



CONSOLIDATING THE GAINS, COMPLETING THE TRANSITION

SUPPORTING IRAQ'S SELF-RELIANCE AND STABILIZATION THROUGH THE
PRESIDENT'S 2008 SUPPLEMENTAL AND 2009 BUDGET REQUESTS



UNITED STATES DEPARTMENT OF STATE
FEBRUARY 2008



A Year of Significant Progress

In January 2007, the President announced a new strategy to deploy additional American forces to Iraq to work with Iraqi forces to protect the country's population, to pursue the enemy in its strongholds, and to deny the terrorists sanctuary anywhere in Iraq. At the same time, the Iraqis launched a surge of their own. More than 80,000 Iraqi citizens have joined Concerned Local Citizen groups and are fighting the terrorists. The Iraqi Security Forces also increased their strength by adding more than 100,000 new Iraqi soldiers and police during the past year. The surge has achieved dramatic, positive results: high profile terrorist attacks are down, sectarian killings are down, civilian deaths are down, and Coalition forces have captured or killed thousands of extremists in Iraq, including hundreds of key al Qaeda leaders and operatives. Al Qaeda has been driven from many of the strongholds it once held. Although our enemies in Iraq have been hit hard, they are not yet defeated.

The President announced in September 2007 that we could maintain our security gains in Iraq with fewer American forces and that the first reduction of troops would start in December. The principle guiding decisions on troop levels in Iraq would be "return on suc-

cess." As terrorists are defeated, civil society takes root, and Iraqis assume more control over their security, our mission in Iraq will evolve. Our troops will shift from leading operations, to partnering with Iraqi forces, and ultimately to monitoring those forces. A successful strategy for Iraq, however, goes beyond military operations. The Iraqi government must take advantage of the breathing space created by the increase in security to make progress in other critical areas such as political reconciliation, economic reform and provision of essential services. As part of the New Way Forward, the President announced a civilian surge to more than double the number of provincial reconstruction teams (PRTs) to help local Iraqi communities pursue reconciliation, strengthen moderates, and speed the transition to Iraqi self-reliance. PRT leaders were given greater flexibility to spend Quick Reaction Funds (QRF) to improve the effectiveness of economic assistance. In addition, Secretary Rice appointed Ambassador Charles Rieas as the Coordinator for Economic Transition with a mandate to ensure better results for our economic assistance being spent in Iraq.

Our assistance efforts in Iraq are increasingly focused on building institutional capacity at national and provincial levels as well as strengthening the role of civil society

in the country. The Iraqi government is taking more responsibility for reconstruction and has committed significant amounts of its annual budgets for capital investment. U.S. technical assistance to national ministries and provincial governments on tendering, contracting, and procurement played a key role in doubling the rate of Iraqi budget execution from 22% to 65% between 2006-7. We are stepping up our capacity building efforts to assist the Iraqi government as it plans to expend an even larger amount (up to \$12 billion) of its own resources in 2008, building on \$6 billion in 2006 and \$10 billion in 2007.

Putting the Iraqi economy on a sound economic footing is critical to ensure that Iraq can sustain, govern and defend itself. We worked closely with Iraq and the United Nations to launch the International Compact with Iraq in May 2007. The Compact commits the Iraqis to undertaking a set of comprehensive economic reforms over a five year period that will lead to self sufficiency. Seventy four countries and international institutions pledged to support Iraq in this endeavor with financial assistance and debt relief. Our assistance programs continue to play an important catalytic role in helping the Iraqi government begin implementing these policy reforms.

Iraq has taken important steps to promote economic growth and development. The Central Bank of Iraq brought inflation down to 4.7% in 2007 from 65% in 2006. Prime Minister Maliki has appointed a cabinet-level task force to combat governmental graft and corruption. The Council of Representatives passed legislation to reform pension laws and to create a professional civil service. The International Monetary Fund and Iraq reached agreement on a new Stand-by Arrangement, whose successful completion will earn Iraq several additional billions of dollars in debt relief. But considerable challenges remain. Unemployment is still high. Although provision of electricity, fuel, and other essential services have set record production highs, electricity demand still exceeds supply. State-owned industries and banks require restructuring. And development of the country's critical energy sector awaits passage of the necessary package of hydrocarbon legislation. Accomplishing our objectives for Iraq in each of these areas will require robust U.S. assistance programs. Our strong support will be critical to speed Iraq's transition to a fully developed economy, with strong democratic institutions, a vibrant civil society and an effective rule of law. The success of these efforts will help consolidate the security gains, meaning more American troops will return home.

Harvesting Previous Investments

Our FY'08 Global War on Terror (GWOT) and FY'09 Budget requests are interdependent and mutually reinforcing. Under-funding key programs in the FY'08 GWOT would impair critical programs in 2009. USG assistance programs in Iraq during FY'09 will continue to build the Government of Iraq's growing capacity to govern, and will build on the gains made with previous assistance funding. Specific programs will support further improvements that will foster economic growth, improve the Iraqi Government's ability to deliver essential services and meet the needs of the Iraqi people, and strengthen political and civil society institutions. Taken together, progress in these areas will help sustain decreasing levels of sectarian and ethnic violence. Capitalizing on the security gains of the surge requires expanding the foundation for rule of law and human rights and reinforcing the capacity of local and provincial governments. Our assistance programs in FY'08 and FY'09 will continue to operate on three critical fronts – economic, political and security – all of which are inextricably linked.

These budget proposals reflect progress in implementing one of the most important principles enunciated in last year's budget request: Iraq is in the lead. We strive to use the funds in this request not to build structures but rather to build Iraqi capacity to marshal its own considerable financial resources to provide essential services to the Iraqi people.



