

Appendix E

Iraqi Funds

This appendix provides an update on Iraqi funds used for reconstruction. It includes information on these categories of funds:

- Seized funds
- Vested funds
- Development Fund for Iraq funds
- Oil-for-Food Program funds

Iraqi Funds

Iraqi funds available for reconstruction can be grouped into three categories: seized funds, vested funds, and funds deposited in the Development Fund for Iraq (DFI):

- Seized funds are former Iraqi regime monies confiscated by coalition forces.
- Vested funds are Iraqi funds in U.S. banks that were frozen by executive order, vested in the U.S. Treasury, and authorized for use to benefit the people of Iraq.
- The DFI was created by the Coalition Provisional Authority (CPA), and the United Nations (UN) concurred on May 2003 (UNSCR 1483). The DFI contains proceeds from Iraqi oil sales, repatriated assets from the United States and other nations, and deposits from unencumbered Oil-for-Food (OFF) program funds. Since the transfer of governance authority to the Iraqi Interim Government (IIG) on June 28, 2004, total deposits to the DFI can only be estimated, because the SIGIR does not have access to information on the status of DFI funds now under Iraqi Transitional Government (ITG) control. DFI totals for funds obligated and disbursed are not available. The DFI funds the Iraqi National Budget, primarily from current oil sales.

Seized Funds

Coalition military forces seized \$926.8 million in funds from the former Iraqi regime. Virtually all of the seized funds have been allocated. Current Defense Finance and Accounting Service (DFAS) accounting systems indicate that \$896.6 million have been obligated and \$811.9 million have been expended as of June 30, 2005. U.S. Army accounting officials have not reconciled or fully audited the totals for seized funds. Most seized assets were used for:

- non-ministry repairs and humanitarian assistance
- Iraqi ministry operations
- the Rapid Regional Response Program (RRRP or R3P)
- the Commanders' Emergency Response Program (CERP)
- fuel products (propane, diesel, heating oil, etc.) for the Iraqi people

For a detailed listing of expenditures of seized funds, see Table E-1.

Seized Currency, as of June 30, 2005 (Figures in dollars)			
Program Category	Ceilings	Obligations	Disbursements
Non-ministry Repair/Reconstruction/ Humanitarian Assistance	\$317,775,547	\$313,035,518	\$272,341,859
Ministry Operations	268,551,462	262,673,207	262,673,207
Regional Directors and Commanders/ Emergency Response Fund	200,128,000	199,290,267	198,119,562
Benzene and Liquid Propane Gas Purchase	90,000,000	90,000,000	85,500,000
Stipend Pay	45,000,000	30,837,989	30,837,989
Iraqi Constitutional Convention IT Support	3,823,000	0	0
Ministry of Finance – MANPADS Weapons Buyback Program	1,500,000	715,325	457,225
Undistributed Disbursements	0	0	(38,047,734)
Total	\$926,778,009	\$896,552,306	\$811,882,108
Percent disbursed against obligations – 90.6%.			
Note: Data not formally reviewed, audited, or verified.			
Reported by Defense Finance and Accounting Service, as of June 30, 2005.			

Table E-1

Vested Funds

In response to a UN resolution passed after the first Gulf War, the United States froze Iraqi assets (UNSCR 661, August 1990; Presidential Executive Order 12817 of October 23, 1992). Presidential Executive Order 13290 of March 20, 2003, vested frozen funds for use in Iraq. As of June 30, 2005, \$1.724 billion had been transferred for use in Iraq, of which \$1.705 billion (98.88%) had been obligated, and \$1.687 billion (97.98%) had been expended, according to current accounting records provided by the Joint Area Support Group Comptroller in Baghdad.

Vested funds are used primarily for:

- Iraqi civil servant salaries, pensions, and individual relief payments
- Iraqi ministry operations
- repair and reconstruction

Although the bulk of frozen Iraqi assets was vested and sent to Iraq, a balance of \$396.6 million remained. The U.S. government transferred \$208.6 million to the DFI and set aside \$128 million for perfected judgments. The amount of frozen assets remaining in the United States is currently \$44.9 million (down from \$60 million), largely because of a reconciliation of blocked tangible Iraqi assets.

For a more detailed listing of expenditures from vested funds, see Table E-2.

Vested Assets, as of June 30, 2005			
Program Category	Ceilings	Obligations	Disbursements
Regular Payments Iraqi Civil Servants/Other	\$1,009,825,000	\$1,009,274,635	\$1,006,383,958
Ministry Operations	375,555,000	364,452,311	356,813,300
Non Ministry Repair/Reconstruction & Humanitarian Assistance	129,532,000	123,863,468	120,398,843
Regular Pension Payments	99,510,000	99,509,995	99,509,995
Emergency Payments	79,924,000	78,938,700	78,924,250
Mobile Radios (Police, Fire, Emergency) (DISA)	15,800,000	15,800,000	15,424,582
Hospital Generators	9,000,000	9,000,000	8,197,645
Emergency Projects less than \$200,000	2,475,000	2,474,705	2,474,705
Fire Stations	2,186,000	1,242,545	1,094,965
Stipend Pay	190,000	89,480	0
Specialized Workers	134,000	133,620	133,620
Total	\$1,724,131,000	\$1,704,779,459	\$1,689,355,862
Percent disbursed against obligations – 99%.			
Note: Data not formally reviewed, audited, or verified.			
Reported by Defense Finance and Accounting Service.			

Table E-2

Development Fund for Iraq

The DFI was established by the CPA with UN concurrence in May 2003 to serve as the primary financial vehicle to channel revenue from Iraqi oil sales, unencumbered OFF deposits, and repatriated Iraqi assets to the relief and reconstruction of Iraq.

