

Executive Summary

The United States continues to work closely with its Iraqi and international partners to support the development of a democratic, stable, and prosperous Iraq, which is at peace with its neighbors, an ally in the war on terror, and able to enjoy the benefits of a free society and a market economy. In support of this objective, Congress appropriated \$18.4 billion in Fiscal Year 2004 (Public Law 108-106) for the Iraq Relief and Reconstruction Fund (IRRF). Section 2207 of this law requires the Secretary of State to submit a quarterly report to Congress outlining the programs and initiatives supported by the appropriation. This report documents where these funds are being spent, and how they lay the foundation on which the Iraqi government and private sector can build a more secure and prosperous country.

During this October-December 2005 quarter, the IRRF supported a wide range of programs and activities in ten sectors. This report highlights three of particular importance: (1) programs to support Iraq's constitutional referendum in October and the parliamentary elections in December; (2) support for institutional economic reforms, which supported the conclusion of an IMF Stand-By Arrangement on December 23; and (3) continued support in delivering essential services, including capacity building for Iraqis responsible for providing those services.

Two momentous political events took place during the last quarter of 2005: first, the Iraqi people voted on October 15, 2005 to adopt a constitution for the country, and then in December they voted in free and fair elections for a Council of Representatives to lead them through the challenges of the next four years. Voter turnout for the events was nearly 65% for the constitution and over 75% for the Council of Representatives' election. These elections were a clear expression that the roots of democracy have taken hold in Iraq. IRRF programs supported political party and NGO development, and provided assistance to the Independent Electoral Commission of Iraq (IECI).

In addition to these successes on the political front, two important economic events took place in December 2005. On December 23, the IMF approved a Stand-By Arrangement, which provides Iraq an IMF-supported economic reform program over the next 18 months. It also allows the Paris Club group of creditors to implement the second stage of members' debt forgiveness to Iraq. Also in December, the World Trade Organization accepted Iraq's Foreign Trade Memorandum, formally beginning the process of Iraq's

accession to the WTO. Both the IMF program and the WTO accession process will serve to further Iraq's reintegration into the world economy.

These events bolster the work being done under IRRF programs. Most of our major infrastructure projects are either completed, or are well on their way to completion in calendar year 2006. We have completed a significant portion of the IRRF programs to support the training of Iraqi Security Forces, with \$4.1 billion of the \$5 billion allocated to this effort already disbursed. Of the \$13.4 billion in non-security IRRF programs, \$5.9 billion has been disbursed on mostly high-impact, large-size programs that were critical to repair Iraq's basic infrastructure.

Over the last quarter, we continued to shift from 'design build' international contractors towards a greater emphasis on local contracting, taking advantage of the increased capacity of Iraqi government officials and Iraqi companies to reduce costs and accelerate project completions. This recalibration also resulted in the funding of smaller projects, while fully incorporating the nascent efforts of the Iraqi Ministries. The IRRF will continue to focus on smaller infrastructure programs that have a noticeable impact on the ground. In addition, some IRRF funds will be used to build the capacity of local and national-level Iraqi government agencies to sustain completed U.S.-funded projects, and to provide better services to the Iraqi public in general. As with previous governments, the U.S. will discuss the IRRF program and its spending/programming priorities with the new government.

As these political and reconstruction efforts generated positive outcomes, Coalition Forces, in conjunction with an ever more capable Iraqi Army, began offensives attacking the support infrastructure of the terrorists and foreign fighters. After military operations were completed, there was a need to help hold and rebuild these areas. IRRF funds will be instrumental in such post-conflict reconstruction efforts as part of an integrated Counter-Insurgency (COIN) strategy. During the quarter, IRMO established a focused stabilization project code (P/C 08500) to support reconstruction activities as part of ongoing COIN actions.

Thanks in part to IRRF programs, economic progress in Iraq is now substantial and measurable. Iraq's GDP is projected at \$29.3 billion in 2005, up from \$18.4 billion in 2002. The IMF projects Iraq's economy to grow by 10.4% in 2006. The Iraqi dinar is stable, and the fundamentals exist for achieving sustained economic growth.

