The formation of Iraq's interim government and the missing billions

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Over the past year, a number of US government audits have documented the mismanagement, lack of accounting, corruption and likely theft of billions of dollars during the 13 months that the US-controlled Coalition Provisional Authority (CPA) governed Iraq. Legal actions have been initiated against US contracting companies such as Haliburton and calls for further investigations were made in June in the US House of Representatives Committee on Government Reform.

However, one aspect of the audit findings that raises many issues has received little media coverage. In the eight weeks before the June 28, 2004 handover of sovereignty to the so-called Iraqi interim government, the CPA ordered $5 billion to be shipped to Iraq in $100 notes and other US currency bills. The large sums of cash that were disbursed to Iraqi government ministries, provincial governors and American military field commanders in the final months of the CPA's existence are simply unaccounted for.

After a $1 billion shipment in May 2004, two more cash shipments in June 2004 were by far the largest the Federal Reserve has ever carried out in its history. A Fed official commented in an email on June 11: "Just when you think you've seen it all... the CPA is ordering $2,401,600,000 in currency to be shipped out on Friday, June 18." On June 22, 2004, C-130 cargo planes arrived in Baghdad containing the $2.4 billion in $100 notes. Three days later, on June 25, another shipment of $1.6 billion touched down.

The cash that flooded into Iraq in the lead-up to the formation of the interim government leaves questions about the manner in which the regime was assembled. At the time, the WSWS characterised the process leading to the formation of the puppet regime as "a carefully contrived political balancing act aimed at paying off the various rival ethnic and political organisations that backed the US invasion" (see "Washington installs new puppet regime in Baghdad").

The findings of the audits give grounds to suspect that the "paying off" involved far more than just the allocation of ministerial positions and political posts. The willingness of various Iraqi factions to participate may well have been facilitated by a share in the large amounts of US dollars.

Plane-loads of $100 bills arrived in Iraq amid a severe military and political crisis facing US-led forces. In April 2004, the resentment and discontent among the Iraqi people against the occupation erupted. Thousands of young working class Shiites took up arms in Baghdad, Najaf, Karbala and numerous other southern Iraqi cities after the US military attempted to suppress the anti-occupation movement led by cleric Moqtada al-Sadr. After the killing of four mercenaries in Fallujah, the citizens of the Sunni city defied ultimatums that they allow American troops to enter and withstood a three-week assault by marines.

As well as shoring up pro-US political figures in the face of a popular uprising against the occupation, a portion of the unaccounted-for cash is likely to have been used to pay for what can only be described as Iraqi mercenaries.

In late April 2004, the marine commanders directing the assault on Fallujah recruited former Baathist generals to form a 5,000-strong brigade made up of former Iraqi military personnel and convince the local fighters to allow it to enter the city. While the so-called "Fallujah Brigade" collapsed shortly after, its creation enabled the US military to make a tactical retreat and re-deploy forces to crush Sadr's rebellion in the south.

During June and July 2004, it is also known that the US military and the US-installed interim prime minister Iyad Allawi recruited large numbers of Saddam Hussein's secret police and elite security forces. In particular, ex-Baathist generals and thousands of former Iraqi Republican Guard enlisted with the occupation to form the interior ministry "special police commandos"—the main local force that has since fought alongside the US military against the insurgency.

The impact of the orgy of CPA outlays in May and June 2004 was that the incoming interim government inherited a vastly depleted treasury and was left dependent upon financial injections from Washington. All of the funds spent by the CPA were Iraqi assets that had been handed over to or confiscated by the US occupation forces. Between May 2003 and July 2004, the CPA took possession of over $23.3 billion of Iraqi funds and spent or contractually obligated some $19.6 billion. Just $3.7 billion was left when sovereignty was transferred.

The Iraqi assets handed over to and liquidated by the CPA came from three sources: $1.9 billion from assets frozen in US banks since the 1991 Iraqi invasion of Kuwait; $926 million in

US currency that the occupation forces seized from Iraqi banks; and $20.7 billion from the so-called "Development Fund for Iraq" (DFI).

