



Testimony

Before the Committee on Government Reform, Subcommittee on National Security, Emerging Threats, and International Relations; House of Representatives

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REBUILDING IRAQ

Enhancing Security, Measuring Program Results, and Maintaining Infrastructure Are Necessary to Make Significant and Sustainable Progress

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Highlights of [GAO-06-179T](#), a testimony before the Committee on Government Reform; Subcommittee on National Security, Emerging Threats, and International Relations; House of Representatives

Why GAO Did This Study

The United States, along with coalition partners and various international organizations, has undertaken a challenging and costly effort to stabilize and rebuild Iraq following multiple wars and decades of neglect by the former regime. This enormous effort is taking place in an unstable security environment, concurrent with Iraqi efforts to complete a constitutional framework for establishing a permanent government. The United States' goal is to help the Iraqi government develop a democratic, stable, and prosperous country, at peace with itself and its neighbors, a partner in the war against terrorism, enjoying the benefits of a free society and a market economy.

In this testimony, GAO discusses (1) the funding used to rebuild and stabilize Iraq and (2) the challenges that the United States faces in its rebuilding and stabilization efforts.

This statement is based on several reports GAO has issued to the Congress over the past three months. In July, we issued two reports on (1) the status of funding and reconstruction efforts in Iraq and (2) the use of private security providers in Iraq. We issued two additional reports in September on (1) U.S. reconstruction efforts in the water and sanitation sector and (2) U.S. assistance for the January 2005 Iraqi elections. Finally, we expect to issue shortly a report on U.S. efforts to stabilize the security situation in Iraq (a classified report). This statement includes unclassified information only.

www.gao.gov/cgi-bin/getrpt?GAO-06-179T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Joseph Christoff at (202) 512-8979 or christoffj@gao.gov.

REBUILDING IRAQ

Enhancing Security, Measuring Program Results, and Maintaining Infrastructure Are Necessary to Make Significant and Sustainable Progress

What GAO Found

The United States is the primary contributor to efforts to stabilize and rebuild Iraq. Since 2003, the United States has made available about \$30 billion for activities that include the construction and repair of infrastructure, procurement of equipment, and training and equipping of Iraqi security forces. International donors have pledged \$13.6 billion in reconstruction funds (from 2004 through 2007), of which about \$2.7 billion was provided in multilateral and bilateral grants through August 2005. However, most of the pledged amount—about \$10 billion—is in the form of loans on which the Iraqi government largely has not yet drawn. Iraqi funds have primarily supported the country's operating budget, with some focus on capital improvement projects. For 2005, Iraq planned for about \$28 billion in expenditures—largely supported by oil proceeds—to fund salaries, pensions, ministry operations, and subsidies. It is likely that Iraq may need more funds than currently available due to the severely degraded infrastructure, post conflict looting and sabotage, and additional security costs.

The United States faces three key challenges in stabilizing and rebuilding Iraq. First, the security environment and the continuing strength of the insurgency have made it difficult for the United States to transfer security responsibilities to Iraqi forces and to engage in rebuilding efforts. The security situation in Iraq has deteriorated since June 2003, with significant increases in attacks against the coalition and the coalition's partners. Second, inadequate performance data and measures make it difficult to determine the overall progress and impact of U.S. reconstruction efforts. The United States has set broad goals for providing essential services in Iraq, but limited performance measures present challenges in determining the overall progress and impact of U.S. projects. Third, the U.S. reconstruction program has encountered difficulties with Iraq's ability to maintain new and rehabilitated infrastructure projects and to address maintenance needs in the water, sanitation, and electricity sectors. For example, as of June 2005, U.S.-funded water and sanitation projects representing about \$52 million of approximately \$200 million spent on completed projects were inoperable or were operating at lower than normal capacity.

The United States has made a significant investment in the rebuilding and stabilization of Iraq. To preserve that investment, the United States must address these critical challenges.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the U.S. efforts to rebuild and stabilize Iraq. The United States, along with its coalition partners and various international organizations, has undertaken a challenging and costly effort to stabilize and rebuild Iraq following multiple wars and decades of neglect by the former regime. This enormous effort is taking place in an unstable security environment, concurrent with Iraqi efforts to complete a constitutional framework for establishing a permanent government. The United States reconstruction assistance goal is to help the Iraqi government develop a democratic, stable, and prosperous country, at peace with itself and its neighbors, a partner in the war against terrorism, enjoying the benefits of a free society and a market economy.

My testimony today is based on several reports that we have issued to the Congress over the past 3 months. In July 2005, we issued two reports on (1) the status of funding and reconstruction efforts in Iraq, focusing on the progress we have achieved and the challenges we face in rebuilding Iraq's infrastructure and (2) the use of private security providers in Iraq. We issued two additional reports in September on (1) U.S. reconstruction efforts in the water and sanitation sector and (2) U.S. assistance for the January 2005 Iraqi elections. Finally, we expect to issue a report shortly on U.S. efforts to stabilize the security situation in Iraq (a classified report).

Based on these five reports, I will discuss (1) the funding used to rebuild and stabilize Iraq and (2) the challenges the United States faces in its rebuilding and stabilization efforts.

This statement includes unclassified information only and is based on recent GAO reports. We conducted our review for these reports between September 2004 and August 2005 in accordance with generally accepted government auditing standards.

Summary

The United States is the primary contributor to rebuilding and stabilization efforts in Iraq. Since 2003, the United States has made available about \$30 billion for activities that include the construction and repair of infrastructure, procurement of equipment, and training and equipping of Iraqi security forces. International donors have pledged \$13.6 billion in reconstruction funds (from 2004 through 2007), of which about \$2.7 billion was provided in multilateral and bilateral grants, through August 2005. However, most of the pledged amount is in the form of loans on which the

Iraqi government largely has not yet drawn. Iraqi funds, first under the control of the Coalition Provisional Authority and then the Iraqi government, have primarily supported the country's operating budget with some focus on capital improvement projects. For 2005, Iraq planned for about \$28 billion in expenditures—largely supported by oil proceeds—to fund salaries, pensions, ministry operations, and subsidies. While about 21 percent of planned expenditures are for capital investment in the oil and gas sector, food and fuel subsidies account for nearly 40 percent of Iraq's planned expenditures. It is likely that Iraq will need more funds than currently available due to the severely degraded infrastructure, post-2003 conflict looting and sabotage, and additional security costs.

