

## **Statement by Stafford Clarry**

Former United Nations staff member in Iraq on the Oil-for-Food Program  
before the United States Senate Permanent Subcommittee on Investigations  
15 February 2005

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Mr. Chairman, distinguished members of this committee, thank you for your invitation to testify before you today. I am honored to be here at this time.

My reason for accepting your invitation is to help broaden the knowledge and deepen the understanding of the workings of the oil-for-food program in Iraq, with particular reference to the Kurdistan region where I lived and served throughout the duration of the program. The Kurdistan region includes the Governorates (provinces) of Duhok, Erbil, and Suleimaniyah that have been administered since 1992 by the Kurdistan Regional Government (KRG).

I went to Iraq in 1991 with over 20 years of field operational experience in South Asia and East Africa, and added 15 years in the Middle East. I began international service with the Peace Corps after completing undergraduate studies. Before going to Iraq I completed graduate studies in public administration. I served with three UN agencies in Iraq beginning with UNHCR, the UN refugee agency, during the 1991 Kurdish refugee crisis. Actually, at that time I began in Turkey at the Incerlik Airbase as UN liaison officer in the headquarters of Operation Provide Comfort with Generals Shalikashvili, Jamerson, and Zinni. During that successful operation, after hundreds of thousands of Kurdish refugees returned to Iraq from Turkey and Iran I was reassigned to Baghdad for a year to work on reconstruction and resettlement.

Later, I accepted an assignment in the Kurdistan region with the newly created UN Department of Humanitarian Affairs (DHA) coordinating humanitarian activities of UN agencies and NGOs. At that time, 1993-1996, before the oil-for-food program began the main UN agencies were UNICEF and WFP. Also present were FAO, WHO, and UNESCO but they had relatively very small programs. I was also the area security coordinator focusing with UNGCI (UN Guards) on the security of UN staff and facilities. I continued serving with the UN until the December 1998 bombing of Iraq after which the Saddam regime would neither issue nor extend visas to UN staff members who were American or British citizens.

Prior to the start of the oil-for-food program my area of operation was two of the three provinces administered by the KRG. I was based in Erbil but also lived in Duhok. When the oil-for-food program began and more agencies and staff were assigned to the region, my DHA assignment morphed into a UNOHCI assignment and I elected to be assigned to Duhok where Saybolt was monitoring oil exports at a pipeline metering station, Lloyds Register was certifying imports at the Iraq-Turkey border, and 12 UN agencies were functioning plus some NGOs. Later, due to my interest in reconstruction and resettlement I served directly with UN-Habitat for about 4 months. When service with the UN in Iraq was terminated by the Saddam regime I continued on the oil-for-food program as advisor to the KRG assisting them in relating to the UN, working with 9 ministries that were responsible for services that the program was supporting. I was, thus, affiliated with the oil-for-food program from its start in 1996 until its conclusion in 2003.

My macro purpose in being here is to support an urgent and long overdue, persistent need for radical reformation of the UN's operational culture. I believe the United Nations to be a critically important international institution which has its place in adding substantial value to the human condition. My micro and more intensive purpose is to contribute to the process of ensuring that the Iraqi people receive fully what they are entitled to, and that at least one of the five escrow amounts is clearly, comprehensively, and completely accounted for. I think pursuing the micro purpose is one key to the macro purpose being fulfilled.

My focus has been the Kurdistan region and the 13% account that funded activities to meet the humanitarian needs of the people of that region. The goal is to see a clear, comprehensive, and complete account of all earnings and all expenditures associated with the 13% account.

While the oil-for-food program was intended to provide benefits to the Iraqi people, it also handed them major losses. Keeping the focus on the Kurdistan region, the first loss occurred when the region was allocated only 13%. The Security Council resolution authorizing the oil-for-food program (986 of 1995) allowed 13% to 15% for its people. According to the Government of Iraq's own population figures officially submitted to the UN and endorsed by the Secretary General the people of Kurdistan were entitled to an amount higher than the minimum 13%.

The overarching financial challenge for the Kurdistan region has been determining exactly where it stood in terms of earnings, allocations, and expenditures. Over the 7-year program period the KRG never ceased trying to obtain the simplest of basic financial data. But it failed. The KRG could only generate estimates based on tidbits of data and information it was able to extract from the UN -- a few from the UN-OIP website and a few from the news.

The KRG estimates that Kurdistan is entitled to approximately \$9 billion, which is the sum of estimated oil sale earnings, estimated interest on unspent funds, and estimated gains on currency exchange. The KRG was able to estimate that by the end of December 2002 only about \$4 billion had been spent. It was always all about estimates, never about hard data. Please see two attachments (2 pages):

Oil Sales and UN Allocation Accounts , 13% Account – Only 50% Actually Spent

The only financial data officially received by the KRG was a table of funds allocated to each UN agency and another table of funds allocated to each sector (health, education, water & sanitation, electricity, agriculture, etc.), in April 2002. No tables of expenditures against these same allocations were received. No data on earnings and deductions for pipeline fees were received. No data on bank interest and gains on currency exchange were received. Please see the attachments (4 pages):

(ESC) 13% Account Allocations Phases I-IX By Agency , (ESC) 13% Account Expenditures Phases I-IX By Agency , (ESC) 13% Account Allocations Phases I-IX By Sector , (ESC) 13% Account Expenditures Phases I-IX By Sector

To the best of my knowledge, the KRG never saw any audit reports. While there was always a lot of field action implementing projects in all sectors, there was always the looming absence of clear financial data and a persistent frustration that progress was

excessively slower than necessary. Without hard data, it was next to impossible to make cogent arguments that would help to improve performance.

The recent release of some audits reports is refreshing in the sense that it appears that part of the UN was professionally concerned about the same factors that concerned the KRG. The audit reports on the electricity sector, for example, on DESA, reveal a focus on program and project management aspects that is indeed enlightening. All audits are important, but some are excessively clerical, overly preoccupied with dotting i's and crossing t's and not very helpful for improving program performance.

The audits released so far focus on only two UN implementing agencies, DESA and UN-Habitat. Audits of the others would also be helpful: FAO, ITU, UNDP, UNESCO, UNICEF, UNOPS, WFP, and WHO. It would also be helpful if investigators would critically review the 90-day and 180-day reports submitted by OIP to the Security Council. What did they really say about program performance, problems being encountered, and the status of accounts? What questions could have, or should have, been asked by the Security Council based on these reports?

We also need to see program audits that assessed the construction of housing units over time compared to the number of families living in substandard conditions, amount of potable water per day per person being delivered, amount of electricity being supplied per household, the availability of classrooms and school supplies per student, medical supplies being delivered compared to treatments needed for illnesses and injuries, nutrition delivered against nutritional requirements, etc. And it would have been helpful if cost-benefit analyses were done to test that earnings, expenditures, and benefits were on track and waste minimized. For example, the procurement of food by the Saddam regime needed to be examined closely, especially wheat which was imported under the program, produced locally and procured by the regime, and imported commercially.

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Soon after the fall of the Saddam regime nearly two years ago unspent funds estimated at \$5 billion belonging to the people of Kurdistan were transferred by the UN to the DFI (Development Fund for Iraq) managed by the US-CPA (Coalition Provisional Authority). In pursuing its full entitlement the KRG had some success with the CPA and has since received part of the balance, approximately \$2 billion of the unspent funds in the 13% account. The remainder was lumped together in the DFI with funds from other sources.

The people of Kurdistan remain entitled by Security Council resolutions, which have the force of international law, to an estimated \$3 billion. No subsequent resolution has rescinded or superceded this entitlement. Due to genocidal policies of the Saddam regime since the 1960s the region deserves all the funds to which it is entitled. About 25% of the region's nearly 4 million people remain displaced with about 50,000 families still living in substandard conditions. For example, in November 1991 more than 100,000 Kurds were forcibly displaced from the Kirkuk area into KRG-administered territory. Compared with the rest of the country, the region's child mortality rate was 43% higher and infrastructure development was

severely neglected. Though the region has made substantial reconstruction and resettlement progress since 1991, especially under the oil-for-food program, much more remains to be done than has been achieved so far.

Attached are a two-page narrative summary and a table listing factors to be examined in order for the people of the Kurdistan region to know exactly where they stand regarding their oil-for-food finances and, especially, the unspent funds to which they remain entitled. Please see the narrative (2 pages), SCR-986 Oil-for-Food Program: Unspent Funds in 13% Account, and the table (1 page), UN SCR-986 Oil-for-Food Program: 13% Account Summary. I believe that the process of filling in the blank spaces would be educational and revealing to investigators, and helpful to the people of Kurdistan. We have tried being dentists in extracting basic financial data for years. The data, however, is impacted and requires another type of dental surgery that the KRG is not equipped to do.

