

August 2008

# STABILIZING AND REBUILDING IRAQ

## Iraqi Revenues, Expenditures, and Surplus



G A O

Accountability \* Integrity \* Reliability



Highlights of [GAO-08-1031](#), a report to congressional committees

## 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](mailto: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, 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.

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## **Abbreviations**

CBI	Central Bank of Iraq
CPA	Coalition Provisional Authority
DFI	Development Fund for Iraq
EIA	Energy Information Administration
IAMB	International Advisory and Monetary Board
IMF	International Monetary Fund
KRG	Kurdistan Regional Government
mbpd	million barrels per day
UN	United Nations
WTI	West Texas Intermediate

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United States Government Accountability Office  
Washington, DC 20548

August 5, 2008

Congressional Committees:

Iraq's large oil reserves coupled with surging 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. 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 its revenues. In June 2008, we reported low spending rates by the Iraqi government for the critical oil, electricity, and water sectors in 2007 in the face of declining U.S. investments in these sectors.

This report provides information on (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.

Senator Carl Levin, Chairman, and Senator John Warner, member, of the Senate Armed Services Committee requested that GAO complete this work. Due to broad congressional interest in Iraq issues, we completed this report under the Comptroller General's authority to conduct evaluations on his own initiative.

This report builds upon an extensive body of GAO's work on Iraq, including our May 2007 report assessing reconstruction efforts in rebuilding Iraq's oil and electricity sector, our January 2008 report assessing Iraq's efforts to spend its budget, and our June 2008 report assessing progress made in meeting key goals in *The New Way Forward*.<sup>1</sup> To address these objectives, we analyzed relevant data and reviewed documents, such as Central Bank

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<sup>1</sup>See 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); GAO, *Iraq Reconstruction: Better Data Needed to Assess Iraq's Budget Execution*, [GAO-08-153](#) (Washington, D.C.: Jan. 15, 2008); and GAO, *Securing, Stabilizing, and Rebuilding Iraq: Progress Report: Some Gains Made, Updated Strategy Needed*, [GAO-08-837](#) (Washington, D.C.: June 23, 2008).

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of Iraq export oil receipts data; International Monetary Fund's (IMF) stand-by arrangement for Iraq; translated copies of Iraqi documents, including budget and capital spending; and Departments of State and Defense funding data and reports for Iraq reconstruction and stabilization efforts. We interviewed officials from the Departments of State, Defense, and the Treasury; Department of Energy's Energy Information Administration (EIA); and the IMF. The 2005 through 2007 data on Iraqi bank deposits, surpluses, annual budget revenues, and expenditures had limitations, but we found the data to be sufficiently reliable for the purpose of reporting estimates of Iraqi government's cumulative budget surplus, financial deposits, revenues, and spending. We found limitations in the reliability of 2004 revenue, budget, and expenditure data and, therefore, excluded these data from our analysis. For Iraqi crude oil export and price data, we found the Central Bank of Iraq export oil receipts data to be sufficiently reliable to present Iraqi oil export revenue. For US funding of Iraq reconstruction and stabilization efforts, we found the funding data were sufficiently reliable for broad comparisons in the aggregate and the category descriptions we have made in this report.

We did not use Ministry of Finance special reports for our analysis of expenditures because the reports contained unreliable data. The reports combine Iraq's commitments to spend with actual expenditures but do not define commitments. In addition, columns and rows do not add up and the reports show inconsistent use of poorly defined budget terms. Appendix I contains a more detailed description of our scope and methodology.

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.

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## Summary

Our analysis of Iraq's revenue and expenditure data and U.S. expenditures in Iraq found the following:

- 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, of which oil exports will account for between \$66.5 billion to \$79.2 billion.

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Projected oil revenues for 2008 could be more than twice the average annual amount Iraq generated from 2005 through 2007. The 2008 projections are based on actual sales through June 2008 and projections for July to December that assume an export price for Iraqi oil ranging from \$96.88 to \$125.29 per barrel and oil export volumes ranging from 1.89 to 2.01 million barrels per day.

- From 2005 through 2007, the Iraqi government spent an estimated \$67 billion on a variety of operating and investment activities. According to Iraqi Ministry of Finance data, Iraq spent 90 percent of the \$67 billion on operating expenses, such as salaries and pensions; goods, services, and maintenance;<sup>2</sup> social benefits; and interest payments. The remaining 10 percent was spent on investment expenditures, such as structures, machinery, and vehicles. The Iraqi government spent only 1 percent of total expenditures on maintaining Iraq- and U.S.-funded investments, which includes the maintenance of roads, bridges, vehicles, buildings, water and electricity installations, and weapons. Although total expenditures grew from 2005 through 2007, the Iraqi government was unable to spend all the funds it budgeted, especially for investment activities. For example, in 2007, Iraq spent 80 percent of its \$29 billion operating budget and 28 percent of its \$12 billion investment budget. For 2008, we estimate that the Iraqi government 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. The balance of these deposits was, in part, the result of an estimated budget surplus of about \$29 billion from 2005 to 2007. For 2008, we estimate a budget surplus of between \$38.2 billion to \$50.3 billion based on our projections for revenue and expenditures. If spent, a proposed Iraqi budget supplemental of \$22 billion, with about \$8 billion dedicated to capital spending, could reduce this projected surplus.
- 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.<sup>3</sup> U.S. agencies spent about

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<sup>2</sup>Goods include items such as uniforms, food, books, and office supplies.

<sup>3</sup>This amount includes \$2 billion appropriated in June 2008 for reconstruction and stabilization activities in Iraq in the Supplemental Appropriations Act, 2008, Pub.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.



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\$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 \$3.9 billion, of the \$28 billion it allocated for similar activities in these sectors from 2005 through April 2008.

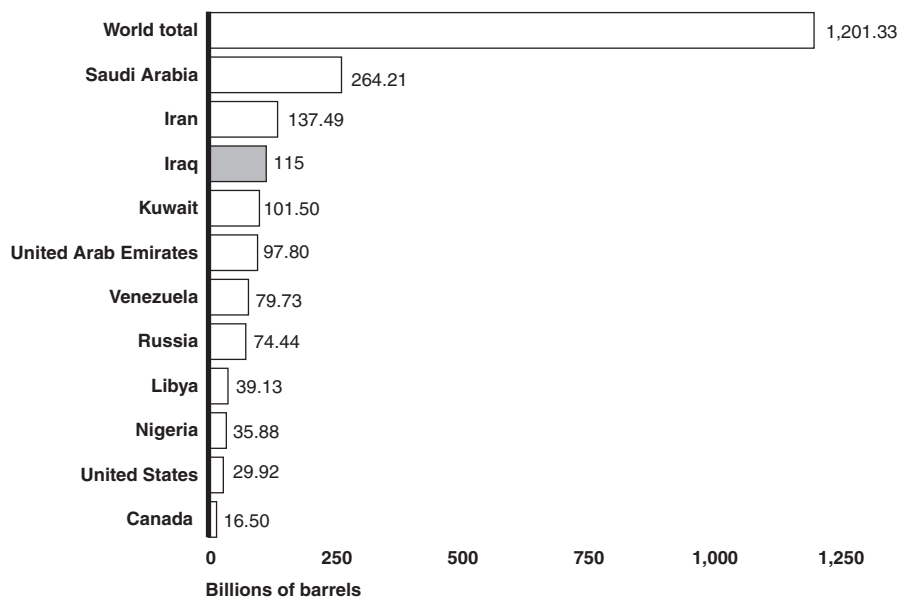
- U.S. government, coalition, and international officials have identified a number of factors that have affected the Iraqi government's ability to spend more of its revenues on capital investments intended to rebuild its infrastructure. These factors include Iraq's shortage of trained staff, weak procurement and budgeting systems, and violence and sectarian strife. As we have previously reported, the United States has funded, since 2005, 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.

We provided a draft of this report to the Departments of State, the Treasury, and Defense for review. We received written comments from Treasury, which we have reprinted in appendix VI. Treasury agreed with the findings of this report and stated that the report accurately highlights that Iraq's revenues have grown substantially in recent years. Treasury stated that the increase in Iraqi revenues places the Government of Iraq in a stronger position to ultimately shoulder the full burden of its development, reconstruction, and security programs. Treasury also stated that Iraq has adequate funds to make and maintain capital investments that deliver services and create conditions that foster economic growth. Treasury agreed that Iraq's budget surplus is likely to grow significantly over the course of 2008, but that the Government of Iraq still needs to improve the effectiveness of its budget execution. Treasury commented that the pace of Iraqi spending has been held back by various factors, including deficiencies in capacity and security. State provided technical comments, which we incorporated as appropriate. DOD did not provide any comments.

## Background

Iraq possesses the third largest oil reserve in the world, estimated at a total of 115 billion barrels.<sup>4</sup> As shown in figure 1, only Saudi Arabia and Iran have larger proved world oil reserves.<sup>5</sup>

**Figure 1: Estimates of World Oil Reserves, as of December 2005**



Source: EIA data.