Completion of the Iraq Relief and Reconstruction Fund (IRRF) I and II

In 2003-2004, Congress appropriated \$20.9 billion for the Iraq Relief and Reconstruction Fund (IRRF). This funding was intended to jump start the Iraqi economy, and focused primarily on large-scale infrastructure projects to restore essential services such as water and electricity and boost oil production to help Iraq use its own considerable resources to fund its recovery from decades of poor governance, enhance health, education, and the capacity of the Iraqi security forces.

IRRF projects have made significant improvements in Iraq. U.S. funding has supported programs that increased access to clean water for 4.2 million Iraqis and access to sewerage for 5.1 million; installed, rehabilitated or maintained 2,800 MW of electricity; and helped Iraq increase oil production over pre-war levels. The Special Inspector General for Iraq Reconstruction has reviewed the implementation of many of these projects and has issued recommendations for how our reconstruction efforts could be made more effective and efficient. These suggestions have led to improvement in management of these funds. For example the percentage of contracts awarded to Iraqi firms has increased dramatically. These projects continue to pay dividends as Iraqis benefit from higher levels of these essential services. Democracy programs also helped Iraq organize and hold three elections and provided advisers to support the drafting of the constitution. These projects have formed the basis on which the Iraqi Government is now successfully investing to expand service capacity and improve its budget execution.

In 2005, the \$2.5 billion IRRF I fund closed. The State Department has obligated 97%, or \$17.8 billion, of IRRF II, and, as of the end of January 2008, has disbursed \$16.8 billion (91%). The vast majority of IRRF projects have already been completed. Less than 300 projects remain; we expect to complete most of these during 2008.

Transition to Post-IRRF Programs

Congress appropriated \$61 million in the FY'06 base budget, and an additional \$1.6 billion in the FY'06 Supplemental budget at the end of that fiscal year. The FY06 Supplemental addressed the critical programs needed to support counter insurgency efforts and was carefully designed to complement our FY 07 budget request.



We have obligated the FY'06 base and FY'06 supplemental. Of this funding, more than \$500 million is allocated to support programs coordinated by the Provincial Reconstruction Teams (PRTs) to build the capacity of local and provincial governments to provide services for the Iraqi people. Approximately \$300 million is being used for programs in three key areas: the rule of law; governance, civil society, and political party development; as well as Iraqi ministerial capacity. FY'06 Supplemental funds have already made a significant impact, helping create jobs, revitalize communities, foster civil society, and improve Iraqi government capacity.

The FY'07 supplemental and FY 2008 base request were designed to extend programs to build the capacity of national level government institutions, and bolster the capacity of provincial governments. Thanks to funds for capacity development and PRT programs, provincial governments have shown a significant improvement in 2007 in their ability to design and execute budgets, making a tangible improvement in the lives of average Iraqis in the provinces. FY'07 funds also continued agricultural and economic reforms necessary to help businesses form and create jobs, taking advantage of previous investments in infrastructure improvement and the drop in violence. More than 80% of FY'07 funds are already obligated and some programs are quickly

disbursing funds; with these programs in full swing additional funding will be critical to avoid shutting down these successful programs during FY'08.

Security Track

Provincial Reconstruction Teams (PRT), Provincial Reconstruction Development Councils (PRDC), Community Stabilization Program, Community Action Program, Focused Stabilization, Infrastructure Security

**Total Request: \$440M
(\$390M FY'08 GWOT, \$50M FY'09)**

Since the summer of 2007 security operations have been successful at providing an environment that enables political and economic growth. Civilian capabilities must continue to receive funding to take advantage of these opportunities. The FY'07 supplemental funds allowed us exploit the opportunities created by the success of the military surge. Building upon these gains in security, we intend to invest heavily in fostering the capability of Iraqi officials to provide services to their citizens. Success in supporting provincial Iraqi governments and meeting essential service needs will create an environment in which it will be difficult for the insurgents to reverse security gains of the surge.

Provincial Reconstruction Teams – Reaching Out to the Provinces(FY'08 GWOT ESF: \$165M, FY'09 ESF: \$25M)

The PRT program is at the center of our objective of fostering a federal system of government with decision making undertaken at local levels. PRTs will continue to support local Iraqi leaders through programs to develop provincial capacity to govern in an effective and sustainable way, as well as cultivate local businesses and promote civil society in coordination with other programs primarily carried out by USAID. PRTs will maintain close working relationships with provincial governments, including through the Provincial Reconstruction Development Council (PRDC) program, which helps to leverage Iraqi resources, while developing key provincial and local capabilities to plan and execute small-scale infrastructure projects. PRTs will continue to play a leading role in coordinating the PRDC program as well as coordinating USAID programs, including the Local Governance program which builds the capacity of local political institutions at the governorate, district,

sub-district, and neighborhood levels.

Last year we increased the number of our PRTs from 10 to 24, adding more than 300 new civilian personnel allowing us to act quickly to provide assistance to Iraqi communities throughout the provinces. The PRT Quick Response Fund (QRF) program was initiated in 2007 as a flexible mechanism to enable PRT and embedded PRT (ePRT) support for local neighborhood and government officials or members of community based organizations. The goal is to create the catalyst in which the organizations awarded QRF can undertake projects that promote accelerated economic and social development in Iraq. The ability to approve small projects quickly, to be implemented through micro purchases, grants, or expedited procurements, serves to fill potential gaps not funded by larger economic and governance programs. Through the QRF program we are seeking to support initiatives that promote efforts by community based leaders and organizations to improve the access of their communities to public services, economic opportunities,





employment, education and democratic governance. The QRF program is critical to continue progress toward increasing economic development at the provincial and local levels and strengthening the ability of all provincial governments to deliver essential services to their communities.

