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IRAQ RECONSTRUCTION PLANNING

Dear Jim

I attach a work-in-progress paper setting out some preliminary ideas on reconstruction planning for Iraq. I would be grateful if you could table it for Monday's COBR meeting.

The paper benefits from comments from FCO, HMT and CO colleagues at a meeting DFID hosted on Wednesday. The meeting threw up some wider issues about how this work is situated within the UK's overall approach for helping rebuild Iraq after Saddam and getting international consensus behind that approach. DFID's view is that we need to start working now on a broader strategy which binds together the many bits of work going on across Whitehall. We will be giving this some further thought – others may also like to.

Regards

Alistair

Alistair Fernie
Head, Middle East and North Africa Department



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IRAQ – RECONSTRUCTION PLANNING: OBJECTIVES AND APPROACH

Context

1. This paper is based on the assumption that an adequate international mandate, agreed by the UN Security Council, will exist for the UK to play a full role in reforming and restructuring Iraq and its administration. It focuses on how DFID could contribute, but sets this within a broader context, which should be the subject of a further, more overarching UK government strategy paper. In the absence of full information about what the needs and resource constraints will be, and which other international actors will be involved, the paper does not go into any detail and is still work in progress. In the event of an adequate UN mandate not being agreed, or a significant delay, the UK government will need to review what role it can play in the light of legal advice from the Attorney-General¹. This indicates that role will be limited to ongoing humanitarian relief and the minimum civil administration reform needed to ensure public security. Further legal advice on exactly what can be done before – or without – a UN SCR may be needed, and immediate and longer-term options for continued UK involvement in Iraq will be considered in light of this advice.

2. Reconstruction planning needs to take a long-term perspective of a country's needs. But with conflict underway and a high probability that a fluid and unstable situation will soon develop requiring immediate decisions about new governance structures and policies, considerable thinking is already taking place internationally (particularly in the IFIs, the UN and the US) on what kind of reconstruction support can and should be offered to Iraq after conflict ends. Many of these plans will need to start being put into action within a matter of weeks. In the case of the US Office of Reconstruction and Humanitarian Assistance, some decisions are being taken even sooner – and these may set the context for future reconstruction planning.

Objectives

3. The UK Government's Vision for Iraq and the Iraqi People pledges us to work with the international community to ensure that the Iraqi people can exploit their country's resources for their own benefit, and contribute to their own reconstruction, with international support where needed². It contains several objectives which are relevant for reconstruction planning, notably in the areas of prosperity, freedom and good government.

4. The UK is committed to helping the Iraqi people achieve these objectives through:

- Enabling Iraqis to establish their own effective representative government and encouraging UN involvement in the process.
- Achieving a swift end to sanctions as soon as Iraq is in compliance with UN Security Council resolutions.
- Seeking a fair and sustainable solution to Iraq's debt problems.
- Promoting increased aid from the international community.
- Supporting an international reconstruction programme, and helping Iraq make the transition to a more prosperous and dynamic economy.

¹ See minute to the Prime Minister (*Iraq: Authorisation for an Interim Administration*), 26 March 2003

² The UK's Post-Conflict Objectives for Iraq, once agreed by ministers, will also inform this approach.

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5. DFID's core focus in assisting Iraq's reconstruction will be the elimination of poverty, and in particular ensuring the Iraqi government is able to address its people's poor health indicators and other social problems. After an initial period of continuing dependence on humanitarian assistance, Iraq's status as a middle income country will make it more appropriate for DFID to support technical assistance for the economic and institutional reforms which will underpin the reconstruction process, and help the Iraqi government to stimulate the private sector growth, foreign investment and international lending which will enable them to address poverty. DFID will work closely with other government departments to achieve these objectives, especially HMT and FCO.

Ways of working

6. Ways of working to achieve these objectives include:

- Working through multilateral channels – encouraging the IFIs to engage as soon and as fully as possible, supporting their work and catalysing support from other donors. Complement this with targeted technical assistance.
- Tackling dependence on humanitarian aid – emergency relief and rehabilitation should blend with immediate reconstruction priorities.
- Short-term engagement – given its potential oil wealth we should aim for Iraq to be self-sufficient as quickly as possible, perhaps within three years, though some continuing technical assistance may prove appropriate beyond that.

Background

7. There is relatively little economic and social data available on Iraq, but the World Bank estimate that GDP per capita has fallen sharply, from \$3,657 in 1980 to \$1,184 in 2001. Health and education statistics show deteriorating human development over the period of sanctions.

8. The UK will find itself in a critically responsible role in Iraq, having been involved from the start in the military campaign and in the provision of humanitarian assistance. As the main ally of the US, who will be by far the best resourced donor at least in the initial stages, we will be in a unique position to influence their engagement. DFID's overriding aim should be to see that Iraq receives comprehensive and prompt support from international institutions and the wider international community.

9. In bilateral terms, given Iraq's potential oil wealth, we should envisage a relatively short-term engagement, focused primarily on technical assistance, laying the foundations of economic self-sufficiency and supporting social development (there may also be a case for a shorter-term engagement in a key service delivery sector such as water/sanitation). This is likely to indicate an involvement in key social sectors, economic and institutional reform. Overall we will wish to remain focused in terms of the number and range of our bilateral activities.

International process

10. The US will essentially be in authority in Iraq in at least the initial stages, through ORHA. Other donors and international institutions will take longer to establish a presence. During this time it is possible that the US could make a number of wide-reaching reforms or political decisions. DFID and other UK officials working with ORHA should engage closely with the US on reconstruction planning (within legal constraints), as well as immediate humanitarian concerns. We should follow this up with close engagement with the US Administration in Washington.

