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STABILIZING AND REBUILDING IRAQ

Iraqi Revenues, Expenditures, and Surplus

Statement of Joseph A. Christoff, Director
International Affairs and Trade





Highlights of [GAO-08-1144T](#), a testimony before the Committee on the Budget, House of Representatives

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 economy, accounting for over half of the country’s gross domestic product and over 90 percent of revenues.

This testimony discusses (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, and (4) U.S. cumulative expenditures on stabilization and reconstruction activities in Iraq since 2003.

GAO analyzed relevant data and reviewed documents such as Central Bank of Iraq (CBI) export oil receipts data and the International Monetary Fund’s (IMF) stand-by arrangement for Iraq. GAO worked with officials from the Department of Treasury and interviewed officials from the Departments of State, Defense, Energy’s Energy Information Administration (EIA), and the IMF. GAO also reviewed translated copies of Iraqi documents, including budget and capital spending reports.

Treasury agreed with GAO’s findings and stated that Iraq has adequate funds to make and maintain capital investments that deliver service and foster economic growth.

To view the full product, including the scope and methodology, click on [GAO-08-1144T](#). For more information, contact Joseph A. Christoff at 202-512-8979 or christoffj@gao.gov.

STABILIZING AND REBUILDING IRAQ

Iraqi Revenues, Expenditures, and Surplus

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, Iraq could generate an estimated \$73.5 billion to \$86.2 billion in revenues, with oil exports accounting for \$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.

Iraqi Revenues, Expenditures, and Surpluses, 2005-2007, with Projections for 2008

| (Billions of U.S. dollars) | | | | | 2008 Projections | |
|----------------------------|-------------|-------------|-------------|------------------|------------------|-------------|
| | 2005 | 2006 | 2007 | Total, 2005-2007 | Low | High |
| Total Revenues | 24.1 | 32.0 | 39.9 | 96.0 | 73.5 | 86.2 |
| MoF Expenditures | 17.6 | 22.8 | 26.6 | 67.0 | 35.3 | 35.9 |
| Surplus | 6.5 | 9.2 | 13.3 | 29.0 | 38.2 | 50.3 |

Source: GAO analysis of data from the Central Bank of Iraq, International Monetary Fund, and Iraqi Ministry of Finance (MoF) Budget.

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 electricity installations and weapons.

From 2005 through 2007, Iraq had an estimated cumulative budget surplus of about \$29 billion. For 2008, we estimate that Iraq will have an additional surplus of between \$38.2 billion to \$50.3 billion, which could result in a cumulative budget surplus of \$67 billion to \$79 billion. Iraq’s 2008 budget surplus could be reduced by expenditures from its \$22.3 billion supplemental budget, which Iraq’s Council of Representative passed in August 2008. However, based on Iraq’s past expenditure performance, the government may not be able to spend all that it has budgeted for 2008.

Since fiscal year 2003, the United States has 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 four critical sectors—security, oil, electricity, and water. As of June 2008, the United States had spent 70 percent of the amount it allocated for these four sectors from fiscal year 2003 through June 2008. Iraq spent 14 percent, or \$4.3 billion, of the \$30 billion it allocated for similar activities in these sectors from 2005 through June 2008.

Iraq’s large oil reserves coupled with higher oil prices offer the government of Iraq the potential to increase its contributions to the country’s reconstruction efforts and thereby enhance essential services to the Iraqi people.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the report GAO issued last month on the revenues, expenditures, and surpluses Iraq has generated since 2005.¹ This report discussed (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.

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 economy, accounting for over half of the country's gross domestic product and over 90 percent of revenues. Iraq's large oil reserves coupled with higher oil prices offer the government of Iraq the potential to contribute to the country's reconstruction efforts and thereby enhance essential services to the Iraqi people.

To address the report's objectives, we analyzed relevant data and reviewed documents such as Central Bank of Iraq (CBI) export oil receipts data and the International Monetary Fund's (IMF) stand-by arrangement for Iraq. We worked extensively with officials from the Department of Treasury and interviewed officials from the Departments of State, Defense, Energy's Energy Information Administration (EIA), and the IMF. We also reviewed translated copies of Iraqi documents, including budget and capital spending reports.

