

MISC 23/SUPP

DECLASSIFIED  
RESTRICTED

18/1/83 cut 1

From:

Date: 19 May 2006

To:

1. Michael Anderson (agreed)
2. Martin Dinham [I am grateful for this comprehensive analysis, with which I agree, and for the time and trouble invested by the team in producing it. I endorse in particular the breakdown of the Employment Generation component into the three categories and amounts set out in paragraph 3; and the final paragraph about risks to local staff. We have direct responsibility for these staff and any airing of these issues in such a way that links them to the uncovering of fraud would put them in significant jeopardy. Great care and discretion therefore need to be taken in our future handling of this case. MD 19/5]

#### SIESP Employment Generation Project

1. This minute sets out the Iraq Team's estimate of the loss DFID has incurred on the Employment Generation component of SIESP (Southern Iraq Employment and Services Programme). I also attach a spreadsheet at Annex A providing details of the estimate, including information against each of the 123 projects covering the four southern provinces of Iraq.
2. It is worth noting that all payments on the Employment Generation project were made against vouchers or receipts, which are in the files. Payment records for the Employment Generation component are considered to be good.
3. We have broken the Employment Generation component into three parts:
  - 3.a. **Projects where we have clear evidence of full or partial misuse of money**, based on monitoring by DFID staff. These are confined to Basra and Maysan provinces only. (Projects in this category are colour-coded red in Annex A). We estimate that these total a loss of **£254,105**. Even where there has been evidence of misuse, these projects have all added economic value to Iraq, though less than originally intended.
  - 3.b. **Projects where we have no clear evidence of either good use or misuse of money** (because there is no monitoring information in the files) but where anecdotal evidence from interviews suggests some percentage of the projects were not successfully completed. We estimate that these total **£296,187**. They are also confined to Maysan and Basra.

DECLASSIFIED

We have broken projects in this category down further on a case-by-category basis, taking into account location, type, and monitoring arrangements. Our method for this is set out below. (All projects for which there is no monitoring information in the files are colour-coded yellow in Annex A. Projects for which we judge there was a percentage not successfully completed are a sub-set of these).

3.c. **Projects which we are reasonably confident were successfully completed**, based on evidence of implementation in the files, in the form of photographs or spot check reports by local Project Officers, or anecdotal evidence. This includes all other projects in Basra and Maysan, and all projects in Dhi Qar and Muthanna. These total **£1,021,223**. (All projects for which there is monitoring information in the files are colour-coded blue in Annex A).

#### *Methodology*

4. In producing the estimate, we benefited from access to the full set of records associated with the Employment Generation component, including:

- All 123 individual project files which contain, variously: project submissions from NGOs or Provincial Councils, DFID approval forms, receipts for work days carried out, spot check reports, photographs, correspondence, meeting notes, and certificates of completion. Many sets of receipts and vouchers are in Arabic. (Due to high staff turnover these files were only recently traced, and were not available to Internal Audit when they visited Basra in July 2005).
- The full set of payment records comprising over 12 box files, and showing phased payments against receipts and vouchers during the lifespan of each project through to completion, as well as cases where payments were stopped in light of suspected fraud.
- Key project documents, including the Impact Assessment (May 2005) and the Internal Audit Report (July 2005).

5. Our assessment involved some 20 person-days of work. All records were systematically reviewed to a) identify monitoring information contained in the files, and b) extract relevant information for the spreadsheet at Annex A. In addition, we interviewed twelve of the principal DFID staff members involved in the programme, covering the period June 2004 to August 2005.

6. Once interviews were completed and information from the files transcribed to the spreadsheet, we were able to assess the degree of completion for each project in the four provinces. In so doing, we applied the following general principles:

- In a context where monitoring by international staff was extremely constrained due to security, and in the absence of specific evidence to the contrary, we accepted the validity of the monitoring information

RESTRICTED

produced by locally-contracted Project Officers working on behalf of DFID or the UK military.

- In the absence of information to the contrary, we interpreted the existence of monitoring information as evidence that a project was successfully completed.<sup>1</sup> This is underpinned by the payments records, showing four or five phased payments over the project lifespan to completion, against receipts and vouchers.
- A limited number of site visits in Basra were carried out by DFID international and/or local staff, mainly during the period from April through June 2005. There were also visits in early June to NGO projects in Maysan, possibly by UK military staff. These visits led to uncovering instances of suspected fraud. We reflected in the spreadsheet any calculations of a percentage loss for these projects made by DFID staff at the time, and recorded in the files.