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In the Kurdistan region, ten UN agencies administered the oil-for-food program on behalf of the Saddam regime. The KRG supported the program with over 100,000 civil servants, extensive facilities including warehouses and other buildings, and provided communication, security and other basic services, without charge. Ten KRG ministries supported 10 UN agencies in addressing humanitarian needs in 12 sectors. Without KRG support the UN could not have implemented the program in Kurdistan. The UN, however, set up a parallel administrative structure and hired local staff away from the government and public universities at salaries that were ten to fifty times higher than what the KRG was able to pay.

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In center-south Iraq, the Saddam regime negotiated procurement contracts, the "661" Sanctions Committee approved them, and the UN paid the bills. In effect, the regime selected the country, contractor, and price to pay. Global bidding was not required of the regime. In the Kurdistan region, however, though UN agencies responsible for implementing the program were obliged by UN rules and regulations to procure humanitarian goods and services in accordance with global bidding procedures, this applied to only 60% of the funds available to the region.

The balance 40% was put under the control of the Saddam regime. Nearly \$3 billion (separate from the estimated outstanding balance) of Kurdistan's entitlement was allocated to the regime to spend on food, medicines, and oil spare parts. The regime procured food and medicines for the whole country and sent shares to Kurdistan. In addition, amounts for spare parts for Iraq's oil industry, which was completely under regime control, were charged to Kurdistan's 13% account. Oil spare parts should have been charged like pipeline fees, "off the top" with the balance from oil sales being divided among all five escrow accounts. Instead, the people of Kurdistan paid 27% to 37% more per capita than the people of center-south Iraq.

These are a few of the losses peculiar to the 13% account. Other losses included those applicable to other escrow accounts: losses due to undercharges on oil

exports and overcharges on goods imports, substantial interest earned on 13% account funds that went somewhere else, gains on currency exchange that were apparently used for other purposes, costs to the 13% account that should have been charged to the 2.2% account, goods paid for but not received, etc. etc. etc. Some of these are described below.

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Examination of the oil-for-food program with its myriad aspects offers the strongest opportunity to radically reform the UN's operational culture which is widely regarded by many both inside and outside the organization to be unacceptably deficient. Some may see it to be hopelessly uncorrectable. This \$70 billion opportunity can be better realized if investigations focus carefully, comprehensively, and clearly on the program's losses suffered by the Iraqi people. The losses need to be credibly calculated and assessed, responsibility determined and assigned, and compensation paid in restitution to the Iraqi people.

It is the impact of financial penalty and restitution that will cause sustainable reform. If we are seeking an operationally reformed UN that is credibly and transparently effective in adding value to the human condition, changing or firing or suspending personnel may dramatically highlight the problem but certainly it will not solve it. The Iraqi people have suffered through decades of creatively cruel and vicious injustices from the inside. Their suffering should not be compounded by the international community imposing its weaknesses on them from the outside.

The problem centers on the UN operational culture, the manner and means by which the UN conducts its critically important everyday business. The UN has access to the best and the brightest people in the world. To its international civil servants the UN offers compensation that exceeds what most, if not all, national governments offer their own civil servants. More significantly, the UN offers opportunity to qualified, experienced, and dedicated people from everywhere to serve the highest human ideals anywhere. Some staff members are indeed successful despite the UN being an organization where the operational environment is chronically and inordinately frustrating to an extent that their effectiveness is severely compromised.

An interjection. The UN is not a monolithic corporate entity with divisions and branches. In many ways, it's a typical bureaucracy with turf battles, one part not coordinating with another, and one floor not talking to another. Some UN agencies are autonomous, built on their own keel and running under their own steam. The UN is indeed a fleet, but with an admiral without real command and control. There is a common UN system, but different UN organizations apply common rules and regulations differently. Moving the fleet in a concerted manner toward a common goal is more analogous to herding cats.

The UN is "We the Peoples . . ." and the oil-for-food program begins and ends with the Iraqi people. It was their money, not the UN's or the US's or any other member state's or combination thereof. Oil-for-food funds were trust funds belonging to the Iraqi people, handled by the United Nations as their trustee.

We really do not know precisely how well or how badly the UN handled their money, but we can find out. We have strong indications though, anecdotal and from audit

reports, that it was handled quite badly, and that the Iraqi people lost many hundreds of millions of dollars. More importantly, the Iraqi people lost the benefits those funds could have provided during a prolonged period of international trade sanctions, national economic decline, and acute personal hardship.

Iraq is inherently a very rich and strong country. Its richness and strength reside far beyond its petroleum wealth and its water resources. Its real strength lies in its very technically competent, educated, skilled, and hardworking people. Proportionately, Iraq may have more qualified engineers than the United States. Certainly, proportionately, Iraq has more women engineers than the US; half the engineers in Iraq are women. Iraqis excel at logistics and accounting – they transport, warehouse, and account with dispatch. They deliver.

Iraqis are builders. I was in Baghdad following the 1991 war. Major damage was done to refineries, power plants, water pumping stations, bridges, major buildings, and other civil service facilities. When I returned in 1993 following an 8-month absence between UN assignments a magic wand performance had occurred. Under sanctions, with their own resources, expertise and labor, without external assistance, I found shredded refineries, power plants and water pumping stations cleaned up, repaired, and functioning. All the damaged bridges across the Tigris River in Baghdad were repaired with the exception of a suspension bridge that took another year or so. Some heavily damaged major buildings were rebuilt and the construction of a huge new double-deck concrete bridge was well underway.

Since Iraq's 1990 invasion of Kuwait the Security Council passed 34 resolutions addressing the humanitarian needs of the Iraqi people but failed to exercise oversight on the performance of UN agencies implementing programs and projects to mitigate those needs. The UN Secretariat with its Office of the Iraq Programme (OIP) charged with the responsibility for coordinating the UN's oil-for-food response failed to engage available expertise to meet programmatic and political challenges. The nine UN implementing agencies responsible for spending and monitoring the delivery of program benefits too often failed to meet attainable professional performance standards. UN member states, in addition to those on the Security Council, including members who pay dues and fund UN agencies, failed to exercise their right to question program progress in order to stimulate improved program performance.

It appeared that no one, no non-Iraqi anyway, really cared. It wasn't their money. The Iraqi people certainly were not responsible for programmatic deficiencies since they had no real control over their funds. No one had to answer to anyone for how the money was being spent. Accountability was not a watchword. The oil-for-food program with its extraordinary resources, in effect, became a playground for the international community.

Neither was transparency a watchword. To this day the KRG still does not know where it stands with respect to funds earned, allocated, and spent. It has seen no accounts. The only (quasi) accounting information the KRG received, in April 2002, was a 1-page table that allocated \$7 billion among UN agencies and a second 1-page table allocating the same amount among sectors (agriculture, education, food, health, electricity, water/sanitation, resettlement, etc.). Since receiving those 2 pages

the KRG has been trying to find out how much has been spent against each allocation. It failed because the UN wouldn't, or couldn't, make the data available.

In center-south Iraq, the Saddam regime, was responsible for implementing the oil-for-food program and the UN was responsible for monitoring the program with respect to adequacy, equitability, and effectiveness. Implementers and monitors were separate. The effectiveness of this monitoring needs to be examined.

In the Kurdistan region, which is separately administered by the Kurdistan Regional Government, the program was implemented by 10 UN agencies on behalf of the Saddam regime. These UN agencies were also their own monitors. Implementers and monitors were not separate. The effectiveness of this monitoring also needs to be examined. The audits that are being released help.

It needs to be clearly understood that inadequate UN leadership and unsatisfactory management were not a function of insufficient resources. The UN was allocated and received no less than \$1.4 billion to cover its administrative costs. To attest to the adequacy of available resources, according to the IIC Interim Report, \$327 million (23%) was "surrendered" because, supposedly, it wasn't needed for administering the program.

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Let's take a look at what we know about the program in financial terms. All we really clearly know from UN official sources is that the program began in 1996 and was concluded in 2003. Keeping our focus on finances, let's examine program earnings and program expenditures. Amazingly, despite efforts at various levels, we still do not know exactly how much was earned and how much was expended.

We know that under sanctions Iraqi petroleum products were being illegally exported because it was easily observed, and it was reported in the media with photographs. It needs to be clarified and emphasized that UN sanctions on Iraq were imposed on UN member states, not on Iraq. Security Council resolutions prohibited imports from Iraq. If neighboring countries did not import from Iraq (smuggle), then Iraq could not export (smuggle).

