Iraq: the missing billions

Transition and transparency in post-war Iraq

Briefing paper for the Madrid conference on Iraq
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**Iraq: the missing billions** Transition and transparency in post-war Iraq
Introduction

Delegates from the world’s richest governments are gathering in Madrid to decide how much or how little they are prepared to donate towards the reconstruction of a shattered Iraq. Clearly, more than six months after US President George W Bush declared major hostilities in Iraq to be over, there is still a huge job to be done – the situation for many of the country’s poorest people has become worse rather than better over the period.

Violence and instability still plague the country, with daily reports of military and civilian casualties. This very insecurity has meant that implementation of the much boasted, and hoped for, reconstruction plans has barely begun.

Hospitals still lack medicines and basic equipment, clean drinking water is not available in many areas, and raw sewage can be seen on the streets of many towns. Christian Aid works with local organisations in many parts of Iraq and the message from them is clear.

‘In general, almost everyone involved in the reconstruction of Iraq has not been effective – despite the passing of six months and the expenditure of large sums of money,’ says the director of one of Christian Aid’s partner agencies, working in the south of the country.

So, with the humanitarian situation still critical, there are plenty of immediate needs on which money from international donors can be spent. As this report demonstrates, the widespread assumption that reconstruction could be paid for entirely by Iraqi oil money is a false one. Due, not least, to continuing insecurity, Iraq just does not produce enough oil to pay for even immediate needs and is unlikely to do so in the near future.

What this report most shockingly reveals, however, is that the billions of dollars of oil money that has already been transferred to the US-controlled Coalition Provisional Authority (CPA) has effectively disappeared into a financial black hole. For all the talk of freedom and democracy for the Iraqi people – before, during and after the war which toppled Saddam Hussein – there is no way of knowing how the vast majority of this money has been spent.

This situation is in direct violation of the UN resolution that allowed Iraqi assets to be transferred to the CPA. Indeed, the body that is supposed to oversee how Iraq’s assets are used has not even been set up yet.

Just as disturbingly, if this lack of transparency is perpetuated it could well hold the seeds for future disaster in Iraq. The very oil revenues that are potentially the country’s greatest asset could, on all available evidence, prove to be a curse.

In May, Christian Aid published a major report that revealed how oil revenues can fuel poverty, war and corruption in developing countries. The toppling of Saddam Hussein’s regime, it was suggested, was a unique opportunity to show that this did not have to be the future for Iraq.
Initial indications, however, are not optimistic – with billions of dollars of unaccounted for money now in the hands of unelected foreign officials. This combination of pre-war oil sales, post-war oil sales and seized invested assets from Saddam Hussein’s regime already tops US$5 billion, of which only around US$1 billion can be accounted for. By the end of this year, that total figure will top US$9 billion.

Action needs to be taken now to ensure that the CPA reveals where this money has gone. The structure agreed at the UN must be implemented urgently, so that this Iraqi money is used in the best interests of Iraq’s people and with their cooperation and involvement. Oil revenues should benefit those who need help most – the country’s poor, not just those with power and influence.

Christian Aid is calling on the international community, and particularly the UK government as a leading member of the coalition, to take swift and forceful action to ensure that the situation immediately improves. Prime Minister Tony Blair has repeatedly said that there should be transparency in the handling of oil revenues: he needs to demonstrate that this is something he truly believes.
Rebuilding Iraq

‘The oil revenues, which people falsely claim the US and UK governments want, should be put in a trust fund for the Iraqi people, administered through the UN.’
Tony Blair, speaking during the pre-war debate in Parliament, 18 March 2003.

‘I firmly believe that this initiative can make a significant contribution to ensuring that the proceeds from mining and energy industries are used for development. We can draw on it in Iraq and elsewhere, and it provides an example for others to follow.’

‘We have absolutely no idea how the money [from Iraqi oil revenues] has been spent. We know that more than US$1 billion has already been transferred from the UN escrow Oil-for-Food account and we don’t know how this money has been spent, and this is Iraqi money… I wish I knew, but we just don’t know. We have absolutely no idea….’
Senior diplomat working at UN headquarters in an interview with Christian Aid, October 2003.