#### *Province-by-province picture*

7. Below is an overview of each province, including the information available and assessment made.

**Dhi Qar** (14 projects total; 7 with Town Councils; 2 with the Provincial Council; 5 with NGOs). We have the best documentation in the files for projects in Dhi Qar. All projects have some monitoring evidence; in most cases there are photographs and multiple spot check reports. A majority of project partners were local Town Councils, who we judge had better incentives to successfully complete projects than Provincial Councils, as they were closer to the communities concerned. NGO projects were probably contracted directly, as part of a pro active effort by DFID (beginning in early 2005) to increase local NGO involvement in the Employment Generation scheme, and generate additional project applications.

It was not possible for DFID staff to monitor projects in Dhi Qar, due to the security situation. We relied on monitoring reports from the local Project Officer, [redacted]. According to the first Employment Generation Team Leader, there was also an international consultant working with the Governorates Capacity Building Programme who occasionally visited some of the training projects. These visits did not produce any material in the files, or indications of misuse of funds. The Impact Assessment refers to 'a number of successful projects implemented by NGOs. In particular, the Labour Union in Dhi Qar had run projects which provide training for unskilled/unemployed people.'

---

<sup>1</sup> We understand there was more monitoring information produced than the files reveal. Interviews suggest that the Employment Generation Team Leader held weekly or fortnightly meetings with local Project Officers, during which monitoring information was provided verbally. The Team Leader then adjusted the payment spreadsheets directly, on the basis of this information.

DECLASSIFIED

DECLASSIFIED

Our assessment is that all projects in Dhi Qar were successfully completed.

**Muthanna** (12 projects total; all with the Provincial Council). There is no direct monitoring information in the files for projects in Muthanna (hence they are colour-coded yellow in Annex A). Due to the security situation it was not possible for DFID staff to visit the project sites, and we have no evidence of UK military visits either. We relied on reports (probably provided verbally) from the local Project Officer, [redacted], to release payments.

However, the clear view among those interviewed is that projects in Muthanna were successfully completed. The Muthanna Provincial Council responded quickly and positively to the launch of Employment Generation project by submitting 12 projects in the period between 24 November 2004 and 7 February 2005. Later, toward the spring of 2005, personalities in the Provincial Council changed and there was an attempt to rush through another set of project applications, which were turned down by the then-Team Leader for Employment Generation.

Our assessment is that all projects in Muthanna were successfully completed.

**Maysan** (78 projects total; 3 with NGOs; 75 with UK military in partnership with Town Councils). Except for three NGO projects, all projects in Maysan were implemented by local Town Councils in partnership with the UK military. These projects were considered important for force protection as well as reconstruction purposes. Monitoring was carried out by either the UK military directly, or by the DFID-contracted Project Officer, [redacted].

Typically, the first payment for a project was made to the UK military, who thereafter acted as the go-between with Town Councils, forwarding receipts and documentation to DFID.

We have monitoring information for 26 out of the 75 projects undertaken by the UK military. The remaining projects are colour-coded yellow in Annex A, meaning there is no monitoring information in the files. Most of those interviewed said that projects in Maysan went well, because of the involvement of the UK military and their role in monitoring.

We also interviewed [redacted] who was deployed in Maysan from December 2004 to April 2005. [redacted] said that monitoring occurred often but informally. He reported regularly to the (first) Employment Generation Team Leader, using e-mails, photographs, and receipts. [redacted] relied heavily on the local Project Officer for information, who he described as trustworthy and honest. He also noted that the Commanding Officer tasked all patrols to go out and see if the street sweepers were actually doing the work on the street cleaning projects. There were also occasional over flights over project areas to do spot checks.

DECLASSIFIED

RESTRICTED  
DECLASSIFIED

On the basis that UK military played the leading role in monitoring the 75 projects in Maysan, we are confident that the large majority were successfully completed. There is some room for doubt at the margins, however. When interviewed, the second Employment Generation Team Leader (who took over in May 2005) reported that less project monitoring was actually carried out by the UK military in the first half of 2005 than expected. Things improved after the roulement for that year, but more pro active monitoring after the roulement uncovered a number of cases where less activity had been carried out than was originally claimed. The former Team Leader estimated that this comprised no more than 10% of the total. On the basis of prudence, we have raised this to 15% of the 75 projects which were not successfully completed.

The three NGO projects in Maysan also involved the UK military. While it is unclear from the files, it is likely that NGOs submitted applications directly to the military. These projects were independently monitored in early June (it is not possible to determine who did the monitoring), and in all three cases some amount of fraud was suspected.

