

Iraq

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So, Mr Bremer, where did all the money go?

At the end of the Iraq war, vast sums of money were made available to the US-led provisional authorities, headed by Paul Bremer, to spend on rebuilding the country. By the time Bremer left the post eight months later, \$8.8bn of that money had disappeared. Ed Harriman on the extraordinary scandal of Iraq's missing billions

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When Paul Bremer, the American pro consul in Baghdad until June last year, arrived in [Iraq](#) soon after the official end of hostilities, there was \$6bn left over from the UN Oil for Food Programme, as well as sequestered and frozen assets, and at least \$10bn from resumed Iraqi oil exports. Under Security Council Resolution 1483, passed on May 22 2003, all these funds were transferred into a new account held at the Federal Reserve Bank in New York, called the Development Fund for Iraq (DFI), and intended to be spent by the Coalition Provisional Authority (CPA) "in a transparent manner ... for the benefit of the Iraqi people".

The US Congress also voted to spend \$18.4bn of US taxpayers' money on the redevelopment of Iraq. By June 28 last year, however, when Bremer left Baghdad two days early to avoid possible attack on the way to the airport, his CPA had spent up to \$20bn of Iraqi money, compared with \$300m of US funds. The "reconstruction" of Iraq is the largest American-led occupation programme since the Marshall Plan - but the US government funded the Marshall Plan. Defence secretary Donald Rumsfeld and Paul Bremer have made sure that the reconstruction of Iraq is paid for by the "liberated" country, by the Iraqis themselves.

The CPA maintained one fund of nearly \$600m cash for which there is no paperwork: \$200m of it was kept in a room in one of Saddam's former palaces. The US soldier in charge used to keep the key to the room in his backpack, which he left on his desk when he popped out for lunch. Again, this is Iraqi money, not US funds.

The "financial irregularities" described in audit reports carried out by agencies of the American government and auditors working for the international community collectively give a detailed insight into the mentality of the American occupation authorities and the way they operated. Truckloads of dollars were handed out for which neither they nor the recipients felt they had to be accountable.

The auditors have so far referred more than a hundred contracts, involving billions of dollars paid to American personnel and corporations, for investigation and possible criminal prosecution. They have also discovered that \$8.8bn that passed

through the new Iraqi government ministries in Baghdad while Bremer was in charge is unaccounted for, with little prospect of finding out where it has gone. A further \$3.4bn appropriated by Congress for Iraqi development has since been siphoned off to finance "security".

Although Bremer was expected to manage Iraqi funds in a transparent manner, it was only in October 2003, six months after the fall of Saddam, that an International Advisory and Monitoring Board (IAMB) was established to provide independent, international financial oversight of CPA spending. (This board includes representatives from the United Nations, the World Bank, the IMF and the Arab Fund for Economic and Social Development.)

The IAMB first spent months trying to find auditors acceptable to the US. The Bahrain office of KPMG was finally appointed in April 2004. It was stonewalled.

"KPMG has encountered resistance from CPA staff regarding the submission of information required to complete our procedures," they wrote in an interim report. "Staff have indicated ... that cooperation with KPMG's undertakings is given a low priority." KPMG had one meeting at the Iraqi Ministry of Finance; meetings at all the other ministries were repeatedly postponed. The auditors even had trouble getting passes to enter the Green Zone.

There appears to have been good reason for the Americans to stall. At the end of June 2004, the CPA would be disbanded and Bremer would leave Iraq. There was no way the Bush administration would want independent auditors to publish a report into the financial propriety of its Iraqi administration while the CPA was still in existence and Bremer at its head still answerable to the press. So the report was published in July.

The auditors found that the CPA didn't keep accounts of the hundreds of millions of dollars of cash in its vault, had awarded contracts worth billions of dollars to American firms without tender, and had no idea what was happening to the money from the Development Fund for Iraq (DFI), which was being spent by the interim Iraqi government ministries.

