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Fuelling suspicion: the coalition and Iraq's oil billions

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Introduction

On 30 June, the US-controlled coalition in Baghdad will hand over power to an Iraqi transitional government. As it prepares to do so, the first audit of how the coalition has spent billions of dollars of Iraqi oil revenue is only just being delivered.

Put another way, this means that for the entire year that it has been in power in Iraq, it has been impossible to tell with any accuracy what the Coalition Provisional Authority (CPA) has done with some US\$20 billion of Iraq's own money. This also means that the CPA will disappear without ever having been held accountable for the money.

Early reports of the audit say that it criticises the CPA's handling of Iraq's oil money, which it says left the funds open to fraud. It also says that CPA staff resisted the investigation.

In May 2003, the United Nations Security Council passed resolution 1483, which gave control of Iraq's oil revenues and other Iraqi funds to the CPA on condition that they were spent in the interests of the Iraqi people and that they were independently monitored. These comprised oil revenues since last year's conflict, repatriated funds and the balance of pre-war oil revenues.

The resolution stipulated that an international oversight board should be set up and that it should appoint an independent auditor. But by December 2003, more than six months after the resolution, this board had still not met, amid allegations that the CPA was stalling. Then it took until April 2004 to appoint an auditor – leaving only a matter of weeks to go through the books before the CPA would dissolve itself.

Christian Aid believes that this failure puts the CPA in flagrant breach of the UN resolution.

Moreover, in the run-up to the handover, billions more dollars have been hastily allocated to projects that do not appear to have been properly planned. The new government will be committed to these spending decisions.

Iraq's oil represents huge potential wealth for the country. In Christian Aid's view this wealth must not only benefit the poorest people in Iraq, but must clearly be seen to be doing so. At present this is not happening.

Of course, security is the most pressing priority in Iraq at present. But it is vital that the CPA demonstrates complete openness over its handling of Iraq's money. Mistrust of the CPA's behaviour and motives can only make the security situation worse, providing as it does a grievance for those seeking to stoke the violence. Attacks have now turned to the oil pipelines that carry 95 per cent of the country's income, threatening Iraq's revenues and its long-term recovery and reconstruction.

The CPA's failure to demonstrate openness also sets a very bad precedent for the incoming Iraqi government. Transparency is essential in any democratic state, but particularly where oil is involved. Too many oil-rich countries go down the road of unaccountable government, riches for the few, and poverty for the many. Iraq can avoid this route, but only by ensuring transparency. It should not revert to the secrecy of the Saddam era.

Christian Aid made this point in October 2003 with the publication of the report *Iraq: The Missing Billions*. This revealed that US\$4 billion of Iraq's oil revenues and other funds were then unaccounted for.¹ We called for the 'missing billions' to be found and for a thorough audit – which even at that time was months overdue.

Since then, the CPA has provided some more information about what it is doing with Iraq's oil revenues. But this is still woefully inadequate. We still do not know exactly how Iraq's money has been earned, on what contracts it has been spent, or whether this spending was in the interests of the Iraqi people, as required by resolution 1483.

The coalition tells us that Iraq's oil money has been used to pay for 'the wheat purchase program, the currency exchange program, the electricity and oil infrastructure programs, equipment for Iraqi security forces, and for Iraqi civil service salaries and ministry budget operations.' Lists are given of which projects are being undertaken by each ministry, and meeting minutes show which projects have been approved.

But we don't know which companies have been paid for which jobs. As a senior UN diplomat told Christian Aid: 'We only have the total amounts and movements in and out of the Development Fund for Iraq (DFI). We have absolutely no knowledge of what purposes they are for, and if these are consistent with the Security Council resolution.'

It was only in April 2004 that the CPA belatedly began to reserve any contract from the DFI worth less than US\$500,000 for Iraqi companies. Because it does not provide lists of companies that have won contracts, it is impossible to see if this policy is being implemented.

Of course, some foreign help is needed to rebuild the country. But with US companies charging up to ten times as much as Iraqi companies, reports of corruption at every level in the contracting process, and with Iraqi unemployment running at more than 50 per cent, Iraqis need to be able to see that their money is being put to its best use. But they cannot.

This is in stark contrast to the information available about the US funds allocated for construction in Iraq. Probably because these taxpayers' funds have been a source of ongoing political controversy in the US, there are no less than four separate audits of their use. It is possible, at least with the larger contracts, to find lists of jobs, contract values and which companies have been awarded them.

Not only is the CPA failing to show exactly how it is spending Iraq's oil money, but it is also failing to be transparent about how it is earning it. A bald figure, updated every few days, is given for Iraq's cumulative oil earnings since the CPA has been running Iraq.

But two different CPA documents give different figures for the oil revenue to the end of May. One says US\$10 billion. The other says US\$11.5 billion. Christian Aid attempted its own calculation of Iraq's oil revenue and came up with a potential US\$13 billion – 30 per cent more than the lower CPA figure. Are these extra billions missing? It is not possible to say.

Experts agree that it is almost impossible to work out what Iraq is earning from oil. The CPA, therefore, must show how it has calculated its figures, by providing production and export figures, prices and costs.