Establishing peace and security in Iraq is a top priority for the international community, as well as for Iraqis themselves, and a precondition to the reconstruction of this shattered country. Unprecedented financial resources are being mobilised to this end. The Madrid conference is a key part of this process.

Many commentators believe that it will be a long time, perhaps years, before peace and security are achieved.

Before the war many people assumed that Iraqi reconstruction would be financed by Iraqi oil revenues. After all, Iraq has the second biggest oil reserves in the world.¹

However, Iraqi oil revenues cannot begin to cover the costs of reconstruction, which have been estimated at US$55 billion over the next four years.² Oil revenues since the war have only amounted to around US$1.5 billion,³ with sabotage and insecurity slowing the industry’s rehabilitation. At least another US$1 billion of pre-war oil revenues, deposited with the Oil-for-Food programme, has now been earmarked for reconstruction. An additional US$2.5 billion is expected to become available when the Oil-for-Food programme ends in November.

Yet, incredibly, these billions of dollars of Iraqi oil revenues have never been publicly accounted for. Christian Aid has discovered a black hole into which these funds have disappeared. The black hole is presided over not by an Iraqi government, but by the CPA, the de facto ruling authority established by the forces occupying Iraq. The US dominates the CPA. The British government is second in command.
In round figures, and conservative estimates, Iraqi funds controlled by the coalition comprise:

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Post-war oil revenues</td>
<td>US$1.5 billion</td>
</tr>
<tr>
<td>Pre-war oil revenues transferred from UN escrow accounts</td>
<td>US$1 billion</td>
</tr>
<tr>
<td>Iraqi government funds vested overseas, and seized funds</td>
<td>US$2.5 billion</td>
</tr>
<tr>
<td>Iraqi government funds under CPA control (mid-October)</td>
<td>US$5 billion</td>
</tr>
</tbody>
</table>

The great majority of these funds are reported as spent or allocated. Yet the CPA has accounted for only around US$1 billion of the total, leaving at least US$4 billion unaccounted for.

The coalition has promised Iraqis freedom and democracy. Yet it continues to make vital decisions affecting the running of the country and the lives of Iraqis in secret. Such practices would not be tolerated in the countries that make up the coalition.

Christian Aid is calling on the US and British governments to say what has happened to the missing billions. Prime Minister Tony Blair has committed himself to transparency in the handling of oil revenues. He must demonstrate that he means what he says in Iraq, where the British government has a direct role in running the country.
Christian Aid's concerns

In this document Christian Aid sets out why questions of openness, transparency and accountability are of central importance to the future of Iraq and its long-term development.

Christian Aid has been working in Iraq since 1992. Consequently, we are in touch with the concerns of Iraqis, especially those of the partner agencies with which we work.6

Christian Aid's partners say that they feel almost entirely cut off from the decision-making processes governing their lives. ‘The CPA are isolated and not meeting Iraqis. They only have contact with politicians in Iraq’s Ruling Council, with most of their members considered to be exiled Iraqis,’7 says a Christian Aid partner in Iraq. The CPA, which effectively governs Iraq, is seen as remote and disconnected, confined to fortified compounds where decisions are made behind closed doors with little or no Iraqi involvement. The following comment from another partner in Iraq is characteristic:

‘In general almost all the actors in the reconstruction of Iraq have not been effective despite the passing of six months and the expenditure of large sums of money. There are still power cuts, fuel shortages, and a lack of medicines and equipment at hospitals. Clean drinking water is not available in many areas and raw sewage can be seen on the streets in many towns, including Basra.’8

Like many Iraqis, this partner links this lack of progress in reconstruction with the foreign firms contracted to undertake the work.

‘The major contracts for reconstruction, including the refurbishment of schools, have been given to large foreign companies who now find themselves unable to implement the projects due to the security situation. Much more would have been achieved, and it would have been more cost-effective, if the reconstruction contracts had been split into smaller contracts and directly given to local contractors and NGOs.’9

Iraqis have lived for decades under the control of a totalitarian state, and have not been used to openness and transparency from their rulers. Totalitarianism and its legacy provide fertile ground for distrust, rumour-mongering, conspiracy theories and a belief in hidden agendas. Many Iraqis are convinced that the coalition is motivated by a desire to control Iraqi oil and want important decisions to be made by Iraqis. ‘The Iraqi oil revenues should be run by an Iraqi government completely with monitoring procedures from an international committee (sic),’ says the coordinator for another Christian Aid partner organisation in Iraq.