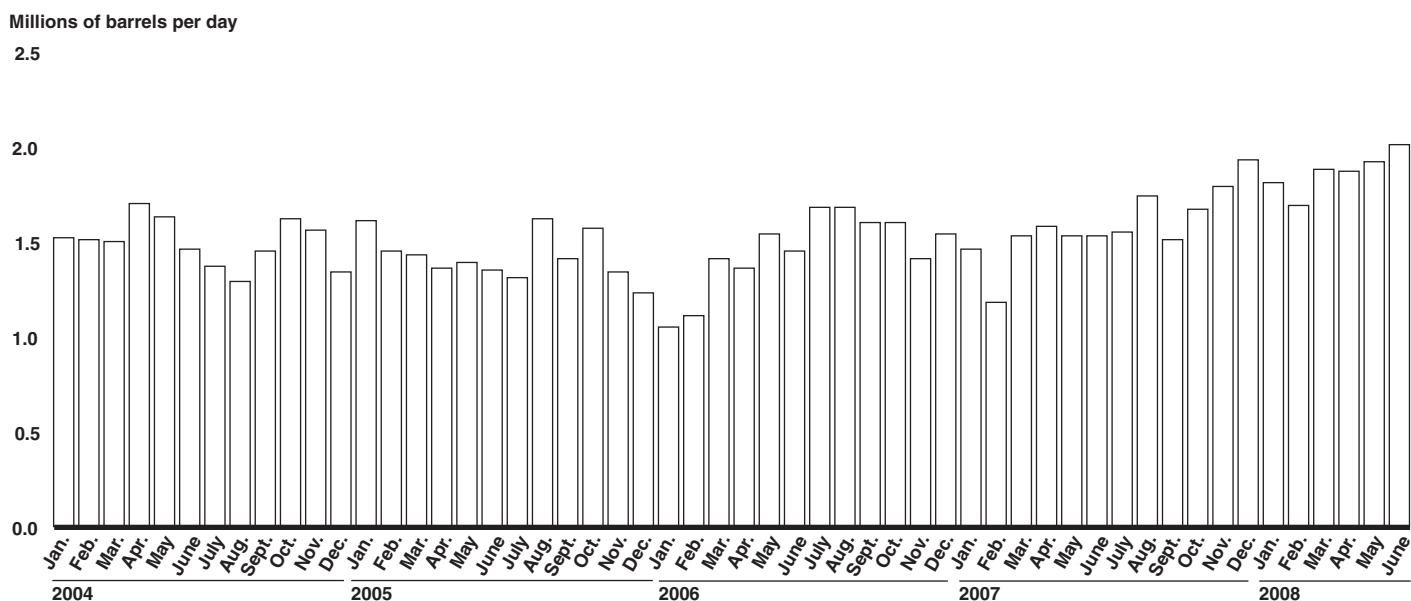
Iraq's ability to extract these reserves has varied widely over time and Iraq's oil infrastructure has deteriorated over several decades due to war damage, inadequate maintenance, and the limited availability of spare parts, equipment, new technology, and financing. In addition, Iraq's crude oil production and export capacities were further affected by considerable looting after Operation Iraqi Freedom and continued attacks on crude oil and refined product pipelines. Nonetheless, crude oil production and exports have recovered since 2003. As of June 2008, Iraq's crude oil export

<sup>4</sup>We used *BP Statistical Review of World Energy June 2006* estimates of reserves, as reported by EIA. This measure excludes heavy oil but includes natural gas liquids. BP notes that the figure for Canadian oil reserves includes an official estimate of Canadian oil sands "under active development."

<sup>5</sup>Proved reserves are estimated quantities that analysis of geologic and engineering data demonstrates with reasonable certainty are recoverable under existing economic and operating conditions.

averaged 2.01 million barrels per day (mbpd), according to Iraqi oil export receipt data (see fig. 2).

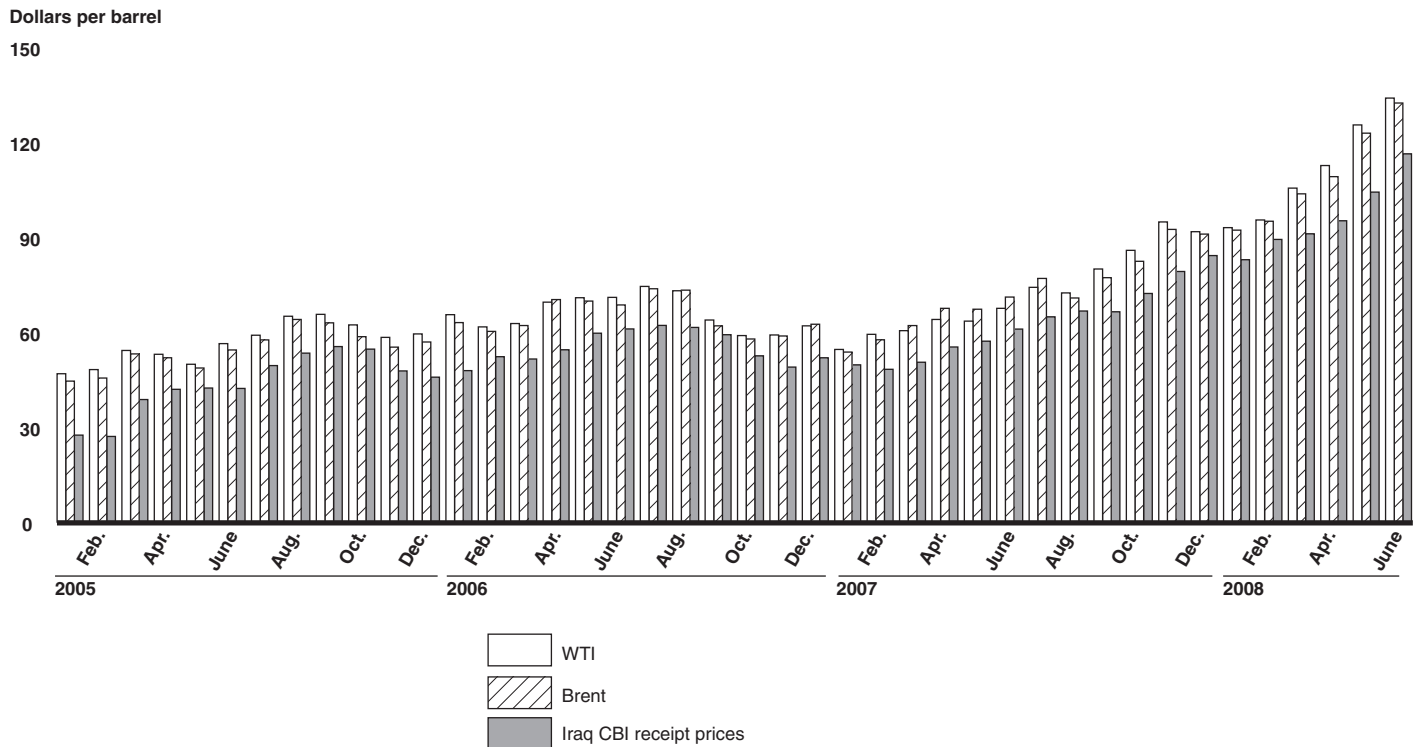
**Figure 2: Iraq Crude Oil Exports, January 2004 through June 2008**



Source: Central bank of Iraq export oil receipt data provided by Department of Treasury.

Iraq generally receives a discounted export price for its crude oil, in part due to its relatively lower quality compared with crude oil sales of the U.S. West Texas Intermediate (WTI) and Brent—benchmarks for world oil prices. Figure 3 shows Iraqi crude oil export prices in comparison to world benchmark prices. According to data on Iraqi crude oil export receipts reported by the Central Bank of Iraq (CBI) for January through June 2008, Iraqi crude oil was priced at an average of \$96.88 per barrel. During this same period, WTI and Brent prices averaged \$110.95 and \$109.17 per barrel, respectively. On average, the CBI price was 12.9 percent and 12.7 percent less than the WTI and Brent, respectively, from January 2007 through June 2008.

**Figure 3: Comparison of Iraq Crude Oil Export Prices with World Crude Oil Price Benchmarks, January 2005-June 2008**



Source: GAO analysis of EIA data for WTI and Brent and Central Bank of Iraq export oil receipt data.

## Iraq's Estimated Revenues from 2005 through 2008

The following section provides information on Iraq's revenues from 2005 through 2007 and estimated revenues for 2008.

### Iraq's Revenues from 2005 through 2007

From 2005 through 2007, the Iraqi government generated an estimated \$96 billion in cumulative revenues.<sup>6</sup> This estimate is based on actual crude oil export sales of \$90.2 billion as reported by the Central Bank of Iraq and

<sup>6</sup>We 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.

Iraqi taxes, interest, and other revenues, of \$5.7 billion as estimated by IMF.

Ninety-four percent of the total estimated revenues came from the export sale of crude oil. The Central Bank of Iraq export oil revenue data provided by Treasury are based on actual export oil receipts. These data are generally consistent with estimates of Iraq's crude oil export sales reported by the International Advisory and Monitoring Board (IAMB),<sup>7</sup> the IMF, and the EIA. (See app. II for data on Iraqi crude oil export revenue from these different sources.) 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.

## Iraq's Estimated Revenues for 2008

For 2008, we estimate that Iraq could generate between \$73.5 billion to \$86.2 billion in total revenues. Table 1 displays the projected total revenues, based on six scenarios projecting oil export revenues by varying price and volume of exports.

