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Highlights

Highlights of GAO-08-1031, a report to congressional committees

August 2008

STABILIZING AND REBUILDING IRAQ

Iraqi Revenues, Expenditures, and Surplus

Why GAO Did This Study

Iraq has an estimated 115 billion barrels of crude oil reserves, the third largest in the world. Oil export revenues are critical to Iraq's reconstruction, accounting for over 90 percent of the Iraqi government's revenues. In June 2008, GAO reported low 2007 spending rates by the Iraqi government for some critical sectors in the face of declining U.S. investments in these sectors.

This report examines (1) Iraq's estimated revenues from 2005 through 2008, (2) Iraq's estimated expenditures from 2005 through 2008, (3) Iraq's financial deposits through 2007 and budget surpluses, (4) U.S. cumulative expenditures on stabilization and reconstruction activities in Iraq since 2003, and (5) factors affecting Iraq's efforts to accelerate spending.

GAO analyzed relevant data and reviewed documents, including Central Bank of Iraq oil receipts data, International Monetary Fund's (IMF) reports, translated copies of Iraqi budget and expenditures, and U.S. agency funding data and reports. GAO also interviewed officials from the Departments of Defense (DOD), Energy, State, Treasury, and the IMF. This report contains no recommendations. Treasury agreed with the report's findings and stated that Iraq has adequate funds to make and maintain capital investments that deliver services and foster economic growth. State provided technical comments. DOD had no comments.

To view the full product, including the scope and methodology, click on GAO-08-1031. For more information, contact Joseph A. Christoff at (202) 512-8979 or christoffj@gao.gov.

What GAO Found

From 2005 through 2007, the Iraqi government generated an estimated $96 billion in cumulative revenues, of which crude oil export sales accounted for about $90.2 billion, or 94 percent. For 2008, GAO estimates that Iraq could generate between $73.5 billion and $86.2 billion in total revenues, with oil exports accounting for between $66.5 billion to $79.2 billion. Projected 2008 oil revenues could be more than twice the average annual amount Iraq generated from 2005 through 2007. These projections are based on actual sales through June 2008 and projections for July to December that assume an average export price from $96.88 to $125.29 per barrel and oil export volumes of 1.89 to 2.01 million barrels per day.

From 2005 through 2007, the Iraqi government spent an estimated $67 billion on operating and investment activities. Ninety percent was spent on operating expenses, such as salaries and goods and services, and the remaining 10 percent on investments, such as structures and vehicles. The Iraqi government spent only 1 percent of total expenditures to maintain Iraq- and U.S.-funded investments such as buildings, water and electricity installations, and weapons. While total expenditures grew from 2005 through 2007, Iraq was unable to spend all its budgeted funds. In 2007, Iraq spent 80 percent of its $29 billion operating budget and 28 percent of its $12 billion investment budget. For 2008, GAO estimates that Iraq could spend between $35.3 billion and $35.9 billion of its $49.9 billion budget.

As of December 31, 2007, the Iraqi government had accumulated financial deposits of $29.4 billion, held in the Development Fund for Iraq and central government deposits at the Central Bank of Iraq and Iraq's commercial banks. This balance is the result, in part, of an estimated cumulative budget surplus of about $29 billion from 2005 to 2007. For 2008, GAO estimates a budget surplus of between $38.2 billion to $50.3 billion. If spent, a proposed Iraqi budget supplemental of $22 billion could reduce this projected surplus.

Since fiscal year 2003, the United States appropriated about $48 billion for stabilization and reconstruction efforts in Iraq; it had obligated about $42 billion of that amount as of June 2008. U.S. agencies spent about $23.2 billion on the critical security, oil, electricity, and water sectors. From 2005 through April 2008, Iraq spent about $3.9 billion on these sectors.

U.S. government, coalition, and international officials have identified a number of factors that have affected the Iraqi government's ability to spend more of its revenues on capital investments. These factors included the shortage of trained staff; weak procurement and budgeting systems; and violence and sectarian strife. The United States has funded activities to help build the capacity of key civilian and security ministries to improve Iraq's ability to execute its capital project budget.