

Briefing by Paul A. Volcker  
Chairman of the Independent Inquiry Committee  
Into the  
United Nations Oil-for-Food Programme  
for the  
Permanent Subcommittee on Investigations  
of the United States Senate  
Washington, D.C.

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Mr. Chairman, Senator Levin, and Members of the Committee:

As you are aware, the Independent Inquiry Committee of the United Nations into the United Nations Oil-for-Food Programme last Thursday issued its final Report. In that light, your request for an informal briefing is timely, and as Chairman of the Committee I am glad to respond.

In doing so, I should emphasize that our inquiry has been an international effort. My two fellow Committee members are Justice Richard Goldstone, widely known and respected for leading investigations both in South Africa and for war crime tribunals, and Professor Mark Pieth from Switzerland, who has actively led work in the OECD and elsewhere on efforts to curb corporate corruption and money laundering. Over half of our roughly 75 person staff of attorneys, investigators, forensic accountants and administrators is from 27 other countries.

On September 7, we issued a lengthy report reviewing in detail the overall management of the Oil-for-Food Programme by the Security Council, the UN Secretariat led by Secretary-General Kofi Annan, and nine UN-related Agencies. Each of those bodies had substantial and often overlapping responsibilities for implementing the Programme. That detailed Report concluded that the administration by the Security Council, the Secretariat, and certain UN Agencies failed in important respects and was, indeed, marred by corruption. I draw your attention particularly to the brief Preface to that Report which has been made available to Committee members.

Our even larger final Report reviews the Programme from a different angle. Specifically it describes the ways and means by which the Saddam Hussein regime in Iraq manipulated the Oil-for-Food Programme to its own ends.

As a result of that manipulation and with the complicity of thousands of companies, other entities, and individuals, close to \$2 billion were siphoned off illicitly into the coffers of the former Iraq regime at the expense of its own suffering population. One result was to reduce the amount of funds available to the new Government of Iraq today. Our Report contains a detailed analysis and a number of specific examples of the manner in which so-called "surcharges" were imposed by Iraq on those purchasing Iraq oil, or "kickbacks" were required from those supplying humanitarian goods under the Programme.

What stands out from that analysis is not only the individual instances of corruption and failures of sufficient diligence by important UN contractors, important as that is. One overriding theme is the politicization of the process. Saddam plainly chose to favor those nations, companies, and individuals that he felt, rightly or wrongly, would assist his efforts to end the sanctions imposed at the end of the Gulf War. It is also true, as our earlier reports have emphasized, that political differences and pressures within the United Nations Organization itself—the Security Council, the Secretariat, and some UN Agencies—frustrated appropriate and effective response to the manipulation and corruption of the Programme.

What I particularly want to emphasize is that the corruption of the Programme by Saddam and by many participants—and it was substantial—could not have been nearly so pervasive if there had been more disciplined management by the UN and its Agencies. In that sense, this last Report reinforces and underscores the need for fundamental and wide ranging administrative reform that we emphasized in delivering our report last month.

That, I think, is the central point that emerges from this Inquiry.

Let me try to put this in perspective. The Oil-for-Food Programme presented a very large, very complicated challenge to the UN. It was the "mother" of all UN humanitarian programs. It involved more financial flows than all the ordinary operations of the Organization. Thousands of new employees were required and hired. And the Oil-for-Food Programme was not just a humanitarian program—it was an integral part of an effort to maintain sanctions against Iraq and to keep Saddam from obtaining and maintaining weapons of mass destruction.

In both of these objectives, humanitarian and security, it had a measure of success. But that success came with a high cost—in my judgment, a really intolerable cost—of grievously wounding confidence in the competence and even the integrity of the UN.

In terms of money alone, the illicit payments to the Saddam regime within the Oil-for-Food Programme were dwarfed by Iraq trade with Jordan, Turkey, and Syria, in violation of the Security Council sanctions. Over the years of the Programme, that "smuggling" amounted to more than \$8 billion. The smuggling, at least in direction if not in amount, became known to the Security Council (and specifically to the United States), but no action was taken to deal with it. I have little doubt that laxity in that respect, a willful closing of eyes if you will, was symptomatic of attitudes that led to mal-administration more generally.

The Oil-for-Food Programme may be unique, never to be repeated. But other large and complex challenges—humanitarian, environmental, genocidal, or other—are sure to appear, alone or in combination. What is at stake is whether that Organization will be able to act effectively—whether it will have the funds, the professional competence, the administrative leadership to respond.

Those are not just "technical" requirements for effectiveness. They are necessary to support any claim the UN Organization can make to competence and credibility—and without credibility and confidence, legitimacy cannot be sustained.

The Committee's simple conclusion is that administrative reform is indeed urgently needed if the UN is to be looked to in the future to deal with large humanitarian, environmental, genocidal and other threats. All too often, crises come with little warning, and they extend across national borders and beyond the political and management capacity of individual countries or ad hoc coalitions. Then, there will be a demand for the UN to respond. But if the Organization itself is unable to command confidence in its administrative procedures and competence and in its honesty, then it, too, will have lost its capacity to respond effectively.

In essence, we emphasize four areas where prompt reform is essential.

1. In initiating and approving UN intervention in critical and administratively complex areas, the Security Council needs to clarify purpose and criteria. Execution then should be clearly delegated to the Secretariat and appropriate Agencies, with understood lines of reporting responsibility.

2. That delegation, and the capacity to carry it out effectively, will require a substantially stronger focus on administrative responsibility. Experience indicates that that necessary focus and capacity is not likely to be found in the office of the Secretary-General as presently instituted. Secretaries-General understandably are preoccupied by political and diplomatic concerns. They are chosen in that light. Experience indicates that subordinate appointees, whatever their formal responsibilities for administration, have simply been unable to enforce the discipline necessary.

Hence, we recommend that a position of Chief Operating Officer (COO) should be created, with the incumbent, like the Secretary-General himself, nominated by the Security Council and approved by the General Assembly. While reporting to the Secretary-General, the new COO would have the status conferred by direct access to the Security Council, with authority for planning and personnel practices that emphasize professional and administrative talent.

3. Internal control, auditing, and investigatory functions need to be strongly reinforced. We believe that will require a strong "Independent Oversight Board," with adequate staff support and the capacity to fully review budgeting and staffing of accounting and auditing functions.

4. In large programmes extending by their nature over more than one operating arm or agency of the UN with a common source of funds, the Security Council and the Secretary-General must demand effective coordination from the start. A clear and agreed memorandum of understanding should be reinforced by common accounting and auditing standards.

I realize these recommendations for the most part closely parallel those by others who have assessed the work of the UN. Nonetheless, I believe the IIC adds something unique to the

discussion. The IIC investigation - so far as I know an investigation unparalleled in intensity of a major UN programme - provides unambiguous evidence of a systemic problem.

I won't claim - no one can - that our review has touched every aspect of the Oil-for-Food Programme, with its thousands of contractors, the number of member states involved, and the difficult working environment. We do feel confident, however, in the judgment that real reform is needed.

Verbal and moral support of that objective is not enough. Clear benchmarks for progress must be set. And it is the member states themselves, through the General Assembly and otherwise, that must drive the process.

As things stand, the UN simply has lost the credibility and the confidence in its administrative capacities necessary for it to meet large challenges that seem sure to arise in the future.

But I believe our investigation can have a different, and far more satisfactory, result.

My hope is that it can be a catalyst, a needed springboard, for a truly effective reform effort - an effort that for too long has been more a matter for talk than for action.