1 Wednesday, 13 January 2010

2 (10.00 am)

3 DR NEMAT SHAFIK

4 THE CHAIRMAN: Good morning.

5 DR NEMAT SHAFIK: Good morning.

6 THE CHAIRMAN: Let's begin. Welcome to everyone, though

7 everyone is not very many people, I find. Given the

8 weather, I'm not surprised.

9 The objectives of this session are essentially to

10 look at more strategic issues. We have moved away from

11 building the chronological narrative, which is pretty

12 much complete, and we need to look at more strategic

13 issues, and to do that by speaking to key

14 decision-makers across the UK Government.

15 Today we are hearing from Dr Shafik, who was the

16 DFID's Permanent Secretary, and you have been

17 Permanent Secretary of DFID since May, I think, 2008.

18 DR NEMAT SHAFIK: March, in fact.

19 THE CHAIRMAN: Right, and before that you were DFID's DG for

20 programmes. Thank you.

21 Next week, we are going to be speaking again to

22 Sir Suma Chakrabarti, your predecessor, on strategic

23 issues, having had one witness session when we were

24 still building the timelines.

25 Now, this afternoon, we shall be talking to

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1 Lord Turnbull who was Cabinet Secretary between 2002 and
2 2005, and just two other things to say. We recognise
3 that witnesses are giving evidence based on their
4 recollection of events and we, of course, are
5 cross-checking that with the papers to which we have
6 access.
7 I remind every witness that they will later be asked
8 to sign a transcript of the evidence they have given to
9 the effect that it is truthful, fair and accurate.
10 With that, by way of preliminaries, can I turn to
11 Baroness Prashar? Usha?
12 BARONESS USHA PRASHAR: Thank you very much indeed.
13 Dr Shafik, good morning. Could you just tell us
14 a little bit about your background? Before you were
15 Permanent Secretary, you were DG, and then you were at
16 the World Bank. Can you explain a little bit about what
17 you were doing, both at the World Bank and as DG?
18 DR NEMAT SHAFIK: Sure. I spent 15 years at the World Bank
19 in a variety of roles, including research, economic
20 policy, working on the Middle East, Eastern Europe, and
21 my last post before joining DFID was as Vice-President
22 for Infrastructure and the Private Sector at the
23 World Bank.
24 BARONESS USHA PRASHAR: What did that mean, being
25 responsible for infrastructure in the World Bank?

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1 DR NEMAT SHAFIK: I was responsible for a portfolio of about
2 500 projects that the World Bank ran worldwide, worth
3 about $50 billion, in the sectors of water, power,
4 transport, private sector development, small business
5 promotion, telecommunications, oil, gas, mining.
6 I joined DFID then in 2004, became DG
7 (Country Programmes) and became Permanent Secretary
8 in March 2008.
9 BARONESS USHA PRASHAR: During that time were you at all
10 involved in Iraq with country programmes?
11 DR NEMAT SHAFIK: Actually, Iraq was not a borrower from the
12 World Bank throughout the Saddam Hussein period. So,
13 while I worked extensively on the Middle East for
14 several years, we did not have a relationship with Iraq
15 at the time.
16 BARONESS USHA PRASHAR: Fine. Can you just tell us a little
17 bit about what the UK was trying to achieve in Iraq
18 during the period you have been Permanent Secretary?
19 DR NEMAT SHAFIK: During the period I was
20 Permanent Secretary, it was dominated very much by two
21 key events: one, the transition of Basra to
22 Provincial Iraqi Control, which happened
23 in December 2007, which was before I started; and then,
24 of course, Charge of the Knights, which was
25 in March 2008, which was the month I started.

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1 Those two key events very much dominated the period,
2 because they represented two key changes: one, the move
3 toward more Iraqi control of the country; and, two,
4 a much more benign security situation. So, because of
5 that, our strategy shifted in some ways.
6 BARONESS USHA PRASHAR: How did your strategy shift and what
7 were your priorities during that time?
8 DR NEMAT SHAFIK: Some elements were the same. We continued
9 to focus on the importance of the internationalising the
10 effort, getting the UN, the World Bank and the
11 international financial institutions more involved. We
12 wanted to complete the infrastructure projects in the
13 south that we had started, but two key elements of our
14 strategy became much more important: strengthening the
15 centre of government in Iraq and enabling them to manage
16 their own affairs more effectively; and it also became
17 now possible to seriously try to promote private
18 investment because of the growing stability in the
19 country.
20 BARONESS USHA PRASHAR: Can you say a little bit about
21 trying to strengthen the centre of government in Iraq?
22 What did that involve?
23 DR NEMAT SHAFIK: We had quite an extensive programme over
24 several years to try and strengthen key ministries,
25 particularly the Ministry of Finance, in public

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1 financial management, and the centre of government, the
2 equivalent of the Cabinet Office, to co-ordinate
3 government affairs, to support the civil service, to
4 help Iraqi politicians make decisions and actually have
5 those decisions translated into real impact.
6 THE CHAIRMAN: Excuse me, it would be very helpful if you
7 could slow down just a bit.
8 BARONESS USHA PRASHAR: The three things you highlighted in
9 the internationalising your effort, the question of the
10 infrastructure and government, do you think these were
11 realistic ambitions of the government of the time?
12 DR NEMAT SHAFIK: Well, I think they became -- I think they
13 were realistic. They became much more difficult in the
14 period prior to my period when the security situation
15 was very severe and very negative, the sort of 2005 to
16 2007 period.
17 But I think, in practice, some aspects of the
18 internationalisation worked very well; just as an
19 example, the humanitarian effort. Throughout this
20 period there were over 4 million Iraqis who had received
21 humanitarian assistance; 2 million internally displaced,
22 2 million in other countries, and the UN played a key
23 role in delivering that humanitarian assistance.
24 If they had failed, it would have been catastrophic
25 to have over 4 million Iraqis without access to food,

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1 water, shelter, schooling for their children. So there
2 were some aspects of the internationalisation which
3 worked very well: the IMF's programme in support, for
4 example, was another element which did work, despite the
5 difficult circumstances. Iraq got $31 billion of debt
6 relief, one of the largest debt relief packages in the
7 world. They achieved macroeconomic stability. The
8 transition of the currency was orderly and the Iraqis
9 were able to maintain macroeconomic stability throughout
10 this period. So those were quite considerable
11 achievements, but the bit that was the most difficult
12 was the --
13 BARONESS USHA PRASHAR: Those are the achievements, but I'm
14 thinking whether these objectives were realistic for us.
15 I mean, yes, we achieved some, but were they realistic,
16 in the circumstances?
17 DR NEMAT SHAFIK: I think because some aspects of the
18 international system were able to deliver in Iraq, the
19 UN, the IMF, I think they must have been realistic,
20 because it did work. I think the longer-term
21 reconstruction work, particularly the longer-term leads
22 on the infrastructure side, which we were hoping the
23 World Bank could lead, were not possible, given the
24 security situation.
25 BARONESS USHA PRASHAR: What, if anything, did you achieve

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1 on the infrastructure and how sustainable was that?
2 DR NEMAT SHAFIK: Most of the work that DFID did on
3 infrastructure was about doing shorter-term repairs to
4 infrastructure, which had been destroyed, damaged or not
5 maintained during the conflict. The achievements were
6 considerable. We secured access for 1 million people to
7 24 hour power. We secured safer water and increased
8 access for a million people in the water sector. So
9 those were considerable achievements.
10 BARONESS USHA PRASHAR: These were sustainable over a period
11 of time?
12 DR NEMAT SHAFIK: Those were sustainable. What we were not
13 able to achieve was the longer-term investment in
14 infrastructure which had been neglected during the
15 Saddam period, the sanctions period, and during the
16 conflict, and it is only now that those investments can
17 be made.
18 THE CHAIRMAN: We heard some evidence, if I can just butt
19 in, that the American approach, right from 2003, was to
20 engage in large-scale, long-term contracts, at any rate,
21 which did start to come through but only much later,
22 years later. So in a sense there were two parallel
23 policies going on at the same time. Was there a balance
24 between them?
25 DR NEMAT SHAFIK: I think the conclusion of the American

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1 approach in the Iraqi Inspector General's report, "Hard
2 Lessons", is that it was premature to do investments in
3 large-scale infrastructure at that time. I think our
4 approach, which was mainly focusing on repairs to
5 existing infrastructure, maintaining facilities, getting
6 things back on line, had a bigger bang for its buck,
7 because we spent relatively less but we secured more
8 services, as a result of that expenditure.
9 BARONESS USHA PRASHAR: Can I come back to the process that
10 was used in agreeing the UK objectives for Iraq? Was
11 that effective in securing a kind of shared mission and
12 ownership across government or not?
13 DR NEMAT SHAFIK: At this point, we had an HMG,
14 a government-wide strategy for Iraq. There was no
15 DFID specific strategy. So at this stage, our
16 strategy was completely integrated across the government
17 and I think it was quite effective because we had
18 a shared vision and a shared implementation capacity,
19 both in Whitehall and in Iraq.
20 BARONESS USHA PRASHAR: What was that shared vision?
21 DR NEMAT SHAFIK: I think all of us wanted to see an Iraq
22 which was stable, increasingly prosperous, able to
23 conduct its own affairs and able to provide economic and
24 social services to its population.
25 BARONESS USHA PRASHAR: So there was ownership of that, but

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1 was there effective delivery operational machinery in
2 place? Because, you know, you can have statements at
3 a strategic level, but were there just statements made
4 or were there some practical steps taken by government
5 departments to make it a reality on the ground?
6 DR NEMAT SHAFIK: At this stage, you had a co-ordination
7 mechanism in London through the Iraq Strategy Group
8 which was meeting regularly at this stage, and you also
9 had a co-ordination mechanism in Baghdad, and in Basra,
10 by 2008, we were all co-located at the air station,
11 including the military, the civilians, the diplomats and
12 the development experts, all in one place. I think you
13 have already heard from Keith Mackiggan and
14 Nigel Haywood --
15 BARONESS USHA PRASHAR: Yes, indeed we have.
16 DR NEMAT SHAFIK: -- and Andy Salmon was the third pillar of
17 that troika. It was quite an effective troika.
18 Certainly, when I visited in February with the two other
19 Permanent Secretaries, it was quite clear that you had
20 quite a clear sense of a shared -- a shared set of
21 objectives, clear roles and responsibilities and people
22 knew what their job was and knew what they had to get
23 done.
24 BARONESS USHA PRASHAR: When we saw Mark Lowcock last week,
25 he said that after the Charge of the Knights, people

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1 thought that DFID could have moved a bit faster, but you
2 took rather a measured approach. Do you want to comment
3 on that?
4 DR NEMAT SHAFIK: I think, in fact, there was some pressure
5 on us after Charge of the Knights. I think
6 General Petraeus was arguing that there needed to be
7 a civilian surge at that stage as a sort of corollary to
8 the military surge.
9 We agreed, but we felt very strongly that there had
10 to be an Iraqi-led civilian surge. So we did increase
11 our presence after Charge of the Knights, particularly
12 in Basra, in order to deliver the economic initiatives,
13 but we continued to think that it was very important
14 that that process be led by the Iraqis, and even though
15 that might take more time, in the end, that was
16 ultimately going to be the most sustainable and
17 successful strategy.
18 BARONESS USHA PRASHAR: Is that how you operated on the
19 ground? Was that a kind of an understanding between, at
20 least, the UK presence, that that's what you needed to
21 do?
22 DR NEMAT SHAFIK: Yes, there was, and I can give you
23 a couple of examples, if that would be helpful. The
24 work of the Basra Provincial Council, for example, we
25 had been investing very heavily in their capacity to run

