rapidly reducing sectarian violence and eliminating death squads;
- increasing the capacity of the Government of Iraq and its security structures and forces to provide national security and public order; and
- helping Iraq strengthen rule of law capabilities in the areas of law enforcement, justice, and the corrections system.

Indicators of the security environment include:

- composition, strength, and support for groups that threaten security and stability: anti-government and anti-Coalition forces (the “enemy”);
- activity, support, and efforts to disband, disarm, and reintegrate militias;
- attack trends (including the number of attacks and their effectiveness);
- levels of sectarian violence;

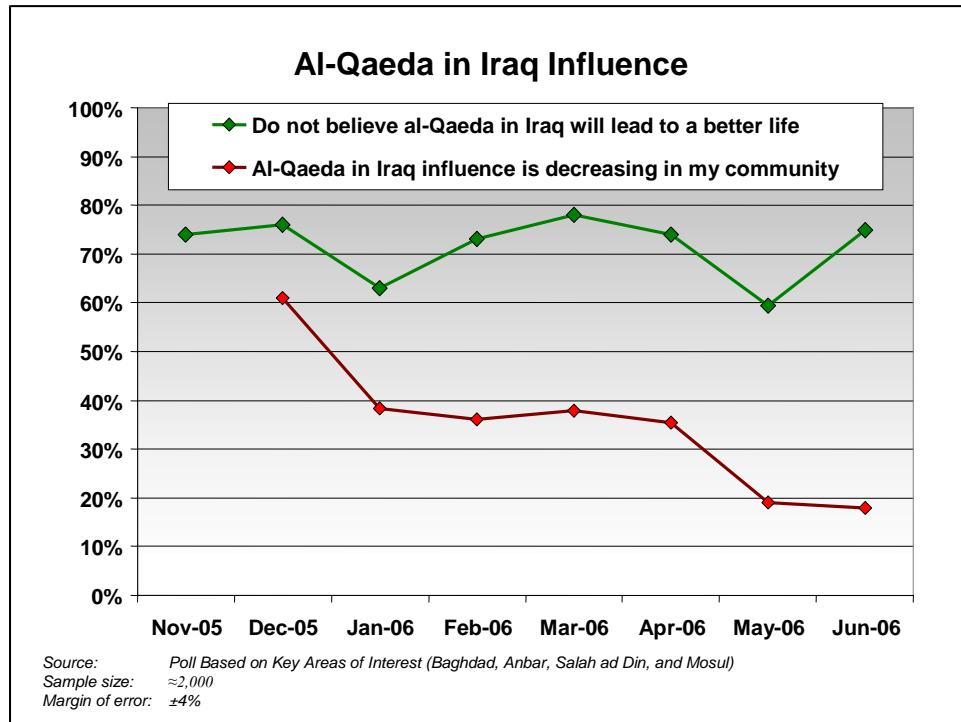
- Iraqi public perceptions of security and security institutions; and
- capabilities of the ISF and Iraqi institutions.

Information about the ISF is presented later in this report.

Overall Assessment of the Security Environment

During this reporting period, attacks and civilian casualties have risen, characterized by ethno-sectarian attacks and reprisals. Violence escalated notably in Baghdad, which, as the political, population, and media center of the country, is a high-value target for terrorists. Violence in Basrah also rose, partly in response to British actions against the JAM. The death of terrorist Abu Musab al-Zarqawi in June was a major success for the Coalition and the Government of Iraq, but al-Qaeda in Iraq remains able to conduct operations due to its resilient, semi-autonomous cellular structure of command and control. Terrorists have failed to advance their primary objectives, which include derailing Iraq’s political process and widening their political support among the Iraqi people. The Iraqi Army took the lead in more counter-insurgency operations and assumed security responsibility in more areas since the last report. The Iraqi people continue to express confidence in the Iraqi Army to provide for their security and to reject al-Qaeda in Iraq’s vision of Iraq’s future, but they are increasingly turning to militias and neighborhood watch groups to provide security from sectarian violence.

Overall attack levels are higher than last quarter. In particular, attacks have increased in southwestern Diyala Province and in the cities of Mosul and Kirkuk. Extremists seeking to stoke ethno-sectarian strife have increasingly focused their efforts on civilians, inciting a cycle of retribution killings and



driving civilian casualties to new highs. Much of this violence is focused on Baghdad, as terrorists, insurgents, and illegal armed groups recognized the political and economic significance of the capital city. As described below, the Government of Iraq and the Coalition are taking significant steps to reverse the upward trend of violence in Baghdad.

Recent Developments in the Security Environment

Rising sectarian strife defines the emerging nature of violence in mid-2006. Since the last report, the core conflict in Iraq changed into a struggle between Sunni and Shi'a extremists seeking to control key areas in Baghdad, create or protect sectarian enclaves, divert economic resources, and impose their own respective political and religious agendas. Death squads and terrorists are locked in mutually reinforcing cycles of sectarian strife, with Sunni and Shi'a extremists each portraying themselves as the defenders of their

respective sectarian groups. However, the Sunni Arab insurgence remains potent and viable, although its visibility has been overshadowed by the increase in sectarian violence.

On June 14, 2006, Iraqi Prime Minister al-Maliki announced the government's plan to provide improved security conditions in Baghdad. Operation Together Forward, or *Amaliya Ma'an ila Al-Amam* in Arabic, consists of increased checkpoints, curfews, and enforced weapons bans to reduce sectarian violence in focused areas within Baghdad. Security forces are also conducting raids against terrorist cells and death squads. As part of this operation, Iraqi police, the Iraqi Army, and National Police, supported by Coalition forces, increased patrols and checkpoints in all areas of Baghdad, while concentrating on areas of the city that have witnessed increases in violence and sectarian killings. Security forces also worked to block terrorist entry into the capital city.

The confluence of high attack levels—many targeting civilians—and the increased sectarian violence, combined with the need to ensure that the Government of Iraq maintains momentum in political progress and counter-insurgency, made Baghdad security a decisive element in the campaign. Given the complexity of the security situation in Baghdad, the Iraqi government planned to execute and complete *Amaliya Ma'an ila Al-Amam* over a period of months, not weeks. After the first month of *Amaliya Ma'an ila Al-Amam*, the operation had arrested but had not reversed the high attack levels seen in May and June. The average of 23.7 attacks per day across Baghdad's 10 districts was virtually unchanged from the 23.8 average daily attacks that occurred the month prior to the operation. Moreover, the rate of sectarian-motivated murders and execution-style killings continued to rise, primarily in and around Baghdad.

In July, during the prime minister's first visit to the United States, Prime Minister al-Maliki and President Bush announced an adjustment to the Baghdad Security Plan. One of the key changes is an increase in security force levels in the city. Elements of the Call Forward Force were brought forward from Kuwait and other Coalition and Iraqi units were repositioned from less active areas of the country. In addition, the Secretary of Defense extended the 172nd Stryker Brigade Combat Team's deployment in Iraq for up to 120 days. Because the 172nd was largely successful in working with the ISF to improve security in northern Iraq, it has been repositioned into Baghdad.

In addition to increasing force levels in Baghdad, the Coalition and the Government of Iraq developed and refined tactics, techniques, and procedures designed to reduce the sectarian killings. A primary focus is eliminating the death squads responsible for the

predominance of the execution-style killings and other murders in the city. The death squads have fomented sectarian violence, as killings prompt further killings of revenge. Coalition forces and the ISF are also targeting the death squads and other illegal armed groups using checkpoints, patrols, driving bans, curfews, weapons-law enforcement, intelligence-driven operations, and other methods. The ISF will rely on their training, experience, and familiarity with Baghdad's milieu to focus on neighborhoods with the highest levels of violence. Coalition forces remain in a supporting role and will be employed as requested by Prime Minister al-Maliki and directed by the MNF-I commanding general.

The two primary objectives of the security operations in Baghdad are rapidly reducing sectarian violence by de-legitimizing the illegally armed groups and establishing the ISF as the dominant security presence. The changes described above represent a concerted, focused effort by the Coalition and the Government of Iraq. By strengthening the capacity of the Government of Iraq and spurring economic growth in Baghdad, the United States will help the Government of Iraq succeed in protecting its population and restoring the confidence of the Iraqi people in their future.

The Nature of the Conflict

Violence in Baghdad is the most prominent feature of the conflict in Iraq in this period, as Sunni and Shi'a extremist death squads pursue their sectarian agendas. The resulting violence overwhelmingly targets civilians, causing segments of the populace to tolerate or even endorse extremist actions on their behalf as an effective means to guarantee their safety, undermining both the Government of Iraq's ability to deliver security and its pursuit of a reconciliation program. Although

Baghdad remains the focus for sectarian and terrorist violence in Iraq, violence tied to the Rejectionist insurgency, terrorist intimidation, political and tribal tensions, and criminality continue in other regions. Sectarian violence is gradually spreading north into Diyala Province and Kirkuk as Sunni, Shi'a, and Kurdish groups compete for provincial influence. Conflict in Anbar Province remains centered on the Sunni insurgency. Although al-Qaeda in Iraq continues its intimidation to coerce passive Sunni support, tribes are pushing back to eject al-Qaeda in Iraq and re-establish their dominant role. In the southern, predominantly Shi'a region of the country, political and tribal rivalries are a growing motive behind violence, particularly in Basrah, with limited anti-Coalition forces attacks likely undertaken by rogue Shi'a militia with Iranian support.

The Enemy

Violence against the Iraqi people and Coalition forces is committed generally by a combination of both Sunni and Shi'a groups, who are overwhelmingly Iraqi but with a small yet significant component of foreign suicide operatives. Sunni groups include Rejectionists—many of whom were members of, or associated with, the former regime—and terrorists groups, including al-Qaeda in Iraq, Ansar al Sunnah (AS), and other smaller groups. Shi'a groups include elements of militias and illegal armed groups, many of whom receive Iranian support. The threat posed by Shi'a illegal armed groups, filling perceived and actual security vacuums, is growing and represents a significant challenge for the Iraqi government. The appearance and activity of death squads is a growing aspect of the violence in Iraq, with both Sunni and Shi'a death squads adding to the violence by targeting civilians and inciting reprisal. Al-Qaeda in Iraq and elements of JAM (nominally under the control of Muqtada

al-Sadr) are among most prominent groups engaging in a continuing pattern of attacks and reprisals against individuals or communities representing the other's sectarian affiliation. Thus, the violence in Iraq cannot be categorized as the result of a single organized or unified opposition or insurgency; the security situation is currently at its most complex state since the initiation of Operation Iraqi Freedom. Similarly, Iraqi or Coalition security strategies must be tailored for the different objectives, methods, and support structures of each particular threat.

Terrorists and Foreign Fighters

Al-Qaeda in Iraq and its affiliates in the Mujahadeen Shura Council consist of both foreigners and Iraqis motivated by an extremist Sunni Islamist ideology, which rejects the West, attacks moderate Islam, and seeks to establish an Islamic Caliphate in Iraq. AS is another significant, mostly indigenous terrorist group that objects to al-Qaeda in Iraq's wanton targeting of Muslim Iraqis. Foreign fighters continue to enter Iraq and constitute the majority of those conducting suicide attacks. Sunni extremists continue their efforts to force Coalition withdrawal, perpetuate sectarian violence, and make Iraq ungovernable as a means of establishing the Caliphate. The death of Abu Musab al-Zarqawi has dealt a significant blow to al-Qaeda in Iraq, though the cellular nature of its robust network allowed decentralized operations to continue. Since then, al-Qaeda in Iraq has fomented sectarian violence through high-profile attacks against Shi'a civilians and is engaged in a cycle of retaliatory violence involving elements of JAM. Al-Qaeda in Iraq recently announced that its "Umar Brigade" that would begin targeting JAM in retaliation for death squad activities in an effort to portray al-Qaeda in Iraq as a protector of the Sunni. Additionally, al-Qaeda in Iraq leadership is increasing convergent with al-Qaeda

senior leaders on goals and strategy following Zarqawi's death. The recent statement from Usama bin Laden on June 30, 2006, in which he addresses the Iraqi "jihadists," frames the conflict in terms of attacking those who support the Government of Iraq. He also warns Shi'a in "southern Iraq" that they are not safe, if they continue to support Coalition operations against Sunni urban centers in Anbar Province. This is a clear attempt to recast al-Qaeda in Iraq as the most effective defender of Sunni interests.

Sunni Rejectionists

Sunni Rejectionists use violence and coercion in an attempt to force withdrawal of Coalition forces, prevent Shi'a economic and territorial dominance, and reverse Sunni political marginalization by regaining a privileged or protected status within a unified Iraq. The 1920s Revolutionary Brigade is the most prominent of these Rejectionist groups. Sunni Rejectionists continue to target Coalition forces at rates higher than Sunni extremist or Shi'a militia groups. The bulk of the Rejectionist insurgency will likely continue to attack Coalition forces while they remain in Iraq. Some elements are indicating an interest in Prime Minister al-Maliki's new reconciliation effort, while still employing violence against the Coalition forces and the ISF from a sense of honor and as a means to force meaningful political accommodation. Moderates say they will accept reconciliation inducements and disarm only after death squads are eliminated; Shi'a militias are disarmed; and key security, amnesty, and political demands are met. Other hard-line elements of Rejectionist groups provide professional military skills to al-Qaeda in Iraq and other extremists to achieve common tactical objectives. Other Rejectionists, including some in Anbar and Baghdad, are weary of al-Qaeda in Iraq's violent intimidat-

ion tactics and actively oppose al-Qaeda in Iraq, sometimes mounting their own anti-al-Qaeda in Iraq attacks and raids.

Death Squads

Death squads are armed groups that conduct extra-judicial killings. Death squads are formed from terrorists, militias, illegal armed groups, and—in some cases—rogue elements of the ISF. Both Shi'a and Sunni death squads are active in Iraq, and are responsible for the most significant increases in sectarian violence. Death squads predominantly target civilians, and the increase in death squad activity is directly correlated with the increase of civilian casualties. Coalition forces and the ISF are actively targeting elements that participate in death squad activity.

Militias and Other Armed Groups

Militias and small, illegally armed groups operate openly and often with popular support. This is especially true in areas where the Government of Iraq is perceived as unable to provide effective social and security services for the population. Militias—whether legal or illegal—provide an element of protection for select portions of the populace, usually on an ethno-sectarian basis, resulting in, overall, a more dangerous environment for the Iraqi community. Some militias also act as the security arm of organizations devoted to social relief and welfare, lending these armed groups further legitimacy. Whether operating within or outside the law, these armed groups operate separately from formal public safety structures. Their continued existence challenges the legitimacy of the constitutional government and provides a conduit for foreign interference. An effective disarmament, demobilization, and reintegration program is essential to meeting near- and long-term security requirements for Iraq.

