

**Briefing by Paul A. Volcker
Chairman of the Independent Inquiry Committee
into the
United Nations Oil-for-Food Programme
for the
Committee on Foreign Relations
of the United States Senate
Washington, D.C.**

October 18, 2005

Mr. Chairman and Members of the Committee:

I am glad to respond to your request to brief your Committee informally on the work of the Independent Inquiry Committee into the United Nations Oil-for-Food Programme. I chair that three-man Committee, which also includes 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 to curb corporate corruption and money laundering.

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 the bodies had substantial and often overlapping responsibilities for implementing the Programme. Our findings and conclusions with respect to the Programme management, together with our principal recommendations, are summarized in the September Report, copies of which have been made available to you and your staff. I draw your attention particularly to the brief Preface to the Report and to the similar comments I made to the Security Council in delivering that Report.

Our work is not quite completed. We will shortly be issuing a further, and last, Report on the ways and means by which the Programme was manipulated and corrupted by the Saddam Hussein regime in combination with those purchasing Iraqi oil or providing humanitarian goods.

With three earlier Interim Reports on more limited areas of UN administration and two briefing papers, several thousand pages of detailed analysis will then be available for those interested in pursuing the full story of the Oil-for-Food Programme. Those Reports are the fruit of the collective efforts of more than 75 experienced attorneys, investigators, and forensic accountants drawn from almost 30 countries. They have worked for more than a year with remarkable skill and dedication. Small offices were maintained in Baghdad and Paris, as well as in New York (apart from and independent of the UN).

The inquiry was initiated by Secretary-General Kofi Annan and supported by a Resolution of the Security Council calling upon the cooperation of all member states and their

agencies. The broad mandate to investigate allegations of mal-administration and corruption both within the UN and among UN and Iraq contractors is included in the Summary Report provided to you. With the help of the Security Council Resolution, the Committee has enjoyed a degree of ready cooperation by a number of countries that I believe may be without precedent for so wide-ranging an investigation. Needed financing of the Inquiry was made available by the UN, largely utilizing funds allocated for administrative overhead of the OFF Programme. The management of the investigation has been entirely independent of the UN.

Before responding to your questions, I would like to make a few general observations.

The Oil-for-Food Programme was an imaginative approach toward solving a dilemma that faced the international community in its effort to constrain Saddam Hussein and particularly the possibility of his regime retaining or obtaining weapons of mass destruction. Comprehensive sanctions were placed on Iraqi trade – most particularly prohibiting oil exports, the source of almost all of Iraq’s foreign exchange – in the wake of the Gulf War. Over time, the combination of sanctions and the loss of foreign exchange sharply reduced imports of food and medicine, threatening widespread malnutrition and a crisis in public health. An international expert body convened by the Inquiry Committee has confirmed the reality of those threats.

An Oil-for-Food Programme was conceived as a means for relieving those humanitarian concerns while maintaining sanctions so long as UN arms inspectors were unable to certify conclusively that no weapons of mass destruction remained. The central idea was that oil could be exported in agreed volumes, subject to UN inspection and all funds being escrowed in UN controlled bank accounts. These funds would be released only for specified purposes, mainly imports of humanitarian goods, also subject to UN inspection.

As that possibility was explored, it became apparent that the international community, including members of the Security Council, were more concerned with the hardships undergone by the innocent Iraqi population than Saddam who was using every lever at his disposal in an effort to have the sanctions dropped entirely. When the Programme was finally agreed in 1996 toward the end of Secretary-General Boutros-Ghali’s term of office, there were key concessions to Iraq. Specifically, it was permitted to designate its trading partners and to initiate pricing decisions.

As one national official has commented, the Programme was, in effect, a pact with the devil, and the devil had means for manipulating the Programme to his ends.

Moreover as constructed and approved, the Programme was subject to renewal every six months, creating some uncertainty which affected administrative decisions. Furthermore, reflecting the strong differences in preferred approaches among the Security Council members, some key administrative responsibilities were kept in the hands of a Security Council Committee rather than clearly delegated to the Secretariat and the UN Agencies.

In combination, those decisions were a recipe for confusion and administrative evasion of responsibility. Large-scale smuggling was tolerated. There were grievous weaknesses in administrative practices within the Secretariat. An absence of effective controls and auditing became obvious. Opportunities for corruption sadly tempted even the Secretariat official directly responsible for managing the Programme.

All of these weaknesses and vulnerabilities were exposed as the Programme grew. Over its seven years of existence more than \$110 billion of Iraqi exports and imports were involved (\$64 billion of oil exports and almost \$37 billion of goods imports). It was financially by far the largest programme ever administered by the UN, involving thousands of temporary employees on the ground and financially far exceeding ordinary UN operations.

May I briefly open a parenthesis here? Numerous sources have made estimates on the volume of illicit funds which flowed back to Saddam Hussein's regime, both inside the Oil-for-Food Programme and outside it – the latter largely through illicit trading arrangements and smuggling. What our research has demonstrated is that of roughly \$12.8 billion of identified illicit payments, some \$2.6 billion came through the manipulation of the Programme itself. The rest (over \$10 billion) was the result of oil exports, first to Jordan, later to Turkey, and then in increasing volume to Syria, all of which became known to and tolerated by both the Security Council and the Secretariat in direction if not in amount.

From one important perspective, advocates of the Programme point out that for all the difficulties, the Programme was successful. The caloric content of Iraqi nutrition rose to minimal sustainable levels. An emerging medical catastrophe was at least averted. Of critical importance, sanctions were maintained in the face of pressures for relaxation. Ultimately no weapons of mass destruction were found.

What is now apparent is that success was attained at a heavy cost. Spreading reports of maladministration, ethical lapses, and growing corruption reaching even into the UN itself have eroded confidence in UN competence and have heavily damaged its credibility. It was that perception that led to the IIC investigation.

Some of the allegations have been exaggerated. But our investigation has confirmed enough to indicate not only particular problems with the Oil-for-Food Programme but to suggest that those problems are symptomatic of deep-seated systemic problems in UN administration.

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 of 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. Secretary-Generals 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 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 programs 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.

##