Key Activities During This Quarter

In addition to the ongoing reconstruction efforts and coordination work with Iraqi ministries, there were three new initiatives in the IRRF this past quarter. First, the Embassy began a proof-of-concept test of Provincial Reconstruction Teams for Iraq in three locations; second, IRMO planned a new effort to boost “Ministerial Capacity Development” for the new Iraqi government; and third, IRRF funds were reprogrammed for high priority activities such as Rule of Law, Migration and Refugee Assistance and Demining.

Recognizing the need to help Iraq’s provincial governments develop the capability to govern properly and respond to its citizens adequately, the USG in late November converted three Regional Embassy Offices into Provincial Reconstruction Teams (PRTs). The new PRTs are in three provinces: Ninewa (Mosul), Tamim (Kirkuk), and Babil (Hillah). The provincial teams are intended to work with the provincial governments to build governance structures enabling effective interaction with the Baghdad central government and develop confidence among the Iraqis that their local government is responsive to local needs. Provincial teams will complement ongoing engagement with the Provincial and Regional Development Councils (PRDC’s), which are now active in 17 of 18 governorates.

Ministerial capacity development is the subject of another new initiative during this quarter. After nearly 30 years of autocratic rule, the Iraqi capacity for self-governance was decimated. During the Saddam era, there was no process by which Iraqis could develop the skills required to be a self-governing people. The Embassy has developed a comprehensive approach to train Iraqi officials in key ministries and to inculcate best practices. Iraq needs training in the modern techniques of civil service policies, requirements based budget processes, information technology standards and logistics management systems.

In support of this effort, Ministerial Assistance Teams (MATs) were established during this quarter. These are led by IRMO senior consultants in coordination with senior Iraqi Ministry officials, the U.S. and other international experts. The MATs will work with key Ministries and provide a baseline assessment of each of the Ministries abilities perform basic core functions. This will serve to identify the basic needs of each ministry upon which action plans will be developed to train Ministry leadership and staff in efficient and effective governance. Once it is known what is needed in each specific ministry, plans can be developed to get the Ministry leadership and

staff the training and technical assistance necessary to develop the capacity to govern effectively and efficiently.

Furthermore, the strengthening of national and regional government training centers is intended to provide training across the core public administration functions through courses and on-site training directly in the Ministries. Ministerial capacity development will pay long-term dividends and will achieve a synergistic effect when combined with foreign assistance and investment. The Embassy is actively coordinating these capacity development initiatives with other donors' efforts, and we will continue to look for ways to build further synergies, especially with the World Bank and the United Nations.

In support of the organized efforts in the ministerial capacity development area, a change was made to the command and control operations of the IRMO consultancy teams to the Iraqi Ministries of Defense (MoD) and Interior (MoI). To unify the train and equip mission with the effort to develop ministerial capacity to support the Iraqi Army and police forces, the USG assigned operational control of the relevant IRMO staff to the Multi-National Security Training Command-Iraq (MNSTC-I). The Department of State/IRMO retains the administrative responsibility for those individuals, and the US Ambassador retains policy oversight on MoI and MoD issues.

Allowing MNSTC-I to maintain operational control provides for better management of the personnel involved in the training and equipping functions for which MNSTC-I has responsibility. The objective is to stand up Iraqi security forces, both army and police, that are capable of handling the security requirements for Iraq. As those forces become more competent and capable, less emphasis will be placed on Coalition forces to provide security. The IRMO personnel working in those Ministries have adapted to the new arrangement and will continue to provide their services until the end of 2006, when the Department of Defense assumes full responsibility for staffing.

Working with the New Government

With the formation of the first permanent post-war government, a new chapter in Iraq's history will begin. As we look forward to working with the new Iraqi Government, we are focusing on several key elements to ensure continuation of the governance processes as quickly as possible. The mission has established a joint IRMO/Embassy/MNF-I Ministerial Transition Assistance Group (MTAG) to support a smooth transition from the Iraqi Transitional Government to the next government. In addition, we are also offering the expertise provided by the IRMO Senior Consultants to support the

Ministries. We expect that, in many cases, the IRMO Senior Consultants will represent a key resource to the incoming Minister, bringing expertise and both institutional and corporate knowledge that will prove invaluable to the new government. The Prime Minister issued a letter to all Ministers providing guidance on the implementation of the transition process, and he requested that each Minister establish a transition team and to develop a transition handover package for the incoming Minister.