The DFI was established in May 2003 by UN Security Council Resolution 1483, which recognised the US-led occupation as the sovereign authority in Iraq. The first money deposited in the fund consisted of $8.1 billion from the UN-run Oil-for-Food program, which had taken in the revenues from official Iraq oil sales since 1991. It was added to by Iraqi assets frozen in banks outside the US, and, over the following months, the proceeds of Iraqi oil sales. Haliburton alone was paid $1.6 billion from the DFI for various CPA contracts.

Of the $19.6 billion in Iraqi funds that was spent or obligated by the CPA, an incredible $12.7 billion was disbursed in the form of US currency. During its existence, the CPA converted close to $12 billion of Iraqi assets into US currency and ordered it to be shipped to Iraq by the Federal Reserve. In all, 281 million US currency bills, including 107 million $100 notes, were sent to the occupied country from the US during the existence of the CPA. It was shipped in by cargo planes on 484 pallets weighing a total of 363 tonnes.

Where the money went is shrouded in mystery. A June 2005 report prepared for Democrat congressman Henry A. Waxman of the House of Representatives Committee on Government Reform, which brought together the findings of various audits, stated the following in its executive summary:

"The report has three principal findings: (1) unprecedented sums of cash were withdrawn from Iraqi accounts at the Federal Reserve Bank in New York and transferred to US officials at the CPA; (2) CPA officials used virtually no financial controls to account for these enormous cash withdrawals once they arrived in Iraq; and (3) there is evidence of substantial waste, fraud and abuse in the actual spending and disbursement of the Iraqi funds"(see "Rebuilding Iraq: US Mismanagement of Iraqi Funds", June 2005).

Iraqi provincial governments were given close to $1 billion by the CPA—most of it in cash. An audit into these payments noted that "numerous disbursements to and from the provincial treasuries and their divisions were not recorded or incorrectly recorded by either party".

The CPA handed over more than $637 million in cash to US military commanders and civilian officials under the Commanders Emergency Response Program (CERP) and the Rapid Regional Response Program (RRRP). The Special Inspector General found that "there was no assurance that fraud, waste and abuse did not occur in the management and administration of cash assets".

The CPA was unable to account for 80 percent of the $119.9 million in cash spent in the south-central region of Iraq. According to one audit, a US official responsible for disbursements in Iraq's south-central region was given $6.75 million in cash on June 21, 2004 and instructions to liquidate it before the handover of power.

The most questions surround the transfer of some $10.9 billion by the CPA to the Iraqi ministries it had set up. At least $8.8 billion was handed over to these bodies in the form of US currency. As far more than half the cash sent to Iraq by the Federal Reserve—over $7.3 billion—arrived between February 2004 and June 28, 2004, the largest disbursements must have taken place in the months and weeks before the formation of the interim government.

The Special Inspector General reported that the CPA "did not establish or implement sufficient managerial, financial and contractual controls to ensure DFI funds were used in a transparent manner" by Iraqi ministries and disbursed funds "without assurance the monies were properly used or accounted for".

The audit found, for example, that "approximately $1.5 billion in cash allocations were made to Iraqi banks between January and April 2004 for ministry operating expenses, yet spending plans supported only approximately $498 million in operating expenses". At one Iraqi ministry, 8,206 security guards were on the payroll but auditors could only validate the employment of 602.

A former CPA official, Frank Willis, told researchers for Waxman that there was "leakage of assets all over the place". What the audit did not stress, however, is that the Iraqi ministries operated completely under the control of hundreds of US officials who were installed by the Bush administration. They could easily have functioned as a convenient conduit for the appropriation of Iraqi assets for any number of purposes—from bribery to covert operations to outright theft.

The evidence of corruption and the unanswered questions that surround the CPA's spending of Iraqi assets serves to underscore the criminality of the entire US invasion and occupation of Iraq. Behind the propaganda of bringing "liberation" and "democracy", the real agenda of the US ruling class in Iraq was and remains the looting of its assets and its energy resources, at the expense of the Iraqi masses.