It also needs to be more widely known that Iraqi petroleum products cost pennies inside Iraq but were valued in dollars outside Iraq. To illustrate, in January 1996, before the oil-for-food program began, inside Iraq one US dollar would buy 15,000 (fifteen thousand!) liters of gasoline, nearly 4,000 US gallons! That's what I personally had to pay. Outside Iraq in Turkey, gasoline sold for about four (4) US dollars per gallon!! This suggests that the real money was made outside Iraq, not inside. The oil-for-food program had nothing to do with this trade. Earnings through smuggling by the Saddam regime were indeed losses to the Iraqi people, except for whatever amount may have been applied by the regime to essential public services.

Under the oil-for-food program, by examining only finances and not benefits, how much did the Iraqi people lose on earnings? We have learned unofficially from the

media and other sources that oil sales were undercharged. If this is correct, then losses can be calculated by taking each earning transaction and comparing the actual sale price with the market price available at the time. This is a simple spreadsheet exercise. Once a loss is calculated, then it needs to be determined who is responsible for making it happen. And finally, it needs to be determined how much in compensation is due to the Iraqi people for the losses on earnings that incurred without their involvement and through no fault of their own.

Allow me to interject here that the Saddam regime demonstrated their technical capability by trial runs that exported nearly 3 million barrels per day (bpd) through the Iraq-Turkey Pipeline (ITP) and the southern port of Mina al-Bakr. There were extended periods where 2 million bpd was the norm. There were also periods when the Saddam regime would suspend oil exports for political purposes. During the oil-for-food program, illegal exports continued and domestic fuel requirements were met at very low cost to the consumer. Losses of legal earnings occurred due to illegal exports, and also due to lower than optimum production and export suspensions for non-technical reasons.

We learn from the UN-OIP official website that a total of \$64.231 billion was earned from oil sales. In the media, however, we have seen \$67 million mentioned by UN staff, and even \$68 million elsewhere. What exactly were the earnings on oil sales, and how much was deposited in each of the 5 escrow accounts?

From UN responses in the media we learned that \$2.9 billion was earned in interest on unspent funds. But how much was earned on each of the five escrow accounts? We don't know, though we were informed that bank interest accrues to the account in which it is earned. We are also particularly concerned that 13% funds transferred from the escrow account to UN agencies' accounts may have earned interest which was not returned to the escrow account or applied to Kurdistan. There has been persistent suspicion that interest earned on unspent 13% funds in UN agencies' accounts has been used elsewhere in Iraq, or on non-Iraq programs elsewhere in the world. If this is correct, then it may help explain some of the excessive delay between the time funds were made available to UN agencies and the time they were actually spent.

The amount of interest earned during a period of low interest rates is also an indicator of spending efficiency. The program was implemented over a 7-year period in thirteen 6-month phases (the 14<sup>th</sup> and final phase was more an extension of the 13<sup>th</sup> phase). To illustrate, in the Kurdistan region, we learned from WHO that for phase-2 (1997) \$29 million was allocated for medicines. This money was readily available sitting in the bank. But only \$14.7 million (51%) was actually spent. The balance 49% remained in the bank for more than 5 years. The effect was that the people of Kurdistan faced a chronic shortage of medical supplies despite substantial funds being readily available. This situation forced the KRG to spend its limited funds on important and urgently needed medical items. Please see the attachment (1 page): Allocation vs. Actual Expenditure - Medicines



From UN responses in the news media we learned that \$2.3 billion was gained on currency exchange. But how much was gained on each of the five escrow accounts? We don't know.

When proceeds from oil sales were received by the UN, an amount was taken "off the top" for pipeline fees. We have been unable to determine how these fees were calculated and how much they amounted to. The balance was divided among the five escrow accounts for spending, 59% was allocated to humanitarian goods/services for the people in center-south Iraq, 13% to the people in the separately administered Kurdistan region, 25% to people outside Iraq in war reparations related to Iraq's invasion of Kuwait, 2.2% to the UN to cover its administrative costs on the program, and 0.8% for the weapons inspectors.

Above, we looked at losses on earnings. Now, let's look at losses on expenditures. Under the oil-for-food program, by examining only finances and not benefits, how much did the Iraqi people lose on expenditures? We have learned unofficially from the media and other sources that humanitarian goods/services were overcharged. If this is correct, then losses can be calculated by taking each expenditure transaction and comparing the actual procurement price with the market price available at the time. This also is a simple spreadsheet exercise. Once a loss is calculated, then it needs to be determined who is responsible for allowing it to happen. And finally, it needs to be determined how much in compensation is due to the Iraqi people for the losses on expenditures that were incurred without their involvement and through no fault of their own.

While calculating losses on earnings and losses on expenditures there is a third major analysis to be undertaken. This is an analysis of the time gaps from the time funds were earned until they were allocated and until they were spent. Funds were earned and accounted for phase-by-phase. Some funds, as noted previously, remained unspent for more than five years even though the items for which they were allocated were urgently needed for life-saving purposes. This is a simple spreadsheet and graphing exercise to compare spending patterns within each phase and across phases, and also within each UN agency and across agencies.

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The fourth major analysis to be undertaken, the most difficult but the most important, is the calculation of losses in benefits that the program could have provided if UN leadership was exemplary and management functioned according to the highest professional standards.

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For each of the UN agencies involved in the oil-for-food program in Iraq this was their largest single country program in the world. Funds were made available to the 10 UN agencies in Kurdistan for them to plan and implement projects, and to monitor themselves. There were no timeframes; UN agencies could take 3 months or 3 years to spend available funds. This excessive delay in the face of urgent needs was the

primary source of frustration to the people of Kurdistan and to their Kurdistan Regional Government.

Hundreds of UN international staff from many countries served the program in Iraq. Thousands of very competent and dedicated Iraqi local staff also served the program, both within the UN and with the local authorities. In Kurdistan, most of the former UN local staff is still there in their homeland. Most staff of the local authorities are still in the same positions they held during the program's implementation period.

Substantial documentation is also available in Kurdistan. With Iraqis, face to face contact is far more effective and productive than email and phone calls. Examiners are strongly urged to visit Kurdistan, which is relatively quite secure and stable, using the far more expeditious route via Turkey instead of the cumbersome and often problematic Kuwait, Jordan and Baghdad route. If you can arrange a special direct flight from Istanbul to Iraqi Kurdistan, that would be ideal. An airstrip that served C-17s and C-130s is ready and waiting. The KRG is well organized to provide internal transport and other support services, including security, to facilitate access.

On behalf of the Kurdistan Regional Government, I would like to extend an invitation to Senator Coleman and Senator Levin and any of your colleagues to visit the Kurdistan region and observe first hand the progress made since 1991 and the conditions still being faced by the people in that part of Iraq. You would have complete and ready access to all personnel and documentation available. I may add that springtime is gorgeous in the mountains, especially during April and May.

Thank you and I look forward to your questions and to seeing you in Iraqi Kurdistan.

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## **Notes on the Iraqi Kurdistan Region and the Oil-for-Food Program**

### **The Basics**

The Oil-for-Food Program (OFFP) was instituted to mitigate the adverse effects of prolonged trade sanctions on the Iraqi people. Since 1991 Iraq's failure to comply with 17 United Nations Security Council resolutions pertaining to its weapons of mass destruction (WMD) programs lengthened the duration of the sanctions. During the same period more than 34 resolutions were passed by the Security Council to address the humanitarian needs of the Iraqi people.

Foremost among these humanitarian resolutions was SCR-986 passed in April 1995 that allowed the legal export of Iraqi oil and the sale proceeds to be used for the procurement and delivery of humanitarian goods and services to the people of Iraq. Sale proceeds were also applied to cover United Nations administrative expenses pertaining to Iraq, and compensation to victims of Iraq's aggression against Kuwait.

SCR-986 refers to the oil-for-food program and all subsequent resolutions pertaining to the program. The program was implemented in approximately six-month phases. SCR-986 was extended twelve times, each time by a resolution, for a total of thirteen phases. Oil under the program began to be legally exported in December 1996 and was terminated prior to the outbreak of war in March 2003. The program formally ended in November 2003, about two weeks short of seven years.

### **Comparison with the Marshall Plan**

During its duration the Marshall Plan provided \$13 billion (\$90 billion in today's dollars) to seventeen devastated countries in Europe. In comparison, during the seven years of the Iraq oil-for food program more than \$45 billion was made available to only one country. But Iraq was not a devastated country. A reasonably well-established bureaucracy continued to function and the country was richly endowed with substantial resources – oil, water, and most importantly its human resources that were educated, skilled, and hardworking.

### **Iraqi Kurdistan as a Devastated Region**

Iraq not being a devastated country is not quite correct. The only part of Iraq that was devastated was the Iraqi Kurdistan Region where the regime totally destroyed, leveled, more than 4,000 communities including towns of over 30,000 people. Tens of thousands of families fled as refugees to neighboring countries, or to the few large cities where public services were never able to meet the essential needs of their burgeoning populations. In addition, thousands of families were forced to live in so-called "collective towns" that resemble the thinking and behavior surrounding the establishment of reservations for Native Americans. Today, about 25% of the region's 3.8 million residents remain internally displaced, living like refugees in their own country. This devastation was not a function of international conflict; it was a function of confirmed state-managed genocide against the people of the Region.