We are also supporting programs to develop best practices in the Government of Iraq's budget development process. During the past quarter, the Government of Iraq prepared and approved its first requirements-based budget with support from IRMO.

Continuing Challenges

With the formation of a new Iraqi Government, a completed constitution, and progressively more effective security forces, Iraq will assert itself as a viable international partner critical to fostering stabilization in the region. As our military draws down, our diplomatic relations and the political dimension will continue to build upon essential partnerships with Iraqis at all levels of government. Security and economic cooperation will create opportunities for national reconciliation, more effective governance, and most importantly, the rule of law. Anti-democratic forces in and around Iraq, however, vie for power and influence through corrupt and violent mechanisms, such as intimidation of Iraq's leaders, coercion of its citizens and attempts to undermine the political and economic progress of the nation. These negative efforts must be countered to prevent them from undermining the ability of the Iraqi Government to deliver essential services and maintain infrastructure developed under IRRF programs.

The International Community and Donor Assistance

Support for Iraq from the international community has continued to grow during the past quarter. As of the end of November, \$3.2 billion of the \$13.5 billion in non-USG assistance pledged at Madrid has already been disbursed, \$2.7 billion of which has come from other governments. A number of governments have engaged their Iraqi counterparts in detailed discussions regarding projects which could be supported with grants or concessional lending. Many countries that have pledged these loans are waiting to confirm the details of their programs with their new Iraqi government counterparts. It is anticipated that once the new Iraqi government is in place, there will be new announcements fulfilling pledges made at the Madrid and Dead Sea Donors' Conferences. We also expect that other countries will increase their political

support for the new Iraqi Government, and the U.S. will continue to actively pursue this possibility. Several nations established permanent representatives in Baghdad during the last quarter, while others committed to do so in the near future. The Turkish government, for example, announced that it will open a consular office in Mosul in early 2006.

The World Bank Board, on November 29, approved the first loan to Iraq in over thirty years. This loan extends \$100 million in International Development Assistance for an education project, which will help the Government of Iraq alleviate school overcrowding and lay the groundwork for educational reform. The World Bank is in detailed discussions with Iraq about other projects in the water, electricity and roads sectors. The remaining \$400 million in IDA resources are expected to be allocated to these projects in early 2006.

In December, Iraq secured a Stand-By Arrangement (SBA) with the IMF. The SBA is a significant milestone on Iraq's road to implementing the structural reforms it will need to sustain long-term economic growth. The SBA also sends an important message to the international community that Iraq is serious about reforms. As part of the SBA, the IMF agreed to provide \$685 million should Iraq need the balance of payment support. Eleven Paris Club members with Iraqi debt have concluded bilateral agreements to implement their pledges to forgive 80% of Iraq's debt (the U.S. forgave 100%). France, Switzerland, Belgium and Austria all announced their agreements in December, writing off more than \$5 billion over three years, per the 2004 Paris Club agreement. The Paris Club extended the deadline until the end of February 2006 for the remaining seven creditors (Russia, UK, Australia, Korea, Finland, the Netherlands, and Sweden) to conclude similar agreements. In addition, Romania, Malta and Slovakia – all non-Paris Club members – have also agreed to write off Iraq's debt at terms similar to or, in the case of Malta, better terms than the Paris Club agreement.

The World Trade Organization (WTO) at its December meeting agreed to establish a Working Party to consider Iraq's request for membership in the organization. While achieving full membership could take several years, the initiation of these accession talks is a significant step towards Iraq's reintegration into the global trade arena.

