



Highlights of [GAO-07-677](#), a report to Congressional Committees

Why GAO Did This Study

Since 2003, the United States has provided several billion dollars in reconstruction funds to help rebuild Iraq oil and electricity sectors, which are crucial to rebuilding Iraq's economy. For example, oil export revenues account for over half of Iraq's gross domestic product and over 90 percent of government revenues. The U.S. rebuilding program was predicated on three key assumptions: a permissive security environment, the ability to restore Iraq's essential services to prewar levels, and funding from Iraq and international donors.

This report addresses (1) the funding made available to rebuild Iraq's oil and electricity sectors, (2) the U.S. goals for these sectors and progress in achieving these goals, and (3) the key challenges the U.S. government faces in these efforts.

What GAO Recommends

This report recommends that the Secretary of State, in conjunction with relevant U.S. agencies and international donors, work with Iraqi ministries to develop an integrated energy strategy. State commented that the Iraqi government, not the U.S. government, is responsible for taking action on GAO's recommendations. GAO believes that these recommendations are still valid given the billions made available for Iraq's energy sector and the U.S. government's influence in overseeing Iraq's rebuilding efforts.

www.gao.gov/cgi-bin/getrpt?GAO-07-677.

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

REBUILDING IRAQ

Integrated Strategic Plan Needed to Help Restore Iraq's Oil and Electricity Sectors

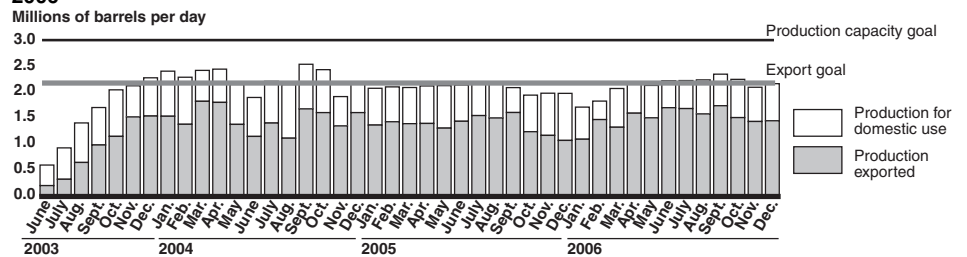
What GAO Found

Billions have been provided to rebuild Iraq's oil and electricity sectors, but Iraq's future needs are significant and sources of funding uncertain. From fiscal years 2003 through 2006, the United States spent about \$5.1 billion to rebuild the oil and electricity sectors. The United States also spent an additional \$3.8 billion in Iraqi funds on these sectors. However, Iraq will need billions of additional dollars to rebuild these sectors. The Iraqi government and donors represent important sources of potential funding. However, the oil and electricity ministries have encountered difficulties spending capital improvement budgets because of weaknesses in budgeting and procurement practices and major security challenges. Moreover, Iraq has not made full use of potential international contributions. It is also unclear what additional financial commitments, if any, will be provided to Iraq's oil and electricity sectors as part of a new international compact.

Despite 4 years of effort and the substantial resources expended, production in both sectors has consistently fallen below U.S. program goals. In addition, State's estimate of Iraq's oil production levels may be overstated due to inadequate metering that does not allow precise measurement of crude oil production. The Iraqi government projects that it will be able to meet the demand for electricity in 2009. However, these projections assume that the Ministry of Electricity will be assured of the stable supply of the fuel needed for electricity generation, which has been lacking due to poor coordination between the oil and electricity ministries.

A variety of security, corruption, legal, and planning challenges have impeded U.S. and Iraqi efforts to restore Iraq's oil and electricity sectors. The challenging security environment and insufficient protection efforts have continued to place workers and infrastructure at risk. Corruption, smuggling, and other illicit activities result in revenue losses and low cost recovery. Furthermore, the Iraqi government has difficulty attracting foreign investment because, according to the World Bank, it lacks an adequate legal framework, including comprehensive hydrocarbon legislation that would govern distribution of future oil revenues and granting of exploration rights. Finally, although the oil and electricity sectors are mutually dependent, the Iraqi government lacks integrated planning for these sectors, which has led to inefficient management of the country's resources.

Iraqi Reported Crude Oil Production, Exports, and U.S. Goals, June 2003 through December 2006



Source: Iraq Ministry of Oil estimates collected by State Department's Iraq Reconstruction and Management Office.