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1 their own affairs. In 2006, they had the capacity to
2 spend about $24 million. By 2008, they had the capacity
3 to manage a budget of over $300 million. They were
4 running, by that stage, about 800 development projects
5 themselves. So that was a sign, I think, for us, that
6 that approach of getting them to run their own affairs
7 was successful.
8 Similarly with the Basra Investment Commission,
9 which we helped establish, to try and be the
10 interlocutor to attract investors into Basra. While we
11 launched it and had great support from the military in
12 helping to get investors safely into the country to
13 visit potential investment sites, they facilitated about
14 19 investor visits with about $10 billion of potential
15 commitments. The Basra Investment Commission is
16 itself now handling those investor visits on its own and
17 being the main interlocutor for investors interested in
18 coming to Basra.
19 So again another example where our painstaking
20 approach to building their own capacity has paid off and
21 is sustainable.
22 BARONESS USHA PRASHAR: What lessons do you draw from that
23 in terms of how you managed the expectations of your
24 coalition partners -- you know, you mentioned about the
25 American expectations, the expectations of the military

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1 by nature engaged in the short-term and what you are
2 trying to do? What lessons have you learned from that,
3 in terms of how you managed these raised expectations
4 and not least the community itself?
5 DR NEMAT SHAFIK: Yes. I often use the parable of the man
6 and the fish. All of us know the story about the man
7 who is hungry, and the military response
8 is often: give him a fish, he is hungry.
9 The Foreign Office would often take the view of:
10 give him a fishing rod and build a relationship with
11 him, and the DFID perspective would often be: well, you
12 need to teach him to fish, and, actually, you need to
13 teach him how to make his own fishing rods, so we don't
14 need to be here giving him fishing rods in future.
15 That different perspective reflected the different
16 timeframes and expectations of the players.
17 I think the lesson we have learned is that you
18 actually need to give him a fish, you need to give him
19 a fishing rod, but ultimately you also need to teach
20 them how to fish and make their own fishing rods.
21 The challenge for the comprehensive approach is to
22 get the sequence and timing of those three perspectives
23 working correctly, so that you are not there forever
24 giving fish, and you do have a strategy for teaching
25 them how to fish. I think the tensions around that are

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1 what you have probably seen on the records, but one that
2 I think we have gotten much better at managing.
3 BARONESS USHA PRASHAR: Can you give me something about your
4 understanding of the term "comprehensive approach",
5 because I think last week we were told what we needed
6 was a comprehensive plan and not an approach.
7 These words get used, but what do they actually
8 mean? They must mean different things to different
9 people. What do they mean to you, and what is your
10 understanding of what is understood by that at
11 Whitehall?
12 DR NEMAT SHAFIK: My understanding is that, for the
13 comprehensive approach to be effective, it has to be
14 a partnership of equals. It is not an issue of one bit
15 of the machine bossing the other bits around in order to
16 deliver its own objectives. You need a partnership of
17 equals, you need a shared set of objectives. It can't
18 just be about the development and diplomats making life
19 easier for the military and buying consent for them. It
20 can't be the development people saying, "We just want
21 the military to help us deliver humanitarian
22 assistance". Neither of those approaches will work.
23 You need an approach that thinks about the
24 short-term objectives, the medium term and the
25 long-term, and it is precisely the existence of those

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1 three sets of objectives which is essential for the
2 comprehensive approach to work.
3 I think the other issue that you have probably heard
4 quite a bit about is who should be in charge of the
5 comprehensive approach. My view is that I think there
6 are two criteria. One, that whoever is in charge needs
7 to have the integrative skills to lead, like in any
8 profession, a multidisciplinary team. It is a special
9 set of skills to be able to integrate multiple
10 disciplines and balance the trade offs.
11 Two, I think the person leading the comprehensive
12 approach cannot be in a uniform and carry a gun.
13 I think the reason for that is that, from an Iraqi
14 perspective, or from any country's perspective, when
15 someone is there to help you develop and reconstruct
16 your country, it is a very different relationship when
17 that person is carrying a gun or not. Now, they can be
18 someone of military background, but when they are in
19 this role, it has to be a role which is seen as
20 a civilian role.
21 BARONESS USHA PRASHAR: Are the implications of that
22 understood at Whitehall, in terms of capacity building
23 and what it means in terms of the skills required?
24 DR NEMAT SHAFIK: Well, I think it has taken us time to
25 build up a cadre of people who have those skills. To be

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1 honest, I don't think we had it at the beginning of the
2 effort. I think it reflects the fact that, while there
3 was much goodwill, there was not much experience in
4 working together in the past.
5 THE CHAIRMAN: Could I --
6 BARONESS USHA PRASHAR: Sorry.
7 THE CHAIRMAN: When you have finished, I just want to butt
8 in.
9 BARONESS USHA PRASHAR: You think there is better
10 understanding, but what practical stems have been taken?
11 How far down the road are we in that direction?
12 DR NEMAT SHAFIK: I think there are many practical steps.
13 Let me start with the issues of incentives and
14 then I will talk about some of the institutional
15 structures we have set up to deal with it.
16 One is, I think, from the very top of the
17 Ministry of Defence, the Foreign Office and DFID we have
18 sent a very clear signal about our expectations about
19 collaboration across departments. So the three
20 Ministers and Secretaries of State meet together very
21 regularly, the three Permanent Secretaries have regular
22 meetings. We travel together regularly, particularly in
23 conflict countries. We have opened up our jobs to each
24 other, so that most of our jobs are now open to people
25 from across Whitehall and vice versa. We do lots of

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joint training now, so our own staff participate in the military's training and their exercises, so they have practice working together. Our own training programmes are now opened to the MoD and the FCO. We also have many more secondments. So the level of interaction between the three is much higher than it used to be.

Then, practically speaking, we have actually three very concrete institutional set-ups in which we collaborate.

One is a stabilisation unit, which is a tripartite unit owned by the three departments, governed by the three departments, managed on behalf of the three by DFID, which is the repository of expertise on stabilisation for Whitehall.

Two, we have the civilian cadre, which we recently launched, which has a thousand-person capacity to deploy to conflict zones, including 200 civil servants and 800 non-civil servants with expertise in a variety of areas.

Three, we have the conflict pools, which is again a tri-department pool of funds, which we jointly manage collaboratively on the highest priority conflict areas in the world.

BARONESS USHA PRASHAR: I will come back to the stabilisation unit later, because I think the Chairman wants to come in.

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1 THE CHAIRMAN: I really wanted to ask you about how the
2 comprehensive approach and the institutional model that
3 gives it effect works, when, as typically as the
4 United Kingdom will be, we are in coalition arrangements
5 and usually, if not indeed always, not the senior
6 partner, and when a comprehensive approach has not been
7 adopted by other, or, indeed, larger coalition partners.
8 How does that work?
9 DR NEMAT SHAFIK: Well, it is clearly a tension and I think
10 we have to make the case for why our approach is
11 compelling. I think it is interesting that when, the
12 US General Odierno visited Basra and visited the PRT,
13 I think, while their initial position might not have
14 been to have civilian leadership of the PRT, he was so
15 impressed that he made a point of saying Basra is the
16 way forward if we are going to support the Iraqis
17 correctly over the period ahead. So I think we have to
18 demonstrate that our approach is more effective.
19 THE CHAIRMAN: It is perhaps not germane, but do you happen
20 to know if the Americans have taken that philosophy into
21 Afghanistan?
22 DR NEMAT SHAFIK: It is interesting, the approach they took
23 in Iraq with one department, with the Pentagon clearly
24 in charge, was not appropriate, and I think it is
25 interesting that Secretary Gates has now become one of

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1 the strongest advocates for strengthening civilian-led
2 reconstruction in the US system and has actually been
3 the biggest backer for increasing USAID's capacity
4 and budget to provide more civilian leadership on
5 reconstruction.
6 SIR LAWRENCE FREEDMAN: It actually follows on from that.
7 What we have heard from a lot of the generals who were
8 in Basra was how much they relied on American money.
9 That's where their fishes, if you like, using your
10 parable, had to come from.
11 Was there a tension caused by the fact that the
12 generals were out there spending American money,
13 presumably along American guidelines, but you had your
14 own particular preferred way of doing things?
15 DR NEMAT SHAFIK: I didn't think there was a tension.
16 I think the CERPS money which was provided in the south
17 was incredibly helpful. The Americans had a pot of
18 money, which was for all of Iraq, and I think the fact
19 that we could help them spend it effectively in the
20 south was a good thing.
21 I think there was nothing wrong with having a pot of
22 money for the fish, a pot of money for the fishing rods
23 and a pot of money for teaching them how to fish, and
24 I don't think there were any difficulties in the way
25 that money was allocated or spent. I don't think that

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1 was the issue.
2 SIR LAWRENCE FREEDMAN: The fact that the generals had to
3 look to the Americans to get this money, was that
4 a reflection of the disinterest in DFID at the moment
5 and at that time in providing the fish?
6 DR NEMAT SHAFIK: No, I think -- I mean, the money had a --
7 the CERPS money was actually allocated to the Pentagon,
8 so the Ministry of Defence could have also allocated
9 money to fish, if they felt that it was a high priority
10 return, and they did have some money for that in the
11 stabilisation aid fund, which was agreed in the last CSR.
12 There was 200 million.
13 Most of that actually now is going to Afghanistan,
14 as you would expect. At the time, they didn't have that
15 availability of resources, but they do have their own
16 resources for that now.
17 SIR LAWRENCE FREEDMAN: We were also told about the
18 frustration that they often felt, that the rules for
19 getting money above quite a low threshold was quite
20 difficult, so they went to the Americans because it
21 would have been difficult to go to our own government.
22 Has that changed?
23 DR NEMAT SHAFIK: I don't think -- I think it is -- if you
24 are giving out fish, you think giving out fish is always
25 the most important thing, and I think that's one of the

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1 tensions in the comprehensive approach that we have to
2 guard against.
3 I think one of the lessons is that you can't let
4 yourself be just driven by the short-term. You have to
5 keep the longer term in sight, otherwise you would be
6 giving out fish forever.
7 You don't always have to agree with colleagues about
8 every detail, but you do need all three perspectives
9 there and I think, in retrospect, we were right to keep
10 an eye on the longer term and to make sure -- in the
11 end, if you look at the evidence on the impact of some
12 of these short-term, consent-winning activities,
13 I believe, if you look at the evidence, it is quite
14 mixed. There is quite a bit of evidence we have had,
15 independent evaluations of quick impact projects done by
16 the stabilisation unit. There have been several studies
17 now done in the US.
18 There is very little evidence that some of these
19 projects actually are successful at winning consent.
20 Some of them are very good at short-term fixing of
21 institutions and facility. Those tend to work. But the
22 evidence on consent is quite mixed, and I think I would
23 be -- I think you would be hard pressed to find concrete
24 evidence that it worked.
25 SIR LAWRENCE FREEDMAN: Maybe we will come back to that.

