Highlights of GAO-04-651T, a testimony before the Committee on Foreign Relations

## Why GAO Did This Study

The Oil for Food program was established by the United Nations and Iraq in 1996 to address concerns about the humanitarian situation after international sanctions were imposed in 1990. The program allowed the Iraqi government to use the proceeds of its oil sales to pay for food, medicine, and infrastructure maintenance. The program appears to have helped the Iraqi people. From 1996 through 2001, the average daily food intake increased from 1,300 to 2,300 calories. From 1997-2002, Iraq sold more than $67 billion of oil through the program and issued $38 billion in letters of credit to purchase commodities.

GAO (1) reports on its estimates of the revenue diverted from the program, (2) provides preliminary observations on the program's administration, (3) describes some challenges in its transfer to the CPA, and (4) discusses the challenges Iraq faces as it assumes program responsibility.

www.gao.gov/cgi-bin/getrpt?GAO-04-651T.

To view the full product, including the scope and methodology, click on the link above.

For more information, contact Joseph Christoff at (202) 512-8979 or christoffj@gao.gov.

Wednesday, April 7, 2004

UNITED NATIONS

# Observations on the Oil for Food Program

## What GAO Found

GAO estimates that from 1997- 2002, the former Iraqi regime attained $10.1 billion in illegal revenues from the Oil for Food program, including $5.7 billion in oil smuggled out of Iraq and $4.4 billion through surcharges on oil sales and illicit commissions from suppliers exporting goods to Iraq. This estimate includes oil revenue and contract amounts for 2002, updated letters of credit from prior years, and newer estimates of illicit commissions from commodity suppliers.

Both the U.N. Secretary General, through the Office of the Iraq Program (OIP) and the Security Council, through its sanctions committee for Iraq, were responsible for overseeing the Oil for Food Program. However, the Iraq government negotiated contracts directly with purchasers of Iraqi oil and suppliers of commodities, which may have been one important factor that allowed Iraq to levy illegal surcharges and commissions. While OIP was responsible for examining Iraqi contracts for price and value, it is unclear how it performed this function. The sanctions committee was responsible for monitoring oil smuggling, screening contracts for items that could have military uses, and approving oil and commodity contracts. While the sanctions committee responded to illegal surcharges on oil, it is unclear what actions it took to respond to illicit commissions on commodity contracts.

OIP transferred 3,059 Oil for Food contracts—with pending shipments valued at $6.2 billion—to the CPA on November 22, 2003. However, the CPA stated that it has not received all the original contracts, amendments, and letters of credit it needs to manage the program. These problems, along with inadequate CPA staffing during the transfer, hampered the efforts of CPA's Oil for Food coordination center in Baghdad to ensure continued delivery of commodities. Poor planning, coordination, and the security environment in Iraq continue to affect the execution of these contracts.

Inadequate oversight and corruption in the Oil for Food program raise concerns about the Iraqi government's ability to import and distribute Oil for Food commodities and manage at least $32 billion in expected donor reconstruction funds. The CPA has taken steps, such as appointing inspectors general, to build internal control and accountability measures at Iraq's ministries. The CPA and the World Food Program (WFP) are also training ministry staff to help them assume responsibility for Oil for Food contracts in July 2004. The new government will have to balance the reform of its costly food subsidy program with the need to maintain food stability and protect the poorest populations.