Assessing Iraq's oil revenues is made extremely difficult because its oil production is not being metered. The facilities for doing so fell into disuse during the sanctions period. Oil metering is essential to ensure accountability over oil revenues. Yet at the end of April 2004, nearly a year after the CPA started pumping Iraq's oil, a CPA meeting acknowledged that metering was nonexistent.

Christian Aid is now calling for the CPA to provide enough information so that Iraqis can see how their oil revenue has been earned, and exactly how it is being spent. It specifically calls on the UK government to use its influence within the CPA to ensure that this happens.

We are also calling on the new interim Iraqi government, and the elected governments that will follow it, to ensure that they are fully transparent about oil revenues and how they are spent, and that their spending is independently and publicly audited.

Christian Aid's concerns

Christian Aid has been working in Iraq to alleviate poverty since 1992. Our involvement means we are in touch with the concerns of Iraqis. Last year, we commissioned a survey by one of our partner organisations, published in April 2004, that showed the quality of life had deteriorated for many of Baghdad's poor communities, with miserable living conditions exacerbated by insecurity, crime, economic uncertainty and unemployment.

We have also recently consulted our Iraqi partners on their concerns as the handover of power on 30 June approaches. Security inevitably featured highest. But the question of reconstruction and the lack of Iraqi involvement in it also figured prominently. Our partners have noticed that the coalition's promises to fund reconstruction do not seem to have been translated into action on the ground.

Everything our partners told us spoke not only of a lack of Iraqi involvement, but also of an absence of transparency over how Iraq's funds have been spent. They had seen little to assuage the concerns that we reported in *Iraq: the Missing Billions* in October 2003.

Christian Aid's partners told us that when projects do benefit local communities, people tend not to realise that the money being used might be Iraq's own revenues rather than funds from foreign donors. Similarly, local communities are rarely consulted about identifying and planning projects. Iraqis believe that they should be consulted over the spending of their own funds, and think this will be a key issue for the new government that takes over on 30 June.

Christian Aid supports six local NGO partner organisations, which are best placed to understand local needs. Between them, our partners now represent the interests of a variety of communities including Kurdish, Shia and Sunni (before 2003 we worked only in the Kurdish north because we could not get access to the rest of the country).

Our appeal fund for Iraq has raised £1.75 million, about a third of which has been spent in the past year. Our partners' priorities are community development, civil society, conflict resolution, mother-and-child health, education, and water and sanitation.

Billions spent with no oversight

‘The whole IAMB mandate is far too restrictive. There are no consequences for any wrongdoing. We worked very hard to have an international oversight body, but the Americans dragged their feet. Of course they didn’t want anyone to know how they spend the money.’

European official at the UN in New York, 8 June 2004²

In May 2003, UN resolution 1483 called for the International Advisory and Monitoring Board (IAMB) to be set up to monitor the CPA’s use of the Development Fund for Iraq (DFI), into which Iraq’s oil revenues are to be paid until the country has a sovereign government.

Five months later, the IAMB’s constituent members – the International Monetary Fund, the World Bank, the UN and the Arab Development Fund – were still arguing about what its role should be. It was reported that Washington was attempting to limit its remit so that it would have no real power.³

On the eve of the Madrid donor conference in October 2003, when it wanted to raise money, the US finally gave the IAMB the authority its members wanted. The panel was given the power to:

- monitor the export of oil and gas to ensure sales were consistent with the best prices on the international market
- audit the receipts from oil sales
- audit all inflows, outflows, investments and liabilities of the DFI
- review whether money paid out from the DFI was used for the purposes for which it was given
- conduct other ‘special audits’ into whether the CPA’s management was consistent with Security Council resolution 1483.

But, significantly, the IAMB was not given the power to sanction the CPA for financial mismanagement, nor to compel it to cooperate in its investigations.

Then there were more delays. The board didn’t meet until December 2003, when little of substance was agreed, and the next meeting was not until February 2004. But it was not until 5 April that an announcement was made that the CPA – with the approval of the IAMB – had selected the accountancy firm KPMG as the auditor of the DFI. KPMG began work only a matter of weeks before the handover of power.

The auditor is supposed to make an interim report by 30 June, although Christian Aid believes that this may be delayed. Iraq Revenue Watch, a project run by the US-based Open Society Institute, has been monitoring the CPA’s use of Iraq’s funds for the past year. As the auditor began work in April, it said it did not believe that they would be able to make a full report by the deadline.

‘There is not enough time left to cram in an audit of more than a year’s worth of expenditures, many of which have not been accounted for,’ said Iraq Revenue Watch director, Svetlana Tsalik.⁴

Early reports of the audit say that it criticises the CPA's handling of Iraq's funds: the DFI is open to fraud, it says, and there is lack of control over oil sales and ministry budgets.

But despite these criticisms, there is no identifiable way in which anybody can be held to account for the CPA's decisions.

International lawyers consulted by Christian Aid say there is an argument that the CPA is a joint association of the UK and US and therefore both states are responsible for the CPA's actions.

