Iraq continues to rely on its oil resources as the country’s predominant source of economic growth and government revenue. This quarter, the UN Security Council endorsed a recommendation that Iraq assume greater responsibility for oversight of its oil revenues, which are currently deposited in the Development Fund for Iraq (DFI). This is a step in the direction of eventually transferring oversight of the DFI from the International Advisory and Monitoring Board (IAMB) for Iraq to the GOI’s Committee of Financial Experts (COFE)—an economic milestone that would give Iraq full control of its oil revenues for the first time since 2003. Other developments affecting Iraq’s economy this quarter included a moderate rise in oil prices, an upturn in food prices, and the reported rescheduling of the second round of bidding on oil service contracts.

As of September 30, 2009, the United States had allocated $1.56 billion, obligated $1.54 billion, and expended $1.32 billion to support Iraq’s economic development. The following are among recent examples of U.S. government efforts:

- Employment of Iraqi nationals on U.S.-funded projects (excluding CERP-funded projects) increased slightly this quarter—from 85,960 reported in the week of July 3, 2009, to 86,136 reported for the week of September 26, 2009.
- The United States has made a special effort to support economic empowerment for Iraqi women across a wide spectrum of fields and social classes in every province. For examples, see Section 3 of this Report.

For the status of U.S. funds supporting economic governance and private-sector development, see Figure 2.31.

### Key Economic Indicators

During the quarter ending September 30, 2009, the Iraqi economy benefited from rising oil prices and a modest increase in oil production and exports. Prices for Kirkuk crude oil reached a high of $73.35 and averaged $68.54 per barrel this quarter. Revenue from Iraqi oil exports totaled $12.01 billion this quarter, up from $8.45 billion posted last quarter. According to the Central Bank of Iraq (CBI), year-to-date oil revenue through September 30, 2009, was $26.3 billion. Overall inflation remained low, but volatile.
The year-on-year core inflation rate rose from 8.8% in June 2009 to 10.8% in August 2009, driven largely by rising food prices. As core inflation (which excludes volatile food and energy prices) fell during most of the first three quarters of this year, CBI cut interest rates from 14% in January 2009 to 7% in June 2009. The CBI continued to hold Iraq’s exchange rate at 1.170 dinar per dollar, after it spurred a large appreciation in the dinar last year. For more on recent trends for key economic indicators in Iraq, see Table 2.20.

Oversight of Iraqi Oil Revenues

On August 24, 2009, the UN Secretary-General issued a report on the DFI, noting IAMB’s assessment that COFE is ready to assume oversight of the DFI when IAMB’s mandate expires in December 2009. COFE has established a website (www.cofe-iq.net) that includes financial reports and meeting minutes. The UN report, however, detailed ongoing concerns about the lack of transparency and accountability in Iraq’s reporting and management of its oil revenues. The UN Security Council must act before the end of this year to continue the IAMB’s oversight of the DFI. The immunity of DFI assets from attachment enacted by the UN also expires on December 31, 2009. There is a U.S. Executive Order, however, that extends immunity for Iraqi assets held in the United States until May 2010.
and oil refineries. Yet, as of December 31, 2008, IAMB external auditors placed the level of oil-metering installations in Iraq at only 33% of total capacity. At a July 2009 IAMB meeting, Iraq’s Board of Supreme Audit (BSA) reported on the status of the metering program:

- Only 2 of the 34 meters installed on 21 North Oil Company oil sites were functional and calibrated. A letter from the company dated August 1, 2009, claimed that metering systems will be installed in a majority of sites and tanks recalibrated in the last quarter of 2009.
- The Missan Oil Company had no meters installed on pipelines pumping to export terminals, but the company reported that the process to solicit bids and award contracts for this equipment had been initiated.
- The South Refinery Company did not have meters to measure outputs and inputs between depots, production departments, and beneficiaries, relying instead on radar-metering systems or other mechanisms. The Thi-Qar refinery measures oil quantities using a depth bar, and the Missan refinery, which does not have any meters, has established a committee to determine measurements. The BSA report noted that 59 meters are required for southern refineries, but until recently, there were no letters of credit on record to purchase meters, and only 4 orders were reportedly in progress.

