

June 2008

SECURING, STABILIZING, AND REBUILDING IRAQ

Progress Report: Some Gains Made, Updated Strategy Needed





Highlights of [GAO-08-837](#), a report to congressional committees

Why GAO Did This Study

Since 2001, Congress has appropriated about \$640 billion for the global war on terrorism, the majority of this for operations in Iraq. In January 2007, the President announced *The New Way Forward* to stem violence in Iraq and enable the Iraqi government to foster national reconciliation. This new strategy established goals and objectives to achieve over 12 to 18 months, or by July 2008.

GAO discusses progress in meeting key goals in *The New Way Forward*: (1) improve security conditions; (2) develop capable Iraqi security forces; and help the Iraqi government (3) enact key legislation, (4) spend capital budgets, and (5) provide essential services. GAO also discusses U.S. strategies for Iraq.

GAO reviewed documents and interviewed officials from U.S. agencies, the United Nations, and the Iraqi government. GAO also had staff stationed in Baghdad. Since May 2003, GAO has issued over 130 Iraq-related audits, which provided baseline information for this assessment. GAO prepared this report under the Comptroller General's authority.

What GAO Recommends

GAO recommends that the Departments of Defense and State, in conjunction with relevant U.S. agencies, develop an updated strategy for Iraq that defines U.S. goals and objectives after July 2008 and addresses the long-term goal of achieving an Iraq that can govern, defend, and sustain itself.

To view the full product, including the scope and methodology, click on [GAO-08-837](#). For more information, contact Joseph A. Christoff at (202) 512-8979 or christoffj@gao.gov.

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What GAO Found

The New Way Forward responded to failures in prior strategies that prematurely transferred security responsibilities to Iraqi forces or belatedly responded to growing sectarian violence. Overall violence, as measured by enemy-initiated attacks, fell about 70 percent in Iraq, from about 180 attacks per day in June 2007 to about 50 attacks per day in February 2008. Security gains have largely resulted from (1) the increase in U.S. combat forces, (2) the creation of nongovernmental security forces such as Sons of Iraq, and (3) the Mahdi Army's declaration of a cease fire. Average daily attacks were at higher levels in March and April before declining in May 2008. The security environment remains volatile and dangerous. The number of trained Iraqi forces has increased from 323,000 in January 2007 to 478,000 in May 2008; many units are leading counterinsurgency operations. However, the Department of Defense reported in March 2008 that the number of Iraqi units capable of performing operations without U.S. assistance has remained at about 10 percent. Several factors have complicated the development of capable security forces, including the lack of a single unified force, sectarian and militia influences, and continued dependence on U.S. and coalition forces.

The Iraqi government has enacted key legislation to return some Ba'athists to government, give amnesty to detained Iraqis, and define provincial powers. However, it has not yet enacted other important legislation for sharing oil resources or holding provincial elections. Efforts to complete the constitutional review have also stalled. A goal of *The New Way Forward* was to facilitate the Iraqis' efforts to enact all key legislation by the end of 2007.

Between 2005 and 2007, Iraq spent only 24 percent of the \$27 billion it budgeted for its own reconstruction efforts. More specifically, Iraq's central ministries, responsible for security and essential services, spent only 11 percent of their capital investment budgets in 2007—down from similarly low rates of 14 and 13 percent in the 2 prior years. Violence and sectarian strife, shortage of skilled labor, and weak procurement and budgeting systems have hampered Iraq's efforts to spend its capital budgets.

Although oil production has improved for short periods, the May 2008 production level of about 2.5 million barrels per day (mbpd) was below the U.S. goal of 3 mbpd. The daily supply of electricity met only about half of demand in early May 2008. Conversely, State reports that U.S. goals for Iraq's water sector are close to being reached. The unstable security environment, corruption, and lack of technical capacity have contributed to the shortfalls.

The Departments disagreed with our recommendation, stating that *The New Way Forward* strategy remains valid but the strategy shall be reviewed and refined as necessary. We reaffirm the need for an updated strategy given the important changes that have occurred in Iraq since January 2007. An updated strategy should build on recent gains, address unmet goals and objectives and articulate the U.S. strategy beyond July 2008.

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Abbreviations

AQI	al Qaeda in Iraq
CPA	Coalition Provisional Authority
CRC	Constitutional Review Committee
DIA	Defense Intelligence Agency
DOD	Department of Defense
IDP	internally displaced person
KRG	Kurdistan Regional Government
MANPADS	man-portable air defense system
mbpd	million barrels per day
MNF-I	Multinational Force-Iraq
MWH	megawatt hour
NSC	National Security Council
NSVI	National Strategy for Victory in Iraq
ORA	Operational Readiness Assessment
SIGIR	Special Inspector General for Iraq Reconstruction
UN	United Nations
UNICEF	United Nations Children's Fund
USAID	U.S. Agency for International Development

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United States Government Accountability Office
Washington, DC 20548

June 23, 2008

Congressional Committees:

In January 2007, the President announced a new U.S. strategy to stem the high levels of violence in Iraq and help the Iraqi government foster conditions for national reconciliation. The Administration stated that the security and political conditions in Iraq were more difficult than it had anticipated earlier in the war. To improve these conditions, *The New Way Forward* established near-term (12 to 18 months) goals that the Administration stated were achievable in this time period. In addition, the strategy reasserted the Administration's long-term goal or end state for Iraq: a unified, democratic, federal Iraq that can govern, defend, and sustain itself, and is an ally in the war on terror. In support of this new strategy, the United States increased its military presence and financial commitments for operations in Iraq. U.S. troops and civilian personnel have performed courageously under dangerous and difficult circumstances. In April 2008, the U.S. Ambassador to Iraq and the Commanding General of the Multinational Force-Iraq (MNF-I) testified before congressional committees on conditions in Iraq. They stated that significant progress had been made toward achieving U.S. goals but that progress was fragile and reversible.

From fiscal year 2001 through December 2007, Congress has provided about \$635.9 billion to the Department of Defense (DOD) for the Global War on Terrorism.¹ The majority of this amount has been for military operations in support of Operation Iraqi Freedom, including the cost of equipping, maintaining, and supporting our deployed forces. Moreover, since fiscal year 2003, about \$45 billion² was provided to DOD and several other U.S. agencies for stabilization and reconstruction efforts in Iraq, including developing Iraq's security forces, enhancing Iraq's capacity to

¹This figure includes appropriations for domestic and overseas military operations in support of the Global War on Terrorism, such as Operation Noble Eagle, Operation Enduring Freedom, and Operation Iraqi Freedom, as well as stabilization and reconstruction appropriations for Iraq and Afghanistan.

²About \$17.5 billion for improving Iraqi security forces included in this amount is also included in DOD's reporting of Global War on Terrorism appropriations.

govern, and rebuilding Iraq's oil, electricity, and water sectors, among others.

This report discusses progress in meeting key U.S. goals outlined in *The New Way Forward*, specifically, (1) improving security conditions; (2) developing Iraqi security forces' capabilities and transferring security responsibilities to the Iraqi government; (3) facilitating Iraqi government efforts to draft, enact, and implement key legislative initiatives; (4) assisting Iraqi government efforts to spend budgets; and (5) helping the Iraqi government provide key essential services to its people. In addition, we discuss U.S. strategies for stabilizing and rebuilding Iraq. We are concurrently issuing a classified report on the Joint Campaign Plan—the U.S. operational plan for Iraq.³

The Chairmen of the Senate's Armed Services Committee, Appropriations Committee, and Foreign Relations Committee, as well as the Chairman and Ranking Member of the House Armed Services Committee, requested that GAO complete this work. Due to broad congressional interest in Iraq issues, we prepared this report under the Comptroller General's authority to conduct evaluations on his own initiative.

This report updates and builds upon an extensive body of GAO work, including our September 2007 report assessing Iraq's progress toward meeting 18 legislatively mandated benchmarks.⁴ To complete this work, we reviewed documents and interviewed officials from the Departments of Defense, State, and the Treasury; MNF-I and its subordinate commands; the Defense Intelligence Agency; the National Intelligence Council; and the United Nations. We also reviewed translated copies of Iraqi documents. In support of this work, we extensively utilized staff stationed in Baghdad from January through March 2008. See appendix I for a more complete description of our scope and methodology. Appendix II contains a crosswalk between the 18 benchmarks and the five objectives we address in this report. We provided drafts of this report to the Departments of State, the Treasury, and Defense for review and comment. We received

³GAO, *Stabilizing Iraq: DOD Should Identify and Prioritize the Conditions Necessary for the Continued Drawdown of US. Forces in Iraq*, [GAO-08-700C](#), (Washington, D.C.: June 2008).

⁴GAO, *Securing, Stabilizing, and Rebuilding Iraq: Iraqi Government Has Not Met Most Legislative, Security, and Economic Benchmarks*, [GAO-07-1195](#) (Washington, D.C.: Sept. 4, 2007).

written comments from all three agencies, which are included in appendixes III, IV, and V.

We conducted this performance audit from March to June 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

The New Way Forward responded to failures in prior strategies that prematurely transferred security responsibilities to Iraqi forces or belatedly responded to growing sectarian violence. The United States has made some progress in achieving key goals stated in *The New Way Forward*. For example, overall violence in Iraq has declined and Iraq has enacted key legislation to return some Ba'athists to government and give amnesty to detained Iraqis. However, we agree with assessments that progress made in Iraq is fragile and many unmet goals and challenges remain. For example, although *The New Way Forward* stated that the Iraqi government would take responsibility for security in all 18 provinces by November 2007, only 9 of 18 provinces had transitioned to Iraqi control as of May 2008. In addition, Iraq has spent only 24 percent of the funds it budgeted for reconstruction. Future U.S. strategies should build on recent security and legislative gains and address the remaining challenges for the near and long term.

Improving Security Conditions

Establishing a basic level of security is a key component of *The New Way Forward*. Overall violence, as measured by enemy-initiated attacks, fell about 70 percent from about 180 attacks per day in June 2007 to about 50 attacks per day in February 2008—primarily due to decreases in violence in Baghdad and Anbar provinces. Fighting continues throughout Iraq. Average daily attack levels were higher during March and April before declining in May 2008. Further, the influence and areas of operation of al Qaeda in Iraq have been degraded, although the United States has not achieved its goal of defeating al Qaeda in Iraq and ensuring that no terrorist safe haven exists in Iraq. Security gains have largely resulted from (1) the increase in U.S. combat forces, (2) the creation of nongovernmental security forces such as Sons of Iraq, and (3) the Mahdi Army's declaration of a cease fire. However, the security environment remains volatile and dangerous.

Developing Iraqi Security Forces

The New Way Forward set the goal of transferring security responsibilities to all 18 Iraqi provinces by the end of 2007. Since 2003, the United States has provided more than \$20 billion to develop Iraqi security forces. The number of trained Iraqi forces has increased from about 323,000 in January 2007 to about 478,000 in May 2008; many units are leading counterinsurgency operations. However, DOD reports that the number of Iraqi security force units deemed capable of performing operations without coalition assistance has remained at about 10 percent. Several factors have complicated the development of capable Iraqi security forces, including the lack of a single unified force, sectarian and militia influences, continued dependence on U.S. and coalition forces for logistics and combat support, and training and leadership shortages. In addition, the time frame for transferring security responsibilities to Iraqi provincial governments now extends into 2009. As of May 2008, 9 of 18 provincial governments had lead responsibility for security in their provinces.

Enacting Legislation

To facilitate national reconciliation, *The New Way Forward* identified legislation that the Iraqi government committed to enact with U.S. support. The Iraqi government has enacted de-Ba'athification reform, amnesty, and provincial powers legislation after considerable debate and compromise among Iraq's political blocs. However, questions remain about how the laws will be implemented and whether the intended outcomes can be achieved. For example, the government has not yet established the commission needed to reinstate former Ba'athists in the government. In addition, the government has not enacted legislation that will provide a legal framework for managing its oil resources, distributing oil revenues, or disarming militias. The Iraqi government also faces logistical and security challenges in holding the scheduled 2008 provincial elections—a key element of reconciliation for Sunnis. Finally, the government has not completed its constitutional review to resolve issues such as the status of disputed territories and the balance of power between federal and regional governments. A goal of *The New Way Forward* was to facilitate the Iraqis' efforts to enact all key legislation by the end of 2007.

Spending Capital Budgets

The New Way Forward emphasizes the need to build capacity in Iraq's ministries and help the government execute its capital investment budgets; this need is particularly important, as the \$45 billion in U.S. funding for Iraq reconstruction projects is nearing completion. However, Ministry of Finance expenditure data show that between 2005 and 2007, Iraq spent only 24 percent of the \$27 billion it budgeted for its own reconstruction efforts. Specifically, Iraq's central ministries spent only 11 percent of their

capital investment budgets in 2007, a decline from similarly low spending rates of 14 and 13 percent in 2005 and 2006, respectively. Spending rates for critical ministries varied from the 41 percent spent by the Water Resources Ministry in 2007 to the less than 1 percent spent by the Ministries of Oil and Electricity. Violence and sectarian strife, shortage of skilled labor, and weak procurement and budgeting systems have hampered Iraq's efforts to spend capital budgets and thereby contribute to its own rebuilding. GAO recommended that U.S. agencies develop an integrated plan for developing competent Iraqi ministries that can execute their budgets and effectively deliver government services.⁵ As of June 2008, an integrated strategy had not been developed.

Providing Essential Services

Providing essential services to all Iraqi areas and communities and helping Iraq maintain and expand its oil exports are key goals of *The New Way Forward*. Overall crude oil production has increased or improved for short periods; however, production has not reached the U.S. goal of an average crude oil production capacity of 3 million barrels per day (mbpd) and export levels of 2.2 mbpd. In May 2008, oil production was about 2.5 mbpd and exports were 1.96 mbpd. Meanwhile, the daily supply of electricity met only 52 percent of demand in June 2008. The State Department (State) reports that U.S. goals for Iraq's water sector are close to being reached. Since April 2006, U.S. efforts have focused on producing enough clean water to reach up to an additional 8.5 million Iraqis. As of March 2008, State reported that U.S.-funded projects had provided an additional 8 million Iraqis with access to potable water. Several factors present challenges in delivering essential services, including an unstable security environment, corruption, a lack of technical capacity, and inadequate strategic planning. GAO will issue a separate report on Iraq's estimated unspent and projected oil revenues from 2003 through 2008. As of the end of May 2008, Iraqi crude oil was selling at about \$104 per barrel, higher than the \$57 per barrel used to develop Iraq's 2008 budget. Oil exports generate over 90 percent of government revenues.

As *The New Way Forward* and the military surge end in July 2008, an updated strategy is needed for how the United States will help Iraq achieve key security, legislative, and economic goals. This strategy should build on

⁵GAO, *Stabilizing and Rebuilding Iraq: U.S. Ministry Capacity Development Efforts Need an Overall Integrated Strategy to Guide Efforts and Manage Risk*, [GAO-08-117](#) (Washington, D.C.: Oct. 1, 2007).

recent security and legislative gains, address the remaining unmet goals and challenges for the near and long term, and clearly articulate goals, objectives, roles and responsibilities, and the resources needed. In this report, GAO is recommending that DOD and State, in conjunction with relevant U.S. agencies, develop an updated strategy for Iraq that defines U.S. goals and objectives after July 2008 and addresses the long-term goal of achieving an Iraq that can govern, defend, and sustain itself.

The departments of State and Defense disagreed with our recommendation to develop an updated strategic plan for Iraq, stating that *The New Way Forward* strategy remains valid. They did, however, state that they will review and refine the strategy as necessary. DOD also stated that the classified MNFI-U.S. Embassy Joint Campaign Plan is a comprehensive, government wide plan that guides the effort to achieve an Iraq that can govern, defend and sustain itself. An updated strategy is needed for several reasons. First, much has changed in Iraq since January 2007, when the President announced *The New Way Forward*. Violence is down but U.S. surge forces are leaving. In addition, the United States is negotiating a status of forces agreement with Iraq. Second, *The New Way Forward* only articulates U.S. goals and objectives for the phase that ends in July 2008. Third, the goals and objectives of *The New Way Forward* are contained in disparate documents rather than a single strategic plan. Furthermore, the classified Joint Campaign Plan is not a strategic plan; it is an operational plan with limitations that we discuss in the classified report we are issuing concurrently with this report.

We affirm our recommendation that DOD and State should update the U.S. strategy for Iraq, given the importance of the war effort to U.S. national security interests, the expenditure of billions of dollars for U.S. military and civilian efforts in Iraq, and the continued deployment of at least 140,000 troops in Iraq.

Background: Evolution of U.S. Strategies for Iraq

Since late 2003, the United States has employed numerous strategies to address the security and reconstruction needs of Iraq. First, the multinational force's security transition strategy called for Iraqi security forces to assume security responsibilities on an accelerated basis during spring 2004. This strategy failed when Iraqi security forces performed poorly during an insurgent uprising. Second, a series of campaign plans and a strategy document attempted to integrate U.S. military and civilian efforts in Iraq but did not anticipate the escalation in violence during 2006. Third, to address the high levels of violence, the administration announced a new strategy, *The New Way Forward*.

Multinational Force's Strategy Assumed Capable Iraqi Forces Could Begin to Take Over Security Responsibilities in Spring 2004

In October 2003, the multinational force outlined a four-phased plan for transferring security missions to Iraqi security forces.⁶ The four phases were (1) mutual support, where the multinational force established conditions for transferring security responsibilities to Iraqi forces; (2) transition to local control, where Iraqi forces in a local area assumed responsibility for security; (3) transition to regional control, where Iraqi forces were responsible for larger regions; and (4) transition to strategic oversight, where Iraqi forces on a national level were capable of maintaining a secure environment against internal and external threats, with broad monitoring from the multinational force. The plan's objective was to allow a gradual drawdown of coalition forces first in conjunction with the neutralization of Iraq's insurgency and second with the development of Iraqi forces capable of securing their country.

Citing the growing capability of Iraqi security forces, MNF-I attempted to shift responsibilities to them in February 2004 but did not succeed in this effort. In March 2004, Iraqi security forces numbered about 203,000, including about 76,000 police, 78,000 facilities protection officers, and about 38,000 in the civilian defense corps.⁷ Police and military units performed poorly during an escalation of insurgent attacks against the coalition in April 2004. According to a July 2004 executive branch report to Congress, many Iraqi security forces around the country collapsed during this uprising. Some Iraqi forces fought alongside coalition forces. Other units abandoned their posts and responsibilities and, in some cases, assisted the insurgency. A number of problems contributed to the collapse of Iraqi security forces, including problems in training, equipping, and vetting them.

U.S. Strategy Revisions Did Not Anticipate Escalation of Violence in 2006

After the collapse of the Iraqi security forces in the spring of 2004, the Administration completed three key documents that outlined the evolving U.S. strategy for Iraq, none of which anticipated the level of sectarian

⁶The information in this section comes from GAO, *Rebuilding Iraq: Preliminary Observations on Challenges in Transferring Security Responsibilities to Iraqi Military and Police*, GAO-05-431T (Washington, D.C.: Mar. 15, 2005). For more information on this security transition plan, see GAO, *Rebuilding Iraq: Resource, Security, Governance, Essential Services, and Oversight Issues*, GAO-04-902R (Washington, D.C.: June 28, 2004).

⁷The Departments of State and Defense stopped counting the Facilities Protection Service as part of the Iraqi security force structure in September 2004. The mission of the Facilities Protection Service is to guard and secure individual ministry and municipal buildings against vandalism and theft.

violence that occurred after the Samarra mosque bombing in February 2006. First, during the summer of 2004, MNF-I completed a campaign plan that elaborated on and refined the original strategy for transferring security responsibilities to Iraqi forces at the local, regional, and national levels. Further details on this campaign plan are classified.⁸ Second, in November 2005, the National Security Council (NSC) issued the National Strategy for Victory in Iraq (NSVI) to clarify the President's existing strategy for achieving U.S. political, security, and economic goals in Iraq.⁹ Third, in April 2006, MNF-I and the U.S. embassy in Baghdad issued the first joint campaign plan, which attempted to integrate U.S. political, military, and economic efforts in Iraq. Further details of this campaign plan are classified.¹⁰

In July 2006, we reported that the NSVI represented an incomplete strategy. The desirable characteristics of an effective national strategy are purpose, scope, and methodology; detailed discussion of problems, risks, and threats; the desired goal, objectives, activities, and outcome-related performance measures; description of future costs and resources needed; delineation of U.S. government roles, responsibilities, and coordination mechanisms; and a description of the strategy's integration among and with other entities. On the one hand, the NSVI's purpose and scope were clear because the strategy identified U.S. involvement in Iraq as a vital national interest and Iraq as a central front in the war on terror. The strategy also discussed the threats and risks facing the coalition forces and provided a comprehensive description of U.S. political, security, and economic goals and objectives in Iraq over the short term, medium term, and long term. However, the NSVI only partially identified the agencies responsible for implementing it, the current and future costs of U.S. involvement in Iraq, and Iraq's contribution to its future needs.¹¹

The strategy also did not anticipate that security conditions in Iraq would deteriorate as they did in 2006, as evidenced by the increased numbers of

⁸For information on this campaign plan, see GAO's classified report, GAO, *Rebuilding Iraq: DOD Reports Should Link Economic, Governance, and Security Indicators to Conditions for Stabilizing Iraq*, [GAO-05-868C](#) (Washington, D.C.: Sept. 29, 2005).

⁹GAO, *Rebuilding Iraq: More Comprehensive National Strategy Needed to Help Achieve U.S. Goals*, [GAO-06-788](#) (Washington, D.C.: July 11, 2006).

¹⁰For information on the April 2006 campaign plan, see our classified report, GAO, *Plans for Stabilizing Iraq*, [GAO-06-152C](#), (Washington, D.C.: Oct. 18, 2006).