**Table 1: 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
<b>Total</b>	<b>\$73.5</b>	<b>\$75.7</b>	<b>\$80.2</b>	<b>\$82.8</b>	<b>\$83.3</b>	<b>\$86.2</b>

Source: GAO analysis of CBI and IMF data.

Note: Totals may not sum 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.<sup>8</sup> As a result, we project that Iraq could generate between \$66.5

<sup>7</sup>The IAMB is an audit oversight body for the Development Fund for Iraq. The IAMB's terms of reference define its oversight responsibilities, which include evaluating the public accountant's reports, monitoring internal controls and financial reporting, and directing special audits.

<sup>8</sup>The IMF reported estimates for Iraq of \$6.9 billion in tax and other revenues in 2008.

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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 Iraq received for its oil exports over the first 6 months of 2008, as reported by the Central Bank of Iraq. For the last 6 months of 2008, we varied the volume exported from 1.89 to 2.01 mbpd and price received from \$96.88 to \$125.29 per barrel. For a detailed discussion of these scenarios, see appendix III.

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## Iraq's Estimated Expenditures from 2005 through 2008

The following section provides information on the Government of Iraq's estimated expenditures from 2005 through 2007, expenditure ratios from 2005 through 2007, and estimated expenditures for 2008.

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### Government of Iraq's 2005 through 2007 Expenditures

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 2, Iraq's expenditures can be divided between operating and investment expenditures. Operating expenses include salaries and pensions, operating goods and services, interest payments, subsidies to public and private enterprises, social benefits, and other transfers. Investment expenses include capital goods and capital projects such as structures, machinery, and vehicles.<sup>9</sup>

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<sup>9</sup>We 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 2: 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.-April 2008	Percentage share of total 2005-07	Annual average growth rate 2005-07 dollars	Annual average growth rate 2005-07 Iraqi dinars
<b>Total expenditures</b>	<b>\$17,583</b>	<b>\$22,788</b>	<b>\$26,599</b>	<b>\$66,970</b>	<b>\$10,796</b>	<b>100</b>	<b>23</b>	<b>13</b>
I. Operating expenditures	16,151	21,173	23,164	60,489	9,537	90	20	10
A. Employee compensation	6,062	7,087	9,936	23,085	4,263	34	28	17
B. Goods and services	1,195	1,445	3,327	5,967	1,115	9	67	53
1. Goods	565	663	1,794	3,021	578	5	78	63
2. Services	392	433	1,174	1,998	380	3	73	59
3. Maintenance	238	349	360	947	157	1	23	13
C. Other operating expenditures <sup>a</sup>	8,894	12,642	9,901	31,437	4,159	47	6	-3
II. Investment <sup>b</sup>	1,432	1,615	3,434	6,482	1,259	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. See appendix IV for the groupings of the underlying categories.

<sup>a</sup>Other operating expenses include interest payments, grants and transfers, subsidies to public and private enterprises, war reparations, and social benefits.

<sup>b</sup>Investment includes grants for reconstruction activities primarily for provinces and regions for 2007 and 2008.

Our analysis of Ministry of Finance data on Iraqi expenditures from 2005 through 2007 found the following:

- Iraq spent 90 percent of the \$67 billion on operating expenses and a smaller portion of these funds—about 10 percent—on investment expenses.
- 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. (See app. V for details on expenditures by the security ministries and other selected ministries.) However, annual average growth rates computed in Iraqi dinars were 13 percent per year. Growth rates in

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dinar may be more informative since Iraq spends its budget in dinars. Using dollar-denominated expenditures inflates the growth rates because the dinar appreciated 19 percent against the dollar in 2007.<sup>10</sup>

- 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 include 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 to the Iraqi people, including oil, water, electricity, and security. 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. Investment by the central ministries declined in 2007.<sup>11</sup>

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## Government of Iraq's Expenditure Ratios from 2005 through 2007

Although Iraq's total expenditures grew from 2005 through 2007, Ministry of Finance data show that the Iraqi government was unable to spend all of the funds it budgeted. Expenditure ratios are defined as actual expenditures for a ministry or activity divided by the budgeted amount for this ministry or activity. This ratio is a preliminary measure as to how well the government is able to implement its intentions and priorities. Figure 4 displays our analysis of Iraqi expenditure ratios for the 2005 through 2007 budgets.

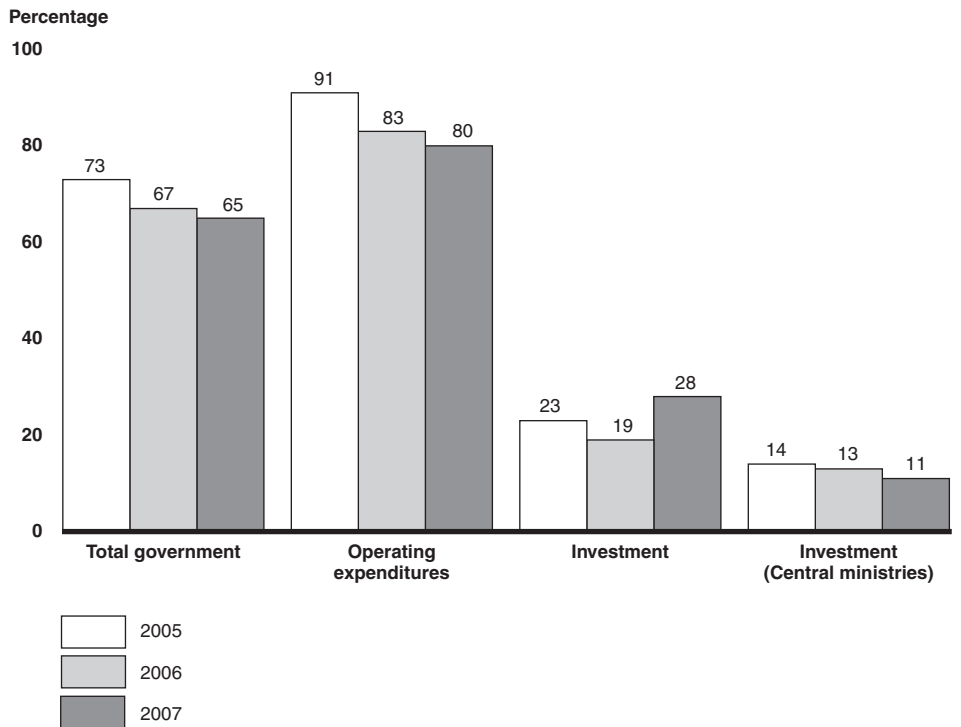
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<sup>10</sup>The Iraq dinar-U.S. dollar exchange rate was 1,500 per dollar in 2005 and 2006, 1,260 per dollar in 2007, and 1,200 per dollar in 2008.

<sup>11</sup>Reported investment by the KRG was \$1,932 million in 2007 and \$612 million in 2006. Investment spending by all central ministries was \$896 million in 2007 and \$1,003 million in 2006. The remaining investment of \$607 million in 2007 was undertaken primarily by the Iraqi provinces.



**Figure 4: Iraqi Government Expenditures in Relation to Budget, 2005 through 2007**



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

Notes: The expenditure ratio is defined as actual expenditures as a percentage of budget allocation.

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

Specifically, we found:

- While Iraq's total expenditures increased from 2005 through 2007, Iraq spent a declining share of its budget allocations—73 to 65 percent from 2005 to 2007.
- In each year, Iraq spent a greater percentage of its operating budget, including salaries, than its investment budget. For example, in 2007, the Iraqi government spent 80 percent of its \$28.9 billion operating budget and 28 percent of its \$12.2 billion investment budget.
- The central ministries, responsible for providing essential services to the Iraqi people, spent a smaller share of their investment budgets than the Iraqi government as a whole. Further, their investment expenditure ratios declined from 14 percent in 2005 to 11 percent in 2007. Specifically, while

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the central ministries budgeted \$5.7 billion and \$8.1 billion for investments in 2005 and 2007, they spent \$825 million and \$896 million, respectively.<sup>12</sup>

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## Estimated Government of Iraq's Expenditures for 2008

In 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 except expenditures for war reparations (5 percent of estimated oil export revenues), which will vary with differing scenarios for oil exports.<sup>13</sup> This estimate implies a more than 21-percent increase in dinar expenditures in 2008, compared with the annual average of 13 percent over the past 3 years. However, the Iraqi government is considering a supplemental budget for 2008. According to Treasury, Iraq's Ministry of Finance introduced a \$22 billion supplemental budget, including about \$8 billion dedicated to capital spending, which would bring the total 2008 budget allocation to more than \$70 billion. This supplemental was submitted to the Council of Representatives in July, according to Treasury. However, based on past expenditure performance, it is unclear whether Iraq will be able to spend this sizable budget.

Iraq also has outstanding foreign liabilities. In July 2008, Treasury officials estimated that Iraq will owe between \$50 billion to \$80 billion in bilateral foreign debt.<sup>14</sup> In addition, Iraq owes \$29 billion in war reparations to Kuwait.<sup>15</sup> Oil revenues in Iraq are currently immune from garnishment, liens, and other legal judgments, but this immunity will expire in December 2008 absent further UN Security Council action.