We conducted this performance audit from May to August 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. Our report builds upon GAO's extensive body of work on Iraq, also conducted according to generally accepted government auditing standards. These reports include our May 2007 report on Iraq's energy sector, our January 2008 report assessing Iraq's efforts to

¹GAO, *Stabilizing and Rebuilding Iraq: Iraqi Revenues, Expenditures, and Surplus*, [GAO-08-1031](#) (Washington, D.C.: Aug. 5, 2008).

spend its budget, and our June 2008 report assessing progress in meeting key goals of The New Way Forward.²

Summary

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, we estimate 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. Iraq revenues, expenditures, and budget surpluses are displayed in table 1.

Table 1: Iraqi Revenues, Expenditures, and Surpluses, 2005-2007, with Projections for 2008

(Billions of U.S. dollars)

| | 2005 | 2006 | 2007 | Total, 2005-2007 | 2008 Projections | |
|------------------|------|------|------|---------------------|------------------|------|
| | | | | | Low | High |
| Total Revenues | 24.1 | 32 | 39.9 | 96.0 | 73.5 | 86.2 |
| MoF Expenditures | 17.6 | 22.8 | 26.6 | 67.0 | 35.3 | 35.9 |
| Surplus | 6.5 | 9.2 | 13.3 | 29.0 | 38.2 | 50.3 |

Source: GAO analysis of data from the Central Bank of Iraq, International Monetary Fund, and Iraqi Ministry of Finance (MoF) Budget.

Note: GAO projections for 2008 are based on actual prices and volume of crude oil exports over the first 6 months of 2008 and varied price and export volume for the last 6 months of 2008.

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 of its budgeted funds. For

²See GAO, *Rebuilding Iraq: Integrated Strategic Plan Needed to Help Restore Iraq's Oil and Electricity Sectors*, [GAO-07-677](#) (Washington, D.C.: May 15, 2007); *Iraq Reconstruction: Better Data Needed to Assess Iraq's Budget Execution*, [GAO-08-153](#) (Washington, D.C.: Jan. 15, 2008); and *Securing, Stabilizing, and Rebuilding Iraq: Progress Report: Some Gains Made, Updated Strategy Needed*, [GAO-08-837](#) (Washington, D.C.: June 23, 2008).

example, in 2007, Iraq spent 80 percent of its \$29 billion operating budget and 28 percent of its \$12 billion investment budget.

From 2005 through 2007, Iraq had an estimated cumulative budget surplus of about \$29 billion. For 2008, we estimate that Iraq will have an additional surplus of between \$38.2 billion to \$50.3 billion, which could result in a cumulative budget surplus of \$67 billion to \$79 billion for 2005 through 2008. Iraq's 2008 budget surplus could be reduced as a result of expenditures from the \$22.3 billion supplemental budget Iraq's Council of Representative passed in August 2008. However, based on Iraq's past expenditure performance, the government may not be able to spend all that it has budgeted for 2008.

Since fiscal year 2003, the United States has appropriated about \$48 billion for stabilization and reconstruction efforts in Iraq; it had obligated about \$42 billion of that amount, as of June 2008.³ U.S. agencies spent about \$23.2 billion on four critical sectors—security, oil, electricity, and water. As of June 2008, the United States spent 70 percent of the amount it allocated for these four sectors from fiscal year 2003 through June 2008. Iraq spent 14 percent, or \$4.3 billion, of the \$30 billion it allocated for similar activities in these sectors from 2005 through June 2008.

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.

The Department of the Treasury agreed with the findings of our report and stated that the report accurately highlights the substantial growth of Iraq's revenues in recent years. Treasury also stated that the increase in Iraqi revenues places the government of Iraq in a stronger position to shoulder the full burden of its development, reconstruction, and security programs.

³This amount includes \$2 billion appropriated in June 2008 for reconstruction and stabilization activities in Iraq in the Supplemental Appropriations Act, 2008, P.L. 110-252 (June 30, 2008). This amount does not include \$1.1 billion appropriated in the same Act for similar activities in Iraq after October 1, 2008.

Background

Iraq possesses the third largest crude oil reserve in the world, estimated at a total of 115 billion barrels. Only Saudi Arabia and Iran have larger proved⁴ world oil reserves. Iraq's oil infrastructure has deteriorated over several decades due to war damage, inadequate maintenance, and the limited availability of spare parts, equipment, new technology, and financing. This situation was further affected by looting after Operation Iraqi Freedom and continued attacks on crude oil and refined product pipelines.