Although a number of militias and illegal armed groups have operated in Iraq since before the liberation, the groups that are affecting the current security situation the most are the Badr Organization and JAM.

The Badr Organization is an authorized militia under the Iraqi Transitional Administrative Law that pre-dated the present Constitution, and the organization actively participates in the Iraqi government. The Badr Organization has not engaged in active violence against Coalition forces or the Government of Iraq; it attacks Sunni targets and in the past has also confronted JAM in an effort to prevent its expansion of power and influence among the Shi'a. The Badr Organization receives financial and materiel support from Iran, and individuals from Badr have been implicated in death squads.

JAM is not a legal militia under Iraqi law. However, it is well known and supported popularly in Baghdad and the southern provinces of Iraq, and has achieved a measure of tolerance from elements of the Government of Iraq. JAM is closely associated with the Office of the Martyr Sadr and is nominally responsive to his direction. Most, but not all, JAM elements are following Sadr's order not to engage Coalition forces or the ISF except in self-defense. Still, violence between JAM, the Iraqi Army, and to a lesser extent Coalition forces, is frequent. Rogue JAM elements are among the main perpetrators of sectarian violence, and JAM members frequently participate in death squad activities. As described above, JAM and Badr Organization members have periodically attacked one another in the past and are political rivals, but intra-Shi'a conflict has taken a back seat to the ongoing battle of violence and revenge between al-Qaeda in Iraq and elements of JAM. Like Badr, JAM receives logistical support from Iran.

The *Peshmerga* are, technically, not a militia, but have the status of an authorized armed force. The *Peshmerga* maintain security independently within and along the borders for the Kurdish Regional Government. Some elements are integrated into the IPS. The *Peshmerga* predominantly operate in Kurdish regions, but have also been employed in the private security company role outside of Kurdistan. The *Peshmerga* do not attack or oppose Coalition forces or the ISF. In some cases, *Peshmerga* provide security for Coalition reconstruction efforts. Over the long term, however, the perceived dual allegiance of the *Peshmerga* is potentially inconsistent with effective national security and governance.

Unlike the Kurdish and Shi'a militia groups, Sunni Arabs do not have formally organized militias, but rely on neighborhood watches, Rejectionists, and, increasingly, al-Qaeda in Iraq. The presence of *Peshmerga*, Badr Organization, and JAM individuals in the IPS and the National Police contributes to Sunni concerns about the potential for persecution and partisanship. The rise of sectarian attacks is driving some Sunni and Shi'a civilians in Baghdad and the mixed-ethnic provinces to support militias. Such support is likely to continue in areas where Iraqi institutions and forces are perceived as unable to provide essential services or meet security requirements.

Criminals

Without an apparent political motive, conventional criminal elements are also capitalizing on the instability in Iraq, although it is increasingly difficult to distinguish among activities conducted by criminal, insurgent, and terrorist groups, as all are engaged in kidnappings, extortion, assaults, and other illegal behavior. In some cases, criminal

gangs work with terrorist organizations, with the former abducting hostages and selling them to the latter, which can use their captives for publicity or to obtain ransom. The various groups involved in illicit activity are doing so to generate revenue, expand their influence, and facilitate further criminal, terrorist, or insurgent operations.

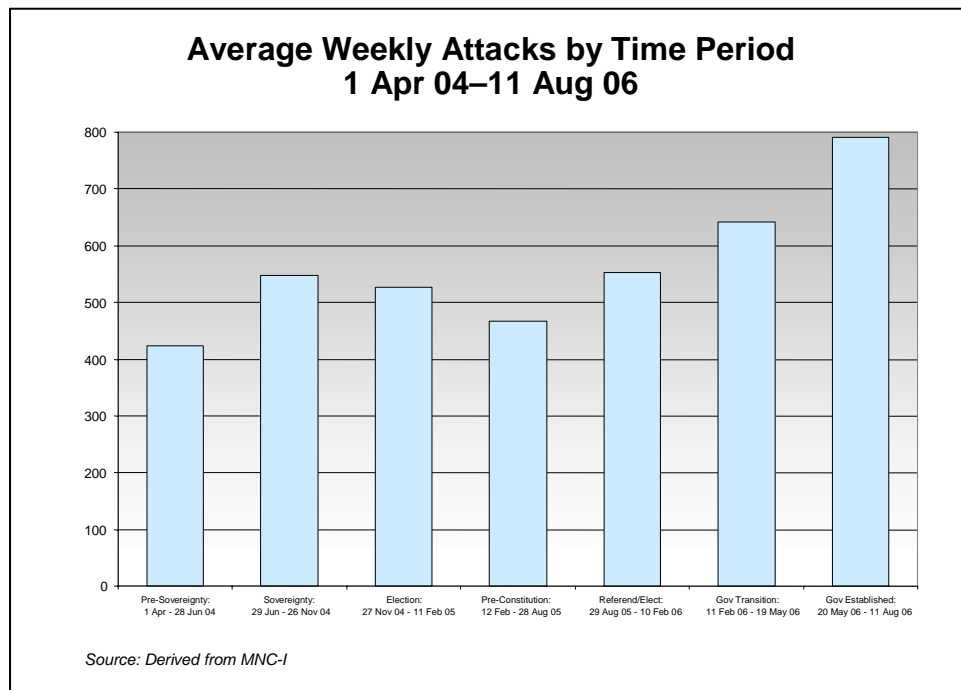
Attack Trends and Violence

For this report, the term “attacks” refers to specific incidents reported in the Multi-National Corps-Iraq (MNC-I) Significant Activities database. It includes known attacks on Coalition forces, the ISF, the civilian population, and infrastructure.

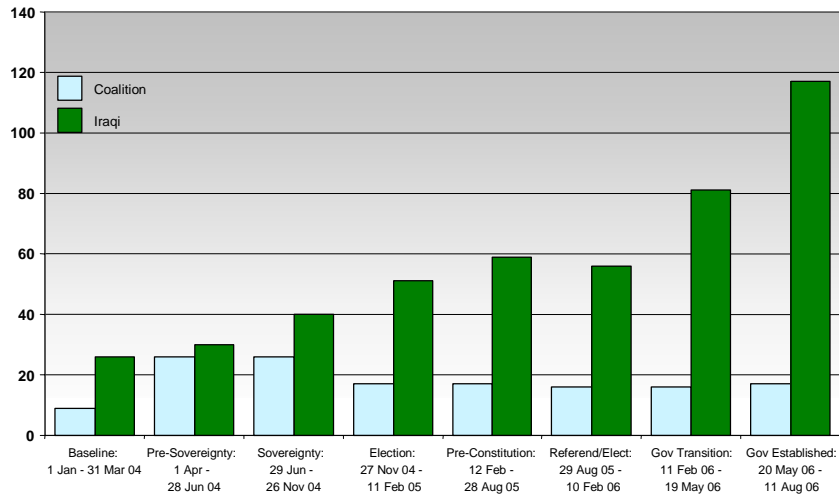
In the government establishment period beginning May 20, 2006, the average number of weekly attacks increased 15% compared to the previous reporting period. Weekly attack levels in July 2006 were the highest to date. Coalition forces continued to attract the majority (63%) of attacks. However, the ISF and civilians continued to suffer the majority

of casualties. Overall, Iraqi casualties increased by 51% compared to the previous quarter. Most attacks targeting Coalition forces were “stand-off” attacks, not involving close-up confrontations between Coalition forces and insurgents. Such attacks typically consisted of improvised explosive devices (IEDs), small arms fire, and indirect fire weapons. The number of car bombs this quarter increased to levels last seen in the summer of 2005. Over the last quarter, car bombs were largely centered on Baghdad, Mosul, Kirkuk, and the Western Euphrates valley, and primarily targeted civilians or ISF checkpoints.

Although the overall number of attacks increased in all categories, the proportion of those attacks directed against civilians increased substantially. Nationally, in April 2006, civilians were the target of 11% of attacks; this increased to 15% in June 2006. Baghdad showed a more pronounced shift in the targeting of civilians compared to the national trend. In Baghdad, civilian targets comprised 15% of total attacks in April and



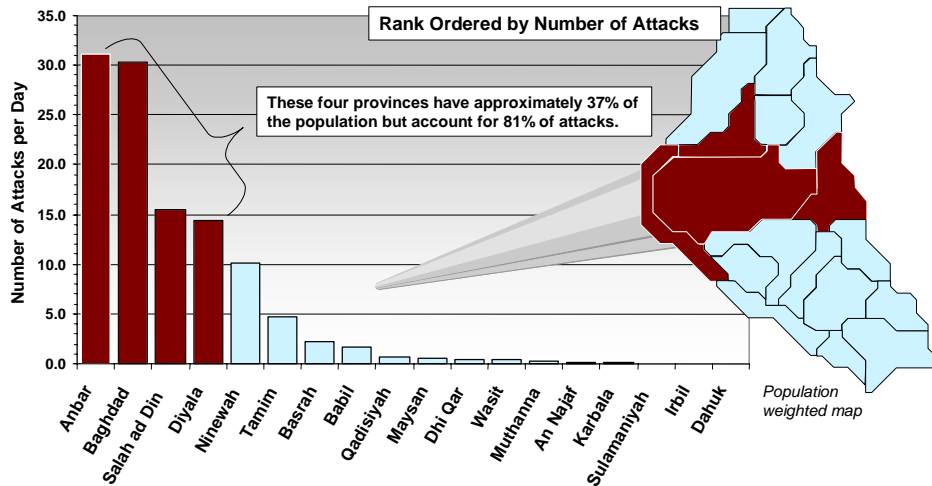
Average Daily Casualties* – Iraqi (including ISF) and Coalition 1 Apr 04–11 Aug 06



* Casualty data reflect updated data for each period and are derived from unverified initial reports submitted by Coalition elements responding to an incident; the inconclusivity of these numbers constrains them to be used only for comparative purposes.

Source: Derived from MNC-I

Total Attacks by Province 20 May–4 Aug 06



Source: Derived from MNC-I

22% in June. The increase in attacks over the past two quarters reflects heightened sectarian tension following the Golden Mosque bombing and increased death squad activity.

Four of Iraq’s 18 provinces (Anbar, Baghdad, Diyala, and Salah ad Din) continue to experience the majority of attacks. Anbar and Baghdad are the worst affected provinces,

accounting for 55% of all attacks. Further, Ninewah and Tamim have seen significant increases in attacks over the last quarter.

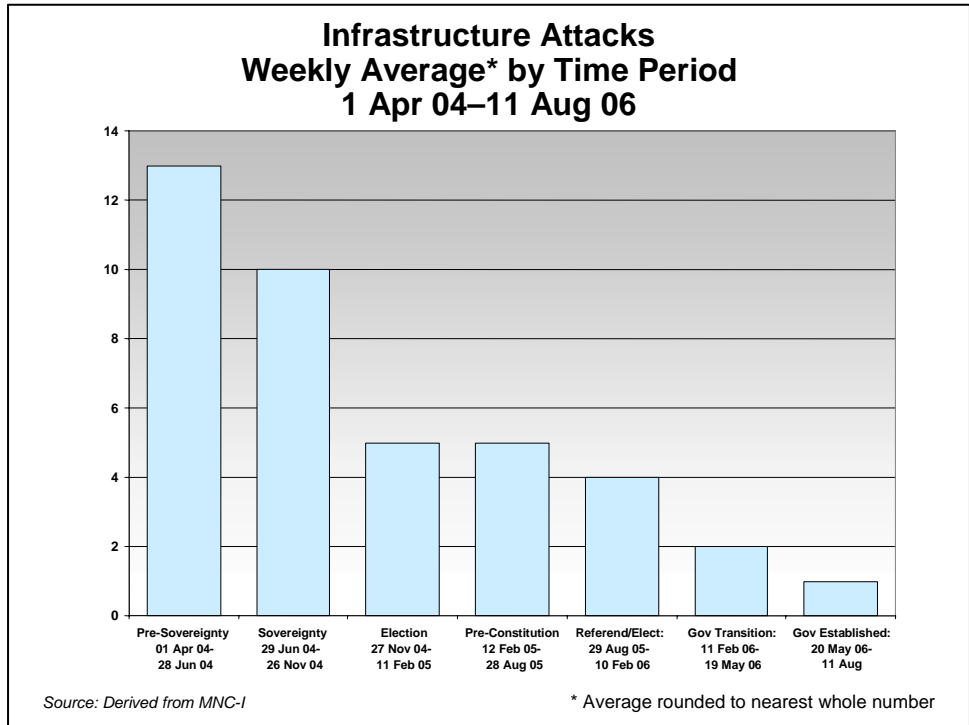
Infrastructure Attacks

The average weekly number of attacks on critical infrastructure providing essential services to the Iraqi people, such as electrical power, water, and fuel, continued to decline over the past quarter, decreasing from an average of five per week to an average of two per week. However, the effect of these attacks has been disproportionate to their numbers for several reasons. Most notable among these is the slow rate of repair to damage from previous attacks. At other times, Iraqi officials may be slow in initiating repairs. Infrastructure repair is often hampered by insurgent or other criminal intimidation of maintenance workers. Not all attacks and intimidation are the result of insurgent or other anti-government activity, as described in the economic section. Criminal activities, such as extortion and black marketeering, also have outlets in

disrupting public essential services. Although the number of attacks is decreasing, the essential services infrastructure will continue to be a high-value target for enemy elements. Successful attacks on the infrastructure adversely affect the legitimacy of government in the minds of the civil population by reducing the supply of essential services.

Concerns of Civil War

Sustained ethno-sectarian violence is the greatest threat to security and stability in Iraq. Breaking this cycle of violence is the most pressing immediate goal of Coalition and Iraqi operations. Conditions that could lead to civil war exist in Iraq, specifically in and around Baghdad, and concern about civil war within the Iraqi civilian population has increased in recent months. Notwithstanding this concern, there is no generally agreed upon definition of civil war among academics or defense analysts. Moreover, the conflict in Iraq does not meet the stringent international legal standards for civil war. However



defined, movement toward civil war can be prevented. The U.S. and Iraqi governments are continuing the military, diplomatic, and political actions needed to prevent a civil war and bring the situation in Baghdad under control. Sectarian violence is largely confined to the communal level. Furthermore, the Iraqi institutions of the center are holding. Iraqi leaders must take advantage of the popular support for democracy, a unified Iraq, and opposition to violence to form institutions that take responsibility for Iraq's security.