But a UK Foreign Office spokesman admitted to Christian Aid that the question of liability for the CPA is 'messy' and that after it dissolves on 30 June it will be very hard to bring it to account. The only options, he said, would be 'criticism and rhetoric'.⁵

Bert Keuppens, the International Monetary Fund (IMF) representative on the IAMB, agreed: 'There is no stick to the audit, except publicity.'⁶

The lack of auditing of Iraq's money is in stark contrast to the attitude towards the US\$18.4 billion donated by the US taxpayer – a similar amount to the sum paid into the DFI so far. A briefing to journalists on 24 May this year by Admiral Nash, director of the CPA's Program Management Office (PMO), which oversees the spending of US taxpayer funds in Iraq, claimed that the PMO was the 'most audited program ever!' with four different organisations auditing its activities: the US General Accounting Office, the Defense Contract Audit Agency, the Defense Contract Management Agency and the CPA's Inspector General.⁷

Mr Keuppens told Christian Aid that it is 'normal practice' to commission an audit at the end of a reporting period.

But under 'normal' circumstances, the organisation being audited would not be about to dissolve. It is difficult to imagine shareholders of a commercial company being satisfied with such an arrangement. At the very least, this serious delay in demonstrating accountability sets a bad precedent for the new Iraqi government.

Christian Aid is calling for the complete audit to be made public. The IAMB, which continues its mandate under Security Council resolution 1546 until the end of 2005 at the latest, should be given strengthened powers to call decision-makers publicly to account.

We are also calling for the Supreme Audit Board, the Saddam-era body which will be the Iraqi successor to the IAMB when the latter's mandate runs out, to be sufficiently resourced and trained to ensure full transparency and oversight of government spending. Under Saddam its audits were not made public; now they will have to be.

Why is it so important for oil revenues to be transparent?

A year ago, Christian Aid reported on how oil revenues can fuel corruption and poverty in developing countries. In poor countries dependent on oil revenues, there is a greater likelihood of a 'lethal cocktail' of:

- greater poverty for the vast majority of the population
- increased corruption
- a greater likelihood of war or civil strife
- dictatorial or unrepresentative government.

When a government earns a significant proportion of its income from a natural resource, such as oil (95 per cent of Iraq's foreign earnings come from oil), it removes the need to be accountable to its population. It doesn't need their taxes, and so people's stake in society is reduced. The combination of large amounts of money washing about and scant accountability is the perfect breeding ground for corruption, which enriches the few and keeps the many in poverty. It leads to a situation whereby a country can be rich in natural resources, but the majority of its population live in poverty.

An essential part of the solution is transparency. If people can see how much their government is earning from oil, and what is being done with the money, that government becomes more accountable, and there is a higher chance that more of the oil revenue will be used to reduce poverty and improve people's lives rather than to line pockets.

Still not enough information

‘We only have the total amounts and movements in and out of the DFI. We have absolutely no knowledge of what purposes they are for, and if these are consistent with the Security Council resolution.’

A senior diplomat at the UN in New York, interview with Christian Aid, June 2004

The financial information that the CPA has started to provide on its website since our criticism last year is very basic. It does not meet international accounting standards, even though the CPA possesses the information needed to do so.

What the statements say

The CPA provides basic income and expenditure statements for the DFI, which are cumulative and are updated every few days. The statement of 29 May, for example, tells us that US\$19.4 billion has been paid into the DFI. This consists of US\$10 billion from oil revenues and just under US\$1 billion from repatriated Iraqi funds. Most of the remainder comes from Iraqi oil revenues generated before the DFI was created: US\$8.1 billion from the UN’s Oil for Food programme, which was set up during the sanctions regime imposed on Iraq when Saddam Hussein was in power.

The CPA’s website tells us that the DFI has been used to pay for ‘the wheat purchase program, the currency exchange program, the electricity and oil infrastructure programs, equipment for Iraqi security forces, and for Iraqi civil service salaries and ministry budget operations.’

On the ‘cash outflow’ page of the 29 May income and expenditure statement, we see that a total of US\$9.4 billion has been spent so far, including US\$6.1 billion on ‘ministry budgets’ and US\$2.8 billion on ‘payments for projects’. Of the remaining US\$10.1 billion, nearly US\$4.5 billion is already allocated for ‘outstanding commitments’, and the remaining US\$5.5 billion is committed to the 2004 government budget.

This budget, which was prepared by the Iraqi Ministry of Finance and the Ministry of Planning and Development, working under the CPA, gives a detailed breakdown of the money to be spent by each ministry and on what projects.

What the statements don’t say

1. Oil revenues

What is clearly missing from the CPA’s figures is any indication of how the figure for oil revenues has been reached. The financial statement for the DFI of 29 May, for instance, says that US\$10 billion in oil income was deposited between the DFI’s inception at the end of May 2003 and the end of May 2004. Yet the CPA ‘Administrator’s Weekly Report’ of 28 May says oil revenue was US\$11.5 billion for the same period.

Christian Aid made its own detailed calculations, with the best oil production and price figures available from oil industry analysts, and came up with oil income figures of between US\$11.8 billion and US\$13 billion to the end of May 2004 – a divergence of

between US\$1.8 billion and US\$3 billion from the CPA's figure of US\$10 billion⁸ – potentially a 30 per cent difference. How is anybody supposed to know which of these figures is the accurate one?