When the IIG assumed governance authority, responsibility for the DFI sub-account was transferred to the Chief of Mission on June 28, 2004. As a result, the SIGIR no longer has access to or visibility of DFI account status, beyond the portion of DFI authorized by the Iraqi Minister of Finance for the U.S. government to disburse against DFI-funded contracts awarded by the CPA. The December 2004 estimate of DFI revenues was \$30 billion. Since that time, approximately \$8 billion of additional oil revenue has been added, bringing the June 30, 2005 estimated DFI revenues to \$38 billion.

DFI Transition Sub-account

Prior to the transfer of governance authority to the IIG, the administration of contracts awarded by the CPA from DFI funds was delegated to the U.S.

government. A separate sub-account, the “Central Bank of Iraq/Development Fund for Iraq/Transition,” was created at the Federal Reserve Bank of New York to enable payment for work on those contracts. In addition to the Federal Reserve funds, cash has been provided to enable payment in Iraq for those projects that require this method of payment.

On June 15, 2004, the Iraqi Minister of Finance designated the Director of the Program Management Office (PMO), now the Project and Contracting Office (PCO), to administer and make payments on those DFI contracts that:

- were entered into before June 28, 2004
- were not secured by a letter of credit
- did not exceed the limit of \$800 million

This initial limit was intended as a first step toward ensuring the continuity of the execution for these contracts because it was known that the overall liability would substantially exceed this amount. The Ministry of Finance increased the amount provided to the DFI Transition sub-account to meet contract obligations at his discretion.

DFI Sub-account deposits are depicted in Table E-3.

DFI Transition Sub-account Deposits, as of July 7, 2005 (in millions)		
Transfer/Deposit	Date	Amount
Starting balance for DFI Sub-account	June 28, 2004	\$800.00
Transfer of vested funds into the DFI to buy specific letters of credit	August 17, 2004	3.33
Transfer of vested/seized funds to DFI to buy specific letters of credit	August 31, 2004	18.04
Request \$400M increase	September 20, 2004	400.00
Transfer of seized funds to DFI to buy specific letters of credit	October 8, 2004	0.45
Request \$800M increase	November 23, 2004	800.00
Request \$800M increase	December 24, 2004	800.00
Interest earned & posted by Federal Reserve Bank ^a	July 7, 2005	5.59
Total		\$2,827.40
Note: Data not formally reviewed or audited.		
^a Interest earned on account balances is credited to Iraqi Transitional Government fund (See Table E-4)		

Table E-3

\$217.7 million of DFI cash that was in the possession of CPA officials when governance transferred to the ITG has been retained for payment of DFI obligations. An additional \$84 million of Iraqi funds passed through the

DFI sub-account to U.S. military units to fund a matching grant by the ITG (Commanders' Humanitarian Relief and Reconstruction Program). This transfer was executed for ease of currency disbursement and is not part of the execution of DFI sub-account contracts.

In December 2004, outstanding DFI sub-account liabilities were estimated at \$3.5 billion. Because of the \$3.017 billion provided by the ITG, this created an unfunded liability of \$486.8 million. The April 2005 Department of State *Section 2207 Report*, revised this liability to \$42 million as of March 2005.

Table E-4 provides the DFI fund status as of July 7, 2005.

DFI Transition Sub-account Fund Status, as of July 7, 2005 (in millions)		
Sources of Funds	Bank	Cash
Beginning Balance	\$800.0	\$217.7
Additional ITG Funds ^a	2,027.4	0.0
Total	\$2,827.4	\$217.7
Uses of Funds	Bank	Cash
Allocated and Paid	\$1,956.8	\$132.0
Allocated and Unpaid	870.6	85.7
Unallocated	0.0	0.0
Total	\$2,827.4	\$217.7
Note: Data not formally reviewed or audited.		
^a Interest earned on account balances is credited to the ITG fund.		

Table E-4

Other Iraqi Potential Repatriated Funds

The ITG retains primary responsibility for seeking worldwide recovery, under UN resolutions, of Iraqi assets frozen in response to past actions of the former regime. The U.S. government continues to actively assist the ITG in its search and recovery effort, but no longer has access to information on recovered asset balances.

The Oil-for-Food Program

The UN Oil-for-Food (OFF) program traded Iraqi oil for goods and services (primarily food) to alleviate suffering caused by the UN Iraqi oil embargo. The program's oil sales operation began in December 1996, and its last oil sales occurred in March 2003—just before Operation Iraqi Freedom began. Food distribution was interrupted during hostilities. On May 22, 2003, the UN lifted

its sanctions and gave the OFF program six months to conclude operations. On November 21, 2003, the UN OFF program officially ended.

Detailed financial information about the OFF's revenues and expenditures from December 1996 until December 2002 is included in the SIGIR January 2005 Report. In March 2005, the UN released unaudited financial statements for calendar year 2004, but not for calendar year 2003. This omission precludes any substantive further analysis because activities in 2003 included vital revenue and expenditure operations. The SIGIR is waiting for the UN to release operating information for 2003.

The OFF program remits surplus uncommitted OFF funds to the DFI when previously obligated amounts become available as unexecuted letters of credit expire. As of June 30, 2004, \$8.6 billion have been transferred to the DFI from the OFF program (\$8.1 billion while under U.S. control). The ITG is now responsible for the oversight of OFF contracts. The ITG will decide which contracts will be allowed to expire unexecuted or partially executed and which will be honored with the delivery of goods and services already paid for by OFF past revenues.