Sectarian tensions increased over the past quarter, demonstrated by the increasing number of executions, kidnappings, attacks on civilians, and internally displaced persons. According to an estimate by the United Nations, 22,977 families—137,862 individuals—have been displaced in Iraq since the February 22, 2006, Samarra Mosque bombing. Sectarian violence is concentrated on the boundaries of mixed and ethnically dominated areas of Baghdad and in southwestern Diyala Province.

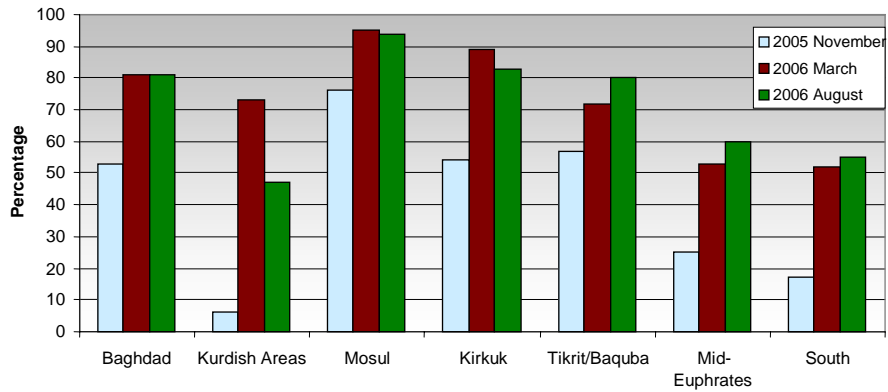
According to MNC-I reporting, civilian casualties increased by approximately 1,000 per month since the previous quarter. Executions in particular reached new highs in the month of July. The Baghdad Coroner's Office

reported 1,600 bodies arrived in June and more than 1,800 bodies in July, 90% of which were assessed to be the result of executions. This is due to increased targeting of civilians by al-Qaeda in Iraq and the increase in death squad activity.

Sunni and Shi'a extremists, particularly rogue JAM elements and al-Qaeda in Iraq, are, as noted, interlocked in retaliatory violence and are contesting control of ethnically mixed areas to expand their areas of influence. Throughout the past quarter, rogue JAM members continued a campaign of overt executions and mass kidnappings of Sunni civilians. At the same time, Sunni extremists continued to respond by carrying out large-scale and mass-casualty bombings of Shi'a gatherings and culturally significant sites.

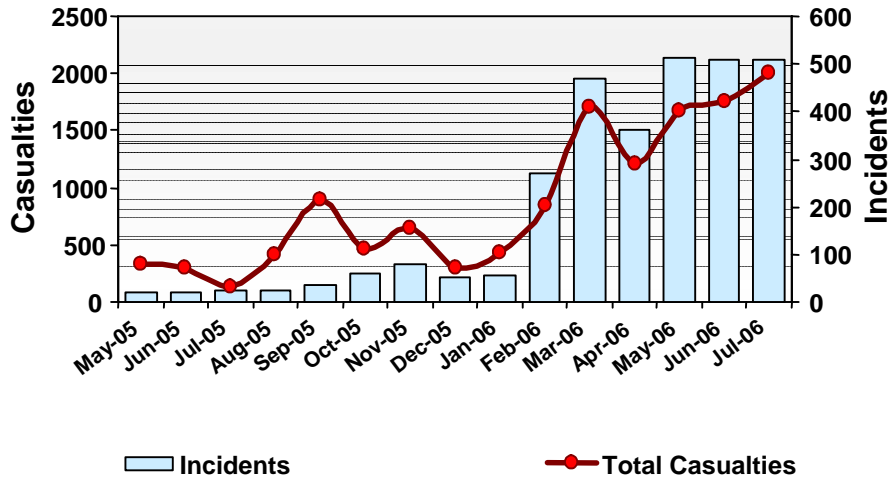
Attacks on Shi'a by al-Qaeda in Iraq and other Sunni elements are apparently designed to inflame sectarian tension, which in turn generates and results in retaliatory attacks on Sunni civilians by rogue Shi'a elements. These rogue Shi'a actions increasingly appear intent on securing Shi'a enclaves and establishing control of contested areas of Baghdad. Coalition forces and the ISF are responding by increased targeting of both Sunni and Shi'a death squads.

Are you very/somewhat concerned that a civil war might break out in Iraq?



Source: Department of State, Office of Research, November 2005/March 2006/August 2006
 Sample sizes: November 2005
 Baghdad-1,365; Kurdish Areas-637; Mosul-521; Kirkuk-213; Tikrit/Baquba-597; Mid-Euphrates-1,017; South-910
 March 2006
 Baghdad-213; Kurdish Areas-313; Mosul-123; Kirkuk-112; Tikrit/Baquba-211; Mid-Euphrates-550; South-448
 August 2006
 Baghdad-911; Kurdish Areas-469; Mosul-371; Kirkuk-142; Tikrit/Baquba-361; Mid-Euphrates-678; South-684
 Margin of error: $\approx \pm 4\%$ for the overall sample, but varies among regions

Sectarian Incidents



Source: MNF-I

Public Perceptions of Security

Ultimately, stability and security in Iraq depend on the support of the Iraqi people. In general, Iraqis have had an optimistic outlook on their future and the overall security situation. However, as time has passed, their optimism has eroded. The aftermath of the Golden Mosque bombing and the growing sectarian violence continue to shape their perceptions. As sectarian violence increases, the view of the security situation worsens. With the view that Baghdad is the key to Iraq, a similar sentiment toward security exists there.

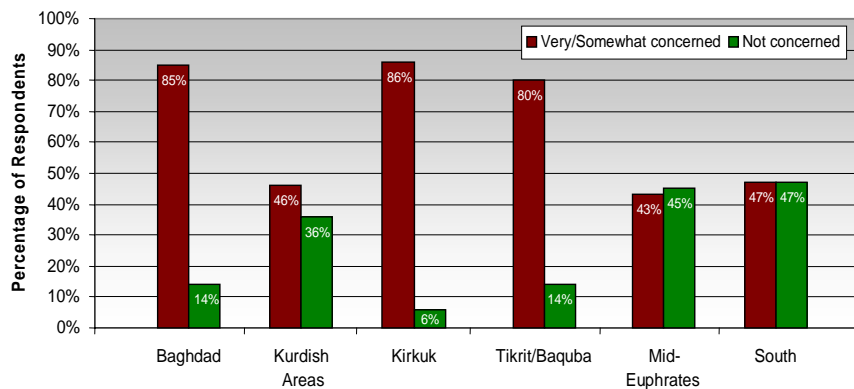
An indication of support for the Government of Iraq within the country is the level of confidence that the Iraqi people expressly place in the ISF Forces, especially when compared against militias or other illegal armed groups. Since the previous report, confidence in the Iraqi Army has remained generally constant, with the notable exception of Baghdad, where public confidence improved. Despite the increase in violence, confidence in the Iraqi Army rose from 69% to 78%. Despite the recent violence in Basrah, polling data that

include the Basrah area indicate increased confidence in both the police and the Iraqi Army over the last reporting period. Confidence in militias is mixed, with a rise in confidence in Baghdad countering an overall downward confidence trend elsewhere.

The perceptions of the Iraqi population will slowly respond to visible, effective actions performed by the IPS. It will take continued diligence on the part of the Iraqi Police to be seen as actively patrolling their areas and arresting individuals for criminal activity, while paying particular care to avoid the appearance of sectarianism.

Another indicator is Iraqi use of the intelligence hotline for providing tips to authorities about suspicious activity. The population has continued to demonstrate its willingness to report such activity and thereby support the government's efforts against terrorism. Since mid-March, the number of tips has increased (see following chart). Continued timely and effective response of the IPS to these tips should increase the confidence of the population.

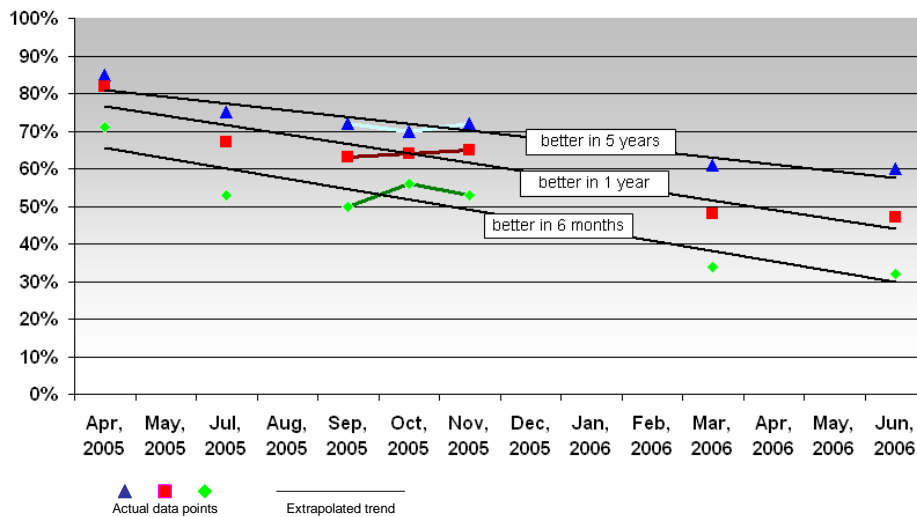
How concerned are you about an increase in sectarian or ethnic violence in Iraq?



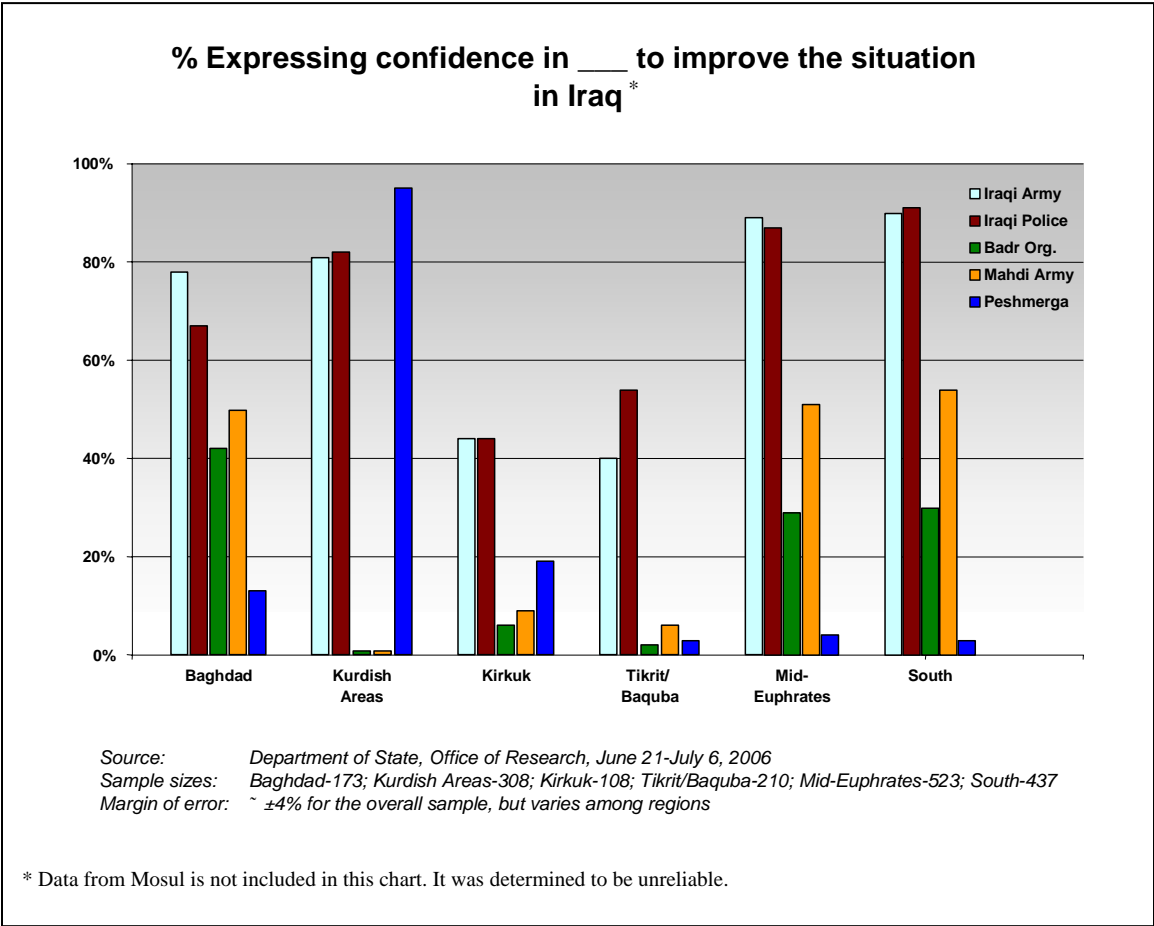
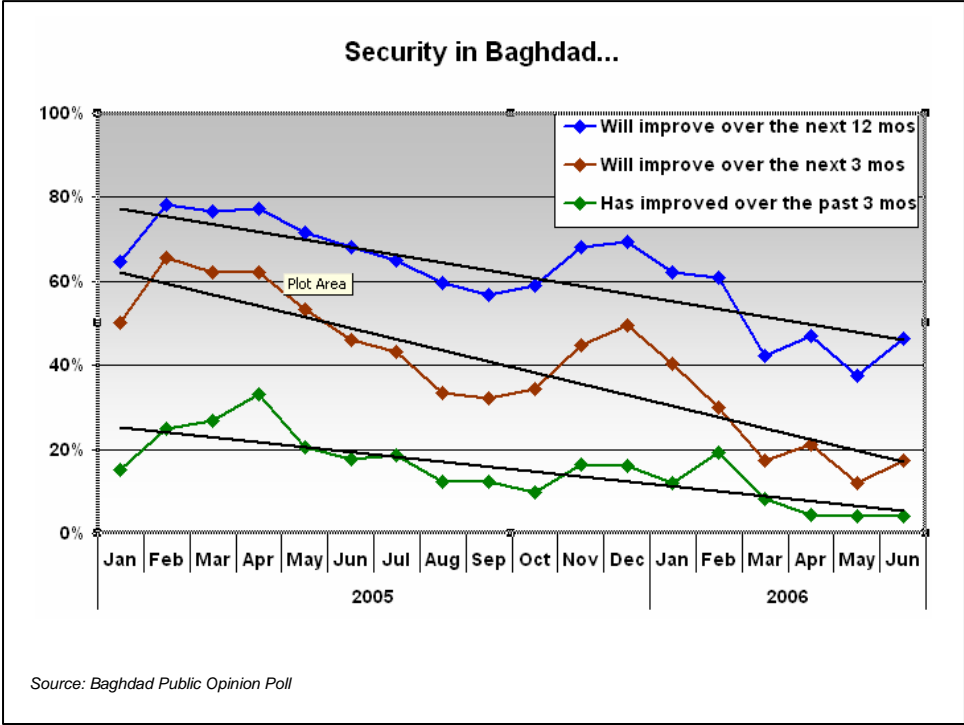
Source: Department of State, Office of Research, June 21-July 6, 2006
 Sample sizes: Baghdad-173; Kurdish Areas-308; Kirkuk-108; Tikrit/Baquba-210; Mid-Euphrates-523; South-437
 Margin of error: $\approx \pm 4\%$ for the overall sample, but varies among regions