¹¹[GAO-06-788](#).

attacks and the Sunni-Shi'a sectarian strife that followed the February 2006 bombing of the Golden Mosque in Samarra. Enemy-initiated attacks against the coalition and its Iraqi partners increased through October 2006 and remained at high levels through the end of the year. During 2006, according to State and United Nations (UN) reports, insurgents, death squads, militias, and terrorists increased their attacks against civilians, largely on a sectarian basis. In addition, the number of internally displaced persons (IDP) in Iraq sharply increased, primarily as a result of sectarian intimidation and violence that forced many people from their homes. By the end of 2006, according to the UN, many Baghdad neighborhoods had become divided along Sunni and Shi'a lines and were increasingly controlled by armed groups claiming to act as protectors and defenders of these areas. According to the President, the violence in Iraq—particularly in Baghdad—overwhelmed the political gains the Iraqis had made.

The New Way Forward Addressed Escalating Violence

In response to the escalating violence, the President in January 2007 announced a new strategy—*The New Way Forward*—that established a new phase in U.S. operations for the near term of 12 to 18 months, or until July 2008. According to State and DOD officials, the Administration did not revise the NSVI strategy document when it announced *The New Way Forward*. Instead, four documents outline the goals and objectives of *The New Way Forward*: (1) NSC, *Highlights of the Iraq Strategy Review*, January 2007; (2) the President's address to the nation, January 10, 2007; (3) *Fact Sheet: New Way Forward in Iraq*, January 10, 2007; (4) Office of the Press Secretary, White House, *Background Briefing by Senior Administration Officials*, January 10, 2007.

According to the NSC document, the new strategy altered the administration's assumptions regarding the security and political conditions in Iraq and how they would help or hinder the achievement of U.S. goals. For example, the Administration previously believed that the Iraqi elections in 2005 would lead to a national compact for democratic governance shared by all Iraqis and the continued training and equipping of Iraqi security forces would facilitate reductions in U.S. military forces. *The New Way Forward* acknowledged that national reconciliation might not take the form of a comprehensive national compact but could come from piecemeal efforts (see table 1). Similarly, *The New Way Forward* stated that while many Iraqi security forces were leading military operations, they were not yet ready to handle security challenges independently.

Table 1: The Administration’s Comparison of Key Assumptions in *The New Way Forward* and Prior U.S. Strategy

Key assumptions	
Prior strategy	<i>New Way Forward</i>
<ul style="list-style-type: none"> • Primary challenge is a Sunni-based insurgency. 	<ul style="list-style-type: none"> • Primary challenge is violent extremists from multiple communities; the center is eroding and sectarianism is spiking.
<ul style="list-style-type: none"> • Political progress will help defuse the insurgency and dampen levels of violence. 	<ul style="list-style-type: none"> • While political progress, economic gains, and security are intertwined, political and economic progress is unlikely absent a basic level of security.
<ul style="list-style-type: none"> • Iraqi security forces are gaining in strength and ability to handle Iraq’s security challenges. 	<ul style="list-style-type: none"> • Many elements of Iraqi security forces are in the lead but not yet ready to handle Iraqi security challenges independently.
<ul style="list-style-type: none"> • A national compact is within the grasp of Iraqi leaders and will have meaningful impact on security. 	<ul style="list-style-type: none"> • Effective national reconciliation may not take the form of a comprehensive package deal; it could come about as the product of piecemeal efforts.
<ul style="list-style-type: none"> • Majority of Iraqis will support the coalition and Iraqi efforts to build a democratic state. 	<ul style="list-style-type: none"> • Iraqis are increasingly disillusioned with coalition efforts.
<ul style="list-style-type: none"> • Majority of Iraqis and Iraqi leaders see their interests as best advanced by a unified Iraq. 	<ul style="list-style-type: none"> • While still committed to a unified Iraq, many Iraqis are also advancing sectarian agendas.
<ul style="list-style-type: none"> • Dialogue with insurgent groups will help reduce violence. 	<ul style="list-style-type: none"> • Dialogue with insurgent groups has not improved security and may not produce strategic gains in current context.
<ul style="list-style-type: none"> • Region has a strategic interest in the stabilization of Iraq. 	<ul style="list-style-type: none"> • Many Arab states remain wary of throwing their full support behind the Iraqi government.

Source: National Security Council, Highlights of the Iraq Strategy Review, January 2007.

The January 2007 strategy documents defined the original goals and objectives that the Administration believed were achievable by the end of this phase in July 2008. For example, the President pledged to increase the number of U.S. military forces in Iraq to help the Iraqis carry out their campaign to reduce sectarian violence and bring security to Baghdad and other areas of the country. The strategy also called for MNF-I to transfer security responsibilities to all 18 Iraqi provinces by the end of 2007. Further, the President committed to hold the Iraqi government to its pledges to (1) enact and implement key legislation to promote national reconciliation, (2) execute its capital budget, and (3) provide essential services to all Iraqi areas and communities and help Iraq maintain and expand its oil exports.

Improving Security Conditions

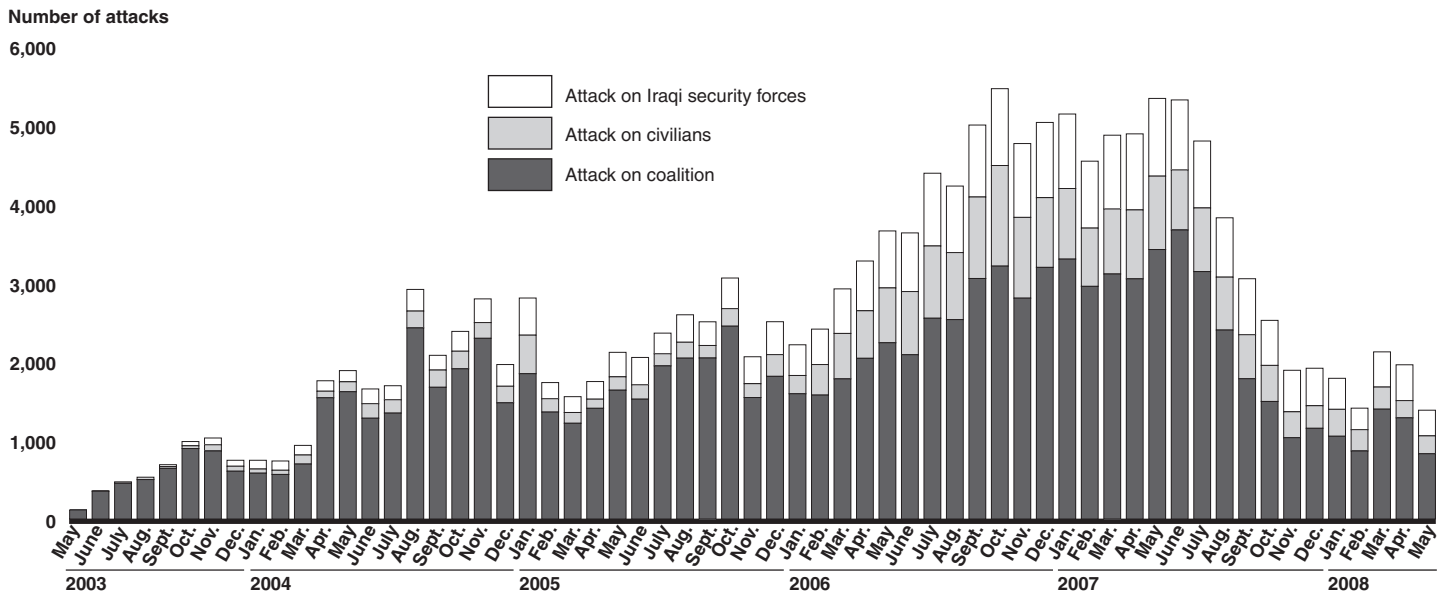
The following section provides information on security conditions in Iraq from mid-2007 through May 2008, including factors affecting these conditions.

Security Conditions Improved from Mid-2007 through Early 2008

Establishing a basic level of security is a key goal of *The New Way Forward*. Figure 1 shows that the overall levels of violence in Iraq—as measured by enemy-initiated attacks—decreased about 70 percent from June 2007 to February 2008, a significant reduction from the high levels of violence in 2006 and the first half of 2007. Similarly, as depicted in figure 2, the average daily number of enemy-initiated attacks declined from about 180 in June 2007 to about 60 in November 2007 and declined further to about 50 in February 2008. From 2003 through 2007, enemy-initiated attacks had increased around major political and religious events, such as Iraqi elections and Ramadan. In 2007, attacks did not increase during Ramadan.¹² In a March 2008 report, DOD noted that reductions in violence across Iraq have enabled a return to normal life and growth in local economies.

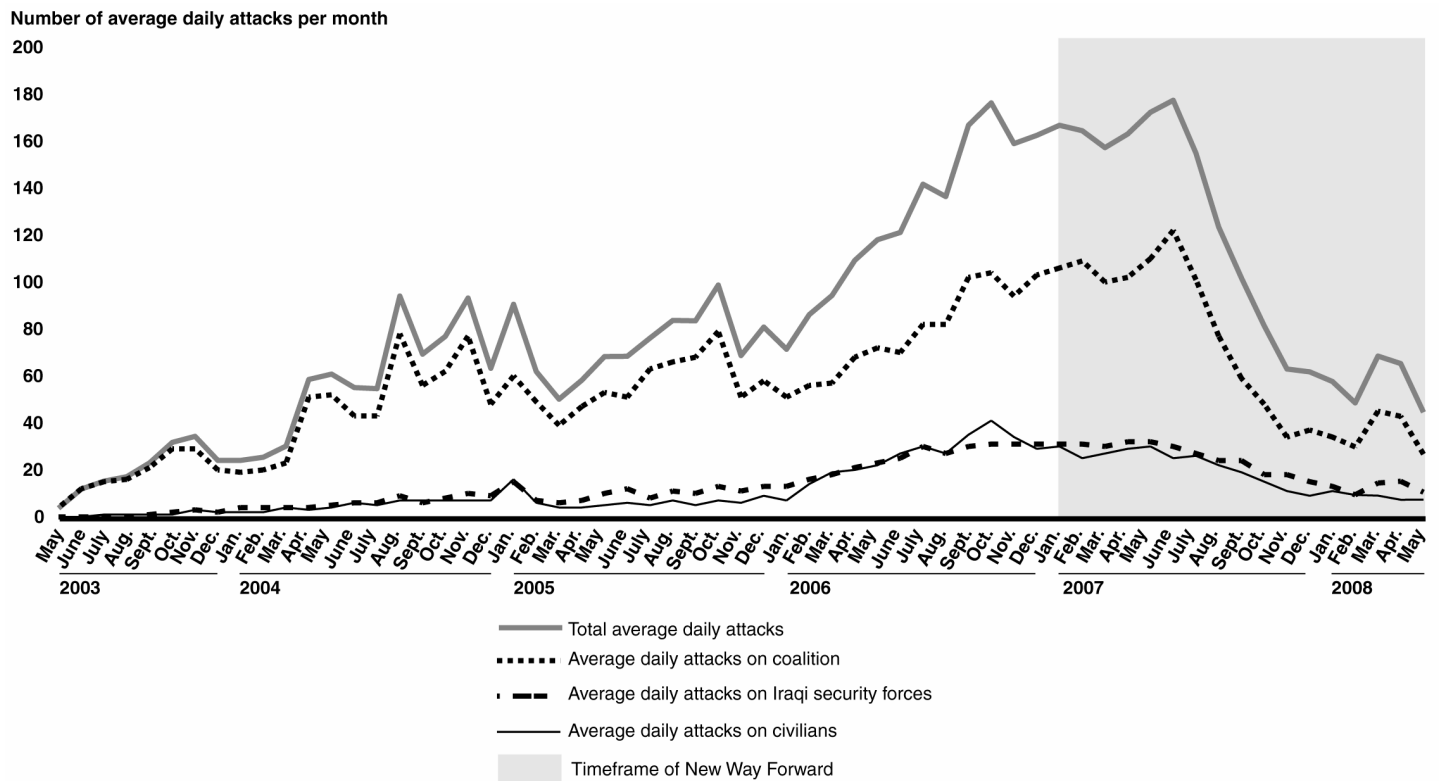
¹²Ramadan is the ninth month of the Islamic calendar. In 2007, Ramadan began on September 13. In prior years, the month of Ramadan began about October 27, 2003; October 16, 2004; October 5, 2005; and September 24, 2006. In 2007, Ramadan began on September 13.

Figure 1: Enemy-Initiated Attacks by Month, May 2003 to May 2008



Source: GAO analysis of DIA-reported Multi-National Force-Iraq data, May 2008.

Figure 2: Average Daily Attacks, May 2003 to May 2008



Source: GAO analysis of DIA-reported Multi-National Force-Iraq data, May 2008.

However, data for March 2008 show an increase in violence in Iraq. Security conditions deteriorated in March 2008, with the average number of attacks increasing from about 50 per day in February 2008 to about 70 attacks per day in March—about a 40 percent increase (see fig. 2). According to an April 2008 UN report,¹³ the increase in attacks resulted from Shi'a militias fighting Iraqi security forces throughout southern Iraq, as well as an increase in incidents of roadside bomb attacks against Iraqi security forces and MNF-I in Baghdad. The average number of attacks declined to about 65 per day in April and to about 45 per day in May.

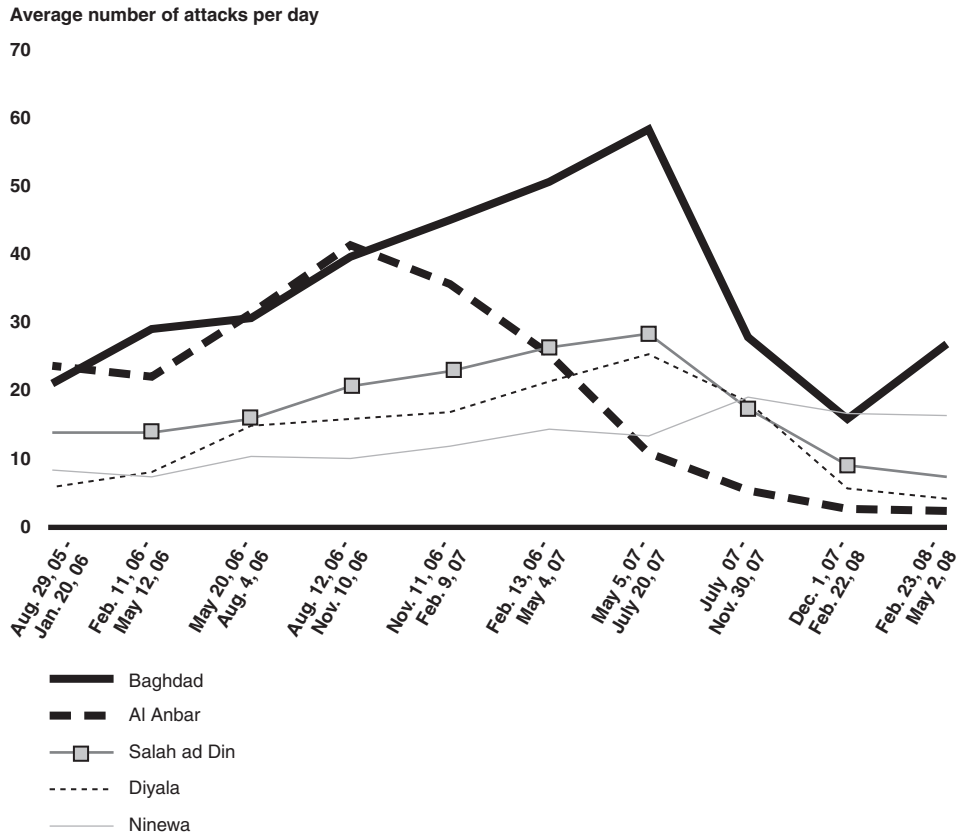
¹³UN Security Council, *Report of the Secretary-General Pursuant to Paragraph 6 of Resolution 1770 (2007)* (Apr. 22, 2008).

The enemy-initiated attacks counted in the Defense Intelligence Agency's (DIA) reporting include car, suicide, and other bombs; ambushes; murders, executions, and assassinations; sniper fire; indirect fire (mortars or rockets); direct fire (small arms or rocket-propelled grenades); surface-to-air fire (such as man-portable air defense systems, or MANPADS); and other attacks on civilians. They do not include violent incidents that coalition or Iraqi security forces initiate, such as cordon and searches, raids, arrests, and caches cleared.

According to DIA, the incidents captured in military reporting do not account for all violence throughout Iraq. For example, they may underreport incidents of Shi'a militias fighting each other and attacks against Iraqi security forces in southern Iraq and other areas with few or no coalition forces. DIA officials stated, however, that they represent a reliable and consistent source of information that can be used to identify trends in enemy activity and the overall security situation.

According to DOD reports, the reduction in overall violence resulted primarily from steep declines in violence in Baghdad and Anbar provinces, though the violence in Baghdad increased in March 2008 (see fig. 3). These two provinces had accounted for just over half of all attacks in Iraq around the time the President announced *The New Way Forward*. As of February 2008, during one of the lowest periods for attacks in Iraq since the start of *The New Way Forward*, about one-third of all attacks in Iraq occurred in Baghdad and Anbar provinces.

Figure 3: Average Number of Daily Attacks in Iraq for Selected Provinces, August 2005 through Early May 2008



Source: GAO analysis of DOD's quarterly reports to Congress, *Measuring Stability and Security in Iraq*, January 2006 through February 2008; and data provided by MNF-I for March 2008 through May 2008.

Note: Each data point represents the average number of daily attacks for the specified period of time, as reported in DOD's quarterly reports to Congress.

Security Conditions Remain Volatile and Dangerous

Despite improvements in the security situation, an April 2008 UN report found that violence has continued throughout Iraq and could rapidly escalate. According to the UN, toward the end of 2007, suicide bombings, car bombs, and other attacks continued with devastating consequences for civilians. While security improved in Baghdad and other locations, it deteriorated elsewhere, including in the city of Mosul in Ninewa province and in Diyala province. According to the UN report, religious and ethnic minorities and other vulnerable groups were victims of violent attacks. Armed groups also carried out assassinations of government or state

officials, religious figures, professional groups, and law enforcement personnel.

The violence in Iraq continues to result in the displacement of many Iraqis from their homes. In late March 2008, the Internally Displaced Persons (IDP) Working Group¹⁴ reported that the number of IDPs remained very high, but new displacement was occurring at a lower rate. The working group attributed the lower rate of displacement to, among other things, the increasing ethnic homogenization within Iraq; the decrease in security incidents in some areas of Baghdad; and restrictions on freedom of movement in many Iraqi provinces. During April 2008, according to UN and International Organization for Migration reports, hundreds of Iraqi families fled their homes in the Sadr City area of Baghdad, with the majority returning by early June 2008. The IDP Working Group estimated that over 2.77 million people were displaced inside Iraq, of which more than 1.5 million were displaced from 2006 through March 20, 2008.¹⁵ Further, the IDP Working Group estimated that 2 million additional Iraqis have left the country, including 1.2 million to 1.5 million who went to Syria and 450,000 to 500,000 who went to Jordan.¹⁶ The IDP Working Group also reported that as of March 20, 2008, large-scale return movements have not occurred.¹⁷ According to a May 2008 State Department report, more Iraqis were entering Syria in early 2008 than were returning to Iraq. State also reported that overall conditions for refugees in the region and Iraqis internally displaced continue to deteriorate.

Moreover, the dangerous and volatile security conditions continue to hinder the movement and reconstruction efforts of international civilian personnel throughout Iraq. For example, according to a March 2008 DOD

¹⁴IDP Working Group members include the United Nations High Commissioner for Refugees, International Organization for Migration, other UN agencies, and nongovernmental organizations. Working Group reports are based on surveillance data gathered by IDP Working Group members, as well as information provided by the Ministry of Displacement and Migration (MODM), the Kurdistan Regional Government (KRG), and the International Committee of the Red Cross and other non-governmental organizations.

¹⁵We did not verify the accuracy of the data provided, and although U.S. government, international, and nongovernmental organizations agree that the data is of questionable reliability, they also agree that it is currently the best data available.

¹⁶These estimates are based on the official estimates of the governments of Syria and Jordan, respectively. We did not verify the accuracy of the data provided.

¹⁷According to the IDP Working Group, most returns have been to areas that have become ethnically or religiously homogeneous and are under the control of the returnees' sect.

report, security concerns continue to discourage international investors and hinder private sector growth in most parts of the country. Due to the dangerous security conditions, State Department-led Provincial Reconstruction Teams continue to rely heavily on military assets for movement security and quick reaction force support, among other areas. Further, in April 2008, the UN reported that it has limited access throughout Iraq due to security constraints that hinder UN movement and daily activities.

The United Nations also reported an increase in attacks against secure facilities that house and employ international diplomatic and military personnel. For example, from October 2007 through mid-March 2008, the indirect fire attacks aimed at the International Zone were less than a dozen. However, during the last week of March, the International Zone received 47 separate indirect fire barrages consisting of 149 rounds of 122-millimeter and 107-millimeter rockets and at least three larger 240-millimeter rockets, one of which hit the UN compound. In addition, according to the UN report, the incidence of indirect fire attacks on Basra air station, the British military base that also houses U.S. and other international civilian personnel, rose steadily during the first 3 months of 2008, with 48 attacks from January to March.

Al Qaeda in Iraq Has Sustained Significant Losses but Remains Resilient

The New Way Forward has the goal of defeating al Qaeda in Iraq (AQI) and its supporters and ensuring that no terrorist safe haven exists in Iraq. According to MNF-I, DOD, and State reports, rejection of al Qaeda in Iraq by significant portions of the population and operations to disrupt AQI networks have helped decrease violence in Iraq; however, AQI is not defeated and maintains the ability to carry out high-profile attacks. According to MNF-I's Commanding General, the loss of local Sunni support for AQI had substantially reduced the group's capability, numbers, areas of operation, and freedom of movement. DOD reported in March 2008 that AQI lost strength and influence in Anbar province, Baghdad, the belts around Baghdad, and many areas of Diyala province.

The report notes, however, that AQI remains highly lethal and maintains a significant presence in parts of the Tigris River Valley, Ninewa province, and other areas of Iraq. According to an MNF-I report, AQI is now predominately based in northern Iraq, especially in Mosul, where frequent high-profile attacks continue.

