

A recent report from the United States Government Accountability Office (GAO) analysing 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, the GAO estimates 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.

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, the GAO estimates 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 \$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.

Iraq possesses the third largest oil reserve in the world, estimated at a total of 115 billion barrels. 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 averaged 2.01 million barrels per day (mbpd), according to Iraqi oil export receipt data .