Expected Results:

- Enable provincial governments and leaders to plan, prioritize and manage local development efforts, building on previous gains;
- More effective and transparent delivery of government services at the local level by fostering networks among local civil society groups, municipal governments, and the business community; encourage women's participation in all aspects of Iraqi society;
- Promote public accountability projects that include anti-corruption and transparency components.

Community Stabilization Program (CSP) – Giving Youth Job Opportunities (FY'08 GWOT ESF: \$155M)

The Community Stabilization Program (CSP) is a key element in the USG's strategy for success in Iraq. CSP works directly with community groups, local government officials, and PRTs in the development and implementation of activities that foster more productive and peaceful communities by offering disincentives to engage in

violence. There are four components of CSP including 1) public works, 2) employment generation programs, vocational training and apprenticeship programs, 3) micro-small-medium enterprise development programs, and 4) specialized youth programs.

CSP utilizes both short-term and medium-term public works projects (from one to three months) to employ young men who might otherwise participate in sectarian violence or crime. Using local contractors and partnering with neighborhood communities, CSP public works activities also provide quality of life dividends to Iraqis by clearing debris and improving streets, repairing water and sewer systems as well as restoring parks, schools and clinics.

In FY 2009, it is anticipated that CSP will function without U.S. military support. Building on past implementation, CSP will closely coordinate activities with local communities, city and provincial government agencies, private firms, and local NGOs. CSP is currently active in Baghdad, Mosul, Kirkuk, Falluja, Ramadi, Al Qaim, Hit, Haditha, Habbaniyah, N. Babil and Diyala. We plan to expand CSP activities to Baghdad's surrounding rural areas as well as to Tikrit, Baiji, Samarra in the upcoming months.

By 2009, we expect that with the help of CSP, local governments in more than half of the seventeen cities, including Baghdad, Kirkuk, Mosul, Tal Afar and cities in Al Anbar, will assume full responsibility for community infrastructure and essential services. In close coordination with the Ministry of Labor and Social Affairs, CSP's vocational education activities will enhance employment prospects for young men, training them in construction trades, business management, computer literacy, and other areas. CSP will support new and existing micro, small and medium enterprises with business training and micro-grants ranging from \$500 to \$25,000. Much of CSP's business development assistance will reinvigorate poorer rural and farm communities.

Expected Results:

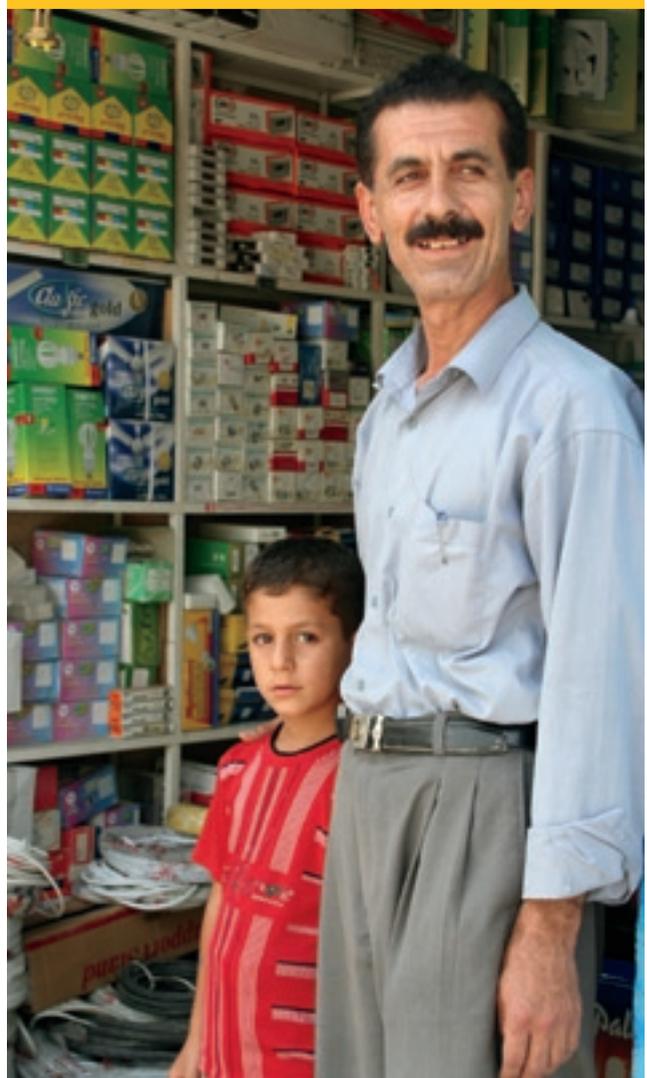
- Increase short and long term job opportunities especially for young men, reducing the incentive to participate in violence;
- More responsive provision of local government services;
- Competitive, profitable and diverse small and medium-scale businesses that provide long term job opportunities and economic growth;

Economic Track

Operations and Maintenance of Key USG Funded Infrastructure, Provincial Economic Growth, Private Agribusiness Development, Education and Cultural Exchange Programs

Total Request: \$281M (FY'08 GWOT: \$159M, FY'09: \$122M)

Along the economic track, this funding seeks to capitalize on security gains over the past year and accelerate growth in the Iraqi private sector through broadening economic opportunity in the provincial areas, building future capacity, and supporting targeted initiatives. The funding proposed will enable both near-term efforts, such as micro-financing, and longer-term efforts to energize Iraq's private sector. Agribusiness is particularly critical, given agriculture's enduring role as a major employer and Iraq's



- A developed vocational education training capacity that will contribute to the competitiveness, growth, and stability of Iraq's economy for years to come.