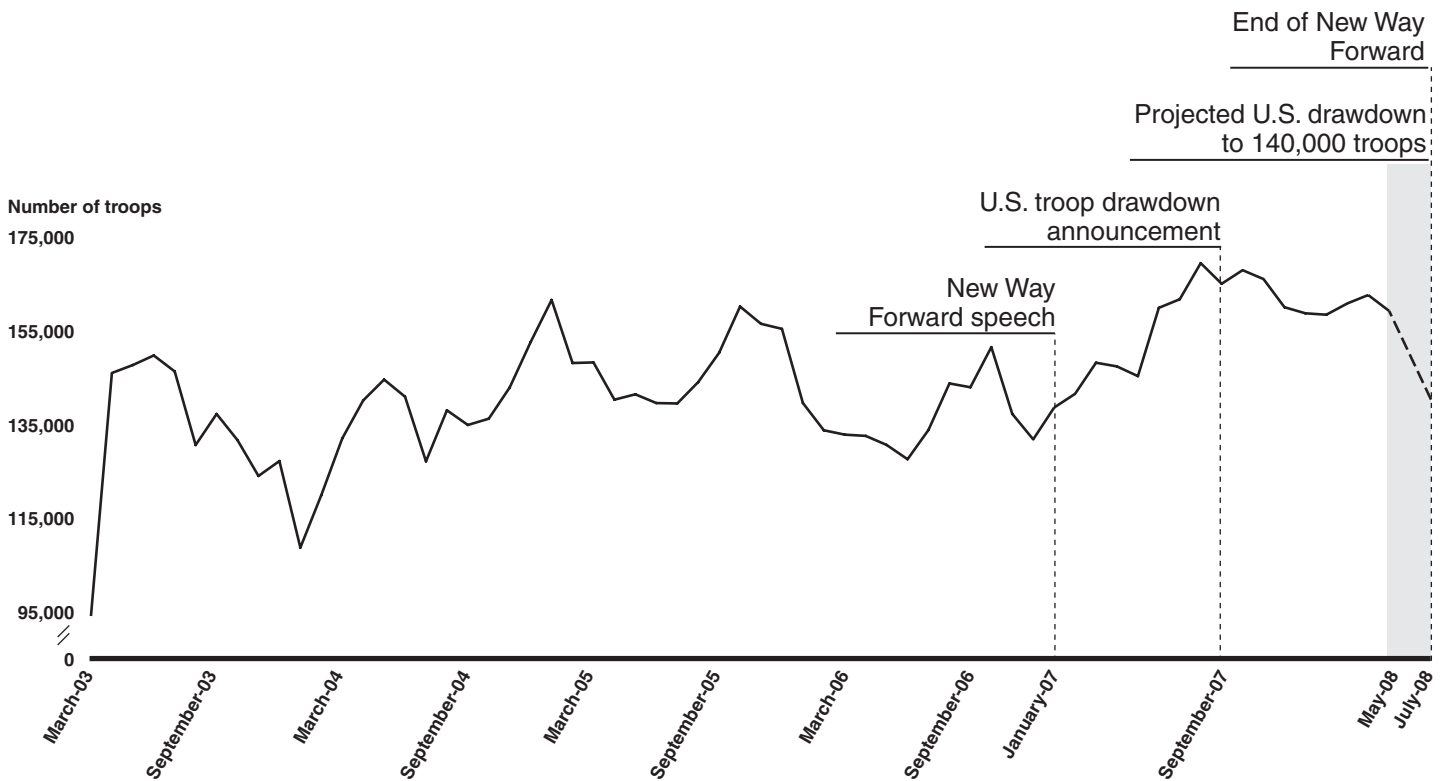
Three Key Factors Contributed to Security Gains

DOD, State, and UN reports attribute the reductions in violence in Iraq to three key actions: (1) the increase in U.S. combat forces, (2) the establishment of nongovernmental Iraqi security forces, and (3) the cease-fire declaration of the Mahdi Army leader.

U.S. Surge Allowed a Change in Tactics for *The New Way Forward*

In announcing *The New Way Forward* in January 2007, the President cited two primary reasons for ordering an increase in U.S. forces in Iraq. First, the President acknowledged that earlier efforts to provide security in Baghdad had failed, in part, due to an insufficient number of U.S. and Iraqi troops to secure neighborhoods cleared of terrorists and insurgents. He therefore called for an increase of over 20,000 U.S. combat and other forces, including an additional 5 brigades. The vast majority of these troops would help Iraqis clear and secure neighborhoods and protect the local population. Second, to support local tribal leaders who had begun to show a willingness to take on AQI, the President ordered the deployment of 4,000 U.S. troops to Anbar province. Figure 4 shows the increase of U.S. forces in Iraq from about 132,000 in December 2006 to about 169,000 in August 2007, an overall increase of about 37,000 troops—almost 30 percent above the December 2006 force level.

Figure 4: U.S. Forces in Iraq, March 2003 to July 2008



Source: DOD, Joint Staff and State Department data.

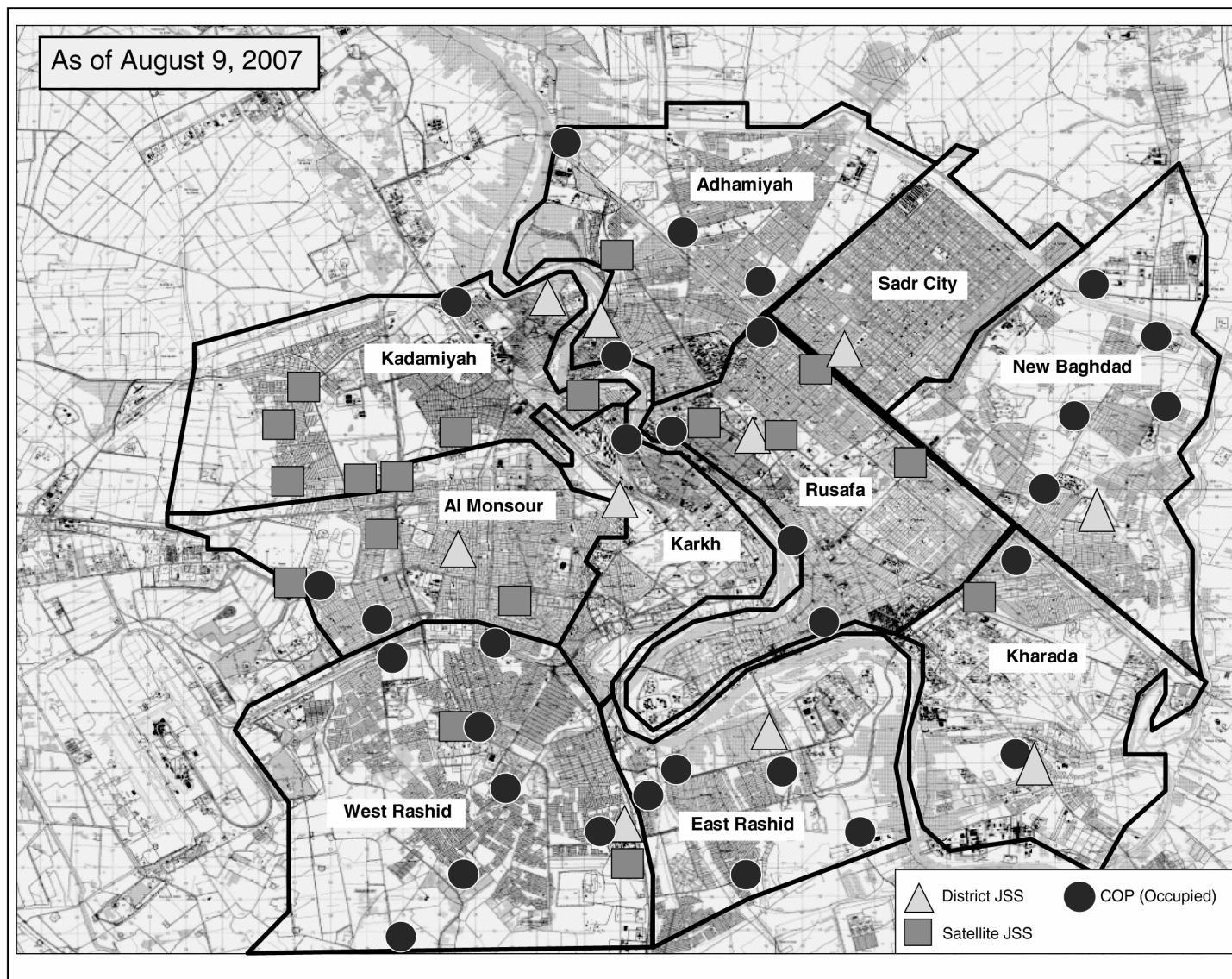
Note: For all months prior to February 2008, DOD provided GAO with end-of-month data for the number of U.S. troops in Iraq. In February 2008, DOD began to provide GAO with data from the beginning of the month.

In September 2007, the President announced that the United States would withdraw the surge forces by July 2008—the end of *The New Way Forward*—resulting in a decline in U.S. brigade combat teams from 20 to 15 and a projected force level of about 140,000 U.S. troops. The MNF-I Commanding General reported in April 2008 that he would need 45 days after the surge brigades leave Iraq to consolidate his forces and assess how the reduced U.S. military presence will affect conditions on the ground. After that time, he would assess whether U.S. forces could be further reduced.

According to DOD reporting, the additional surge forces allowed MNF-I to increase its operational tempo and change tactics in providing security to the Iraqi people. Specifically, the additional troops enabled MNF-I to

maintain a continuous presence in Baghdad and surrounding areas by establishing about 60 joint security stations with Iraqi forces and combat outposts outside of its large operating bases as of August 2007 (see fig. 5). In May 2008, the former commander of the Multinational Corps-Iraq reported that the number of joint security stations and combat outposts had since increased to 75.

Figure 5: Location of Joint Security Stations and Combat Outposts in Baghdad Security Districts, as of August 2007



Source: Multilateral Division-Baghdad.

In March 2008, DOD reported that these security stations and outposts had a stabilizing effect along ethnic fault lines, complemented MNF-I's efforts to reconcile former insurgents, and helped maintain pressure on domestic and external insurgent elements. Over time, according to the DOD report, MNF-I will transfer the joint security stations and combat outposts to Iraqi forces as it draws down and moves to a support role.

Nongovernmental Security Forces Have Opposed AQI but Generally Have Not Reconciled with the Iraqi Government

According to DOD and MNF-I reports, the establishment of local nongovernmental security forces that oppose AQI has helped decrease the levels of violence in parts of Iraq, most notably in Anbar province, but these groups by and large have not yet reconciled with the Iraqi government. The groups, including those now known as the Sons of Iraq, began forming in Anbar province in late 2006, with the movement spreading to other areas of Iraq during 2007 and 2008. As Sons of Iraq, these former insurgents take an oath to be law-abiding citizens and work with MNF-I and, in some cases, the Iraqi government to protect their local communities. Most work on MNF-I contracts. Overall, according to an April 2008 MNF-I report, the various Sons of Iraq groups consisted of about 105,000 members. Sons of Iraq groups do not have a national or regional structure, as local groups are generally organized along sectarian lines based on the neighborhoods in which they operate.

In March 2008, DOD reported that the Sons of Iraq program has helped to improve security at the local level by involving local citizens in the security of their communities. According to the DOD report, the Sons of Iraq are a key component of the counterinsurgency fight due to their knowledge of the local populace and their ability to report activities that might otherwise escape the attention of MNF-I and Iraqi forces. These groups also provide security for roads, municipal buildings, power lines, and other key facilities in their local communities under the direction of MNF-I or Iraqi forces, thereby allowing MNF-I and Iraqi forces to pursue and engage the enemy.

While the Sons of Iraq are playing an important role at the local level to quell violence, DOD reported that they also pose some challenges for the Iraqi government and the coalition. These challenges include the potential for infiltration by insurgents,¹⁸ the possible distortions in the local

¹⁸According to an April 2008 MNF-I report, it is highly likely that a large percentage of Sons of Iraq members had previously participated in the insurgency on at least a part-time basis.

economy if salaries are not carefully managed, and the lack of a cohesive Iraqi plan to transition the Sons of Iraq to the Iraqi forces or civilian employment. According to DOD reporting, the Iraqi government continues to debate the future of the Sons of Iraq, raising concerns over infiltration by irreconcilable elements, the merits of supporting or employing a large number of former insurgents, and the methods for transitioning Sons of Iraq members into the Iraqi forces, private sector employment, or educational programs. Further, according to the April 2008 UN report, despite their relative success and growing numbers, during early 2008 some tribal security forces temporarily withdrew their support of MNF-I and the Iraqi security forces in Diyala and Babil provinces. Fraying relations between these groups and the Iraqi government in Anbar province caused a spike in violence in this area. As of March 2008, DOD reported that about 20,000 Sons of Iraq had already transitioned to the Iraqi security forces or civil employment.

Declared Cease-fire of the Mahdi Army Is Tenuous

According to DOD and UN reports, the cease-fire declared in August 2007 by the leader of the Mahdi Army, an extremist Shi'a militia, contributed significantly to the decline in violence in the second half of 2007. However, the cease-fire appears tenuous as the militia recently increased attacks against other Shi'a militias, the coalition, and Iraqi security forces before declaring another cease-fire on May 11. The Mahdi Army and its affiliated special groups remain the largest and most dangerous Shi'a militia in Iraq, according to an MNF-I report, with a combined nationwide strength of approximately 25,000 to 40,000 active members supported by a large body of non-active supporters.

According to DOD and UN reports, the cease-fire showed signs of fraying in late 2007, as tensions increased in southern Iraq among the various Shi'a militia factions. These tensions led the various Shi'a militia factions to begin routinely launching attacks against each other's interests and periodically engaging in open conflict lasting several days, or even weeks, before Iraqi security forces and MNF-I intervened. In February 2008, according to the UN report, there were numerous public demonstrations against the political and security leadership in Basra. Despite the reaffirmation of the Mahdi Army ceasefire in February, the Iraqi government launched an offensive against criminal and militia elements in Basra in late March 2008, which sparked widespread fighting in Baghdad, Basra, and other southern cities. According to a UN report, violence declined in Basra in April as the Iraqi government and various armed groups reached agreement to stop fighting, but violence continued in Sadr City, a Mahdi Army-controlled area of 2.5 million people. Moreover, the Iraqi security forces have conducted operations targeting the Mahdi Army

in Nassiriyah, al-Amarah, al-Kut, and Hillah, thus escalating the level of violence in these cities. Najaf and Karbala also suffered explosive attacks in the last week of March, which, according to the UN, are rare occurrences in these two cities. On May 20, 2008, the International Organization for Migration reported that the security situation had improved somewhat in Sadr City due to a truce between the Mahdi Army and government forces on May 11.

Developing Iraqi Security Forces

This section discusses the strength and capabilities of Iraqi security forces and efforts to transfer security responsibilities to the Iraqi government.

Iraqi Military and Police Force Levels Have Increased

The New Way Forward set the goal of developing capable Iraqi security forces and transferring security responsibilities to the government of Iraq. Since 2003, the United States has provided more than \$20 billion to develop Iraqi security forces. The Iraqi security forces comprise Ministry of Defense and Ministry of Interior forces that vary in size. Overall, the number of Iraqi military and police personnel has increased from about 142,000 in March 2005 to about 445,000 in April 2008.¹⁹ The number of Iraqi security forces is almost three times that of the 162,300 U.S. forces in Iraq as of April 2008. The Iraqi total includes about 203,000 under the Iraqi Ministry of Defense and about 238,000 under the Ministry of Interior. Table 2 provides the force levels for the major components of the Iraq security forces in March 2005, January 2007, and April 2008. In commenting on a draft of this report, DOD stated that the number of trained and equipped Iraqi security forces had grown to about 478,000 as of May 2008.

¹⁹As of April 2008, more than 538,000 personnel—including about 280,000 police—were assigned to the Ministries of Interior and Defense. These figures do not include civilian staff or Facilities Protection Service personnel, nor do they reflect present for duty status. In December 2007, DOD reported that the number of personnel assigned to the two ministries exceeds the number of total trained personnel because many of them—mainly police—have never been trained. According to DOD, rapid hiring of police over the past 2 years outstripped academy training capacity.

Table 2: Number of Iraqi Security Forces, March 2005, January 2007, and April 2008

Ministry	Component	March 2005 operational/trained and equipped ^a	January 2007 operational/trained and equipped ^a	April 2008 trained ^b
Defense	Iraqi Army	59,880	132,700 ^c	200,013 ^d
	Air Force	186	900	1,370
	Navy	517	1,100	1,194
Subtotal		60,583^e	134,700^e	202,577
Interior	Iraqi Police Service	55,015 ^f	135,000	166,037
	Other Ministry of Interior forces			
	National police		24,400	44,156
	Border enforcement			28,023
	Other		28,900	
Subtotal		26,874	53,300	72,179
Subtotal		81,889^g	188,300^g	238,216
Counterterrorism Bureau	Special Operations			3,709
Subtotal				3,709
Total		142,472	323,000^h	444,502ⁱ

Sources: U.S. State Department and Multinational Security Transition Command Reports.

Notes:

^aThe term “operational” refers to Ministry of Defense forces. The term “trained and equipped” refers to Ministry of Interior forces. Numbers are from the State Department’s March 9, 2005 and January 31, 2007 Iraq Weekly Status Report and Multinational Security Transition Command Iraqi Security Forces Update, January 26, 2007.

^bThe term “trained” refers to Ministry of Defense, Ministry of Interior and Counterterrorism Bureau forces. Numbers are from April 30, 2008 Iraq Weekly Status Report.

^cArmy numbers include Special Operations Forces and Support Forces.

^dArmy numbers include support forces.

^eUnauthorized absent personnel are not included in Ministry of Defense numbers.

^fThe number in the Iraqi police service in 2005 includes highway patrol forces.

^gUnauthorized absent personnel are included in Ministry of Interior numbers.

^hDoes not include the approximately 144,000 Facilities Protection Service personnel working in 27 ministries.

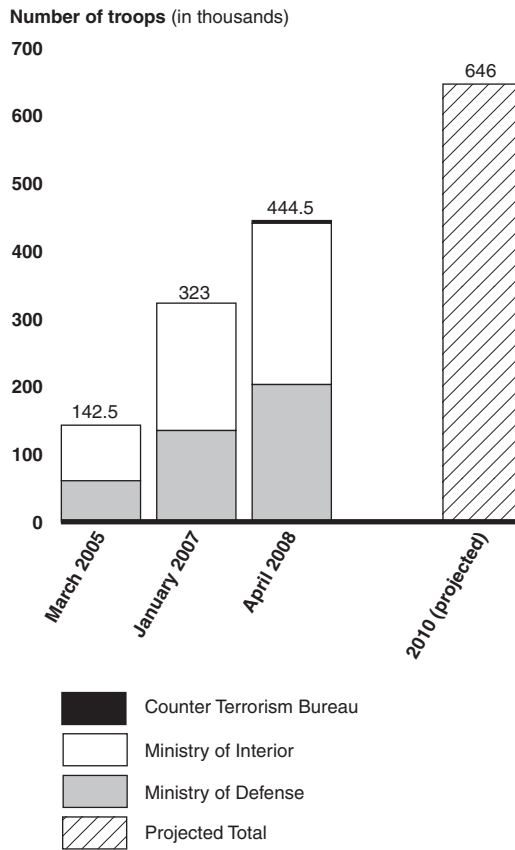
ⁱNumbers reflect total Iraqi security forces trained to date, some of which are no longer assigned due to casualties, absence without leave, and normal separation.

Ministry of Defense forces consist of 12 Iraqi army divisions and a small air force and navy. These forces have grown by more than 230 percent since March 2005. Iraqi Ministry of Interior forces consist of Iraqi police—

which, as of April 2008, represent about 70 percent of personnel within the Ministry of Interior—and other units, specifically, the national police (formerly the special police), Department of Border Enforcement, and Center for Dignitary Protection. Iraqi police precincts are under the operational control of their local municipality and the corresponding provincial government. Ministry of Interior forces have grown by more than 200 percent since March 2005.

Future projections show that the Iraqi security forces will continue to grow. DOD reported that Iraqi security forces—military, police, and special operations forces—could reach 646,000 by 2010 (see figure 6). Specifically, the Ministry of Interior is projected to grow to about 389,000 employees in the Iraqi police service, national police, and Directorate of Border Enforcement. Ministry of Defense forces will include 13 army divisions (12 infantry, 1 armored) along with supporting forces, 1,500 navy personnel, 4,000 air force personnel, and 5,750 counterterrorism forces.

Figure 6: Number of Trained Iraqi Security Forces, March 2005 through 2010



Source: GAO analysis of U.S. State Department, Multinational Security Transition Command, and Department of Defense Reports.

The number of trained Iraqi security forces may overstate the number of troops present for duty. According to DOD, the number of trained troops includes personnel who are deceased or absent without leave.²⁰ For example, DOD reported that approximately 24,500 soldiers were dropped from the Iraqi Army rolls in 2007 because they deserted or were absent without leave. However, these troops are still counted in trained numbers. An April 2008 Special Inspector General for Iraqi Reconstruction report confirmed that a substantial number of Iraqi personnel still on the payroll

²⁰In March 2005 data, Ministry of Defense totals did not include soldiers who were absent without leave.

were not present for duty for various reasons, such as being on leave, absent without leave, injured, or killed.²¹

Iraqi Security Forces Capabilities Have Shown Limited Improvement

In September 2007, GAO assessed the Iraqi government's progress in increasing the number of Iraqi security forces' units capable of operating independently. This was a benchmark established by the U.S. Congress and derived from benchmarks and commitments articulated by the Iraqi government beginning in June 2006. The number of independent Iraqi security forces as measured by Operational Readiness Assessments (ORA) level 1 continues to be an important measure of the capabilities of Iraqi security forces.