For one of these projects (MA/123), subsequent investigation showed that the project was in fact proceeding well, and it was successfully completed. For the other two NGO projects (MA/122 and MA/154), we estimate that 60% and 50% of these, respectively, were not successfully completed. In the first case, DFID staff estimated how much work had not been done as compared with what was claimed, and set out their assessment in a file note. In the second case, the project goal of swamp drainage was partly achieved, but through use of machinery rather than people. We therefore consider the project to have been partly successful.

**Basra** (19 projects total; 6 with NGOs, 9 with the Provincial Council, 4 with the UK military). A majority of projects in Basra were contracted with the Provincial Council. Interviews suggest that unlike in other provinces the Provincial Council in Basra did not agree that Town Councils could contract project themselves; all such project applications were channelled through the Provincial Council.

In addition, 6 NGO projects were contracted directly with DFID. This was part of a pro active effort by DFID to solicit new applications from local NGOs, beginning in early 2005. To facilitate this work, a Civil Society Officer, [redacted], was contracted by DFID in December 2004. A further 4 projects were part of the UK military's large-scale job creation programme, called 'Operation Dump It'.

Much of the monitoring work in Basra was carried out by the DFID-contracted local Project Officer, [redacted]. For NGO projects, [redacted] also provided some monitoring reports and photographs. Basra is one of the only provinces where DFID local and international staff also made some site visits in the period from early April

DECLASSIFIED

DECLASSIFIED

to early June 2005, during production of the Impact Assessment. After mid-June the security situation deteriorated badly, preventing further visits.

We have identified three categories of projects in Basra:

Projects with evidence of fraud: Basra has the highest number of projects for which there is clear evidence of fraud. These number 11 in total (colour-coded red in Annex A), including 3 NGO projects and 8 projects with the Provincial Council. There is strong evidence – including through the testimony of local individuals whose identity has been protected – that [redacted] colluded in fraud in the case of the NGO projects.<sup>2</sup> Our assessment is that 100% of these projects were not successfully completed. The remaining 8 projects involved road rehabilitation contracted by the Provincial Council. For one of these (BA/036) there is clear evidence of fraud and we assess that 100% of this project was not successfully completed.

The other 7 projects do not present such a clear picture. Independent monitoring revealed that some work had been done to rehabilitate the roads, but this was most likely carried out by machinery rather than people. Because some results were achieved with these projects, we estimate that 50% of the project was successfully completed.

Projects with no monitoring information on file: There are 5 projects (4 with the UK military and 1 with the Provincial Council) for which there is no monitoring information in the files. The 4 UK military projects comprised an initiative called 'Operation Dump It'. These projects worked by exchanging a quantity of garbage for a token, with the value of the token dependent on the amount of garbage delivered. The aim of the project was to encourage poor Iraqis to clear streets and collect garbage in order to earn income.

According to the Employment Generation Team Leader, the UK military reported that although they actively monitored the projects it was not possible for them to be present at all times due to the security situation. There were, in consequence, reports that some vouchers were not necessarily given out correctly. For example, once the military departed very few low-value tokens were issued.

However, these projects were seen by the UK military as a major success, because they provided a large amount of employment to low income groups in Basra. Strong arguments were put forward by the military to continue the programme in May 2005, even though the Employment Generation component was winding down. Based on this information, we assume the projects were largely successful, with some leakage at the margins. We estimate that 10% of the 4 projects were not successfully completed.

DECLASSIFIED



For the remaining project (BA/032) we have no monitoring reports in the file. However, there is a CD in the file which shows a street with sewage and garbage, and provides a commentary (in Arabic) which explains what work needs to be done. Because we have no other information, and no reason to believe that funds were not used according to the purposes intended, we assume that this project was successful.

Projects for which there is monitoring information: There is monitoring information in the files for 3 projects (with the Provincial Council) which we take as evidence that these projects were successfully completed.

#### *Security of local staff*

8. In carrying out the investigation, we have become aware of the risk that local staff faced in carrying out independent monitoring missions, and reporting their suspicions about misuse of funds to international staff. During the period when fraud concerns were being raised with Basra-based NGOs and the Provincial Council, the DFID office employed various means to protect local staff from any hint of association with uncovering of these frauds. This was out of fear that lives would be at risk if such associations were suspected. According to several people interviewed, local staff members were anyway at risk simply because they worked for DFID during the period when we began to ask tough questions about project implementation. Several people also related an incident in which one local staff member was threatened. We are not confident that this risk has decreased with the passing of time -- indeed it may have increased due to the deteriorating security situation -- and are concerned that raising the issue of fraud again in-country may jeopardise staff currently working for us.

Senior Programme Manager, Iraq