Oil has been at the centre of the debate about the war, and remains fundamental to Iraqis' perceptions about what the coalition has been doing. Christian Aid therefore believes that the Iraqi people should be told how their country's oil revenues have been made as well as spent: this means production and export figures, prices and costs.

In the many conversations that we had with oil industry insiders, we were warned that what we were trying to do – work out Iraq's oil income for ourselves – was extremely difficult due to the lack of information. They agreed that it was hard to make the available numbers add up, but thought that the figures we calculated were plausible.

A major problem is that the production of Iraqi oil is not metered, according to standard international industry practice. Metering normally takes place to ensure both the quantity and quality of what is being sold. It is in the interests of both sellers and buyers. The expert studies commissioned by the UN Oil for Food programme in 1998 and 2000 found that, following war damage and because of the lack of maintenance of the whole oil-industry infrastructure, metering had ceased.

At the end of April 2004, a CPA funding-allocation meeting (the Program Review Board – PRB) acknowledged that: 'Metering for crude oil extraction and sales is presently nonexistent in Iraq.' The minutes of the PRB go on to state that: 'A critical step in restoring the Iraqi oil infrastructure is to provide a system to control accountability of crude oil and its products.'⁹

So, nearly a year after the CPA took over Iraq's oil production and a year after the Security Council resolution that requires proper oversight of Iraq's oil was passed, a body run by the CPA acknowledged the lack of accountability over Iraq's oil.

This lack of accountability creates an environment ripe for corruption and theft at every level. Although new laws were passed to crackdown on smuggling, it is estimated that between 10 per cent and 25 per cent of Iraq's refined oil is being smuggled abroad.¹⁰ Coalition forces are regularly engaged in anti-smuggling activities, the CPA reports, and several ships suspected of being used for smuggling have been seized.¹¹

The lack of metering also means it is very hard to understand the CPA's management of Iraq's oil industry and its revenue – even for professional accountants. The minutes from IAMB meetings in March and April 2004 hint at its strong concerns about the lack of metering, since it is difficult to audit oil revenues when it is not clear how much oil to account for.¹² And at the following meeting in May it was reported that the audit had encountered some 'initial difficulties'.

On 24 and 25 May, the CPA told the IAMB that two contracts to install meters across Iraq have been issued, and that this will take 12 to 18 months. But the IAMB is so concerned about the potential losses due to smuggling and lack of metering that it is considering asking oil experts from the IMF or World Bank to assess how much revenue has been lost.¹³

Oil-industry sources consulted by Christian Aid said that metering is not that difficult to implement and should not present an additional security burden beyond the measures that are already necessary to extract and export the oil.

2. Contracts and disbursements

The problems with transparency extend to reconstruction contracts. The CPA has access to various funds for reconstruction (see page 15), including the DFI. But it has not made clear which fund is paying for which contracts. This means that Iraqis cannot clearly see what Iraq's own oil money is paying for.

Security Council resolution 1483, which gave control of Iraq's revenues to the CPA, said these revenues should be used to benefit Iraqis. There has been lots of publicity about big contracts being awarded to large US corporations, some of them with close links to the Bush administration. Huge amounts of money will be going back to the US in the form of profits for these companies, which often sub-contract more than once before the work on the ground is done for a fraction of the overall contract price.

Of the contracts that have been awarded, many to foreign companies, it is also impossible to see how much DFI money is actually being put to work on the ground. Christian Aid's partners in Iraq tell us that that they know of reconstruction projects where the money has been awarded and bids won, but there is no sign of activity because of the security situation.

It is not clear what proportion of DFI payouts have resulted in projects being completed – although reports from Iraq suggest that many are unfinished. The CPA has apparently reported to the IAMB on this issue. Christian Aid believes that these reports should be made public.

An indication of the CPA's concern that reconstruction projects are not moving fast enough is the fact that an 'accelerated' programme of reconstruction projects is now in place – the Accelerated Iraqi Reconstruction Program (AIRP). Run by the Program Management Office, which disburses US reconstruction funds, the AIRP is using money from the DFI (up to US\$277 million) as well as the US funds on projects in seven Iraqi cities in an attempt to achieve some quick results before the handover.¹⁴

Christian Aid is not saying that foreign companies should not be involved in reconstruction: Iraq badly needs foreign investment, and its industry is rundown. But Paul Bremer, the CPA's administrator, has himself admitted that US companies charge ten times as much as their Iraqi counterparts, a statistic with which Iraqi officials agree.¹⁵

It was only in April this year that the CPA began to reserve contracts of less than US\$500,000 from the DFI for Iraqi companies. And because it does not provide lists of companies that have won contracts, it is impossible to see if this policy is being implemented.

Christian Aid tried to work out how much of the DFI was being paid to foreign and Iraqi companies respectively. But it was impossible.

The CPA website has a list of contracts awarded in the first three months of 2004. But it does not state which fund they have been paid from, nor which companies received them. It is just a list of projects and their value. The total value of the contracts on this list is US\$148 million. There is no equivalent list for May-December 2003. These contract values are a fraction of the more than US\$9 billion worth of 'commitments' already paid for, that are listed on the DFI's income and expenditure statement.