Although Iraqi security forces have grown in number and many are leading counterinsurgency operations, MNF-I assessments of their readiness levels show limited improvements. MNF-I uses ORA to determine when Iraqi units can assume the lead for security operations.²² The ORA is a classified joint assessment prepared monthly by the unit's coalition and Iraqi commanders. For the Iraqi army, commanders use the ORA process to assess a unit's personnel, command and control, equipment, sustainment and logistics, and training and leadership capabilities. ORA level 1 is a unit capable of planning, executing, and sustaining counterinsurgency operations;²³ level 2 is capable of planning, executing, and sustaining counterinsurgency operations with Iraqi security force or coalition force assistance; level 3 is partially capable of planning, executing, and sustaining counterinsurgency operations with coalition force assistance; level 4 is forming and/or incapable of conducting counterinsurgency operations.

In April 2008, the Commanding General of MNF-I reported that more Iraqi security force battalions were leading security operations in Iraq. He

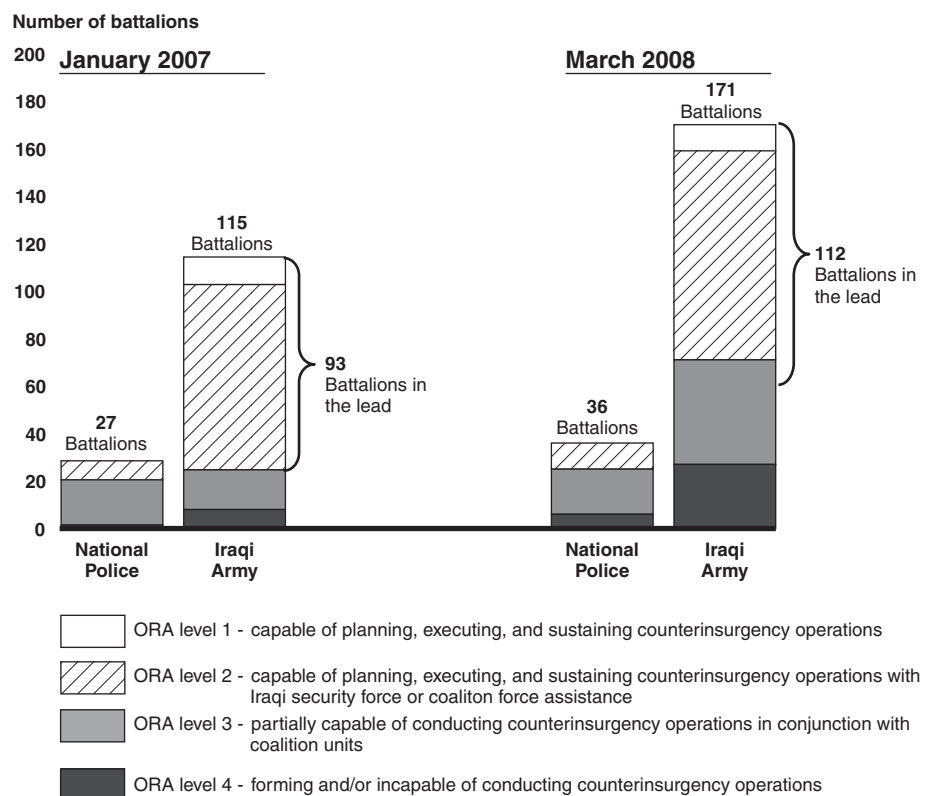
²¹Office of the Special Inspector General for Iraqi Reconstruction, *Interim Analysis of Iraqi Security Force Information Provided by the Department of Defense Report, Measuring Stability and Security in Iraq* (Apr. 25, 2008).

²²Operational Readiness Assessments were previously called Transitional Readiness Assessments.

²³Prior to March 2006, ORA level 1 was defined as "fully capable of planning, executing, and sustaining independent counterinsurgency operations." See GAO, *Operation Iraqi Freedom: DOD Assessment of Iraqi Security Forces' Units as Independent Not Clear Because ISF Support Capabilities Are Not Fully Developed*, [GAO-08-143R](#) (Washington, D.C: Nov. 30, 2007).

stated that MNF-I handed over the lead security responsibility to 19 additional Iraqi army battalions between January 2007 and March 2008, as displayed in figure 7.

Figure 7: Iraqi Security Force Operational Readiness Levels, January 2007 and March 2008



Source: GAO analysis of data presented in testimony by the Commanding General of MNF-I and MNC-I documents.

While 65 percent of the Iraqi units were in the lead in counterinsurgency operations as of March 2008, the number of Iraqi army battalions rated at the highest readiness level accounts for less than 10 percent of the total number of Iraqi army battalions. While the number of battalions “in the lead”—that is, leading counterinsurgency operations with or without coalition support—increased from 93 in January 2007 to 112 in March 2008, MNF-I is now including some units at ORA level 3 as in the lead, which are assessed as partially capable of conducting counterinsurgency operations. In contrast, the January 2007 report did not include ORA Level 3 units as in the lead. GAO is completing work assessing the capabilities of the Iraqi security forces at each ORA level.

According to DOD, the Iraqi national police battalions, organized under the Ministry of Interior, generally have been less capable and have shown less progress than Iraqi army battalions. While the number of Iraqi national police battalions increased from 27 in January 2007 to 36 in March 2008, no units achieved ORA level 1, and about 11 units were at ORA level 2.

Several Factors Have Complicated the Development of Capable Iraqi Security Forces

The United States faces several challenges in enhancing the capabilities of Iraq's security forces: (1) the lack of a single unified force; (2) sectarian and militia influences; (3) continued dependence upon U.S. and coalition forces for logistics and combat support; and (4) training and leadership shortages.

First, Iraqi security forces are not a single unified force with a primary mission of countering the insurgency in Iraq. Only one major component of the Iraqi security forces, the Iraqi army, has counterinsurgency as its primary mission. The Iraqi army represents about 45 percent of 445,000 trained Iraqi security forces.²⁴ The Iraqi local police represent 37 percent of total trained security forces and have civilian law enforcement as a primary mission. The Iraqi national police account for 10 percent of total trained Iraqi forces. According to the Independent Commission on the Security Forces of Iraq, the national police are not a viable organization, as they face significant challenges, including public distrust, real and perceived sectarianism, and uncertainty as to whether it is a military or police force.²⁵ The commission recommended that the national police be disbanded and reorganized under the Ministry of Interior. As a smaller organization with a different name, it would be responsible for specialized police tasks such as explosive ordnance disposal, urban search and rescue, and other functions.

Second, sectarian and militia influences have divided the loyalties of the Iraqi security forces. In May 2007, the U.S. Commission on International

²⁴In commenting on a draft of this report, DOD stated that the Iraqi Army represents about 30 percent of the 541,000 authorized Iraqi security forces and 33 percent of the 559,159 assigned personnel as of May 2008.

²⁵General James L. Jones, USMC (Ret.), Chairman, *The Report of the Independent Commission on the Security Forces of Iraq* (Sept. 6, 2007).

Religious Freedom²⁶ reported that Iraq's Shi'a-dominated government has engaged in sectarian-based human rights violations and has tolerated abuses committed by Shi'a militias with ties to political factions in the governing coalition. According to the commission, the Iraqi government, through its security forces, has committed arbitrary arrest, prolonged detention without due process, targeted executions, and torture against non-Shi'a Iraqis. In September 2007, we determined that the Iraqi government had not eliminated militia control over local security forces and that sectarianism in the Iraqi security forces was a serious problem in Baghdad and other areas of Iraq. According to DOD, in March 2008, sectarianism and corruption continue to be significant problems within the Ministries of Interior and Defense. For example, some army units sent to Baghdad have had ties to Shi'a militias, making it difficult to target Shi'a extremist networks. According to the March 2008 State Department Human Rights Report, the effectiveness of Ministry of Interior forces, particularly the national police, was seriously compromised by militia influence.²⁷

Third, as we reported in November 2007, Iraqi units remain dependent upon the coalition for their logistical, command and control, and intelligence capabilities.²⁸ The Ministries of Defense and Interior were not capable of accounting for, supporting, or fully controlling their forces in the field, nor do the Iraqi security forces have critical enablers such as intelligence and logistics systems and processes that permit independent planning and operations. Due to Iraq's immature logistics systems, many Iraqi military and police units will continue to depend on MNF-I for key sustainment and logistics support through 2008. Further, the Independent Commission on the Security Forces of Iraq stated that the Iraqi Army remains heavily dependent on contracted support to satisfy day-to-day

²⁶U.S. Commission on International Religious Freedom, *Annual Report of the U.S. Commission on International Religious Freedom* (Washington D.C.: May 2007). The U.S. Commission on International Religious Freedom was created by the International Religious Freedom Act of 1998 (IRFA) to monitor violations of the right to freedom of thought, conscience, and religion or belief abroad, as defined in IRFA and set forth in the Universal Declaration of Human Rights and related international instruments, and to give independent policy recommendations to the President, Secretary of State, and Congress.

²⁷Department of State, Bureau of Democracy, Human Rights, and Labor, *Iraq: Country Reports on Human Rights Practices* (Washington, D.C.: Mar. 11, 2008).

²⁸See GAO, *Operation Iraqi Freedom: DOD Assessment of Iraqi Security Forces' Units as Independent Not Clear Because ISF Support Capabilities Are Not Fully Developed*, [GAO-08-143R](#) (Washington, D.C.: Nov. 30, 2007).

requirements, and it appears that contracted logistics support in some form will be necessary for 2 to 3 years.

Fourth, shortfalls in training, leadership, personnel, and sustainment have contributed to the limited progress in the number of Iraqi battalions capable of operating independently, according to DOD reports. To address this problem, the Iraqi government has expanded its training capacity. According to DOD's March 2008 report, the Ministry of Interior has expanded the number of its training facilities from 4 to 17 over the past year and is implementing its first annual strategic plan. In addition, the Iraqi army plans to develop training centers in 2008 that will train an additional 2,000 soldiers per cycle. However, DOD noted that Ministry of Interior and Defense basic combat and police training facilities are at or near capacity and that the shortage of leaders in the Iraqi security forces will take years to address. Furthermore, the influx of about 20,000 of the 105,000 Sons of Iraq who are currently working with coalition forces will place an additional strain on the capacity of the Iraqis to train their forces, particularly the police.

Transfer of Security Responsibilities to Iraqi Control Has Not Met Expected Time Frames

The ability of a province to transfer from MNF-I to provincial Iraqi control is dependent on security and governance in each province. Due to increased levels of violence and the lack of capable Iraqi security forces, the projected transition dates for the completion of the provincial Iraqi control process have shifted over time.

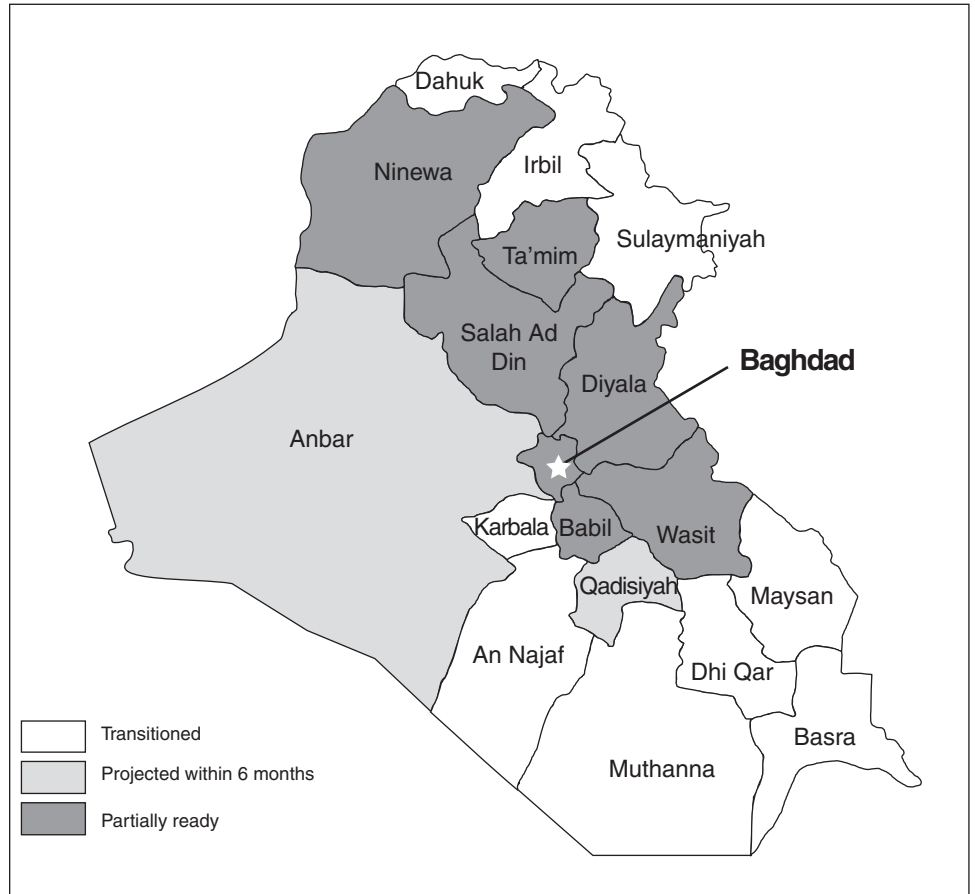
In June 2005, Iraq's Prime Minister announced a joint decision between the government of Iraq and MNF-I to systematically hand over security responsibility in Iraq's 18 provinces under the control of the province's governor. The Joint Committee to Transfer Security Responsibility was commissioned in July 2005 to develop a set of conditions assessing the readiness of each province for Iraqi control. Four conditions are used to determine whether a province should be transferred to provincial Iraqi control. These conditions include (1) the threat level of the province, (2) Iraqi security forces' capabilities, (3) the governor's ability to oversee security operations, and (4) MNF-I's ability to provide reinforcement if necessary. According to MNF-I, as these conditions are met, MNF-I forces will then leave all urban areas and assume a supporting role to Iraq's security forces.

In January 2007, *The New Way Forward* stated that the Iraqi government would take responsibility for security in all 18 provinces by November 2007. However, this date was not met, as only 8 of 18 provinces had

transitioned to Iraqi control at that time. According to DOD, in September 2007, the principal cause for the delay in transitioning provinces to Iraqi control was the inability of the Iraqi police to maintain security in the provinces. For example, as a result of the February 2007 Baghdad Security Plan, an increased number of terrorists, insurgents, and members of illegal militia fled Baghdad for other provinces, and the Iraqi police were unable to handle these threats.

As of May 2008, nine provincial governments have lead responsibility for security in their province. Six of the nine provinces that have assumed security responsibilities are located in southern Iraq, where the British forces had the lead and have continued to draw down their forces. The remaining three provinces are located in northern Iraq, in the area controlled by the Kurdistan Regional Government. Figure 8 displays the degree to which the provinces had achieved provincial Iraqi control as of May 2008.

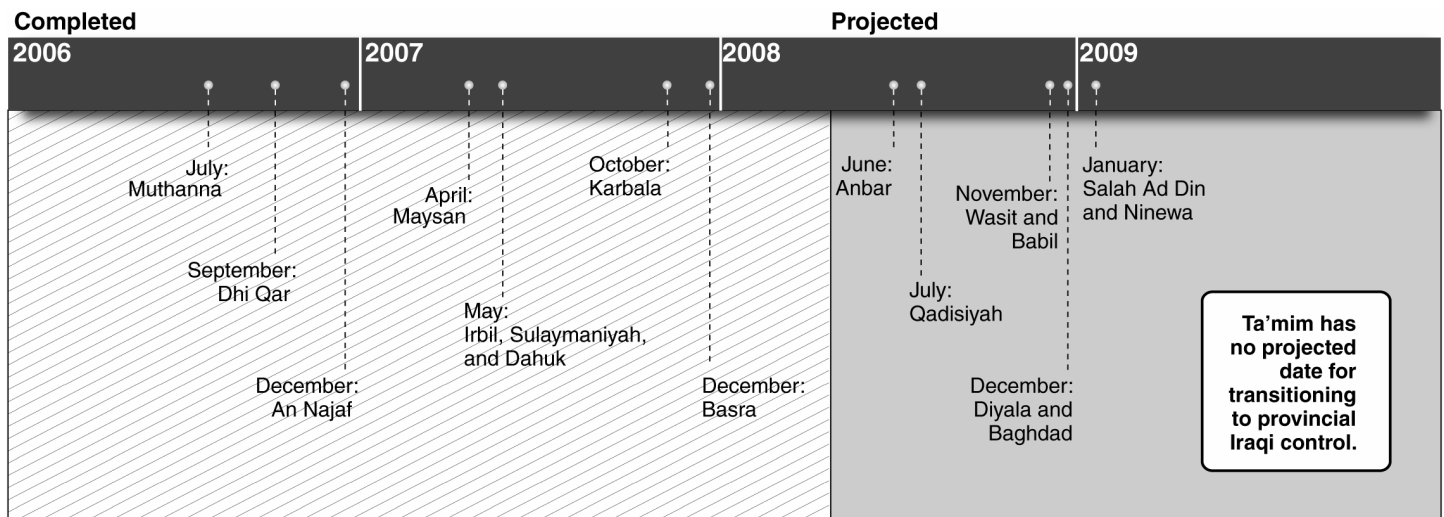
Figure 8: Provinces That Have Transitioned to Provincial Iraqi Control, as of May 2008



Source: GAO analysis of MNF-I data.

According to the MNF-I Commanding General, eight of the nine remaining provinces are expected to transition to provincial Iraqi control by early 2009. One of the provinces (Ta'mim) has no expected transition date. Figure 9 shows the projected timelines for transferring security responsibilities to the remaining provincial governments.

Figure 9: Timeline for Transfer of Security Responsibilities to Provincial Iraqi Control



Source: GAO analysis of MNF-I data.

According to the MNF-I Commanding General, the coalition continues to provide assistance even after security responsibilities have transferred to provincial Iraqi control. For example, the coalition continues to support Iraqi-led operations in those provinces with planning, logistics, close air support, intelligence, and embedded transition teams.

Enacting Key Iraqi Legislation

This section describes progress toward the U.S. goal of helping Iraq enact key legislation that would promote national reconciliation.

Iraq Has Enacted Some Legislation to Promote National Reconciliation, but Critical Laws Are Still Being Debated

To promote national reconciliation and unify the country, the Iraqi government, with U.S. support, committed in 2006 to address political grievances among Iraq's Shi'a, Sunni, and Kurd populations. The U.S. and Iraqi governments believed that fostering reconciliation through political compromise and the passage of legislation, such as reintegrating former Ba'athists and sharing hydrocarbon resources equitably, were essential. In 2007, in *The New Way Forward*, the U.S. government identified legislation

that the Iraqi government committed to enact by December 31, 2007.²⁹ The United States also promoted Iraq's reconciliation by assisting the country in its constitutional referendum and legislative elections and building the capacity of Iraq's legislature.³⁰

Since September 2007, the Iraqi government has enacted three laws that could address some Sunni concerns—de-Ba'athification reform, amnesty for certain detainees in Iraq's justice system, and provincial powers. These three laws were enacted after considerable debate and compromise and, according to State and DOD reports, represented positive signs of political progress. De-Ba'athification and amnesty laws are steps to address Sunni and Sadrist concerns that they had been removed from government service or detained and arrested. According to the U.S. ambassador to Iraq, the number of Iraqis currently held in detention is a significant problem. The provincial powers law established a date for new provincial elections, which could address Sunni underrepresentation in several provincial governments.

However, three additional laws considered critical for national reconciliation have not been enacted. These include laws that set the rules for Iraq's provincial elections, define the control and management of Iraq's oil and gas resources, and provide for disarmament and demobilization of Iraq's armed groups. According to U.S. reports, the oil law and law on disarmament and demobilization are stalled.

²⁹The key legislation identified was supposed to address de-Ba'athification reform, hydrocarbons, semiautonomous regions, elections, amnesty, and militia disarmament, which Iraq's Policy Committee on National Security committed to enacting in September 2006 and the Presidency Council reaffirmed on October 16, 2006. See GAO, *Securing, Stabilizing, and Rebuilding Iraq: Iraqi Government Has Not Met Most Legislative, Security, and Economic Benchmarks*, [GAO-07-1195](#) (Washington, D.C.: Sept. 4, 2007). The Iraqi government committed to enacting most of this legislation in the International Compact for Iraq, which is an initiative of the government of Iraq for a new partnership with the international community. Its purpose is to achieve a national vision for Iraq that aims to consolidate peace and pursue political, economic, and social development over the next 5 years. As part of the International Compact, a legislative timetable set a goal of December 31, 2007, to pass key legislation and conduct a constitutional review.

³⁰See GAO, *Rebuilding Iraq: U.S. Assistance for the January 2005 Elections*, [GAO-05-932R](#) (Washington, D.C.: Sept. 7, 2005); *Stabilizing and Rebuilding Iraq: U.S. Ministry Capacity Development Efforts Need an Overall Integrated Strategy to Guide Efforts and Manage Risk*, [GAO-08-117](#) (Washington, D.C.: Oct. 1, 2007).

According to U.S. and other officials and documents, although the process is evolving, enacting legislation generally includes the following steps: The Presidency Council and the Council of Ministers have authority to draft laws, and the Iraqi legislature—either a committee or 10 members—has the authority to propose laws. Laws drafted by the Presidency Council or Council of Ministers are reviewed for legal soundness and subject matter by the Shura Council, an institution in the Ministry of Justice. Laws drafted by the legislature must first pass through its Legal Committee. The legislation then proceeds through three readings. The legislation is presented at the first reading. The relevant committee may amend the law, and the Speaker’s Office places it on the calendar. After the first reading, the legislature discusses the proposed law at a second reading. At the third reading, a final vote is taken article by article. Laws that receive an affirmative vote are sent to the Presidency Council, which can disapprove the law. The legislature can override the disapproval with a three-fifths majority. This ratification process only applies during the transition period when the Presidency Council is in existence. Final laws are published in the *Official Gazette* and become effective on the date of publication in the *Gazette* unless stipulated otherwise.