This lack of transparency has led to allegations of corruption. An Iraqi hospital administrator told me that when he came to sign a contract, the American army officer representing the CPA had crossed out the original price and doubled it. The Iraqi protested that the original price was enough. The American officer explained that the increase (more than \$1m) was his retirement package.

When the Iraqi Governing Council asked Bremer why a contract to repair the Samarah cement factory was costing \$60m rather than the agreed \$20m, the American representative reportedly told them that they should be grateful the coalition had saved them from Saddam. Iraqis who were close to the Americans, had access to the Green Zone or held prominent posts in the new government ministries were also in a position personally to benefit enormously. Iraqi businessmen

complain endlessly that they had to offer substantial bribes to Iraqi middlemen just to be able to bid for CPA contracts. Iraqi ministers' relatives got top jobs and fat contracts.

Further evidence of lack of transparency comes from a series of audits and reports carried out by the CPA's own inspector general's office (CPAIG). Set up in January 2004, it reports to Congress. Its auditors, accountants and criminal investigators often found themselves sitting alone at cafe tables in the Green Zone, shunned by their CPA compatriots. Their audit, published in July 2004, found that the American contracts officers in the CPA and Iraqi ministries "did not ensure that ... contract files contained all the required documents, a fair and reasonable price was paid for the services received, contractors were capable of meeting delivery schedules, or that contractors were paid in accordance with contract requirements".

Pilfering was rife. Millions of dollars in cash went missing from the Iraqi Central Bank. Between \$11m and \$26m worth of Iraqi property sequestered by the CPA was unaccounted for. The payroll was padded with hundreds of ghost employees. Millions of dollars were paid to contractors for phantom work. Some \$3,379,505 was billed, for example, for "personnel not in the field performing work" and "other improper charges" on just one oil pipeline repair contract.

Most of the 69 criminal investigations the CPAIG instigated related to alleged theft, fraud, waste, assault and extortion. It also investigated "a number of other cases that, because of their sensitivity, cannot be included in this report". One such case may have arisen when 19 billion new Iraqi dinars, worth about £6.5m, was found on a plane in Lebanon that had been sent there by the American-appointed Iraqi interior minister.

At the same time, the IAMB discovered that Iraqi oil exports were unmetered. Neither the Iraqi State Oil Marketing Organisation nor the American authorities could give a satisfactory explanation for this. "The only reason you wouldn't monitor them is if you don't want anyone else to know how much is going through," one petroleum executive told me.

Officially, Iraq exported \$10bn worth of oil in the first year of the American occupation. Christian Aid has estimated that up to \$4bn more may have been exported and is unaccounted for. If so, this would have created an off-the-books fund that both the Americans and their Iraqi allies could use with impunity to cover expenditures they would rather keep secret - among them the occupation costs, which were rising far beyond what the Bush administration could comfortably admit to Congress and the international community.

In the few weeks before Bremer left Iraq, the CPA handed out more than \$3bn in new contracts to be paid for with Iraqi funds and managed by the US embassy in Baghdad. The CPA inspector general, now called the Special Inspector General for Iraq Reconstruction (Sigir), has just released an audit report on the way the embassy

has dealt with that responsibility. The auditors reviewed the files of 225 contracts totalling \$327m to see if the embassy "could identify the current value of paid and unpaid contract obligations".

It couldn't. "Our review showed that financial records ... understated payments made by \$108,255,875" and "overstated unpaid obligations by \$119,361,286". The auditors also reviewed the paperwork of a further 300 contracts worth \$332.9m: "Of 198 contract files reviewed, 154 did not contain evidence that goods and services were received, 169 did not contain invoices, and 14 did not contain evidence of payment."

Clearly, the Americans see no need to account for spending Iraqis' national income now any more than they did when Bremer was in charge. Neither the embassy chief of mission nor the US military commander replied to the auditors' invitation to comment. Instead, the US army contracting commander lamely pointed out that "the peaceful conditions envisioned in the early planning continue to elude the reconstruction efforts". This is a remarkable understatement. It's also an admission that Americans can't be expected to do their sums when they are spending other people's money to finance a war.