The United States faces three key challenges in rebuilding and stabilizing Iraq. First, the security environment and the continuing strength of the insurgency have made it difficult for the United States to transfer security responsibilities to Iraqi forces and engage in rebuilding efforts. The security situation in Iraq has deteriorated since June 2003, with significant increases in attacks against the coalition and coalition partners. Second, inadequate performance data and measures make it difficult to determine the overall progress and impact of U.S. reconstruction efforts. The United States has set broad goals for providing essential services in Iraq, but limited performance measures present challenges in determining the overall impact of U.S. projects. Third, the U.S. reconstruction program has encountered difficulties with Iraq's inability to sustain new and rehabilitated infrastructure projects and to address maintenance needs in the water, sanitation, and electricity sectors. For example, as of June 2005, U.S.-funded water and sanitation projects representing about \$52 million of the approximately \$200 million in completed projects were either not operating or were operating at lower than normal capacity.

Background

From May 2003 through June 2004, the Coalition Provisional Authority (CPA), led by the United States and the United Kingdom, was the UN-recognized coalition authority responsible for the temporary governance of Iraq and for overseeing, directing, and coordinating the reconstruction effort. In May 2003, the CPA dissolved the military organizations of the former regime and began the process of creating or reestablishing new Iraqi security forces, including the police and a new Iraqi army. Over time, multinational force commanders assumed responsibility for recruiting and training some Iraqi defense and police

forces in their areas of responsibility.¹ In May 2004, the President issued a National Security Presidential Directive, which stated that, after the transition of power to the Iraqi government, the Department of State (State), through its ambassador to Iraq, would be responsible for all U.S. activities in Iraq except for security and military operations. U.S. activities relating to security and military operations would be the responsibility of the Department of Defense (DOD). The Presidential Directive also established two temporary offices: (1) the Iraq Reconstruction and Management Office to facilitate transition of reconstruction efforts to Iraq and (2) the Project and Contracting Office (PCO) to provide acquisition and project management support for some U.S.-funded reconstruction projects. Other U.S. government agencies also play significant roles in the reconstruction effort. USAID is responsible for projects to restore Iraq's infrastructure, support healthcare and education initiatives, expand economic opportunities for Iraqis, and foster improved governance. The U.S. Army Corps of Engineers provides engineering and technical services to the PCO, USAID, and military forces in Iraq.

On June 28, 2004, the CPA transferred power to an interim sovereign Iraqi government, the CPA was officially dissolved, and Iraq's transitional period began. Under Iraq's transitional law,² the transitional period covers the interim government phase (from June 28, 2004, to January 30, 2005) and the transitional government phase, which is currently scheduled to end by December 31, 2005.³ Under UN Resolution 1546, the Multi-National Force - Iraq (MNF-I) has the authority to take all necessary measures to contribute to security and stability in Iraq during this process, working in partnership with the Iraqi government to reach agreement on security and policy issues. The Presidential Directive required the U.S. Central Command (CENTCOM) to direct all U.S. government efforts to organize, equip, and train Iraqi security forces. The Multi-National Security Transition Command-Iraq, which operates under MNF-I, now leads coalition efforts to train, equip, and organize Iraqi security forces.

¹The CPA was responsible for police training at the Baghdad and Jordan academies. The Iraqi army units were trained by the Multi-National Security Transition Command-Iraq.

²*Law of Administration for the State of Iraq for the Transitional Period*, March 2004.

³See GAO, *Iraq's Transitional Law*, [GAO-04-746R](#) (Washington, D.C.: May 25, 2004), for more information on key events during Iraq's transitional period.

U.S. Appropriations Primarily Support Iraqi Reconstruction While Iraqi Funds Support Iraqi Government Operations

The United States is the primary contributor to rebuilding and stabilization efforts in Iraq. U.S. appropriations have been used largely for activities that include the repair of infrastructure, procurement of equipment, and training of Iraqi security forces. International donors have provided a lesser amount of funding for reconstruction and development activities; however, most of the pledged amount is in the form of loans that largely have not been accessed by the Iraqi government. Iraqi funding, under CPA or Iraqi control, has generally supported operating expenses of the Iraqi government. Finally, Iraqi needs may be greater than the funding currently made available.

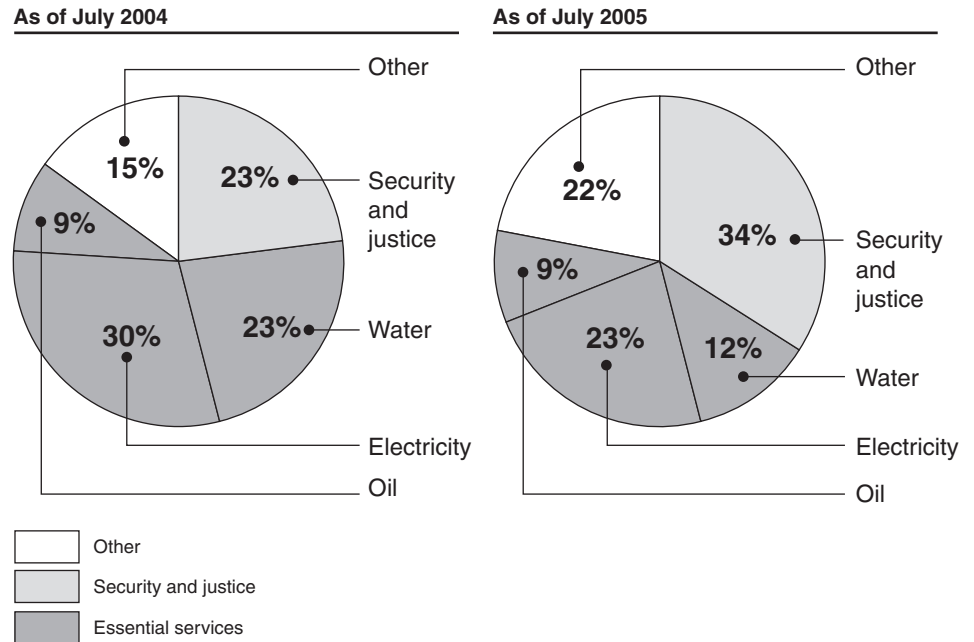
U.S. Funding Supports Rebuilding and Stabilization Efforts in Iraq

U.S. appropriated funding has largely focused on infrastructure repair and training of Iraqi security forces and this funding has been reallocated as priorities changed. As of August 2005, approximately \$30 billion in U.S. appropriations had been made available for rebuilding and stabilization needs in Iraq, about \$21 billion had been obligated, and about \$13 billion had been disbursed. These funds were used for activities that included infrastructure repair of the electricity, oil, and water and sanitation sectors; infrastructure repair, training, and equipping of the security and law enforcement sector; and CPA and U.S. administrative expenses.