Figure 10 shows the law enacted since September 2007, identifies the steps left to enact the remaining legislation, and indicates the status of implementation, which will be discussed in the next section.

Figure 10: Status of Iraqi Legislation to Promote National Reconciliation

	Drafting laws										Enacting				Implementing
	Laws drafted and reviewed	Draft referred to Council of Representatives/Committee	Draft placed on calendar by Speaker's Office	First reading completed	Draft amended by Committee on calendar by Speaker's Office	Second reading completed	Draft amended by Committee: placed on calendar by Speaker's Office	Third reading completed	Ratification completed; vote taken	Law published in Gazette					
De-Ba'athification		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Not implemented. Mandatory Commission not established.	
Amnesty	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Implementation in process. Thousands approved for amnesty.	
Provincial powers										✓	✓	✓	✓	Takes effect once provincial elections occur. ^a	
Elections															
Electoral commission														Implemented.	
Provincial election law	✓	✓	✓	✓	✓	✓									
Hydrocarbon laws															
Framework		✓													
Revenue sharing															
Ministry of Oil Restructuring															
Iraq National Oil Company	—														
Disarmament and demobilization	—														

-  Status as of September 2007
- ✓ Steps taken since September 2007
- No legislation drafted

Source: GAO analysis of Department of State, Department of Defense, UN and Iraqi government data.

^aThe provincial powers law set an October 1, 2008, deadline for holding provincial elections.

Since we last reported on legislation to promote national reconciliation in September 2007, the Iraqi government has passed the following laws.

-
- As of September 2007, drafts of de-Ba'athification reform legislation were under initial review by the Council of Representatives. After extensive debate, the Iraqi legislature passed the de-Ba'athification reform law on January 12, 2008. The Presidency Council approved the law in February 2008 and it was published in the Official Gazette. According to a March 2008 DOD report, if implemented in the spirit of reconciliation, this law could allow some former Ba'athist party members, many of whom were Sunni, to return to government. The new law establishes a national commission to complete the removal of former high-level officials of the Ba'athist party, consistent with measures outlined in the law. The law, however, allows some lower-ranking members of the Ba'athist party to return to or continue working for the government. In May 2003, Coalition Provisional Authority (CPA) Order 1 provided for investigation and removal of even junior members of the party from government, universities, and hospitals.³¹
 - As of September 2007, the Iraqi government had not drafted an amnesty law. After considerable negotiation among the political blocs, the legislation was combined with other pieces of legislation and passed as part of an overall package in February 2008. According to a March 2008 DOD report, the law represents an important step toward addressing a long-standing demand for detainee releases, but the ultimate effect on national reconciliation will depend on its implementation. The law provides for amnesty and release of Iraqis sentenced to prison and those under investigation or trial, provided they are not involved in certain crimes such as kidnapping, murder, embezzling state funds, smuggling antiquities, or terrorism that results in killing or permanently disabling victims. The law also requires the Iraqi government to undertake the necessary measures to transfer those detained in the MNF-I facilities to Iraqi facilities so that the provisions of this law can be applied to them. This law is important to Sunnis and Sadrists, according to State and USIP officials, as many were detained or held without trial.
 - As of September 2007, the Iraqi legislature had completed the second reading of a draft of the provincial powers legislation. In February 2008, after considerable negotiation, the Iraqi government passed the provincial powers legislation as part of an overall legislative package and after an initial veto by the Shi'a vice president of the Presidency Council was withdrawn. According to a March 2008 DOD report, the law is an important step toward establishing a balance between adequate central

³¹The CPA was the UN-recognized authority led by the United States and the United Kingdom that was responsible for the temporary governance of Iraq until June 2004.

government authority and strong local governments, some of which represent provinces with large or majority Sunni populations. The law outlines the specific powers of the provinces and provides the structure of government for the provincial and local councils. The law also sets the date for provincial council elections as no later than October 1, 2008.

Other key legislation has not passed, including the provincial elections law, hydrocarbon laws, and disarmament and demobilization.

- As of September 2007, a provincial elections law had not been drafted. Since then, the Prime Minister's Office has drafted a provincial elections law and presented it to the Iraqi legislature, where it has completed its second reading. As of May 2008, the Iraqi legislature is debating its provisions. This draft law would provide the rules for holding provincial elections, which are critical to promote national reconciliation. According to a DOD report, new elections would enhance reconciliation by enabling the creation of provincial councils that are more representative of the populations they serve. Many Sunnis did not vote in the 2005 provincial elections, resulting in underrepresentation of Sunnis in some provincial councils. In Baghdad, for example, the population is about 40 percent Sunni, but the council has 1 Sunni representative out of 51, according to a March 2008 State report.
- As of September 2007, the Iraqi government had drafted three of the four separate but interrelated pieces of legislation needed to establish control and management of Iraq's hydrocarbon resources and ensure equitable distribution of revenues. Since that time, only the hydrocarbon framework draft, which establishes the control and management of the oil sector, has progressed to the Council of Representatives. The three additional laws include legislation to establish revenue sharing, restructure the Ministry of Oil, and establish the Iraqi National Oil Company. According to State officials, the Kurdistan Regional Government (KRG) and the federal government disagree on many areas of the proposed legislation, particularly on the issue of how much control the KRG will have in managing its oil resources. For example, the KRG has passed its own oil and gas law. Furthermore, the KRG has negotiated an estimated 25 contracts with foreign oil firms, which the Iraqi federal government claims are illegal.
- As of September 2007, the Iraqi legislature had not drafted legislation on disarmament and demobilization of militias and armed groups. Since then, no progress has been made on drafting legislation. According to the United Nations, minimum requirements for a successful disarmament and demobilization program in Iraq include a secure environment, the

inclusion of all belligerent parties, an overarching political agreement, sustainable funding, and appropriate reintegration opportunities. As of May 2008, these conditions were not present. For example, the United Nations reported that since March 27, 2008, intense fighting in Sadr City has occurred among militias linked to Muqtada Al Sadr and the Iraqi security forces and MNF-I. According to the Iraqi government, between late March 2008 and the end of April 2008, 925 persons were killed and 2,600 persons injured during the military operation.

Iraqi Government Faces Challenges Implementing Legislation and Outcomes Are Uncertain

Although Iraq has enacted some legislation it judged important for national reconciliation, implementation of the legislation and its outcomes are uncertain. For example, the amnesty legislation is currently being implemented as detainees have been approved for release, but a limited number have been set free as of May 2008. Moreover, implementation of the de-Ba'athification law has stalled, and holding free and fair provincial elections poses logistical and security challenges.

Implementation of the amnesty law began on March 2, 2008. According to the Iraq Higher Juridical Council, as of May 1, 2008, almost 17,000 prisoners and detainees have been approved for release. According to State officials, the law is implemented at the provincial level by committees of provincial judges. These committees are more likely to implement the law, according to State officials, because several are located in provinces with large Sunni populations where many detainees are located. However, according to the U.S. Embassy in Iraq, the process of releasing prisoners and detainees is slow, and, according to State, approximately 1,600 have been released to date. The legislation does not provide a time frame for the approximately 25,000 MNF-I detainees to be turned over to Iraqi custody.

Although the de-Ba'athification law was enacted in February 2008, implementation of the law has stalled, delaying the possible reinstatement of an estimated 30,000 former government employees. The Iraqi government has yet to appoint members of the Supreme National Commission on Accountability and Justice, which has primary responsibility for implementing the law. According to State officials, Sunnis are concerned about the law's implementation and the choice of commissioners.

The Iraqi government faces challenges in holding provincial elections by October 2008, as required by the provincial powers law. According to State officials, a provincial election law has not been enacted and the draft law

contains confusing and contentious issues. For example, the draft law states that any political entity that possesses an armed militia is prohibited from participating in the election. According to State, this provision could eliminate some political parties, such as the Sadrist Trend.

According to a UN report and U.S. Agency for International Development (USAID) officials, there are challenges for the Iraqi government to hold these elections by late 2008. UN and IFES reports estimate that it would take about 8 months to prepare for the elections, and State estimates that elections could probably be held 4-5 months after an elections law is passed.³² Although some elections preparations have begun, numerous tasks remain and some cannot begin until the election rules are set by law. According to USAID and IFES, the tasks remaining included establishing voter registration lists; making voting provisions for internally displaced persons; registering candidates for the councils, including vetting them through the de-Ba'athification process; designing and printing ballots; identifying polling sites; and providing time for the candidates to campaign in their districts.

According to U.S. officials, holding provincial elections will face security challenges due to likely sectarian violence, insurgent attacks, and political party militias. Elections in several areas may be fiercely contested as militias and sectarian groups may fight for control of the provincial councils and their financial resources, according to State and USAID officials. State and USAID officials said MNF-I is working with the Iraqi government to help provide support for the election.³³

³²IFES, formally known as the International Foundation for Electoral Systems, is an international election assistance organization. In Iraq's 2005 elections, IFES provided election assistance to the Iraqi government. IFES is also providing support for Iraq's upcoming provincial elections.

³³[GAO-05-932R](#).

Iraq Has Made Little Progress in Completing the Constitutional Review Process

Iraq's Constitution was approved in a national referendum in October 2005, but did not resolve several contentious issues, including the powers of the presidency, claims over disputed areas such as oil-rich Kirkuk, and the relative powers of the regions versus the federal government.³⁴ According to State officials, these unresolved issues were core points of dispute among Iraq's Shi'a, Sunni, and Kurd political blocs. According to the United Nations, Iraqi leaders included a compromise provision in the draft constitution that required the formation of the Constitutional Review Committee (CRC) to review the Constitution and propose necessary amendments. Since September 2007, the constitutional review process has made little progress. The CRC recommended a draft package of amendments to the Council of Representatives in May 2007, but these have not moved forward. Since then, the CRC has received multiple extensions to complete its work, but has not proposed a new package of amendments. According to a March 2008 DOD report, Kurdish leaders have prevented progress in the review process until the issue of disputed territories, especially Kirkuk, is settled.

The following summarizes three key issues in the Constitution that have not been resolved.

- *Power of the presidency.* The Deputy Chairman of the CRC, a member of the Sunni bloc, believes that the Presidency Council should have greater power in relation to the prime minister to allow for better power sharing among Iraq's political groups. According to the Iraqi Constitution, in the current electoral term, a presidency council consisting of a president and 2 vice-presidents exercises the powers of the presidency. The Presidency Council—currently a Shi'a, a Sunni, and a Kurd—can approve or disapprove legislation in the current electoral term.³⁵ However, the

³⁴The constitutional review process consists of the following: (1) the Council of Representatives forms a review committee, which presents to the council a report on recommendations of necessary amendments that could be made to the Constitution; (2) the proposed amendments shall be presented to the council all at once for a vote and are approved with the agreement of an absolute majority of the members of the council; and (3) the articles amended by the council shall be presented to the people in a referendum within 2 months from the date of approval by the council. The referendum will be successful if approved by the majority of voters and if not rejected by two-thirds of the voters in three or more governorates.

³⁵If these constitutional provisions are not amended, at the start of the next electoral term, power will revert to a single president and the power to approve and disapprove legislation that is explicitly granted to the Presidency Council will lapse. The president will then have the power to ratify and issue laws passed by the legislature, although such laws are considered ratified 15 days after the president receives them.

legislature can adopt disapproved legislation by a three-fifths majority vote. On the other hand, the prime minister, selected from the legislature's largest political bloc and currently a Shi'a, is commander-in-chief of the armed forces, names the ministers for each ministry, and directs the Council of Ministers, which directs the work of all government ministries and departments, develops their plans, and prepares the government budget.

- *Disputed areas, particularly Kirkuk.* Kurdistan Regional Government officials want a referendum to be held in Kirkuk to determine its status. Even though the deadline for holding the referendum was December 31, 2007, the KRG and the Iraqi government agreed to a 6-month extension on implementation. While KRG officials wanted a referendum to be held as soon as practical, other Iraqi legislators believe that a referendum should be deferred due to border disputes and displacement of people in the area. The United Nations is currently consulting with various groups about the status of other disputed territories, such as the districts of Akre and Makhmour currently in Ninewa province. According to the UN, there is no agreed upon listing of disputed areas and their boundaries. If these discussions succeed, it could be a model for determining the status of Kirkuk, according to the UN.
- *Power of the federal government versus regions.* Shi'a, Sunni, and Kurdish political blocs disagree over fundamental questions of federalism—relative power among the federal, regional, and provincial governments. The CRC proposed several amendments to better define and clarify the relative powers but has not achieved compromise among major political factions. The Kurdish bloc rejected the proposed changes, stating it would decrease regional power while concentrating power in the federal government.

Spending Capital Budgets

This section discusses Iraq's progress toward spending its capital budget and U.S. efforts to improve Iraqi budget execution.

Iraq Has Made Little Progress Spending Capital Investment Budgets

The New Way Forward emphasized the need to build capacity in Iraq's ministries and help the government execute its capital investment budgets. This U.S. goal is particularly important as current U.S. expenditures on Iraq reconstruction projects are nearing completion. However, Iraq

continues to spend small percentages of its capital investment budgets³⁶ needed to improve economic growth. Iraq's inability to spend its considerable resources limits the government's efforts to further economic development, advance reconstruction projects, and, at the most basic level, deliver essential services to the Iraqi people. In recognition of this critical need, U.S. capacity development efforts have shifted from long-term institution-building projects to an immediate effort to help Iraqi ministries overcome their inability to spend their capital investment budgets. As U.S. funding for Iraq reconstruction totaling \$45 billion is almost 90 percent obligated (\$40 billion) and about 70 percent disbursed (\$31 billion) as of April 2008, the need for Iraq to spend its own resources becomes increasingly critical to economic development.

Between 2005 and 2007, Iraq budgeted about \$27 billion in capital investments for its own reconstruction effort, as shown in table 3. However, the government spent about 24 percent of the amount budgeted. According to Ministry of Finance total expenditure reports displayed in figure 11, Iraq has spent low percentages of capital investment budgets between 2005 and 2007 in several key categories. Total government spending for capital investments increased slightly from 23 percent in 2005 to 28 percent in 2007. However, Iraq's central ministries spent only 11 percent of their capital investment budgets in 2007—a decline from similarly low spending rates of 14 and 13 percent in 2005 and 2006, respectively. Last, spending rates for ministries critical to the delivery of essential services varied from the 41 percent spent by the Water Resources Ministry in 2007 to the less than 1 percent spent by the Ministries of Oil and Electricity.

³⁶We use “investment budgets” here to refer to budgets for capital goods and capital projects. To comply with new International Monetary Fund (IMF) budget classification requirements, beginning in 2007, the Iraqi government began combining expenditures for capital goods and capital projects under the heading of “nonfinancial assets,” which we refer to as investment. Capital projects represent almost 90 percent of the Iraq investment budget.

Table 3: Iraq Investment Budget and Expenditures, 2005-2007

Dollars in millions

	2005		2006		2007		Total 2005-2007	
	Budget	Expend.	Budget	Expend.	Budget	Expend.	Budget	Expend.
Total Government ^a	6,316	1,432	8,312	1,615	12,168	3,435	26,796	6,482
Central Government Ministries ^b	5,720	825	7,688	1,003	8,086	896	21,494	2,724
Selected Ministries								
Water Resources	184	120	200	91	262	109	646	320
Oil	3,001	111	3,106	143	2,383	0.8	8,491	254
Electricity	297	142	1,167	268	1,389	0.8	2,853	411

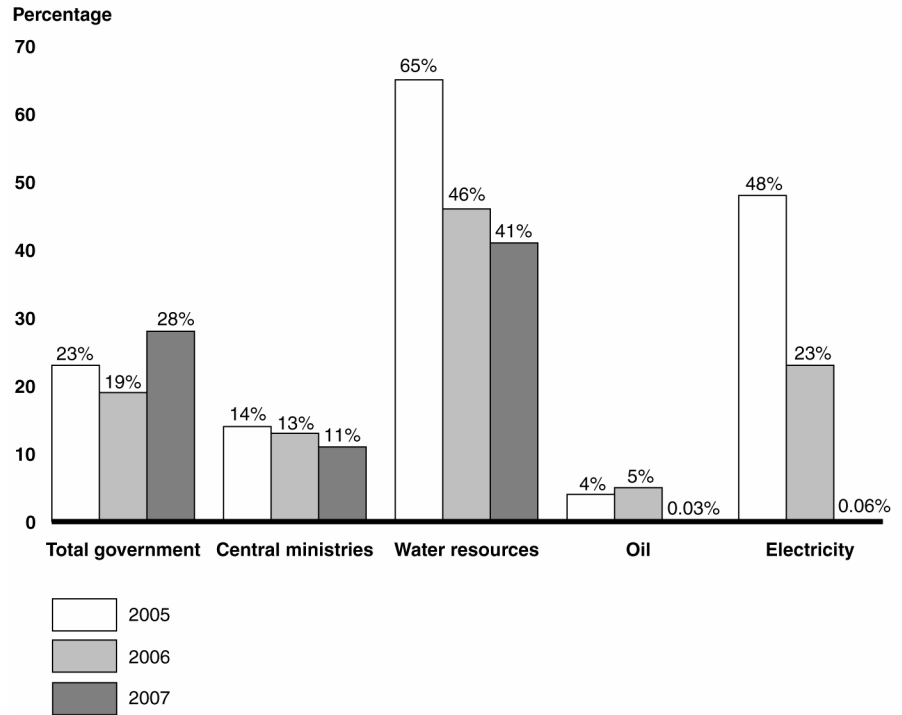
Source: GAO analysis of Ministry of Finance data.

Note: The 2005-2007 time frame represents fiscal year spending for January through December.

^aThe total government budget includes the central government ministries, provinces and Kurdistan region.

^bThe central government ministries include the ministries of oil, water, oil, electricity, public works, health, housing and construction, and other spending units.

Figure 11: Iraqi Budget Execution Ratios for Total Government and Selected Ministries, 2005 to 2007



Source: GAO analysis of official Ministry of Finance budget and expenditure data.

As discussed in the next section, low spending rates for the oil, electricity, and water sectors are problematic since U.S. investments in these sectors have ended and increased production goals for these sectors have consistently not been met. Iraq will have additional resources for capital investments in 2008. Iraq's 2008 budget was developed with the assumption that Iraq would receive \$57 per barrel for oil exports. As of May 2008, Iraqi crude oil was selling at about \$104 per barrel. Oil exports generate about 90 percent of total government revenues each year. GAO will issue a separate report on Iraq's estimated unspent and projected oil revenues for 2003 through 2008.

Iraqi Special Reports Show High Budget Execution Rates

In March 2008,³⁷ DOD reported that preliminary Iraqi budget execution data for the period January to October 2007 show that the government spent 45 percent of its capital budget, and central ministries executed 47 percent of their capital budgets. Further, in commenting on a draft of this report, the Treasury Department stated that the Iraqi government spent and committed about 63 percent of its investment budget in 2007, as documented in special reports developed by the Ministry of Finance. The special reports include Iraqi commitments to spend as well as actual expenditures. “Commitments” is defined under Iraq’s Financial Management Law, as “an undertaking to make an expenditure following the conclusion of a binding agreement that will result in payment.” We did not use the special reports for our analyses for two reasons: (1) Treasury Department officials stated in our meetings with them that the special reports contain unreliable data, and (2) the special reports do not define commitments, measure them, or describe how or when these commitments would result in actual expenditures. In addition, our reviews of these special reports show inconsistent use of poorly defined budget terms, as well as columns and rows that do not add up.

In addition, we note that the Iraqi government operates on a cash basis in which expenditures are reported when paid. Commitments, such as signed contracts, would normally not be included in expenditures until paid. Given the security and capacity challenges currently facing Iraq, many committed contracts may not be executed and would not result in actual expenditures, according to U.S. agency officials.

Iraq Faces Many Challenges in Attempting to Spend Its Capital Investment Budgets

U.S. government, coalition, and international agencies have identified a number of factors that challenge the Iraqi government’s efforts to fully spend its budget for capital projects. These challenges include violence and sectarian strife, a shortage of trained staff, and weak procurement and budgeting systems.

First, U.S., coalition, and international officials have noted that violence and sectarian strife remain major obstacles to developing Iraqi government capacity, including its ability to execute budgets for capital projects. The high level of violence has contributed to a decrease in the

³⁷DOD, *Measuring Stability and Security in Iraq: Report to Congress in Accordance with the Department of Defense Appropriations Act 2008, Section 9010, Public Law 109-289* (Washington, D.C.: March 2008).

number of workers available and can increase the amount of time needed to plan and complete capital projects. The security situation also hinders U.S. advisors' ability to provide the ministries with assistance and monitor capital project performance.

Second, U.S., coalition, and international agency officials have observed the relative shortage of trained budgetary, procurement, and other staff with technical skills as a factor limiting the Iraqi government's ability to plan and execute its capital spending. The security situation and the de-Ba'athification process have adversely affected available government and contractor staffing. Officials report a shortage of trained staff with budgetary experience to prepare and execute budgets and a shortage of staff with procurement expertise to solicit, award, and oversee capital projects. According to State and other U.S. government reports and officials, there has been decay for years in core functions of Iraqi's government capacity, including both financial and human resource management.

Finally, weak procurement, budgetary, and accounting systems are of particular concern in Iraq because these systems must balance efficient execution of capital projects while protecting against reported widespread corruption. A World Bank report notes that corruption undermines the Iraqi government's ability to make effective use of current reconstruction assistance.³⁸ According to a State Department document, widespread corruption undermines efforts to develop the government's capacity by robbing it of needed resources; by eroding popular faith in democratic institutions, perceived as run by corrupt political elites; and by spurring capital flight and reducing economic growth.