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1 Thank you very much.
2 BARONESS USHA PRASHAR: I want to now move on to the
3 question of the level of commitment in terms of
4 resources that we made to Iraq. I mean, there are two
5 views: that America was putting a lot of money, and
6 I think, by the end of 2009, DFID had dispersed over
7 500 million, and if this was one of our top priorities,
8 why did you not commit more resources? I mean, that's
9 one argument.
10 But the other angle really is that -- you know, why
11 did we commit so many resources, given the fact that
12 there were kind of revenues in the region of about
13 $32 billion? What do you say about that in terms of the
14 level of commitment? There are two views here.
15 DR NEMAT SHAFIK: I think all along DFID had the view that
16 Iraq is potentially a very wealthy country, and we did
17 commit significant resources in the early period.
18 In fact, in 2003/2004, Iraq was our largest
19 programme and it got more money than any other country
20 in our portfolio, but from the very beginning we also
21 knew that external resource transfer was not the answer
22 for Iraq and that the biggest contribution we could make
23 was in helping build their capacity to spend their own
24 money.
25 Throughout the middle of the period, from about 2004

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1 to 2007, Iraq had resources. If you look at their
2 capacity to spend their own budget, in 2005/2006, for
3 example, they were only able to spend a quarter of their
4 investment budget, even though you looked around you and
5 there were vast investment needs required in
6 electricity, in water, in roads, but they were only able
7 to spend a quarter of it.
8 The Ministry of Oil was only able to spend
9 3 per cent of its investment budget. So again, this key
10 sector, which was going to be generating the future
11 income of Iraq didn't have the capacity to spend its own
12 money. So it was foolish to think that us pouring more
13 money into that situation was going to solve anything
14 and that the biggest pay-off was clearly in enhancing
15 their capacity to spend their own money.
16 So that's why our focus, soon after the early
17 period, when, really, there were huge humanitarian needs
18 and there were needs for very immediate infrastructure
19 repairs, we shifted our focus to helping Iraqis to spend
20 their own resources.
21 BARONESS USHA PRASHAR: I think the other thing that
22 witnesses said to us was that Iraq was not a sort of
23 normal partner for DFID, but, by 2009, your White Paper
24 focused on how too many people are trapped in poverty
25 engendered by war and instability. Is it now a normal

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1 partner for you?

2 DR NEMAT SHAFIK: It is interesting. Iraq was not a normal

3 partner for us for two reasons: one, because it was in

4 conflict; and, two, because it was middle income.

5 I think what has changed is that countries in

6 conflict have become normal partners for DFID. The

7 reason is that 50 of the poorest countries in the world

8 are in conflict. That is where the worst and most

9 intractable poverty is. More than half of our bilateral aid

10 programme now is focused on what we call fragile states;

11 states that are recently out of conflict or have huge

12 fragility of conflict within them.

13 So in that dimension, Iraq was a normal partner, but

14 because it is middle income, like for all middle income

15 countries, we think the issue for middle income

16 countries is not resource transfer, it is building

17 capacity.

18 BARONESS USHA PRASHAR: So you have a different strategy

19 depending on the state, but you do focus now on fragile

20 states, even if it is a middle income country. You

21 support it, but in a different way?

22 DR NEMAT SHAFIK: That's correct. But the bulk of our

23 effort is in fragile states, low income fragile states,

24 because we think that is where we can really have the

25 biggest impact.

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1 BARONESS USHA PRASHAR: Would you say you have become more
2 flexible in your approach, more adaptable, given the
3 circumstances?
4 DR NEMAT SHAFIK: We have changed many things as a result of
5 that and we can come to that in terms of lessons
6 learned, but there are many things in DFID that are
7 different now, partly as a result of the experience in
8 Iraq and partly because of the changing nature of
9 poverty.
10 So, for example, the kind of skills that we are
11 recruiting has changed, the way we deploy people, the
12 flexibility, the incentive packages we give to try and
13 create incentives for more of our people to work in
14 difficult environments.
15 Some of the ways that we operate have changed. The
16 kinds partnerships we are building have changed. Some
17 of the instruments we use now have changed in order to
18 cope with these more difficult environments.
19 There are many aspects to it and I think we will
20 continue to change to adapt, because these are tough
21 places to work, but certainly for us to achieve our
22 objective to reduce poverty in the world, we need to be
23 able to work in them.
24 BARONESS USHA PRASHAR: Okay. Can I now move on to the
25 resources used in terms of people as opposed to money?

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1 Because, according to the data that was provided to us
2 by DFID, the indications are that you never had more
3 than 11 people deployed in Iraq at any one particular
4 time.
5 I mean, wasn't this a small number of people,
6 compared to the scale of the task that you had on the
7 ground?
8 DR NEMAT SHAFIK: We had, on average[1], about 15 mixed between
9 Baghdad, Basra and consultants, and then we had a team
10 supporting them in London of about the same order of
11 magnitude. It varied over time, depending on the needs,
12 and the consultants came and went at different times.
13 So the numbers varied.
14 BARONESS USHA PRASHAR: What was the team size in London?
15 DR NEMAT SHAFIK: It was roughly between 12 and 15 at
16 various times, and you may well ask: why so many in
17 London? The fact is it was very expensive to deploy
18 people in Iraq. So if there were tasks that were more
19 administrative, preparing briefings for Whitehall, that
20 kind of thing, it was much more cost-effective to do
21 that from London than in Iraq.
22 BARONESS USHA PRASHAR: So it was reverse outsourcing?
23 DR NEMAT SHAFIK: A little bit, because we had to be aware
24 of the costs and risks of deployment. So we had the
25 people who were in Iraq doing the most critical things

[1] DFID has agreed to provide the Inquiry with an update on the number of staff deployed to Iraq.

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1 that had to be done there. I think that is not a low
2 number, given the way we work. We are not an
3 organisation -- again, there is a slight difference with
4 the military who have standing capacity that they
5 deploy. We tend to work through others.
6 So our people are much more catalytic rather than
7 implementers. We don't have engineers and plumbers and
8 accountants in our labour force. Our people are the
9 ones who organise that and bring in that capacity. If
10 you include the wider resources that we had working
11 under our programme, those would number in the many
12 hundreds.
13 BARONESS USHA PRASHAR: I mean, the situation in Iraq, when
14 you said you brought up expertise, did you employ a lot
15 of local people or did you bring in expertise? What was
16 the balance?
17 DR NEMAT SHAFIK: Normally DFID would have a large number of
18 local people working in our programme, and in the early
19 stages in Iraq, we did do that, but, because of security
20 reasons, and they were very much under threat, we were
21 unable to have many Iraqi staff in our team in the later
22 stages. It was just too risky for them.
23 BARONESS USHA PRASHAR: What was the balance in the way you
24 worked in Baghdad and Basra? Because you had about 11
25 people. How were they deployed and where were the

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1 priorities?
2 DR NEMAT SHAFIK: Again, it varied a bit over time. We
3 always had a significant core team in Baghdad who were
4 working on the centre of government programmes amongst
5 other things.
6 In Basra, the numbers were lower. We did have a bit
7 of a civilian surge, where we deployed about ten
8 additional people to work on the economic initiatives.
9 So we went from four in January 2008, including people
10 who were working on investment promotion, private sector
11 development. We had someone come from the
12 Northern Ireland Investment Promotion Programme to work
13 with the Basrawis on how to promote investment in a
14 post-conflict environment.
15 BARONESS USHA PRASHAR: Was that because of the skills they
16 had?
17 DR NEMAT SHAFIK: Yes, because the Northern Ireland
18 experience was quite a relevant experience for Basra.
19 We had specialists coming in on the airport to help with
20 the airport. So there was a mix of specialists that
21 came in, and, at that time, it was much easier to bring
22 them in because of the improved security situation.
23 BARONESS USHA PRASHAR: But you also deployed, I think, more
24 junior staff than the FCO and the MoD counterparts did.
25 Did that have an impact on how this worked across in

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1 terms of government relations, because you had more
2 junior staff than the other departments did?
3 DR NEMAT SHAFIK: I'm not sure they were more junior. They
4 might have been younger, but not necessarily more
5 junior. Sorry, that may reflect an age bias.
6 So, I don't -- I think our staff were pretty feisty
7 and pretty good at getting heard. So I think -- and we
8 also frankly deployed a lot more women than other
9 departments, and, again, you know, I think there might
10 have been an initial getting used to difference, but
11 I think most people had a huge amount of respect and
12 capability --
13 BARONESS USHA PRASHAR: So young women and a different
14 approach. You think those were the factors, rather
15 than --
16 DR NEMAT SHAFIK: Than seniority, yes.
17 BARONESS USHA PRASHAR: I think the NAO report on DFID
18 "Operating in insecure environments"
19 highlighted the difficulty of recruiting staff
20 for Iraq. What are the lessons you have learned in
21 terms of deploying the right sort of staff and skills
22 and what does that mean for the future?
23 DR NEMAT SHAFIK: We actually had a review that was done by
24 Tim Foy of all of our fragile states to try to
25 understand what we could do differently, and we actually

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1 looked at a large number of organisations that face
2 similar challenges: the MoD, the FCO, the
3 State Department, the private sector, international NGOs
4 who work in conflict zones, and what we concluded from
5 that was -- it is interesting, in the private sector,
6 the financial package is quite important to attract
7 people; in the public sector, it is career development
8 that really matters to people. People need to feel, "If
9 I go to this difficult posting, what will be my next
10 posting? Will I be recognised in the organisation?"
11 So the management in DFID started to send very
12 strong signals that we were going to support people who
13 went to these postings, that they were going to go on to
14 good jobs thereafter.
15 Many of our private offices had a number of people
16 in them in very high profile jobs who had been in Iraq
17 or Afghanistan, and we also did look at the financial
18 package and try to find ways to make that more
19 attractive.
20 We also -- and you may have heard this from other
21 witnesses -- in the most difficult environments, like
22 Iraq and Afghanistan, we have a six weeks on, two weeks
23 off deployment. Because of the difficulties of the
24 posting and because you can't take your family, it was
25 quite important for us to be able to attract key people

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1 there for a long time.

2 BARONESS USHA PRASHAR: I think it was Keith Mackiggan last

3 week who talked about the importance of interpersonal

4 skills, because we had asked him that question. I mean,

5 how much effort is made at interviewing people at the

6 right time, because in a way it is balancing those who

7 want to go, and getting the people with the right

8 skills.

9 Have we put anything in place to make sure that you

10 are able to attract the right sort of person with the

11 right sort of skills to go out?

12 DR NEMAT SHAFIK: When we select people for these postings,

13 we do look at, obviously, their professional skills, but

14 also their personal qualities and their emotional

15 resilience, and they do get pre-deployment training and

16 a bit of psychological profiling, to see if they have

17 the tenacity and resilience to be able to work in such

18 tough environments.

19 We also make sure to support them when they are

20 there. So -- particularly after security incidents, we

21 make sure that our welfare people and our counselling

22 services are available to them to deal with any concerns

23 that they have, but it is providing emotional support.