Coalition secrecy over the use of oil revenues only increases that conviction, and makes a transition to openness and democracy appear ever more remote.

‘How can the United States advise Iraqis on how to structure their industry and the use of oil revenues to make the government accountable with no moral high ground from having no transparency themselves from how they managed the oil revenues?’10
Oil on troubled waters

Although there is agreement about the need for reconstruction, rehabilitation and reform in Iraq, there is less agreement on how this should proceed. There is, for instance, a strong moral argument that a country that has been battered by two wars and more than a decade of international sanctions should not have to pay for its own reconstruction with its own resources. But it has already been generally accepted that oil will be a major engine of Iraq's recovery. What is of paramount concern is that countries in which oil is the major source of revenue have a very poor record in adopting policies that genuinely benefit their citizens.

In May 2003, Christian Aid published a major report, *Fuelling Poverty – Oil, War and Corruption*, which highlighted the dangers of assuming that Iraq's oil would be the answer to its reconstruction needs.

*Fuelling Poverty* focused on Angola, Sudan and Kazakhstan, but the options and dilemmas facing Iraq were highlighted in the introduction, which read:

‘How the Iraqi people benefit from oil revenue will depend, according to our evidence, on how open, transparent and justly distributed the spoils of oil exploitation are in the future. If the crimes and misdemeanours of the past – where vast revenues funded a corrupt and totalitarian regime – are not to be repeated, Iraq’s people must be allowed to scrutinise the spending of oil money.’

This observation has proved prescient. The US government has a generally good reputation for openness and allowing access to information. This has not, however, translated to the military authorities running Iraq. In particular, Iraqis have limited involvement in many decisions regarding the reconstruction of their country, with serious consequences for the effectiveness and credibility of the resulting policies and actions. It is essential that other coalition members, particularly the UK government, use their influence to promote a rapid change in these attitudes.

Key decisions about how the Iraqi oil industry will be run and managed in the future have yet to be made. Both Iraqi politicians and the major oil companies recognise that fundamental policy decisions cannot precede the establishment of a legitimate government, and an improvement in the security situation. The more radical schemes for privatisation favoured by some American policymakers are on hold, probably indefinitely, since it is unlikely that any incoming Iraqi government could implement them and remain electable. Iraq’s oilfields and oil wells are set to stay in government hands. The privatisation of the ‘downstream’ components of the industry, from pipelines to petrol stations, is more likely, and less controversial or politically problematic.

The challenge for the CPA, and subsequently the Iraqi government, is whether oil revenues can be mobilised for investment and development that will be of widespread benefit, or whether these funds will go primarily to the oil companies and to a new hyper-wealthy Iraqi elite. This holds true whether the funds go directly to the government through state-owned companies, or are derived from taxes and levies on international oil
companies. Unfortunately, the CPA has not made a promising start, despite some potentially favourable circumstances.

The sanctions regime imposed on Iraq, though increasingly flouted, attempted to control oil production and to ensure that oil revenues were used for humanitarian purposes. From 1996 this process was institutionalised under the Oil-for-Food programme (OFF), which in less than seven years spent US$13 billion in oil revenues on importing and distributing food. This programme was subjected to distortion and mismanagement by the Baathist regime, and contributed to Iraqi disenchantment with the UN, under whose auspices it operated. The programme also generated economic distortions, and undoubtedly helped to hasten the decline of Iraqi agriculture. However, the OFF programme met growing humanitarian needs, in a period in which Iraqis suffered increasing impoverishment.