Efforts Are Under Way to Improve Iraqi Budget Execution

In early 2007, U.S. agencies increased the focus of their assistance efforts on improving the Iraqi government's ability to effectively execute its budget for capital projects, although it is not clear what impact this increased focus has had, given the relatively low rates of spending. The new U.S. initiatives included greater coordination between the U.S. embassy and an Iraqi task force on budget execution, and the provision of subject matter experts to help the government track expenditures and provide technical assistance with procurement. According to U.S. officials, these targeted efforts also reflect an increased interest of senior Iraqi

³⁸World Bank, *Rebuilding Iraq: Economic Reform and Transition* (February 2006).

officials in improving capital budget spending. In addition, improving Iraqi government budget execution is part of a broader U.S. assistance effort to improve the capacity of the Iraqi government through automation of the financial management system, training, and advisors embedded with ministries.

As we reported in October 2007, the development of competent and loyal Iraqi ministries is critical to stabilizing and rebuilding Iraq.³⁹ In 2005 and 2006, the United States provided funding of about \$169 million for programs to help build the capacity of key civilian ministries and the Ministries of Defense and Interior. As part of *The New Way Forward*, the Administration sought an additional \$395 million for these efforts in fiscal years 2007 and 2008. Ministry capacity development refers to efforts and programs to advise and help Iraqi government employees develop the skills to plan programs, execute their budgets, and effectively deliver government services such as electricity, water, and security. We found multiple U.S. agencies leading individual efforts and recommended that Congress consider conditioning future appropriations on the completion of an integrated strategy for U.S. capacity development efforts.

In commenting on a draft of this report, the State Department reiterated prior comments that it already had an integrated plan for building capacity in Iraq's ministries. In addition, State and Treasury cited a new Public Financial Management Action Group they were forming to help integrate and coordinate U.S. government assistance on improving budget execution. Adding a new program to the uncoordinated and multiple U.S. capacity development programs we found does little to address GAO's recommendation for an integrated strategy.

The government of Iraq also has made recent efforts to address impediments to budget execution. For example, State reported in May 2008 that the Council of Ministers recently approved new regulations to lift the ceiling on the amounts ministerial contracting committees can approve. Committees in the ministries of Defense, Interior, Oil, Trade, Health, Electricity, Industry and Minerals, Water Resources, and Municipalities can now approve contracts up to \$50 million. This represents a \$30 million increase for Defense, Oil, Electricity and Trade and a \$10 million increase for the other ministries. A newly formed Central

³⁹ [GAO-08-117](#).

Contracts Committee will approve contracts exceeding the \$50 million limit.

Delivering Essential Services

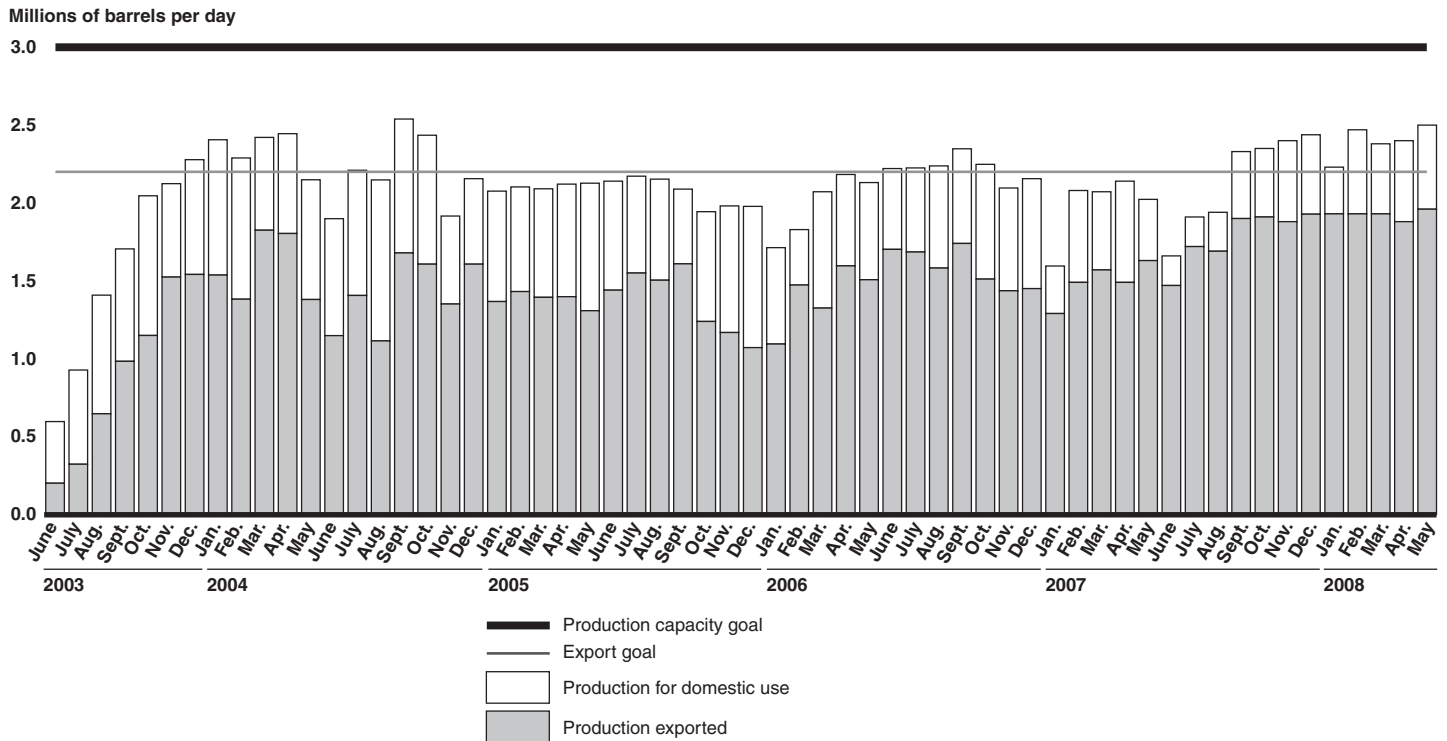
This section discusses the extent to which key U.S. goals for oil, electricity, and water production have been met.

Crude Oil Output Has Consistently Fallen below U.S. Goals

Providing essential services to all Iraqi areas and communities and helping Iraq maintain and expand its oil export are key goals of *The New Way Forward*. The oil sector is critical to Iraq's economy, accounting for over half of Iraq's gross domestic product and about 90 percent of its revenues. Iraq's crude oil reserves, estimated at a total of 115 billion barrels, are the third largest in the world. After 5 years of effort and \$2.7 billion in U.S. reconstruction funds, Iraqi crude oil output has improved for short periods but has consistently fallen below the U.S. goals of reaching an average crude oil production capacity of 3 million barrels per day and export levels of 2.2 mbpd⁴⁰ (see figure 12).

⁴⁰In August 2003, the CPA established a U.S. program goal to increase oil production to about 1.3 million barrels per day. The CPA increased this goal every 2 to 3 months until July 2004, when the goal became to increase crude oil production capacity to 3 million barrels per day. The State Department also set an eventual crude oil production goal of 2.8 million barrels per day in March 2006. Production capacity differs from actual production. Production capacity is the maximum amount of production a country can maintain over a period of time. Since Iraq has been trying to increase its production of crude oil, we use actual production as an indicator of Iraq's production capacity. For example, EIA has defined production capacity as the maximum amount of production that (1) could be brought online within 30 days and (2) sustained for at least 90 days. Since Iraq has been trying to increase its production of crude oil, we use actual production as an indicator of Iraq's production capacity in this report.

Figure 12: Iraq’s Reported Crude Oil Production, Exports, and U.S. Goals, June 2003 through May 2008



Source: GAO analysis of Iraq Ministry of Oil data collected by State Department.

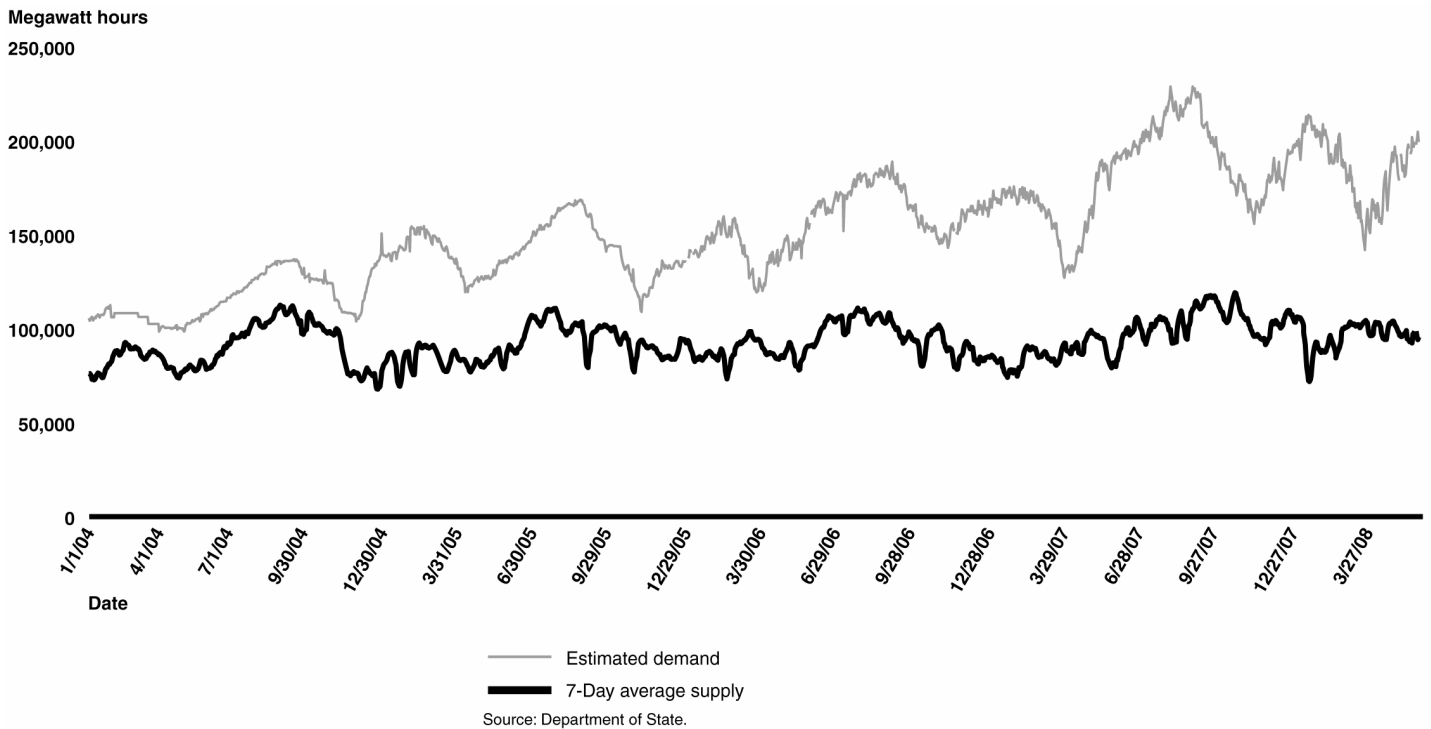
In May 2008, crude oil production was 2.5 million barrels per day and exports were 1.96 million barrels per day, according to the State Department. Poor security, corruption and smuggling continue to impede the reconstruction of Iraq’s oil sector. For example, according to State Department officials and reports, as of 2006, about 10 to 30 percent of refined fuels was being diverted to the black market or smuggled out of Iraq and sold for a profit. According to DOD, investment in Iraq’s oil sector is below the absolute minimum required to sustain current production and additional foreign and private investment is needed. U.S. officials and industry experts have stated that Iraq would need an estimated \$20 billion to \$30 billion over the next several years to reach and sustain a crude oil production capacity of 5 mbpd. This production goal is below the level identified in the 2005-2007 National Development Strategy—at least 6 mbpd by 2015.

Electricity Generation Continues to Fall Short of Demand

Since 2003, the United States has provided \$4.7 billion to the reconstruction of Iraq's electricity sector. Despite this substantial investment, electricity generation did not consistently achieve past U.S. goals and demand continues to outpace supply from Iraq's national grid (see fig. 13). For example, a recent State Department report shows that for June 3 to 9, the daily supply of electricity from the grid met only 52 percent of demand. In addition, average hours of electricity were 7.8 hours in Baghdad and 10.2 hours nationwide, compared to the U.S. 2006 goal of 12 hours of daily electricity and the Iraqi Ministry of Electricity goal of 24 hours. State Department's technical comments on a draft of this report stated that it is well-documented that in parts of Iraq, and even in parts of Baghdad, on a given day there are upwards of 16 hours of power a day; and in some locations there is 24 hours of power. We analyzed data from State's weekly status reports for the period January 3, 2008 to June 4, 2008 and found that number of hours of electricity in Baghdad ranged from 6.5 to 12 and averaged about 8 hours per day. For other parts of Iraq, hours of electricity ranged from 8.2 to 14.3 with an average 10.2 hours per day. According to DOD, the electricity sector suffers from several problems, including fuel shortages, interdictions, damage to power lines, reliance on foreign sources of power, and prior years of neglect.

Between 2004 and 2006, the United States reported electricity generation goals that ranged from 110,000 megawatt hours (mwh) to 127,000 mwh. However, since 2007 the United States has stopped setting metric goals for the electricity sector. According to both the U.S. Embassy's 2007 Electrical Action Plan and the 2008 Transition Plan, the U.S. goal is to "provide electricity in a reliable and efficient manner to as many Iraqi citizens as possible, and for as many hours as possible." According to a State Department official, the United States no longer sets metric goals for the entire electricity sector because U.S. projects only constitute a portion of the electricity sector. Moreover, the senior electricity advisor stated that there are too many variables that may affect any projections.

Figure 13: Daily Electricity Supplied and Estimated Demand in Iraq, January 2004 through May 2008



The Ministry of Electricity estimated in its 2006-2015 plan that the government will need \$27 billion over 6 to 10 years to reach its goal of providing reliable electricity across Iraq by 2015. The ministry's goal is to achieve 24 hours of power nationwide and meet demand plus 10 percent.

Iraq Needs an Integrated Energy Plan

As we reported in May 2007,⁴¹ a variety of security, corruption, legal, planning, and sustainment challenges have impeded U.S. and Iraqi efforts to restore Iraq's oil and electricity sectors. These challenges have made it difficult to achieve the current crude oil production and export goals that are central to Iraq's government revenues and economic development. In the electricity sector, these challenges have made it difficult to achieve a reliable Iraqi electrical grid that provides power to all other infrastructure sectors and promotes economic activity.

⁴¹GAO, *Rebuilding Iraq: Integrated Strategic Plan Needed to Help Restore Iraq's Oil and Electricity Sectors*, GAO-07-677 (Washington, D.C.: May 15, 2007).

Although the oil and electricity sectors are mutually dependent, the Iraqi government lacks integrated planning for these sectors leading to inefficiencies that could hinder future rebuilding efforts. Specifically, the Iraqi government lacks an integrated energy plan that clearly identifies future costs and resource needs; rebuilding goals, objectives, and priorities; stakeholder roles and responsibilities, including steps to ensure coordination of ministerial and donor efforts; an assessment of the environmental risks and threats; and performance measures and milestones to monitor and gauge progress. For example, the lack of cooperation and coordination between the Oil and Electricity ministries, particularly in supplying appropriate fuels to the electricity sector, has resulted in inefficiencies such as increased maintenance costs and frequent interruptions in electricity production, according to U.S. officials.

We recommended that the Secretary of State, in conjunction with relevant U.S. agencies and in coordination with the donor community, work with the Iraqi government to develop an integrated energy strategy for the oil and electricity sectors that identifies, among other items, key goals and priorities, future funding needs, and steps for enhancing ministerial coordination. In a May 2008 letter, the MNF-I Commanding General asked the Iraqi Prime Minister to establish a ministerial-level oversight committee to develop an Iraqi National Energy Strategy. In commenting on a draft of this report, the State Department indicated that it was encouraging the Iraqi government to develop an integrated energy strategy.

United States Is Close to Meeting Goals for Its Water Sector Programs, but Need for Clean Water Is Still Unmet

Unsafe drinking water can carry diseases such as cholera, typhoid, and dysentery. Since April 2006, U.S. reconstruction projects have focused on producing enough clean water to reach up to an additional 8.5 million Iraqis.⁴² As of March 2008, U.S.-funded projects had the capacity to provide an additional 8 million Iraqis with potable water. The World Bank has estimated that \$14.4 billion is needed to rebuild the public works and

⁴²State developed this metric in response to our 2005 recommendation that it improve its metrics for measuring U.S. projects' contribution to improving Iraqis' water service. See GAO, *Rebuilding Iraq: U.S. Water and Sanitation Efforts Need Improved Measures for Assessing Impact and Sustained Resources for Maintaining Facilities*, [GAO-05-872](#) (Washington, D.C.: Sept. 7, 2005).

water system in Iraq; the U.S. government has allocated about \$2.4 billion for improvements in the water and sanitation sector.⁴³

According to the UN Office for the Coordination of Humanitarian Affairs, insecurity, population displacement, and a lack of maintenance are placing pressure on existing water and sanitation facilities, leaving a large number of Iraqis either without water or with access to water that puts them increasingly at risk of water borne diseases. According to the United Nations Children's Fund (UNICEF), only one in three Iraqi children under the age of 5 has access to safe drinking water, and only 17 percent of Iraq's sewage is treated before being discharged into the country's rivers and waterways. A UNICEF 2006 survey that measured the reliability of water supplies indicated widespread infrastructure problems. For example, although 79 percent of Iraqis reported having access to an improved drinking water source, this figure does not reflect the condition and reliability of services. Nearly half of those with access to water sources reported problems with their water service, with 21 percent of this population reporting problems on a daily basis. In addition, only 43 percent of rural residents reported having access to an improved drinking water source.

Monitoring progress toward increasing Iraqis' access to clean water is complicated by several factors. As we reported in 2005 and recently confirmed with the State Department, Iraq has no metering for water usage and no measurement of the quality of the potable water supply. Moreover, State lacks comprehensive and reliable data on the capacity of water treatment and sewage facilities that have not been constructed or rehabilitated by U.S.-funded projects. Finally, as we reported in 2005 and as noted in recent U.S. government and UN reports, not all facilities may be operating as intended due to looting, unreliable electricity, inadequate supplies, or the lack of trained personnel.

U.S. Efforts to Update Strategies to Stabilize and Rebuild Iraq

According to State and DOD officials, as of late May 2008, the Administration has not revised its prior Iraq strategy document (NSVI) to include U.S. goals and objectives for *The New Way Forward*, which ends in July 2008, or the phase that follows. Instead, according to State and

⁴³In addition to potable water and sewage treatment, U.S. efforts in the sector include projects for pumping stations, irrigation, and drainage as well as equipment for the Mosul dam.

DOD officials, future U.S. goals and objectives in Iraq are contained in the following documents:

- the President's September 13, 2007, address on "the way forward" in Iraq;
- the President's April 10, 2008, address on Iraq;
- *Fact Sheet: The Way Forward in Iraq*, April 10, 2008; and
- the testimony of the Secretary of Defense, April 10, 2008.⁴⁴

These documents clearly state the importance the Administration places on continued U.S. involvement in and support for Iraq. They also discuss the ongoing drawdown of U.S. troops in Iraq that will end in July 2008 and generally describe the U.S. military transition that would occur in Iraq over an unspecified period of time in the future.⁴⁵ The Secretary of Defense's testimony defined the desired U.S. end state for Iraq as (1) a unified, democratic, and federal Iraq that can govern, defend, and sustain itself; (2) an Iraq that is an ally against Jihadist terrorism and a net contributor to security in the gulf; and (3) an Iraq that helps bridge the sectarian divides in the Middle East. The documents, however, do not specify the administration's strategic goals and objectives in Iraq for the phase after July 2008 or how it intends to achieve them. Further, while they predict continued progress in the security, political, and economic areas, they do not address the remaining challenges to achieving either unmet U.S. goals and objectives or the desired U.S. end state for Iraq.

A clear statement about the U.S. military transition and remaining challenges is important, as the UN mandate for the multinational force in Iraq, under Security Resolution 1790, expires December 31, 2008. This resolution reaffirmed MNF-I's authority to take all necessary measures to maintain security and stability in Iraq. The United States and Iraq are negotiating a status of forces agreement to provide the United States and

⁴⁴DOD also identified the testimonies of the current and prospective Commanding Generals of MNF-I, May 22, 2008, as articulating future U.S. goals and objectives. However, DOD did not provide official written statements for either officer's testimony.

⁴⁵The U.S. military would continue to (1) conduct combat operations; (2) train, equip, and support Iraqi security forces; (3) transfer security responsibilities to them as provinces become ready; and (4) over time move into an overwatch role. In this role, U.S. forces would increasingly focus on targeted raids against the terrorists and extremists, continue to train Iraqi forces, and be available to help Iraq's security forces if required.

its coalition partners with the authorities necessary to conduct operations to support the Iraqi government after the UN mandate ends.

In May 2008, the State Department reported that the MNF-I/U.S. Embassy Joint Campaign Plan provides a road map for the future.⁴⁶ This campaign plan is classified. To reflect changing U.S. goals and conditions in Iraq, MNF-I and the U.S. embassy in Baghdad revised their Joint Campaign Plan in July 2007. At the President's direction, they updated it in November 2007 to reflect the decision to withdraw the surge forces by July 2008—the end of *The New Way Forward*. According to the May 2008 State Department report, the Joint Campaign Plan supports the implementation of U.S. efforts in Iraq along four lines of operation: political, security, economic, and diplomatic. The plan recognizes the importance of enhancing security and protecting the Iraqi population and of advancing the political line of operation to help Iraqis establish legitimate, representative governance in their country at both the national and provincial levels.