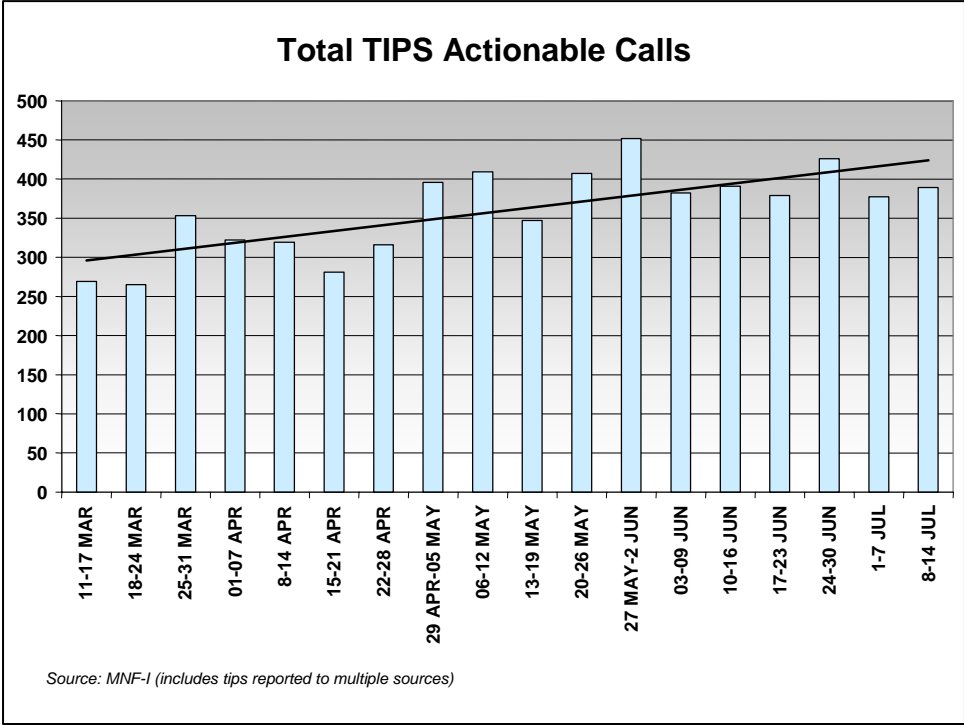
* Data from Mosul is not included in this chart. It was determined to be unreliable.

TREND: Thinking about the future, do you feel that things will be...



Source: International Republic Institute Polling Data, June 14-24, 2006
 Sample size: 2,849
 Margin of error: $\pm 3\%$ (see IRI website for further methodology)





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2. Iraqi Security Forces Training and Performance

The ISF continue to grow in strength and capability as indicated by:

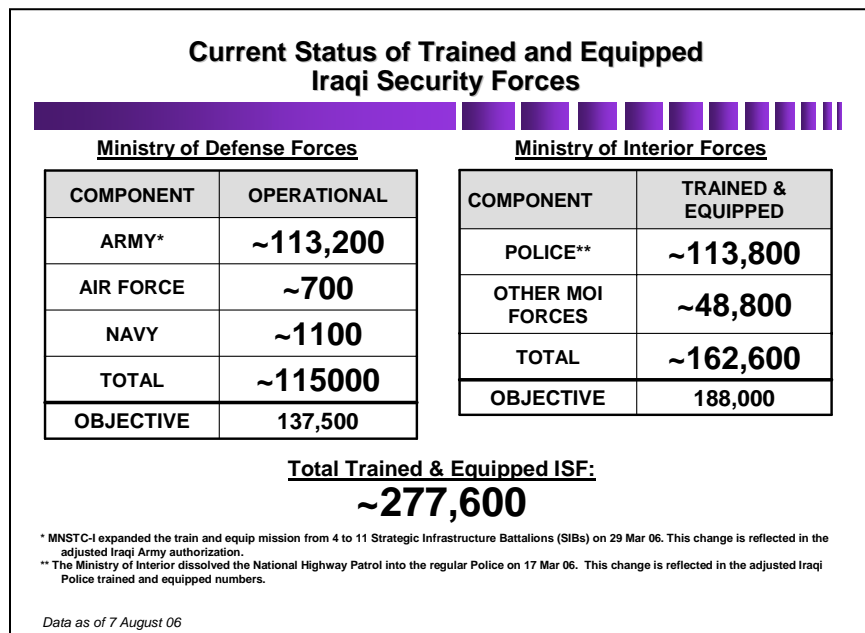
- progress in the training and equipping of ISF personnel;
- assessed capabilities of operational units; and
- progress in assuming responsibility for security of areas within Iraq.

Institutional capability within the MOD and the MOI is an increasingly important indicator of the transition to Iraqi security self-reliance. As the MOD and the MOI continue to staff, train, and equip forces, increased emphasis is placed on the development of institutional capacity to direct, support, and sustain the ISF.

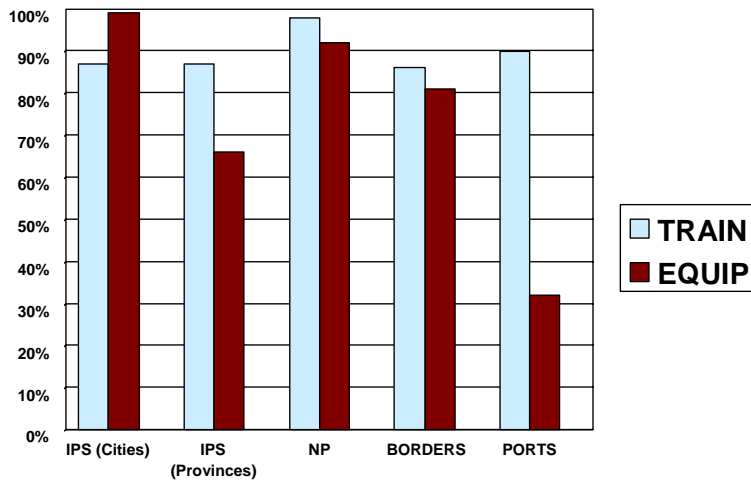
2.1 Progress in Training and Equipping the Iraqi Security Forces

Force generation continues on schedule this quarter. More than 14,000 additional Iraqi soldiers and police have completed initial training and equipping since May 2006, bringing the total number of ISF trained and equipped to 277,600.

More than 92% of authorized Iraqi Army battalions are assembled. Train-and-equip efforts remain focused on building combat support and combat service support forces providing key enablers to Iraqi combat forces. When fully established, these units will provide critical combat enablers, such as logistics and transportation support, intelligence, surveillance, and reconnaissance. More than 65% of authorized personnel in the Iraqi Army support forces have been trained and equipped. Logistics units and overall logistics capability continues to improve.

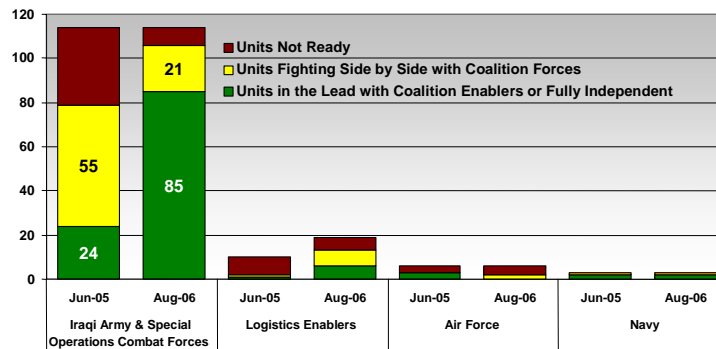


MOI security forces are overall 84% trained and equipped. Baghdad, the other 10 critical cities, and the National Police are at 90% trained and equipped and are expected to reach 100% next quarter. Progress continues to support achieving Objective Civil Security Force goals by December 2006.



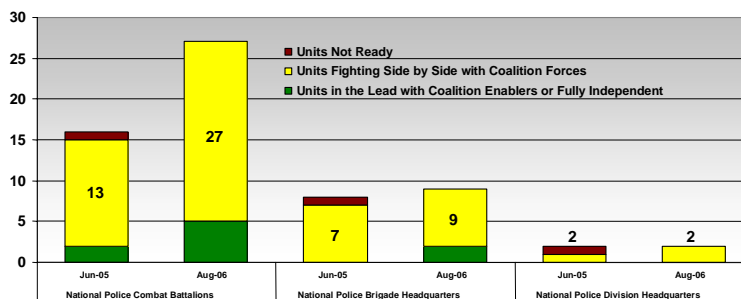
Data as of 15 July 2006

MOD Forces' Assessed Capabilities



Data as of 7 August 2006

MOI National Police Forces' Assessed Capabilities



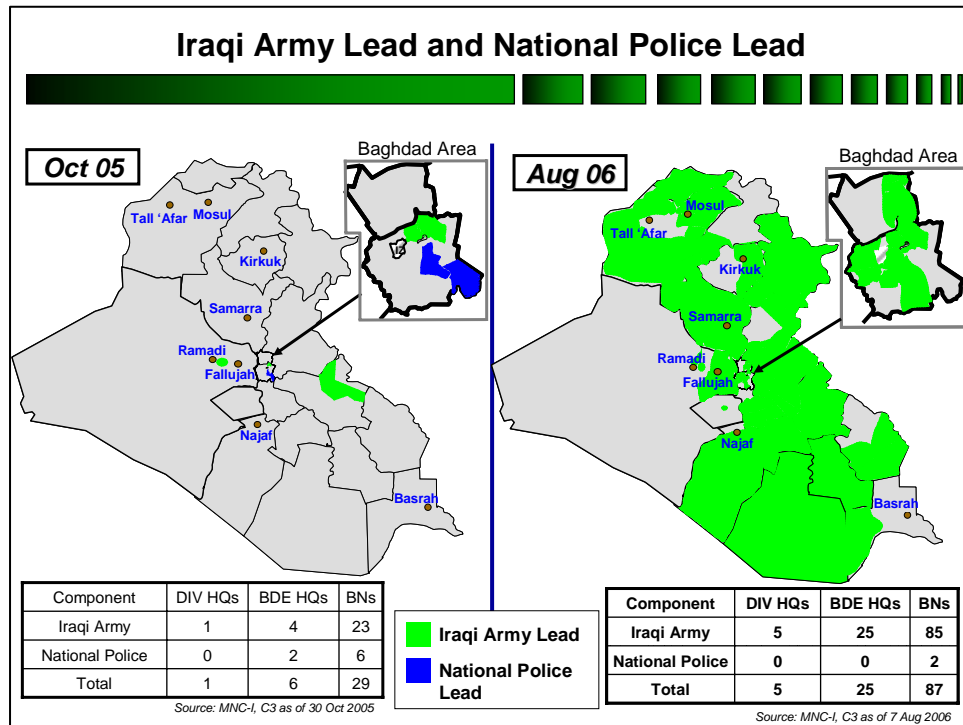
Data as of 7 August 2006

2.2 Progress in Assuming Leadership in Counter-Insurgency

The ISF are increasingly taking the lead in operations and assuming primary responsibility for the security of their nation, as Iraqi army and police forces demonstrate an increased capability to plan and execute counter-insurgency operations. The following charts depict this progress. As of August 7, 2006, 5 Iraqi Army divisions, 25 brigades, and 85 battalions, and 2 National Police battalions assumed lead responsibility for security in their areas of operation.

In total, there are 106 Iraqi Army combat battalions and 8 Strategic Infrastructure Battalions (SIBs) conducting operations at varying levels of assessed capability. Another three combat battalions are in the process of forming. In addition, 27 National Police battalions are now operational and active. The green shaded areas on the maps above depict areas where Iraqi Army units have assumed the lead for security responsibility. A unit can

assume the lead once it has been thoroughly assessed and has demonstrated that it is capable of planning and executing combat operations. Although these units lead security operations, most still require support from Coalition forces because their logistics, sustainment, and command and control capabilities are not fully developed. The Coalition's primary force development objective to date has been to produce trained, equipped, and capable combat units; there has been less emphasis placed on enablers, including logistics and command and control. Now that more than two-thirds of the Iraqi Army combat units are in the lead, the Coalition's focus will shift more toward helping the Iraqis develop these enablers. MNF-I will also continue to help improve the capacity of the MOD to organize, train, equip, sustain, and modernize its forces, with the goal of eventually eliminating the Iraqi Army's reliance on Coalition support.



2.3 Ministry of Interior

The objective for the MOI, in partnership with the Ministry of Interior Transition Team (MOI-TT), is to become a forward-looking ministry that is effective, efficient, accountable, representative, appropriately structured to deal with the prevailing security conditions, and staffed by people who are committed to upholding the rule of law. The MOI forces consist of the IPS, the National Police, the border forces, and the Center for Dignitary Protection.

The MNF-I initiative to develop professional civil security forces able to assume the lead for the security of the Iraqi people has been dubbed the “Year of the Police.” The focus is on creating a force loyal to the people of Iraq and its Constitution, and committed to guaranteeing human rights and the rule of law. This was designated as one of MNC-I’s main efforts in 2006.

Mentoring of civil security forces is conducted by Police Transition Teams (PTTs), National Police Transition Teams (NPTTs), Border Transition Teams (BTTs), and Customs and Border Protection Teams (CBPTs). More than 160 PTTs are assisting the development of the IPS. Because of the large number of police stations dispersed throughout Iraq, the PTT program has initially focused on provincial headquarters, district headquarters, and Iraqi police stations in key strategic cities, but will spread to other stations throughout the country as more stations achieve a higher level of readiness. To conduct their mission, the PTTs travel to their assigned stations to train, teach, and coach the Iraqi police and to conduct joint patrols with their Iraqi counterparts.