24 Also, in terms of management attention and pastoral

25 care, it is quite an important part of keeping people

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1 productive and I must say they have done a remarkable
2 job.
3 BARONESS USHA PRASHAR: Can I come back to the Stabilisation
4 Unit now, for which you kind of now have a lead,
5 I understand. I mean, what do you expect the
6 contributions of the Stabilisation Unit to make to the
7 UK effort on Iraq?
8 DR NEMAT SHAFIK: Well, the Stabilisation Unit, its
9 predecessor was the post-conflict reconstruction unit
10 which was created in 2004. The Stabilisation Unit was
11 actually created at the end of 2007, and it has always
12 been housed and largely paid for by DFID as our
13 contribution to this emerging skills set that was needed
14 in Whitehall.
15 Its contribution in Iraq was relatively modest,
16 because, by that stage, the numbers of people that we
17 needed to deploy were relatively small. It has become
18 hugely important in Afghanistan, and has become the
19 primary source of staffing for the Afghanistan effort.
20 I certainly think, you know, in the beginning I think we
21 did scramble to find the right people and the right
22 skills. I think now we have quite a well functioning
23 machine that has a database of hundreds and hundreds of
24 professionals, both inside and outside government, who
25 have the necessary skills.

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We know what languages they know, we know they have all been trained. Many of them have already had training in deployment into hazardous environments, and so I think we are much better equipped now to deploy people to high risk environments.

I should also say that, in addition to it becoming the primary source of people for Afghanistan, it has also supported us in deployment in other places like DRC, like Zimbabwe, other post-conflict environments where it has proven quite useful.

BARONESS USHA PRASHAR: What are the other priorities of the Stabilisation Unit apart from staffing?

DR NEMAT SHAFIK: It is interesting, its role has very much evolved. I think you will probably have heard and seen in the papers a sense that, in the early days, it was considered what was called a body shop. You rang them up and said, "I need three agricultural experts to go to Helmand. What have you got?", and its job was to very quickly provide that capacity.

I think its role has evolved enormously in two important ways. One, it has become the repository for expertise on how to do stabilisation well: how do you do quick impact projects? How do you evaluate them? How do you organise PRTs? All that expertise which we learned in Iraq, Afghanistan and elsewhere is now housed

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in the Stabilisation Unit.

Also, in Afghanistan, as it has built up its credibility in Whitehall, it has started to actually lead programmes. So it is no longer, "Give me three agricultural specialists", it is, "Can you run this programme for us on counternarcotics and wheat production in Helmand", which I think is an important evolution in its role.

THE CHAIRMAN: Just a point on the Stabilisation Unit, we heard some, not, I think, formal evidence, but from army reservists very early on in this Inquiry, on how very often they possessed extremely valuable skills in civil life, but this was not, as it were, used or capable of being used in the military setting. I just wonder whether the Stabilisation Unit had that dimension as well nowadays.

DR NEMAT SHAFIK: Actually, I have just got a letter from Bill Jeffrey at the MoD where now we have agreed with the reservists that their expertise, their civilian expertise, will now be captured by the Stabilisation Unit, so that we can use their skills in deployment.

Similarly, we are going to let civilians who are in our database, who are willing to serve in these posts, and give them information on the Territorial Army and the reserves, if they would like to join.

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1 I think, for us, we see this as a very important use
2 of skills, both skills around security, but also around
3 civilian skills. I think the key thing, though, is
4 that, when people deploy, they have to be clear what
5 they are doing. Are they there as a soldier or are they
6 there as a civilian? I think that distinction of roles
7 is quite important, but tapping into the expertise is
8 a huge potential gain.
9 THE CHAIRMAN: You made a point earlier about people in
10 uniform, that is presumably one of the issues to be
11 resolved, as to what role people are being posted in?
12 DR NEMAT SHAFIK: That's right, and if a reservist, for
13 example, happens to have skills in accounting or in
14 agriculture, they can be employed by the Stabilisation
15 Unit, but in their civilian capacity.
16 THE CHAIRMAN: Right.
17 BARONESS USHA PRASHAR: Can I come back to the question of
18 the safety of the staff? Because you said to the Public
19 Accounts Committee that, "Our top priority is keeping
20 our people safe, so we can make no compromises on that".
21 Obviously, that's very important, but we have heard
22 from previous witnesses what a difference greater
23 civilian mobility made to the programmes of monitoring
24 and actual delivery.
25 How do you balance the two? Because, in a way --

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1 you know, how do you manage risk without actually
2 compromising the delivery of your projects?
3 DR NEMAT SHAFIK: We have taken a very, I think
4 appropriately, cautious approach about safety. A key
5 aspect of us being able to get people to go to difficult
6 places is for them to know that we will do everything we
7 can to keep them safe.
8 In terms of our balancing this -- I should start by
9 saying that the Foreign Office actually has the lead on
10 civilian staff security. So they are the ones who have
11 the expertise and we have always complied with their
12 guidance. So they are responsible for the post security
13 person in the field. They are the ones who make the
14 calls about who can go where and when, and they are the
15 ones who make the judgments about the overall security
16 and threat level in a particular environment.
17 I think they do an excellent job and it is not our
18 job to second-guess them, because they have got the
19 expertise.
20 In terms of making the trade-offs, I think we have
21 had to make some trade-offs and we don't take a kind of
22 mechanistic view of it. I suspect you have also
23 probably heard from other witnesses about the issues
24 around differential duty of care between the military
25 and the civilians from the Foreign Office and

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1 DFID.
2 BARONESS USHA PRASHAR: Yes, indeed.
3 DR NEMAT SHAFIK: Peter Ricketts, the Permanent Secretary of
4 the Foreign Office, and Bill Jeffrey, the Permanent
5 Secretary at the Ministry of Defence, and I, had
6 a series of conversations about this over 2008 and we
7 worked very hard to see whether we could develop
8 a common duty of care regime for all civilians, and the
9 security teams, particularly in the MoD and the FCO,
10 worked very hard on this, and I'm sure they could give
11 you more detail, but in the end of that process, we
12 realised that our civilians are doing such different
13 things that it didn't make sense to have identical
14 regimes.
15 Just to give you a small example, in an Iraq
16 context, a Foreign Office diplomat or a DFID person
17 would have to have close protection, bodyguards in
18 conventional parlance, when they go out. If you are
19 a MoD civilian deploying with a military group, having
20 additional bodyguards, when you are surrounded by
21 soldiers, is a little bit redundant and not very
22 sensible.
23 So one had to be a bit practical about the fact
24 that, in different contexts, you may have a differ
25 approach. What we did agree, though, as a result of

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1 that process, whereby we accepted that civilians under
2 the MoD and DFID and the FCO might have different
3 security regimes. We did agree that in some cases --
4 and I think you will see a letter on the records from me
5 to Bill Jeffrey, whereby, under certain situations, we
6 would delegate duty of care to the Ministry of Defence
7 in certain situations, and in certain situations we
8 would make exceptions if it was a particularly high
9 priority issue.
10 I can give you a couple of examples of that. In the
11 case of the investor visits which we facilitated in
12 Basra, there were a couple of occasions where the
13 Ministry of Defence and the military was incredibly
14 helpful to us in getting investors to sites that we
15 could not get them to.
16 So in one case an agriculture site, and in one case
17 an industrial site, when an investor was interested in
18 going to see the site and we delegated the duty of care
19 for those site visits to the MoD, and they did
20 an excellent job.
21 We have also had some cases where there were very
22 high priority meetings, for example, which a DFID person
23 was asked to attend, and it was a really critical
24 decision where we could have huge influence on something
25 that really mattered. In those cases, those decisions

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came to me. I took the decision to allow the person to go. I got a call when the person was back home and safe. So we did agree a regime for exceptions when they had to be taken, but we had to stick to the Foreign Office's guidance under normal circumstances.

BARONESS USHA PRASHAR: Did this happen after your appearance before the Public Accounts Committee where I think you told them that the military had declined to support your staff?[2]

DR NEMAT SHAFIK: I would have to check the dates on that, actually. I think we started doing this in the latter half of 2008, but I would have to check --

BARONESS USHA PRASHAR: Because your appearance was on 5 November, and you said you asked the military to provide protection and they had declined.

DR NEMAT SHAFIK: Yes. I would have to check the actual dates when those particular -- I think the investor visits were in 2009, and, at that stage also, security had improved.

BARONESS USHA PRASHAR: So this is again a work in progress?

DR NEMAT SHAFIK: It is a work in progress. I do think we have an acceptable regime at the moment and I think you don't hear too many complaints about this.

Of course, the security situation in Iraq has improved, but it is a continuing issue in places like

[2] The discussion at the Public Accounts Committee was about whether the military could provide close protection services to DFID staff in general. It was not a discussion about specific support for investor visits.

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1 Afghanistan and I think we have an acceptable solution
2 at the moment.
3 BARONESS USHA PRASHAR: Because you said earlier that in
4 terms of the level of staff you had, it is expensive
5 because, you know, you have to look after them and so
6 on, and I think, according to my calculations, about
7 20 per cent of your money is sort of spent on protection
8 of staff.
9 DR NEMAT SHAFIK: That's right.
10 BARONESS USHA PRASHAR: Do you think that's a good balance
11 in terms of taxpayer's money? Because you are there to
12 do development work and yet a lot of money is going on
13 protecting staff. Do you have any observations on how
14 you justify that?
15 DR NEMAT SHAFIK: I think we have no choice but to protect
16 the staff that we have. I think, because of the expense
17 we do have to be very prudent about how many we deploy
18 and make sure they are doing very high priority things.
19 I think it also reinforces our fundamental strategy,
20 which is to build Iraqi capacity and work through
21 Iraqis, because it is both more cost-effective and also
22 more sustainable.
23 BARONESS USHA PRASHAR: So you think it is value for money?
24 DR NEMAT SHAFIK: You try to reduce those costs as much as
25 you can over time. Clearly, the best way to reduce

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1 costs is to improve security, but that is slightly
2 outside my remit.
3 THE CHAIRMAN: I have got a couple of questions drawing from
4 what you have been saying to us. The first is: is Iraq
5 a normal case for DFID? No, it is middle income,
6 although it is also fragile, and you said there was
7 something like 50 states where fragility and conflict
8 are the common thing. None of those, I guess, would be
9 middle income. Iraq would be unique, do you think? Or
10 possibly, I don't know, South Africa and Latin
11 America?
12 DR NEMAT SHAFIK: Yes, there are a couple that are middle
13 income but not many. Some of them in Eastern Europe,
14 a little bit in Latin America. We would not have large
15 programmes in those countries, by and large.
16 THE CHAIRMAN: Sure. I just wondered whether there was
17 a big difference in terms of the balance between
18 capacity building and resource transfer and DFID looking
19 at the globe as opposed to Iraq, resource transfer must
20 still be very important, I would think.
21 DR NEMAT SHAFIK: It is a valid point. There actually
22 exists something which we helped launch in the
23 development community, called "The Principles for
24 Operations in Fragile States", which is the key lessons
25 learned globally, and one of the key principles is that,

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1 in fragile environments, doing massive resource transfer
2 before you have built capacity usually is a mistake.
3 I think that is a very important lesson from the work we
4 did in Iraq: you first have to invest in capacity
5 building, technical assistance, building local capacity
6 before you start putting lots of money through the
7 system. You can do small things when capacity is weak,
8 but not large-scale resource transfer.
9 THE CHAIRMAN: The foundation for any effort is
10 a sufficiently secure situation, I guess.
11 DR NEMAT SHAFIK: Yes, I think that's correct.
12 THE CHAIRMAN: I think Sir Roderic has one or two questions.
13 SIR RODERIC LYNE: Just one or two questions to pick up on
14 different points. In the year before you joined DFID,
15 Clare Short resigned. Now, she led DFID from its birth
16 six years previously and she had given it very strong
17 leadership. She put her stamp on the department. But
18 for the reasons that Alastair Campbell -- I don't know
19 if you have seen the evidence he gave us -- but he
20 explained to us yesterday, she and her department had
21 been excluded by Number 10 from the innermost parts of
22 policy work on Iraq, and we have heard from a series of
23 witnesses, many of them senior military officers, how
24 DFID, at that time, under her leadership, was not
25 regarded as a trustworthy and co-operative part of the