However, a campaign plan is an operational, not a strategic plan, according to DOD's doctrine for joint operation planning.⁴⁷ A campaign plan must rely on strategic guidance from national authorities for its development. For example, the April 2006 MNF-I/U.S. embassy Baghdad Joint Campaign Plan relied on the NSC's prior strategic plan, the *National Strategy for Victory in Iraq*, as a basis for the plan's development.⁴⁸

Activities at the strategic level include establishing national and multinational military objectives, as well as defining limits and assessing risks for the use of military and other instruments of national power. In contrast, a campaign plan is developed at the operational level. Activities at this level link tactics and strategy by establishing operational objectives needed to achieve strategic objectives, sequencing events to achieve the operational objectives, initiating actions, and applying resources to bring about and sustain these events. The development of a campaign plan, according to doctrine, should be based on suitable and feasible national strategic objectives formulated by the President, the Secretary of Defense,

⁴⁶State Department, *Report to Congress: Submitted Pursuant to U.S. Policy in Iraq Act, Section 1227(c) of the National Defense Authorization Act for Fiscal Year 2006 (PL 109-163), as amended by Section 1223 of the National Defense Authorization Act for Fiscal Year 2008 (P.L. 110-181)*; May 2008.

⁴⁷DOD, *Joint Publication 5-0: Joint Operation Planning*, Dec. 26, 2006.

⁴⁸[GAO-06-788](#).

and the Chairman of the Joint Chiefs of Staff—with appropriate consultation with additional NSC members, other U.S. government agencies, and multinational partners. Doctrine states that in developing operational plans, commanders and their staffs must be continuously aware of the higher-level objectives. According to DOD doctrine, if operational objectives are not linked to strategic objectives, tactical considerations can begin to drive the overall strategy at cross-purposes.

Joint doctrine also states that effective planning cannot occur without a clear understanding of the end state and the conditions that must exist to end military operations and draw down forces. According to doctrine, a campaign plan should provide an estimate of the time and forces required to reach the conditions for mission success or termination. Our review of the classified Joint Campaign Plan, however, identified limitations in these areas, which are discussed in a classified GAO report accompanying this report.⁴⁹

Weaknesses in “the way forward” and the Joint Campaign Plan are symptomatic of recurring weaknesses in past U.S. strategic planning efforts. Our prior reports assessing (1) the National Strategy for Victory in Iraq, (2) U.S. efforts to develop the capacity of Iraq’s ministries, and (3) U.S. and Iraqi efforts to rebuild Iraq’s energy sector found strategies that lacked clear purpose, scope, roles and responsibilities, and performance measures.⁵⁰ For example, we found that the NSVI only partially identified the agencies responsible for implementing the strategy, the current and future costs, and Iraq’s contributions to future needs. Although multiple U.S. agencies have programs to develop the capacity of Iraqi ministries, U.S. efforts lack an integrated strategy. Finally, although the United States has spent billions of dollars to rebuild Iraq’s oil and electricity sectors, Iraq lacks an integrated strategic plan for the energy sector. We recommended that the National Security Council, DOD, and State complete a strategic plan for Iraq and that State work with the Iraqi government to develop integrated strategic plans for ministry capacity development and the energy sector. Clear strategies are needed to guide U.S. efforts, manage risk, and identify needed resources.

⁴⁹ [GAO-08-700C](#).

⁵⁰ [GAO-06-788](#), [GAO-07-677](#), and [GAO-08-117](#).

Conclusion

Since 2003, the United States has developed and revised multiple strategies to address security and reconstruction needs in Iraq. The current strategy—*The New Way Forward*—responds to failures in prior plans that prematurely transferred security responsibilities to Iraqi forces or belatedly responded to growing sectarian violence. The United States has made some progress in achieving key goals stated in *The New Way Forward*, but progress is fragile and unmet goals and challenges remain:

- Violence has declined from the high levels of 2006 and early 2007, largely the result of an increase in U.S. combat forces, the creation of nongovernmental security forces, and the Mahdi Army's cease fire. However, the security environment remains volatile and dangerous.
- The number of trained and equipped Iraqi security forces is approaching one-half million. However, the number of Iraqi units capable of performing operations without U.S. assistance has remained about 10 percent. Efforts to turn security responsibilities over to Iraqi forces remain a continuing challenge.
- The Iraqi government has passed key legislation to return some Ba'athists to government, give amnesty to detained Iraqis, and define provincial powers. However, it has not enacted other important legislation for sharing oil resources or holding provincial elections, and its efforts to complete a constitutional review have stalled.
- Finally, Iraq has not followed through on commitments to spend more money on its own reconstruction efforts. Low spending rates for the critical oil, electricity, and water sectors are problematic since U.S. investments have ended and increased production goals for these sectors have not been met.

Recommendation for Executive Action

As *The New Way Forward* and the military surge end in July 2008, and given weaknesses in current DOD and State plans, an updated strategy is needed for how the United States will help Iraq achieve key security, legislative, and economic goals. Accordingly, we recommend that DOD and State, in conjunction with relevant U.S. agencies, develop an updated strategy for Iraq that defines U.S. goals and objectives after July 2008 and addresses the long-term goal of achieving an Iraq that can govern, defend, and sustain itself. This strategy should build on recent security and legislative gains, address the remaining unmet goals and challenges for the near and long term, clearly articulate goals, objectives, roles and

responsibilities, and the resources needed and address prior GAO recommendations.

Agency Comments and Our Evaluation

We provided a draft of this report to the Departments of State, Treasury and Defense for their comments. Their comments are provided in Appendices III through V. The agencies also provided technical comments that we have incorporated in the report, where appropriate.

The State Department disagreed with our recommendation to develop an updated strategic plan stating that while the military surge ends, the strategic goals of *The New Way Forward* remain largely unchanged. Similarly, DOD did not concur with our recommendation stating that *The New Way Forward* strategy remains valid. However, the departments stated they shall review and refine the strategy as necessary. In addition, DOD stated that the MNFI-U.S. Embassy Joint Campaign Plan is a comprehensive, government wide plan that guides the effort to achieve an Iraq that can govern, defend and sustain itself. We reaffirm the need for an updated strategy for several reasons.

First, much has changed in Iraq since January 2007, including some of the assumptions upon which the New Way Forward was based. Specifically:

- Violence in Iraq is down but U.S. surge forces are leaving and over 100,000 armed Sons of Iraq remain.
- Late 2007 target dates for the government of Iraq to pass key legislation and assume control over local security have passed.
- The United States is currently negotiating a status of forces agreement with Iraq to replace UN Security Council Resolutions.
- The Secretary of Defense recently articulated a new long term goal for Iraq—an Iraq that helps bridge sectarian divides in the Middle East.

Second, *The New Way Forward* is an incomplete strategic plan because it articulates goals and objectives for only the near-term phase that ends in July 2008. Third, the goals and objectives of *The New Way Forward* and the phase that follows it are contained in disparate documents such as Presidential speeches, White House fact sheets, and an NSC power point presentation, rather than in a strategic planning document similar to the National Strategy for Victory in Iraq, the prior U.S. strategy for Iraq. Fourth, the limited documents that describe the phase after July 2008 do

not specify the administration's long term strategic goals and objectives in Iraq or how to achieve them.

Furthermore, the classified Joint Campaign Plan is not a strategic plan; it is an operational plan with significant limitations that we discuss in a separate, classified report that accompanies this report.

The Treasury Department stated that the our draft report dismissed the significance of the increase in Iraq's budgetary "commitments", stating that GAO's analyses relied only on Iraqi Ministry of Finance's total expenditure reports rather than the Ministry's special capital reports. The latter report includes budgetary "commitments." Iraq has stated that it has spent and committed about 63 percent of its investment budget. We did not use the special reports in our analyses for two reasons: (1) Treasury Department officials stated that the special reports contained unreliable data, and (2) the reports do not define commitments, measure them or describe how or when these commitments would result in actual expenditures. In addition, our reviews of these special reports show inconsistent use of poorly defined budgetary terms, as well as columns and rows that did not add up.

We are sending copies of this report to interested congressional committees. We will also make copies available to others on request. In addition, this report is available on GAO's Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact Joseph A. Christoff, Director, International Affairs and Trade, at (202) 512-8979 or christoffj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix IV.

A handwritten signature in black ink that reads "Gene L. Dodaro". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Gene L. Dodaro
Acting Comptroller General of the United States

List of Congressional Committees

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Chair
The Honorable John McCain
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Joseph R Biden, Jr.
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The Honorable Richard G. Lugar
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Ranking Member
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and Related Programs
Committee on Appropriations
House of Representatives

Appendix I: Objectives, Scope, and Methodology

In this report, we discuss progress in meeting key U.S. goals outlined in *The New Way Forward*, specifically, (1) improving security conditions; (2) developing Iraqi security forces' capabilities and transferring security responsibilities to the Iraqi government; (3) facilitating Iraqi government efforts to draft, enact, and implement key legislative initiatives; (4) assisting Iraqi government efforts to spend budgets; and (5) helping the Iraqi government provide key essential services to its people. *The New Way Forward* established goals to achieve over 12 to 18 months, or by July 2008.

To complete this work, we reviewed U.S. agency documents or interviewed officials from the Departments of Defense, State, and the Treasury; the Multi-national Force-Iraq (MNF-I) and its subordinate commands; the Defense Intelligence Agency; the National Intelligence Council; and the United Nations. We also reviewed translated copies of Iraqi government documents. In support of this work, we extensively utilized information collected by GAO staff assigned to the U.S. embassy in Baghdad from January through March 2008. We provided drafts of the report to the relevant U.S. agencies for review and comment. We received formal written comments from the Departments of State, the Treasury, and Defense, which are included in appendixes III, IV, and V, respectively.

We conducted this performance audit from March through June 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

To provide information on the evolution of the U.S. strategy for Iraq, we relied extensively on prior GAO reports and updated information on the current strategy. To identify the U.S. strategy documents for *The New Way Forward* and the phase that followed it, we obtained information from State and DOD officials. These officials informed us that the administration did not revise the National Strategy for Victory in Iraq strategy document when it changed its Iraq strategy in January 2007. A number of documents outline the goals and objectives of *The New Way Forward*: (1) National Security Council, *Highlights of the Iraq Strategy Review*, January 2007; (2) the President's address to the nation, January 10, 2007; (3) *Fact Sheet: New Way Forward in Iraq*, January 10, 2007; (4) Office of the Press Secretary, White House, *Background Briefing by*

Senior Administration Officials, January 10, 2007; and (5) the July and November 2007 MNF-I/U.S. Embassy Baghdad Joint Campaign Plans. For the goals and objectives of the phase that follows The New Way Forward, State and DOD officials directed us to (1) the President's speeches on Iraq on September 13, 2007, and April 10, 2008; (2) a White House Fact Sheet on the Way Forward, April 10, 2008; and (3) testimonies of the Secretary of Defense, the Commanding General of MNF-I; and the U.S. Ambassador to Iraq.

Security Conditions

To determine the progress made in improving security in Iraq, we relied extensively on a number of prior GAO reports. Where appropriate, we updated data on security trends. To update these data, we obtained and assessed MNF-I data on enemy-initiated attacks against the coalition and its Iraqi partners from the Defense Intelligence Agency (DIA). We determined that the data were sufficiently reliable for establishing general trends in the number of enemy-initiated attacks in Iraq. To determine the reliability of the data, we reviewed MNF-I's attacks reporting guidance, compared the unclassified data to classified sources, and discussed how the data are collected, analyzed, and reported with DIA officials.

We also collected data on the three main factors that contributed to the security improvements (1) U.S. combat forces; (2) nongovernmental Iraqi security forces, such as the Sons of Iraq; and (3) the declared cease-fire by the Mahdi Army. To determine the reliability of the U.S. combat forces data, we compared the unclassified U.S. troop numbers to classified sources, and discussed how the data are collected and reported with Department of Defense (DOD) officials. In addition, we reviewed MNF-I, DOD, and United Nations (UN) documents on nongovernmental Iraqi security forces and the declared cease-fire of the Mahdi Army leader. We also interviewed officials from State, DOD, including DIA and the Joint Staff, in Washington, D.C., and Baghdad, Iraq.

Iraqi Operational Readiness and the Transfer of Security Responsibilities

To determine if progress has been made in improving the capabilities of Iraq's security forces and transferring security to the government of Iraq, we relied on a number of prior GAO reports and, where appropriate, we updated data. To update data on the results of U.S. efforts to develop Iraqi security forces, we reviewed DOD and MNF-I documents showing the capabilities and size of the Iraqi army and police units. For example, we analyzed MNF-I's Operational Readiness Assessments (ORA), formerly known as Transitional Readiness Assessments, for Iraqi army units.

To update information on factors affecting the development of Iraqi security forces, we reviewed DOD, State, and UN reports, as well as a report of an independent commission and MNF-I guidance on Iraqi readiness assessments. We relied on DOD and State reports for the number of trained Iraqi security forces. We recognize limitations to these reported data, but determined that they are sufficiently reliable to show a general trend in the growth of Iraqi security forces. We reviewed DOD and State documents showing planned and actual transfer of provinces to provincial Iraqi control. We interviewed officials from DOD, DIA, State, and the National Intelligence Council.

Key Legislative Initiatives

To determine progress made on actions related to Iraq's constitutional review and enacting and implementing key legislation, we used prior GAO reporting and updated information where appropriate. In updating the information, we reviewed reports and documentation from the UN, U.S. Institute for Peace, non-governmental organizations, United States Agency for International Development (USAID) and the Departments of Defense and State in Washington, D.C., and Baghdad, Iraq. We reviewed draft laws and enacted legislation, as well as analyses of the laws. We spoke to officials from the UN, State, Defense, USAID, the U.S. Institute of Peace, and Iraqi officials.

Budget Execution

To assess the extent to which the government of Iraq is assisting Iraqi government experts to execute budgets, we relied extensively on a prior GAO report and updated the information where necessary. We interviewed officials from the U.S. Department of the Treasury, DOD, and State in Washington, D.C., as well as consultants under contract with the United Kingdom's Department of International Development. To assess progress in allocating and spending Iraqi revenues we reviewed Iraqi Ministry of Finance capital budget and expenditure data for fiscal years 2006 and 2007 provided by the Treasury, and unofficial Ministry of Planning and Development Cooperation data on capital expenditures reported by MNF-I. To examine the data the U.S. Embassy in Baghdad uses to measure Iraqi government spending, we obtained expenditure data from Treasury and the U.S. embassy in Baghdad and interviewed knowledgeable U.S. agency officials. We did not independently verify the precision of the data on Iraq's budget execution. However, the disparity among the different sets of data calls into question their reliability and whether they can be used to draw firm conclusions about the extent to which the Iraqi government has increased its spending on capital projects in 2007, compared with 2006. We also reviewed U.S. embassy reports on Iraqi budget execution, Iraqi

government instructions for executing the budget, Iraq's Financial Management Law, the Special Inspector General for Iraq Reconstruction's (SIGIR) Quarterly and Semiannual Report to the Congress, and the Administration's July and September 2007 Benchmark Assessment Reports.

Essential Services

To assess the extent to which the Iraqi government is providing key essential services to the Iraqi people, we relied extensively on prior GAO reports and updated the information where necessary. To do so, we interviewed officials and reviewed documents from DOD and State. We also reviewed prior GAO, U.S. agency inspector general, SIGIR, and other audit agency reports. On the basis of this analysis, we found the data sufficiently reliable for identifying production goals in both sectors and whether actual production is meeting these goals.

Appendix II: Comparison of Current GAO Reporting Objectives with 18 Iraq Benchmarks

In September 2007, as required by the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act of 2007,¹ GAO provided Congress an independent assessment of whether the government of Iraq had met 18 benchmarks contained in the act, and the status of the achievement of the benchmarks.² While our current report covers almost all of the issues included in our September 2007 report, our reporting objectives are derived from the key goals outlined in *The New Way Forward* in Iraq. In many of the areas, our current reporting objectives enabled us to provide a broader context and updated analysis that expand on information included in the benchmarks report. This report discusses progress in meeting key U.S. goals outlined in *The New Way Forward*, specifically, (1) improving security conditions; (2) developing Iraqi security forces' capabilities and transferring security responsibilities to the Iraqi government; (3) facilitating Iraqi government efforts to draft, enact, and implement key legislative initiatives; (4) assisting Iraqi government efforts to spend budgets; and (5) helping the Iraqi government provide key essential services to its people. We did not assess issues described in benchmarks (viii) and (xvi) because we previously assessed those benchmarks to have been met. We did not assess benchmark (iv) because while the semi-autonomous regions law has been enacted, implementation does not occur until one or more provinces attempt to form a region.

Table 4 provides a crosswalk between our current reporting objectives and the 18 benchmarks.

¹Section 1314 of Public Law 110-28.

²GAO, *Securing, Stabilizing, and Rebuilding Iraq: Iraqi Government Has Not Met Most Legislative, Security, and Economic Benchmarks*, [GAO-07-1195](#) (Washington, D.C.: Sept. 4, 2007).

**Appendix II: Comparison of Current GAO
Reporting Objectives with 18 Iraq
Benchmarks**

Table 4: Comparison of Current GAO Reporting Objectives with 18 Iraq Benchmarks Assessed in GAO September 2007 Report

Benchmark assessed in GAO September 2007 report (GAO-07-1195)	Current reporting objective (GAO-08-837)
(i) Forming a Constitutional Review Committee and then completing the constitutional review	Objective 3
(ii) Enacting and implementing legislation on de-Ba'athification	Objective 3
(iii) Enacting and implementing legislation to ensure the equitable distribution of hydrocarbon resources of the people of Iraq without regard to the sect or ethnicity of recipients, and enacting and implementing legislation to ensure that the energy resources of Iraq benefit Suni Arabs, Shia Arabs, Kurds, and other Iraqi citizens in an equitable manner	Objective 3
(iv) Enacting and implementing legislation on procedures to form semi-autonomous regions	Not included
(v) Enacting and implementing legislation establishing an Independent High Electoral Commission, provincial elections law, provincial council authorities, and a date for provincial elections	Objective 3
(vi) Enacting and implementing legislation addressing amnesty	Objective 3
(vii) Enacting and implementing legislation establishing a strong militia disarmament program to ensure that such security forces are accountable only to the central government and loyal to the Constitution of Iraq	Objective 3
(viii) Establishing supporting political, media, economic, and services committees in support of the Baghdad Security Plan	Not included
(ix) Providing three trained and ready Iraqi brigades to support Baghdad operations	Objective 2
(x) Providing Iraqi commanders with all authorities to execute this plan and to make tactical and operational decisions, in consultation with U.S. commanders, without political intervention, to include the authority to pursue all extremists, including Sunni insurgents and Shiite militias	Objective 2
(xi) Ensuring that the Iraqi security forces are providing even-handed enforcement of the law	Objective 2
(xii) Ensuring that, according to President Bush, Prime Minister Maliki said "the Baghdad security plan will not provide a safe haven for any outlaws, regardless of [their] sectarian or political affiliation"	Objective 1 and Objective 2
(xiii) Reducing the level of sectarian violence in Iraq and eliminating militia control of local security	Objective 1 and Objective 2
(xiv) Establishing all of the planned joint security stations in neighborhoods across Baghdad	Objective 1
(xv) Increasing the number of Iraqi security forces units capable of operating independently	Objective 2
(xvi) Ensuring that the rights of minority political parties in the Iraqi legislature are protected	Not included
(xvii) Allocating and spending \$10 billion in Iraqi revenues for reconstruction projects, including delivery of essential services, on an equitable basis	Objective 4 and Objective 5
(xviii) Ensuring that Iraq's political authorities are not undermining or making false accusations against members of the Iraqi security forces	Objective 2

Source: GAO analysis.

Note: We did not assess issues described in benchmarks (viii) and (xvi) because we previously assessed those benchmarks to have been met.

Appendix III: Comments from the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



UNITED STATES
DEPARTMENT OF STATE
OFFICE OF THE ASSISTANT SECRETARY
FOR RESOURCE MANAGEMENT
AND CHIEF FINANCIAL OFFICER

United States Department of State

*Assistant Secretary for Resource Management
and Chief Financial Officer*

Washington, D.C. 20520

Ms. Jacquelyn Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "SECURING, STABILIZING, AND REBUILDING IRAQ: Progress Report: Some Gains Made, Updated Strategy Needed," GAO Job Code 320578.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Matt Amitrano, Iraq Desk Officer, Bureau of Near Eastern Affairs at (202) 647-5690.

Sincerely,

Bradford R. Higgins

cc: GAO – Judy McCloskey
NEA – C. David Welch
State/OIG – Mark Duda

Department of State Comments on GAO Draft Report

SECURING, STABILIZING, AND REBUILDING IRAQ:
Progress Report: Some Gains Made, Updated Strategy Needed
(GAO-08-837, GAO Code 320578)

The Department of State welcomes the opportunity to comment on the GAO's draft report, SECURING, STABILIZING, AND REBUILDING IRAQ: Progress Report: Some Gains Made, Updated Strategy Needed (GAO-08-837), and offers the following comments.

***Recommendation 1:** As the New Way Forward and military surge end in July 2008, and given weaknesses in current DOD and State plans, an updated strategy is needed for how the United States will help Iraq achieve key security, legislative, and economic goals. Accordingly, we recommend that DOD and State, in conjunction with relevant agencies, develop an updated strategy for Iraq that defines U.S. goals and objectives after July 2008 and address the long-term goal for achieving an Iraq that can govern, defend, and sustain itself. This strategy should build on recent security and legislative gains, address the remaining unmet goals and challenges for the near and long term, clearly articulate goals, objectives, roles and responsibilities, and the resources needed and address prior GAO recommendations.*

Response: While the military surge ends, the strategic goals of the New Way Forward remain largely unchanged. The Department of State, in conjunction with other agencies, is focused on achieving an Iraq that can govern, defend, and sustain itself. Iraq has made some progress, but as the GAO cites, there are still unmet goals. Iraq continues to face many challenges in the near term. Therefore, we shall review and refine the strategy as necessary, but we do not require a new strategic document.

A number of specific efforts the report addresses contribute to promoting the strategy of the New Way Forward; these also undergo review and refinement as conditions change. One is the development of ministerial capacity. The Coordinator for Economic Transition, Iraq (CETI) has initiated a comprehensive independent review of all programs in this sphere. This review, scheduled for completion by the end of the calendar year, will inventory and assess the effectiveness of current ministerial capacity building programs, and will develop recommendations to address specific areas not already covered by our ongoing programs.