Since the war the OFF programme has continued to operate under UN patronage, though oil production and revenues have declined sharply. The CPA established a Development Fund for Iraq (DFI), into which approximately US$1 billion in oil revenue from escrow accounts held by the UN and OFF was quickly transferred. The establishment of the DFI was ratified in UN Security Council Resolution 1483 in May 2003. We have calculated that the DFI will have received at least US$9 billion by the end of 2003, of which more than two-thirds will have derived from pre- and post-war oil revenues.

Iraq’s immediate problems are enormous, perhaps overwhelming. Christian Aid’s fear, however, is that if proper systems of accountability are not urgently established, the country could spiral into a classic version of the ‘oil curse’ explained by Christian Aid in Fuelling Poverty. In this standard scenario, oil revenues go to bolster the profits of oil companies and are siphoned off by corrupt local elites, bypassing the great majority of the country’s citizens, who typically remain impoverished – as well as unconsulted.

Iraq is not in this predicament yet – the country’s post-war oil revenues are, at least on paper, largely earmarked for reconstruction and development. It is, therefore, vitally important that this commitment becomes the accepted practice, so that a proportion of oil revenues is permanently used for the long-term development of the country and the benefit of its citizens.

A major recommendation of this report is that the international community, and in particular the US and British governments, should use their influence over developments in Iraq to promote options that guarantee priority is given to ensuring oil revenues are used primarily for the overall development of the country on a permanent basis.

Unfortunately however, developments thus far have been discouraging. It is impossible to tell exactly how these revenues have been spent – though it is clear that a limited number of US corporations have benefited considerably, and that more cost-effective options with Iraqi companies (that could reduce the cost of reconstruction) have been given very limited consideration. However, it is not too late for the CPA, and in due course for Iraqi politicians, to opt for policies that will genuinely benefit the Iraqi people.
An essential first step on that road is the urgent introduction of a transparent and accountable framework for the management of current revenues.

The British government, in particular, has championed the transparency of oil revenues globally under the Extractive Industries Transparency Initiative (EITI). ‘A lack of transparency,’ said Tony Blair at the EITI conference in June this year, ‘undermines public confidence in the legitimacy of the state…. We need to use transparency in revenue and financial management to allow people to hold government to account and build public trust.’ The British government needs to use its position and influence within the CPA to ensure absolute clarity and transparency over the use of Iraqi oil revenues.

The principal mechanisms through which the coalition uses these funds are set out below. It should be noted that in all of the bodies involved in the allocation and monitoring of the use of Iraqi money, there is an extremely limited amount of Iraqi representation or participation at decision-making levels. Christian Aid feels this fundamentally undermines the chances of Iraqi funds being used in the best interests of the Iraqi people.
The Development Fund for Iraq

The account in which oil revenues and other funds for Iraqi reconstruction are held

The Development Fund for Iraq (DFI) was set up under UN Security Council Resolution 1483 in May 2003, to meet the humanitarian needs of the Iraqi people and to finance the reconstruction of Iraq’s infrastructure. The money held in the fund comes from Iraq’s oil sales, seized assets of the Saddam regime, transfers of frozen assets from abroad (including those removed overseas by Saddam Hussein, his family and officials), and outstanding or surplus funds from the UN Oil-for-Food programme, which in turn derive from pre-war oil revenues.

The terms establishing the DFI required it to be ‘managed in a transparent manner for and on behalf of the Iraqi people.’ Provisions in Resolution 1483 hold the DFI to high standards of transparency and accountability, and these clauses are reflected in the DFI’s founding regulations set out by the CPA. The fund is maintained on the books of the Central Bank of Iraq, but held by the US Federal Reserve Bank of New York. It receives 95 per cent of the proceeds of the sale of Iraqi oil and natural gas, with five per cent going to the UN’s Gulf War Compensation Fund.