The Program Review Board (PRB) recommends which projects should receive funding to CPA administrator Paul Bremer, who then makes the final decision. It makes recommendations for payouts from other funds as well as the DFI. The minutes of its meetings are more enlightening than the CPA's list of contractors. They list projects that have been approved, and since the beginning of 2004 they have stated whether they are being paid for out of the DFI or other funds. But again, there are no company names.

In contrast, the Program Management Office, which oversees the spending of US taxpayer funds (and is also run by the CPA), provides clearer lists of which contracts have gone to which companies and at what value.¹⁶

But the general lack of transparency about what is paid from which fund obscures the potential for abuse. In the early months of the CPA, several big contracts, including one for US company Halliburton, which has close links to the Bush administration, were awarded without open bidding processes. US reconstruction funds were supposed to pay for Halliburton's contract. But the US Congress refused to pay for contracts that had not been subject to competitive bidding, so Halliburton received money from the DFI.¹⁷ This meant that Iraqi oil money was being used to compensate for poor procurement practices by the CPA.

The minutes of Program Review Board meetings reveal other occasions when DFI money has been used because the US funding was held up or otherwise unavailable. On 10 January 2004, the PRB decided to award an unspecified amount to the Iraqi army, which could have come out of US funds. But the board expressed its 'unanimous... concern for the continued use of scarce DFI funds to resource requirements because of the delays in obtaining Supplemental [US] funding.'

What kind of security is Iraq's money paying for?

Disturbingly, US\$1 billion of DFI money has been approved to pay for 'increased security' in the run-up to the handover, without any further information being provided about what this increased security entails. The Program Review Board approved US\$500 million from the DFI on 28 April this year for 'security related reconstruction and military needs' which are 'only now being identified'. The UK Foreign Office told Christian Aid that this money was not for bolstering coalition forces, but for Iraqi security requirements. But it could not specify what these were.

Given the widespread suspicion about the coalition's motives, it is important to show that Iraq's money is not being used to support the occupation. It should have been made clear what kind of 'increased security' this US\$500 million is paying for.

On 15 May, the PRB authorised a further US\$500 million for security spending from the DFI. This time, at least, it was specified that it was for the Iraqi security forces – although little other information was given. Significant concerns were raised at the PRB meeting that agreed this payment. The PRB's UK representative asked if other funding options had been considered, and complained that there was not enough detail provided with the request. The Australian representative asked if all the US funds for Iraqi security [some US\$3.2 billion] had been spent. The CPA's representative replied only that 'there was no limit to the amount one could spend on security' and that 'security issues were not simply a matter of value for money'. The request was approved.

The PRB meeting on 15 May allocated nearly US\$2 billion of Iraq's oil money at one sitting – a huge increase on the amount approved in previous meetings. In addition to the security funding mentioned above, money was again given to projects that could have been paid for with US funds that have not yet been used up:

- US\$315 million was given for electricity infrastructure although US\$5.5 billion of the US funds have already been allocated to electricity
- US\$460 million was given to oil sector reconstruction although US\$1.7 billion has already been allocated to this from the US funds.¹⁸

Given that there are far stricter controls on the allocation of US funds, it could be seen that the CPA is using Iraqi funds to award contracts that wouldn't stand up to the same level of scrutiny.

Allocations were also made at the same meeting for the settlement of property claims, compensation for Saddam's victims, and budget stabilisation funds, despite evidence that insufficient plans had been made for these projects. This raises the possibility that the money could be diverted into corrupt pockets. It is not clear why the CPA is engaged in this last-minute rush to dispense Iraq's oil revenues. What is clear, though, is that the new Iraqi government will be bound to these commitments by Security Council resolution 1546.¹⁹

Christian Aid repeatedly submitted written questions to the CPA about oil, auditing, accounts, transparency and contracts, but has received no full or satisfactory answers.

Other funds for relief and reconstruction²⁰

Iraq's money – the DFI – is not the only fund for rebuilding the country.

Donor money

International Reconstruction Fund Facility for Iraq: This is the money that was raised at the Madrid Donors' Conference in October 2003. It is held in two trust funds, one administered by the United National Development Program on behalf of the UN (the UN Development Group Iraq Trust Fund), the other by the World Bank (World Bank Iraq Trust Fund). A total of US\$13.5 billion was pledged – only US\$4 billion of which was in direct grants rather than loans.

US appropriations (ie US taxpayer money, approved by Congress)

Including:

Iraq Freedom Fund: US\$15.6 billion

Natural Resources Risk Remediation Fund: US\$802 million

Iraq Relief and Reconstruction Fund: US\$2.475 billion

Emergency supplemental appropriations: US\$18.4 billion, of which US\$1.8 billion is for 'democracy-building' and the justice system; US\$4 billion is for goods, services and training for the Iraqi security forces, the oil, water and electricity sectors, and healthcare; the rest is for construction, of which US\$4 billion has already been spent.²¹

What has happened since Christian Aid reported on the ‘missing billions’ in October 2003?

1. We asked the CPA to publish income and expenditure accounts of Iraqi oil revenues.

The CPA does now provide basic and regularly updated cumulative figures for the amounts that the DFI has received – from oil revenues, repatriated Iraqi assets that had been frozen under Saddam’s regime, and the funds that were in the Oil for Food programme accounts when responsibility for food distribution was handed to the CPA in November 2003. The CPA provides some basic spending figures, and a budget for the year giving breakdowns of expenditure by ministry and project.