The integration of International Police Liaison Officers (IPLOs) into the PTTs significantly increased the Coalition force’s ability to

develop the IPS. The IPLOs provide the civilian police with expertise in all technical aspects of criminal investigation and police station management. The deployment of five additional Military Police companies in July 2006 added extra PTTs, enabling the expansion of the program to assess and assist in the development of the IPS.

Twenty-seven BTTs mentor and enable development of border forces. Additionally, Department of Homeland Security Customs and Border Patrol Teams (CBPTs) provide critical mentorship at ports of entry, while 38 National Police Transition Teams (NPTTs) continue to support the development of the National Police units. These transition teams are intended to improve the readiness and capability of their MOI partner units.

The Coalition Police Assistance Training Team (CPATT) is on track to meet the goal of recruiting and training the authorized number of MOI forces by the end of December 2006. The force generation of the Department of Border Enforcement (DBE) and the IPS will occur in November 2006 and December 2006, respectively. Specialized police units, such as the Criminal Investigative Division (CID) and the National Information and Investigative Agency (NIIA), will be trained by the end of 2006.

Iraqi Police Service

The IPS is composed of patrol, traffic, station, and highway police assigned throughout Iraq’s 18 provinces. Its mission is to enforce the law, safeguard the public, and provide internal security at the local level.

CPATT has trained and equipped approximately 113,800 IPS personnel, an increase of 12,600 since the May 2006 report. CPATT projects that it will have trained and equipped 135,000 IPS by December 2006. Although the

force will be manned in the aggregate by the end of the year, proper distribution is a challenge. Certain areas have a shortage of trained officers while additional hiring in other areas has resulted in an overage in the force.

As of July 24, 2006, 71,324 police recruits have received training in the 10-week basic course. Police officers with prior experience attend a 3-week course, the Transitional Integration Program (TIP), instead of attending the full 10-week basic course. Originally intended only for police trained during the Saddam regime, the TIP was expanded in July to include serving police officers who have not been trained but who have served on the force for at least one year. The TIP includes training on human rights, crime defensive tactics, democratic policing, first aid, patrol procedures, firearms (9mm and AK-47), and anti-terrorism. The Officer Transitional Integration Program (OTIP) course curriculum includes democratic policing, human rights, first aid, police ethics, supervision and leadership, use of force, firearms (9mm and AK-47), communications and problem-solving skills, anti-terrorism, patrol procedures, critical for officers, and police investigations. Some 41,051 police officers have graduated from the TIP and OTIP programs.

IPS Operations

The IPS constitutes the majority of MOI forces in the country. Each month, PTTs assess the operational readiness of a portion of the police forces, using the Transition Readiness Assessments (TRA) process. The TRA evaluates the police on the core functions required for effective law enforcement and community policing. Shortages of PTTs has limited observation of the IPS in Anbar, Babil, Basrah, Tamim, Wasit, Karbala, Maysan, Ninawah, Qadisiyah, Salah ad Din, Irbil, Dahuk, and Sulamaniyah provinces.

However, the recent arrival of five additional Military Police companies will greatly increase the ability to assess the IPS.

IPS Recruiting and Vetting

More than 230,000 MOI employees have been screened by the Iraqi Police Screening Service, which checks fingerprints against Ba'ath Party records and Saddam-era criminal records. Of these, 5,300 were reported as possible derogatory matches, and 74 have been dismissed. There is currently no screening process to ascertain militia allegiance. More than 54,000 police candidates have been screened for literacy by Morris & McDaniel, 73% of whom passed and were allowed to enter basic training. Currently, no method exists to track the success rates of these or other police officers.

IPS Equipment

The IPS is equipped with AK-47s, PKC light machine guns, Glock pistols, individual body armor, high frequency radios, small and medium pick-up trucks, and mid-sized SUVs. The IPS in Baghdad and the nine other key cities had been provided with 99% of their authorized equipment at the end of June 2006. They will have received 100% by mid-August 2006. The IPS in all 18 provinces have been provided with 66% of their authorized equipment and will receive 100% of their authorized equipment by the end of December 2006.

IPS Leadership

Leadership in the IPS is the cornerstone for success. The IPS currently has three leadership courses to develop high-quality leaders. The First Line Supervisor Course is designed for company grade officers. The Intermediate-Level Course is designed for field grade officers, and the Senior-Level Course is designed for General Officers. Each course is

two weeks long. Program topics are designed for the target audience and include human rights, discrimination, right to life, code of conduct, democratic policing, modern policing, the role of the supervisor, communication and the supervisor, delegation, change management, ethics, police corruption, problem employees, community policing, field training police leadership, history of management, modern supervision in today's law enforcement organizations, crime scene management, civil disorder, records management, budgeting, logistics, equipment and facilities management, group problem solving, mission values, six-step problem-solving models, overview of law enforcement planning, strategic planning, motivational theory, and analyzing employee performance problems. A plan is in place to develop a more extensive Intermediate-Level Officers course, slated to begin in the fall of 2006.

The Officer Education System has been successful in developing junior leaders loyal to the Iraqi people. However, certain senior leaders are products of the former regime and continue to view leadership as an entitlement, not a responsibility. As these officers are identified, they are removed.

National Police

Organized into a National Police Headquarters, two National Police Divisions, the 1st National Police Mechanized Brigade, and the Emergency Response Unit (ERU), the National Police are charged with maintaining law and order while an effective community police force is developed.

The National Police Headquarters provides command and control, staffing, equipping, training, and sustainment for these National Police Forces. It also commands the two training and professional development academies at Camp Solidarity and Camp Dublin.

The 1st and 2nd National Police Divisions reached 99% of equipping and authorized manning by July 2006 and will continue to progress through TRA levels, with the completion of force generation by December 2006.

Unprofessional and, at times, criminal behavior has been attributed to certain units in the National Police. This behavior and the decrease in public confidence in these forces has been the impetus for a National Police reform program. Each unit and its leaders will be assessed by a joint (Coalition and Iraqi) committee. Substandard leaders at all levels will be removed and units will undergo re-training.

National Police Training and Personnel

There are currently approximately 24,300 trained and equipped National Police, an increase of approximately 1,600 since the last report. They are trained in Iraqi law, human rights, the rule of law, and democratic policing techniques at the National Police Academy.

New recruits undergo six intense weeks of training at the academy in northern Baghdad. Training includes weapons qualification, urban patrolling techniques, unarmed combat apprehension, use of force, human rights and ethics in policing, introduction to Iraqi law, vehicle checkpoints, and IED characteristics and recognition.

National Police Operations

All National Police battalions are currently conducting counter-insurgency operations, with two battalions having security lead for their areas of responsibility. NPTTs are embedded at all levels of the National Police units, down to the battalion level. All National Police units work in Combined Operations

Areas (COAs) and partner with Coalition forces who provide support and advice.

National Police Recruiting and Vetting

The MOI recruits and vets the National Police force. Coalition forces provide advisors for the recruiting process, but neither actively recruit nor provide lists of names of recruits to the MOI. A National Police officer is recruited and provided an academy start date; upon arrival at the National Police academy, the candidate is interviewed by a senior staff officer (either a Colonel or Brigadier General). If he or she passes the interview, the officer is admitted to the academy. The individual's personnel file is then forwarded to the MOI, where a vetting team reviews it. If the officer is certified by the vetting process, he or she will be retained and allowed to complete the academy. If the candidate is disapproved, the officer is immediately removed from the academy.

National Police Equipment

The National Police have received 92% of their authorized equipment and will have received 96% of their authorized equipment by the end of November, missing its goal of 100% by a small margin. They will have received 100% of their authorized equipment by the end of December. The police are equipped with small arms, medium machine guns, and RPGs, and they patrol in light trucks. The mechanized battalions are equipped with Armored Security Vehicles and REVAs, a South African wheeled APC.

Department of Border Enforcement and Department of Ports of Entry

The DBE and the Department of Ports of Entry (POE) are collectively charged with controlling and protecting Iraq's borders.

DBE Training and Personnel

The DBE has 23,900 trained and equipped personnel, an increase of 1,800 since the previous report. The DBE is organized into 5 regions, 12 brigades, and 38 battalions, and includes the forces that staff 258 border forts.

Three academies, each with a capacity of approximately 800, train border patrol forces. The Iraqi Border Patrol Basic Training Course focuses on an introduction to law enforcement, human relations, human rights, weapons qualification, combat life saving, vehicle searches, Iraqi border law, arrest and detainee procedures, and small unit patrolling.

DBE and POE Operations

The DBE is supported by 27 Coalition Border Transition Teams (BTTs). The 11-man BTTs mentor and support the development of the border units. The BTT members are trained in various specialties, including logistics and communications, and provide critical assistance to the border force commanders in the areas of personnel management, intelligence, operations, budgeting, equipment accountability, and maintenance. Additional BTTs deployed in early June to support the development of the POE at critical high-threat border crossings. In February 2006, MNF-I supported the accelerated development of the POE through the deployment of a combined Border Support Team (BST), consisting of customs border protection agents and BTTs. In March 2006, most DBE units reached TRA Level 3, but remained short of equipment and key personnel. The DBE and POE are a higher priority for allocation of critical equipment; and cross-leveling of personnel has occurred to raise units to TRA Level 2. By November 2006, the DBE and POE are expected to have 28,360 trained and equipped personnel.

There are 14 land POEs, of which 13 are functional. Efforts continue to improve POE security. Progress in designation of POE standard organizations, delineation of responsibilities, and development of detailed policies and procedures has continued. The U.S. Department of Homeland Security, in coordination with Multi-National Security Transition Command-Iraq (MNSTC-I), has continued its rotation of Customs and Border Patrol Teams. These border security experts have had an important impact on the POEs, particularly along the Syrian border. The increased emphasis on BTTs and the Customs and Border Patrol Teams has improved DBE readiness levels, as the Coalition's expertise and mentorship affects the Iraqi border forces.

DBE and POE Equipment

Organizational equipment includes small and medium pick-up trucks, mid-size SUVs, generators, and radios. Personal equipment, including AK-47s, medium machine guns, and individual body armor, complete the outfitting of the border forces. The DBE currently has received 81% of its authorized equipment. They will have received 97% of their authorized equipment by the end of August, just short of the 100% goal for that date. They will reach the 100% goal one month later. Iraqi POEs will have received 100% of their equipment by the end December 2006.

Center for Dignitary Protection

Training and equipping of the Center of Dignitary Protection (CDP) is complete. The force of approximately 600 people has been prepared to serve as the Protective Security Details (PSDs) for Iraq's new government leaders. It is unknown how many of these personnel remain employed by MOI. An Iraqi training team assumed responsibility for training future PSD personnel in June 2006.

Facility Protection Service

In addition to the regular MOI forces, there are an estimated 145,000 Facility Protection Service (FPS) personnel who work directly for each of the 27 ministries. These forces act as security guards at government buildings and allow the IPS to police the communities. They are minimally trained and equipped, generally without Coalition oversight, and lack centralized control. FPS personnel have not always proven reliable, and some have been responsible for violent crimes and other illegal activity. Unfortunately, the FPS uniform looks similar to the police uniform, which causes many Iraqis to confuse the FPS with the better-trained IPS, undermining the reputation and credibility of the IPS. The Coalition and the Government of Iraq are establishing a program of reform to better regulate the FPS.

MOI Capacity Development

The MOI overall TRA remains at TRA 3-Partly Effective. The MOI Transition Team is working daily in the MOI, stressing planning and programming resources. The new Minister of Interior, Jawa al-Bulani, is embracing the need to reform the ministry. Logistics is the only essential system still assessed as ineffective. Improvement of the logistics system is a focal point for the next 90 days. All other major functional areas and systems are considered partly effective. Over the next 90 days, emphasis will also be placed on building a solid framework of plans, policies, and processes to ensure that the MOI can manage personnel efficiently, conduct policing operations effectively, and maintain and sustain capability.

MOI Logistics

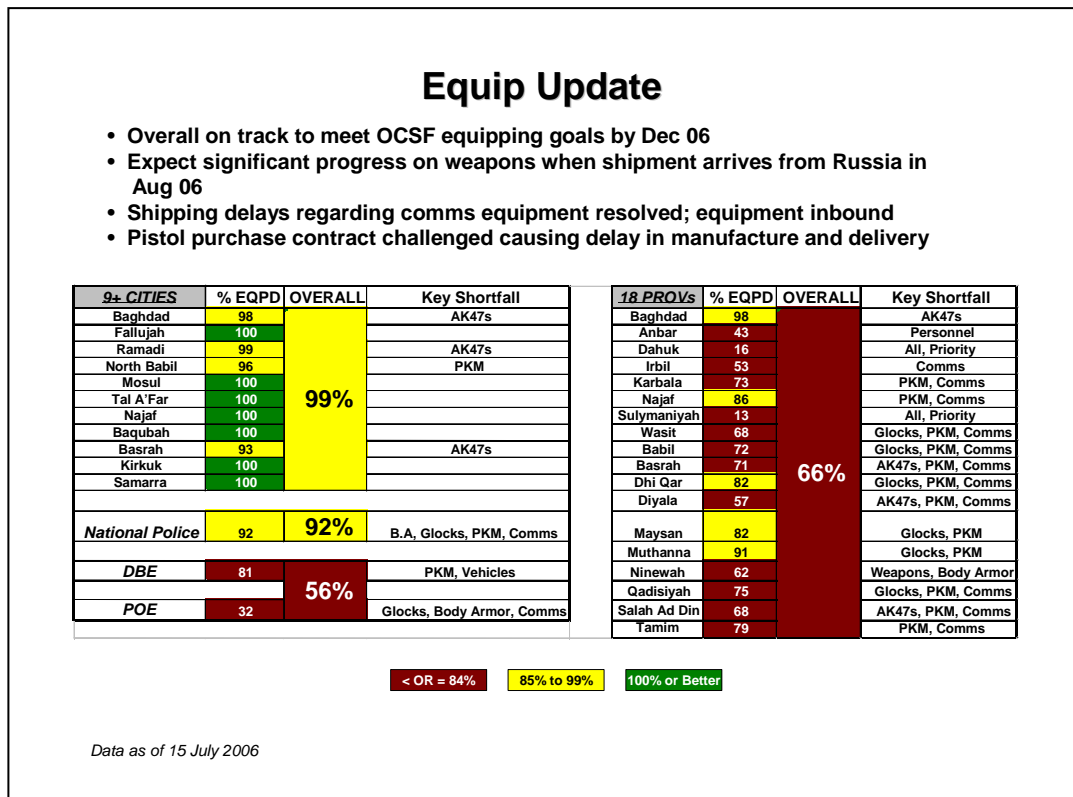
Logistics capabilities continue to be an area of significant concern for the IPS, particularly