The international donor community has welcomed Iraq's progress on its National Development Strategy and the processes that were established at the International Reconstruction Fund Facility for Iraq Dead Sea Conference in July. There are now four Sector Working Groups that are meeting regularly

with excellent donor participation and support in health, education, rule of law and electricity. The Baghdad Coordination Group holds regular meetings to which all of the donor nations with local representatives participate. These forums create an organized venue and process in which donors' can engage the Iraqi Government. Moreover, with the establishment of the government following December's elections, we expect other donors will be more willing to commit their pledged funds to the reconstruction of Iraq. We will work with the new Iraqi Government early on to encourage it to continue these coordination mechanisms.

The next meeting of the International Reconstruction Fund Facility for Iraq will meet during the coming quarter along with several other key events. We anticipate that these venues will continue to build on progress to date in support of the reconstruction effort in Iraq. Other events in December have demonstrated the fact that Iraq is resuming its place among the community of nations as evidenced by the agreement signed between Egypt and Iraq on construction issues, which encourages firms to contract jointly for Iraqi reconstruction.

Security Issues

Security remains a critical concern to the reconstruction effort in Iraq. The insurgents and other saboteurs have consistently targeted linear infrastructure such as electricity, oil and water, in an effort to cripple the Iraq Transitional Government (ITG) and citizens' faith in their government by reducing oil revenues and disrupting delivery of essential services required to improve the quality of life of average Iraqis. Infrastructure attacks have undermined the of the interim government ability to meet the needs of its citizens and damaged its credibility. These attacks, as well as poor operations and maintenance (O&M) practices and lack of appropriate and sufficient fuel, continue to limit the positive impacts of reconstruction projects that have come on line. In some cases, the benefits of new power generation and water treatment projects are constrained due to the transmission line or pipelines being unavailable for distribution. In response to this challenge we have moved to smaller projects that facilitate a smaller footprint and more extensive Iraqi involvement.

The security situation will continue to have a significant impact on the effectiveness of our reconstruction efforts. Similarly, continued attacks on infrastructure will continue to hamper and undermine our larger security, political and economic goals in Iraq. Quite simply, without sufficient revenues

and services, Iraq will have trouble moving forward economically, and it will have trouble supporting its own security and infrastructure apparatus.

These challenges impact both the costs of our efforts as well as the breadth of opportunity available to be pursued. IRMO analysis indicates that direct and indirect security costs represent 16% - 22% of the overall cost of major infrastructure reconstruction projects in Iraq. Direct costs include additional provisioning of security requirements and the redirection of IRRF funds to address required security needs. Indirect costs, such as schedule delays, are comprised of hard and soft costs. Soft costs, such as from schedule delays because the security environment does not permit the work of projects, extend the time of project completion and increase maintenance costs and the costs of maintaining projects that are anticipated to be completed but remain uninitiated due to uncertainty about security and funding availability.

As the capability of the Iraqi security forces continues to improve, the coalition will expect the Iraqi government to assume added responsibility for the security of its infrastructure. We anticipate over the next year, that the ministries responsible for providing essential services will increase their levels of cooperation with the Iraqi Security Forces to identify security issues and better align security forces. This effort will require the participation of all Iraqi Ministries, but particularly focus on the Ministry of Interior and the Ministry of Defense. Coalition forces will work on developing the capacity of these ministries to support and respond to security challenges from terrorists and foreign fighters.

Sustainment and Operations and Maintenance

As part of both the reconstruction program in essential services, and the capacity development initiative, we will focus on sustainment as part of capacity building for Iraqi ministries. Sustainability in and of itself is a concept that is foreign to most Iraqi administrators. Under the previous regime, budgeting was top down based on patronage. There was little consideration for the need to maintain capital assets or provide for operational funds. Today, there is little capability to accurately forecast and budget O&M funding within the Ministries. Sustainability, however, is key to the Iraqis' success in operating and maintaining their facilities to meet the citizen's needs over the long-term.

In support of this effort are several focused initiatives that will improve the Iraq Government's ability to support these assets over the long term. These include maximizing the relationship between the Mission's Senior Consultants and the Ministerial Assistance Teams and the Ministries to focus on

sustainability as a core mission of the Ministry; supporting core skills development training in the areas of operations and maintenance budgeting; and, focusing on Asset Recognition and Transfer (ART) capabilities.