In the late 1980s, chemical weapons were used against Iraqi citizens all across the Iraqi Kurdistan Region in over 200 locations, from the northwest near the border with Turkey all the way down to the southwest near the border with Iran culminating in the most infamous incident at Halabja.

Before the events of 1990-1991 Iraq was reputed to have among the best public services in the Middle East. The Baghdad regime's devastation of the region, however, is further demonstrated by deliberate neglect. In 1990, before the 1991 war, according to a UN report the child mortality rate in the rest of Iraq was 56 per 1,000 live births while in the region it was significantly higher at 80, 43% higher.

### **How the Iraqi Kurdistan Region Came About**

While there are antecedents in a March 1970 agreement between the national government and the regional Kurdish leadership, today's Iraqi Kurdistan Region is a creation of the Saddam regime. The 1991 war occurred early in that year. In late 1991 the regime unilaterally withdrew its administration and established a militarized demarcation line separating the region from the rest of the country. Iraqi citizens crossing the line were subjected to international border-like checks, and humiliating treatment.

The regime abandoned the people of Iraqi Kurdistan. In response, the region's leaderships were forced to establish a regional administration, which they did without a view toward separation, as clearly stated and affirmed in deeds and actions at that time and at many times since then. By mid-1992 elections regarded as free and fair by international observers were held and a regional parliament (Kurdistan National Assembly, KNA) and a regional government (Kurdistan Regional Government, KRG) were established. Only abusive laws were changed by the KNA. Since the establishment of the KNA and KRG in 1992, all of the same laws and administrative structures in force in the rest of the country were also in force in the region.

### **Effects of Regional Separation**

Because of involuntary separation more than 100,000 civil servants lost their livelihoods and thousands of government retirees lost their pensions. The regime permanently disconnected two of the three northern governorates (provinces) from the national electricity grid and suspended connection to the third for two years. The regime also stopped supplies of home heating and cooking fuels, prevented high school graduates from attending universities in center-south Iraq, and suspended a food-rationing system that functioned throughout the rest of the country. The separation also prevented medical patients from obtaining specialized health care available only outside the region, including kidney dialysis and cancer treatment. These are only some of the adverse features of life in the region during the six-year period prior to commencement of the oil for food program.

## North-South Differences in Oil-for-Food Program Management

It needs to be clearly understood that in the rest of Iraq the Saddam regime was responsible for program implementation. This implementation was to have been monitored by the UN. In the Iraqi Kurdistan Region, however, the UN was responsible for implementing the program. Ten UN Agencies were established in the region to plan, implement, and evaluate the program. Remarkably, in the region the UN was responsible for monitoring itself.

In the rest of Iraq, the regime directly managed procurement of all items approved by the UN. The regime was allowed the power, the authority and opportunity, to determine the country, company, and price of procurement. Global bidding was not a UN program requirement. In the region, the UN was responsible for procurement of all goods and services related to the program with the very notable exceptions of **food, medicines, and oil spare parts**. These three items were procured by the Saddam regime and the costs charged to the region that had little, if any, say in the quantity and quality of items delivered.

Strikingly, the costs of these three items amounted to approximately **40%** of the funds allocated to the Region. The balance **60%** that was managed by UN Agencies was for health, education, water and sanitation, landmine activities, agriculture, settlement rehabilitation (housing and related facilities), and telecommunications.

## UN Collusion with the Baghdad Regime: Diminished Funds

From the very beginning of the oil-for-food program the UN and the Saddam regime wittingly or unwittingly colluded to diminish funds available to the Iraqi Kurdistan Region. SCR-986 called for 13% to 15% of legal, UN-managed oil revenues to be allocated to the region based on proportionate population. The **minimum 13%** was allocated to the region even though the proportionate population was demonstrably higher. The consequent loss to the region's people varies from \$640 million to \$1.3 billion. A more complete explanation of this calculation is given below. Later, there were moves to decrease the allocation to 10%, but this was thankfully thwarted by a U.S. Government-sponsored resolution that locked in the minimum 13%.

The region was excessively charged for **pipeline fees**. This pertains to costs incurred on the export of oil through the Iraq-Turkey Pipeline (ITP). In the earliest phases, when the amount of oil that was allowed to be exported under the program was set at certain limits, extra amounts above the limits were allowed to be exported to cover ITP fees. In later phases, however, when limits were no longer applicable, the regime was allowed to legally export as much oil as it could (or as much as it chose to). During these latter phases, pipeline fees were directly deducted from each of the escrow accounts, including the 13% account established for the region. Despite repeated requests to the UN, no data has been obtained regarding the total pipeline fees incurred and the amount charged to each escrow account. Unofficial information, however, indicates that the region was charged disproportionately and excessively.

The region was also excessively charged for **oil spare parts**. Of twelve program sectors (food, medicines, health, education, water and sanitation, etc.), oil spare parts were allocated the third highest amount. The UN allowed the regime to use legal oil sale proceeds to procure spare parts for its oil industry beginning with phase-4. During phases 4 and 5 a total of \$300 million was allocated for each phase, and for phases 6 to 13 \$600 million per phase was allocated for oil spare parts. The region was charged a disproportionate share that, per capita, was more than 25% higher than for the rest of the country.

Food was allocated the most funds, nearly \$2 billion for 13 phases. Next was **electricity** at approximately \$1 billion. Today, after seven years of program implementation, the region's electricity generation, transmission, and distribution systems remain woefully inadequate. Despite substantial water flows in the northern mountains, the Saddam regime did not allow the installation of any new hydropower stations, including low-cost and low-environmental impact micro and mini hydropower plants that would have adequately served dozens of smaller communities. The UN, unfortunately, concurred with this approach.

The UN also agreed with the regime directly contracting an \$80 million gas turbine plant to supply electricity to the region. It is assumed the regime chose the country, company, and the price. Strikingly, this plant was to be established **outside** the region, but the costs charged to the region. Given the regime's past confirmed behavior in deliberately disconnecting the region from the national grid, the UN's collusion and inadequate guarantees that the full value of the plant would serve the people of the Region were highly questionable.

**Interest** earned on unspent funds was confirmed to accrue to the bank account in which it is earned -- by the U.S. Government, the U.K. Government, and by the UN itself via its Office of the Iraq Programme (OIP). Despite various representations, however, the amount of interest earned on the 13% escrow account established for the region has not been revealed. We do know from published OIP reports, however, that \$1.6 billion in interest was earned on the 59% escrow account established to procure humanitarian goods for the rest of the country. Interest is thus being sought on all unspent 13% account funds in ALL UN accounts, in the 13% escrow account and also the bank accounts of UN Agencies into which these funds were transferred before being paid out and leaving UN control.

More than \$4 billion is believed to be unspent in the region's 13% account. One small but specific example: of \$29 million allocated for medicines in phase-2 (1997), WHO confirmed that only \$14.7 million was spent. This means the region received only 51% of the value of medicines it was authorized to receive for phase-2, and that the balance of \$14 million has been sitting in the bank for more than five years!

**2.2%** of total oil sale proceeds was allocated to cover administrative costs incurred by UN Agencies on the program. There are indications that substantial expenses that could have, and should have, been charged to the 2.2% account were charged to the 13% account. These mis-charges to the 13% account reduced the funds available for the procurement of humanitarian goods for the region.

Markedly, \$300 million from the 2.2% account went unspent and were “surrendered” by the UN to the regime. No proportionate share of these unspent funds was offered to the region.

There was no overall plan with measurable indicators and timeframes to guide program implementation in all sectors and by all UN Agencies. UN Agencies could take virtually unlimited time to spend available funds. The program was closed in November 2003 but only about 47% of the funds allocated for the region had been spent. These included funds earned during phase-8 that began in June 2000. As noted above, even funds earned during phase-2 that began in June 1997 were not spent by the end of the program.

In contrast, the regime spent funds allocated to its 59% account more efficiently, if not more effectively. The effect of this efficiency, however, adversely affected the 13% account. Because the regime negotiated contracts that exceeded the funds available, the UN attempted to obtain fund advances from the 13% account to cover the costs of food and medicines that had not yet been delivered. The usual practice had been that the regime would procure food and medicines for the whole country to be paid from the 59% account. Shares would be sent to the region after which the cost would be reimbursed to the 59% account from the 13% account for the value of food and medicines actually received.