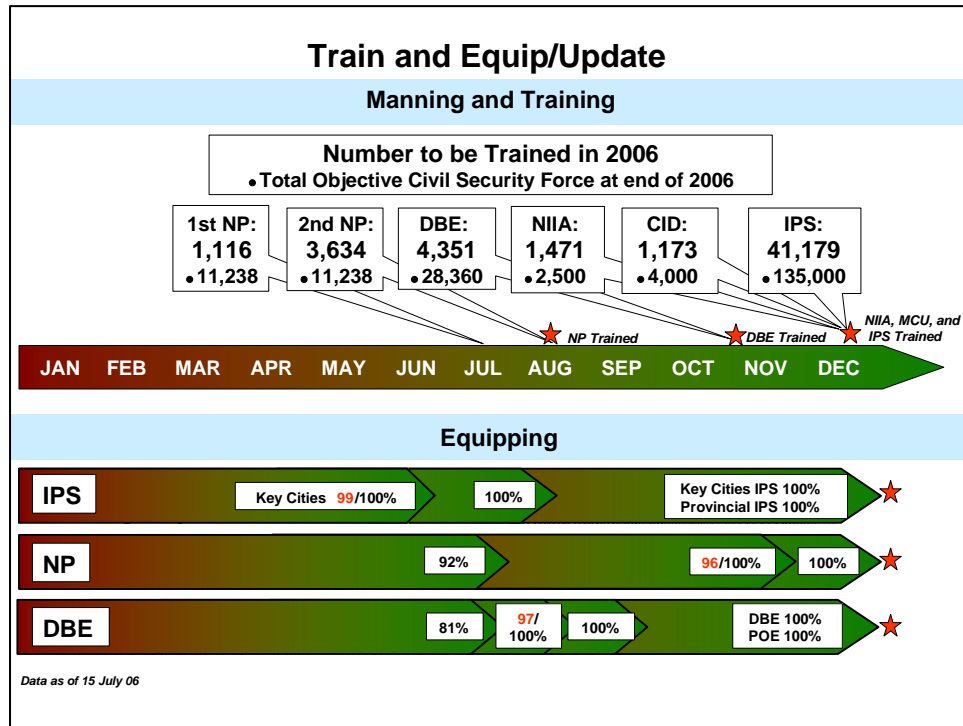
with respect to vehicle maintenance. However, accountability of equipment continues to improve as verified by reports submitted by PTTs. CPATT/MOI-TT continues to provide logistical support in both an advisory and financial capacity to assist with sustainment operations. Recently, a Director General for Logistics and staff were put in place. A 6-month vehicle maintenance contract for the National Police and the Baghdad IPS was agreed upon. Currently, there is a US\$950,000 vehicle spare parts contract for MOI forces, and a US\$350,000 vehicle spare parts contract for the National Police is in place. The average monthly logistical life support provided from April through June was US\$20,266,121, for a total of US\$60,798,363 during that timeframe. Construction of a MOI National Storage and Maintenance Facility was started in June 2006, with an estimated completion in December 2006. Currently, we are in the process of conducting a test case to hand over an LDI storage warehouse (one of seven) to

Iraqi control in August 2006. A plan is being formulated to hold a National Logistics Conference in September 2006.

MOI Equipment

MOI security forces are on track to reach December 2006 Objective Civil Security Force equipping goals. The following graph depicts the equipping status and key shortfalls of Baghdad and the 9 other key cities, 18 provinces, the National Police, the DBE, and the POEs. Equipment-issue priorities focused on equipping Baghdad, the 9 key cities, and the National Police, while simultaneously building initial functionality in the provinces, borders, and ports of entry. In general, these goals were met. However, the MOI does not currently have an effective equipment management system in place. As a result, it is unknown what percentage of the equipment issued to the MOI is still serviceable.





The equipping effort did experience unforeseen delays.

- Large shipments of Russian weapons were delayed clearing customs while exiting Russia and entering Iraq.
- Glock pistol delivery delays occurred when a U.S. manufacturer challenged the award of the pistol contract to a non-U.S. company.
- Communications gear was delayed due to shipping problems.

All matters have now been resolved and items have either arrived or are inbound. All equipment fielding goals are on track to be met by December 2006.

MOI Attrition and Absenteeism

The MOI does not currently have an effective personnel management system. As a result, it is unknown how many of the forces trained by CPATT are still employed by the MOI, or what percentage of the 146,000 police thought

to be on the MOI payroll are CPATT trained and equipped. CPATT estimates attrition to be at least 20% per year going forward. The MOI reports paying death benefits for more than 6,000 police officers since the fall of the Ba’athist regime in May 2003.

In addition to the overall number of police in Iraq, there are some issues with distribution of the police among the various provinces. For example, by the end of the year, Diyala Province will have recruited its authorized force, but will not have trained the entire authorized number. In the case of Diyala, the provincial leadership has resisted sending 100% of the force to training due to security concerns and the reluctance to take its police off the streets. Anbar, Basrah, and Ninewah may also miss their training targets for the same reason. Rather than let training seats go unfilled, other provinces were permitted to send some of their untrained personnel to training. As a result, those provinces will have more than the authorized force trained in their provinces.

As with the IPS, the National Police payroll is significantly larger than its authorized end-strength. There are currently more than 29,000 National Police on the MOI payroll, but it is unknown how many of these have been trained and equipped. Absenteeism among National Police units generally follows the same pattern as in the military. Leave policies and immature personnel management policies account for 30%–40% of personnel not present for duty. Absenteeism in the IPS is difficult to quantify because shift schedules preclude PTTs from ascertaining which police officers are absent and which are simply off-duty.

The DBE payroll is also larger than its authorized end-strength, with 25,832 DBE personnel on the MOI payroll. It is currently unknown how many untrained DBE personnel are on the rolls and how many of the trained and equipped border personnel have left the MOI. As with the other personnel issues, an effective personnel management system will help resolve these reporting and accountability deficiencies.

Sectarian Issues at MOI

The U.S. Government is committed to helping the Government of Iraq create an MOI that reflects the diversity of the Iraqi people. The goal is to create ethnically integrated units at the national level, while still allowing local police to reflect the ethnic composition of the communities in which they serve. The former Police Commandos, now part of the National Police, are becoming increasingly diverse. The former Public Order Battalions, also now part of the National Police, tend to be disproportionately Shi'a, due to a lack of Sunni participation when these units were being formed in preparation for the January 2005 elections. Merging the National Police Commandos and the Public Order Battalions into one National Police force has helped produce a more repre-

sentative National Police. Recruiting initiatives targeting Sunnis have improved the diversity. Unlike the National Police, local police forces tend to be of the same ethnic mix as the communities in which they live and work.

Corruption in MOI

In 2005, the MOI IG conducted 790 corruption-related investigations. Of these, 472 (60%) were closed. Of the 472 closed investigations, 118 (25%) were forwarded to the CPI or to a court for adjudication, 350 (74%) were closed because of "insufficient evidence," and 4 (1%) were handled as internal MOI discipline. To improve the IG's capability to investigate, the Specialized Advance Training Unit at the Baghdad Police College will train new MOI investigators. It will take approximately 18 months to train the Investigations Directorate at the basic investigator level. Beyond the IG training, improvements in leadership oversight, accountability, and reductions in sectarian and militia influence are required before Iraqis become confident that MOI forces can ensure security and uphold the rule of law in Iraq.

Foreign/Political/Militia Influence

Corruption, illegal activity, and sectarian bias have constrained progress in developing MOI forces. Inappropriate tolerance of and infiltration by Shi'a militias, some of which are influenced by Iran, is the primary concern of the Government of Iraq. A lack of effective leadership and policies to stem corruption through accountability for actions, equipment, and personnel have enabled the theft of pay and equipment, unlawful detentions, and reported cases of abduction and torture or execution of Sunnis. The minister is committed to changing corrupt leaders and instituting policies to eliminate corruption.

An additional 45 transition teams were deployed in July to increase PTT coverage across the country. As stations begin to reach TRA Level 2 in August, transition teams will expand their coverage of nearly 1,000 total stations across Iraq. This will limit infiltration by militias, improve adherence to the rule of law, and prevent complicity and participation in sectarian violence.

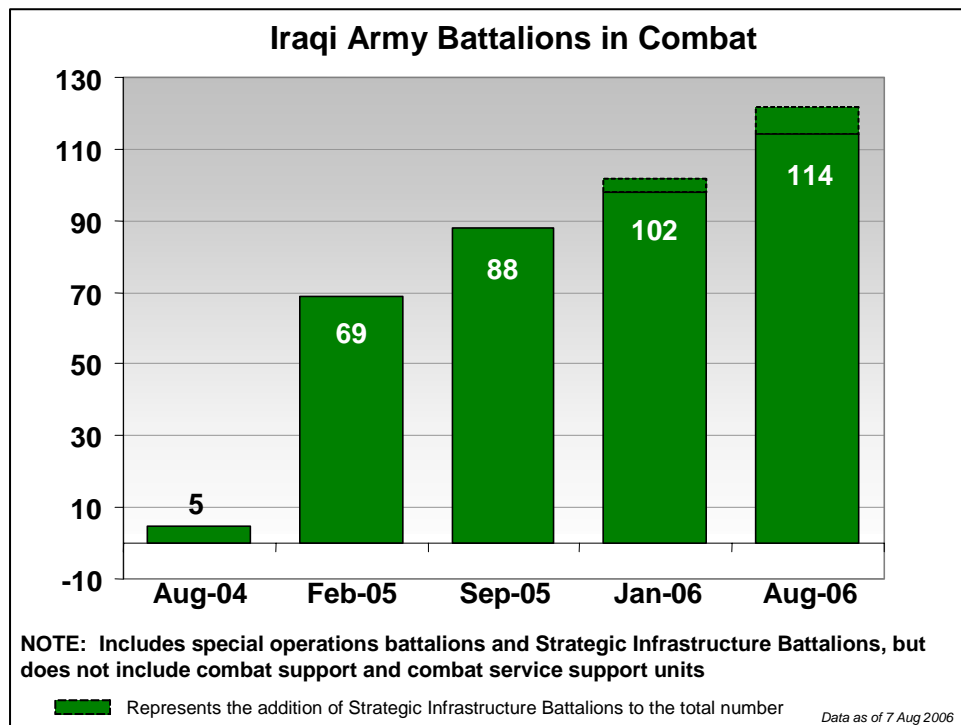
2.4 Ministry of Defense

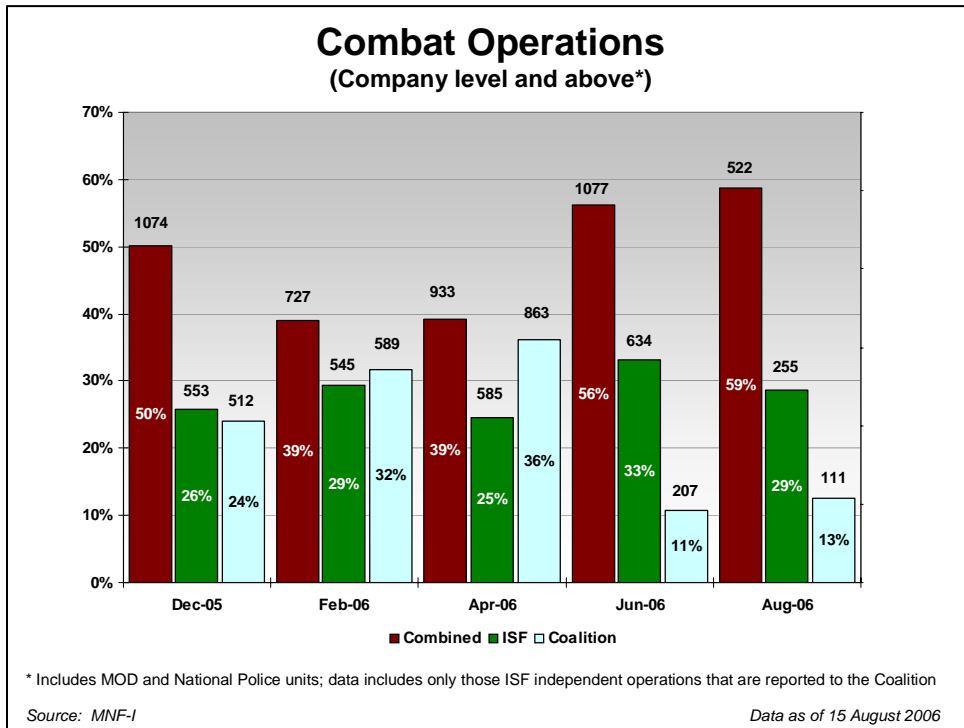
The Iraqi MOD forces consist of Army (including Special Operations Forces), Air Force, and Navy (including Marines) personnel. The end state of the Objective Counter-Insurgency Force will be an approximately 137,500-person force based around an Army with 9 infantry divisions and 1 mechanized infantry division consisting of 36 brigades and 112 battalions. Nine Motorized Transportation Regiments, 5 logistics battalions, 2 support battalions, 5 Regional Support Units (RSUs), and 91 Garrison Support Units (GSUs) are intended to provide

logistics and support for each division, with Taji National Depot providing depot-level maintenance and resupply. Each battalion, brigade, and division headquarters will be supported by a Headquarters and Service Company (HSC) providing logistical and maintenance support to its parent organization. The Army will also include 17 SIBs and a Special Operations Forces Brigade consisting of two special operational battalions. The Air Force will consist of six squadrons, and the Navy will consist of two squadrons and a Marine battalion.

Army

The Iraqi Army includes approximately 115,000 trained and equipped combat soldiers (including SIB personnel and around 9,600 support forces). The capability of Iraqi Army units continues to improve, facilitated by the mentoring by embedded advisors at the battalion, brigade, and division levels, and partnership with Coalition force units.





Force generation of Iraqi Army units is increasingly focused on combat enablers and continues in accordance with the force development plan. All three planned Iraqi Training Battalions are formed and fully operational. These battalions allow the Iraqis to train soldiers independently in sufficient quantities for force generation completion and replacement needs. New recruits attend a 13-week program of instruction. Upon graduation, soldiers receive additional training specific to their military occupation. Depending on their military occupational skill assignment, the length of training ranges from three to seven weeks. Other training initiatives, such as the Military Intelligence School, the Signal School, the Bomb Disposal School, the Combat Arms Branch School, the Engineer School, and the Military Police School, contribute to the growing professionalism of the Iraqi Army through teaching diverse specialties necessary to conduct and sustain counter-insurgency operations.