Budgeting

Requirements Based Financial Management did not exist in Iraq prior to the fall of the prior regime. During the coming year, we intend to introduce requirements based budget processes to provincial government. A transparent and accountable government at both the national and provincial level remains a critical goal. Accordingly, we are working to ensure the Iraqi 2007 budget at both the national and provincial levels is based on clearly definable requirements and equally represents the needs of the country as a whole.

We will also work towards the creation of an effective, professional civil service, which empowers middle managers and develops management capability at all levels of government. This is a goal of the National Capacity Development initiative. We intend to utilize a variety of tools including the creation of civil service institutes, ministerial assistance teams and professional education and exchange programs to help professionalize the civil service.

Corruption

Corruption remains a critical impediment to the successful governance of Iraq. Transparent financial management remains a critical factor in addressing corruption at all levels of Iraqi society. Electronic funds transfer will significantly increase reporting and transparency of financial transactions. Improved reporting processes will provide the foundation for pursuing criminal prosecution of corruption. The Independent Inspectors General (IIG) program within Iraq remains in its embryonic stage, and has suffered from significant missteps and lapses in progress. Currently, several Inspectors General have been relieved of their duties pending indictment. Continued effort and renewed vigilance is required to address these shortfalls.

Rule of Law

The U.S. Embassy in Baghdad reorganized the Rule of Law program, which had previously focused primarily on police training, to include additional issues, such as the criminal justice system and infrastructure, corrections, public prosecutors, intellectual property rights and property rights legislation.

Human Rights

IRRF programs continue to support a variety of human rights programs. IRRF programs are supporting the construction of modern prison facilities which will reduce the incidence of overcrowding. Human rights and RoL training has been incorporated in the training of Iraqi police forces to diminish human rights abuses perpetrated by Iraqi law enforcement entities. Additionally, we have increased funding for training Iraqi Corrections Service (ICS) officers. The Embassy is working to develop an interagency plan to coordinate these efforts.

IRRF Reallocations During The Quarter

Three Congressional Notifications (CNs), regarding the reallocation of a total of \$104 million in IRRF, were submitted to Congress during the last quarter. These CNs increased funding for programs such as democracy building, ministerial capacity building, and focused stabilization. Additionally, this quarterly report will serve as notification of another \$249.3 million as follows:

- \$53.6 million to be taken out of Electricity Transmission and put into Rule of Law;
- \$27 million to be taken out of Electricity Transmission and put into Migration & Refugee Assistance;
- \$9.2 million to be taken out of Electricity Transmission and put into Demining;
- \$5 million to be taken out of Iraqi Communications Operations and put into Agriculture;
- \$7 million to be taken out of Iraqi Security Forces Quick Response and put into Iraqi National Guard Facilities;
- \$14.2 million to be taken out of Iraqi Armed Forces Equipment, Operations and Training with \$12.6 million to be put into Oil Infrastructure and \$1.6 million into Iraqi Armed Forces Ops & Training;
- \$2.0 million to be taken out of Iraqi Police Training and Technical Assistance and put into Reconstruction & Modernization of Detention Facilities.
- \$3.2 million to be taken out of Micro-Small-Medium Enterprises and into Business Skills Training;

- \$21.6 million to be taken out of Potable Water and \$15.1 million out of Irrigation and Drainage with a total of \$36.7 million put into Sewerage;
- \$13.9 million to be taken out of Irrigation and Drainage and \$43 million out of Basra Sweetwater Canal with a total of \$56.9 million to be put into Pumping Stations and Generators.
- \$21.09 million to be taken out Basra Sweetwater Canal and put into Dam Repair;
- \$1.79 million to be taken out of Irrigation and Drainage and \$11.21 million to be taken out of Basra Sweetwater Canal, and \$13.0 million to be put into Major Irrigation.
- \$425,000 to be taken out of Iraqi electricity security, which will close-out this particular project code and put into electricity generation.

Looking Ahead

The ratification of an enduring constitution and the establishment of a permanent government both represent significant progress in enabling the reconstruction and development of Iraq. The next year will be critical as we concentrate on consolidating gains made and undertaking the final phase of the IRRF's transition to more conventional foreign assistance. As the new government settles in and gains experience, we expect ministries will be more effective in working together, which will resolve a number of bureaucratic issues which have slowed some of our IRRF projects.