Many current U.S. reconstruction efforts reflect initial plans that the CPA developed before June 2004. As priorities changed, particularly since the transition of power to the Iraqi interim government, the U.S. administration reallocated about \$5 billion of the \$18.4 billion fiscal year 2004 emergency supplemental among the various sectors⁴ (see fig. 1).

⁴See Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004, P.L. 108-106.

Figure 1: Funding Distribution of \$18.4 Billion for Iraq Relief and Reconstruction, by Sector



Source: GAO analysis Department of State data.

Note: "Other" category includes democracy, education, governance, agriculture, transportation, telecommunications, health, employment, privatization, and administrative costs.

According to State department documents, these reallocations were made to meet immediate needs: in October 2004, for projects in security and law enforcement, economic and private sector development, and governance; in January 2005, for quick-impact projects in key cities; in April 2005, for job creation and essential services activities; and in July 2005, for security force training and election support.⁵ As Figure 1 shows, security and justice funds increased while resources for the water and electricity sectors decreased.

⁵See GAO, *Rebuilding Iraq: Status of Funding and Reconstruction*, [GAO-05-876](#) (Washington, D.C.: July 28, 2005), for more information on the October 2004, January 2005, and April 2005 reallocations of the \$18.4 billion of fiscal year 2004 appropriations for Iraq relief and reconstruction. In July 2005, the administration reported that it had reallocated \$255 million to create Provincial Reconstruction Development Committees, to fund training of security forces, and to support the upcoming elections, among other things.

Some International Funds Have Been Provided for Reconstruction, but Pledges are Mostly Loans

International donors have provided about \$2.7 billion in multilateral and bilateral grants, of the pledged \$13.6 billion, for reconstruction activities; however, most of the pledged amount is in the form of loans that largely have not been accessed by the Iraqis.⁶ International reconstruction assistance provided in the form of multilateral grants has been used largely for activities such as electoral process support, education and health projects, and capacity building of the ministries. As of August 2005, donors have deposited about \$1.2 billion into the two trust funds of the International Reconstruction Fund Facility for Iraq (IRFFI).⁷ Of that amount, about \$800 million had been obligated and nearly \$300 million disbursed to individual projects. Donors have also provided bilateral assistance for Iraq reconstruction activities; however, complete information on this assistance is not readily available. As of August 2005, State has identified \$1.5 billion—of the \$13.6 billion pledged—in funding that donors have provided as bilateral grants for reconstruction projects outside the IRFFI. About \$10 billion, or 70 percent, of the \$13.6 billion pledged in support of Iraq reconstruction is in the form of loans, primarily from the World Bank, the International Monetary Fund (IMF), and Japan. According to a State Department official, Iraq is in discussions with the government of Japan and the World Bank for initial projects of lending programs that total about \$6.5 billion. As of October 12, 2005, Iraq had accessed a loan of \$436 million from the IMF and an initial loan of \$500 million from the World Bank, according to a State Department official.

Iraqi Funds Support Iraq's Government Operations

Iraqi funds—under the CPA or Iraqi control—primarily have supported the Iraqi operating budget with some focus on relief and reconstruction

⁶According to a State Department official, in addition to the \$13.6, donors pledged an additional \$203 million for Iraq reconstruction at the International Reconstruction Fund Facility for Iraq (IRFFI) Donors' Committee meeting at the Dead Sea in Jordan, in July 2005. See [GAO-05-876](#) and *Rebuilding Iraq: Resources, Security, Governance, Essential Services, and Oversight Issues* [GAO-04-902R](#), (Washington, D.C.: June 28, 2004), for more information on international donor support for Iraq reconstruction.

⁷The IRFFI was established in response to the June 24, 2003, UN technical meeting and the 2003 Madrid conference's calls for a mechanism to channel and coordinate donor resources for Iraq reconstruction and development activities. The IRFFI is composed of two trust funds, one run by the United Nations Development Group and the other by the World Bank Group.

projects.⁸ Of the Iraqi funds under CPA control from May 2003 to June 2004, about \$21 billion came from the Development Fund for Iraq (DFI)⁹ and \$2.65 billion from vested and seized assets from the previous Iraqi regime.¹⁰ The CPA disbursed these Iraqi funds primarily to support the 2003 and 2004 Iraqi budgets for government operating expenses, such as salary payments and ministry operations, the public food distribution system, and regional government outlays. In addition, CPA used Iraqi funds to support efforts such as the import of refined fuels and electricity restoration projects. On June 28, 2004, stewardship of the DFI was turned over to the Iraqi interim government. Proceeds from Iraqi crude oil exports continue to be deposited into the DFI¹¹ and represent more than 90 percent of the \$23 billion in domestic revenue support for the Iraqi 2005 budget.¹²

According to Iraq's National Development Strategy, the 2005 Iraqi budget planned for nearly \$28 billion in expenditure. These expenditures exceed estimated domestic revenues by \$4.8 billion. However, higher than anticipated domestic revenues may offset this deficit. Planned expenditures of this budget include about 37 percent for direct subsidies; about 21 percent for capital investment, especially in the oil and gas sector; about 20 percent for employee wages and pensions; nearly 18 percent for goods and services; and about 4 percent for war reparations.¹³ Direct subsidies included the import of gasoline and other refined fuel products

⁸See [GAO-05-876](#) and [GAO-04-902R](#), for more information on the DFI and vested and seized Iraqi funds.

⁹The DFI was initially comprised of Iraqi oil proceeds, UN Oil for Food program surplus funds, and returned Iraqi government and regime financial assets.

¹⁰The vested assets were former Iraqi regime funds frozen and held in U.S. financial institutions after the first Persian Gulf War and subsequently vested by the President in the U.S. Treasury in March 2003. In addition, assets of the former regime were seized by coalition forces within Iraq.