The bodies responsible for approving spending and monitoring the use of the DFI are the Programme Review Board (PRB) and the International Advisory and Monitoring Board (IAMB). A third body, the Council for International Coordination (CIC) advises the PRB.
The Programme Review Board

Responsible for allocating DFI funds

The Programme Review Board (PRB) recommends which projects should receive funding from the DFI for approval by the CPA administrator. The 21-member board works within the CPA’s Office of Management and Budget and reports directly to administrator Paul Bremer through his appointed PRB chair. Of 11 voting members, seven are American, one British, one Australian and one Iraqi (the Minister of Finance). The eleventh member is the chair of the CIC, another expatriate. It does not appear that the Minister of Finance attended PRB meetings until some time after he was appointed in early September. Of the ten non-voting members, six are American CPA officials; the other four represent the World Bank, the International Monetary Fund (IMF), the Special Representative of the UN Secretary General for Iraq, and the International Advisory and Monitoring Board. Following PRB approval, funds are disbursed through the Ministry of Finance, which is then responsible for distributing money to all other ministries.20

According to the PRB's founding regulations, it must operate transparently and is required both to publish and disseminate funding plans in Arabic, and to publish the minutes of all its formal sessions. Neither of these requirements has been met. Christian Aid has written to the Chair of the PRB and the CPA press office requesting an overview of DFI finances, but has received no response in either case.
The International Advisory and Monitoring Board

Responsible for overseeing the use of DFI money

United Nations Security Council Resolution 1483 that authorised how the DFI would be set up, also outlined the framework within which the International Advisory and Monitoring Board (IAMB) would oversee the use of DFI money so that it could hold the CPA to account and observe its activities on behalf of the UN Security Council. It was intended to guarantee the transparency of the DFI and to ensure that DFI funds were properly used, monitored and audited.

The IAMB was to be an independent body, with four voting representatives, from the UN, IMF, World Bank and Arab Fund for Social Development.

However, despite the framework set out in Resolution 1483, the CPA and the intended representatives of the IAMB could not agree on what power and responsibility the board would have. According to a UN diplomat involved in the negotiations, the CPA was trying to limit the authority of the IAMB to that of simply monitoring auditors chosen by the CPA without the power to more closely examine how funds were being used or accounted for. Despite a major compromise proposed at the end of August by the four international bodies of the IAMB, by mid-October the impasse remained, with suggestions that the CPA was even less inclined to allow the IAMB significant autonomy or independence.

In the meantime, the CPA has been using Iraqi funds through the DFI without accounting for the money being used. It has effectively been operating outside its mandate.
The Council for International Coordination

Representing coalition countries

The Council for International Coordination (CIC) advises the PRB on how the international community should assist Iraq’s recovery and the development of its economy. The CIC is made up of representatives from CPA countries along with other individuals appointed by the CPA administrator, Ambassador Paul Bremer. It is the main CPA body charged with organising the Madrid Donor’s Conference for Iraq.

The CIC is responsible for reviewing and coordinating proposals from different Iraqi ministry budgets, the UN, the World Bank and NGOs. CIC activities include raising funds from the international community, proposing specific projects for funding consideration, and, if requested by the PRB, making recommendations on disbursements from the DFI. If the UN establishes a trust fund for international donations for Iraq, it is expected that the CIC will try to coordinate spending between the UN trust fund and the DFI. It does not however have the overview function allocated to the IAMB.
Coalition use of Iraqi funds

Where has all the money gone?

The CPA, through the DFI, receives and disburses billions of dollars of Iraqi funds, largely derived from pre- and post-war oil revenues.

A list of projects that have been allocated funds by the DFI totalling almost US$1 billion can now be found on the CPA website, and in late September the PRB posted partial minutes of eight of its twice-weekly meetings, to which another four have been recently added. However, it remains quite impossible to obtain an overview of DFI finances. This is true not only for an agency like Christian Aid, whose research is dependent on the goodwill or commitment to transparency of those we interview or to whom we write, but for senior diplomats trying to establish parameters for the policies of their governments. Frustration and dissatisfaction with the DFI’s operation is extremely widespread.

A diplomat working at the UN interviewed by Christian Aid in early October said: ‘We have absolutely no idea how the money has been spent. We know that more than US$1 billion has already been transferred from the UN escrow Oil-for-Food account and we don’t know how this money has been spent, and this is Iraqi money.’

Such total lack of transparency of funds does not encourage international donors to put more money into reconstruction. ‘As long as there is no transparency mechanism – [and] the IAMB is a priority in this context – it is unlikely that there will be broad financial support from the international community, because we need to know how the money is spent,’ said the diplomat. ‘Contributions could be put in an independent fund, but everything is interlinked, so [in order] to know whether it is worth contributing to projects [we have to know about the Development Fund of Iraq].’