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<sup>12</sup>See [GAO-08-837](#).

<sup>13</sup>This assumption provides a higher level of 2008 expenditures than several reasonable alternative assumptions, such as using the 2007 overall expenditure ratio, using separate ratios for operating and investment expenditures, and using spending during the first quarter to make an annual estimate.

<sup>14</sup>The debt estimate assumes receipt of the final tranche of Paris Club debt relief at the end of the year. There still remains uncertainty regarding the debt amount as many outstanding claims have not been fully reconciled.

<sup>15</sup>Under U.N. Security Council Resolution 1483, 5 percent of Iraq's annual oil export revenue is earmarked to finance these reparations from the 1990 Gulf War.

## Iraq's Financial Deposits through 2007 and Budget Surplus

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, central government deposits at the Central Bank of Iraq (CBI), and central government deposits in Iraq's commercial banks, which includes state-owned banks such as Rafidain and Rasheed (see table 3).<sup>16</sup> The data for the DFI financial deposits are based on a July 2008 audited statement by IAMB. The financial deposits in the Central Bank of Iraq and Iraq's commercial banks come from the IMF's International Financial Statistics, as of July 2008. The financial deposits at the end of 2007 result from an estimated budget surplus of about \$29 billion from 2005 to 2007 and unverified balances prior to 2005.

**Table 3: 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
<b>Total</b>	<b>\$29.4</b>

Source: GAO analysis of Ernst & Young IAMB audit and IFS from IMF.

As displayed in table 4, we estimate that Iraq's budget surplus for 2008 could range from \$38.2 billion to \$50.3 billion, based on the six scenarios we used to project export oil revenues by varying price and volume of export. (See app. III for the six scenarios projecting export oil revenues.) 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 except expenditures for war reparations (5 percent of estimated oil export revenues), which will vary with differing scenarios for oil exports.

<sup>16</sup>DFI deposits consist of \$2.5 billion U.S. dollar cash balances 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 Central Bank consist of U.S. dollar- and dinar-denominated accounts.

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**Table 4: 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.

However, as previously noted, Iraq is considering a supplemental budget of \$22 billion for 2008. If approved and then spent, the proposed budget supplemental would reduce the projected surplus.

In addition, the IMF estimates that the Central Bank of Iraq had, as of December 31, 2007, about \$31.4 billion in gross foreign exchange reserves. Gross foreign exchange reserves help support Iraq's monetary policy and back the domestic currency to maintain confidence in the Iraqi dinar and control inflation. It is important to note that adding the \$31.4 billion in gross foreign exchange reserves to the Iraqi government's \$29.4 billion in financial deposits may result in double counting. For example, if the Iraqi government uses \$1 billion to pay for imported food, both its cash balances and gross foreign exchange reserves would decrease by \$1 billion.<sup>17</sup> While the amount the central bank may hold in reserve is not fixed, the IMF stand-by agreement with Iraq specifies a floor of \$21.1 billion. CBI's gross foreign exchange reserves have, on average, increased by more than \$7 billion per year from 2005 through 2007.

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<sup>17</sup>Resources in the DFI account are not counted as part of Iraq's foreign exchange reserves. Iraq's gross foreign exchange reserves are defined in the IMF country report number 08/17 from January 2008, p. 58.

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## United States Funding on Stabilization and Reconstruction Activities in Iraq and Iraqi Funding for Similar Activities

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.<sup>18</sup> As of June 2008, of the \$48 billion in appropriated U.S. funds from fiscal years 2003 through 2008, about \$42 billion (88 percent) had been obligated and about \$32 billion (68 percent) had been spent.<sup>19</sup>

Over two-thirds of the \$32 billion spent, or \$23.2 billion, have supported reconstruction and stabilization activities in the security, oil, water, and electricity sectors. Table 5 compares the allocations and spending of comparable activities by the United States and Iraq in these sectors.<sup>20</sup> The Iraqi government developed its first annual budget in 2005. From May 2003 through June 2004, the Coalition Provisional Authority (CPA) was responsible for spending Iraqi oil revenues for the benefit of the Iraqi people. We previously reported that the CPA allocated approximately \$7 billion in Iraqi funds for relief and reconstruction projects, primarily for the import of refined fuel products, security, regional programs, and oil and power projects.

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<sup>18</sup>This 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. This amount does not include \$1.1 billion appropriated in the same act after October 1, 2008, for similar activities in Iraq. Pub. L. 110-252 (June 30, 2008).

<sup>19</sup>For U.S. funds, we use the term "spent" for funds that have been disbursed.

<sup>20</sup>Allocations are a portion of appropriated funds provided to U.S. agencies.

**Table 5: 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	2005-April 2008	Fiscal year 2003-June 2008	Fiscal year 2003-June 2008
	Allocated	Spent <sup>a</sup>	Allocated	Spent <sup>a</sup>
Security <sup>b</sup>	\$12.3	\$2.9	\$22.5	\$13.7
Oil <sup>c</sup>	10.5	0.3	2.7	2.5
Water resources <sup>c</sup>	1.0	0.4	2.9	2.2
Electricity <sup>c</sup>	4.2	0.4	5.3	4.8
<b>Total</b>	<b>\$28.0</b>	<b>\$3.9</b>	<b>\$33.4</b>	<b>\$23.2</b>

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.

<sup>a</sup>This refers to funds disbursed by U.S. agencies and funds expended by the respective Iraqi ministries.

<sup>b</sup>For security ministries, the Iraq figures for allocated and spent exclude employee compensation.

<sup>c</sup>For oil, water, and electricity ministries the Iraq figures refer to investment.

Iraq allocated \$28 billion between 2005 and 2008 for the four sectors, and U.S. agencies allocated \$33.4 billion from fiscal years 2003 to June 2008. Allocations in the security sector account for \$22.5 billion of the U.S. amount. As of June 2008, the United States spent 70 percent, or \$23.2 billion, of the amount it allocated for these four sectors. In contrast, as of April 2008, Iraq spent 14 percent, or \$3.9 billion, of the amount it allocated for similar activities in these sectors. The security sector received the largest share of funds from the United States and Iraq.

## Factors Affecting Iraq's Efforts to Accelerate Spending

U.S. government, coalition, and international agencies have identified a number of factors affecting the Iraqi government's ability to spend more of its revenues on capital investments intended to rebuild its infrastructure. These factors include Iraq's shortage of trained staff, weak procurement and budgeting systems, and violence and sectarian strife.

First, these officials have observed the relative shortage of trained budgetary, procurement, and other staff with the necessary technical skills as a factor limiting the Iraqi government's ability to plan and execute its capital spending. Officials report a shortage of trained staff with budgetary

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experience to prepare and execute budgets and a shortage of staff with procurement expertise to solicit, award, and oversee capital projects. Second, 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.

Third, these 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 contributes to a decrease in the number of workers available, can increase the amount of time needed to plan and complete capital projects, and hinders U.S. advisors' ability to provide the ministries with assistance and monitor capital project performance.

Since 2005, U.S. agencies have been working with the Iraqis to assist the government in addressing challenges in executing its capital budgets. As we have previously reported, the United States has funded efforts since 2005 to build the capacity of key civilian ministries and security ministries to improve the Iraqi government's ability to effectively execute its budget for capital projects.<sup>21</sup> In 2005 and 2006, the United States provided funding for programs to help build the capacity of key civilian ministries and the Ministries of Defense and Interior. 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, Treasury stated that Treasury and Embassy Baghdad are working to improve the pace of Iraqi budget execution and ability to evaluate whether Iraqi capital spending achieves its intended impact. To improve budget reporting, transparency, and accountability, the U.S. and Iraqi governments restarted the Iraq Financial Management Information System (IFMIS) on July 5, 2008, with the expectation that the IFMIS will be operational in all 250 Iraqi spending units by early 2009. In January 2008, we reported that the U.S. Agency for

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<sup>21</sup>See [GAO-07-677](#), [GAO-08-153](#), and [GAO-08-837](#).

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International Development began the IFMIS system in 2003, experienced significant delays, and suspended the IFMIS system in June 2007.<sup>22</sup>

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## 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.

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## Agency Comments

We provided a draft of this report to the Departments of State, the Treasury, and Defense for review. We received written comments from Treasury, which we have reprinted in appendix VI. Treasury agreed with the findings of this report. Treasury stated that the report accurately highlights that Iraq's revenues have grown substantially in recent years and presents a credible picture of Iraq's cumulative budget surpluses and expected 2008 budget surplus. In addition, Treasury stated that the increase in Iraqi revenues places the Government of Iraq in a stronger position to ultimately shoulder the full burden of its development, reconstruction, and security programs. Treasury noted that Iraq has adequate funds to make and maintain capital investments that deliver services and create conditions that foster economic growth. Although Iraq's budget surplus is likely to grow significantly over the course of 2008, Treasury stated that the Government of Iraq still needs to improve the effectiveness of its budget execution and accountability for Iraqi funds. Treasury commented that the pace of spending has been held back by various factors, including deficiencies in capacity and security. Treasury also provided technical comments, which we incorporated as appropriate. State provided technical comments, which we incorporated as appropriate. DOD did not provide comments.

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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>.