Community Action Program – Giving Local Citizens a Voice (FY'09 ESF: \$25M)

The Community Action Program (CAP) works at the grassroots level to foster citizen involvement in meeting local development needs. Coordinating with the PRTs and engaging Iraqi communities, CAP assists local groups to identify their common needs, and develop responsive projects to achieve their goals. CAP helps mitigate violence, providing citizens with an opportunity to participate in decision-making and local development initiatives that affect their everyday lives. CAP has proven highly effective in helping Iraqi youth and others turn away from violence settling local conflicts through a constructive process of dialog. The CAP program works with elected officials to increase their ability to respond to the needs of their constituencies, building a stronger sense of a representative democracy.

\$70M Infrastructure Security – Protecting Iraq's Essential Services (FY'08 GWOT ESF: \$70M)

While the improving security situation in Iraq has led to a reduction in attacks, Iraq's critical infrastructure remains a high value target for insurgents. We are requesting funds for increased defensive construction, hardening of oil infrastructure, creating controlled access points and exclusion zones for facilities as well as training static security guards. These funds will build on projects begun with FY06 funds that have had a significant impact in helping Iraq increase essential services, in particular electricity service, as well as Iraq's northern oil exports. We envisage this as a partnership with the Government of Iraq, which will take on increasing responsibility to fund and manage these activities.

Expected Results:

- Enhance stakeholder cooperation in implementing tangible projects that build local capacity to improve delivery of local services;
- Strengthen community-level participation in support of more effective, transparent, and democratic sub-national governments;
- Increased opportunities for economic development at the community level.

second largest component of GDP after oil. Authority and funding for an Enterprise Fund, which will leverage previous USG assistance to support business formation and investment, will be important as we shift the focus of our assistance from the short and medium term to a more traditional and longer term engagement.

\$134M Operations and Maintenance – Maintaining Key USG Funded Infrastructure (FY'08 GWOT ESF: \$134M)

Funding for operations and maintenance (O&M) is designed to complete a three-year transition program to ensure that the Iraqi Government will maintain the USG-funded infrastructure projects that have done so much to improve critical essential services (electricity, health care, water, transportation and communication) for average Iraqis. This funding request is based on a U.S. Government contribution of 25% of the total O&M costs for key assets, with Iraq paying the remaining 75%. Contained within this amount is some additional technical capacity development for plant technicians and management. Although Iraq has increased its allocations for spending on operations and maintenance in its 2007 and 2008 budgets, it will take more time to complete the change in the bureaucratic culture of the Iraqi ministries to address the need for operations and maintenance.

Provincial Economic Growth (PEG) Program – Developing the Private Sector (FY'09 ESF: \$25M)

The PEG program is designed to strengthen the Iraqi economy at the provincial level and assist Iraq in the transition from a centrally planned and controlled model to a transparent market-based system. The PEG program promotes diversification of Iraq's economy by facilitating



the growth of private, non-oil, non-agriculture industries by improving their competitiveness through increased access to business development services and capital.

The PEG program will build upon previous private sector and micro-enterprise development efforts, and will focus on promoting provincial economic development, the creation of new businesses, and employment generation throughout Iraq. The PEG program will complement the efforts of the PRTs to address the local economic needs of Iraqis and will seek opportunities to build on and support the PRTs in high priority provinces and cities. The PEG program focuses primarily on improving private sector productivity and strengthening Iraqi financial markets.

Improving Private Sector Productivity

Funds will be used to provide direct technical assistance and training for Iraqi business development service (BDS) providers, increasing their ability to provide sector and firm-level support, and for micro- and SME loan recipients to improve their productivity. This effort will seek to enhance the managerial, operational and financial capacity of BDS providers and loan recipients so that a viable competitive private sector gets developed which can produce quality goods and services at a competitive price.

Strengthen Iraqi Financial Markets

Access to affordable capital is one of the essential elements for small and medium sized enterprises to start and succeed. Due largely to a lack of a business enabling environment, there is little liquidity in the market for commercial lending. PEG will actively provide micro-finance institutions with lending capital and provide training to commercial banks, particularly the members of the Iraqi Corporation for Bank Guarantees (ICBG), to increase their capacity for assessing the risks of small and medium businesses and for providing a high quality range of commercial lending services required in this business environment.

Expected Results:

- Expand access to loans and risk-based credit for small and medium-sized enterprises through banks;
- Expand access to microfinance throughout Iraq;
- Improved managerial and operational capacity for private banks and business firms.



Agribusiness Development – Raising Rural Opportunities and Incomes (FY'09 ESF: \$50M)

Modernization of the agricultural sector (food and fiber) in Iraq to increase its competitiveness in the domestic and regional markets is critical for the Iraqi economy, given that agriculture continues to employ more than 20% of the population. The purpose of our agribusiness development program is to provide access to technology, financial services, and institutions, and to facilitate linkages between and among farmers, agribusinesses, other small and medium-sized businesses, and local and national government officials. The objective is to improve competitiveness and increase access to domestic, regional, and international markets. The program will identify and support new enterprises and expand the operations of private sector businesses.

FY'09 funds will be used to increase competitiveness of agribusiness enterprises by upgrading national food policies and regulations to meet international standards, as well as through agriculture-related subsidy reforms. The funds will also be used to deliver domestic agriculture-related information systems to farmers and food processors by developing a market information network, establishing agribusiness information centers and technology demonstration sites, and developing an association-information delivery system. The focus on markets,

improved technologies, linkages from buyers to producers, and development of agricultural service firms, lead to higher levels of productivity, profitability, and sustained operations.