Sector Highlights

Security and Law Enforcement

Training and equipping Iraqi security forces were key priorities within this sector during the past quarter. Over 223,000 military and security personnel have been trained and equipped, and are increasingly taking the lead in performing independent combat operations. We increased our effort to develop institutional capability within the security ministries, and activities were realigned to come under the operational control of the Multi-National Security Transition Command- Iraq (MNSTC-I). This realignment enabled an integrated and coordinated effort to ensure key ministerial functions develop commensurate with that of the Iraqi security forces.

Ministry of Defense

The Ministry of Defense (MOD) continues to build and develop forces, placing increased emphasis on the generation of logistics support capability. The basic training system has been expanded and consolidated, and forces continue to be generated in accordance with the MOD's approved force structure. Five Strategic Infrastructure Battalions (SIBs) have undergone the first level of training and have been equipped by MNF-I, and are now conducting operations to secure some of the critical energy corridors. The effectiveness of the SIBs, as they undergo more training and as new SIBs are added to the ranks, will need to be assessed, however. As force generation continues on track, increased attention has been given to the leadership and professional development of the Iraqi Armed Forces. With the assistance of the NATO Training Mission- Iraq (NTM-I), we are helping the Iraqis establish a professional development training structure through the creation of an Iraqi Training and Doctrine Command.

Justice and Public Safety

The Ministry of Justice continues to work on critical infrastructure and training issues in support of their mission. Two state of the art prison construction projects are currently underway, designed to provide 3,000 new beds to the Correctional System. The number of Iraqi Correctional Officers trained with US funds is now approaching 4,600 out of the total target group of 6,000. The Advanced First Responder Network (AFRN) was completed and actively assisted Iraqi security forces in coordinating their actions during the December elections.

Progress is being made on the two major prison/detention facilities at Kahn Bani Sa'ad and Nasiriyah. It is estimated that both facilities will be complete and ready for inmate occupancy by the fall of 2006. In addition, a renovation of the prison at Dahuk is under way and together with the aforementioned prisons, Iraq will gain approximately 4,400 new beds. There has been significant advancement of the Rule of Law data base project and it will eventually tie into a unified electronic system to track persons from arrest through the judiciary to incarceration.

Electricity

To date, over 300 electricity projects funded through IRRF have been completed or are nearly complete. More than 2,000 megawatts (MW) of generation capacity have been added or rehabilitated. One hundred fifty planned and ongoing projects worth \$800 million will add more than 600 MW

of additional generation capacity and improve the distribution of power to more than 2.1 million people. This progress has been offset by a series of challenges including attacks on transmission and fuel lines; lack of optimal fuels in the operation of power generation plants; unplanned power outages due to a dilapidated infrastructure, poor maintenance procedures and a relentless increase in demand for electricity.

Oil

Sharply rising oil prices in 2005 allowed projected 2006 Iraqi budget revenues to increase, even though current levels of production and exports are somewhat lower than last year. For the year, oil production averaged 2.1 million barrels a day (mbd), and exports 1.4 mbd. The primary risk for production and exports continues to be the number of attacks on infrastructure, particularly on the pipeline network to Turkey from Iraq's northern fields. Iraq's oil revenue will be highly dependent on price volatility and export levels. During the quarter, MNF-I trained Iraqi SIBs to provide increased security, but their effectiveness will need to be assessed. The completion of the al-Fathah crossing of the Tigris, expected next quarter, should increase Iraq's export capacity, provided the infrastructure is protected. Iraqi exports through the south continue to be plagued by poor maintenance, dilapidated and insufficient infrastructure lack of storage, smuggling, and exogenous factors such as poor weather. IRRF programs to upgrade the oil loading terminals (ABOT and KAAOT) will improve export loading capacity, while capacity development programs for the oil ministry are expected to improve maintenance practices.