According to OIP's website figures, a total of \$2.1 billion was spent on medicines for the whole country. 13% of this amount for the region amounts to \$274 million. Data available for the first eleven phases indicates a total of \$346 million was allocated for medicines for the region. According to WHO, however, the value of medicines actually delivered to the region as of August 2002 (phase-12) was only \$100 million.

### **Iraq's Population**

Regarding population figures, in order for funds in the UN-managed escrow accounts to be paid out, for each of the thirteen phases the Saddam regime had to submit a “distribution plan” for UN approval. This plan was prepared in consultation with the UN in Iraq and submitted to the Secretary General for his endorsement, which occurred in less than one week, usually within a day or two. This plan states population figures for each governorate (province). For the Iraqi Kurdistan Region, we can assume the figures are reasonably accurate because they are based on food registration figures determined by the UN Agency WFP who vetted discrepancies within the region without interference from either the regional authorities or the Saddam regime. In the rest of Iraq, however, the population figures are what the Saddam regime stated they are, without verification by the UN. The regime was claiming higher population figures for the oil-for-food program while elsewhere claiming that the country's population was being decimated by the sanctions.

During the program's 7-year duration, according to the regime's own distribution plans submitted to the UN and approved by the Secretary General, the population of Iraq increased from 21.7 to 26.7 million, an increase of 22%. Iraq's official census in 1987 states a population of 16.5 million, which increased to 22 million in the official census of 1997, an excessively high 33% growth rate. According to Kenneth

Pollack's "The Threatening Storm," if the 1.5 million who allegedly died due to sanctions were added, plus 500,000 who fled the country during the past decade, the ten-year growth rate would have been 45%! Contrary to what the regime would have had the world believe, according to their own figures the country thrived and multiplied under sanctions.

### **Population Figures and the Region's Fund Allocation**

What does all this have to do with the Iraqi Kurdistan Region? Iraqi Kurdistan's population, as determined by WFP from the last list of beneficiaries receiving food under the program, was about 3.8 million. This list has been checked, rechecked, and revised by the UN. The original SCR-986 resolution called for Iraqi Kurdistan to receive 13% to 15% of oil sale revenues. If the population of Iraq is 25 million, as most authorities currently estimate, Kurdistan's fair share would amount to 15%. As it currently stands, however, at a total population of 26.7 million, Kurdistan's share would be approximately 14%, yet the region continues to receive 13%.

One or two percent of the total of \$64 billion earned during the program's seven-year duration means \$640 million to \$1.3 billion lost to the people of the Iraqi Kurdistan Region. After seven years of program implementation, none of the region's three main cities and none of the towns and smaller communities has an adequate electricity or water supply. These amounts would have made a substantial difference in reaching adequacy in these two sectors (electricity and water).

### **Transparency and Accountability**

If data and information is unavailable to substantiate some of these observations it is because the UN, despite numerous and repeated representations and communications, has cloaked itself in a veil of secrecy and privilege. A primary source of data and information, though very limited, is the UN website maintained by the Office of the Iraq Programme (OIP). For each of the thirteen phases OIP produced a 90-day and a 180-day report that were high on verbiage and low on data and other information that would present a clear picture of what was really going on.

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# OIL SALES AND UN ALLOCATION ACCOUNTS

| account | purpose  |
|---------|--|
| 59%     | humanitarian goods/services for center-south Iraq      |
| 25%     | compensation fund                                      |
| 13%     | humanitarian goods/services for Iraqi Kurdistan Region |
| 2.2%    | operational costs for UN humanitarian agencies         |
| 0.8%    | operational costs for UN weapons inspectors            |

(Initially, the 59% account was 53%, the 25% account was 30%, and there was a 1% account pertaining to SCR-778. Later, the 30% account was reduced to 25% and the 1% account was eliminated. The 6% was added to the 53% account.)

Since August 1990, UN member states are prohibited from purchasing Iraqi oil products. An oil-for-food program was first offered in 1991 under Security Council resolutions 706 and 712, but the Government of Iraq (GoI) declined to cooperate with implementation. In April 1995, Security Council resolution 986 was passed and rejected by the GoI. However, in January 1996 UN-GoI discussions began and a Memorandum of Understanding (MoU) outlining the implementation process was agreed in May 1996. Oil began to flow in December 1996 and the first goods (food) arrived in March 1997. The oil-for-food program was implemented in approximately 180-day/6-month phases. Each phase was authorized by a Security Council resolution. Ten UN agencies based in Iraq were involved in implementation. In center-south Iraq the GoI managed the program. In the Kurdistan region of northern Iraq, ten UN agencies managed the program on behalf of the GoI in quasi cooperation with the Kurdistan Regional Government.

| phase        | value (\$ million) as of 21 Mar 03 |               |               |              |              |            |
|--------------|------------------------------------|---------------|---------------|--------------|--------------|------------|
|              | oil sales                          | 59%           | 25%           | 13%          | 2.2%         | 0.8%       |
| 1            | 2,150                              | 1,269         | 538           | 280          | 47           | 17         |
| 2            | 2,125                              | 1,254         | 531           | 276          | 47           | 17         |
| 3            | 2,085                              | 1,230         | 521           | 271          | 46           | 17         |
| 4            | 3,027                              | 1,786         | 757           | 394          | 67           | 24         |
| 5            | 3,947                              | 2,329         | 987           | 513          | 87           | 32         |
| 6            | 7,402                              | 4,367         | 1,851         | 962          | 163          | 59         |
| 7            | 8,302                              | 4,898         | 2,076         | 1,079        | 183          | 66         |
| 8            | 9,564                              | 5,643         | 2,391         | 1,243        | 210          | 77         |
| 9            | 5,638                              | 3,326         | 1,410         | 733          | 124          | 45         |
| 10           | 5,350                              | 3,157         | 1,338         | 696          | 118          | 43         |
| 11           | 4,589                              | 2,708         | 1,147         | 597          | 101          | 37         |
| 12           | 5,639                              | 3,327         | 1,410         | 733          | 124          | 45         |
| 13           | 4,413                              | 2,604         | 1,103         | 574          | 97           | 35         |
| <b>total</b> | <b>64,231</b>                      | <b>37,896</b> | <b>16,058</b> | <b>8,350</b> | <b>1,413</b> | <b>514</b> |

**Pipeline fees.** From the value of oil legally exported, an estimated amount for pipeline fees related to the use of the Iraq-Turkey Pipeline (ITP) are assessed before the account percentages are applied. All five accounts share pipeline fees. Actual pipeline fees are not revealed.

**Oil spare parts.** \$300 million has been allocated in each of phases 4 and 5. \$600 million in each of phases 6 to 12. These amounts are deducted from only the 59% and 13% accounts. According to distribution plans submitted by the Government of Iraq and approved/endorsed by the Secretary General, however, these charges were to be treated the same as pipeline fees.

**Interest.** Throughout the program, substantial funds have remained unspent in commercial bank accounts. OIP and two Security Council members (UKG and USG) confirm that interest amounts accrue to the accounts in which they are earned. Despite requests to the UN, the interest amounts have yet to be revealed.

**Gains on currency exchange.** Funds in commercial bank accounts are maintained in one currency and goods/services are occasionally paid for in another currency with losses/gains on currency exchange.

## 13% ACCOUNT - ONLY 50% ACTUALLY SPENT

The following is based on data available on the OIP website: [www.un.org/depts/oip/](http://www.un.org/depts/oip/)  
Check "Basic Figures" in the right side panel. Figures below are based on data available per the dates indicated on the OIP website. Note the time gap between income and expenditure figures below.

### Income as of 21 March 2003:

Total oil sale proceeds Phases 1 to 13:           **\$ 64,231 million**

**Theoretical availability for IK, 13%:    \$ 8,350 million**

Interest earned on unspent amounts and gains on currency exchange are not included. The amount actually available for humanitarian goods and services for IK is the theoretical amount plus interest, plus gain on currency exchange, minus amounts charged for pipeline fees and oil spare parts, which are calculated differently. Pipeline fees are deducted "off the top" and IK receives 13% of the balance. Oil spare parts are deducted from the 13%. IK citizens pay a disproportional share, 27% to 37% more per phase than Iraqi citizens in center-south Iraq.

### Expenditure as of 31 December 2002:

Total spent on **food** arrived for all-Iraq:           **\$ 10,760 million**  
IK 13% share:   **\$ 1,398**

Total spent on **medicine** arrived for all-Iraq:       **\$ 2,111 million**  
IK 13% share:   **\$ 274**

(The actual amount delivered to IK is much less than \$274 million. Based on WHO figures the value of medicines delivered to IK, as of August 2002, is only **\$100 million.**)

Total spent on IK **projects**:                               **\$ 1,673 million (imports + local contracts)**  
(electricity, agriculture, reconstruction/resettlement, water & sanitation, health facilities & equipment, education, telecommunications, landmine activities, etc.)