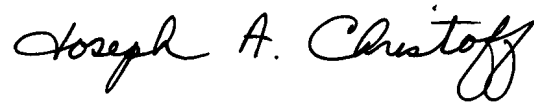
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<sup>22</sup>See [GAO-08-153](#).



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If you or your staff 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 VII.

A handwritten signature in black ink that reads "Joseph A. Christoff". The signature is written in a cursive style with a large, stylized initial "J".

Joseph A. Christoff  
Director, International Affairs and Trade

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*List of Congressional Committees*

The Honorable Carl Levin  
Chairman  
The Honorable John McCain  
Ranking Member  
Committee on Armed Services  
United States Senate

The Honorable Joseph R Biden, Jr.  
Chairman  
The Honorable Richard G. Lugar  
Ranking Member  
Committee on Foreign Relations  
United States Senate

The Honorable Robert C. Byrd  
Chairman  
The Honorable Thad Cochran  
Ranking Member  
Committee on Appropriations  
United States Senate

The Honorable Daniel K. Inouye  
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The Honorable Thad Cochran  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
United States Senate

The Honorable Patrick J. Leahy  
Chairman  
The Honorable Judd Gregg  
Ranking Member  
Subcommittee on State, Foreign Operations, and Related Programs  
Committee on Appropriations  
United States Senate

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The Honorable Ike Skelton  
Chairman

The Honorable Duncan L. Hunter  
Ranking Member  
Committee on Armed Services  
House of Representatives

The Honorable Howard L. Berman  
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The Honorable Ileana Ros-Lehtinen  
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House of Representatives

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The Honorable Tom Davis  
Ranking Member  
Committee on Oversight and Government Reform  
House of Representatives

The Honorable John F. Tierney  
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The Honorable Christopher Shays  
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Subcommittee on National Security and Foreign Affairs  
Committee on Oversight and Government Reform  
House of Representatives

The Honorable David R. Obey  
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The Honorable Jerry Lewis  
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Committee on Appropriations  
House of Representatives

The Honorable John P. Murtha  
Chairman

The Honorable C.W. Bill Young  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
House of Representatives

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The Honorable Nita M. Lowey  
Chairwoman  
The Honorable Frank R. Wolf  
Ranking Member  
Subcommittee on State, Foreign Operations, and Related Programs  
Committee on Appropriations  
House of Representatives

The Honorable John Warner  
United States Senate

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# Appendix I: Scope and Methodology

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In this report, we discuss (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. This report builds on GAO's extensive body of work on Iraq, including our May 2007 assessment of reconstruction efforts in rebuilding Iraq's oil and electricity sector, our January 2008 assessment of Iraq's budget execution, and our June 2008 assessment on the progress made in meeting key goals in *The New Way Forward*.<sup>1</sup>

To complete this work, we analyzed relevant data, reviewed U.S. agency and International Monetary Fund (IMF) documents, and interviewed officials from the Departments of State, Defense, and the Treasury; Department of Energy's Energy Information Administration (EIA); and the IMF. We also reviewed translated copies of Iraqi documents, including budget, capital spending, and Central Bank of Iraq export oil receipts data. We provided drafts of the report to the Departments of the Treasury, State, and Defense. We received formal comments from the Department of the Treasury, which are included in appendix VI.

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.

To estimate Iraq's budget revenues from 2005 through 2007, we used data on export oil revenues and added estimates for other revenues. Crude oil export revenues are based on export oil receipts data from the Central Bank of Iraq (CBI) provided by the Department of the Treasury. The data account for all export transactions including amount paid, exported volume, price charged, date of shipment, payment date, and destination.

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<sup>1</sup>See 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); GAO, *Iraq Reconstruction: Better Data Needed to Assess Iraq's Budget Execution*, [GAO-08-153](#) (Washington, D.C.: Jan. 15, 2008); and GAO, *Securing, Stabilizing, and Rebuilding Iraq: Progress Report: Some Gains Made, Updated Strategy Needed*, [GAO-08-837](#) (Washington, D.C.: June 23, 2008).

The transactions are recorded on a daily basis. Monthly prices are calculated by dividing the total revenue by the total output from that month; export volume is calculated by aggregating the output from all the transactions from each month. We found that data were sufficiently reliable to present Iraqi oil export revenue as part of estimates of Iraqi revenues from 2005 through 2007. We determined that the 2004 budget revenue and expenditure data were not reliable and did not include this data in our review. To determine Iraq's tax and other revenues, we added preliminary estimates of net domestic revenues from oil-related public enterprises, taxes, and other revenues as reported in IMF's stand-by arrangement with Iraq. We interviewed IMF officials and made comparisons to other available sources to determine the reliability of those estimates. We found that the data were sufficiently reliable for the purpose of our analysis. We also projected total revenues for 2008 by forecasting export oil revenues and added those to IMF's forecast of net revenues from oil-related public enterprises and taxes and other revenues. We developed six alternative scenarios for export oil revenues. See appendix III for the underlying assumptions about prices and export volumes for each scenario.

To provide detailed information on the Iraqi government's estimated expenditures, we reviewed Iraqi official Ministry of Finance monthly and annual budget and expenditure data for fiscal years 2005 through 2008, which were provided by Treasury. We used Iraq dinar-dollar exchange rates to convert dinar budget and expenditure figures to dollars. To provide a preliminary view of spending trends for the 3-year period 2005-2007, we calculated annual average growth rates using an ordinary least squares regression technique. Although we computed these growth rates for both dollar and dinar denominated spending, we believe that growth rates in dinars are more informative because actual expenditures are made in dinars. Using dollar-denominated expenditures inflates the growth rates due to the 19-percent appreciation of the dinar against the dollar during this period.

We did not use special reports developed by the Ministry of Finance because they include Iraqi commitments to spend as well as actual expenditures. We did not use the special reports for our analyses for two reasons: (1) Treasury Department officials stated in our meeting 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 review of these special reports show inconsistent use of poorly defined budget terms, as well as columns and rows that do not add up.

Beginning in 2007, the government of Iraq adopted a new budget classification to comply with an IMF requirement. To compare the same expenditure categories over time, we re-grouped some sub-categories, as explained in appendix IV. Detailed breakdowns of the goods and services category are not available for individual ministries beginning in 2007. For the three sub-categories goods, services, and maintenance, the percentage shares were calculated for the years 2005 and 2006. Although we included the latest available 2008 expenditure figures in our tables, we did not use 2008 to calculate growth rates or shares of total expenditures for the 2005 through 2007 period.

To provide some insight into how well the Iraqi government was able to implement its intentions and priorities, we constructed an expenditure ratio: actual expenditures divided by the budgeted amount for that activity or ministry. This does not capture the quality or effectiveness of expenditures, but only whether the government was able to spend the money it had budgeted. Treasury officials informed us that their analysis indicated that official Ministry of Finance data were sufficiently reliable. In addition to our interviews of cognizant officials, we examined and reviewed ministry data and compared monthly and annual data for internal consistency. Although we did not independently verify the precision of Iraqi expenditure data for 2005 through 2008, we believe that they are sufficiently reliable for the purposes of our report. However, we found that the data for 2004 were not sufficiently reliable and did not use them in our report.

To identify Iraqi financial deposits as of the end of 2007, we reviewed IMF documents and interviewed IMF and Treasury officials. The data for the DFI balances are based on a July 2008 audited statement by the International Advisory and Monitoring Board (IAMB). The data on central government deposits at the CBI and Iraq's commercial banks come from the International Financial Statistics, as of July 2008. We determined that these reported data were sufficiently reliable for our analysis. To estimate Iraqi government's cumulative budget surplus from 2005 to 2007 and projected surplus for 2008, we subtracted estimated total expenditures from estimated total revenues. The data source for Iraqi spending is Iraq's Ministry of Finance. The projected expenditures for 2008 are based on the assumption that the 2005 through 2007 average budget execution rate of 68 percent will remain the same in 2008. We selected this approach because it provided the highest estimate of 2008 expenditures based on recent historic data and trends for 2005 through 2007 and the approved 2008 budget. We varied total expenditures since the amount of war reparations

varied. These reparation payments are calculated at 5 percent of the estimated oil export revenues projected in our six scenarios.

In addressing the amount of U.S. funds that have been appropriated, obligated, and disbursed, we collected funding information from the Departments of Defense and State and relied on prior GAO reporting and data from the Departments of Defense, State, the Treasury, U.S. Agency for International Development, and the Coalition Provisional Authority to update the information where necessary. Although we have not audited the funding data, we discussed the sources and limitations of the data with the appropriate officials and checked them, when possible, with other information sources. We found the data were sufficiently reliable for broad comparisons in the aggregate and the category descriptions we have made in this report.

To update information on factors affecting the Iraqi government's ability to spend its revenues, we reviewed DOD, State, and IMF reports and met with officials from State, Treasury, DOD, and IMF.