¹¹As directed under UN Security Council Resolution 1483, 95 percent of oil proceeds are to be deposited into the DFI. UN Security Council Resolution 1546 directed that oil proceeds would continue to be deposited in the DFI after the CPA transfer of power to Iraq. UN Security Council Resolution 1483 directed that 5 percent of oil proceeds are to be deposited into a UN Compensation Fund account to process and pay claims for losses resulting from Iraq's invasion and occupation of Kuwait.

¹²The 2005 Iraqi budget includes an additional \$9 billion in aid expected from external sources that is to be spent in accordance with grant and loan conditions.

¹³The \$28 billion does not include expenditures associated with the \$9 billion in expected aid from external sources.

(projected to cost \$2.4 billion) and Iraq's public distribution system's basic food basket (projected to cost \$4 billion). The Iraqi government continues to develop plans to reform fuel price subsidies, partly due to an agreement with the IMF to reduce subsidies by \$1 billion per year, according to IMF and agency documents. In addition to subsidy expenditures, Iraq has planned for capital investment levels of 21 percent from 2005 to 2007. In 2005, the majority of these funds were planned for the oil and gas sector—about \$3 billion of about \$5 billion in total for various ministries.

Iraqi Needs Greater than Originally Anticipated

Initial assessments of Iraq's needs through 2007 by the UN/World Bank and the CPA estimated that the reconstruction of Iraq would require about \$56 billion. However, Iraq may need more funding than currently available to meet the needs and demands of the country. The state of some Iraqi infrastructure was more severely degraded than U.S. officials originally anticipated or initial assessments indicated. The condition of the infrastructure was further exacerbated by post-2003 conflict looting and sabotage. For example, some electrical facilities and transmission lines were damaged, and equipment and materials needed to operate treatment and sewerage facilities were destroyed by the looting that followed the 2003 conflict. In the oil sector, a June 2003 U.S. government assessment found that over \$900 million would be needed to replace looted equipment at Iraqi oil facilities. In addition, initial assessments assumed reconstruction would take place in a peace-time environment and did not include additional security costs.

Further, these initial assessments assumed that Iraqi government revenues and private sector financing would increasingly cover long-term reconstruction requirements. However, private sector financing and government revenues may not yet meet these needs. In the oil sector alone, Iraq will likely need an estimated \$30 billion over the next several years to reach and sustain an oil production capacity of 5 million barrels per day, according to industry experts and U.S. officials.¹⁴

¹⁴According to State Department monthly estimates from January 2005 to September 2005, crude oil production averages ranged from 2.08 to 2.17 million barrels per day (bpd) and monthly crude oil export averages ranged from 1.37 to 1.61 million bpd.

Security, Measurement, and Sustainability Challenges in Rebuilding and Stabilizing Iraq

The United States faces three key challenges in stabilizing and rebuilding Iraq. First, the unstable security environment and the continuing strength of the insurgency have made it difficult for the United States to transfer security responsibilities to Iraqi forces and engage in rebuilding efforts. Second, inadequate performance data and measures make it difficult to determine the overall progress and impact of U.S. reconstruction efforts. Third, the U.S. reconstruction program has encountered difficulties with Iraq's inability to sustain new and rehabilitated infrastructure projects and to address maintenance needs in the water, sanitation, and electricity sectors.

Strength of the Insurgency Has Made It Difficult to Transfer Security Responsibilities to Iraqi Forces and Engage in Rebuilding Efforts

Over the past 2 years, significant increases in attacks against the coalition and coalition partners have made it difficult to transfer security responsibilities to Iraqi forces and engage in rebuilding efforts in Iraq. The insurgency in Iraq intensified in early 2005 and has remained strong since then. Poor security conditions have delayed the transfer of security responsibilities to Iraqi forces and the drawdown of U.S. forces in Iraq. The unstable security environment has also affected the cost and schedule of rebuilding efforts and has led, in part, to project delays and increased costs for security services.