Iraq's crude oil production and exports have recovered since 2003. As of June 2008, Iraq's crude oil exports averaged 2.01 million barrels per day (mbpd), according to Iraqi oil export receipt data. Iraq generally receives a discounted export price for its crude oil, in part due to its relatively lower quality compared with key crude oils such as the U.S. West Texas Intermediate (WTI) and Brent—benchmarks for world oil prices. According to CBI data, for January through June 2008, Iraqi crude oil was priced at an average of \$96.88 per barrel. During the same period, WTI and Brent's prices averaged \$110.95 and \$109.17 per barrel, respectively.

Iraq's Estimated Revenues from 2005 through 2008

From 2005 through 2007, the Iraqi government generated an estimated \$96 billion in cumulative revenues.⁵ This estimate is based on actual crude oil export sales of about \$90.2 billion as reported by the CBI and Iraqi taxes, interest, and other revenues of about \$5.7 billion, as estimated by the IMF. Crude oil export revenues increased an average of about 30 percent each year from 2005 to 2007, due to increases in oil exports and price.

For 2008, we estimate that Iraq could generate between \$73.5 billion to \$86.2 billion in total revenues. Table 2 displays the projected total revenues, based on six scenarios projecting oil export revenues by varying price and volume of exports.

⁴Proved reserves are estimated quantities that analysis of geologic and engineering data demonstrates with reasonable certainty are recoverable under existing economic and operating conditions.

⁵We are reporting Iraqi revenues as estimates because we use IMF-reported estimates of \$5.7 billion for net domestic revenues from oil-related public enterprises, taxes, and other revenues, which is about 6 percent of Iraq's estimated total revenues for 2005 through 2007.

Table 2: Projections for 2008 Iraqi Total Revenues

(Billions of U.S. dollars)

| Revenues | 1 | 2 | 3 | 4 | 5 | 6 |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Export oil revenues | \$66.5 | \$68.7 | \$73.3 | \$75.9 | \$76.4 | \$79.2 |
| Tax and other revenues | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 |
| Total | \$73.5 | \$75.7 | \$80.2 | \$82.8 | \$83.3 | \$86.2 |

Source: GAO analysis of CBI and IMF data.

Note: Totals may not add due to rounding.

These scenarios assume that tax and other revenues (a small portion of total revenues) will be \$6.9 billion for 2008 but that export oil revenues will vary based on the price Iraq receives for its oil and the volume it exports.⁶ As a result, we project that Iraq could generate between \$66.5 billion and \$79.2 billion in oil revenues in 2008, more than twice the average annual amount Iraq generated from 2005 through 2007. These scenarios use the actual prices and volume of crude oil exports over the first 6 months of 2008, as reported by the CBI. For the last 6 months of 2008, we varied the volume exported from 1.89 to 2.01 mbpd and the price received from \$96.88 to \$125.29 per barrel.

Iraq's Estimated Expenditures from 2005 through 2008

From 2005 through 2007, the Iraqi government spent an estimated \$67 billion on a variety of operating and investment activities, as reported by the Ministry of Finance. As displayed in table 3, Iraq spent 90 percent of the \$67 billion on operating expenses, including salaries and pensions, and 10 percent on investment expenses, such as structures, machinery, and vehicles.⁷

⁶The IMF reported estimates of \$6.9 billion in tax and other revenues for Iraq in 2008.

⁷We use "investment expenditures" here to refer to expenses for capital goods and capital projects. Capital projects represent almost 90 percent of the Iraqi investment budget.

Table 3: Government of Iraq Expenditures and Annual Growth Rates, 2005 through 2008

(Millions of U.S. dollars)

| Types of Expenditures | 2005 | 2006 | 2007 | Total 2005-07 | Jan.- June 2008 | Percentage share of total 2005-07 | Annual average growth rate 2005-07 dollars | Annual average growth rate 2005-07 Iraqi dinars |
|--|-----------------|-----------------|-----------------|------------------|--------------------|--|--|---|
| Total expenditures | \$17,583 | \$22,788 | \$26,599 | \$66,970 | \$19,127 | 100 | 23 | 13 |
| I. Operating expenditures | 16,151 | 21,173 | 23,164 | 60,489 | 16,528 | 90 | 20 | 10 |
| A. Employee compensation | 6,062 | 7,087 | 9,936 | 23,085 | 7,534 | 34 | 28 | 17 |
| B. Goods and services | 1,195 | 1,445 | 3,327 | 5,967 | 1,912 | 9 | 67 | 53 |
| 1. Goods | 565 | 663 | 1,794 | 3,021 | 1,048 | 5 | 78 | 63 |
| 2. Services | 392 | 433 | 1,174 | 1,998 | 594 | 3 | 73 | 59 |
| 3. Maintenance | 238 | 349 | 360 | 947 | 269 | 1 | 23 | 13 |
| C. Other operating expenditures ^a | 8,894 | 12,642 | 9,901 | 31,437 | 7,082 | 47 | 6 | -3 |
| II. Investment ^b | 1,432 | 1,615 | 3,434 | 6,482 | 2,599 | 10 | 55 | 42 |

Source: GAO analysis of Iraqi Ministry of Finance budget expenditure data.