As already reported, UNSC resolution 1483 of May 2003 approved the transfer of US$1 billion of OFF funds to the DFI.

Sources close to the coalition have told us that by mid-September Iraqi funds deposited overseas and expropriated for CPA use amounted to US$1,724 million of vested funds, plus seized funds of US$809 million. These funds had already been spent or committed, these sources reported, though more could be expected. A similar source told us that a further US$2.5 billion of OFF funds should become available for transfer to the DFI when the OFF ceases operations on 22 November. The DFI was said to have a credit balance of US$2,363 million as of 17 September, of which 51 per cent had been allocated for disbursement. The remaining 49 per cent was said to be the only uncommitted source of funds at that time and was expected to be drawn down rapidly.
Based on this information, we can assume that Iraqi funds accruing to the DFI by the end of 2003 will be in the region of:

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Seized and vested funds</td>
<td>US$2.5 billion</td>
</tr>
<tr>
<td>OFF funds (from pre-war oil revenues)</td>
<td>US$3.5 billion</td>
</tr>
<tr>
<td>Post-war oil revenues</td>
<td>US$3 billion</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>US$9 billion</strong></td>
</tr>
</tbody>
</table>

It is of the utmost importance for the credibility of the coalition, and for the promotion of an open and democratic society in Iraq, that these funds are managed transparently and are properly accounted for.

**US funds**

US government funds earmarked for relief and reconstruction activities are easier to track, and have included the Iraqi Relief and Reconstruction Fund (US$2,475 million) the Iraqi Freedom Fund (US$101 million) and the Natural Resources Risk Remediation Fund (US$502 million). Virtually all of these amounts had been committed as of mid-September. The principal recipient of Iraqi Relief and Reconstruction Fund finance has been the US Agency for International Development (USAID), which received US$1,823 million.

Most USAID contracts, which included a US$1,033 million contract with Bechtel, a US$30 million contract with Bearing Point and a US$60m contract with RTI, were awarded on the basis of limited competition procedures, out of Washington. Such procedures have meant that not only is there no competitive process to ensure the lowest cost for the job, but Iraqi companies are denied the opportunity to benefit from contracts to reconstruct their own country.

A Christian Aid partner expresses a view held by many in Iraq. 'Priority for reconstruction contracts should be given to Iraqi companies. Such companies are available in areas of construction, refurbishment of schools and hospitals, road building, and water and sanitation....'
How are development funds being used?

Tenders and contracts

Many commentators have expressed concern over the handling of the contracts under which funds from the DFI have been disbursed. In addition to this, US government funds have been used to award contracts for reconstruction that have attracted widespread comment, particularly when it comes to the close relationship between the relevant US firms, such as Halliburton and Bechtel, and the US administration.

This is a concern to many Iraqis who are desperate for employment and the opportunity to contribute to reconstruction and benefit from the billions of dollars going towards development, much of which comes from their own country’s oil revenues. ‘The size of proposed investment for reconstruction in Iraq should in principle produce a dramatic increase in employment opportunity for ordinary Iraqis and go a long way towards stabilising security in the country. This will not happen unless there is control and limitation of the profits remitted by foreign companies.’

Increasing concern has been expressed by both US congressmen and academic experts that handing reconstruction contracts to US firms at a higher cost hits both donors (in some cases the US or UK taxpayer) and Iraqis. In an open letter to the Director of the Office of Management and Budget, US congressman Henry Waxman pointed out that: ‘When inordinately expensive reconstruction projects are awarded to high-cost federal contractors with close political ties to the White House, the Administration can create a lose-lose situation: not only do US taxpayers vastly overpay for reconstruction services, but Iraqis are denied urgently needed employment opportunities.’

Principal concerns include:
- extremely short tendering processes, which reduce the opportunities for genuine competition
- consequent disadvantages for Iraqi contractors, and contractors from non-coalition countries
- the drawing up of contracts which permit multinational corporations to import expatriate staff, notably from south Asia, when suitably qualified Iraqis remain unemployed.