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1 British Government. It really wasn't joined up.
2 When you arrived at DFID, did you find that the
3 legacy of this separation from the rest of the
4 government still persisted? You have talked about the
5 way that you now join up, particularly with the
6 Foreign Office and the MoD. Do you feel that this
7 historic problem of the first six years, which
8 culminated in her resignation, has now been overcome?
9 DR NEMAT SHAFIK: I mean, I guess on the nature of the
10 historic problem, I think it is probably better to ask
11 my predecessor and Clare Short herself about that
12 period. I think it is interesting to note, though, that
13 this was not a UK specific problem. Just to give
14 a parallel in the US system, we know, for example, that
15 Andrew Natsios, who was the head of USAID at the time,
16 and also a former soldier, I believe, himself, was
17 excluded from discussions and planning on Iraq until
18 well after the war had started. So I think there is
19 a wider issue here than one around personalities.
20 I think in terms of your question about whether
21 I think it is an issue now, I don't think it is an
22 issue. I think, you know, we have both experience in
23 working together, we have got institutional structures
24 which support that. We have got staff who have crossed
25 institutions and crossed boundaries and who have worked

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1 side by side for many, many years. I don't think it is
2 an issue.
3 SIR RODERIC LYNE: You are fully integrated now. You talked
4 particularly about the relationship with the
5 Foreign Office and the MoD. To what extent are the
6 Treasury and the Cabinet Office part of this
7 comprehensive approach now?
8 DR NEMAT SHAFIK: I think they have been -- they have been
9 part of the approach all along in terms of
10 decision-making. I mean, the Cabinet Office is
11 obviously the key central co-ordinator of the Iraq
12 Strategy Group and of any discussion about our
13 operations in an international context. So the
14 Cabinet Office has always been central and the Treasury
15 have always participated in those cross-Whitehall
16 meetings.
17 I think the comprehensive approach, as we now call
18 it, to be honest, is more focused on the partnership
19 between the international departments, the
20 Foreign Office, the Ministry of Defence and DFID. But
21 clearly, we have to work with the Cabinet Office and the
22 Treasury to make that comprehensive approach work.
23 SIR RODERIC LYNE: That must include the area that you
24 worked in, in your previous life, international finance?
25 DR NEMAT SHAFIK: Absolutely, and I think that's a very good

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1 example, where DFID has the lead for the relationship
2 with the World Bank, but the Treasury has the lead for
3 the relationship with the IMF, and, in the case of Iraq,
4 we worked side by side to secure debt relief for Iraq,
5 for securing the IMF programme and for working on the
6 World Bank engagement, and those were very important
7 joint efforts of us and the Treasury.
8 SIR RODERIC LYNE: One of the mistakes that was made at the
9 beginning in Iraq was in the management of expectations.
10 Effectively, we overpromised and underdelivered. But
11 this is not easy in a conflict situation, where there is
12 a great urge to get a strong message across to people
13 that life is going to get better.
14 How can one actually make the management of
15 expectations realistic? What is the lesson to be
16 learned from the mistake we made in Iraq, particularly
17 in the south-east?
18 DR NEMAT SHAFIK: I mean, I agree with you that expectations
19 were unrealistic at many levels, both in terms of the
20 security situation and also in terms of a peace dividend
21 that would result from a post-conflict period.
22 I think that -- the main lesson is for political
23 leaders to be honest about what will happen. I think
24 also to be honest about how long development takes and
25 how long reconstruction takes. You know, I often give

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1 an example. I used to run the World Bank's
2 infrastructure programme. An average infrastructure
3 project takes 18 months to plan and at least five years
4 to implement. So promising people fantastic -- you
5 know, going up from four to eight hours of power to
6 24-hour power. That is a decade-long project and
7 I think being honest is quite important.
8 I think the other dimension in Iraq, which was --
9 I think you have also heard frequently in this
10 Inquiry -- is the lack of information about the initial
11 conditions and how poor they were, both because of
12 decades of neglect under Saddam's regime, because of the
13 sanctions regime, because of the lack of investment, and
14 I think that meant that unrealistic expectations were
15 even further away from reality, because people had
16 little information about the initial conditions.
17 SIR RODERIC LYNE: Drawing on the World Bank experience, was
18 this lack of information universal or were there pockets
19 of it in international institutions that the British
20 government and perhaps the American Government were not
21 tapping into?
22 DR NEMAT SHAFIK: I have to say I don't think there was
23 information in the international financial institutions
24 in the IMF and World Bank, because they had no
25 relationship with Iraq. Iraq was formally a member but

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1 never had an relationship with the IMF or the
2 World Bank. There was information at the UN, because
3 the UN was operating the sanctions regime and they did
4 have information, and I know certainly in DFID we drew
5 on that information to do what little planning that we
6 could, based on that, but there wasn't -- you know, this
7 was not an open country in which there were lots of
8 academics going in and out and data available and
9 research being done and there was also not a large NGO
10 presence. So there were not even those sources of
11 partial information available.
12 SIR RODERIC LYNE: And, as we have heard from earlier
13 witnesses, there were constraints imposed on DFID in
14 their ability to have a dialogue with the UN before the
15 war about the situation in Iraq.
16 DR NEMAT SHAFIK: That's correct.
17 SIR RODERIC LYNE: I believe that the United States have
18 some military units that specialise in post-conflict
19 reconstruction. Should we have in our military?
20 DR NEMAT SHAFIK: I think the -- I think the lesson from the
21 "Hard Lessons" report that the Iraq Inspector General
22 did has a very interesting quote from Condoleezza Rice
23 who said that they made a mistake by putting all their
24 eggs in one department, that having the Pentagon lead on
25 the entire effort was a mistake, and I think that's

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1 a clear lesson from the US experience. So I think it
2 would be a mistake for us to go back and try something
3 which they have tried and has failed.
4 SIR RODERIC LYNE: But we have no eggs in that department.
5 DR NEMAT SHAFIK: We have some. Frankly, I think the right
6 solution is a tri-departmental egg.
7 SIR RODERIC LYNE: An egg with three yolks.
8 DR NEMAT SHAFIK: Yes, or three hens? Three parents?
9 I think the key to making this work is to not have one
10 bit of expertise being the dominant one and being the
11 lead one. The key to making it work is to have
12 diplomacy, development and defence working together as
13 equal partners with an integrative capacity at the top
14 which, as I said, can come from anywhere but has those
15 integrative skills.
16 I think having it in one department will inevitably,
17 I think, as you well know, the way Whitehall works, that
18 department's culture, processes, priorities, will tend
19 to dominate and I think that would be a mistake.
20 THE CHAIRMAN: I think Lawrence has a question.
21 SIR LAWRENCE FREEDMAN: Yes, just one. You just mentioned
22 the lack of an NGO presence within Iraq. I understand
23 that DFID likes to work through NGOs and international
24 organisations. Clearly, some NGOs did expect to go to
25 Iraq. How much of it was a problem that there really

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1 weren't NGOs there with which you could work?
2 DR NEMAT SHAFIK: We had a big increase in our funding to
3 NGOs in the early period prior to my period, mainly
4 focused on humanitarian support, but, after that,
5 because of the deterioration in the security situation,
6 most NGOs left and so that clearly was a constraint.
7 We do continue to support some NGOs in Iraq. We
8 don't tend to advertise it, because we don't want to
9 jeopardise their security. So it has been a constraint.
10 We have found ways -- some ways to work around it.
11 I should say, though, that we continue to support NGOs
12 on a large scale on the humanitarian side and that has
13 been --
14 SIR LAWRENCE FREEDMAN: This is with the refugees?
15 DR NEMAT SHAFIK: This is with the refugees and also with
16 the internally displaced refugees. The Red Cross in
17 particular has been a long-term partner for us and it
18 has been a huge endeavour. I think we sometimes forget
19 the humanitarian side, but DFID has contributed over
20 £170 million to that over this period, and that effort
21 has avoided what could have been a catastrophic
22 humanitarian situation with over 2 million internal
23 displaced people in Iraq. 2 million people in
24 neighbouring countries, like Syria and Jordan, who have
25 been quite generous in housing them.

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1 If we had not planned for a humanitarian response of
2 some sort and did not have the capacity of the UN and
3 the Red Cross to deal with that, we would have had
4 a catastrophic situation which would have been on the
5 headlines of all of our newspapers and we avoided that
6 because of that capacity.
7 SIR LAWRENCE FREEDMAN: Given your previous answers on that,
8 obviously very important issue, I mean, this is an area
9 where you do have to constantly provide the fish and
10 there aren't obvious mechanisms at the moment to get
11 them to people back home.
12 DR NEMAT SHAFIK: In fact, we are starting to see some
13 improvements. So if you actually look at what is
14 happening on the humanitarian side, we are continuing to
15 provide support up until now, but you do see a steady
16 reduction in the number of internally displaced people.
17 We are seeing a steady reduction of people beginning to
18 come home to Iraq, and so the numbers the humanitarian
19 organisations are having to take care of are declining,
20 and we would be happy to provide those numbers. So
21 there is improvement on that situation, albeit gradual.
22 THE CHAIRMAN: Let's take a break and come back at about
23 quarter past.
24 (11.05 am)
25 (Short break)

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1 (11.15 am)
2 THE CHAIRMAN: Well, let's restart and Sir Martin Gilbert
3 will take up the questioning. Martin?
4 SIR MARTIN GILBERT: My first question relates to the
5 decision of the Iraqi Government to put a tremendous
6 amount, more than two thirds of its budget, into
7 subsidies and essentially to neglect its growing
8 problems of unemployment, dilapidation of
9 infrastructure, and I wondered what impact that decision
10 has had on the delivery of our objectives for Iraq.
11 DR NEMAT SHAFIK: It was clearly the most important
12 macroeconomic issue that we faced and something that the
13 IMF was very much engaged in discussing with the Iraqis.
14 The energy subsidies alone absorbed a huge proportion of
15 their budget, but, like in most countries, removing
16 energy subsidies in the middle of conflict is quite
17 political dynamite, and what we have been urging the
18 Iraqi Government and the IMF to do is develop a phased
19 programme of phasing out those energy subsidies, to then
20 create room to spend on infrastructure investments and
21 education and all the array of other needs.
22 So it has been a key policy issue that we have
23 worked on, and our work on the centre of government has
24 been supporting some of the technical work. We have
25 also supported the World Bank doing technical work on

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1 how to develop a programme of moving towards a more
2 rational basis in the energy sector. So it is a very
3 important focus of our work.
4 SIR MARTIN GILBERT: Are our efforts having some success?
5 Can you see progress in this regard?
6 DR NEMAT SHAFIK: I don't think, again, because of the
7 political situation, an immediate appetite to move
8 quickly on those subsidies but I think the
9 Iraqi Government itself is well aware of it.
10 I think, in my experience in oil economies, they
11 don't tend to move until the budget is tight. So at the
12 moment the Iraq economy is now $90 billion, government
13 spending is now $50 billion. They can spend about
15 85 per cent of their budget.
16 I think, as that number eases up and they are able
17 to spend 90 or 100 per cent of their budget and it
18 starts to get a bit tight, I think they will start to
19 tackle the issue of energy subsidies and I suspect
20 a more stable political environment will help.
21 SIR MARTIN GILBERT: You will be happy then about the
22 direction?
23 DR NEMAT SHAFIK: Much happier, because that will free up
24 all sorts of resources to do other high priority things.
25 SIR MARTIN GILBERT: Another question relating to the