Our agribusiness programs build upon previous agricultural production enhancement efforts. This effort will complement specific supply chain enhancements to help Iraq again meet its domestic food needs. Agricultural work will help facilitate the important job creation and community stabilization efforts of the PRTs by increasing the long term ability of Iraq's agriculture sector to provide employment and raise rural incomes. A companion element will target improvements in water delivery to farming communities. Pilot programs will address soil salinity, promote improved water delivery, and increase the effective use of the water delivered.

Expected Results:

- Expand sales of food and fiber products to domestic market and international market;
- Expand number of private businesses servicing agricultural industries and individual farms;
- Increase agro-processing productivity;
- Improve utilization rates of farm-level technologies;
- Increase farm productivity measured by land, labor, and water;
- Improve delivery and utilization of water resources;
- Improve application rates of fertilizer and other agro-chemicals.

Education/Cultural Exchange – Revitalizing Educational Opportunities (FY'09 ECE: \$7M)

As Iraq continues to emerge from the academic isolation of the Ba'athist regime, re-integrating Iraqi students and





academic institutions into the international community will be important. FY'09 funds will be used to continue successful educational and exchange activities, such as scholarship programs for high school and university students.

Iraqi American Enterprise Fund – The Next Step in Economic Development (FY'08 GWOT ESF: \$25M, FY'09 ESF: \$40M)

The Iraqi American Enterprise Fund (IAEF) represents the next step in reconstruction and development assistance to Iraq and builds upon previous assistance successes. The Fund will assist and facilitate foreign investor participation in the development of Iraq's private sector. Iraq's National Development Strategy (NDS) calls for a revitalized private sector, a goal reaffirmed in the International Compact with Iraq (ICI).

The IAEF would be established as a private, nonprofit corporation, governed by an independent Board of Directors consisting of Americans, Iraqis, and other foreign nationals as appropriate. The directors would be appointed to

three year terms by the President of the United States or his designee. The Board will appoint the management team and have final authority over all investment decisions. Selecting qualified in-country management and the establishment of effective offices where they are needed is critical to the success of the Enterprise Fund.

Similar to a venture capital fund or merchant bank, the IAEF would be structured so that it could flexibly develop programs and deliver assistance rapidly via a variety of investment approaches targeted to specific needs in Iraq. Experience from other, similar Funds suggests that 10-15% of the funds would be devoted to lending programs, with another 10-15% to technical assistance to help both local businesses and banks. Key goals would include providing investment capital to entrepreneurs and contributing to the development of official and financial institutions.

The IAEF would initially be funded with money from the USG. Regional Arab funds and ICI partners could play a role. For the investments in Iraqi enterprises that succeed, the Fund would seek exit strategies that deliver positive returns (as measured by profits and gains) in line with the core objectives sought when the Fund was created.

Political Track

National Capacity Development, Democracy and Civil Society, Criminal Justice/Rule of Law, Legal and Regulatory Reform, Anti-Terrorism/Demining

Total Request: \$669M
(FY'08 GWOT: \$437M, FY'09: \$232M)

On July 24, 2007 Secretary Rice presented to Congress a "comprehensive, long-term strategy, with goals and expected results, for strengthening and advancing democracy in Iraq." Utilizing FY'07 Supplemental funds, we have begun to implement this strategy throughout Iraq. Building strong democratic institutions requires long term engagement, which is reflected in our new democracy strategy. However, funds requested as part of the FY'08 GWOT and FY'09 ESF budgets are critical for sustaining our long-term efforts to build democracy in Iraq.

As outlined in the United States Strategy for Democracy and Governance in Iraq, Iraq faces challenges in strengthening key institutions of a democracy while working to achieve national reconciliation. The U.S.

government will work with Iraqis to uphold the interests of their nation as a whole and diminish the influence of violent and extremist factions. In addition, U.S. efforts will assist Iraqis in strengthening the country's political institutions and support those elements that oppose terror and promote ethnic and sectarian tolerance. Our programs will also strengthen the capacity of national and sub-national executive and legislative bodies to help the Iraqis implement the country's constitutional commitment to decentralization, including the devolution of government functions.

The requested FY'08 GWOT and FY'09 ESF funds are critical for promoting the political conditions that encourage reconciliation, and for empowering Iraqi citizens to engage with their government. Through capacity-building efforts at the national, provincial, and local levels, we will continue to work with Iraqis to train officials, increase transparency and accountability, and build core public sector functions. Improving effective government budgeting, financial management, and procurement are challenges that cut across all ministries. A range of programs will entail work with NGOs and other partners to encourage democratic values, promote human rights best practices, and strengthen institutions. A critical component of all these programs remains strengthening Iraq's civil society to improve citizen input into governance, increase accountability, and rebuild a sense of community.

National Capacity Development – Raising GOI Effectiveness (FY'08 GWOT ESF: \$248M, FY'09 ESF: \$25M)

Last year our National Capacity Development (NCD) program helped the Government of Iraq dramatically increase capital budget execution by increasing the capacity of Iraqi ministries and provinces to plan and execute their program budgets. In 2008, NCD will build upon these gains to further increase the capacity of key ministries and provinces to deliver core services to the people of Iraq. In addition, FY'08 GWOT funds will enable our NCD program to improve efforts to strengthen the capacity and performance of regional offices of the national ministries and move toward a decentralized system. Such reform is crucial to enabling the Government of Iraq to more effectively use its extensive resources to serve its population, whether in terms of essential health and education services, meeting fuel and electricity needs, promoting economic transition, or creating a cadre of respected, well-trained, professional, and accountable public servants. An enhanced civil service

will increase the legitimacy and merit of the government in the eyes of the Iraqi people, contributing to increased stability and progress.