Lack of accountability does not stop with the Americans. In January this year, the Sigir issued a report detailing evidence of fraud, corruption and waste by the Iraqi Interim Government when Bremer was in charge. They found that \$8.8bn - the entire Iraqi Interim Government spending from October 2003 through June 2004 - was not properly accounted for. The Iraqi Office of Budget and Management at one point had only six staff, all of them inexperienced, and most of the ministries had no budget departments. Iraq's newly appointed ministers and their senior officials were free to hand out hundreds of millions of dollars in cash as they pleased, while American "advisers" looked on.

"CPA personnel did not review and compare financial, budgetary and operational performance to planned or expected results," the auditors explained. One ministry gave out \$430m in contracts without its CPA advisers seeing any of the paperwork. Another claimed to be paying 8,206 guards, but only 602 could be found. There is simply no way of knowing how much of the \$8.8bn has gone to pay for private militias and into private pockets.

"It's remarkable that the inspector general's office could have produced even a draft report with so many misconceptions and inaccuracies," Bremer said in his reply to the Sigir report. "At liberation, the Iraqi economy was dead in the water. So CPA's top priority was to get the economy going."

The Sigir has responded by releasing another audit this April, an investigation into the way Bremer's CPA managed cash payments from Iraqi funds in just one part of Iraq, the region around Hillah: "During the course of the audit, we identified deficiencies in the control of cash ... of such magnitude as to require prompt

attention. Those deficiencies were so significant that we were precluded from accomplishing our stated objectives." They found that CPA headquarters in Baghdad "did not maintain full control and accountability for approximately \$119.9m", and that agents in the field "cannot properly account for or support over \$96.6m in cash and receipts". The agents were mostly Americans in Iraq on short-term contracts. One agent's account balance was "overstated by \$2,825,755, and the error went undetected". Another agent was given \$25m cash for which Bremer's office "acknowledged not having any supporting documentation". Of more than \$23m given to another agent, there are only records for \$6,306,836 paid to contractors.

Many of the American agents submitted their paperwork only hours before they headed to the airport. Two left Iraq without accounting for \$750,000 each, which has never been found. CPA head office cleared several agents' balances of between \$250,000 and \$12m without any receipts. One agent who did submit receipts, on being told that he still owed \$1,878,870, turned up three days later with exactly that amount. The auditors thought that "this suggests that the agent had a reserve of cash", pointing out that if his original figures had been correct, he would have accounted to the CPA for approximately \$3.8m more than he had been given in the first place, which "suggests that the receipt documents provided to the DFI account manager were unreliable".

So where did the money go? You can't see it in Hillah. The schools, hospitals, water supply and electricity, all of which were supposed to benefit from these funds, are in ruins. The inescapable conclusion is that many of the American paying agents grabbed large bundles of cash for themselves and made sweet deals with their Iraqi contacts.

And so it continues. The IAMB's most recent audit of Iraqi government spending talks of "incomplete accounting", "lack of documented justification for limited competition for contracts at the Iraqi ministries", "possible misappropriation of oil revenues", "significant difficulties in ensuring completeness and accuracy of Iraqi budgets and controls over expenditures" and "non-deposit of proceeds of export sales of petroleum products into the appropriate accounts in contravention of UN Security Council Resolution 1483".

In the absence of any meaningful accountability, Iraqis have no way of knowing how much of the nation's wealth is being used for reconstruction and how much is being handed out to ministers' and civil servants' friends and families or funnelled into secret overseas bank accounts. Given that many Ba'athists are now back in government, some of that money may even be financing the insurgents.

Both Saddam and the US profited handsomely during his reign. He controlled Iraq's wealth while most of Iraq's oil went to Californian refineries to provide cheap petrol for American voters. US corporations, like those who enjoyed Saddam's favour, grew rich. Today, the system is much the same: the oil goes to California, and the new Iraqi government spends the national wealth with impunity.