But as we explain on pages 10-14, there is not nearly enough information about which companies have been awarded DFI contracts. Nor, as we have described, has the CPA been clear enough about how the figure for oil revenues has been reached.

2. We called for the International Advisory and Monitoring Board (IAMB) to be set up immediately, and given sufficient responsibility to hold the CPA accountable for revenues used.

This did not happen, and is a huge problem because it significantly diminishes trust in what the CPA is doing. It was another two months after our report was published before the IAMB met for the first time. It then took another three months to appoint an auditor, leaving only a few weeks before the handover for the auditor to produce its report. Not only has the IAMB had no power of sanction over the CPA, but the auditor is due to make only an interim report on the CPA’s handling of Iraq’s money at the earliest on the very day that the CPA ceases to exist.

3. We called on the UK government to make Iraq a case study for the Extractive Industries Transparency Initiative (EITI), which enjoins oil companies and the countries they deal with to be transparent about the payment and use of oil revenues.

Iraq is not going to be a case study for the EITI, although the UK government says that it is seeking to incorporate the EITI’s principles of transparency into the new framework for Iraq’s oil industry. When further pressed on how it intends to do this, a Department for International Development official pointed to the provisions in Security Council resolution 1546, which transfer control of the oil revenues to the Iraq interim government, with ongoing foreign oversight.

4. We called on the CPA to construct a framework setting out how the oil industry will be managed for the benefit of the Iraqi people

The new interim government will have authority over Iraq’s oil revenues and how they are spent. The International Advisory and Monitoring Board will continue to oversee whether this is done in the interests of the Iraqi people, at least until a democratically elected government is in place by the end of 2005. But it does not have sufficient power to enforce this.

5. We called for additional Iraqi representation on the Program Review Board, which makes decisions about disbursements of DFI money, to increase Iraqi involvement in DFI decision-making.

In October 2003, when we published our report, there was one Iraqi among the 11 voting members of the Program Review Board. Seven months later in May (the last meeting of the PRB for which minutes were available as this report went to press) there were only two Iraqis among 12 voting members. This does not constitute sufficient Iraqi representation on a body that is making decisions so pertinent to Iraqi interests.

6. We called on the CPA to ensure a responsible handover of the Oil for Food programme.

The UN's Oil for Food programme (OFFP), which during the sanctions against Saddam permitted the sale of limited quantities of Iraq's oil in return for food and medical supplies, closed on 21 November 2003. The DFI has now received US\$8.1 billion from the Oil for Food account.²²

When the OFFP closed, responsibility for food distribution was handed over to the CPA and the Iraqi Ministry of Trade. However, at the beginning of 2004 the CPA handed the baton back to the UN, and asked the UN World Food Programme (WFP) – which prior to March 2003 had run the food-distribution operations in the north of Iraq – to take on the procurement of supplies for the whole of Iraq for a six-month period. The WFP says that this arrangement is due to end at the end of June, and it does not yet know if the Iraqi interim government will ask it to continue its assistance. About 60 per cent of the population are still dependent on food rations.

Since the Oil for Food programme closed in November 2003, a huge scandal has come to light involving the alleged skimming off of millions of dollars of Iraqi money into the pockets of individuals in the UN and foreign governments, as well as to Saddam, over the years that the OFFP was operating. Several investigations are underway.

7. We called on countries attending the Madrid Donors' Conference to recognise the responsibility of the international community and the limitations of oil revenues as an engine for reconstruction. But we called for countries not to divert funds to Iraq that had been earmarked for more underdeveloped countries.

Donors promised US\$33 billion, US\$20 billion of which was promised by the US. Of the remaining US\$13 billion, only about US\$4 billion was in the form of direct grants rather than loans.²³ The money went into a separate new fund, the International Reconstruction Fund Facility, in order to reassure donors who were concerned about the transparency of the DFI or who did not wish to appear to support the US occupation.

The UK pledged £544 million in total. This can be compared to approximately £2.3 billion in UK military spending on its campaign Iraq between April 2002 and April 2004.²⁴

Despite Prime Minister Tony Blair's assurances that this commitment would not take funds away from aid to other countries, at least £50 million will be diverted from programmes in 'middle income' countries to which it had been allocated, and another £115 million will come from contingency funds over the two-year period 2004-6.²⁵

Middle-income countries are home to at least 140 million people living in poverty, across swathes of Latin America, north Africa, the Caribbean and Eastern Europe.

8. We called on the CPA to give preference to Iraqi businesses where possible when awarding contracts.

In April 2004, the CPA belatedly implemented an 'Iraqi Business Set-Aside Program', reserving contracts worth less than US\$500,000 from the DFI for Iraqi companies. But because there is no list of companies that have been awarded contracts, it is impossible to work out if the programme is being implemented and sources in Iraq have told Christian Aid that it is still very hard for Iraqi companies to win contracts. Access to information about bids is extremely limited, often available only to those who speak English and have access to the Green Zone – the heavily fortified area in the centre of Baghdad, which the CPA has made its headquarters. Very little information is available – especially not in Arabic – about either what contracts are on offer, or what contracts have been awarded. There have also been reports of corruption in the bidding and contracting process.²⁶

By contrast, big international conferences have been held in the US and UK to assist foreign companies from around the world in bidding for reconstruction work in Iraq.²⁷

The interim government and Security Council resolution 1546

Security Council resolution 1546, agreed on 8 June, hands over power from the US-dominated CPA to an Iraqi interim government.