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

The government of Iraq adopted a new chart of accounts in 2007. To make comparisons over time, we combine various budget categories to make them comparable over time.

^aOther operating expenses include interest payments, grants and transfers, subsidies to public and private enterprises, war reparations, and social benefits.

^bInvestment includes grants for reconstruction activities primarily for provinces and regions for 2007 and 2008.

Our analysis of Ministry of Finance expenditure data found:

- Iraq's dollar expenditures grew by about 23 percent per year, from \$17.6 billion to \$26.6 billion, largely due to increased spending on Iraqi security personnel. However, annual average growth rates computed in Iraqi dinars were 13 percent per year. Growth rates in dinars may be more informative since Iraq spends its budget in dinars. Using dollar-denominated expenditures inflates growth rates because the dinar appreciated 19 percent against the dollar in 2007.⁸

⁸The Iraq dinar-U.S. dollar exchange rate was 1,500 per dollar in 2005 and 2006; 1,260 per dollar in 2007; and 1,200 per dollar in 2008.

-
- The Iraqi government spent about \$947 million, or 1 percent of its total expenditures for the maintenance of Iraqi- and U.S.-funded investments. These expenses included maintenance of roads, bridges, vehicles, buildings, water and electricity installations, and weapons.
 - Investment expenditures increased at an annual rate of 42 percent in Iraqi dinars. However, most of this increase occurred in 2007 and was due primarily to the increase in investment by the Kurdistan Regional Government (KRG), not by the central ministries responsible for providing critical services such as oil, water, electricity, and security to the Iraqi people. For example, of the \$1.8 billion increase in investment expenditures in 2007, \$1.3 billion, or more than 70 percent was due to a reported increase in KRG investment.

For 2008, we estimate that the Iraqi government could spend between \$35.3 billion and \$35.9 billion of its \$49.9 billion 2008 budget. This estimate is based on the assumption that the expenditure ratio in 2008 will be the same as the average expenditure ratios from 2005 to 2007. This assumption results in a more than 21-percent increase in dinar expenditures in 2008, compared with the annual average of 13 percent over the past 3 years.

Iraq's Financial Deposits through 2007 and Budget Surpluses

As of December 31, 2007, the Iraqi government had financial deposits of \$29.4 billion held in the Development Fund for Iraq (DFI) at the New York Federal Reserve Bank,⁹ central government deposits at the CBI, and central government deposits in Iraq's commercial banks, which includes state-owned banks such as Rafidain and Rasheed (see table 4).

⁹DFI deposits consist of cash balances of \$2.5 billion in U.S. dollars and \$7.4 billion in U.S. Treasury bills that the Iraqi government has purchased. As a U.S. creditor, Iraq has received \$435.6 million in interest on those bills since 2003. Iraq central government deposits in the CBI consist of U.S. dollar- and dinar-denominated accounts.

Table 4: Financial Deposits of the Iraqi Government, as of December 31, 2007

(Billions of U.S. dollars)

| Location | Amount (as of Dec. 31, 2007) |
|---|---------------------------------|
| Development Fund for Iraq | \$9.9 |
| Central government deposits at the CBI | 5.7 |
| Central government deposits in the banking sector | 13.8 |
| Total | \$29.4 |

Source: GAO analysis of Ernst & Young International Advisory and Monitoring Board audit and IMF's International Financial Statistics.

The balance of these deposits is, in part, the result of an estimated budget surplus of about \$29 billion from 2005 to 2007. For 2008, we estimate that Iraq's budget surplus could range from \$38.2 billion to \$50.3 billion, based on the six scenarios we used to project export oil revenues and assuming Iraq's expenditure ratio will be the same as the average expenditure ratios from 2005 to 2007. (see table 5). This estimate is based on Iraq's regular budget of \$49.9 billion for 2008. As of the end of May 2008, Iraq spent \$14.5 billion, or 29.1 percent, of the regular 2008 budget of \$49.9 billion.