Insurgency Intensified through Early 2005 and Remains Strong

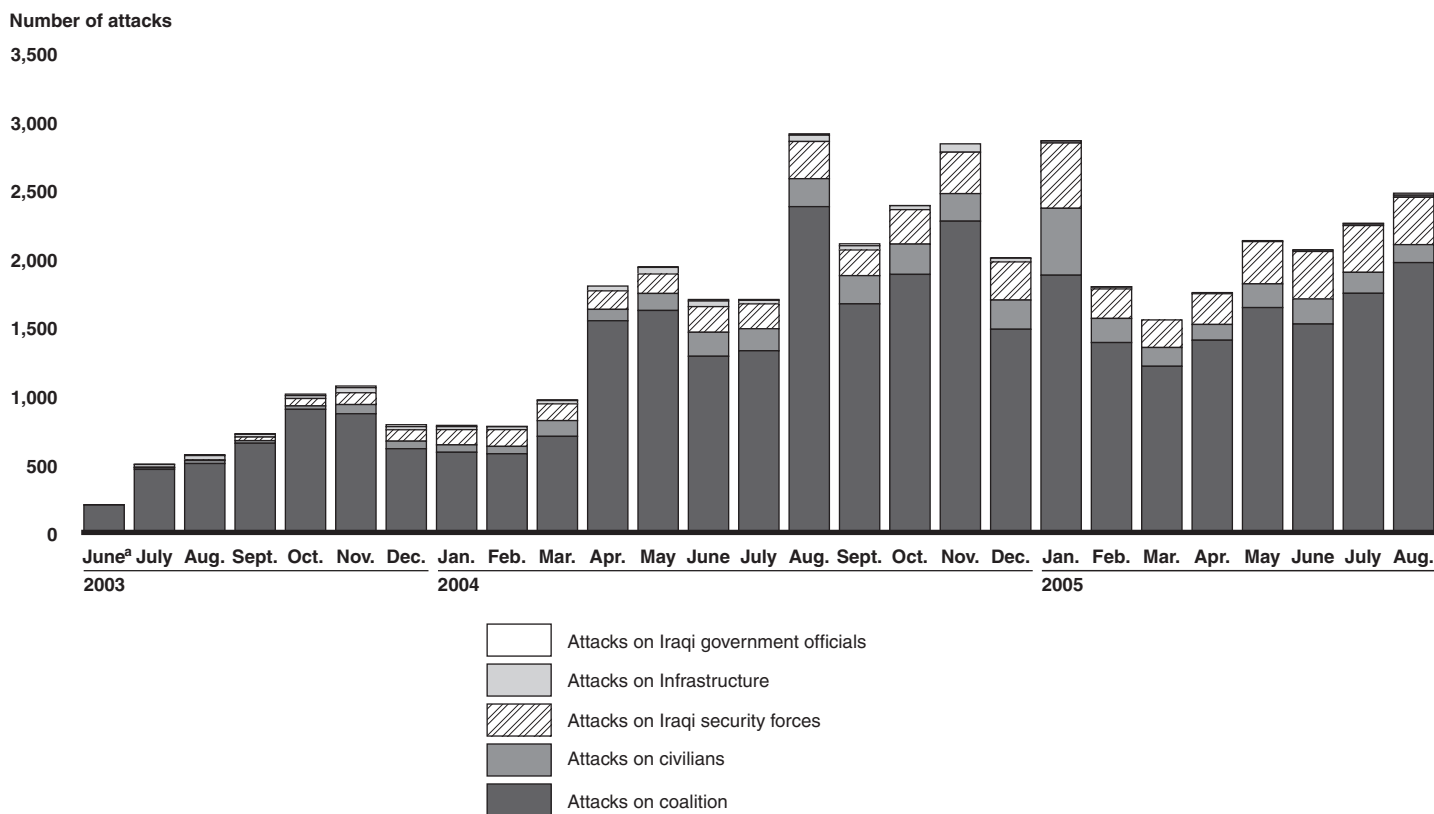
The insurgency intensified through early 2005 and has remained strong since then. As we reported in March 2005, the insurgency in Iraq—particularly the Sunni insurgency—grew in complexity, intensity, and lethality from June 2003 through early 2005.¹⁵ Enemy-initiated attacks against the coalition, its Iraqi partners, and infrastructure had increased in number over time, with the highest peaks occurring in August and November 2004 and in January 2005. The November 2004 and January 2005 attacks primarily occurred in Sunni-majority areas, whereas the August 2004 attacks took place countrywide. MNF-I is the primary target of the attacks, but the number of attacks against Iraqi civilians and security forces increased significantly during January 2005, prior to Iraq's national election for a transitional government that was held January 30, 2005. According to the Director of the Defense Intelligence Agency (DIA), attacks on Iraq's

¹⁵For more information on security trends and the makeup of the insurgency, see GAO, *Rebuilding Iraq: Preliminary Observations on Challenges in Transferring Security Responsibilities to Iraqi Military and Police*, [GAO-05-431T](#) (Washington, D.C.: Mar. 14, 2005).

Election Day reached about 300, double the previous 1-day high of about 150 attacks on a day during Ramadan in 2004.

Although the number of attacks decreased immediately after the January elections, the strength of the insurgency in Iraq has remained strong and generally unchanged since early 2005, according to senior U.S. military officers. As shown in figure 2, although enemy-initiated attacks had decreased in February and March 2005, they generally increased through the end of August 2005.

Figure 2: Enemy-Initiated Attacks against the Coalition and Its Partners, by Category, June 2003 through August 2005



Source: Multi National Corps - Iraq.

^aAccording to DIA officials, June 2003 data are incomplete.

According to a senior U.S. military officer, attack levels ebb and flow as the various insurgent groups—which are an intrinsic part of Iraq’s

population—rearm and attack again. As DOD reported in July 2005,¹⁶ insurgents share a goal of expelling the Coalition from Iraq and destabilizing the Iraqi government to pursue their individual and, at times, conflicting goals. Iraqi Sunnis make up the largest proportion of the insurgency and present the most significant threat to stability in Iraq. Radical Shia groups, violent extremists, criminals, and, to a lesser degree, foreign fighters, make up the rest. Senior U.S. military officers believe that the insurgents remain adaptive and capable of choosing the time and place of their attacks. These officers have also predicted spikes in violence around Iraq's upcoming constitutional referendum scheduled for October 15, 2005, and the national elections scheduled for December 15, 2005.

Poor Security Conditions Have Delayed Transfer of Security Responsibilities to Iraqi Forces and Draw Down of U.S. Forces

The continuing strength of the insurgency has made it difficult for the multinational force to develop effective and loyal Iraqi security forces, transfer security responsibilities to them, and progressively draw down U.S. forces in Iraq. In February 2004, the multinational force attempted to quickly shift responsibilities to Iraqi security forces but did not succeed in this effort. Police and military units performed poorly during an escalation of insurgent attacks in April 2004, with many Iraqi security forces around the country collapsing or assisting the insurgency during the uprising. About that time, the Deputy Secretary of Defense said that the multinational force was engaged in combat in Iraq, rather than in peacekeeping as had been expected. The United States decided to maintain a force level of about 138,000 troops until at least the end of 2005, rather than drawing down to 105,000 troops by May 2004 as DOD had announced in November 2003. The United States has maintained roughly the same force level of 138,000 troops in Iraq since April 2004,¹⁷ as it has sought to neutralize the insurgency and develop Iraqi security forces.

¹⁶Department of Defense, *Report to Congress, Measuring Stability and Security in Iraq*, July 20, 2005.

¹⁷The United States temporarily increased the number of troops in Iraq to about 160,000 during the January 2005 election period by overlapping units during their planned rotations into or out of Iraq and bringing in an additional 12,000 military personnel. On September 2, 2005, a senior U.S. military officer said that the United States would bring in an additional 2,000 military personnel for the upcoming referendum and national election in Iraq. On October 6, 2005, DOD reported that it had employed overlapping troop rotations to temporarily increase the number of U.S. military forces in Iraq to about 152,000. These forces will provide additional security for the referendum.