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1 decision of the Iraqi Government. The figures which you
2 sent us from DFID show that of the £466 million in
3 bilateral disbursements, 180 million was spend
4 a humanitarian assistance, and there has been some
5 mentions of that.
6 Given that the Iraqi Government chose not to use its
7 own revenues to support these -- this enormous number of
8 displaced persons, was this a problem for you with
9 regard to the use of DFID's resources as something which
10 could have been resourced elsewhere, and is this
11 something also we have been able to take up with the
12 Iraqi Government?
13 DR NEMAT SHAFIK: Yes, it is an issue. I should say that
14 the Red Cross does work very closely with the Iraqi
15 Red Crescent, which is a local NGO, which has
16 significant presence, and so there is a relationship
17 there. So there is Iraqi capacity and that is supported
18 in Iraq.
19 But we have -- we have discussed this issue on the
20 humanitarian side with the Iraqi Government, and clearly
21 they need to have a strategy of how to fund this going
22 forward. They either need to build up their own
23 capacity to deal with humanitarian issues or continue to
24 fund NGOs like the Red Cross and the Red Crescent to
25 deliver services to displaced people, and I think that's

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1 a policy issue they have to face themselves, and we have
2 been talking to them about it, because clearly, over
3 time, one would hope that this situation would stabilise
4 and people would be able to relocate and go home.
5 SIR MARTIN GILBERT: How are these discussions being
6 conducted?
7 DR NEMAT SHAFIK: The UN is actually in the process of
8 developing something called an UNDAF, which is a UN
9 development assistance framework, under which the future
10 of humanitarian work will be planned. That will agree
11 the division of labour between the UN system, the
12 Red Cross and other NGOs, and local NGOs, and it is in
13 the context of working on that UNDAF with the
14 Iraqi Government that decisions will be made as to who
15 will take responsibility for what.
16 SIR MARTIN GILBERT: Another question which has arisen with
17 previous witnesses relates to corruption, and according
18 to the transparency, internationally Iraq was ranked
19 third in the most corrupt of 181 countries, which were
20 examined in 2008.
21 How does DFID tackle this? I have read your
22 evidence on this, but can you say a little more about
23 how this, again, affects what we are able to provide and
24 how we monitor it and how we tackle it?
25 DR NEMAT SHAFIK: It is clearly an issue of concern. We had

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1 one significant fraud prior to my taking over as
2 Permanent Secretary, which we had with the previous
3 Provincial Council, which was an unelected
4 Provincial Council which had serious issues of
5 corruption. So we had an employment programme of seven
6 projects, which we cancelled immediately once we knew
7 that that was an issue.
8 We have a zero tolerance policy on corruption and we
9 act on it immediately. The then Provincial Council was
10 very unhappy with us as a result of that, as you might
11 imagine. But on that, we don't compromise.
12 That is actually the only case that we are aware of,
13 where we had a significant fraud, which, given the scale
14 of the funds that we were disbursing, and given the
15 context, is, I think a pretty good track record.
16 We did have a NAO review of our monitoring and
17 accounting systems and they gave us a clean bill of
18 health and they said we had a good track record and
19 there were signs that our monitoring systems and
20 our management of public finances in Iraq
21 was sound.
22 SIR MARTIN GILBERT: Can you say a little something about
23 the actual monitoring systems?
24 DR NEMAT SHAFIK: Yes. All of our programmes actually have
25 quite elaborate monitoring systems. So we -- all of our

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1 teams are required to report regularly on both
2 expenditures, outputs, outcomes and their achievements.
3 We, at a senior level, get reporting on that on
4 a monthly basis. In the case of the Iraq portfolio and
5 our Middle East portfolio in general, we actually had
6 a higher level of scrutiny than our normal portfolio
7 because of the risks involved. So we would get monthly
8 reporting on risks, security risks, staff risks, risks
9 to our money, issues around disbursements and why there
10 may be problems with implementing and monitoring certain
11 things. So we had quite a high level of scrutiny on
12 that.
13 THE CHAIRMAN: I am aware from experience of the nervousness
14 an accounting officer may have faced with corrupt misuse
15 of one's own departmental funds, but the broader
16 question is surely one of capacity building within the
17 Iraqi Government's systems?
18 DR NEMAT SHAFIK: Absolutely, and that's why the investments
19 that we were making on public financial management,
20 which has been a constant theme -- and I know it is a bit
21 boring, but for those of us who are accounting officers
22 it is a very important issue, and, in the end, it is
23 what has made the difference.
24 So the investments in public financial management in
25 the centre of government in Iraq, in the Ministry of

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1 Finance and also in the Provincial Council, which has
2 been a constant theme of our programme throughout this
3 period, has been key.
4 SIR MARTIN GILBERT: I wanted actually to ask you some more
5 about that. At a trilateral between DFID and the MoD
6 and the FCO about two years ago, DFID stressed very much
7 its capacity, its concerns for capacity building, that
8 this would be a priority. You have spoken of it
9 earlier. It was obviously central.
10 My first question really is: how did the
11 Iraqi Government react to our contribution? Was it
12 something which they understood, they welcomed, they
13 took on board as fully as they might have done?
14 DR NEMAT SHAFIK: It is hard to give a general answer to
15 that, because there were so many different reactions in
16 different bits of the government, and I think there was
17 quite a lot of appreciation for the work we were doing
18 at the centre of government, particularly the work on
19 public financial management, on helping the
20 Cabinet Office in Iraq actually run properly and
21 co-ordinate government efforts, helping them with budget
22 execution, which, again, sounds like a very boring issue
23 but it is the key issue of: can they spend their own
24 money well? That is actually quite a difficult thing to
25 do. I think that work was very much appreciated.

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1 I think, again, on some of the specific capacity
2 building efforts, like on -- you know, the airport in
3 Basra and helping to get that running again was quite
4 appreciated, and, at the technical level, the work at
5 the Provincial Council level was also appreciated.
6 I think there was some criticism, like in any
7 context like this, about, "Why do we have all these
8 external consultants coming in and advising us?", and,
9 "We don't need the advice, we just want the money", and
10 I think that exists in any development programme in any
11 development context. I think some of that also was
12 directed at the US effort, which was very intensive, in
13 terms of, not just external advisers, but external
14 implementers who supplanted Iraqi capacity rather than
15 to help build it.
16 SIR MARTIN GILBERT: What was the ratio between us and the
17 United States with regard to our capacity building
18 contribution?
19 DR NEMAT SHAFIK: That's a difficult question to answer.
20 I mean, the overall effort -- I mean, they were about
21 18 times bigger than us in terms of overall effort in
22 terms of the aid programme, but in terms of capacity
23 building, I think we -- we gave less money, but I would
24 like to think we focused more on building the Iraqi
25 capacity rather than importing capacity from outside.

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1 If you look at, again, the Iraqi Inspector General's
2 report, what they say is that probably the largest
3 source of waste in the US aid programme in Iraq is all
4 the investment they made without concomitant investments
5 in capacity and the lack of maintenance and
6 sustainability of those investments is probably the
7 biggest area of waste.
8 So I think they probably underinvested in capacity
9 building relative to the size of their aid programme.
10 SIR MARTIN GILBERT: In terms of the actual capacity
11 building projects, were those, the ones that you have
12 mentioned, and the other ones, exclusively UK or did
13 they also have some sort of match with the Americans or
14 other capacity building helpers?
15 DR NEMAT SHAFIK: We had a division of labour between us.
16 So they knew that we were doing the work on centre of
17 government, Ministry of Finance, for example, and they
18 knew we were doing the capacity building in the Basra
19 Provincial Council. So there was a division of labour
20 among us, and in the development business that is a very
21 common way of approaching it, so that not everybody is
22 overlapping and covering the same space.
23 SIR MARTIN GILBERT: Can one make any comparisons, without
24 being invidious, with regard to our capacity building
25 efforts and those of others, the efficacy of them?

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1 DR NEMAT SHAFIK: In terms of other partners and donors who
2 are operating in Iraq?
3 SIR MARTIN GILBERT: Yes.
4 DR NEMAT SHAFIK: It is difficult because -- it is
5 difficult -- you don't always have like for like in
6 terms of equivalent projects. Because nobody else was
7 doing centre of government work. So it is hard to
8 compare that.
9 If you look at the PRTs, I think the work of the
10 Basra PRT compared to the other PRTs was very high
11 quality and it got much better, once we had -- like in
12 many situations, once security improved and once we had
13 a good partner. I think that is probably in many ways
14 the most important factor in good capacity building, is
15 the quality of your partner.
16 THE CHAIRMAN: I just wanted to ask on this theme of
17 corruption, capacity building at the centre of
18 government both national and provincial in Basra, but if
19 you are an average Iraqi and an ordinary person or an
20 ordinary Basrari, indeed, you see a totally corrupt
21 system, don't you, and that affects all sorts of things,
22 like acceptance of democratic accountability at all
23 levels of government. It affects even interpersonal and
24 commercial relationships at every level.
25 What I don't get the sense of is whether that much

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1 broader target is capable of being addressed or, indeed,
2 is part of, in this case, DFID's own strategy.
3 DR NEMAT SHAFIK: I think there is a temptation with
4 corruption to always, you know, to want to go for the
5 high profile targets, the individuals who are the ones
6 that everyone talks about.
7 Actually, corruption is a systemic issue and
8 actually it is the boring, green eyeshades work of the
9 accountants and the auditors that eliminate the
10 opportunities for corruption. There is the real
11 solution. So I think that is actually the ultimate
12 source of the solution in Iraq and elsewhere.
13 THE CHAIRMAN: Can the answer to that broad issue ever come
14 from outside? There can be the contribution of the men
15 and women with the green eyeshades, but ultimately it
16 must come from the political leadership.
17 DR NEMAT SHAFIK: I think that's right. I think it is
18 a combination of political leadership and the technical
19 capacity to make that political leadership have
20 traction. You can't prosecute a corruption case unless
21 you have got an audit trail and you have got evidence
22 and you have got accounts that can hold people in check.
23 THE CHAIRMAN: And a justice system --
24 DR NEMAT SHAFIK: And a justice system.
25 SIR LAWRENCE FREEDMAN: I was just interested in whether the

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1 answer really is always with accountants. The systemic
2 corruption that we are talking about surely comes at the
3 point where anybody has to require a favour of the
4 state, however lowly the level, and different social
5 structures make that more or less likely. So that it is
6 also a question of the professionalisation of state
7 functions at a -- again, we are talking about the
8 police, minor civil servants who were in charge of
9 contracts -- that is one where the accountants may come
10 in, but a lot of things there will be no audit trail at
11 all.
12 DR NEMAT SHAFIK: That's absolutely right and that's why
13 I say it is a systemic issue. You have to deal with the
14 systems, the accountants, the police, the justice
15 system, the whole system for enforcement is essential.
16 I think there are some good examples. If you look
17 at the recent awards of the licences for the oil
18 concessions that Iraq has just made, they have been
19 highly competitive and quite transparent, and that is
20 not an obvious outcome and it is an accomplishment that
21 they have gotten such good deals from a wide array of
22 investors, ranging from Shell to Lukoil, to a Malaysian
23 oil company, to Statoil, and they have got good deals
24 and they have got good prices and they have negotiated
25 well in a fairly transparent way. That, arguably, would