Water Resources and Sanitation

The Water Resources and Sanitation Sector continued to make progress in completing projects and putting into place programs to ensure their sustainability. Most of the large-scale potable water, sanitary sewer, and water resources projects are completed or well underway; implementation of smaller, rapid placement water projects is well-advanced; and a limited amount of planning and design work remains. Small, rapid-placement projects require limited investment but provide benefits quickly with potentially lower requirements for O&M.

Health

Almost \$100 million of medical equipment has been purchased to upgrade existing facilities. The Iraqi government already has received 30% of

purchased “open distribution” equipment, and began providing it to hospitals and blood transfusion centers throughout the country.

Education, Refugees, Human Rights and Civil Society

Construction was completed on 72 of 84 model schools during this quarter. The schools will add classrooms for science and computer laboratories, and will serve as the foundation for a new Iraqi education system. During the quarter, an additional 37,000 teachers and other education professionals were trained in new pedagogy for teaching primary and secondary school, thus bringing the total number of teachers trained during 2005 to over 50,000. Refurbishment of water and sanitation facilities for schools continued, with an additional 120 schools completed last quarter, bringing the total completed to 500. Renovation of an additional 300 schools’ water and sanitation facilities is in progress and will be completed prior to the end of this fiscal year.

Approximately 11,500 formerly out-of-school youth were enrolled in an accelerated learning program that was launched in late September. The accelerated learning program is a non-formal education program endorsed by the MoEd that condenses a two-year primary school curriculum into one year. Under this program, children are able to complete the six-year primary school curriculum in just three years. This program addresses a critical need, providing basic skills for those adolescents and young adults neglected by the previous regime, and improving their employment prospects in the new economy.

The establishment of an independent and vibrant civil society is fundamental to the consolidation of the democratic gains made in to date which support the long-term stability of Iraq. IRRF continued to provide significant support to non-governmental organizations, especially to women, minority and conflict resolution groups, as well as human rights organizations, business associations and other civil society entities. These organizations played leading roles in carrying out programs to support the constitutional drafting process, the referendum and the national elections. IRRF programs assisted the Independent Election Commission of Iraq (IECI) in both the October constitutional referendum and the December parliamentary elections. The IRRF also continued to support political party development. Future support will increasingly focus on strengthening civil society’s capacity to counter increasing efforts by state institutions and actors to limit the scope of civil society’s activities and ability to ensure government transparency and accountability.

Private Sector Development

The USG continues to implement a broad range of programs to help Iraq move to a market-based economy. In December, the World Trade Organization (WTO) accepted the Iraqi Ministry of Trade's Foreign Trade Memorandum, formally beginning the negotiation process. IRRF programs also continued to implement programs to support the growth of private companies, including: micro-finance, banks lending to small and medium sized enterprises, capital market development, business skills development, investment promotion, business center support, and the establishment of economic zones. IRMO continued to provide support for the adoption of laws and regulations for the Iraqi securities industry and capital markets, providing assistance for vital reforms such as privatization, banking sector reform and programs for the agricultural sector. An evaluation of Iraq's commercial code was completed during this quarter, which should allow the new government to update it early in its tenure.

IPCC

The Iraq Property Claims Commission (IPCC) was created under Coalition Provisional Authority (CPA) authority to adjudicate claims by persons whose real property was unfairly or illegally confiscated or appropriated by the former regime for religious, ethnic, political or other improper reasons. IRMO assists the IPCC in its mission by providing technical assistance and capacity-building through funding provided by the USG to the International Organization for Migration (IOM) and the United Nations High Commissioner on Refugees (UNHCR). To date, IPCC has received nearly 129,000 property claims and rendered initial decisions in over 16,000 claims.

Refugees and Displaced Persons

The Ministry of Displacement and Migration's (MoDM) mission includes the development and implementation repatriation, relocation, resettlement and reintegration programs. In recognition of its efforts to date, MoDM was tasked by the Prime Minister's office to coordinate humanitarian assistance efforts in certain regions of Iraq that have been the subject of intense military counter-insurgency operations. MoDM effectively handled these post-conflict assignments. IRMO provided capacity-building and mentoring to MoDM personnel in concert with additional USG funds provided for capacity-building programs for MoDM that are implemented by IOM and UNHCR.