Three of the nine planned Motorized Transportation Regiments (MTRs) are approaching full operational capability. While a shortfall of fully competent maintenance personnel adversely affects full capability, these MTRs provide improved mobility and sustainment support for Iraqi forces. Progress has been made in establishing HSC units for each combat battalion, brigade, and division to provide transportation, communications, medical, supply, and maintenance support. Approximately 80% of the planned HSCs have been formed; one-third are operational, and the remaining planned HSCs are scheduled for completion by December 2006.

Currently, 17 SIBs are being trained and equipped. Although the Iraqi Army maintains operational control of the SIBs, at present only 1 SIB is capable of planning and executing independent operations, and all 17 require Coalition logistical support. Training of these battalions continues to employ a “train-the-

trainer” model that focuses specifically on squadron- and platoon-level tasks.

The capability of the SIBs is growing as they receive training and more modern equipment. MNC-I is partnering the more capable SIBs with locally deployed Iraqi Army units to provide them with counter-insurgency experience and to accelerate their leaders’ professional development. Evaluation of their effectiveness in securing infrastructure, particularly oil pipelines in northern Iraq, is ongoing.

The Iraqi Armed Service and Supply Institute (IASSI) at Taji plays a critical role in training the officers and non-commissioned officers (NCOs) to fill support and combat service support positions in the Iraqi Army. The IASSI has trained more than 5,000 officers and NCOs who serve as leaders in the MTRs, RSUs, and HSCs. The IASSI continues to support the development of critical Iraqi Army support and combat support capabilities.

Special Operations Forces

The Iraqi Special Operations Forces (ISOF) are composed of approximately 1,600 soldiers organized into the Iraqi Counter-Terrorism Task Force, the Iraqi Commandos, a support battalion, and a special reconnaissance unit.

Navy

The Iraqi Navy is tasked with defending Iraq’s coast, territorial waters, vital ports, and offshore oil platforms. The Iraqi Navy has more than 1,100 trained and equipped sailors and marines organized into an operational headquarters, two afloat squadrons, and five Marine companies. The Iraqi Navy is developing independent capabilities for surface surveillance, maritime interdiction, oil terminal protection, and support operations.

The Iraqi Navy Training Department continues to develop unit-level refresher training and naval skills improvements, including basic seamanship and maritime security operations. In June 2006, the Training Department independently conducted basic training and successfully graduated 324 naval recruits. Its training efforts range from mentorship, as conducted by the Naval Transition Team, to active skills training, as conducted by Coalition Navy, Marine, and Coast Guard Forces.

Air Force

The Iraqi Air Force continues to evolve toward supporting the counter-insurgency force, but progress has been slowed by difficulty in recruiting qualified applicants. There are currently 750 personnel in the Iraqi Air Force, with development plans calling for a concentrated recruitment effort over the next 18 months to at least double the personnel by the end of December 2007. This effort is intended to provide a satisfactory corps of professionals as a foundation for future growth.

The Intelligence Surveillance and Reconnaissance aircraft at Kirkuk Air Base (7th Squadron with five CompAir 7SLs) and Basrah Air Base (70th Squadron with two Seekers and six CH-2000s) are performing operational missions. These aircraft are primarily deployed to patrol oil pipeline infrastructure in the north and south, with occasional missions conducted in support of Iraqi Army units. There have been recent airworthiness issues with the CompAir 7SL aircraft, and the Coalition is working with the Iraqi Air Force to develop solutions and alternatives to continue supporting the mission.

Helicopter operations from Taji Air Base in central Iraq are still in their infancy, but the

next six months should see a marked improvement. The 2nd Squadron is expected to receive the first 6 of 16 Huey IIs from a modification factory in the United States by the end of January 2007 and the remainder before April 2007. The 2nd Squadron will primarily be used for casualty evacuation. It is expected to reach initial operational capability by the third quarter of FY2007.

Three C-130Es from 23rd Squadron at New Muthanna Air Base round out the Iraqi Air Force fleet. Early complications with low mission capable rates have been solved, and fleet-wide readiness was measured at 72% in July 2006. The Iraqi Air Force has requested an additional three aircraft from the U.S. Government to bring the fleet total to six. These additional aircraft reflect the Coalition Air Force Transition Team's force generation plan and efforts are under way to identify additional funding to meet this request.

Assessing MOD Capability

Operational/Unit Readiness

Embedded Transition Teams continue to provide monthly TRAs measuring the staffing, command and control, training, sustainment/logistics, equipping, and leadership of their partnered Iraqi units.

Personnel and Equipment Status

The total number of MOD military personnel trained and equipped is currently more than 115,000, approximately 84% of the objective end-strength.

With the generation of Iraqi Army battalions more than 92% complete, the focus of the Iraqi Army's train-and-equip effort shifted during this reporting period toward building combat support and combat service support forces. More than 65% of authorized per-

sonnel in the Iraqi Army's support forces are trained and equipped.

Equipping the Iraqi Armed Forces continues as planned since the May 2006 report, with 92% of authorized equipment issued to the 10 Iraqi Army Divisions and subordinate formations. MNSTC-I is on track to issue all currently authorized equipment by the end of December 2006. Equipment is distributed and filled according to the commander's operational assessment. MNSTC-I is currently working with the MOD to transition maintenance capabilities to the Iraqi Army. To date, two Regional Support Units facilities have been transitioned to the Iraqi Army.

Leadership

The lack of junior officers and NCOs continues to be one of the biggest factors impeding development of MOD forces. There is a shortage of school-trained officers and NCOs to fill lower-level staff and leadership positions. The shortage of leaders will abate as officer recruits are commissioned and they join their units. For NCOs, qualified soldiers are being "grown from within" through development and schooling to achieve promotion to NCO leadership positions.

The Regional Training Centers (RTCs) and the NCO Academy focus on junior leader development that is critical to building a professional force. The RTCs conduct Squad Leader and Platoon Sergeant Courses. Newly formed Sergeants Major and Chief Warrant Officer Courses have been added to the NCO Professional Education System. Specialized leadership courses, such as Logistics Supervisor, are being conducted at the Iraqi Army Service and Support Institute at Taji. Three Iraqi Military Academies at Zahko, Qalachwalan, and Ar Rustimiyah continue to train future officers.

The institutional leadership courses are complemented and reinforced through partnership with Coalition Military Transition Teams. These teams, embedded with every Iraqi battalion, brigade, and division, provide daily guidance and mentorship. In addition, Iraqi units are partnered with Coalition force units. These partnerships, combined with the expertise and leadership taught through the institutional base, are critical for development of both unit proficiency and leadership essential to increased operational effectiveness.

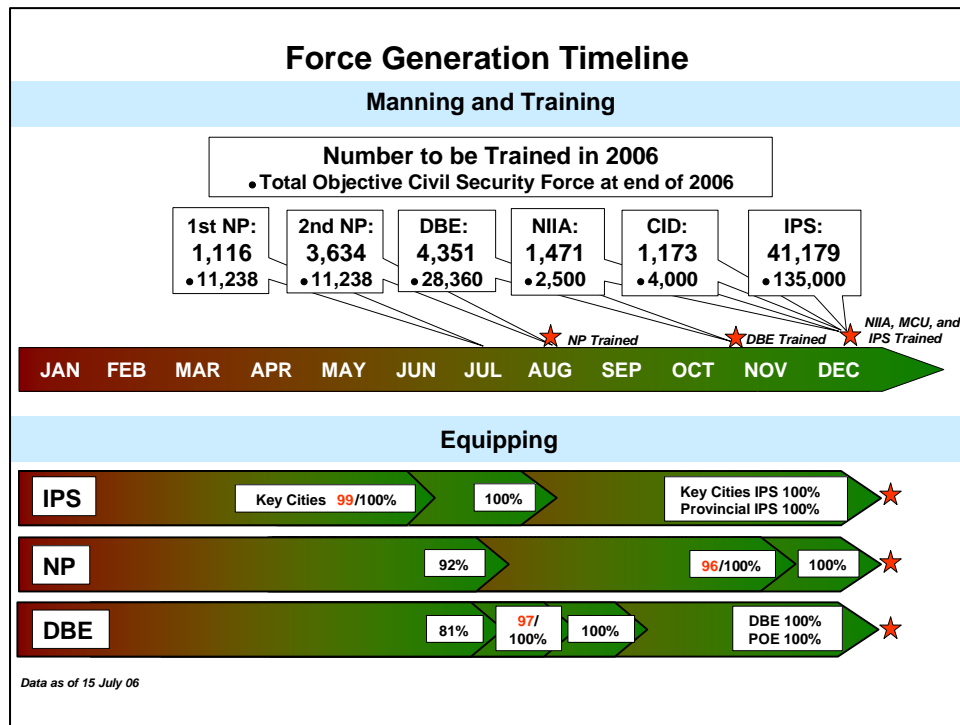
The importance of ethics, human rights, and leadership in the Iraqi Armed Forces has engendered a concept for a Center for Ethics and Leadership to provide institutional oversight for ethics education, training, and assessment.

A promising trend is that military leadership has become more involved with civic leaders and sheiks in their areas of operation. This activity will continue to reinforce and establish the importance of Iraqis leading and

taking responsibility for their own security and interests.

MOD Capacity Development

The new Minister of Defense, Abd al-Qadr Muhammad Jassim al-Mufraji, is confronting the challenges he faces and is already making his mark. Previous logjams in acquisitions and contracting are being eased, and he is working closely with MNSTC-I to proceed on force development, force expansion, and logistics support. The MOD Transition Team grew to meet this accelerated pace of business and expanded to more than 50, half of whom are Military Professional Resources Incorporated contractors. Close and effective relationships are being forged by team members with all senior MOD headquarters officials, and the confidence, and thus capacity, of these officials is strengthening. The ministries and the Joint Headquarters are expected to be in the lead with Coalition support by the end of 2007. However, a partnership with these institutions will be



required through at least the first peaceful transfer of power in 2010.

Coalition Support Requirements

MNC-I continues to provide logistical support to the Iraqi Armed Forces where the established system falls short. Although there has been some success with Iraqi Army units using their own processes, there is still a great deal of institutional development remaining. MNF-I is working with both MNC-I and MNSTC-I to aid the Government of Iraq in developing a defense logistics system, but in the absence of a self-reliant system, MNF-I must provide extensive support to Iraqi forces.

MNSTC-I processed life support contracts in a total amount of approximately US\$7.8 million for the months of May and June 2006. Currently, all life support contracts have been transitioned to the MOD. MNSTC-I has formed a Transition Working Group tasked

with ensuring that the MOD properly supports all Iraqi Army life support requirements.

DOD requested US\$151 million for MOI sustainment in the FY2007 Budget Amendment request, but did not ask for funding for MOD sustainment.

Coalition forces are also supporting the Government of Iraq with fuel. In June 2006, all Iraqi Army units submitted requisitions for fuel; MTRs provide the majority of the fuel distribution. Storage capacity will not be fully fielded until December. Additionally, the GSUs will not be fully on-line until March 2007. Until the MTRs and GSUs are in place, the Iraqi Army units will not be fully self-sufficient in terms of bulk fuel transportation and storage.

Coalition forces supported the Iraqi Army units with the combined fuel report listed below.

APRIL 2006		MAY 2006		JUNE 2006		TOTAL	
<u>Fuel Type</u>	<u>Gallons</u>	<u>Fuel Type</u>	<u>Gallons</u>	<u>Fuel Type</u>	<u>Gallons</u>	<u>Fuel Type</u>	<u>Gallons</u>
DIESEL	133,590	DIESEL	964,598	DIESEL	352,042	DIESEL	1,450,230
MOGAS	89,935	MOGAS	83,956	MOGAS	73,613	MOGAS	247,504
JP8	42,347	JP8	29,101	JP8	34,955	JP8	106,403
Quarterly Subtotal	<u>265,872</u>		<u>1,077,603</u>		<u>460,610</u>		<u>1,804,085</u>

Obstacles to Progress

Absenteeism

In the Iraqi Army, approximately 15% attrition is the norm for initial training. When a unit is fully trained and employed in combat operations, some soldiers find that they do not like the particular location or they cannot cope with dangers of the counter-insurgency. Absent-without-leave rates are typically about 1%–4% for most Iraqi Army divisions, although deployments to combat sometimes cause absentee spikes of 5%–8%. However, soldiers in units in this final stage of development are less likely to abandon the service. As with any organization, the units with strong, competent leaders tend to have higher present-for-duty rates than those with weak leaders. However, there is currently no judicial punishment system within the Iraqi Army. Therefore, Iraqi Army commanders have little legal leverage to compel their soldiers to combat, and soldiers and police can quit with impunity.

Sectarian Issues

The U.S. Government is committed to creating an Iraqi military that reflects the ethnic and religious fabric of Iraq, with diverse units loyal to the nation and not sectarian interests. Although competence and merit are the deciding factors when selecting recruits, particularly leaders, the ISF are developing so that they generally mirror the demographic make-up of Iraq. Sectarian lines remain drawn, however, along geographic lines, with Sunni, Shi'a, or Kurdish soldiers mostly serving in units located in geographic areas familiar to their group. These divisions are even stronger at the battalion level, where

battalion commanders of one particular group tend to command only soldiers of their own sectarian or regional backgrounds. The Minister of Defense, through an Officer Selection Committee, has used the normal transitions to continue to diversify the senior leadership in the Iraqi Army. This continuing process strives to ensure that the Iraqi Army is led by competent leaders who are representative of the national fabric. In the aggregate, Sunni, Kurd, and Shi'a are well and appropriately represented in senior leadership positions. The Sunni and Kurds are slightly over-represented, while the Shi'a are slightly under-represented, though Shi'a commanders still hold a large majority of command positions. The percentage of Sunni leaders at each level remains constant. At the battalion level, the echelon in which the Shi'a have the highest percentage of commands, they are appropriately represented when compared to the demographics of the Iraqi population. The relatively high percentage of Sunni and Kurds in higher-level commands is a result of the requirement for experienced military leaders, of which few were Shi'a. Generally, Shi'a and Kurds were excluded from higher-level positions in the former regime. The Kurds, however, benefited from years of experience in the *Peshmerga*. Nationally recruited Iraqi Army divisions are otherwise representative of the ethno-religious composition of the country. The even-numbered divisions were originally formed as National Guard units, with the intent that these units would serve in the respective local regions. The composition of these units tends to be representative of the region in which they serve. Over time, replacements from the national recruiting pool will increase the diversity of these divisions.