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1 have been the most obvious area in which you would have
2 large-scale corruption.
3 SIR LAWRENCE FREEDMAN: That's at a macro level. It is the
4 micro stuff that may be harder to pick up.
5 DR NEMAT SHAFIK: That's correct, but the macro stuff is
6 where the big money is, and the fact that they have
7 managed that process relatively well I take as an
8 indicator that, at some level, some of these systemic
9 improvements are beginning to pay off.
10 SIR MARTIN GILBERT: I would like to turn now to the
11 World Bank question, which several witnesses have
12 brought up, as you know.
13 You told the Public Accounts Committee
14 in November 2008, "We were very dissatisfied with the
15 World Bank's performance and made a lot of noise about
16 it and it has continued to be an issue for us".
17 Can you explain to us why this remains an issue and
18 its importance with regard to DFID's work in Iraq?
19 DR NEMAT SHAFIK: Yes, I think it is -- I should explain why
20 I think the World Bank found it difficult to work in
21 Iraq and I think there are a number of reasons.
22 First, the World Bank is a co-operative, it has got
23 185 shareholders, who are 185 countries in the world.
24 The UK is one shareholder. The board operates by
25 consensus. I don't think anything has actually come to

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1 a vote on the board of the World Bank in 60 years and
2 I don't think it was possible for the World Bank
3 management to get a consensus on its board as to
4 operations in Iraq. I think that reflects the wider
5 political legitimacy questions around the whole
6 endeavour. So that was one issue.
7 I think the second issue was the Wolfowitz factor,
8 for the period Paul Wolfowitz was the President of the
9 World Bank, in many ways paradoxically he was more
10 constrained, because, if he was seen to be pushing the
11 Bank into more operations in Iraq, it would have raised
12 even more questions about his legitimacy which was
13 already under question, given the way he left the
14 institution.
15 I think the third factor is security and I think the
16 bombing of the UN headquarters had huge ripple effects
17 for the entire international system being seen as a soft
18 target in a context like Iraq. I think the fourth
19 issue is a more systemic issue, which I think
20 Mark Lowcock raised with you about the bank's
21 performance in fragile states.
22 That's an issue which we have raised consistently at
23 the World Bank, both in our role as shareholder on the
24 board, as a major funder of the concessional lending arm
25 of the World Bank. I don't think a senior visitor has

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1 visited Washington in the World Bank in the last four to
2 five years and has not raised this issue, and we have
3 a long paper trail of correspondence between different
4 Secretaries of State and the President of the World Bank,
5 between the Prime Minister and the President of the World Bank, and
6 records of literally dozens and dozens of meetings where
7 we have consistently raised this as an issue.
8 I think -- I could go into much more detail on this
9 if you would like me to.
10 THE CHAIRMAN: Just to ask, the driving force of all those
11 visits and all those representations made is the Iraq
12 experience or more broadly?
13 DR NEMAT SHAFIK: Yes, it was both. Iraq was a particular
14 priority, but there was also a much more general issue
15 about how the World Bank operates in fragile states.
16 Maybe I will just make two more points. One is --
17 I think the other issue in both the World Bank and the
18 UN's defence was that they felt they were getting more
19 representations from the UK and the US about their
20 engagement in Iraq than they were getting from Iraqis,
21 and I think they would say, "Well, there didn't seem to
22 be a lot of Iraqi ownership in wanting us to really be
23 involved", and I think that has changed over time and
24 there is now a bit more Iraqi ownership, and I think, as
25 a result of that, they will be more responsive.

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1 I think the other point just in terms of the
2 systemic issues, we are -- we are very concerned because
3 we, ourselves, because of our interest in reducing
4 poverty in the world, want to see the international
5 system being more effective in fragile environments.
6 So a huge part of our shareholder role in these
7 institutions is to lobby them very hard to get them to
8 be more effective, to be better at getting people
9 deployed on the ground in difficult environments, to
10 changing their human resources systems, to being more
11 flexible on risk, and also to get them to work better
12 together.
13 So, for example, the Secretary General of the
14 United Nations has just launched a report on peace
15 building and peacemaking in conflict environments, and
16 we have been very closely involved in shaping that
17 report and trying to make sure that it strengthens the
18 UN's ability to work in environments like Iraq and
19 others, and we have also been strong supporters of a new
20 Memorandum of Understanding between the UN and the
21 World Bank on working in fragile states and conflict
22 environments, so that they can, for example, manage
23 money on each other's behalf in these kinds of
24 environments.
25 SIR MARTIN GILBERT: Have you seen positive results coming

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1 from that activity?
2 DR NEMAT SHAFIK: We are seeing slow progress, to be honest,
3 and it varies a lot -- a little bit by country and
4 personality. I think that's the frustration. The
5 World Bank's performance in Afghanistan, in contrast,
6 has been excellent, and they have been a hugely useful
7 driver of reforms and provider of development services
8 to the international community in Afghanistan, and it is
9 the same with the UN.
10 I think the problem we face is that when we have
11 good people deployed in certain environments they get
12 support from their headquarters, these institutions can
13 do very, very well, but, when we don't get that, they do
14 very poorly, and this can't be about personalities and
15 individuals, it has to be about creating
16 an international system that can support post-conflict
17 countries.
18 SIR MARTIN GILBERT: In terms of our own investments made in
19 Iraq, particularly --
20 THE CHAIRMAN: Martin, I'm so sorry, before we leave the
21 last point, I think both Usha and Roderic would like to
22 raise something.
23 BARONESS USHA PRASHAR: You have given a very interesting
24 analysis of the role of the World Bank and why you were
25 unable to engage, but last week, when we were talking

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1 with Mr John Jenkins, the current Ambassador to Iraq, he
2 gave a very graphic description of the kind of -- how
3 fragile the democracy is, although the foundations are
4 there, and the sense one got was that that needed a lot
5 of sustaining work in terms of capacity building of
6 institutions which would underpin that democracy.
7 Obviously that is something that the UK can't do on
8 its own and you need to work with other agencies, and,
9 if the objective is to internationalise, is there a kind
10 of coherent programme in terms of doing the analysis,
11 what you talk about division of labour, who does what?
12 Because the impression one gets is it is quite ad hoc,
13 who happens to be there, what their priorities are and
14 they take that particular project on.
15 Do you think there is some room that, you know,
16 poverty eradication is one, but obviously to eradicate
17 that, you need a stable democracy and, therefore,
18 capacity building is part of that. Is this part of our
19 agenda in the way we influence these organisations, not
20 just to become more engaged, but how they engage in
21 different scenarios?
22 DR NEMAT SHAFIK: Yes, it is. Our view, as to how this
23 should work would be that in conflict and post-conflict
24 environments, the UN needs to be in the lead in
25 co-ordinating the international effort. That is for

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1 many reasons, and I know you have heard many different
2 views around the capacity of the UN to do that, but in
3 the end, it is the only organisation out there that is
4 legitimate to do it, and, therefore, whether it is good
5 at it, or excellent, or poor at it, we need to build the
6 capacity for it to do it, because nobody else can. So
7 in post-conflict environments, it needs to be a UN lead.
8 When you get beyond the conflict stage and you have
9 moved towards reconstruction and development, the norm
10 should be that the World Bank should lead that effort.
11 They are the ones who normally chair what we call
12 a consultative group, which is a group of all the donors
13 who were supporting a country. Increasingly, we prefer
14 that the country itself chairs that group and the
15 World Bank supports them in chairing it. So the
16 Government of Iraq, or Afghanistan, or DRC, or Zimbabwe,
17 or Ethiopia will chair a consultative group at which all
18 the donors will come together and you would agree
19 a coherent plan and division of labour.
20 That would be our vision, and that's why getting the
21 UN and the World Bank to work together well is quite
22 key, because that transition from immediate
23 post-conflict where the UN should be in the lead to
24 reconstruction and development, that handover has to
25 happen very smoothly between the UN and the World Bank

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1 system.
2 BARONESS USHA PRASHAR: Is it beginning to happen in Iraq,
3 though? I mean, are you on plan?
4 DR NEMAT SHAFIK: Is it happening in Iraq? I think there is
5 a process, but I cannot say yet that the World Bank is
6 sufficiently embedded in that process for that handover
7 to be smooth yet. It is still not clear whether the
8 Iraqis, for example, would be interested in borrowing
9 from the World Bank.
10 When I was there last, they did imply that they were
11 thinking about it, particularly in the energy sector
12 where the World Bank has a lot of experience and can
13 help them, but, on the other hand, Iraq hay not need to
14 borrow because they have their own resources, and the
15 question is: how do they get the World Bank's advice
16 without necessarily borrowing their money?
17 BARONESS USHA PRASHAR: Are you trying to influence that
18 particular process?
19 DR NEMAT SHAFIK: We are, because we think it would be
20 helpful to have the World Bank engaged because of the
21 technical capacity that they bring.
22 SIR RODERIC LYNE: Following on from that, you said it
23 wasn't possible to get a consensus on the World Bank
24 board. We have heard from a number of other witnesses
25 the argument that the damage, at least to the

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1 United Nations within the international community, was
2 repaired fairly quickly. We have got UN Resolutions and
3 some have argued that the divisions that existed over
4 the conflict around 2003/2004 have not left a lasting
5 damage. But are you saying that the World Bank board is
6 still so divided over Iraq that it can't take decisions?
7 DR NEMAT SHAFIK: They have taken some decisions. There
8 have been, I believe, four concessional loans made to
9 Iraq. So in the recent period, when the situation
10 was -- there was more international support, they have
11 actually been able to take some decisions.
12 Where they have had difficulty is less on the --
13 making some modest decisions about lending and technical
14 assistance, but about having significant presence on the
15 ground, and I think that is less of a political issue
16 and more of a management issue.
17 SIR RODERIC LYNE: How much has the Wolfowitz factor that
18 you mentioned been part of this? Can you expand on this
19 just a little?
20 DR NEMAT SHAFIK: Well, it was a major issue for the period
21 he was there, of course, in the recent period,
22 Robert Zoellick has been the President for the last two
23 years and that has no longer -- it is no longer a factor
24 in the current period.
25 SIR RODERIC LYNE: But the issue was that he had been such

1 a strong architect of the Iraq operation that members of
2 the World Bank were offended by his presence? What was
3 the issue?
4 DR NEMAT SHAFIK: I think the issue was that, because he had
5 been such a strong architect of the war around which
6 there had been lots of controversy, had he pushed
7 World Bank management to have a significant role in
8 Iraq, it would have been seen as an extension of his
9 role in the US administration rather than an appropriate
10 position for the head of an international organisation,
11 who was supposed to be serving the desires of
12 185 shareholders, not just one.
13 SIR RODERIC LYNE: Thank you.
14 SIR MARTIN GILBERT: My last questions concern
15 infrastructure projects. By the end of March 2008, DFID
16 had spent some £90 million on infrastructure projects in
17 southern Iraq. My first question is: how to ensure that
18 the investment made into these projects is sustained,
19 maintained, monitored, developed?
20 DR NEMAT SHAFIK: I think the best insurance that we could
21 make is to ensure that the Iraqi capacity is there.
22 First, that they were involved in choosing those
23 projects and making sure that we were responding to
24 their priorities, and that they had the capacity to
25 maintain them. That was an essential part of all of the

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1 projects that we invested in.