In late September and early October 2005, the Secretary of Defense and senior U.S. military officers reported on their strategy to draw down and eventually withdraw U.S. forces as Iraq meets certain conditions. These conditions would consider the level of insurgent activity, readiness and capability of Iraqi security forces and government institutions, and the ability of the coalition forces to reinforce the Iraq security forces if necessary. The ability to meet these conditions will be affected by progress in political, economic, and other areas. According to the commanding general of the multinational force, as conditions are met, multinational forces will progressively draw down in phases around the country. By the time the multinational force's end state is achieved, U.S. forces will be withdrawn or drawn down to levels associated with a normal bilateral security relationship. The defined end state is an Iraq at peace with its neighbors, with a representative government that respects the human rights of all Iraqis, and with a security force that can maintain domestic order and deny Iraq as a safe haven for terrorists.¹⁸

DOD and the multinational force face a number of challenges in transferring security responsibilities to the Iraqi government and security forces. As we reported in March 2005, the multinational force faced four key challenges in increasing the capability of Iraqi forces: (1) training, equipping, and sustaining a changing force structure; (2) developing a system for measuring the readiness and capability of Iraq forces; (3) building loyalty and leadership throughout the Iraqi chain of command; and (4) developing a police force that upholds the rule of law in a hostile environment. Further, in a July 2005 report to Congress, DOD noted continuing problems with absenteeism in the Iraqi Army, Police Service, and Border Police; among those units conducting operations; and units relocating elsewhere in Iraq. The report also noted that there was insufficient information on the extent to which insurgents have infiltrated Iraqi security forces.¹⁹ However, in an October 2005 report to Congress, DOD noted insurgent infiltration is a more significant problem in Ministry of Interior forces than in Ministry of Defence forces.²⁰ Moreover, in early

¹⁸Press conference with Major General Rick Lynch, Deputy Chief of Staff, Multinational Force Iraq, Aug. 25, 2005.

¹⁹The DOD report noted that insurgent infiltration was low for Special Police Commando battalions but high among the Border Police.

²⁰Department of Defense, *Report to Congress, Measuring Stability and Security in Iraq*, October 2005.

October 2005, senior U.S. military officers noted challenges in developing effective security ministries, as well as logistics capabilities of Iraqi forces.

Since March 2005, the multinational force has taken some steps to begin addressing these challenges. For example, the multinational force has embedded transition teams at the battalion, brigade, and division levels of Ministry of Defense forces, as well as in the Ministry of Interior's Special Police Commando battalions, the Civil Intervention Force, and the Emergency Response Unit. Multinational force transition teams conduct new transition readiness assessments that identify the progress and shortcomings of Iraqi forces. According to DOD's report, these assessments take into account a variety of criteria that are similar but not identical to those the U.S. Army uses to evaluate its units' operational readiness, including personnel, command and control, training, sustainment/logistics, equipment, and leadership. The assessments place Iraqi units into one of the following four categories:

- Level 1 units are fully capable of planning, executing, and sustaining independent counterinsurgency operations.
- Level 2 units are capable of planning, executing, and sustaining counterinsurgency operations with coalition support.
- Level 3 units are partially capable of conducting counterinsurgency operations in conjunction with coalition units.
- Level 4 units are forming or otherwise incapable of conducting counterinsurgency operations.

The multinational force is also preparing similar readiness assessments on the Iraqi police through partnerships at the provincial levels. These assessments look at factors that are tailored to the tasks of a police force, including patrol/traffic operations, detainee operations, and case management.

According to DOD's October 2005 report and DOD officials, Iraqi combat forces have made progress in developing the skills necessary to assume control of counterinsurgency operations. However, they also recognize that Iraqi forces will not be able to operate independently for some time because they need logistical capabilities, ministry capacity, and command and control and intelligence structures. According to DOD's October 2005 report, Iraq has 116 police and army combat battalions actively conducting

counter insurgency operations. This number corresponds to the number of battalions in levels 1, 2, and 3 described above. Of these battalions, 1 battalion was assessed as level 1, that is, fully capable of planning, executing, and sustaining independent counterinsurgency operations. Thirty-seven were level 2, or capable of planning, executing, and sustaining counterinsurgency operations with coalition support; and 78 were level 3—partially capable of conducting counterinsurgency operations in conjunction with coalition units. The assessment of Iraqi units' capabilities also considers the threat level they face. According to a senior U.S. military officer, Iraqi forces have more quickly progressed from level 3 to level 2 in areas that have experienced fewer insurgent attacks, such as southern Iraq.

GAO's forthcoming classified report on Iraq's security situation will provide further information and analysis on the challenges to developing Iraqi security forces and the conditions for the phased draw down of U.S. and other coalition forces.

Security Situation Has Affected Rebuilding Efforts

The security situation in Iraq has affected the cost and schedule of reconstruction efforts. Security conditions have, in part, led to project delays and increased costs for security services. Although it is difficult to quantify the costs in time and money resulting from poor security conditions, both agency and contractor officials acknowledged that security costs have diverted a considerable amount of reconstruction resources and have led to canceling or reducing the scope of some reconstruction projects. For example, in March 2005, the USAID cancelled two electrical power generation-related task orders²¹ totaling nearly \$15 million to help pay for increased security costs incurred at another power generation project in southern Baghdad. In another example, work was suspended at a sewer repair project in central Iraq for 4 months in 2004 due to security concerns. In a September 2005 testimony, the Special Inspector General for Iraq Reconstruction and a USAID official also observed that the cost of security had taken money away from reconstruction and slowed down reconstruction efforts.²²

²¹Task orders are placed against established contracts for the performance of tasks during the period of the contracts.

²²U.S. House of Representatives, Committee on Appropriations, Subcommittee on Foreign Operations, Export Financing, and Related Programs, "Oversight Hearing on Iraq Reconstruction," September 7, 2005, Washington, D.C.

However, the actual cost that security has added to reconstruction projects is uncertain. We reported in July 2005, that, for 8 of 15 reconstruction contracts we reviewed, the cost to obtain private security providers and security-related equipment accounted for more than 15 percent of contract costs, as of December 31, 2004.²³ Our analysis and discussions with agency and contractor officials identified several factors that influenced security costs, including (1) the nature and location of the work, (2) the type of security required and the security approach taken, and (3) the degree to which the military provided the contractor security services. For example, projects that took place in fixed locations were generally less expensive to secure than a project, such as electrical transmission lines, which extended over a large geographic location. In addition, some contractors made more extensive use of local Iraqi labor and employed less costly Iraqi security guards, while others were able to make use of security provided by the U.S. military or coalition forces.

Our analysis did not include increased transportation or administrative expenses caused by security-related work stoppages or delays, or the cost associated with repairing the damage caused by the insurgency on work previously completed. We also excluded the cost associated with the training and equipping of Iraqi security forces and the costs borne by DOD in maintaining, equipping, and supporting U.S. troops in Iraq.