Construction

The Ministry of Construction and Housing has proceeded with implementation of the \$72 million IRRF grant from the USG for construction of eight major road and bridge projects around Iraq. Under US supervision, the Ministry advertises these projects for bid, accepts and reviews bids, awards contracts, and supervises the work. The agreement with the Ministry of Construction and Housing is a potential model for future IRRF grants to other Ministries as a way to build ministerial capacity, hand off reconstruction to the Iraqi government, and secure lower construction costs.

Transportation

Civil Aviation has undergone extensive renovations and airport facility (terminals, towers and supporting facility) upgrades have been completed while final adjustments continue at Basrah, Baghdad International Airport (BIAP) and Mosul. Iraqi airports are increasingly capable of handling normal flights, and responding to high seasonal demand. Air transportation operations increased significantly during December to accommodate Hajj pilgrims traveling to Mecca. As many as 20,000 passengers will depart and return to BIAP and other Iraqi airports during the Hajj period ending in mid January. IRRF programs continue to improve capacity at five Iraqi airports, including upgrading safety equipment to allow limited increases in night operations. IRMO has delivered more than a dozen fire and fire support vehicles for airport use at Basrah, BIAP, and Mosul, significantly enhancing safety for airport and aircraft operations.

Ports

IRRF projects continue to support the recovery of Iraq's ports. Thanks in part to completed projects, during the latter part of December the Iraqi port, Umm Qasr, berthed 14 vessels with more than 345 containers; 44,123 Metric tons of cement; 5 general cargo vessels and 3 passenger vessels. During the quarter, progress was made in installing a security fence at this port. Construction of a Ro-Ro (Roll On – Roll Off) berth at North Port of Umm Qasr will begin in approximately 45 days and will not only include construction of the berth, but will include removal of unexploded ordinance from the site.

Iraqi Republic Railways

New equipment has enabled greater rail system operation throughout the country, some of which has reduced USG operational expenses. Trains began moving north through the unstable Latifiyah area during December. The IRR

moved loaded trains that were staged at Hillah north into Baghdad and are moving empty cars and equipment south to Basrah and the ports. This is a significant step, as insurgents prevented movements for some time. Continued collaboration between IRMO and the military here and in the Fallujah area will help to maintain this positive trend. In January, rehabilitation on the western line through Fallujah will begin.

Telecommunications

The Wireless Broadband Network (WBBN) expanded its operations during the past quarter, and is fully operational at 35 government sites. Phase one of the Inter-Banking Payment System was completed using WBBN. Full transition of these assets to the Iraqis is scheduled for first quarter of 2006. The Consolidated Fiber Network (CFN) is 26.4% complete with on-schedule completion forecasted for June 30, 2006. The National Communications and Media Commission (NCMC) headquarters building was completed and turned over to NCMC in late December. The NCMC is responsible for regulation of telecommunications, media broadcasting and information services.

Coordination with Other Funding Sources

IRRF continues to be closely integrated with other USG resources devoted to assist Iraq in reconstruction and institution building. The FY 2005 DOD supplemental provided an additional \$5.3 billion for training and equipping Iraqi security forces. IRMO and DOD continue to coordinate closely on training programs for the Iraqi Security Forces.

Commanders' Emergency Relief Program (CERP) is also an important program, which enables Multi-National Corps-I (MNC-I) commanders to respond to urgent humanitarian relief and reconstruction requirements within their area of operations. In FY 2005, an additional \$320 million in CERP funds were provided to commanders in the field. For FY 2006, DoD anticipates using \$375 million of appropriated funding for CERP projects in Iraq.

In summation, the last quarter of calendar 2005 has been successful. The challenges faced during this quarter, and indeed, throughout the year have been met with a great degree of patience, focus and skilled management. Projects completions have increased in spite of a difficult security situation, the transfer of assets to the Iraqi people is occurring, security and justice have achieved measured successes, corruption and crime are now being addressed by both the USG and the Iraqis, and the roots of a new democracy have begun to take hold. The foundation for these achievements was created from the work done under the IRRF program, and furthered by the commitment and

dedication of many brave Iraqi citizens to create a free and democratic society in which all Iraqis can thrive and prosper.