3. Transition

3.1 Transitioning Security Responsibility

Process for Implementing Provincial Iraqi Control

The transfer of security responsibility from Coalition forces to the Government of Iraq is an objective of the security track outlined in the National Strategy for Victory in Iraq. Such transfers reflect the capability of the Government of Iraq to fulfill its sovereign responsibility in the most fundamental, vital interest of any state—to protect its citizens and safeguard its territory. As Iraqis take on more responsibility for security, Coalition forces will increasingly move to supporting roles in most areas. This may allow for future personnel reductions or a delay in previously scheduled deployments. The Coalition's military posture on the ground will remain responsive and flexible. As the security situation evolves, MNF-I will maintain sufficient forces on the ground to help Iraq consolidate and secure its gains on many different fronts. The recent agreement between Prime Minister al-Maliki and President Bush to increase force presence in Baghdad is indicative of this flexibility.

Iraq achieved a historic milestone on July 13, 2006, with the transfer of security responsibility in Muthanna Province from MNF-I to the Provincial Governor and civilian-controlled Iraqi Police Service. Muthanna is the first of Iraq's 18 provinces to be designated for transition to Provincial Iraqi Control, which represents the successful development of Iraq's capability to govern and protect itself as a sovereign and democratic nation.

The joint decision between the Government of Iraq and MNF-I to hand over security responsibility is the result of Muthanna's demonstrated ability to take the lead in man-

aging its own security and governance duties at the provincial level. The transition decision also reflects a joint assessment of the overall threat situation in Muthanna, the capabilities of the IPS and the Iraqi Army, and the provincial leadership's ability to coordinate security. Transition Teams are in place to smooth the transfer process, and multinational forces stand ready to provide assistance if needed.

Dhi Qar Province appears to be ready to assume security independence within the next 45 days, and several other provinces should meet the transition criteria before the end of the year. The Government of Iraq and the MNF-I will continue to transfer security responsibilities in other provinces as prerequisite conditions are met.

In concept, security transition is a four-phased process.

1. **Implement Partnerships**. MNF-I and its Major Subordinate Commands establish and maintain partnerships across the entire spectrum of ISF units, from battalion to ministerial level.
2. **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.
3. **Provincial Iraqi Control (PIC)**. Iraqi civil authorities satisfy the conditions required to assume control and to exercise responsibility for the security of their respective provinces.
4. **Iraqi Security Self-Reliance**. The Government of Iraq 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.

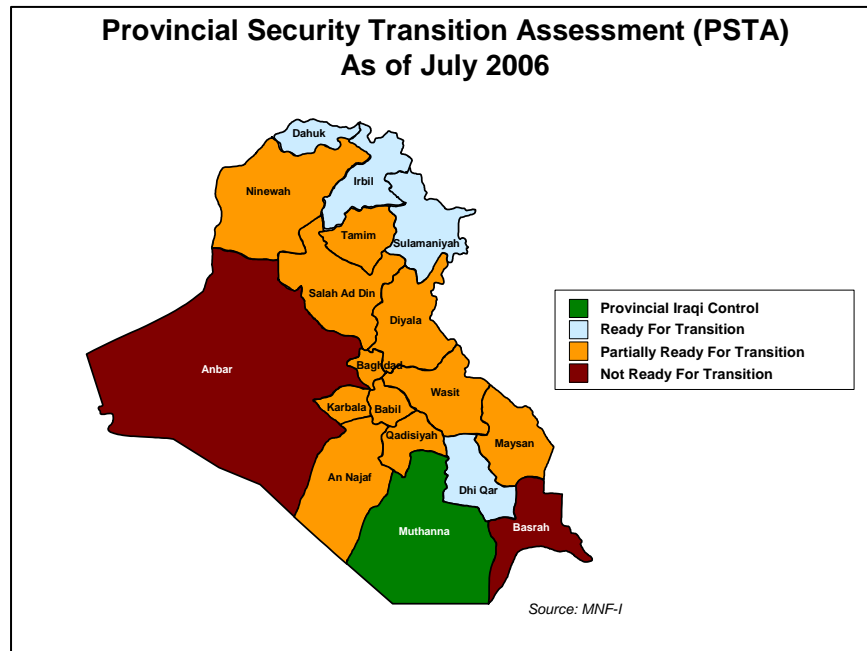
These phases are not strictly sequential. For example, the Iraqi Army does not have to assume the lead in a province before Coalition forces may begin transfer of provincial control. This was the case in Muthanna.

Phase 1 of the security transition concept—implementing partnerships—is already complete. As described above, the second phase, Iraqi Army lead, is well under way in many provinces. The third phase, establishing provincial Iraqi control over security, will be implemented on an area-by-area basis. The Government of Iraq, jointly with military and political leadership of the United States and Coalition partners in Iraq, will assess when conditions permit handing over security responsibility for specific areas from Coalition forces to the Iraqi civil authorities. The Joint Committee to Transfer Security Responsibility (JCTSR) has developed criteria to guide the transfer of security responsibility. Recommendations for transfer include an assessment of conditions in four categories:

1. Threat Assessment
2. ISF Readiness
3. Local Governance Capability

4. MNF-I Ability to Respond Quickly to Major Threats, if Needed

The recommendation to transfer security responsibility is based on the specific situation in any one province or provincial capital in the context of the overall security environment. 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 of provincial capitals. The JCTSR working group meets monthly to review the assessments and to present recommendations to the JCTSR principals regarding which provinces are ready to be transferred. Once a decision is made, the JCTSR working group will provide oversight of the development of transition directives, develop a public affairs plan, and arrange a post-transfer security agreement between MNF-I forces and provincial governors. Every transfer will ensure an effective and successful handover of security responsibilities. Moreover, the transition and reduced presence of MNF-I forces will be plainly visible to the Iraqi people.



Detainee Operations

Releases

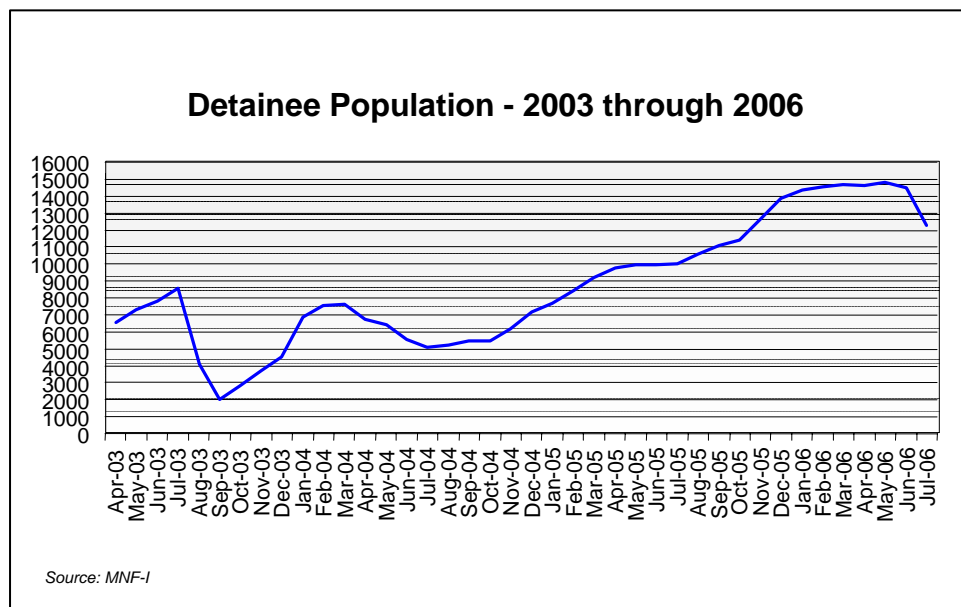
In June 2006, MNF-I, in coordination with the Government of Iraq, conducted a large-scale release of detainees in support of the newly formed national unity government. The release served as a visible symbol of the government's commitment to national unity and reconciliation in the progress toward democratic governance and the rule of law. MNF-I released 2,500 low-risk detainees over a period of three weeks. Coupled with the 500 detainees from the normal Combined Review and Release Board process, MNF-I had a net reduction of more than 2,000 detainees in June. A MNF-I special board reviewed approximately 6,500 records to identify the low-risk detainees. Each file was also reviewed by the MNF-I Deputy Chief of Staff for Intelligence to consider any additional intelligence reports. Detainees involved in violent acts, IED making/placement, financing insurgent operations, identified as key insurgent leaders, or who have been recaptured were not considered for release.

Transition of Coalition Detention Facilities and Detainees to the Government of Iraq

MNF-I has begun training Iraqi guards for a potential transition of the Coalition detention facilities and detainees. Transitioning detainee operations is a three-phase process.

1. Phase 1 consists of individual and collective training of Iraqi guards and leaders, including training alongside their U.S. counterparts inside the facility.
2. Phase 2 consists of the removal of U.S. guards and establishment of a U.S. transition team to supervise Iraqi Security Forces and to maintain legal custody of detainees.
3. Phase 3 consists of the final removal of all U.S. personnel and turnover of the facilities and legal custody of the detainees to the Government of Iraq.

The criteria for transfer includes the requirement for the Government of Iraq to possess the legal authority to hold security detainees, each facility demonstrating the ability to meet the care and custody standard, and the MOJ



having effective oversight of the program. MNF-I is currently in Phase 1. Significant challenges exist to ultimately meeting these criteria. The Iraqi Corrections System has not demonstrated the capacity to effectively resource and run a major facility, such as Camp Bucca. Additionally, based on the composition of the guard force, serious questions remain as to whether they would be able to maintain the required standards of care and custody. The most significant obstacle remains establishing the legal authority to hold security detainees. There is widespread opposition inside the Sunni political leadership to providing this authority to the Government of Iraq.

3.2 U.S. Force Adjustments

In consultation with the military commanders in Iraq, the Government of Iraq, and Coalition partners, the Secretary of Defense continues to advise the President on the appropriate level of U.S. forces in Iraq and the surrounding theater of operations based on current conditions. These conditions include, but are not limited to, key elements of the MNF-I Campaign Plan, such as the increasing responsibility of the ISF in counter-insurgency operations and ownership of areas of responsibility and progress in the political process.

Arbitrary deadlines or timetables for withdrawal of Coalition forces—divorced from conditions in Iraq and the region—would be a serious strategic error, as they would suggest to the terrorists, the Rejectionists, and the various illegal armed groups in Iraq that they can simply wait or stall to win. The absence of a specific timetable does not mean that the Coalition's posture in Iraq is static. On the contrary, the Coalition continually reviews the situation in Iraq and adjusts its posture and approaches as conditions evolve and Iraqi capabilities grow.

As security conditions improve and as the ISF becomes more capable of securing their own country, Coalition forces will move out of the cities, reduce the number of bases from which they operate, and conduct fewer visible missions. However, they will remain postured to assist, including supporting the ISF with transition teams. Although the Coalition military presence may become less visible, it will remain lethal and decisive, able to confront the enemy wherever it may gather and organize.

The Coalition retains the ability to quickly reinforce the Iraqi Army as required and to provide critical enablers as Iraqis develop their own capabilities. Coalition personnel levels will increase, if necessary, to defeat the enemy or to provide additional security for key events, like the 2005 referendum and elections. But the goal, over time, is to reduce Coalition forces as Iraqis continue to assume more of the security and civilian responsibilities themselves. This process is already under way.

The Government of Iraq has agreed to form a Joint Committee with MNF-I and the U.S. and UK Embassies to develop a conditions-based roadmap for the full transition of security responsibility to the ISF. This roadmap will consist of recommended conditions intended to lead to the eventual and gradual withdrawal of multi-national forces from Iraq.

The Joint Committee for Achieving Iraqi Security Self-Reliance (JCAISSR) will base its roadmap on much of the successful work that has already gone into developing the strategy for transition of security responsibility in Iraq:

Governance

The seating of the new Government of Iraq's, based on its Constitution, sets the conditions

for continuing progress toward Iraqi security self-reliance. Toward this end, the government's program calls for speeding up plans for completing the preparation of the ISF; speeding up the process of transferring security responsibilities and powers to the Iraqi Army, police, and security forces; and cooperation with the multi-national forces in a way that will allow the handover of security responsibilities to the ISF, the completion of the mission, and the exit of the multi-national forces.

Development of the ISF

Efforts to develop the capacity of the ISF have been successful. In November 2005, the Iraqi Army had 4 brigades and 23 battalions in the lead. As of August 7, 2006, the Iraqi Army has 6 Division Headquarters, 25 brigades, and 85 battalions that have assumed responsibility. MOI forces also grew significantly, from approximately 93,000 trained and equipped members in November 2005 to more than 160,000 today.

Provincial Iraqi Control Plan

The Government of Iraq and MNF-I have already developed a conditions-based framework for the transition of security responsibility from multi-national forces to Iraqi leadership. As a result of this work, security responsibility for Muthanna Province transitioned to the provincial governor on July 13, 2006. Security responsibility for as many as nine of Iraq's provinces could transition to Government of Iraq authority by the end of 2006.

The JCAISSR will comprise the Iraqi Prime Minister, the Iraqi National Security Advisor (Chair), the Minister of State for National Security Affairs, the Ministers of Defense and Interior, the Director of the Iraqi National Intelligence Service, the U.S. Ambassador,

the UK Ambassador, and the Commanding General and Deputy Commanding General, MNF-I. This committee will be supported by a working group of direct subordinates.

Conditions recommended by JCAISSR will, at a minimum, include consideration of the threat situation across Iraq, security force readiness, capacity of key security and supporting ministries, and development of the overall Iraqi national security processes.

MNF-I Basing Construct

MNF-I will efficiently consolidate its footprint in Iraq to reduce its military basing requirements progressively. The MNF-I basing strategy is an integral part of the Campaign Plan. MNF-I uses a conditions-based process to synchronize basing requirements with Coalition force structure and projected command and control structure. Several factors are considered when employing this process, including cost-effective use of resources, maintaining security presence where required by the mission and maintaining only those bases required, transition of operations to the ISF as they continue to assume the lead in security operations, and other factors. Specifically, MNF-I seeks to minimize its presence in major cities while building the flexibility required to support other elements in Iraq, including Coalition partners, PRTs, Transition Teams, Department of State activities, and other supporting units and entities. This process will culminate in the transition through Operational and Strategic Overwatch, which will leverage and maximize support through a minimum number of strategically located FOBs and Convoy Support Centers.

As of August 7, 2006, MNF-I has closed 48 of its 110 FOBs, handing over 31 to ISF, MOD/MOI; and 17 to the Ministry of Finance. Thirteen more FOBs are scheduled for closure and handover by January 2007.