In July 2005, to improve agencies' ability to assess the impact of and manage security costs in future reconstruction efforts, we recommended that the Secretary of State, the Secretary of Defense, and the Administrator, USAID, establish a means to track and account for security costs to develop more accurate budget estimates. State did not indicate whether it agreed with our recommendation, Defense agreed, and USAID did not comment on the recommendation.

In addition, the security environment in Iraq also has led to severe restrictions on the movement of civilian staff around the country and

²³Several contractor officials noted that the cost of security relative to total contract costs can vary over time. For example, they noted that initial security costs, such as for mobilizing and equipping security personnel and purchasing armored vehicles, can be considerable in relation to the amount of reconstruction work authorized. As additional work is authorized, the relative percentage accounted for by security costs may decrease considerably. See GAO, *Rebuilding Iraq: Actions Needed to Improve Use of Private Security Providers*, GAO-05-737 (Washington, D.C.: July 28, 2005) for more information on the use and costs of private security providers.

reductions of a U.S. presence at reconstruction sites, according to U.S. agency officials and contractors. For example, work at a wastewater plant in central Iraq was halted for approximately 2 months in early 2005 because insurgent threats drove subcontractors away and made the work too hazardous to perform. In the assistance provided to support the electoral process, U.S. funded grantees and contractors also faced security restrictions that hampered their movements and limited the scope of their work. For example, IFES²⁴ was not able to send its advisors to most of the governorate-level elections administration offices, which hampered training and operations at those facilities leading up to Iraq's Election Day on January 30, 2005.

While poor security conditions have slowed reconstruction and increased costs, a variety of management challenges have also adversely affected the implementation of the U.S. reconstruction program. In September 2005, we reported that management challenges such as low initial cost estimates and delays in funding and awarding task orders have also led to the reduced scope of the water and sanitation program and delays in starting projects. In addition, U.S. agency and contractor officials have cited difficulties in initially defining project scope, schedule, and cost, as well as concerns with project execution, as further impeding progress and increasing program costs. These difficulties include lack of agreement among U.S. agencies, contractors, and Iraqi authorities; high staff turnover; an inflationary environment that makes it difficult to submit accurate pricing; unanticipated project site conditions; and uncertain ownership of projects sites.

Limited Performance Data and Measures and Inadequate Reporting Present Difficulties in Determining Progress and Impact of Rebuilding Effort

State has set broad goals for providing essential services, and the U.S. program has undertaken many rebuilding activities in Iraq. The U.S. program has made some progress in accomplishing rebuilding activities, such as rehabilitating some oil facilities to restart Iraq's oil production, increasing electrical generation capacity, restoring some water treatment plants, and reestablishing Iraqi health services. However, limited performance data and measures make it difficult to determine and report

²⁴IFES was formally known as the International Foundation for Elections Systems. IFES is a nonpartisan, nonprofit organization founded in 1987 that provides technical assistance concerning democracy and governance to transitional democracies. In 2004, USAID gave IFES a \$40 million grant to provide technical assistance to the Independent Electoral Commission of Iraq through the end of 2005 to help it administer elections.

on the progress and impact of U.S. reconstruction. For example, in the water and sanitation, health, and electricity sectors, limited performance data and reporting measures are output focused and make it difficult to accurately measure program results and assess the effectiveness of U.S. reconstruction efforts. Although information is difficult to obtain in an unstable security environment, opinion surveys and additional outcome measures have the potential to help determine progress and gauge the impact of the U.S. reconstruction efforts on the lives of the Iraqi people.

- In the water and sanitation sector, the Department of State has primarily reported on the numbers of projects completed and the expected capacity of reconstructed treatment plants. However, we found that the data are incomplete and do not provide information on the scope and cost of individual projects nor do they indicate how much clean water is reaching intended users as a result of these projects. For example, although State reported that 143 projects were complete as of early July 2005, it could not document the location, scope, and cost of these projects. Moreover, reporting only the number of projects completed or under way provides little information on how U.S. efforts are improving the amount and quality of water reaching Iraqi households or their access to sanitation services. Information on access to water and its quality is difficult to obtain without adequate security or water metering facilities. However, opinion surveys assessing Iraqis' access and satisfaction with water sanitation services have found dissatisfaction with these services. The most recent USAID quality of life survey, in February 2005, found that just over half of respondents rated their water supply as poor to fair and over 80 percent rated their sewerage and wastewater disposal as poor to fair. These surveys demonstrate the potential for gathering data to help gauge the impact of U.S. reconstruction efforts.
- Limitations in health sector measurements also make it difficult to relate the progress of U.S. activities to its overall effort to improve the quality and access of health care in Iraq. Department of State measurements of progress in the health sector primarily track the number of completed facilities, an indicator of increased access to health care. For example, State reported that the construction of 145 out of 300 health clinics had been completed, as of August 31, 2005. However, the data available do not indicate the adequacy of equipment levels, staffing levels, or quality of care provided to the Iraqi population. Monitoring the staffing, training, and equipment levels at health facilities may help gauge the effectiveness of the U.S. reconstruction program

and its impact on the Iraqi people. In addition, opinion surveys assessing Iraqis' access and satisfaction with health services also have the potential for gathering data to help gauge the impact of U.S. reconstruction efforts. For example, the most recent USAID quality of life survey, in February 2005, found that the majority of Iraqis approved of the primary healthcare services they received; although fewer than half of the respondents approved of the level of health care at Ta'mim, Al Basrah, and Maysan governorates.

- In the electricity sector, U.S. agencies have primarily reported on generation measures such as levels of added or restored generation capacity and daily power generation of electricity; numbers of projects completed; and average daily hours of power. For example, as of May 2005, U.S.-funded projects reportedly had added or restored about 1,900 megawatts of generation capacity to Iraq's power grid. However, these data do not show whether (1) the power generated is uninterrupted for the period specified (eg., average number of hours per day), (2) there are regional or geographic differences in the quantity of power generated, and (3) how much power is reaching intended users. Information on the distribution and access of electricity is difficult to obtain without adequate security or accurate metering capabilities. However, opinion surveys assessing Iraqis' access and satisfaction with electricity services have found dissatisfaction with these services. The February 2005 USAID survey found that 74 percent of the respondents rated the overall quality of electricity supply as poor or very poor. The surveys also found that the delivery of electricity directly influenced the perceived legitimacy of local government for many respondents. These surveys demonstrate the potential for gathering data to help gauge the impact of U.S. reconstruction efforts.