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# Appendix II: Estimates of Iraqi Crude Oil Export Revenues from 2005 through 2007

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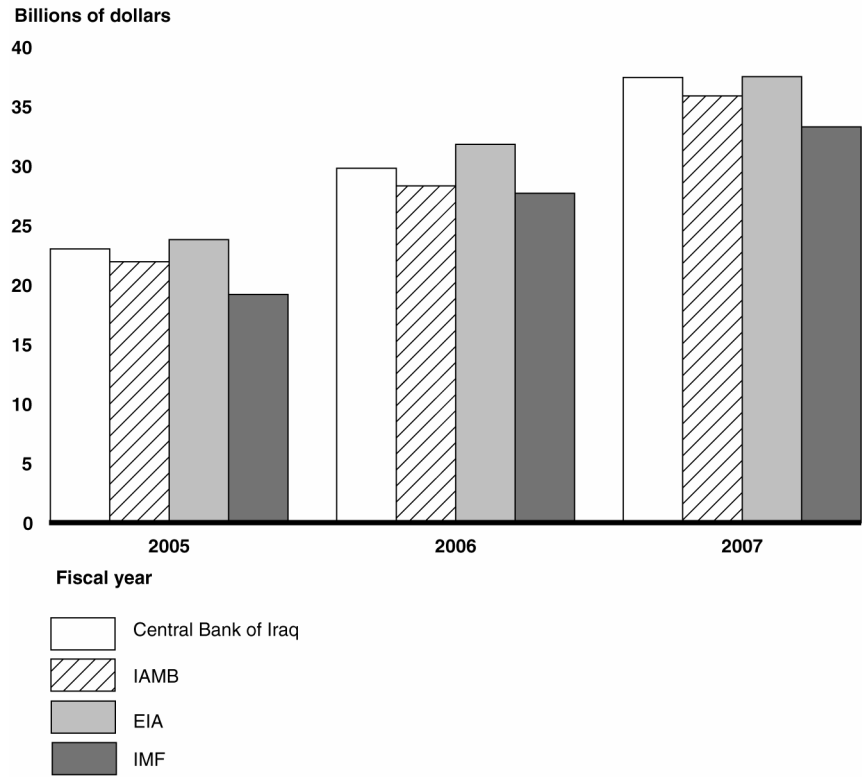
We are providing estimates of Iraq's crude oil export revenues from three sources to show how they compare with actual oil export receipt data reported by the Central Bank of Iraq (CBI). Estimates of Iraq's crude oil export revenues from different entities—the International Advisory and Monitoring Board (IAMB), Energy Information Administration (EIA), and International Monetary Fund (IMF)—ranged from about \$80.2 to about \$93.1 billion for the period 2005 through 2007. As shown by figure 5, these sources are consistent with Iraq's export oil revenues as reported by the CBI and show a consistent upward trend for that period. For example, CBI crude oil export receipt data for 2007 reported revenues of \$37.4 billion compared to estimates that ranged from \$33.3 billion to \$37.5 billion. IAMB data are based on its audit of Iraqi oil receipts and do not include the 5 percent of Iraq's export oil revenues set aside into a United Nations compensation fund to process and pay claims for losses resulting from Iraq's invasion and occupation of Kuwait. The IMF data are estimates based on its own analysis and Iraqi authorities' estimates, and EIA data are estimates based on its own analysis of a variety of sources.<sup>1</sup>

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<sup>1</sup>EIA uses its own analysis and a variety of sources, including Dow Jones, *the Middle East Economic Survey*, the *Petroleum Intelligence Weekly*, the International Energy Agency (IEA), the *Monthly Oil Market Report* from OPEC, the *Oil & Gas Journal*, Platts, and Reuters.

Appendix II: Estimates of Iraqi Crude Oil  
Export Revenues from 2005 through 2007

Figure 5: Iraqi Crude Oil Export Revenues, from 2005 through 2007



Source: GAO analysis.

# Appendix III: GAO Projections of Iraqi Crude Oil Export Revenues for 2008

This appendix presents our methodology for projecting Iraq's crude oil export revenues for 2008 and discusses the underlying price and export volume assumptions. First, we calculated the average monthly prices and volumes for Iraqi crude oil exports from January through June 2008, the most recent months for which data were available. For those months, we used data on the volume and price of crude oil exports as reported by the Central Bank of Iraq (CBI). Second, we made assumptions about the price and export volumes of Iraqi crude oil based on historical prices and export volumes. We used these assumptions to project monthly prices and export volumes for the period July through December 2008. Third, we used the actual price and export volume data for the first half of the year and the projected price and export volume data for the second half of the year to project a range of crude oil revenues for Iraq, using six alternative scenarios.

## Prices and Export Volumes for Iraqi Oil for January through June 2008

We calculated the average monthly prices of Iraqi oil and the corresponding export volumes for January through June 2008 using actual transaction prices and volume, as reported by CBI. These monthly averages are based on the daily prices per barrel and export volumes for each month. Monthly prices are calculated by dividing the total revenue by the total output from that month; export volume is calculated by aggregating the output from all the transactions from each month.

## Assumptions for Alternative Scenarios of Iraqi Crude Oil Export Prices and Volume for July through December 2008

We developed six scenarios of export oil revenues by varying price and export volume. Table 6 summarizes alternative assumptions for export prices and alternative assumptions for export volumes.

**Table 6: Assumptions for Six Scenarios Projecting Iraqi Crude Oil Export Revenue for July through December 2008**

Scenario	Export price assumption for July-December	Export volume assumption for July-December
1	2008 Jan.-June average	2008 Jan.-June average
2	2008 June level	2008 Jan.-June average
3	Discount from WTI's forecast as of July 8	2008 Jan.-June average
4	2008 Jan.-June level	2008 June level
5	2008 June level	2008 June level
6	Discount from WTI's forecast as of July 8	2008 June level

Source: GAO analysis using CBI and EIA data.

For the forecast period, we assume two constant levels of export volume for each month from July through December 2008: the January through June 2008 average export volume and the June 2008 export volume. This assumption is based on the reasoning that the forecast time frame is short and export volume is constrained by Iraq's oil production capacity and capability, as well as the level needed for Iraq's domestic consumption.

For each of the two export volumes, we developed a base case, an optimistic scenario, and a pessimistic scenario for the behavior of prices.<sup>1</sup> For the base case, we set prices equal to the June 2008 level. This implies no growth in prices for the rest of the year. For the optimistic case, we determined prices by applying a 12.9 percent discount from the average monthly prices of the West Texas Intermediate (WTI), a key benchmark for world crude oil prices forecast by EIA.<sup>2</sup> This implies 1.12 percent growth in Iraqi crude oil export prices from June to December 2008. Finally, for the pessimistic case, we set prices equal to the January through June 2008 average value. This implies a price drop in July 2008 with no change afterwards; thus, the average monthly growth rate in prices from June to December 2008 is -1.93 percent.

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Estimated Oil Revenue  
Based on Alternative  
Assumptions

As shown in table 7, using a combination of our price and export volume assumptions, we projected six scenarios for Iraqi oil exports for July through December 2008.

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<sup>1</sup>From January through June 2008, the average monthly growth rate of Iraqi crude oil export prices grew by 6.5 percent. However, recent projections of world prices for crude oil suggest a lower growth rate in the near future.

<sup>2</sup>To derive this discount projection, we computed the average monthly percentage difference between WTI and Iraqi prices reported by CBI for January 2007 to June 2008. We used this longer period to allow sufficient observations for the behavior of these prices.

**Appendix III: GAO Projections of Iraqi Crude Oil Export Revenues for 2008**

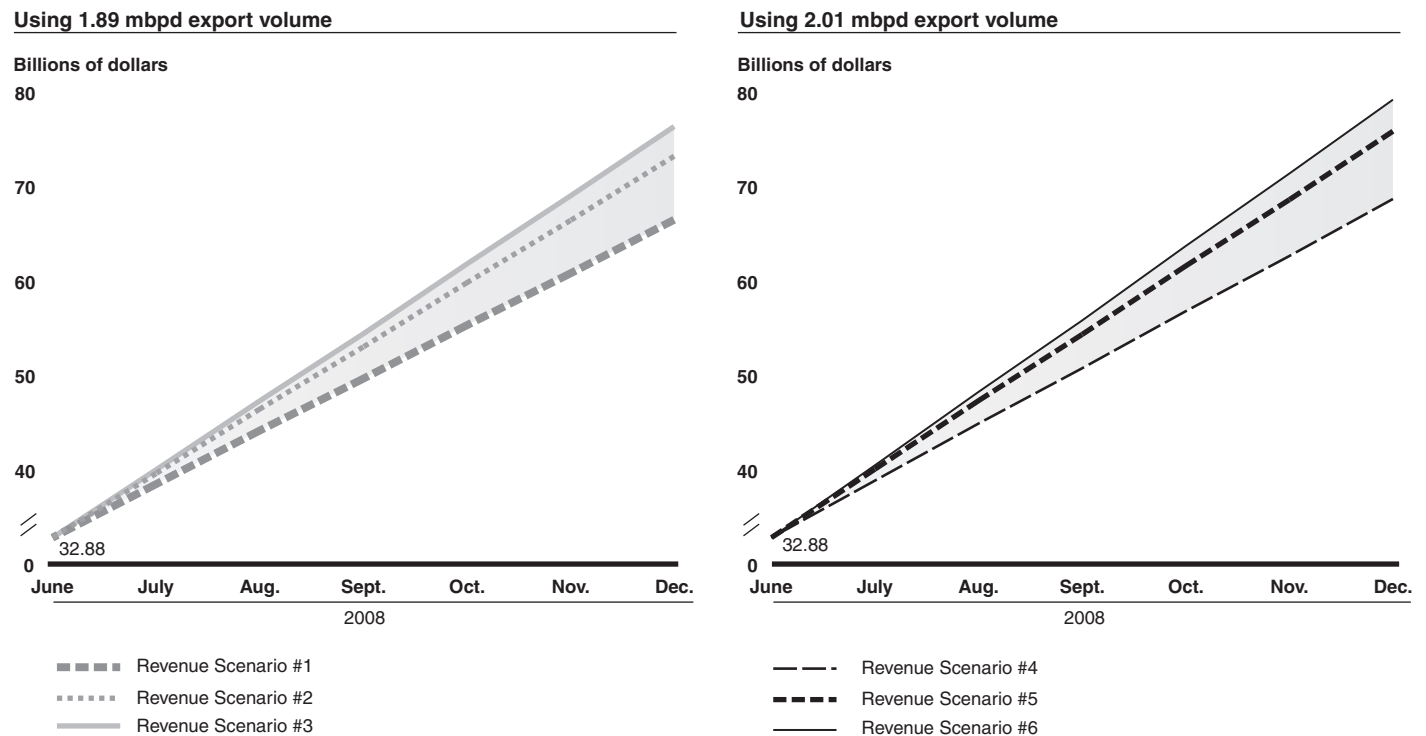
**Table 7: Projections for 2008 Iraqi Oil Export Prices, Volume, and Revenue**