Total charged IK for **oil spare parts**                   **\$ 771 million**

**Total expenditure:   \$ 4,116 million**

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As of 31 December 2002 OIP indicates \$2.3 billion was spent by the Government of Iraq for food and medicines to be delivered to Iraqi Kurdistan. As of 31 August 2002, at the end of 11 phases, WFP indicates the value of food delivered to Kurdistan to be \$1,415,662,805. As of August 2002, at the end of 11 phases, WHO indicates the value of medicines delivered to IK was only \$100,065,673. The highest amount delivered per phase was \$202,746,964 (phase-8) for food, and \$23,753,182 (phase-1) for medicines. Therefore, WFP and WHO figures do not support the OIP figures.

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**Conclusion: Based on the above data, only 50% of the amount earned for IK has been spent on humanitarian goods and services. The balance 50%, more than \$4,000 million, remains "in the bank" unspent, part for more than five years.**

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(ESC) 13% Account ALLOCATIONS Phases I - XI BY AGENCY

| agency                    | sector              | PHASE I            | PHASE II           | PHASE III          | PHASE IV           | PHASE V            | PHASE VI           | PHASE VII            | PHASE VIII           | PHASE IX           | PHASE X            | PHASE XI           | Phases I-XI          |
|---------------------------|---------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|----------------------|----------------------|--------------------|--------------------|--------------------|----------------------|
| FAO                       | Agriculture         | 20,150,000         | 26,000,000         | 26,000,000         | 24,000,000         | 54,400,000         | 111,500,000        | 187,141,500          | 151,327,712          | 39,100,000         | 59,965,000         | 27,000,000         | 726,584,212          |
|                           | Education           |                    |                    |                    | 1,500,000          |                    |                    |                      |                      |                    |                    |                    | 1,500,000            |
|                           | Nutrition           |                    |                    |                    | 10,500,000         | 4,500,000          | 12,500,000         |                      |                      |                    |                    |                    | 27,500,000           |
|                           | <b>total</b>        | <b>20,150,000</b>  | <b>26,000,000</b>  | <b>26,000,000</b>  | <b>36,000,000</b>  | <b>58,900,000</b>  | <b>124,000,000</b> | <b>187,141,500</b>   | <b>151,327,712</b>   | <b>39,100,000</b>  | <b>59,965,000</b>  | <b>27,000,000</b>  | <b>755,584,212</b>   |
| UNHSP<br>(Habitat)        | Resettlement        | 12,000,000         | 6,000,000          | 11,000,000         | 30,000,000         | 15,200,000         | 101,800,000        | 108,095,000          | 178,208,858          | 75,421,497         | 58,000,000         | 106,000,000        | 701,725,355          |
|                           | Watsan              |                    |                    | 4,000,000          |                    |                    |                    |                      |                      |                    |                    |                    | 4,000,000            |
|                           | Edu (higher)        |                    |                    |                    |                    |                    |                    |                      |                      |                    | 4,000,000          |                    | 4,000,000            |
| ITU                       | Edu (pri/sec)       |                    |                    |                    |                    | 2,000,000          | 6,000,000          | 29,200,000           | 16,100,000           | 10,000,000         |                    |                    | 63,300,000           |
|                           | <b>total</b>        | <b>12,000,000</b>  | <b>6,000,000</b>   | <b>15,000,000</b>  | <b>30,000,000</b>  | <b>17,200,000</b>  | <b>107,800,000</b> | <b>137,295,000</b>   | <b>194,308,858</b>   | <b>85,421,497</b>  | <b>62,000,000</b>  | <b>106,000,000</b> | <b>773,025,355</b>   |
|                           | Telecomms.          |                    |                    |                    |                    | 6,200,000          | 19,600,000         |                      | 8,000,000            | 60,000,000         | 38,000,000         | 9,700,000          | 141,500,000          |
|                           | Electricity         | 23,270,000         | 19,300,000         | 26,000,000         | 73,700,000         | 96,200,000         | 220,117,200        | 167,659,080          | 114,380,000          | 43,700,000         | 77,000,000         | 50,000,000         | 911,326,280          |
| UNESCO                    | Edu (higher)        | 5,150,000          | 5,000,000          | 5,000,000          | 5,200,000          | 2,000,000          | 19,020,000         | 11,984,000           | 35,758,353           | 17,780,000         | 5,000,000          | 10,000,000         | 121,892,353          |
|                           | Edu (sec)           | 5,150,000          | 5,000,000          | 5,000,000          | 5,200,000          | 6,100,000          | 31,300,000         | 43,433,600           | 49,293,953           | 32,900,000         | 17,600,000         | 13,400,000         | 214,377,553          |
|                           | <b>total</b>        | <b>3,700,000</b>   | <b>3,048,904</b>   | <b>2,397,258</b>   | <b>614,856</b>     | <b>1,747,967</b>   | <b>4,049,178</b>   | <b>4,832,229</b>     | <b>4,343,945</b>     | <b>4,500,000</b>   | <b>7,000,000</b>   | <b>10,000,000</b>  | <b>46,234,337</b>    |
|                           | Health              |                    |                    |                    |                    | 352,033            | 350,822            | 867,771              | 1,056,055            |                    |                    |                    | 4,965,663            |
| UNICEF                    | Vac.(GOI BP)        |                    |                    | 1,302,742          | 385,144            |                    | 1,000,000          | 1,200,000            | 1,414,000            |                    |                    |                    | 3,614,000            |
|                           | Child Protect.      |                    |                    |                    |                    |                    |                    |                      |                      |                    |                    |                    |                      |
|                           | Nutrition           | 1,300,000          | 3,170,000          | 1,170,000          | 400,000            | 800,000            | 800,000            | 2,530,000            | 3,100,000            | 1,700,000          | 2,778,113          | 2,400,000          | 20,148,113           |
|                           | Watsan              | 20,200,000         | 19,610,000         | 15,610,000         | 9,800,000          | 30,000,000         | 64,750,000         | 62,685,000           | 35,000,000           | 25,500,000         | 17,700,000         | 42,000,000         | 342,855,000          |
| UNOHC                     | Edu (pri)           | 10,000,000         | 10,000,000         | 11,700,000         | 7,300,000          | 3,000,000          | 15,000,000         | 10,100,000           | 13,289,400           | 15,000,000         | 11,279,167         | 31,000,000         | 137,668,567          |
|                           | <b>total</b>        | <b>35,200,000</b>  | <b>36,480,000</b>  | <b>32,180,000</b>  | <b>18,500,000</b>  | <b>35,900,000</b>  | <b>85,950,000</b>  | <b>82,215,000</b>    | <b>58,203,400</b>    | <b>46,700,000</b>  | <b>38,757,280</b>  | <b>85,400,000</b>  | <b>555,485,660</b>   |
|                           | Resettlement        |                    | 150,000            |                    |                    | 900,000            | 2,200,000          | 1,500,000            |                      |                    |                    |                    | 4,750,000            |
|                           | Contingency         |                    |                    |                    |                    | 3,150,000          |                    |                      |                      |                    |                    |                    | 3,150,000            |
| UNOPS                     | Cap. Building       |                    |                    |                    |                    |                    |                    | 1,600,000            |                      |                    |                    |                    | 1,600,000            |
|                           | <b>total</b>        | <b>0</b>           | <b>150,000</b>     | <b>0</b>           | <b>0</b>           | <b>4,050,000</b>   | <b>2,200,000</b>   | <b>3,100,000</b>     | <b>0</b>             | <b>0</b>           | <b>0</b>           | <b>0</b>           | <b>9,500,000</b>     |
|                           | Demining            | 2,500,000          | 2,668,000          | 1,000,000          | 6,090,000          | 5,850,000          | 13,882,800         | 14,000,000           | 36,890,000           | 10,100,000         | 17,200,000         | 14,000,000         | 124,180,800          |
|                           | Resettlement        |                    |                    |                    |                    |                    |                    |                      | 8,297,941            |                    | 2,500,000          | 3,700,000          | 14,497,941           |
| WFP                       | Watsan              |                    |                    |                    |                    |                    |                    |                      | 96,571,466           | 34,100,000         |                    | 36,000,000         | 166,671,466          |
|                           | <b>total</b>        | <b>2,500,000</b>   | <b>2,668,000</b>   | <b>1,000,000</b>   | <b>6,090,000</b>   | <b>5,850,000</b>   | <b>13,882,800</b>  | <b>14,000,000</b>    | <b>141,759,407</b>   | <b>44,200,000</b>  | <b>19,700,000</b>  | <b>53,700,000</b>  | <b>305,350,207</b>   |
|                           | Food Hand.          | 3,557,068          | 1,885,930          | 1,578,012          | 1,330,402          | 234,494            |                    |                      |                      | 1,260,412          | 1,367,919          | 1,500,000          | 12,714,237           |
|                           | Nutrition           | 3,700,000          | 5,912,000          | 6,830,000          | 600,000            | 5,000,000          | 8,200,000          | 8,969,000            | 12,550,374           | 8,200,001          | 4,414,307          | 10,000,000         | 74,375,682           |
| WHO                       | Food (BP)           | 118,557,978        | 120,193,393        | 120,500,237        | 124,434,079        | 126,622,328        | 138,000,000        | 152,000,000          | 183,320,000          | 184,000,000        | 184,000,000        | 184,000,000        | 1,635,628,016        |
|                           | PSC Food            | 414,953            | 420,677            | 421,751            | 435,519            | 443,178            | 483,000            | 532,000              |                      |                    |                    |                    | 3,151,078            |
|                           | <b>total</b>        | <b>126,230,000</b> | <b>128,412,000</b> | <b>129,330,000</b> | <b>126,800,000</b> | <b>132,300,000</b> | <b>146,683,000</b> | <b>161,501,000</b>   | <b>195,870,374</b>   | <b>193,460,413</b> | <b>189,782,226</b> | <b>195,500,000</b> | <b>1,725,869,013</b> |
|                           | Health              | 6,700,000          | 6,300,000          | 6,300,000          | 8,000,000          | 12,700,000         | 86,750,000         | 89,656,900           | 120,000,000          | 43,600,000         | 26,000,000         | 24,000,000         | 430,006,900          |
| WHO                       | Watsan              |                    | 390,000            | 390,000            | 500,000            | 500,000            | 500,000            | 480,000              | 1,092,090            | 500,000            | 500,000            | 300,000            | 5,152,090            |
|                           | Edu (higher)        |                    | 300,000            | 300,000            | 3,000,000          | 1,000,000          | 8,200,000          | 6,080,000            | 8,325,585            | 8,200,000          | 5,800,000          | 2,000,000          | 43,205,585           |
|                           | Medicines BP        | 28,800,000         | 28,750,000         | 18,500,000         | 12,000,000         | 14,000,000         | 30,000,000         | 44,000,000           | 50,000,000           | 40,000,000         | 40,000,000         | 40,000,000         | 346,050,000          |
|                           | Med. Hand.          |                    | 250,000            |                    |                    |                    |                    | 350,000              |                      |                    |                    |                    | 600,000              |
| parked<br>oil spare parts | <b>total</b>        | <b>35,500,000</b>  | <b>35,990,000</b>  | <b>25,490,000</b>  | <b>23,500,000</b>  | <b>28,200,000</b>  | <b>125,450,000</b> | <b>140,566,900</b>   | <b>179,417,675</b>   | <b>92,300,000</b>  | <b>72,300,000</b>  | <b>66,300,000</b>  | <b>825,014,575</b>   |
|                           | Edu (higher)        |                    |                    |                    |                    |                    |                    |                      | 16,544,400           |                    |                    |                    | 16,544,400           |
|                           | <b>Grand Totals</b> | <b>260,000,000</b> | <b>260,000,000</b> | <b>260,000,000</b> | <b>378,851,000</b> | <b>449,961,000</b> | <b>995,105,000</b> | <b>1,055,034,080</b> | <b>1,227,227,779</b> | <b>745,781,910</b> | <b>683,440,506</b> | <b>715,000,000</b> | <b>7,030,401,275</b> |