Building upon USAID's current NCD project, also known as Tatweer ("development" in Arabic), will be a key element of our NCD program moving forward. The project will provide additional technical assistance and training in core functional areas of public administration to enable key ministries, the Prime Minister's Office (PMO), and the Council of Ministers' Secretariat (COMSEC) to deliver essential services. The new project will build on the prior project's success, and, if security permits, embed additional technical advisors and management teams within key ministries. Additional teams will be based at the regional levels to help satellite ministry offices increase their ability to represent the needs of their region to the central government, and to improve their ability to serve the region. The project will continue to support the national and regional training centers, with new subject matter to be introduced into project-developed curricula that encompass essential competency, advanced training, and the training of trainers. Anti-



corruption objectives will continue to be prominent in all materials, as well as through targeted work with inspectors general in each ministry.

Develop Institutional Capacity for Public Administration Training: The NCD follow-on project will continue to work with staff of the national and regional training institutions to strengthen their capacity to deliver high-quality, relevant training for mid- and senior-level Iraqi government officials. Anti-corruption, ethics, and change management are important themes that will cut across all activities. In addition to the competency-based training the project will intensify initiatives to build the training capacity of the institutions themselves.

Development of Core Functions in Key Ministries, PMO and COMSEC: Expanded teams will work with each organization to institutionalize internal administrative structures and evaluative systems to analyze and address structural gaps. NCD will continue to coordinate and collaborate with others involved in evaluating ministerial performance, ensuring that public management and administrative services are improved in conjunction with strengthened technical skills.

Support for Civil Service Reform to Strengthen National Capacity Development: Closely linked to capacity development within the ministries and GOI is the need to assist the country in developing the constitutionally-mandated civil service. As capacity development efforts mature within the government, this will be a crucial step to maintain advances within the GOI and its ability to implement accepted best practices. NCD will provide technical assistance, training, study tours, and other activities to support this initiative.



Expected Results:

- Improve performance by key Iraqi ministries in core administrative functions;
- Establish, support, and strengthen Federal Public Service Commission and Civil Service Reform Commission;
- Enhance capacity of GOI to operate and manage public administration training institutions;
- Train 5,000 GOI employees with skills in fiscal management, personnel management, information technology, strategic planning and leadership.

Democracy and Civil Society – Building a More Democratic Society (FY’09 ESF: \$48M)

While the goal of building democratic institutions and fostering democratic ideals is long-term in nature, there are near-term goals that must be addressed. Using FY’09 funds, and guided by our new democracy and governance strategy, our programs address both near- and long-term democracy and civil society goals. Our focus is in assisting Iraqi citizens, civil society, and democratic institutions to work cooperatively to reduce violence and build a sustainable, accountable, and responsive system of governance. We will use FY’09 funding to continue implementation of this long-term strategy.

Specific strategic objectives of the strategy include:

- Institutionalize democratic political and legislative processes that resolve disputes peacefully;
- Improve capacity and accountability at all levels of government;
- Foster the environment for and development of Iraq’s civil society and media to operate independently, freely and effectively.

Our FY’09 funds will allow for the continued development of advocacy skills for members of civil society, including women’s advocacy groups, so that they may effectively represent the needs of certain segments of the population and serve as watchdogs against government corruption, sectarianism, and other forces that could weaken Iraqi democracy. We will continue to work with Iraqis to strengthen an independent media and reiterate the important role that it will play in informing Iraqi citizens of democratic principles and processes. We will continue to assist Iraqi civil society

organizations in their effort to reduce political violence, primarily through the encouragement and facilitation of inter-sectarian and inter-ethnic dialogue. We also plan to continue expanding our role with respect to the rule of law and human rights through training of civil society individuals and key Government of Iraq stakeholders.

Our FY'09 funds will be used to strengthen civil society activities through supporting active community-based groups and targeted technical assistance and training to NGOs, especially those working in civic education, women's advocacy, anti-corruption, conflict mitigation, and reconciliation. They will also advance respect for the rule of law and human rights through training individuals working within civil society institutions and the Iraqi Government. As decentralization takes root in Iraq, robust support to civil society will be critical.

Working closely with the UN, we will build the capacity of the Independent High Electoral Commission (IHEC) to carry out its mandate by developing a new package of electoral legislation governing the processes, eligibility criteria, registration, non-governmental organizations, political entities, and media access. We will also provide technical and logistical support for future provincial, district, and municipal elections including support for voter registration, public outreach, and field operations.

An essential element of promoting the democratic process and civil society is good governance. FY'09 funding will be used to train political parties and advance legislative functions by advising civil society legislators on policy analysis, bill drafting, budgeting, constituent relations, administration, and improved oversight of executive branch agencies. Our strategy is focused on developing institutions for Iraq's next general election, planned for 2009.

Expected Results:

- Encourage movement toward internally democratic, socially-integrated, and issues-based political organizations;
- Increase development of institutions, laws, and procedures that promote free and fair elections;
- Foster transparency, public dialogue, and responsiveness in the legislative process;
- Promote citizen participation and individual and community responsibility;
- Enhance government capacity to perform core functions of national institutions;



- Improve efficiency and legitimacy of provincial governments;
- Develop a legal environment for civil society and media that reflects international standards;
- Encourage and facilitate dialogue among Iraqi civil society, Iraq local and national government, and international actors.