Scenario	Average percent change in price June-December 2008	2008 July-December average price (per barrel)	2008 average export production (mbpd)	Revenues for July-December 2008 (billions of dollars)	2008 Total crude oil revenue (billions of dollars)
1	-1.93	\$96.88	1.89	\$33.65	\$66.53
2	0	116.26	1.89	40.38	73.26
3	1.12	125.29	1.89	43.51	76.40
4	-1.93	96.88	2.01	35.85	68.73
5	0	116.26	2.01	43.02	75.90
6	1.12	125.29	2.01	46.36	79.24

Source: GAO analysis using CBI and EIA data.

Figure 6 depicts the total export oil revenues for each of the two levels of assumed export volume, 1.89 and 2.01 mbpd. Total actual export oil revenues from January to June 2008 were \$32.88 billion.

**Figure 6: Projected 2008 Cumulative Iraqi Oil Export Revenue**



Source: GAO analysis using CBI and EIA data.

# Appendix IV: GAO's Analysis of Iraq's Budget

This appendix provides information on Iraq's budget to clarify our classification of expenditures as reported by the Ministry of Finance. Iraq's budget is divided into current operating expenditures and investment. In 2007, the Iraqi government adopted a new chart of accounts as recommended by the International Monetary Fund. To compare the budget expenditures over time, we combined various expenditure categories into four groups. Column 1 in table 8 shows the nine categories of expenditures reported in 2005 and 2006 and their combination into four groups presented in the table; column 2 shows the eight categories used in the 2007 and the 2008 chart of accounts. Operating expenditures consist of (A) employee compensation, (B) goods and services, and (C) other operating expenditures.

**Table 8: Iraq Budget Classification of Expenditures Reported by the Ministry of Finance**

2005 and 2006	2007 and 2008
I. Operating expenditures	I. Operating expenditures
A. Employee compensation	A. Employee compensation
1. Salaries	1. Employee compensation and pensions
2. Stipends and pensions	
B. Goods and services	B. Goods and services
3. Goods	2. Goods and services
4. Services	
5. Maintenance	
C. Other operating expenditures	C. Other operating expenditures
6. Transfers	3. Interest
7. Foreign obligations	4. Subsidies
	5. Grants <sup>a</sup>
	6. Social benefits
	7. Other expenditures
II. Investment	II. Investment
8. Operating capital	8. Non-financial assets
9. Capital projects and reconstruction	(Reconstruction grants, primarily for regions and provinces)

Source: GAO analysis of Ministry of Finance official monthly reports provided by the U.S. Treasury.

<sup>a</sup>Excludes grants earmarked primarily for reconstruction activities in the regions and provinces.

# Appendix V: Government of Iraq Expenditures for Select Ministries

This appendix provides additional information on the expenditures of five central ministries—defense, interior, oil, water, and electricity—responsible for providing critical services to the Iraq people. Table 9 provides information on the operating and investment expenditures for the security ministries—Ministry of Interior, responsible for internal police and security forces, and Ministry of Defense, responsible for the Iraqi military forces.

**Table 9: Expenditures and Annual Growth Rates of Iraqi Security Ministries (Defense and Interior), 2005 through April 2008**

(Dollars in millions)

	2005	2006	2007	Total 2005-07	Jan.- April 2008	Percentage share of total 2005-07	Annual average growth rate, dollars 2005-07	Annual average growth rate 2005-07 (Iraqi dinars)
<b>Ministries of Defense and Interior</b>								
<b>Total expenditures</b>	<b>\$2,109</b>	<b>\$2,992</b>	<b>\$4,617</b>	<b>\$9,718</b>	<b>\$1,910</b>	<b>100%</b>	<b>48%</b>	<b>36%</b>
I. Operating expenditures	1,971	2,697	4,441	9,108	1,898	94	50%	38%
A. Employee compensation	1,541	2,162	3,564	7,268	1,504	75	52%	39%
B. Goods and services <sup>a</sup>	422	535	866	1,823	392	19	43%	31%
Goods	281	366				13		
Services	97	148				5		
Maintenance	44	21				1		
C. Other operating expenditures <sup>b</sup>	7	0	11	18	2	0.2		
II. Investment	138	296	176	609	12	6	13%	3%
Total expenditures excluding employee compensation <sup>c</sup>	567	831	1,052	2,450	406	25	36%	25%
<b>Ministry of Defense</b>								
<b>Total expenditures</b>	<b>\$1,126</b>	<b>\$1,443</b>	<b>\$1,934</b>	<b>\$4,503</b>	<b>\$878</b>	<b>100%</b>	<b>31%</b>	<b>20%</b>
I. Operating expenditures	1,013	1,227	1,924	4,164	878	92	38%	26%
A. Employee compensation	664	794	1,227	2,685	524	60	36%	25%
B. Goods and services <sup>a</sup>	349	433	697	1,479	353	33	41%	29%
Goods	229	288				20		
Services	91	142				9		
Maintenance	29	3				1		
C. Other operating expenditures <sup>b</sup>	0	0	0	0	0	0		
II. Investment	112	217	10	339	0.2	8	-70%	-72%
<b>Ministry of Interior</b>								
<b>Total expenditures</b>	<b>\$983</b>	<b>\$1,549</b>	<b>\$2,683</b>	<b>\$5,215</b>	<b>\$1,032</b>	<b>100%</b>	<b>65%</b>	<b>51%</b>

**Appendix V: Government of Iraq  
Expenditures for Select Ministries**

	2005	2006	2007	Total 2005-07	Jan.- April 2008	Percentage share of total 2005-07	Annual average growth rate, dollars 2005-07	Annual average growth rate 2005-07 (Iraqi dinars)
I. Operating expenditures	958	1,470	2,517	4,945	1,020	95	62%	49%
A. Employee compensation	877	1,368	2,338	4,583	980	88	63%	50%
B. Goods and services <sup>a</sup>	73	102	169	345	38	7	52%	39%
Goods	52	77				5		
Services	6	6				0.5		
Maintenance	16	19				1		
C. Other operating expenditures <sup>b</sup>	7	0	10	18	2	0.3		
II. Investment	26	79	166	270	12	5	155%	133%

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

Note: Annual average growth rates are computed for expenditures denominated in both dollars and Iraqi dinars. We believe that growth rates in dinars are more informative because actual expenditures are made in dinars. Using dollar-denominated expenditures inflates the growth rates due to the 19 percent appreciation of the dinar against the dollar during this period.

<sup>a</sup>A breakdown of goods, services, and maintenance for individual ministries is available only for 2005 and 2006. Beginning in 2007 the government of Iraq adopted a new budget classification to comply with an IMF requirement. These categories are now combined into one category—goods and services.

<sup>b</sup>Other operating expenses include interest payments, grants and transfers, subsidies to public and private enterprises, social benefits, and other miscellaneous expenditures such as Kuwait war reparations and student scholarships.

<sup>c</sup>In 2007, the Government of Iraq adopted a new chart of accounts. It is unclear whether some purchases that were recorded as capital goods were now being recorded under goods and services or investment expenditures, and vice-versa. We have chosen to combine and report these categories as total expenditures excluding employee compensation.

Our analysis of Iraq’s Ministry of Finance expenditure data from 2005 through 2007 for the security ministries—defense and interior—found the following:

- From 2005 through 2007, the Iraqi security ministries primarily spent their funds on operating expenses. According to data from Iraq’s Ministry of Finance, Iraq’s security ministries spent 94 percent (\$9.1 billion) of their total expenditures on operating expenses and 6 percent (\$609 million) on investment expenses.
- From 2005 through 2007, total expenditures by Iraq’s security ministries grew at an annual rate of 36 percent, in Iraqi dinars, compared to the 13 percent annual growth rate of expenditures by the Iraqi government. This growth in expenditures is largely due to a 39 percent increase in



expenditures on salaries and wages, reflecting the increase in military and police personnel.