Table 5: Estimated Total Revenues, Expenditures, and Surplus, 2005 through 2008

(Billions of U.S. dollars)

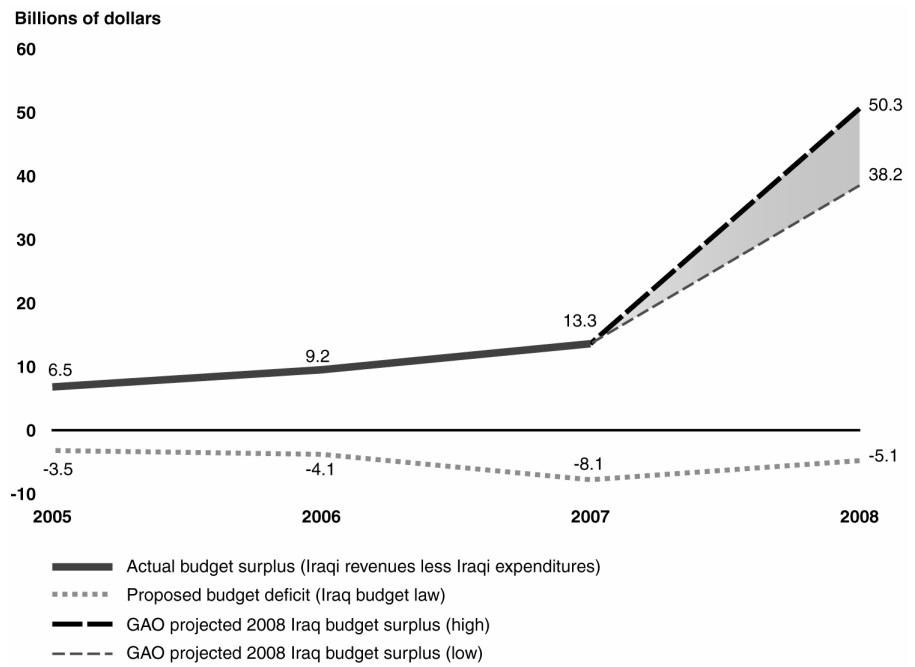
| | 2005-2007 | 2008 | 2008 | 2008 | 2008 | 2008 | 2008 |
|------------------------------|-----------|--------|--------|--------|--------|--------|--------|
| | | 1 | 2 | 3 | 4 | 5 | 6 |
| Estimated total revenues | \$96.0 | \$73.5 | \$75.7 | \$80.2 | \$82.8 | \$83.3 | \$86.2 |
| Estimated total expenditures | 67.0 | 35.3 | 35.4 | 35.6 | 35.8 | 35.8 | 35.9 |
| Estimated budget surplus | 29.0 | 38.2 | 40.3 | 44.6 | 47.1 | 47.6 | 50.3 |

Source: GAO analysis of EIA, IMF, Ministry of Finance, and Central Bank of Iraq data.

Iraq may accumulate a budget surplus of \$67 billion to \$79 billion by the end of 2008. This surplus could be reduced as a result of its expenditures of the \$22.3 billion supplemental budget that Iraq's Council of Representatives passed in August 2008. The government allocated \$14.3 billion of the total supplemental budget for operating expenditures and \$8 billion for investment. Iraq's amended budget projects that the government will spend the entire supplemental and regular budget and end 2008 with a \$5.1 billion deficit. Iraq made similar assertions in 2005 through 2007, projecting budget deficits of \$3.5 billion in 2005, \$4.1 billion in 2006, and \$8.1 billion in 2007. (see fig. 1). However, as we previously displayed, Iraq ended each of these years with budget surpluses of \$6.5 billion in 2005,

\$9.2 billion in 2006, and \$13.3 billion in 2007 because it was unable to spend its entire budget. Accordingly, the government may not be able to spend its entire 2008 budget.

Figure 1: Comparison of Iraq's Proposed and Actual Budget Balances for 2005 through 2007 and Projected 2008 Balance



Source: GAO analysis of data from Central Bank of Iraq, International Monetary Fund, Iraqi Ministry of Finance budget, and Iraq budget law.