Legal and Regulatory Reform – A Framework for a Modern Society (FY'09 ESF: \$62M)

We continue to be actively engaged in supporting Iraq's transition to a free market economy, accession to the World Trade Organization (WTO), and the building of a foundation for economic growth through various means, including development of a social safety net, pension and tax reforms, customs modernization, and commercial law. An important example of such legal reforms is the passage of amendments to the Iraqi National Pension Law. Our programs focus on two main areas:

- Supporting the GOI's accession to the WTO;



- Helping the Iraqis draft laws and regulations to meet the reform needs of the Iraqi Government and the requirements of the IMF, and for strengthening Iraq's commercial legal framework. These include a web-based business registry, a security transactions law, a leasing law, and a bankruptcy law.

The rebuilding of Iraq's oil and gas sector is essential to the country's economic recovery. FY'09 funding will continue the work done by the Department of Commerce's Commercial Law Development Program (CLDP) in this sector. CLDP will organize six conferences and workshops to promote the modernization of the legal and tax environment in the oil and gas sector.

Expected Results:

- Develop trade laws and regulations that are in line with international standards;
- Create public and commercial banking systems that meet the needs of the Iraqi people, are fiscally sound, and meet international standards for conducting business;

- Develop more efficient oil and gas sector that can attract foreign investment.

Criminal Justice/Rule of Law – Building Judicial Institutions (FY'08 GWOT INCLE: \$159M, FY'09 INCLE \$75M)

Repairing the ravages of the Ba'athist regime against the functioning of a real justice system and addressing immediate threats to Iraqi peace and security remain among our top priorities in promoting good governance and political stability in Iraq. Drawing upon the leadership of the USG Coordinator for Anti-Corruption in Iraq, we will address this by providing ongoing capacity development, training, and support for Iraq's anti-corruption institutions, including the Board of Supreme Audit (BSA), Ministerial Inspectors General (IGs), and Commission on Public Integrity (CPI). FY'09 funding is designed to support further integration of the three key components of the justice system (police, courts, and prisons). We will address the impediments to an independent, functioning, fair, and effective criminal justice system by continuing to help the Government of Iraq to develop its judicial capacity and judicial security mechanisms, and to expand the size and capacity of the Iraqi Corrections Service.

Additionally, this funding will be used to:

- Provide resident legal advisors to assist in mentoring judges and prosecutors assigned to the Central Criminal Court of Baghdad and in the provinces with respect to collecting and analyzing evidence and preparing serious criminal cases for trial;
- Develop and secure the courts, the Judiciary, and public prosecutors;
- Develop the Ministry of Justice and Iraq corrections service capacity;
- Enhance the current efforts of the Civilian Police Assistance Training Team (CPATT) to reform and build key functions of the Iraqi Ministry of the Interior (MOI). Up to 40 advisors will assist the MOI in such areas as organizational development, internal affairs, recruitment, vetting of personnel, training, management, administration, as well operations and planning. Development of investigators' skills to address major crimes.

Taken together, these assistance efforts will substantially increase the Iraqis' capacity to handle the high volume of criminal cases that have flooded its court sys-

tem in the last three years – a volume that would have overwhelmed even countries with far more advanced criminal justice institutions.

FY'08 GWOT INCLE and FY'09 INCLE assistance to the judiciary includes both judicial capacity and judicial security components. Due to decades of neglect and marginalization during the prior regime, Iraqi judges, prosecutors, and court personnel failed to obtain skills needed to investigate crimes, or to learn and apply widely accepted international criminal justice standards. Although Iraq's judiciary has made progress in its ability to process cases based on solid evidence, our continued support is necessary to ensure that these gains take hold. Iraqi judges, prosecutors, and court personnel also face threats to their lives, which hinder their ability to conduct their duties effectively. Helping the Iraqis provide security for judges, court staff, witnesses, and other court personnel also will continue to be a critical priority. These funds will support the continued work of Bureau of International Narcotics and Law Enforcement (INL) Rule of Law Advisors in Baghdad and the provinces that help to identify impediments to the effective functioning of the criminal justice system and propose and implement solutions. It will also enable us to provide continued funding for Department of Justice Overseas Prosecutorial Development, Assistance and Training (OPDAT) Resident Legal Advisors to train, advise, and mentor Iraqi judges and prosecutors in criminal cases in Baghdad and at the provincial level with selected Provincial Reconstruction Teams.

FY'09 funding will support ongoing development of the Iraqi Corrections Service, which is expected to more than double in size within the next two years. This increase will staff the increasing number of prisons and detention facilities under the responsibility of the Ministry of Justice, many of them being constructed by the USG with prior year funding. Specifically, these funds will enable us to continue daily advisory support, training and mentoring for officials at high security prisons, where the most serious offenders will be held, as well as to provide scheduled training and mentoring at other critical facilities throughout the region.

Expected Results:

- Increased ability of the Iraqi Corrections Service to operate a rapidly expanding new and existing prison system;
- Improved security, professional skills, and administrative infrastructure for the facilities and Iraqi judi-

cial system required to effectively prosecute crimes
Corrections Service headquarters;

- Increased professionalism among civilian law enforcement institutions to the point where they enhance the security environment so the people of Iraq trust and rely on them.

Refugee/IDP Assistance – Helping Iraq's Most Vulnerable Populations (FY'08 GWOT MRA: \$30M)

Large-scale population displacement – normally viewed as a consequence of instability – can itself trigger expanded violence and polarization. As population displacement creates new victims with new grievances fleeing to supposedly safer locations, the sense of direct





group victimization and radicalization has the potential to spread to relatives, host families, and community leaders in previously untouched neighborhoods.