- Expenditures on items other than employee compensation, such as weapons, ammunition, trucks and special vehicles, uniforms, food, structures, and other equipment account for 25 percent of total expenditures. These expenditures have grown, in Iraqi dinars, at an annual rate of 25 percent less than the growth rate of compensation. With the adoption of the new chart of accounts in 2007, it is unclear whether some purchases that were recorded as capital goods were now being recorded under goods and services or investment expenditures. We have chosen to combine and report these categories for the security ministries as total expenditures excluding employee compensation.

Table 10 provides information on the operating and investment expenditures for ministries providing key essential services—Ministries of Oil, Water Resources, and Electricity.

**Appendix V: Government of Iraq  
Expenditures for Select Ministries**

**Table 10: Expenditures and Annual Growth Rates of Iraqi Ministries of Oil, Water, and Electricity, 2005 through 2008**

(Dollars in millions)

	2005	2006	2007	Total 2005-07	Jan.-April 2008	Percentage share of total 2005-07	Annual average growth rate, 2005-07 (dollars)	Annual average growth rate 2005-07 (Iraqi dinars)
<b>Ministry of Oil</b>								
<b>Total expenditures</b>	<b>\$160</b>	<b>\$191</b>	<b>\$36</b>	<b>\$387</b>	<b>\$52</b>	<b>100%</b>	<b>-52%</b>	<b>-56%</b>
I. Operating expenditures	49	48	35	133	13	34	-15%	-22%
A. Employee compensation	5	4	5	14	3	4	2%	-6%
B. Goods and services	45	44	30	119	10	31	-18%	-25%
C. Other operating expenditures	0	0	0.2	0.2	0.1	0		
II. Investment	111	143	1	254	39	66	-92%	-92%
<b>Ministry of Water Resources</b>								
<b>Total expenditures</b>	<b>\$163</b>	<b>\$145</b>	<b>\$236</b>	<b>\$538</b>	<b>\$69</b>	<b>100%</b>	<b>22%</b>	<b>11%</b>
I. Operating expenditures	42	54	128	224	35	41	74%	59%
A. Employee compensation	34	42	60	135	21	25	33%	22%
B. Goods and services	9	12	67	87	13	16	180%	157%
C. Other operating expenditures	0	0	1	1	1	0.2		
II. Investment	120	91	109	320	34	59	-5%	-13%
<b>Ministry of Electricity</b>								
<b>Total expenditures</b>	<b>\$147</b>	<b>\$281</b>	<b>\$78</b>	<b>\$504</b>	<b>\$15</b>	<b>100%</b>	<b>-27%</b>	<b>-33%</b>
I. Operating expenditures	5	13	77	94	15	19	312%	277%
A. Employee compensation	4	11	50	65	11	13	246%	217%
B. Goods and services	0.3	2	26	29	4	6	800%	724%
C. Other operating expenditures	0	0	0	0	0	0		
II. Investment	142	268	1	411	0.2	81	-93%	-93%

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

**Appendix V: Government of Iraq  
Expenditures for Select Ministries**

Note: Annual average growth rates are computed for both dollar and Iraqi dinar expenditures. We believe that the growth rates in dinars are more informative because actual expenditures are made in dinars. Using dollar-denominated expenditures inflates the growth rates due to the 19 percent appreciation of the dinar against the dollar during this period.

<sup>a</sup>Other operating expenses include interest payments, grants and transfers, subsidies to public and private enterprises, social benefits, and other miscellaneous expenditures such as Kuwait war reparations and student scholarships.

Our analysis of Iraq’s Ministry of Finance expenditure data from 2005 through 2007 for the three ministries, oil, electricity, and water—responsible for providing critical services to the Iraqi people—found the following:

- Investment expenditures comprise two-thirds of the total expenditures for these three critical ministries—oil, water, and electricity— as compared with only 10 percent for the government as a whole.
- Spending of their investment budgets has declined significantly from 2005 through 2007. According to Ministry of Finance data, investment spending by the Ministry of Oil and Ministry of Electricity declined at an annual rate of 92 percent and 93 percent, respectively, during this period. Investment spending by the Ministry of Water declined at an annual rate of 13 percent.

Further, from 2005 through 2007 the Government of Iraq allocated almost \$12 billion dollars toward investment activities of these ministries. However, as table 11 shows, the ministries of oil and electricity spent only a small percentage of the investment funds made available to them. The Ministry of Water Resources spent about 50 percent of its investment budget, while the Ministry of Oil spent 3 percent and Ministry of Electricity spent 14 percent.

**Table 11: Iraq Investment Budget and Expenditures for Ministries of Oil, Water, and Electricity, 2005 through 2007**

(U.S. dollars in billions)

	2005		2006		2007		Total 2005-2007		
	Budget	Expend.	Budget	Expend.	Budget	Expend.	Budget	Expend.	Expend. ratio
Oil	\$3,001	\$111	\$3,106	\$143	\$2,383	\$0.8	\$8,491	\$254	3%
Water resources	184	120	200	91	262	109	646	320	50%
Electricity	297	142	1,167	268	1,389	0.8	2,853	411	14%
<b>Total</b>	<b>\$3,482</b>	<b>\$373</b>	<b>\$4,473</b>	<b>\$502</b>	<b>\$4,034</b>	<b>\$110</b>	<b>\$11,990</b>	<b>\$985</b>	<b>8%</b>

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

# Appendix VI: Comments from the Department of the Treasury



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

July 28, 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 July 2008 draft of the GAO's report, *Stabilizing and Rebuilding Iraq – Iraqi Revenues, Expenditures, and Surplus*. We appreciate GAO's ongoing attention to fiscal issues that are crucial for reconstruction and growth in Iraq. Treasury has been closely engaged with the Iraqi Ministry of Finance on improving Iraq's fiscal processes to help ensure that Iraq's growing revenues are being spent for the betterment of the Iraqi people.

The report accurately highlights that Iraq's revenues have grown substantially in recent years, putting the Government of Iraq in a much stronger position to ultimately shoulder the full burden of its development, reconstruction, and security programs. Iraq has made progress in recent years in increasing its spending on these items, including on capital investment, accelerating Iraq's transition to self-sufficiency. Nonetheless, the pace of spending has been held back by various factors, including deficiencies in capacity and security. Going forward, in addition to improving budget execution, the Iraqis will also need to improve their tracking of funds to help ensure that Iraq's money is used for its intended purposes. The U.S. Government continues to work with the Government of Iraq in addressing these issues, and we believe that progress is being made.

#### *Iraq's available funds for reconstruction spending*

The report presents a credible picture of Iraq's cumulative budget surpluses and expected 2008 budget surplus, despite weaknesses in the underlying data. In doing so, the report correctly distinguishes between the \$29.4 billion of Iraqi Government financial deposits and the \$31.4 billion in gross foreign exchange reserves held by the Central Bank of Iraq at the end of 2007. It is important to recognize that reserves of the Central Bank are not available for fiscal purposes, but instead are for the purposes of supporting monetary policy and backing the domestic currency.

#### *Iraqi revenues and expenditures are both going up*

The report shows that Iraq's budget surplus is likely to grow significantly over the course of 2008, but it is equally important to recognize that spending in Iraq is also increasing.

- According to Iraqi Finance Ministry data, Iraq has already spent \$10.8 billion in 2008 through April, compared to \$5.9 billion spent during the same period last year.

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**Appendix VI: Comments from the Department  
of the Treasury**

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- Iraq is also increasingly focused on capital spending. Total investment budget execution for Iraq was roughly \$3.4 billion in 2007, compared with \$1.6 billion in 2006 (counting only final disbursements, not commitments). Including funds that were fully committed, Iraq's investment spending in 2007 was at least \$6 billion.
- As a further sign of Iraq's commitment to use its growing revenues, the Iraqi Finance Ministry submitted a \$22 billion budget supplemental to the Council of Representatives in July, with about \$8 billion dedicated to capital spending.

*Iraq still faces challenges in spending its growing revenues*

Although Iraq's spending is increasing, the Government of Iraq still needs to improve the speed and effectiveness of its budget execution, and the transparency of its budgeting and accounting practices. Iraq has more than adequate funds to make and maintain capital investments that deliver services and create conditions that foster economic growth. Moreover, as the size of Iraq's revenues and budgets grow, it is increasingly important for the Government of Iraq to spend its budgets on well-prepared projects and properly track the flow of funds. Such steps will help ensure that increased spending translates into improved service delivery and enhanced ability of the Government of Iraq to meet the needs of its citizens.

- U.S. Treasury's technical advisors and Embassy Baghdad's Public Finance Management Assistance Group are focusing on improving the pace of Iraqi budget execution as well as the ability to evaluate whether Iraqi capital spending achieves its intended impact. The U.S. Government and the Government of Iraq restarted the Iraq Financial Management Information System (IFMIS) on July 5 in targeted ministries, with the expectation that IFMIS will be operational in all 250 spending units by early 2009. The IFMIS system will improve budget reporting and transparency and facilitate increased Government of Iraq accountability.



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

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# Appendix VII: GAO Contact and Staff Acknowledgments

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## GAO Contact

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