

مركز البيدر للدراسات والتخطيط

Al-Baidar Center For Studies And Planning



Policy Brief

Iraqi Funds Abroad

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Summary

Since its establishment in 1920, the Iraqi state has undergone complex political, economic, and social transformations, both domestically and internationally, marked by radical changes in governance and administration. Despite multiple experiences, the most bitter period Iraq endured was during the decades of dictatorship and the international embargo, which led to unwise and ineffective decisions. These decisions resulted in years of severe economic isolation and sanctions, which were fully reflected on citizens, causing widespread social problems such as hunger, poverty, and crime.

Due to the policies adopted by the former regime, including the invasion of Kuwait and subsequent events, the UN Security Council issued several resolutions concerning Iraq, most notably the imposition of economic sanctions and the establishment of financial oversight. One such measure was the signing of the Oil-for-Food Memorandum of Understanding in 1996, which allowed Iraq to export part of its oil production, with revenues deposited in a UN-administered account at BNP Paribas. These funds were then used to pay for agreed-upon shipments of food, medicine, and other humanitarian needs.

This paper provides a policy summary of the most important decisions taken in this regard since the 1990s up to 2024, and proposes the necessity of returning to negotiations, including revisiting the Strategic Framework Agreement between Iraq and the United States, and leveraging the Paris Club and the International Economic Contact Group (IECG) formed by the G7, the European Union, and the World Bank in October 2020, to exert pressure on creditor countries.

Context

On 22 May 2003, the UN Security Council issued Resolution 1483, which recognized the responsibilities of the US and UK as occupying powers, established the Iraqi Governing Council, and lifted sanctions imposed during the previous regime, including the termination of the Oil-for-Food Program.

To protect Iraq's funds from international claims and creditor seizures, then-US President issued Executive Order 13303, establishing a special account for the Central Bank of Iraq at the US Federal Reserve, known as the Development Fund for Iraq (DFI), where oil revenues were deposited and spent by the Coalition Provisional Authority, with 5% deducted as compensation for Kuwait.

For account protection and expenditure monitoring, the UN Security Council established the International Advisory and Monitoring Board (IAMB), an international body overseeing expenditures from oil revenues by the Coalition Provisional Authority. Additionally, a committee of financial experts in Iraq reported to the IAMB, alongside an accredited external auditor.

Developments

In 2008, Iraq signed a strategic agreement with the United States to regulate the withdrawal of US forces, known as the Status of Forces Agreement (SOFA) for the period 2009–2011. Following the withdrawal, the IAMB's mandate ended in 2010 under UN Security Council Resolution 1956, which resulted in the loss of UN protection for Iraq's funds. The Iraqi government then opened a new account (IRAQ2) at the US Federal Reserve as an alternative to the DFI account (IRAQ1), ensuring oil revenues were deposited and transferred within 24 hours to the Central Bank of Iraq's account to avoid international claims. In June 2014, an agreement was signed between the US Federal Reserve and the Iraqi Ministry

of Finance to regulate the operation of the IRAQ2 account, which remains the legal basis for depositing Iraqi funds in the US Federal Reserve. The US President annually renews the immunity for these funds, provided they are sovereign and not derived from commercial activities.

Table 1: Key Resolutions

Resolution Number	Date	Notes
1483	22/5/2003	Lifting sanctions imposed during the previous regime; ending Oil-for-Food Program
1956	2010	Termination of IAMB's mandate

Iraq's Debts

Iraq's inherited debts from the 1980s and 1990s amounted to approximately \$130 billion. Iraqi negotiators succeeded in settling about \$90 billion under the Paris Club agreement in 2004, while around \$40 billion remains unsettled, owed to Paris Club and non-Paris Club countries, including neighboring and regional states such as Saudi Arabia, Qatar, the UAE, and Iran.

Table 2: Debt Status

Total Debt (\$bn)	Settled Debt (\$bn)	Outstanding Debt (\$bn)	Notes
130	90	40	Outstanding debts owed to Paris Club and non-Paris Club countries

Challenges

The failure to resolve all external debts and claims, especially from countries that did not waive their claims under the Paris Club agreement, has compelled Iraq to seek stable and permanent immunity for its funds abroad, particularly those denominated in US dollars. There is no practical alternative to the US dollar,

as Iraq, being an OPEC member, prices its oil in dollars, necessitating transactions through the US and its banks.

After Iraq paid all compensation for the Kuwait war and closed the relevant account in 2021, the US began to tighten controls on Iraqi government accounts (IRAQ2 and IRAQ1), imposing strict monitoring on transfers, which led to a domestic dollar crisis and a rise in the parallel market exchange rate. The US required Iraq to train a special team from the Central Bank to audit external transfers. Despite these audits, many transfers were rejected by the Office of Foreign Assets Control (OFAC), a US Treasury intelligence agency that enforces economic and trade sanctions to support US national security and foreign policy. OFAC has already imposed sanctions on 30 Iraqi banks, restricting their operations and prohibiting them from dealing in US dollars.

Conclusion

The continued existence of external debts exposes Iraqi funds to ongoing claims and potential seizure by creditors. Therefore, maintaining immunity for these funds until all debts are settled is of utmost importance. Iraq cannot close any of its accounts at the US Federal Reserve, as it cannot conduct its financial operations except through the Federal Reserve or other US banks. The pricing of Iraqi oil in US dollars leaves Iraq with no choice but to transact in dollars, and all such transactions are subject to OFAC scrutiny.

Iraq sells about 10% of its oil to China in US dollars, and these sales cannot be converted to another currency, as they are conducted under OPEC agreements. All Chinese oil investments in Iraq are also denominated in US dollars, which may explain the US's tolerance of China's expanding oil investments, provided this condition remains.

As long as countries with financial claims against Iraq are subject to US influence, it is difficult to reach financial settlements with them, as with other countries. Given Iraq's situation, which does not allow confrontation with the US either financially or militarily, the best possible solution is to return to the Strategic Framework Agreement and use it to renegotiate financial immunity for Iraqi funds and attempt to settle debts through the US, which may grant Iraq some freedom in its financial transactions. Iraq should also return to the Paris Club and negotiate with member states, especially as diplomatic relations have improved with some of them. Additionally, Iraq can leverage the International Economic Contact Group (IECG), formed by the G7, the EU, and the World Bank in October 2020, to pressure creditor countries to negotiate.

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About center

Al-Baydar Center for Studies and Planning is a non-governmental and non-profit organization established in 2015 and registered with the NGO directorate in the general secretariat of the council of ministers in Baghdad.

The center seeks to contribute to developing the state and its institutions, by proposing ideas and practical solutions to the main problems and challenges facing the state, including improving public sector management, policies, and strategic planning, using reliable data and best practices. The center engages the relevant authorities in the state with regular meetings to support this objective and utilizes the support of international organizations dedicated to assisting Iraq's development. The center also seeks to support economic reforms, and sustainable development and provide technical assistance to the public and private sectors. The center also seeks to support the development of the private sector to provide job opportunities for citizens through training and upskilling, in a way that reduces dependence on government institutions and contributes to supporting and diversifying the country's economy.

The center aims to utilize the vast amount of potential in Iraq's human resources by organizing programs to prepare and develop promising young people, including leaders capable of proposing, adopting and implementing visions and future plans that advance society and preserve its value-system based on the commitment to a high moral standard and rejection of all types of corruption.

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