The interim government's role is to work towards the first set of elections by January 2005. These will elect a transitional government, which will oversee the writing of a constitution. Further elections according to the constitution will then be held at the end of 2005.

While Christian Aid recognises the importance of the security questions that were central to the debate over the resolution, they are not our priority in this report. Our concerns are with how the resolution deals with the control of Iraq's oil money.

Security Council resolution 1546:

- gives control of Iraq's oil and its revenues to the interim government
- states that the International Advisory and Monitoring Board (IAMB) should continue its monitoring role. Although continued foreign oversight might seem to impinge on Iraq's control of spending, Christian Aid believes that this is a welcome step, given that the interim government is not elected and therefore not fully accountable to the people of Iraq

says that a suitably qualified Iraqi should now join the IAMB (until now there have been no Iraqi members)

- appears to bind the interim government to US\$4.4 billion²⁸ worth of contractual commitments that have already been made by the CPA with almost no Iraqi involvement. Christian Aid believes that future Iraqi administrations should not be committed to expenditure passed by the CPA until the CPA's activities have been satisfactorily audited and shown to be in the interests of the Iraqi people
- acknowledges that the interim government is a caretaker administration that has not been democratically elected by the people of Iraq, and which should therefore 'refrain from taking any actions affecting Iraq's destiny beyond the limited interim period until an elected Transitional Government of Iraq assumes office.'²⁹ Christian Aid welcomes this necessary limitation.

Recommendations

1. The CPA should immediately make public the detailed information that it possesses about funds coming into and out of the Development Fund for Iraq, including:
 - how the oil revenue figure was reached
 - what proportion of the money paid out is reflected in projects completed on the ground
 - what proportion of the DFI's funds have been paid to US and other foreign firms and for what purposes.
2. The International Advisory and Monitoring Board (IAMB) should ensure that the results of the audits currently underway into the CPA's handling of Iraq's finances are made public when complete.
3. The UK government should use its position within the CPA to push for full transparency for oil revenues over the period of the CPA's administration. There should be full accountability for any irregularities found.
4. The IAMB and its Iraqi successors should be given increased powers so that they can effectively monitor Iraq's revenues and expenditures and publicly hold those handling them to account.
5. The Iraq Supreme Audit Board should be provided with sufficient resources and technical assistance and should work alongside the IAMB, so that when it takes over from the IAMB (when a constitutionally elected government is in place by the end of 2005 at the latest) it is independent, authoritative and has the power to call the government to account to ensure transparent spending.
6. The IAMB should assist the investigations currently underway into the Oil for Food scandal, to ensure that all of Iraq's Oil for Food funds, including the sums that were transferred into the DFI, are properly accounted for.
7. The new Iraqi government and its successors should ensure that all future audits are made public so that the Iraqi people can see how their governments are spending the country's oil income.
8. The new Iraqi government and its successors should follow the principles of the Extractive Industries Transparency Initiative, which requires oil companies and the countries they deal with to be transparent about the use of oil revenues. Thus the oil companies that work in Iraq should publish what they pay the Iraqi government, and the Iraqi government should publish its revenues from oil and how it spends them. The Iraqi government should make it a priority to ensure that a metering system is in place as soon as possible.
9. The new Iraqi interim government, and its democratically elected successors, should implement transparent bidding processes for government-paid work, including reconstruction, and should provide clear guidelines for Iraqi businesses about contracts that are being tendered, how companies should make their bid, and which company then wins the contracts.

Glossary

<i>CPA</i>	Coalition Provisional Authority
<i>DFI</i>	<i>Development Fund for Iraq</i>
<i>IAMB</i>	International Advisory and Monitoring Board
<i>PRB</i>	Program Review Board
<i>Interim government</i>	The nominated Iraqi government, which will take over power from the CPA on 1 July 2004
<i>Transitional government</i>	The Iraqi government which will be elected by the end of January 2005. It will prepare a constitution according to which further elections will be held at the end of 2005.
<i>PMO</i>	Program Management Office
<i>WFP</i>	UN World Food Programme
<i>OFFP</i>	UN Oil for Food programme, which between 1995 and 2003 permitted the sale of limited quantities of Iraq's oil in return for humanitarian supplies

Endnotes

¹ Christian Aid, *Iraq: The Missing Billions: Transition and Transparency in post-war Iraq*, October 2003.

² Interview with Christian Aid, 8 June 2004.

³ 'Monitoring panel for Iraq spending yet to start work', *Financial Times*, 5 February 2004.

⁴ <http://www.iraqrevenuewatch.org/reports/041904.shtml> Thanks to Iraq Revenue Watch for their help with this report.

⁵ Interview with Christian Aid, 1 June 2004.