See comment 1.

- 2 -

See comment 2.

The Embassy is in the process of implementing a previous GAO recommendation that will enhance capacity development. In its January 2008 report, IRAQ RECONSTRUCTION: Better Data needed to Assess Iraq's Budget Execution, the GAO recommended that U.S. agencies develop an integrated plan to develop competent Iraqi ministries capable of executing their budgets and providing effective delivery of government services. At the time, the Department of State explained to GAO that we already had an integrated plan. The Department, working with our implementing partners, has continued to adjust our programs to take into account improvements in Iraqi capacity as well as emerging specific needs. As an example of efforts to improve Iraqi budget execution, the Government Assessment Team (GAT) Report recently proposed a way forward combining civilian and military resources in a newly-constituted group named the Public Finance Management Action Group (PFMAG). While leaving existing assistance and ministerial capacity groups in place, the PFMAG concept created a group focused on budget execution - with outreach into the major Government of Iraq (GOI) spending units, as well as access to budget advisors, who could be deployed to resolve both individual and institutional problems in budget execution.

See comment 3.

Regarding the report's recalling a previous GAO recommendation to develop an integrated national energy strategy, the State Department, in conjunction with relevant agencies and international partners, has been urging the GOI since 2004 to develop an integrated national energy strategy for the oil and electricity sectors. USG officials in Baghdad and Washington have consistently raised the issue in their engagements with the GOI, including the Ministries of Oil and Electricity. Political, technical, and human resource challenges have impeded the Iraqi government's progress in developing a national energy strategy. Despite these challenges, since spring 2008, Prime Minister Maliki has taken significant steps to improve coordination between the Oil and Electricity Ministries, in part responding to the Embassy's efforts to highlight the issue's importance. The Ministry of Electricity has created a ten-year master plan, and the Ministry of Oil indicates it will submit to the Council of Representatives its similar plan before the end of 2008. These master plans are a significant step towards an integrated energy policy. There are also a number of technical and practical issues that need to be addressed to improve the efficiency of operations in the energy sector. An Energy Fusion Cell was created last year with the purpose of assisting the oil and electricity sectors to develop a master strategy and address technical operational issues.

- 3 -

The Government of Iraq committed to enacting a national energy strategy in the 2007 International Compact with Iraq. The GOI has also pledged in its first Annual Report on implementation progress against the commitments in the International Compact with Iraq to introduce “legislation and regulatory frameworks for investment, fair distribution of oil revenues and building energy sector institutions.” These steps may help to create conditions in which the Iraqi government can produce an integrated national energy strategy.

The following are GAO's comments on the Department of State letter dated June 16, 2008.

GAO Comments

1. State disagreed with our recommendation to develop an updated strategic plan, stating that while the military surge ends, the strategic goals of *The New Way Forward* remain largely unchanged. State noted that Iraq continues to face many challenges in the near term and there are still unmet goals. While State said it would review and refine the strategy as needed, it commented that “we do not require a new strategic document.” We disagree. Much has changed in Iraq since January 2007, including some of the assumptions upon which *The New Way Forward* was based.
 - Violence in Iraq is down but U.S. surge forces are leaving and over 100,000 armed Sons of Iraq remain.
 - Late 2007 target dates for the government of Iraq to pass key legislation and assume control over local security have passed.
 - The United States is currently negotiating a status of forces agreement with Iraq to replace UN Security Council Resolutions.
 - The Secretary of Defense recently articulated a new long term goal for Iraq—an Iraq that helps bridge sectarian divides in the Middle East.

An updated U.S. strategy must reflect these changes by assessing the progress made over the past 18 months, targeting the unmet goals of the New Way Forward and articulating our long-term strategic objectives for Iraq.

2. It is unclear if State is implementing GAO's prior recommendations on building capacity in Iraq's ministries. In our October 2007 report, we recommended that the State Department develop an integrated plan for U.S. capacity development programs in Iraq. The Embassy stated that it is in the process of implementing a previous GAO recommendation that will enhance U.S. capacity development in Iraq. In contrast, State department contends that our recommendation is not needed because such a plan already exists. An integrated plan is still needed and becomes even more important as State and Treasury announce another new capacity development program – the Public Finance Management Action Group – to help Iraq with budget execution issues.

-
3. We are encouraged that State is working with the Iraqi government to develop the integrated national energy strategy we called for in our May 2007 report: “Rebuilding Iraq: Integrated Strategic Plan Needed to Help Restore Iraq’s Oil and Electricity Sectors”, [GAO-07-677](#).

Appendix IV: Comments from the Department of the Treasury

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 12, 2008

Mr. Joseph A. Christoff
Director, International Affairs and Trade
Government Accountability Office

Dear Mr. Christoff,

Thank you for the opportunity to review and comment on the June 2008 draft of the GAO's report, *Securing, Stabilizing, and Rebuilding Iraq – Progress Report: Some Gains Made, Updated Strategy Needed*. Treasury has been closely engaged with the Iraqi Ministry of Finance on improving budget execution, and appreciates the GAO's attention to an issue that is crucial for reconstruction and growth, in particular as Iraq accelerates its transition to self-sufficiency.

Measuring Iraq's capital budget execution is a difficult task, as technical capacity is low, data sources are limited and inconsistent, and the Iraqis are still coming to grips with their implementation last year of a new chart of accounts that changes capital expenditure classifications. The U.S. government continues to work with the Iraqi government on addressing these problems, and we believe that incremental progress is being made. It is also important that Iraq spend its budgeted funds thoughtfully on well-prepared projects, rather than focusing narrowly on accelerating the pace of spending.

We have several significant concerns with the GAO's reporting on capital budget execution in Iraq. The GAO's approach contributes to a one dimensional picture of capital expenditure and misses much of the progress that Iraq has made during 2007.

- First, the report focuses solely on the capital budget, but does not recognize that Iraq has improved its overall budget execution in 2007. Overall budget spending increased to \$26.6 billion from \$23 billion in 2006, according to Iraqi Finance Ministry data, an increase of 16 percent. Executing the operating budget is critical for improving the delivery of services to all Iraqis. Capital spending has also increased significantly, as we will show on the next page.
- Second, it is important to recognize more explicitly that Iraqi budgets (the overall budget and the capital budget) have more than doubled in size between 2005 and 2008.
- Third, the report dismisses the significance of increased budgetary commitments. Commitments demonstrate capacity to enter into contractual obligations for capital projects, and represent an important step toward increased budget execution. In particular, since Iraqi letters of credit are 100 percent collateralized, a significant portion of Iraqi capital budgets are encumbered by letters of credit yet to be settled.
- Lastly, the report incorrectly asserts that capital spending is only contained in the Iraqi budget chapter for Non-Financial Assets. According to Iraqi officials, the new chart of accounts spreads capital spending throughout multiple chapters, resulting in capital expenditure that is much higher than just the total figure for Non-Financial Assets. We will elaborate on this point below.

See comment 1.

See comment 2.

See comment 3.

See comment 4.

See comment 5.

1) Why the GAO Report Understates Capital Spending Rates

The GAO report understates the GOI's progress in capital budget execution in part because the GAO only considers one of the budget categories ("Non-Financial Assets") where capital expenditures are being reported by the GOI (under IMF budget classification requirements). The report acknowledges that the definition of capital investment used does not include the \$1 billion of Grant funds for investment and reconstruction projects (page 42, footnote). Treasury discussions with Iraqi counterparts in the Ministry of Finance have confirmed that the new chart of accounts spreads capital spending through more than one chapter, and is much higher than just the total figure for Non-Financial Assets. Our interpretation is also consistent with the IMF's understanding of Iraq's chart of accounts.

- Estimates based on Iraqi Finance Ministry data indicate that Iraqi 2007 investment spending likely increased by more than 50 percent relative to 2006. In particular, counting only final disbursements (not commitments), total investment budget execution for Iraq was roughly \$3.4 billion in 2007, compared with \$2.2 billion in 2006, according to Iraqi figures. Counting funds that were fully committed, total investment budget execution rose to at least \$6 billion in 2007.

See comment 5.

2) Why Iraqi Figures Show Higher Spending Rates

When evaluating capital spending, the GAO report only considers the Iraqi Ministry of Finance's (MOF) total expenditure report rather than also considering the additional monthly MOF Special Capital Reports, which the Ministry began compiling specifically to address deficiencies in the total expenditure report. The total expenditure report does not include commitments, while the special capital report does. Treasury receives both reports directly from the MOF and reports both sets of figures, highlighting that the two reports are not directly comparable.

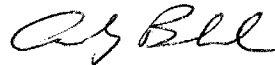
- The Iraqi government has stated that it spent and committed about 63 percent of its investment budget in 2007. Year-end special capital reports from the Ministry of Finance show a rate above this figure, and Iraqi officials have indicated that they will issue a final restatement in June.

See comment 6.

3) Integrated Strategy

Embassy Baghdad is now forming a Public Financial Management Action Group to help integrate and coordinate U.S. government assistance on improving budget execution across Iraqi ministries and provinces. U.S. Treasury is doubling our cadre of technical experts to support this group. We expect to have a dozen technical advisors in Baghdad later this year. In addition, we expect that the Iraq Financial Management Information System will be operational in the coming year. This system will improve reporting and transparency, and provide the Iraqis with more accurate and timely information to better manage their budget.

See comment 7.



Andy Baukol
Deputy Assistant Secretary, Middle East & Africa
U.S. Department of the Treasury

The following are GAO's comments on the Department of Treasury letter dated June 12, 2008.

GAO Comments

1. The government of Iraq allocated \$10 billion of its revenues for capital projects and reconstruction when it passed its 2007 budget in February 2007. We focused on Iraq's efforts to spend its capital budget because it is a key benchmark that the government committed to achieve by the end of 2007. *The New Way Forward* identified Iraq's inability to fully spend its own resources to rebuild its infrastructure and deliver essential services as a critical economic challenge to Iraq's self-reliance.
2. Treasury states that Iraq has improved its overall budget execution in 2007, citing as an example an overall increase in Iraq's budget from \$23 billion in 2006 to \$26.6 billion in 2007, an increase of 16 percent. However, the Ministry of Finance reports expenditures in Iraqi dinar, not US dollars. When analyzed in dinars, Iraq's budget decreased 3 percent from 34.5 trillion dinars in 2006 to 33.5 trillion dinars in 2007. The 16 percent increase that Treasury reported is due to the 19 percent appreciation of Iraqi dinar in 2007.
3. We agree that Iraq's budget doubled in size between 2005 and 2008 in dollar terms. However, much of the increase was due to a 25 percent appreciation of the Iraqi dinar and a four fold increase in the budgets of Iraq's security ministries.
4. Treasury states that the our draft report dismisses the significance of the increase in Iraq's budgetary "commitments", stating that GAO's analyses rely only on Iraqi Ministry of Finance's total expenditure report rather than the Ministry's special capital reports. The latter report includes budgetary "commitments". We did not use the special reports in our analyses for two reasons: (1) Treasury Department officials stated in our meetings with them that the special reports contain unreliable and unverifiable data and (2) the special reports do not define commitments, measure them or describe how or when these commitments would result in actual expenditures. In addition, our reviews of these special reports show inconsistent use of poorly defined budgetary terms, as well as columns and rows that did not add up.
5. Treasury stated that Iraq counts capital expenditures in the grants section of its expenditure reports, as well as the non-financial assets section. After reviewing the grants section, we have updated the data

presented in table 3 to include an additional \$1.1 billion in budget and expenditures for 2007. Accordingly, the percent of the budget spent in 2007 was 28 percent.

6. We added information on the Iraqi government's report that it spent and committed about 63 percent of its investment budget.
7. We have added additional information on the Public Financial Management Action Group that Treasury is forming to improve Iraqi budget execution across Iraqi ministries and provinces.

Appendix V: Comments from the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



INTERNATIONAL
SECURITY AFFAIRS

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301-2400

JUN 17 2008

Mr. Joseph A. Christoff
Director, International Affairs and Trade
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Christoff:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) draft report, GAO-08-837, "SECURING, STABILIZING, AND REBUILDING IRAQ: Progress Report: Some Gains Made, Updated Strategy Needed," dated June 4, 2008 (GAO Code 320578).

Recommendation: GAO recommends that the DoD and State, in conjunction with relevant U.S. agencies, develop an updated strategy for Iraq that defines U.S. goals and objectives after July 2008 and addresses the long-term goal of achieving an Iraq that can govern, defend, and sustain itself.

DoD Response: The Department nonconcur with the GAO recommendation. *The New Way Forward* strategy remains valid. We recognize, as with all strategies, updates and refinements occur at various intervals to take into account changes in the strategic environment.

In addition, the Multi-National Force-Iraq (MNF-I) and U.S. Embassy-Iraq (USM-I) Joint Campaign Plan (JCP) is a comprehensive, government-wide plan developed following an extensive review in mid-to-late 2007. The JCP guides the effort to achieve an Iraq that can govern, defend, and sustain itself. Moreover, the JCP is updated regularly to reflect the changing situation in Iraq.

The JCP coordinates the actions of the Coalition and U.S. agencies in Iraq across political, security, economic, and diplomatic lines of operation to achieve U.S. policy goals in Iraq. Periodic assessments are conducted and reviewed by the MNF-I Commander and U.S. Chief of Mission. The most recent assessment of the security line of operation indicates that the goals for the mid-term (summer 2008) have been met, and refinements have been made to guide the achievement of the goals in the plan for the longer term (summer 2009).

See comment 1.

See comment 2.

See comment 3.

DoD is also concerned with the metrics and data used in the report. The following are examples of cases in which the metrics used are problematic and result in an understatement of the progress made in Iraq:

See comment 4.

- Iraqi Security Forces: It is misleading to characterize the Iraqi Security Force (ISF) capability by giving the percentage of units at Operational Readiness Assessment Level 1 (given as 10% in the report). As of late May 2008, 70% of Iraqi units are in the lead in counterinsurgency operations.

See comment 5.

- Power generation: measuring progress against an ever-rising demand fails to make clear that power generation in Iraq has increased beyond the level that was produced in Iraq before the beginning of Operation Iraqi Freedom. In fact, energy production over the past year has averaged 10% higher than the previous year, despite a drought that has left Iraq with much less hydropower (some 450 to 850 megawatts less).

See comment 6.

- Oil Exports: measuring exports against the standard of three million barrels per day, an arbitrary goal set by the Coalition Provisional Authority, fails to capture the fact that oil exports are reaching record levels. Production in the month of May 2008 was at the highest level it has been since September 2004, and production over the last four months has been the highest since the beginning of Operation Iraqi Freedom.

See comment 7.

- Distribution of Oil Wealth: though the Hydrocarbon Law is important to the economic development of Iraq, Iraq's oil wealth is already allocated to ministries and the provinces to provide for essential services and capital investment based on provincial population densities. As a result, oil revenues are currently being distributed to provinces on a reasonably equitable basis.

See comment 8.

The draft GAO report is based on security data through April 2008. Attached are data reflecting security activity through May 2008 which may allow adjustments to assessments of security trends.

Sincerely,



Christopher C. Straub
Acting Deputy Assistant Secretary of
Defense for the Middle East

Attachments:
As stated.

The following are GAO's comments on the Department of Defense letter dated June 17, 2008.

GAO's Comments

1. DOD recognized, as with all strategies, updates and refinements occur at varying intervals to take into account changes in the strategic environment. However, DOD did not concur with our recommendation, stating that *The New Way Forward* strategy remains valid. We disagree for several reasons. First, much has changed in Iraq since January 2007, including some of the assumptions upon which *The New Way Forward* was based. Specifically:
 - Violence in Iraq is down but U.S. surge forces are leaving and over 100,000 armed Sons of Iraq remain.
 - Late 2007 target dates for the government of Iraq to pass key legislation and assume control over local security have passed.
 - The United States is currently negotiating a status of forces agreement with Iraq to replace UN Security Council Resolutions.
 - The Secretary of Defense recently articulated a new long term goal for Iraq—an Iraq that helps bridge sectarian divides in the Middle East.

Second, *The New Way Forward* is not a complete strategic plan because it lays out goals and objectives for only the near-term phase that ends in July 2008. Third, the goals and objectives of *The New Way Forward* and the phase that follows it are contained in disparate documents such as Presidential speeches, White House fact sheets, and an NSC power point presentation, rather than in a strategic planning document similar to the National Strategy for Victory in Iraq (NSVI), the prior U.S. strategy for Iraq. Fourth, the documents that describe the phase after July 2008 do not specify the administration's long term strategic goals and objectives in Iraq or how it intends to achieve them. In contrast, while the NSVI was also an incomplete strategy, it contained a comprehensive description of U.S. political, security, and economic goals and objectives in Iraq over the short term, medium term, and long term.

We continue to believe that the Administration should update its strategy for Iraq, given the importance of the war effort to U.S. national security interests, the expenditure of billions of dollars for U.S. military

and civilian efforts in Iraq, and the continued deployment of at least 140,000 troops in Iraq. An updated U.S. strategy must reflect changes in conditions in Iraq by assessing the progress made over the past 18 months, targeting the unmet goals of the *New Way Forward*, and articulating our long-term strategic objectives for Iraq.

2. DOD cited the MNF-I/U.S. embassy-Iraq Joint Campaign Plan as a comprehensive, government wide-plan that guides the effort to achieve an Iraq that can govern, defend, and sustain itself. In our review of the classified Joint Campaign Plan, however, we identified limitations to the plan, which are discussed in a separate, classified GAO report—*Stabilizing Iraq: DOD Should Identify and Prioritize the Conditions Necessary for the Continued Drawdown of U.S. Forces*.¹ Further, we believe that the Joint Campaign Plan is not a substitute for an updated strategic plan for Iraq. As we stated in our report, a campaign plan is an operational, not a strategic, plan, according DOD's doctrine for joint operation planning. A campaign plan must rely on strategic guidance from national authorities for its development. For example, the April 2006 MNF-I/U.S. embassy Baghdad Joint Campaign Plan relied on the NSC's prior strategic plan, the National Strategy for Victory in Iraq, as a basis for the plan's development. The classified campaign plan does not provide Congress or the American people with the administration's road map for achieving victory in Iraq.
3. According to DOD, MNF-I and the U.S. embassy recently assessed the security line of operation and determined that the goals for the phase ending in summer 2008 have been met. We disagree with DOD's statement that the security goals for this phase have been met. For example, *The New Way Forward* stated that the Iraqi government would take responsibility for security in all 18 provinces by November 2007, but only 8 of 18 provinces had transitioned to Iraqi control at that time. As of June 18, 2008, only 9 of 18 provinces had transitioned. Our classified report on the Joint Campaign Plan provides more information on the goals of the security line of operation, the various phases of the campaign plan, and a recent assessment of the security line of operation.²
4. DOD stated that it is misleading for our report to characterize the Iraqi security forces capability by giving the percentage of units at

¹GAO-08-700C.

²GAO-08-700C.

Operational Readiness Assessment (ORA) level 1, noting that as of late May 2008, 70 percent of Iraqi units were in the lead in counterinsurgency operations. We added information on Iraqi units in the lead to our report. However, we believe that the report is not misleading by providing information on ORA level 1 units because this was a benchmark established by Congress and derived from benchmarks and commitments articulated by the Iraqi government beginning in June 2006. Thus, the numbers of independent Iraqi security forces as measured by ORA level 1 continue to be an important measure of the capabilities of the Iraqi security forces. Further, as we discuss in the report, the term “in the lead” has evolved to include less capable Iraqi security forces. Specifically, according to testimony of the MNF-I Commanding General, MNF-I counted only ORA level 1 and ORA level 2 units as “in the lead” in January 2007. However, as of March 2008, MNF-I was also counting some ORA level 3 units—that is, units only “partially capable of conducting counterinsurgency operations”—as in the lead in counterinsurgency operations.

5. DOD disagreed with our measuring progress in power generation against an ever-rising demand for electricity and noted that energy production has increased over the past year. We present data on the gap between supply and demand for electricity in Iraq because the Departments of State and Defense use this statistic to measure progress. We have updated our report to reflect data through May 2008 and DOD’s statement regarding the slight increase in electricity generation over the past year.
6. DOD stated that the goal upon which we measure oil production progress was an arbitrary goal set by the CPA. State Department had similar technical comments. We used the goal of 3.0 mbpd production capacity because the DOD command responsible for funding and managing oil reconstruction projects in Iraq—the U.S. Army Corps of Engineers—has consistently used this goal to measure progress in Iraq. As recently as April 2008, the U.S. Army Corps of Engineers has included this goal in its weekly update to the Secretary of the Army. We have updated our report to include oil production statistics through May 2008.
7. DOD stated that although the hydrocarbon legislation is important to the economic development of Iraq, Iraq’s oil wealth is being distributed to provinces on a reasonably equitable basis. Providing Iraq’s oil wealth through the budget process is not a sustainable solution to equitably distribute resources since allocations must be negotiated

annually. The hydrocarbon legislation intends to provide an enduring resolution for the management and control of Iraq's current and future hydrocarbon resources and the distribution of revenues from them. Furthermore, this legislation is to provide a transparent legal framework that defines the rights of foreign investors and encourages the foreign investment needed to modernize Iraq's oil sector.

8. We updated our report to include enemy-initiated attacks data for May 2008. Unclassified attacks data for May were not available at the time we sent our draft report to the agencies for comment.

Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

Joseph A. Christoff, (202) 512-8979 or christoffj@gao.gov

Staff

Acknowledgments

In addition, the following staff contributed to the report:

Judith McCloskey, Assistant Director; Tetsuo Miyabara, Assistant Director; Minty Abraham; Ashley Alley; David Bruno; Monica Brym; Daniel Chen; Lynn Cothorn; Martin De Alteriis; Leah DeWolf; Timothy Fairbanks; Walker Fullerton; Matthew Helm; Dorian Herring; Patrick Hickey; Rhonda Horried; Bruce Kutnick; Jeremy Latimer; Stephen Lord; Kathleen Monahan; Mary Moutsos; Elizabeth Repko; Jena Sinkfield; and Audrey Solis.

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