## **SCR-986 OIL-FOR-FOOD PROGRAM: UNSPENT FUNDS IN 13% ACCOUNT**

The SCR-986 oil-for-food program was implemented from December 1996 to November 2003 in thirteen 6-month phases. Each phase was authorized by a Security Council resolution. For each phase the Government of Iraq (GOI) submitted a Distribution Plan (DP) to the UN that was endorsed/approved by the Secretary General. Only after a DP was endorsed/approved could oil-for-food funds be spent. During each phase the UN was obligated to file a 90-day report and a 180-day report. These reports were high on verbiage and low on data.

Under the program, Iraqi oil was legally sold under UN supervision. By the end of the program the sale proceeds were disbursed among five UN-managed escrow bank accounts: 59% for humanitarian assistance in center-south Iraq administered by the GOI, 25% for compensation to non-Iraqi parties for losses and damages caused by Iraq's invasion of Kuwait, 13% for humanitarian assistance for the separately administered Iraqi Kurdistan Region (IKR), 2.2% for UN administrative/operational costs, and 0.8% for the weapons inspectors.

Procurement of humanitarian assistance for center-south Iraq was handled directly by the GOI. The GOI directly negotiated contracts with vendors. Each contract had to be approved by the UN SCR-661 Sanctions Committee before funds under UN management could be released for payment. In the IKR, with the exception of bulk food and medicines, procurement was handled by UN Agencies. The Kurdistan Regional Government (KRG) was not directly involved in contract negotiations.

SCR-986 called for 13% to 15% of UN-supervised oil sale proceeds to fund humanitarian assistance for the separately administered IKR. The figure is based on proportionate population. Even though the population of IKR exceeded 13% of the estimated total population of Iraq, however, the UN decided to allocate the lowest allowable figure of 13%.

Prior to 1991 IKR was the region subject to the most neglect, destruction, disappearances, and dislocation. In 1990, the child mortality rate was 43% higher than the rate for the rest of the country. Up to 1990 over 4,000 communities were destroyed including towns of over 30,000 people. Nearly 25% of the population of IKR is considered to be internally displaced, including over 100,000 persons expelled from the Kirkuk area into IKR in late 1991.

In accordance with SCR-986 passed in April 1995 the UN Secretariat was made responsible for the management of the oil-for-food program. Terms and conditions were either imposed on Iraq or agreed to in the Memorandum of Understanding signed by the UN and GOI in May 1996. The UN had the controlling interest and supervising responsibility. The UN also had the resources to manage the program to the highest performance and ethical standards; 2.2% of oil sale proceeds, nearly \$1.5 billion, were allocated for UN administrative costs. More than \$200 million unspent from the 2.2% account was surrendered by the UN to the GOI 59% account.

IKR received significantly less than the upper limit of 15% allowed under SCR-986. IKR also received significantly less than the 13% that was finally applied; when the program ended in November 2003 perhaps less than 7% was actually spent on IKR.

There are questions regarding the proper calculation of actual pipeline fees and oil spare parts that should have been deducted "off the top" before 13% of the balance was calculated to cover humanitarian assistance costs in IKR. Per capita, IKR citizens paid 27% to 37% more for oil spare parts than citizens in center-south Iraq.

There is the major issue of bank account interest earned on unspent funds, which are substantial. The UN reported interest earned on the 59% account (\$1.6 billion) but never on the 13% account, even though the KRG was informed by OIP, the U.S. Government, and U.K. Government that interest accrues to the escrow account in which it is earned. Despite numerous attempts, the KRG was never informed of the amount. There is also a notion that 13% account funds transferred to UN Agencies' accounts accrued interest that was used for purposes unrelated to Iraq.

The GOI procured bulk food and medicines for the whole country and shares were delivered to IKR. The GOI initially paid for bulk food and medicines from the 59% account established to fund humanitarian assistance for center-south Iraq. The cost of food and medicine actually delivered to IKR was later reimbursed to the 59% account from the 13% account. It is to be noted that OIP attempted to advance funds from the 13% account because the 59% account was over-obligated.

The KRG submitted project proposals to the UN with a total estimated value that exceeded funds available in the 13% account. These projects were urgently needed to serve important humanitarian activities pertaining to the sectors of health, education, electricity, water, environmental sanitation, settlement rehabilitation, landmine activities, agriculture, and telecommunications.

The UN did not share financial allocation and expenditure information with the KRG. There is one exception. After more than five years of program implementation, in April 2002 the UN provided the KRG with tables of allocations by sector and by UN Agency. But when the UN was requested to provide expenditure figures to compare with allocation figures earlier received, in order to determine unspent balances available in each sector and with each UN Agency, no data was forthcoming.

Although the UN submitted to the Security Council during each of the thirteen phases a 90-day report and a 180-day report, complete summary financial data was never a part. Obtaining complete financial data from the UN has been impossible. These reports were available on the OIP website at [www.un.org/depts/oip](http://www.un.org/depts/oip)

Attached is a table listing items for which financial data is needed in order to determine the amount of unspent funds in the 13% account when the program ended in November 2003.

## UN SCR-986 OIL-FOR-FOOD PROGRAM: 13% ACCOUNT SUMMARY

Oil-for-Food funds from UN approved and monitored Iraqi oil sales were managed by the UN in five escrow accounts: 59% (initially 53%) for humanitarian assistance for center-south Iraq, 25% (initially 30%) for compensation for war losses/damages, 13% for humanitarian assistance for the Iraqi Kurdistan Region, 2.2% for UN overhead costs, 0.8% for weapons inspection activities. There were two additional sources of earnings: interest earned on unspent funds and gains on currency exchange.