⁶ Interview with Christian Aid, 8 June 2004.

⁷ <http://www.globalsecurity.org/wmd/library/news/iraq/2004/05/d20040524pm.pdf>

⁸ Our estimate of oil income in Iraq from May 2003 to May 2004 is extremely conservative and is based on the production figures from the Energy Information Administration (which provides official energy statistics from the US government) and OPEC. We have estimated a generous domestic consumption figure of 400,000 barrels per day. Prices are of Basra light crude, provided by ICIS-LOR (an oil industry price information provider). We produced two estimates, one representing a realistic production/security/loss to smuggling cost of US\$1.50 per barrel, the other an extremely generous US\$4 a barrel. Our estimates for proceeds from Iraqi oil were thus US\$11,849,820,300 and US\$13,000,557,800.

⁹ Minutes of meeting of the Program Review Board, 28 April 2004.

¹⁰ See: 'Black Market Drains Iraq Oil. Pentagon Out To Stop Ships Plying Booming Trade', Robert Collier, *San Francisco Chronicle*, 22 October 2003. And 'Oil Ministry cracks down on smugglers', Iraqi Press, Independent Press Agency of Political, Economic, Cultural and Social Affairs, 14 January 2004. www.iraqpress.org/english.asp?fname=ipenglish\2004-01-14\0.htm

¹¹ CPA South update, 31 May 2004.

¹² The minutes of the IAMB meeting held in Kuwait on 17-18 March 2004, record: 'The IAMB was informed that crude oil extraction is currently not metered. This precludes a reconciliation of all crude oil extracted with its eventual utilization and represents an internal control weakness which needs to be addressed urgently. The IAMB was informed of the steps taken by the CPA to mitigate the consequences of such weakness and to curtail smuggling. The IAMB welcomed these interim steps and recommended the expeditious installation of metering equipment in accordance with standard oil industry practices.' The minutes of the IAMB meeting, held in New York on 22-23 April 2004, say: 'the IAMB has had an exchange of views with KPMG on various aspects of the audits, and in particular, on the issues related to the extraction of crude oil, in light of the lack of metering.'

¹³ Minutes of IAMB meeting on 24 and 25 May 2004. The IAMB remains concerned that these two metering contracts have been awarded as 'Task Orders' – ie add-ons to existing contracts [it doesn't say which companies are involved] and that these existing contracts might have been awarded without competitive bidding. The CPA said it would provide further information to the IAMB.

¹⁴ Admiral David Nash, director of the CPA's Program Management Office, Defense Department Briefing on Iraqi Reconstruction Contracts, 24 May 2004.

¹⁵ 'Oil Revenue Accountability in Iraq', Iraq Revenue Watch, Briefing 5, p 3; letter sent by Representative Henry A Waxman (Democrat, California), to Joshua Bolten, Director of the Office of Management and Budget, 26 September 2003. www.mees.com/postedarticles/oped/a46n40d02.htm

¹⁶ CPA Program Management Office Press Release, 'Another Contract in Place to Continue Construction in Iraq,' 2 April 2004. The companies are all American.

¹⁷ 'Halliburton gets more business in Iraq', *Reuters*, 15 December 2003, quoted in Revenue Watch Report No 6, *Racing the Deadline: The Rush to Account for Iraq's Public Funds*, April 2004, p 3.

¹⁸ Iraq Revenue Watch report 7: 'Iraqi Fire Sale'.

¹⁹ Paragraph 24 of UN Security Council resolution 1546 says that the Development Fund for Iraq must be used 'in a transparent and equitable manner and through the Iraqi budget including to satisfy outstanding obligations against the Development Fund for Iraq.' See Iraq Revenue Watch report 7: 'Iraqi Fire Sale' for more analysis of the commitments made by the Program Review Board at its meeting on May 15.

²⁰ Report by CPA Inspector General to US Congress, 30 March 2004.

²¹ Admiral David Nash, director of the CPA's Program Management Office, Defense Department Briefing on Iraqi Reconstruction Contracts, 24 May 2004.

²² When the Oil for Food programme closed on 21 November 2003, transfers of US\$1 billion each had already been made from the UN Iraq escrow account into the DFI account on 28 May, 31 October and 18 November, as authorised by Security Council resolution 1483. A further US\$2.6 billion was transferred on 31 December 2003, US\$2 billion on 31 March 2004 and US\$500 million on 19 April 2004. Figures from Office of the Iraq Oil for Food programme.

²³ 'Iraq leaves Madrid Donors Conference Happy with Pledges', *AFP*, 25 October 2003.

²⁴ Figures from a Ministry of Defence spokesperson.

²⁵ Answer to parliamentary question by Gareth Thomas, Parliamentary Under-Secretary of State for DFID, 26 May 2004. See also Christian Aid, *The Politics of Poverty: Aid in the New Cold War*, May 2004.

²⁶ For example, see Charles Adwan, 'The quest for a social contract in Iraq,' *Daily Star* (Lebanon), 23 March 2004.

²⁷ For example, see Steve Schifferes, 'Global Firms Scramble for Iraq Work', BBC News Online, 12 June 2003.

²⁸ As of 14 June 2004.

²⁹ UN Security Council resolution 1546.