The allocation of contracts using US government funds has received considerable publicity, but this is because a great deal of information about these contracts is in the public domain. When it comes to the even more worrying question of where Iraqi money has gone, there has been very little publicity because the information is virtually inaccessible.
No more Oil-for-Food – so oil for what?

What follows on from the OFF when it ends on 21 November remains a particular concern of Christian Aid and our partners. It raises the question of what framework will be used to ensure that Iraqi oil revenue benefits Iraqi people and particularly the poorest and most vulnerable.

Many Iraqis see the need for oil revenues to continue supporting vulnerable households. ‘Oil revenue needs to be used to improve and develop people’s household economy. At the moment, people from outside Iraq see the country as rich! But internally you will see that people’s household economy is very weak.’

The legacy of sanctions has left Iraq having to import half of its current food requirements. This means that maintenance of adequate food supplies in Iraq is a particularly pressing responsibility for the international community, and especially for the occupying authorities. In the near- to medium-term future, the market cannot replace the current food-distribution system. Iraq has long been a net importer of food, and food subsidies pre-dated the first Gulf war and the imposition of sanctions. The OFF programme helped to further institutionalise subsidised food distribution on which people have become extremely dependent, particularly since this period also witnessed declining agricultural production and growing impoverishment.

Current plans involve handing over the programme to the Iraqi Ministry of Trade (MOT) on 21 November, as laid out in UN Security Council Resolution 1483. Information on what will happen after the handover is limited. Distribution of food rations and humanitarian aid will be handled by the MOT, whose responsibility it was prior to the war. Security concerns have forced the UN to limit its international staff on the ground and recent updates from the OFF programme have admitted that the UN is unable to produce a comprehensive exit strategy as planned on 21 October or to ensure a sufficient number of international staff will be in place in the northern governates for handover to occur. The current lack of security has meant that it is more important than ever that the CPA gives enough support to the UN in this handover process. ‘Unless the CPA increases most expeditiously the number of its personnel involved in the transfer process, the difficulties faced may become insurmountable, irrespective of the number of UN personnel in the three northern governates.’

What happens to the Oil-for-Food programme and the food-distribution system will be crucial not only to the welfare of millions of Iraqi households in the short term, but also for their well-being in the long term. The CPA, in coordination with the MOT, must publish its plans for the OFF programme to ensure Iraqis can read and comment on them.
Principal recommendations

1. The Coalition Provisional Authority must urgently publish accounts of income and expenditure from Iraqi oil revenues and Iraq’s seized and vested assets.

2. The International Advisory and Monitoring Board for the Development Fund for Iraq must be set up immediately, and sufficient responsibility must be given to the body to ensure that it is able to hold the Coalition Provisional Authority accountable for revenues used.

3. The UK government must fulfill its commitment to make Iraq a case study for the Extractive Industries Transparency Initiative, which enjoins oil companies and the countries they deal with to be transparent about the use of oil revenues. The framework for doing this must be decided by a legitimate Iraqi government once it is in power, drawing on existing precedents. These include holding a percentage of revenues in trust for future generations, earmarking a percentage for regional development in oil-producing areas, and devoting revenues to education, health and social services, rural development, infrastructure and water management.

4. The Coalition Provisional Authority must work with the Iraqi Governing Council to construct a framework that sets out how the oil industry will be managed for the benefit of the Iraqi people. Iraq should adopt policies that ensure that a significant proportion of future oil revenues is earmarked, on a permanent basis, for the overall development of the country and the benefit of all sections of Iraqi society.

5. Iraqi involvement in decision making over, and management of, Development Fund for Iraq money should be increased as a matter of urgency. This should include additional Iraqi representation on the Programme Review Board.

6. The CPA must ensure a responsible handover of the Oil-for-Food programme in November, and must publish plans as to how the programme will continue. These plans must address how the CPA will use funds from oil revenues in the future in a way that winds down food distribution while avoiding the widespread hardship that too sudden an end to the programme would cause.