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11. DFID and other parts of HMG must work quickly to lobby other donors to take active roles in Iraq's reconstruction, both in providing TA and finance. This will require swift international agreement to put Iraq's vast debt and reparation costs onto a sound footing (see below). Particular countries/organisations we would hope to play a full reconstruction role include the Japan and the EC. We should also use existing strong networks of like-minded donor countries, such as the Utstein Group (Germany, Norway, Sweden, the UK) to build support for an international approach and for a strong UN role.

12. Key to ensuring that Iraq receives prompt, international support – and to persuading the US to accept international institutions in the lead – will be to stimulate initial multi-donor assessment missions as soon as security concerns allow. These should include in particular the World Bank, IMF, UN, and Islamic Development Bank. DFID should also participate in some of these missions. We should consider the case for setting up pooled arrangements for support under the joint management of IFIs and UN.

13. Payment of recurrent Iraqi government costs (mainly salaries) is likely to be a pressing issue, especially if the OFF Programme remains disrupted for some time (the US have plans for the immediate payment of salaries). An immediate Trust Fund will need to be established, probably under the UN or World Bank (as in Afghanistan). In the longer-term, we will probably wish to press for the establishment of a Bank-managed Trust Fund to pool international funding (the ARTF from Afghanistan is a useful model, to which even the US and Japan have contributed).

14. A political process will need to be agreed that will serve as the framework within which reconstruction takes place. This is likely to involve the establishment of an Iraqi Interim Administration and/or an Advisory Council, representing key interests. An Iraqi / international conference establishing these structures will need to be held with, as a minimum, the blessing of the UN. The FCO is already leading work in this area. During the time of this transitional administration reforms will need to be implemented that will make or break the prospects for a peaceful and prosperous Iraq, including putting into place constitutional and electoral arrangements that will provide a framework for the emergence of broader based political interests. It is likely that DFID should be involved in providing technical assistance to support these political reforms.

Debt/Reparations and Financing

15. The international community will need to move swiftly to place Iraq's huge debt and compensation problems onto a sound, agreed international footing. Estimates of Iraq's debt are speculative, based on projections of what was owed in 1990 plus interest, but is thought to be between \$65bn and \$90bn. Iraq's main creditors will need to be convinced to forgive or delay receipt of considerable sums, predominantly external public debt (i.e. ECGD equivalent). The major creditors in order of scale are Russia, Japan, France, Germany and Italy. The UK holds relatively little Iraqi debt (£63m - through ECGD). International agreement on these arrears will be critical to the IFIs and others being able to provide assistance. The IMF is already doing some useful work on debt burdens, with which we should closely engage. We will also want to make particular efforts to ensure that the World Bank is ready to operate and disburse quickly.

16. The position on reparations is slightly more complicated and we will need to work with the UN and others in holding detailed discussions with (and applying some pressure) to Kuwait and Iran to forgive as much of these as possible. Overall reparation claims are currently projected at around \$181bn.

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17. A critical step will be an international conference to discuss these problems and make pledges of future assistance. This would probably be similar to the Tokyo Conference for assistance to Afghanistan (but we should press others not to engage in 'flag-sticking' exercises in which key donors take lead responsibility for particular sectors: while it is practical for individual donors to focus their activities on particular sectors, it will be important politically for the UN to have overall responsibility for coordination). The UK should aim to take a leading role in agreeing the scope and timing of this Conference. While it is desirable in principle for it to take place as soon as possible, the timing will need careful consideration of the political climate for post-conflict support. We should lobby for all reconstruction assistance either to be on budget, or in accordance with budget priorities.

DFID focus

18. Given Iraq's potential oil wealth, we should envisage a relatively short-term engagement, laying the foundations of economic self-sufficiency and supporting social development. This is likely to indicate an involvement in key social sectors, economic and institutional reform. Wherever possible we should seek to channel the bulk of our financial contributions through multilateral arrangements, support joint measurement and reporting of effectiveness of programmes, and complement this with targeted technical assistance in areas where DFID has expertise (and where other donors may be less reluctant to get involved).

19. We will want to be a strong voice on institutional reform and on key governance issues, including security sector reform. The three-year assistance programme we provided to the Ministry of Finance in Afghanistan is a useful template of the kind of assistance we could provide on financial and institutional reform.

20. Lessons from Afghanistan show that the international development community is slow in creating tangible results on the ground, not showing all local populations visible dividends of peace, during politically and culturally unstable post-conflict times. DFID has a justified reputation for relatively speedy response. While keeping the number of sectors in which we are involved low, we should consider whether our current ongoing humanitarian assistance programme in Iraq, and the additional emergency work we may fund post-conflict, give us a potentially useful base from which to assist with wider reform in the water/sanitation and/or health sectors, to ensure that tangible benefits are provided to the Iraqi people relatively quickly.

21. The transition from DFID's immediate humanitarian relief to longer-term reconstruction assistance has not always been smooth. Opportunities for longer-term benefits of immediate relief have sometimes not been exploited, and lessons from humanitarian activity have insufficiently informed reconstruction priorities. We should work to ensure that emergency relief and rehabilitation activities blend quickly with reconstruction priorities.

22. Iraq is different to many developing countries which face shortages of well educated and technically competent people. Using Iraq's existing talent pool (including, with some political caution, returning exiles) as far as possible, and ensuring its relatively young population is educated to replace that pool, will be an essential investment and reduce political tension.

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