UN administration of the oil-for-food program began in May 1996 and terminated in November 2003 when the program was transferred to the US-led Coalition Provisional Authority (CPA). Program responsibility had been assigned by the UN Security Council to the UN Secretariat headed by the Secretary General. The program was managed by the executive director of the Office of the Iraq Programme (OIP) in New York and its field office in Baghdad, the UN Office of the Humanitarian Coordinator for Iraq (UNOHC). Nine separately administered UN Agencies implemented the program in the Iraqi Kurdistan Region (IKR): FAO, ITU, UNDP, UNESCO, UN-Habitat, UNICEF, UNOPS, WFP, WHO.

A clear, comprehensive, and complete final accounting of all funds to which the people of the Iraqi Kurdistan Region are entitled has yet to be produced. To accurately determine correct figures, the table below lists summaries of line items to be carefully examined and calculated. It is roughly estimated that at least \$2.5 billion remains outstanding.

**(figures in thousands of US dollars)**

| item | description  | add    | subtract | balance | explanation  |
|------|--|--------|----------|---------|--|
| 1    | oil sale proceeds  | 64,231 |          | 64,231  | Total amount UN received from the sale of Iraqi oil under the terms and conditions of the SCR-986 oil-for-food program.  |
| 2    | pipeline fees (actual costs incurred)                      |        |          |         | Fees charged to 13% account for Iraq-Turkey Pipeline usage. Pipeline Fees were charged to all 5 accounts. How was the amount calculated?   |
| 3    | oil spare parts (actual costs incurred)                    |        |          |         | Costs charged to 13% account for oil spare parts. These costs should have been charged like pipeline fees to all 5 accounts, but were charged to only the 59% and 13% accounts. IKR was charged excessively by 27% to 37% per phase.               |
| 4    | balance available for humanitarian goods and services      |        |          |         | Available to spend on food, medicines, water and sanitation, education, etc.   |
| 5    | cost of food actually received                             |        |          |         | Bulk food for all 18 governorates was procured by the GOI from its 59% account. Proportionate shares based on population were delivered to IKR for which the actual cost was reimbursed from the 13% account.                                      |
| 6    | cost of medicines actually received                        |        |          |         | Bulk medical supplies for all 18 governorates were procured by the GOI with funds in its 59% account. Proportionate shares based on population were delivered to IKR for which the actual cost was reimbursed from the 13% account.                |
| 7    | cost of project activities                                 |        |          |         | Except for bulk food and medicine supplies, and oil spare parts, UN Agencies handled all other sectors: health, education, agriculture, water and sanitation, electricity, landmine activities, telecommunications, and settlement rehabilitation. |
| 8    | costs mischarged to 13% funds                              |        |          |         | UN Agencies' operational/administrative/overhead costs were covered from the 2.2% account. But some of these costs were mischarged to the 13% account.   |
| 9    | interest earned on 13% funds in master escrow account      |        |          |         | Unspent funds in UN bank accounts earned at least \$2.9 billion in interest. IKR is entitled to interest earned on unspent 13% account funds.  |
| 10   | interest earned on 13% funds in UN Agencies' bank accounts |        |          |         | Some 13% account funds managed by OIP were transferred to UN Agencies' accounts. IKR is entitled to interest earned on unspent 13% funds in all UN accounts.   |
| 11   | gain on currency exchange                                  |        |          |         | The UN indicates \$2.3 billion was gained on currency exchange. IKR is entitled to gains on currency exchange transactions involving 13% account funds.  |
| 12   | value of goods procured that were not delivered.           |        |          |         | Some goods procured with 13% account funds were never delivered, such as those looted from Baghdad, Kirkuk, Mosul, and perhaps other locations.  |
| 13   | share of unspent 2.2% funds                                |        |          |         | 2.2% was legally designated for UN administrative/operational costs. About \$400 million remained unspent. IKR is entitled to no less than 18% (not 13%).  |
| 14   | <b>unspent 13% account funds</b>                           |        |          |         | Remaining funds legally assigned to the Iraqi Kurdistan Region = (13% oil sales + bank interest on unspent 13% funds + gains on currency exchange on 13% funds + 18% of unspent 2.2% funds) minus (correctly calculated and charged costs).        |

# ALLOCATION VS. ACTUAL EXPENDITURE - MEDICINES

as of August 2002

allocation/expenditure figures from UN sources

| Phase        | Erbil              |                   | Duhok     |                   | Suleimaniya       |           | Erbil + Duhok+Suleimaniya |                   |                    |                    |           |
|--------------|--------------------|-------------------|-----------|-------------------|-------------------|-----------|---------------------------|-------------------|--------------------|--------------------|-----------|
|              | 34%                | spent             | %         | 23%               | spent             | %         | 43%                       | spent             | 100%               | spent              | %         |
| <b>1</b>     | 9,792,000          | 8,568,608         | <b>88</b> | 6,624,000         | 5,277,374         | <b>80</b> | 12,384,000                | 9,907,200         | 28,800,000         | 23,753,182         | <b>82</b> |
| <b>2</b>     | 9,860,000          | 5,062,458         | <b>51</b> | 6,670,000         | 3,032,504         | <b>45</b> | 12,470,000                | 6,557,780         | 29,000,000         | 14,652,742         | <b>51</b> |
| <b>3</b>     | 6,290,000          | 3,503,943         | <b>56</b> | 4,255,000         | 2,580,494         | <b>61</b> | 7,955,000                 | 5,763,713         | 18,500,000         | 11,848,150         | <b>64</b> |
| <b>4</b>     | 4,080,000          | 2,830,759         | <b>69</b> | 2,760,000         | 1,600,695         | <b>58</b> | 5,160,000                 | 4,013,277         | 12,000,000         | 8,444,731          | <b>70</b> |
| <b>5</b>     | 4,760,000          | 2,618,665         | <b>55</b> | 3,220,000         | 1,175,121         | <b>36</b> | 6,020,000                 | 2,030,475         | 14,000,000         | 5,824,261          | <b>42</b> |
| <b>6</b>     | 10,200,000         | 3,159,904         | <b>31</b> | 6,900,000         | 1,577,223         | <b>23</b> | 12,900,000                | 3,859,519         | 30,000,000         | 8,596,646          | <b>29</b> |
| <b>7</b>     | 14,960,000         | 2,805,430         | <b>19</b> | 10,120,000        | 1,522,050         | <b>15</b> | 18,920,000                | 3,543,684         | 44,000,000         | 7,871,164          | <b>18</b> |
| <b>8</b>     | 17,000,000         | 4,473,763         | <b>26</b> | 11,500,000        | 2,399,363         | <b>21</b> | 21,500,000                | 6,025,430         | 50,000,000         | 12,898,556         | <b>26</b> |
| <b>9</b>     | 13,600,000         | 1,531,110         | <b>11</b> | 9,200,000         | 630,614           | <b>7</b>  | 17,200,000                | 2,633,732         | 40,000,000         | 4,795,456          | <b>12</b> |
| <b>10</b>    | 13,600,000         | 513,507           | <b>4</b>  | 9,200,000         | 249,683           | <b>3</b>  | 17,200,000                | 617,595           | 40,000,000         | 1,380,785          | <b>3</b>  |
| <b>11</b>    | 13,600,000         | 0                 | <b>0</b>  | 9,200,000         | 0                 | <b>0</b>  | 17,200,000                | 0                 | 40,000,000         | 0                  | <b>0</b>  |
| <b>Total</b> | <b>117,742,000</b> | <b>35,068,147</b> | <b>30</b> | <b>79,649,000</b> | <b>20,045,121</b> | <b>25</b> | <b>148,909,000</b>        | <b>44,952,405</b> | <b>346,300,000</b> | <b>100,065,673</b> | <b>29</b> |

Oil began flowing under the UN Security Council resolution authorizing the oil-for-food program in December 1996, almost six years ago. Goods began arriving in March 1997. Of the eleven 6-month phases that have concluded to date, \$346,300,000 has been allocated for the Iraqi governorates (provinces) of Erbil (34%), Duhok (23%), and Suleimaniya (43%) for the procurement - **by the GOI** - of medicines, medical supplies, and laboratory reagents.

The total value of medical items received as of August 2002 is **\$100,065,673**. This means that after five years only **28%** of the funds available have been spent. The balance **72% (\$246,234,327)** remains unspent in UN-managed bank accounts. For example, only 49% of funds allocated for Phase-2 over five years ago have been spent. This has forced the KRG to use its limited resources to procure important and urgent medical items from alternative sources.

**What's going on here?**