The Office of Foreign Disaster Assistance (OFDA) reports that since OFDA began programs in Iraq in April, 2003, it has assisted more than ten million vulnerable people, including 350,000 internally displaced persons. OFDA provides for the needs of the most vulnerable among the IDP population with non-food items, water/sanitation, primary health and initiates cash for work opportunities.

As levels of violence have declined in Iraq we expect there may be an increasing number of refugees and internally displaced persons seeking to return to their homes, or seeking accommodation in new homes in safer neighborhoods. Funds will continue to support voluntary return and reintegration assistance for an estimated 150,000 newly returned Iraqi refugees in the critical sectors in addition to building the capacity of the Ministry of Migration and Displacement in Baghdad and support the Ministries branches in areas where IDPs will be returning. If refugees return in significant numbers, OFDA will work closely with the UN and MODM to not only meet the humanitarian needs but also to address such issues as property rights, reintegration and shelter.

Expected Results:

- Critical health services provided for IDPs and refugee returning to their homes;
- Capacity of the Iraqi Ministry of Displacement and Migration strengthened to address the needs of Iraq's vulnerable populations.

Anti-Terrorism and Demining – Making Iraq a Safer Place (FY'09 NADR: \$20M)

There are six components of our non-proliferation program that continue ongoing, specialized USG activities within Iraq. These include nonproliferation of WMD expertise, export control and border security, anti-terrorism assistance, counter-terrorism finance programs, terrorist interdiction programs, and humanitarian de-mining.

Expected Results:

- Former weapons scientists re-integrated into the international scientific community, working on the development of peaceful technologies;
- Iraq's stockpiles of chemical/biological weapons, and un-exploded ordnance reduced.

International Military Education and Training – Developing a Military Respectful of International Norms (FY'09 IMET: \$2M)

The International Military Education and Training (IMET) program is an important tool in increasing the Iraqi military's awareness of international human rights standards, fostering respect for the principle of civilian control of the military and the rule of law, and providing Iraqi military officers with necessary technical and professional skills.

Expected Results:

- Strengthen leadership of Iraqi armed forces;
- Train Iraqi armed forces to respect human rights.

Department of State Operating Budget Request

State/USAID's \$2.204 Billion Iraq Operating Expenses Supplemental in FY 2008

\$575 million in FY 2008 funding supports the Department of State operating expenses through the first half of FY 2008. \$20.8 million was provided in the omnibus for USAID operations in Iraq. \$1.61 billion remains to be funded from the FY 2008 Supplemental request. Base funding of \$65 million is included in the FY 2009 President's Budget. These funds will provide:

- **\$1,043 million (FY 2008 supplemental)** for mission operations, logistics support, security, overhead cover, and other costs associated with U.S. Mission operations in Iraq
- **\$503 million (FY 2008 supplemental)** to augment and support PRTs
- **\$25 million** to support USAID operating expenses in Iraq
- **\$38 million** to support security costs for the UN Mission operating in Iraq
- **\$65 million (FY 2009 President's Budget)** for core Embassy functions



Objective/Program	FY 06 Base, Enacted
TOTAL (\$ millions)	66.0
Objective 1: Security Track	5.0
A. Provincial Reconstruction Team Projects with Iraq Provincial Reconstruction Development Councils	-
B. Local Governance Program	-
C. Community Stabilization Program (CSP)	-
D. Community Action Program (CAP)	-
E. Marla Ruzicka Iraq War Victims Fund	5.0
F. Infrastructure Security Projects for Oil, Water and Electricity	-
Objective 2: Economic Track	5.6
A. Operations and Maintenance of Key USG-Funded Infrastructure	-
B. Capacity Development: Training for Technicians and Plant Management	-
C. Provincial Economic Growth (PEG)	-
D. Private Sector Agribusiness Development	-
E. Targeted Development Program	-
F. Education and Cultural Exchange	5.6
G. Iraq-American Enterprise Fund	-
Objective 3: Political Track	55.4
A. National Capacity Development Program for Critical Ministries	-
B. Policy, Subsidy, Legal, & Regulatory Reforms	-
C. Democracy and Civil Society	55.4
D. Criminal Justice Development/Rule of Law	-
E. Regime Crimes Liaison Office	-
F. Non-Proliferation, Anti-Terrorism, & Demining	-
G. Refugee Assistance	-
H. International Military Education and Training	-

FY06 Supp., Enacted	FY07 Base, Enacted	FY07 Supp., Enacted	FY08 Omnibus, Enacted	FY08 GWOT Request	FY09 Base Request
1,595.3	181.3	2,053.8	260.3	986.0	404.0
882.0	30.0	1,139.0	5.0	390.0	50.0
315.0	-	600.0	-	100.0	-
155.0	-	90.0	-	65.0	25.0
135.0	25.0	354.0	-	155.0	-
45.0	-	90.0	-	-	25.0
5.0	5.0	5.0	5.0	-	-
227.0	-	-	-	70.0	-
345.0	54.5	147.4	-	159.0	122.0
285.0	-	-	-	134.0	-
60.0	-	-	-	-	-
-	14.6	20.0	-	-	25.0
-	39.9	70.0	-	-	50.0
-	-	57.4	-	-	-
-	-	-	-	-	7.0
-	-	-	-	25.0	40.0
368.3	96.8	767.4	255.4	437.0	232.0
105.0	-	140.0	-	248.0	25.0
33.0	18.2	62.8	-	-	62.0
48.0	20.1	317.6	-	-	48.0
91.4	20.0	150.0	-	159.0	75.0
33.0	-	-	-	-	-
-	12.4	7.0	16.0	-	20.0
57.9	25.0	90.0	239.4	30.0	-
-	1.1	-	-	-	2.0



UNITED STATES DEPARTMENT OF STATE
WASHINGTON, DC

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