U.S. Cumulative Expenditures on Stabilization and Reconstruction Activities in Iraq Since 2003

Since fiscal year 2003, Congress has appropriated about \$48 billion to U.S. agencies to finance stabilization and reconstruction efforts in Iraq, including developing Iraq's security forces, enhancing Iraq's capacity to govern, and rebuilding Iraq's oil, electricity, and water sectors, among others.¹⁰ As of June 2008, about \$42 billion (88 percent) had been obligated and about \$32 billion (68 percent) had been spent.¹¹

Over two-thirds of the \$32 billion spent, or \$23.2 billion, have supported reconstruction and stabilization activities in four critical sectors—security, oil, water, and electricity. Table 6 compares the allocations and spending of comparable activities by the United States and Iraq in these sectors.¹² The Iraqi government developed its first annual budget in 2005.

Table 6: Comparison of Iraq and U.S. Allocations and Spending for Selected Sectors

(Billions of U.S. dollars)

| Sectors | Government of Iraq | | U.S. Government | |
|------------------------------|------------------------|--------------------|----------------------------|----------------------------|
| | 2005-2008 ^a | 2005-June 2008 | Fiscal year 2003-June 2008 | Fiscal year 2003-June 2008 |
| | Allocated | Spent ^b | Allocated | Spent ^b |
| Security ^c | \$12.8 | \$3.1 | \$22.5 | \$13.7 |
| Oil ^d | 10.8 | 0.4 | 2.7 | 2.5 |
| Water resources ^d | 1.3 | 0.4 | 2.9 | 2.2 |
| Electricity ^d | 5.2 | 0.4 | 5.3 | 4.8 |
| Total | \$30.0 | \$4.3 | \$33.4 | \$23.2 |

Source: GAO analysis of Iraq Ministry of Finance budgets and expenditures and State, DOD, USAID, and Treasury data.

Note: Totals may not sum due to rounding.

¹⁰This includes Iraq-specific appropriations for the Iraq Reconstruction and Relief Fund, Iraq Security Forces fund, Economic Support Fund, Commander's Emergency Response Program, Iraq Freedom Fund, Democracy Fund, other agency program funds used for Iraq activities, and operating expenses for the Coalition Provisional Authority. This amount includes \$2 billion appropriated in June 2008 for reconstruction and stabilization activities in Iraq in the Supplemental Appropriations Act, 2008, P.L. 110-252 (June 30, 2008). This amount does not include \$1.1 billion appropriated in the same Act for similar activities in Iraq after October 1, 2008.

¹¹For U.S. funds, we use the term "spent" for funds that have been disbursed.

¹²Allocations are a portion of appropriated funds provided to U.S. agencies.

^aThese amounts include \$2.1 billion that has been allocated for investments in these four sectors as part of Iraq's \$22.3 billion supplemental budget that Iraq's Council of Representatives passed in August 2008.

^bThis refers to funds disbursed by U.S. agencies and funds expended by the respective Iraqi ministries.

^cFor security ministries, the Iraq figures for allocated and spent exclude employee compensation.

^dFor oil, water, and electricity ministries, the Iraq figures refer to investment.

As of June 2008, the United States had spent 70 percent of the amount it allocated for these four sectors from fiscal year 2003 through June 2008. In contrast, as of June 2008, Iraq had spent 14 percent of the \$30 billion it allocated from 2005 through 2008.

Factors Affecting Iraq's Efforts to Accelerate Spending

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 the capital investments needed to rebuild its infrastructure. First, Iraq has 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. Second, Iraq has weak procurement, budgetary, and accounting systems. These systems must balance efficient execution of capital projects while protecting against reported corruption. Third, violence has contributed to a decrease in the number of workers available, increased the amount of time needed to plan and complete capital projects, and has hindered U.S. advisors' ability to provide the ministries with assistance and monitor capital project performance.

As we previously reported,¹³ since 2005, the United States has funded activities to help build the capacity of key civilian and security ministries and thereby improve the Iraqi government's ability to execute its budget for capital projects. However, 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.

¹³See GAO, *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).

Conclusion

Iraq, with the third largest oil reserve in the world, has benefited from the recent rise in oil prices and generated billions of dollars in revenues. In 2008, Iraq will likely earn between \$67 billion and \$79 billion in oil sales—at least twice the average annual amount Iraq generated from 2005 through 2007. This substantial increase in revenues offers the Iraqi government the potential to better finance its own security and economic needs.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or other members may have at this time.

GAO Contact and Acknowledgments

For questions regarding this testimony, please call Joseph A. Christoff at (202) 512-8979. Key contributors to this testimony include Godwin Agbara, Assistant Director; Bruce Kutnick, Assistant Director; Pedro Almoguera; Monica Brym; Lynn Cothorn; Gergana Danailova-Trainor; Justin Monroe; and Beth Hoffman-Leon.

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