7. Countries represented at the Madrid donors’ conference should recognise the responsibility of the international community in the plight of Iraq and the limitations of oil revenues as an engine for reconstruction. However, donor countries must not divert aid funds to Iraq that have been earmarked for more underdeveloped countries.

8. In awarding contracts for reconstruction, the CPA must give preference to Iraqi businesses where possible, and ensure that Iraqis are employed where appropriate. Reconstruction should be seen and used as a major engine for addressing Iraq’s huge unemployment problem. Employment programmes should target the most vulnerable sections of the population.
Endnotes

1 The morality of making Iraqis pay for the damage inflicted on them in two extremely destructive wars has received little debate. This is an important issue, though not our primary concern here.


3 As no oil-revenue figures are available, this figure has been calculated from details of the six-month contracts signed between SOMO and several international oil companies in July (See the Independent, 24 July 2003). Under the deal, Iraq would supply 645,000 barrels a day for export (except in July when production was at 450,000 barrels per day). This output was estimated to have been sold at recent world oil prices of around US$26 to US$28 a barrel.

4 Before the end of 2003, we calculate that a further US$2.5 billion of pre-war oil revenues will have been transferred from the UN Oil-for-Food escrow accounts, and another US$1.5 billion will have been accrued from oil revenues. Sources for these figures are given later in the report.

5 The basis and source for this information is given later in the report.

6 Christian Aid is the official relief and development agency of 40 British and Irish churches, working where the need is greatest in more than 50 countries worldwide, helping poor communities regardless of religion. Christian Aid is also a key member of Action by Churches Together, a world alliance of church-based humanitarian agencies. Before the war this year Christian Aid’s programme in Iraq was confined to the autonomous Kurdish region of northern Iraq. Since 1992, Christian Aid has supported local NGOs there in a range of rehabilitation and development activities, and continues to do so. Since the war, Christian Aid has extended its operations to provide humanitarian support in the central and southern parts of the country, in fields including emergency relief, water supply and sanitation, seed banks and nurseries, landmine clearance, and community-needs assessment. As well as keeping in close touch with our Iraqi partners, several Christian Aid staff have visited Iraq since the war, spending time principally in Baghdad, Karbala, Basra, Kirkuk and the autonomous Kurdish governates.

7 Christian Aid partner
8 Christian Aid partner
9 Christian Aid partner
10 Dr Valerie Marcel, Senior Research Fellow on Sustainable Development at the Royal Institute of International Affairs, specialising in the politics of oil in the Middle East. Interview with Christian Aid.
11 Interview with Peter Kemp, editor of Oil Intelligence Weekly
12 See analysis in next section, which also sites sources. Much of this information is not in the public domain.
13 A detailed blueprint for this, which would have to be negotiated by an incoming Iraqi government, is beyond the scope of this paper. The Chad-Cameroon pipeline, where investments by Exxon-Mobil and the World Bank are permanently linked to freeing up revenues for development, is an encouraging precedent (see editorial, Financial Times, 8 October 2003). Policies adopted by a major producer such as Iraq could prove extremely influential.
16 Much of the detailed information here has come from Iraq Revenue Watch, a project of the Open Society Institute. We would like to thank Iraq Revenue Watch for its help and cooperation with our research.
17 Despite written requests to the CPA, it has not been possible to establish exactly which funds pass through the Development Fund for Iraq and which may be held elsewhere.
18 In practice, it seems that assets seized in the US have not been transferred to the DFI, but administered separately.
21 The following governments are represented on the CIC: Poland, Australia, Italy, Denmark, the Czech Republic, the US, South Korea, Japan, Spain, the UK, Singapore, Jordan and Romania as well as an observer from the United Nations Office of the Humanitarian Coordinator for Iraq.
22 Paul Bremer, Remarks, Opening of the Council for International Coordination, 17 August 2003
23 From a conversation between Christian Aid and a UN diplomat.
24 Christian Aid partner
25 US Congressman Henry A Waxman (D Calif) and Dr Valerie Marcel, Senior Research Fellow on Sustainable Development at the Royal Institute of International Relations, specialising in the politics of oil in the Middle East.
27 Christian Aid partner.