The Iraqi Budget for 2009–2010

The GOI’s 2009 budget is $58.6 billion, based on an oil price of $50 per barrel. During the third quarter of 2009, a supplemental to increase the budget by approximately $5 billion was introduced in the CoR. The CoR has had only one reading of the supplemental budget and has not yet approved it. The 2009 GOI budget shortfall is estimated to be as high as $16 billion, which could be offset with
Key Economic Sectors

Agriculture

Agriculture, the second largest sector of Iraq’s economy, is suffering from the effects of a two-year drought and declines in water flowing into Iraq’s rivers from neighboring countries. This year, the situation worsened as Iran continued to divert the paths of the Karun and Karkha rivers for local projects and completely cut the flow from the Karun into Iraq’s Shatt al-Arab River. The lower water levels have led to increased salinity that is damaging agriculture and poisoning fish and animals.

Addressing Iraq’s use of surface irrigation water could mitigate reduced river flows. Conservative estimates are that much of the land devoted to agriculture is over-irrigated by as much as 25%–50% and that 25% percent of surface water supply is lost in the delivery system.

To address the need for better management of Iraq’s water resources, the U.S. Department of Agriculture, the Iraqi Ministry of Agriculture, and several other GOI ministries hosted a National Soil Salinity Conference on July 15–17, 2009. During the conference, senior GOI officials agreed to an outline of GOI actions to address the issue, which the Iraqi Ministry of Agriculture has agreed to as well.

USAID continues to support the four most profitable agricultural sectors in Iraq—perennial fruits, annual vegetables, aquaculture and poultry, and beef and lamb. This support is provided through a $92.5 million Inma agribusiness program that began in May 2007 and ends in August 2010. This quarter, Inma signed 6 feedlot and 3 packing shed grants, trained nearly 100 Iraqi fish farmers in advanced aquaculture techniques, made possible $1.5 million in agricultural micro-finance loans, and held several national agricultural conferences on finance, livestock, and poultry.

Foreign Investment and Privatization

Many challenges remain to foreign investment and privatization in Iraq. As noted in the World Bank’s accumulated fiscal reserves estimated to be approximately $21 billion as of the end of 2008. According to U.S. Embassy-Baghdad, the GOI had released 50% of total provincial budgets by the end of June 2009, and the provinces had spent approximately 30% of their capital investment budgets. GOI budget expenditures for this quarter are not available, partly because of the August 19, 2009, attacks that severely damaged the Ministry of Finance.

Highly skilled professionals from the ministry were injured or killed, and a significant number of paper and electronic files were lost.

On October 13, 2009, Iraq’s Council of Ministers (CoM) approved a 2010 budget of approximately $67 billion, based on an oil price of $60 per barrel and exports of 2.15 MBPD, and a deficit of approximately $15.3 billion. The budget now goes to CoR for review, amendment, and approval.

Figure 2.32 provides details on GOI budgets and budget execution from 2006–2010.
The KRG has taken steps to make the investment climate more attractive, such as passing an investment law that allows 100% foreign ownership of land (except for land containing oil, gas or mineral resources). The KRG also contributes to the cost of basic infrastructure (water, electric, sewerage, public road, telecommunications, etc.) related to foreign investment projects. In contrast, the GOI restricts foreign ownership of land in most of Iraq and requires foreign companies to bear the cost of basic infrastructure when investing in Iraq. U.S. Embassy-Baghdad reports that land-use issues are the most commonly cited reason inhibiting project execution. While the KRG has been more active in addressing the legal obstacles to foreign investment, corruption remains an obstacle to private-sector development in the Kurdistan Region, just as it is in the rest of Iraq.

**Table 2.21**

<table>
<thead>
<tr>
<th>Country</th>
<th>Ranking</th>
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