In September 2005, we recommended that the Secretary of State address this issue of measuring progress and impact in the water and sanitation sector. State agreed with our recommendation and stated that it is taking steps to address the problem.

Iraq's Capacity to Operate and Maintain U.S.-Funded Projects Presents Sustainability Problems

The U.S. reconstruction program has encountered difficulties with the Iraqis' ability to sustain the new and rehabilitated infrastructure and address maintenance needs. In the water, sanitation, and electricity sectors, in particular, some projects have been completed but have sustained damage or become inoperable due to the Iraqis' problems maintaining or properly operating them.

In the water and sanitation sector, U.S. agencies have identified limitations in the Iraqis' capacity to maintain and operate reconstructed facilities, including problems with staffing, unreliable power to run treatment plants, insufficient spare parts, and poor operations and maintenance procedures. As of June 2005, approximately \$52 million of the \$200 million in completed large-scale water and sanitation projects either were not operating or were operating at lower capacity due to looting of key equipment and shortages of reliable power, trained Iraqi staff, and required chemicals and supplies. For example, one repaired wastewater plant was partially shut down due to the looting of key electrical equipment and repaired water plants in one southern governorate lacked adequate electricity and necessary water treatment chemicals. In addition, two projects lacked a reliable power supply, one lacked sufficient staff to operate properly, and one lacked both adequate staff and power supplies. In response, U.S. agencies have taken initial steps to improve Iraqi capacity to operate and maintain water and sanitation facilities. For example, in August 2005, USAID awarded a contract to provide additional maintenance and training support for 6 completed water and sanitation facilities.

The U.S. embassy in Iraq stated that it was moving from the previous model of building and turning over projects to Iraqi management toward a "build-train-turnover" system to protect the U.S. investment. However, these efforts are just beginning, and the U.S. assistance does not address the long-term ability of the Iraqi government to support, staff, and equip these facilities. It is unclear whether the Iraqis will be able to maintain and operate completed projects and the more than \$1 billion in additional large-scale water and sanitation projects expected to be completed through 2008. Without assurance that the Iraqis have adequate resources to maintain and operate completed projects, the U.S. water and sanitation reconstruction program risks expending funds on projects with limited long-term impact. In September 2005, we recommended that the Secretary of State address the issue of sustainability in the water and sanitation sector. State agreed with our recommendation and stated that it is taking steps to address the problem.

In the electricity sector, the Iraqis' capacity to operate and maintain the power plant infrastructure and equipment provided by the United States remains a challenge at both the plant and ministry levels. As a result, the infrastructure and equipment remain at risk of damage following their transfer to the Iraqis. In our interviews with Iraqi power plant officials from 13 locations throughout Iraq, the officials stated that their training did not adequately prepare them to operate and maintain the new U.S.-provided

gas turbine engines. Due to limited access to natural gas, some Iraqi power plants are using low-grade oil to fuel their natural gas combustion engines. The use of oil-based fuels, without adequate equipment modification and fuel treatment, decreases the power output of the turbines by up to 50 percent, requires three times more maintenance, and could result in equipment failure and damage that significantly reduces the life of the equipment, according to U.S. and Iraqi power plant officials.

U.S. officials have acknowledged that more needs to be done to train plant operators and ensure that advisory services are provided after the turnover date. To address this issue, USAID implemented a project, in February 2005, to train selected electricity plant officials (plant managers, supervisors, and equipment operators) in plant operations and maintenance. According to DOD, PCO also has awarded one contract and is developing another to address operations and maintenance concerns.

Although agencies had incorporated some training programs and the development of operations and maintenance capacity into individual projects, recent problems with the turnover of completed projects, such as those in the water and sanitation and electricity sectors, have led to a greater interagency focus on improving project sustainability. In May 2005, an interagency working group including State, USAID, PCO, and the Corps of Engineers, was formed to identify ways of addressing Iraq's capacity development needs.

The working group reported that a number of critical infrastructure facilities constructed or rehabilitated under U.S. funding have failed, will fail, or will operate in sub-optimized conditions following handover to the Iraqis. They found that a number of USAID and PCO projects encountered significant problems in facility management and operations and maintenance when turned over to the Iraqis or shortly thereafter. To mitigate the potential for project failures, the working group recommended increasing the period of operational support for constructed facilities from a 90-day period to a period of up to one year. According to a State department official, as of September 22, 2005, the recommendations are currently under active consideration and discussion by the Embassy Baghdad and Washington.

Conclusion

For the past two and half years, the United States has served as the chief protector and builder in Iraq. The long-term goal is to achieve a peaceful Iraq that has a representative government respectful of human rights and

the means to maintain domestic order and quell terrorism. To achieve this goal, the United States has provided \$30 billion to develop capable Iraqi security forces, rebuild a looted and worn infrastructure, and support democratic elections.

However, the United States has confronted a capable and lethal insurgency that has taken many lives and made rebuilding Iraq a costly and challenging endeavor. It is unclear when Iraqi security forces will be capable of operating independently, thereby enabling the United States to reduce its military presence.

Similarly, it is unclear how U.S. efforts are helping the Iraqi people obtain clean water, reliable electricity, or competent health care. Measuring the outcomes of U.S. efforts is needed to determine how they are having a positive impact on the daily lives of the Iraqi people.

Finally, the United States must ensure that the billions of dollars it has already invested in Iraq's infrastructure are not wasted. The Iraqis need additional training and preparation to operate and maintain the power plants, water and sewage treatment facilities, and health care centers the United States has rebuilt or restored. This would help ensure that the rebuilding efforts improve Iraq's economy and social conditions and establish a secure, peaceful, and democratic Iraq.

We will continue to examine the challenges the United States faces in rebuilding and stabilizing Iraq. Specifically, we will examine the efforts to stabilize Iraq and develop its security forces, including the challenge of ensuring that Iraq can independently fund, sustain, and support its new security forces; examine the management of the U.S. rebuilding effort, including program execution; and assess the progress made in developing Iraq's energy sectors, including the sectors' needs, existing resources and contributions, achievements, and future challenges.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions you or the other Subcommittee members may have.

Contact and Staff Acknowledgements

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