2 We made sure that the projects we worked on, that

3 the Iraqi side was involved in planning them, choosing

4 them, designing them and also then transferred the

5 skills on maintenance.

6 We -- and the information that we have is that our

7 investments continue to be in good working order.

8 SIR MARTIN GILBERT: How, again, in terms of, for example,

9 providing power and water to more than 1 million

10 Basraris, which clearly was a considerable achievement

11 but how do we monitor that? How do we ensure it is

12 permanent? Is it permanent? Can it be?

13 DR NEMAT SHAFIK: Well, when we complete a project, we do

14 something called a project completion report to make

15 sure that we delivered against the objectives. We

16 assess our own achievement in terms of that and that's

17 usually done by somebody different than the one who

18 originally designed it, to have some sort of

19 objectivity.

20 In the medium term, it will be the responsibility of

21 the Iraqi authorities to maintain and sustain those

22 projects, and in some cases we go back many years later

23 to check, as part of our evaluation efforts, but, in the

24 end, it has to be their responsibility and our job is to

25 make sure that they have the capacity to take on that

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1 responsibility.
2 SIR MARTIN GILBERT: There is nothing we can do other than
3 check? We can't involve ourselves in it any further?
4 DR NEMAT SHAFIK: That's correct, and we do have a formal
5 process of handing over assets and projects to our Iraqi
6 counterparts.
7 SIR MARTIN GILBERT: There was a curious critique in the
8 National Audit Office report in 2008 in its review of
9 DFID's operations in insecure environments. I would
10 like to quote it and just ask your comments on it:
11 "The National Audit Office said there is a limited
12 research and experience on delivering effective aid in
13 insecure environments, so the information on which DFID
14 is able to base its decisions is weak."
15 Would you agree with that and is that something
16 which -- for which steps could be taken to improve, to
17 redress it?
18 DR NEMAT SHAFIK: Yes. I think it is true. There is lots
19 of research on conflict and conflict environments.
20 There is not a lot of development knowledge and
21 practice about how operations have to be adjusted.
22 We have a growing body of experience, and I think,
23 you know, we would be happy to share that, but I think
24 longer-term, rigorous, academic research that would hold
25 up scrutiny in terms of clear baselines, clear

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1 counterfactuals and impact evaluations are thin.

2 As a result of that, we are actually designing a new

3 long-term research programme on conflict, state

4 fragility and social cohesion to gather more information

5 on how to deliver aid effectively in insecure

6 environments.

7 We have also now done evaluations of our own

8 programmes in insecure environments so that we can

9 learn from our own experience in 18 different countries

10 about what interventions have been most effective in

11 these environments.

12 SIR MARTIN GILBERT: What particular lessons are being drawn

13 in this regard from the experience in Iraq and southern

14 Iraq?

15 DR NEMAT SHAFIK: Quite a few. I think -- I think, if I may

16 just rattle off a few of them, if that's all right.

17 First, security is paramount. I think it is quite

18 telling, if you look at the quality of DFID's portfolio,

19 for example, we monitor the performance of our portfolio

20 of programmes in a particular country over time. DFID's

21 portfolio quality tracks security pretty well.

22 It is interesting to note that our average

23 programmes were delivering 55 to 65 per cent of our

24 objectives in the period of insecurity. It is now

25 delivering more than 75 per cent of our objectives, and

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1 that reflects the fact that we can do much more and
2 operate more effectively. In fact, the Iraq portfolio
3 is now above the DFID average in terms of performance.
4 So security is paramount.
5 Second, I think we were actually -- it is good that
6 we planned for a humanitarian crisis, because it didn't
7 happen in the immediate aftermath of the war, but it did
8 happen, and the fact that we were able to mobilise and
9 respond to that humanitarian crisis was important[3].
10 SIR MARTIN GILBERT: We were able, in the humanitarian
11 crisis, as it in fact took place, with the displaced
12 persons, to draw on the preparations that had been made
13 earlier?
14 DR NEMAT SHAFIK: Exactly, and the knowledge that the UN
15 system had. I could go on, but I won't.
16 I guess the other thing is just investing in
17 capacity early actually pays off. People are impatient
18 in crisis and conflict countries because everything
19 needs to be done. This isn't just an Iraq problem. You
20 go to DRC, it is exactly the same. They need schools,
21 they need water, they need electricity, they need roads,
22 they need everything, and there is that sense of
23 urgency, where we must do everything, but, actually, in
24 the long run, building local capacity is the solution.
25 You must do some of those short-term things, but

[3] Please note my covering e-mail

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1 actually, if you lose sight of the capacity building,
2 you will waste all the investment you make in real
3 assets.
4 THE CHAIRMAN: Sir Lawrence, did you want to come in on
5 that?
6 SIR LAWRENCE FREEDMAN: I'm just interested in what you are
7 saying about the need for research in this area. Under
8 Clare Short -- I mean, still, my own colleagues were
9 very involved in researching in this area, and this
10 often came under the heading of security sector reform.
11 There were a couple of issues, one of which was a clash
12 of cultures, if you like, between the people who were
13 concerned with security and the people who were
14 concerned with development, and we have seen, to some
15 extent, a reflection of those different cultures, even
16 in this Inquiry.
17 So I'm just interested in your observations about
18 whether the development community is learning to live
19 with the security community, but there is also the
20 question of the responsibility of the interest of DFID
21 in these questions of security. I'm not saying this is
22 something for the military to do, but how they support
23 those sorts of issues. I would be interested in your
24 views on that.
25 DR NEMAT SHAFIK: I think the development community has

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1 evolved. I think it is quite telling that in the early
2 1990s -- sorry, in the late 1990s, there was quite an
3 influential report and study that was put out by the
4 World Bank called "Voices of the Poor", where they
5 surveyed thousands and thousands of poor people across
6 the world.
7 What was most interesting for a lot of development
8 professionals was how high security was on the list of
9 priorities, that poor people in most countries are
10 victims of the police, they are victims of harassment,
11 they are victims of crime, and, for them, in many
12 countries that was a much higher priority than getting
13 clean water.
14 So I think that was the beginning of a process in
15 which the development community started to appreciate
16 the degree to which, if you cared about poverty, you had
17 to care about security.
18 I think, for us in DFID, the culmination of that
19 awareness and knowledge has been our recent White Paper
20 where we committed to treating security as a basic
21 service, equivalent to other basic services like health
22 and education, and that we committed to massively
23 increasing our own spending in that area.
24 Now, our angle on security would be: how do we make
25 sure that poor people in poor communities feel safe and

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1 feel secure and are able to get on with their lives?
2 But I think, for us, we have come to appreciate how
3 important it is, if you care about poverty.
4 THE CHAIRMAN: Martin?
5 SIR MARTIN GILBERT: The office in Basra has now been closed
6 and essentially you are reducing your programme overall
7 in Iraq. Was this because of mission accomplished? Was
8 it because you felt you had done all you could do, or
9 were there other factors which fed into that, including
10 competing demands elsewhere?
11 DR NEMAT SHAFIK: I think the main criteria was mission
12 evolved. So not completely accomplished, but changed.
13 We still have programmes in Basra, which we
14 continue to manage from Baghdad, but
15 I think for many reasons, including the Iraqis' own
16 preference, all along, I think, the Prime Minister of
17 Iraq and Iraqi senior politicians were keen for us to
18 take what they called a "whole of Iraq" approach. They
19 were not comfortable with our laser-like focus on Basra.
20 They felt that we needed to see the country as a whole
21 and support the country as a whole.
22 Many of the issues and the challenges that Basra and
23 the south face need to be solved in Baghdad in terms of
24 resource flows and getting those flows to work
25 effectively, and it is a part of the wider normalisation

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1 of the relationship.
2 I think for the period that I have been
3 Permanent Secretary over the last two years, it has been
4 the process of normalising and moving towards a more
5 normal relationship with Iraq, and in most countries,
6 unless they are very large federal countries like India,
7 we are present in the capital.
8 SIR MARTIN GILBERT: Given the developments since April 2009
9 and Invest Iraq, how was DFID involved in those and are
10 they something which you are able to have a continuing
11 input into?
12 DR NEMAT SHAFIK: It is interesting. We supported the
13 Invest Iraq conference and the support to the Basra
14 Investment Commission as part of the Prime Minister's
15 economic initiatives, and it was -- I think it was
16 really incredibly successful. You had an event in
17 London, with 250 of the world's largest companies
18 interested in investing in Iraq. We had to turn about
19 200 companies away because we had such demand for
20 participation. So a real sense of interest and energy.
21 And it was appropriate that DFID supported that work
22 in the beginning, particularly because the Iraqis
23 themselves had a concern that the UK was interested in
24 this for commercial reasons and that we were only going
25 to help them get UK companies to invest in Basra, and it

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1 was appropriate that DFID, who is neutral about which
2 investors come, was the appropriate lead on that. We
3 were keen to see any investor, from any part of the
4 world, come and invest and create jobs in Iraq, and so
5 we did that effort and have now handed over
6 responsibility for that to the Basra Investment
7 Commission, who continue to work with investors from all
8 over the world.
9 I think, as you heard from others, UKTI has now
10 established a presence in Iraq and they are pursuing
11 support to UK companies. But in the early stages
12 I think it probably was appropriate that DFID lead on
13 that work.
14 SIR MARTIN GILBERT: Looking back over the whole period and
15 the tremendous DFID expenditure of more than
16 £500 million in Iraq -- for Iraq, what impact did this
17 have on the wider DFID budgeting and financing in
18 countries which were essentially poorer and fragile?
19 DR NEMAT SHAFIK: Well, I think that the financial pressures
20 were more in the earlier period, when my predecessor
21 Suma Chakrabarti was Permanent Secretary. So he is
22 probably better to answer that than I am. But for the
23 period that I was in, it was not really an issue, to be
24 honest. The size of the Iraq programme in this period
25 was -- went down from 30 million to 20 million, and next

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1 year we anticipate about £10 million, and that was
2 fairly easily accommodated in DFID's budget. So there
3 were no real resource pressures.
4 SIR MARTIN GILBERT: Thank you very much.
5 THE CHAIRMAN: I think we are coming towards the close of
6 this session. Others? Roderic, you have got
7 a question, I think.
8 SIR RODERIC LYNE: What is the situation like in Iraq now?
9 How is the quality of life for ordinary Iraqis? Is it
10 better than it was under Saddam Hussein?
11 DR NEMAT SHAFIK: Well, all I can do is give you indicators
12 of progress. I can't -- I think you would have to ask
13 Iraqis themselves whether they think it is better. But
14 we have moved from a situation where, pre-war, Iraqis
15 had four to eight hours of power; they now have 15 hours
16 of power. I think it is interesting that, if you look
17 at the polling, for much of the period from 2003 to 2007
18 the major concern of Iraqis in the polling was security.
19 When I visited Basra in 2009, the main concern in
20 the polling of Basraris was unemployment. Now,
21 I suspect, if you poll people in the UK, that would be
22 pretty high on their list. That was a reassuringly
23 normal thing for people to be worried about.
24 Unemployment is very high in Iraq and particularly in
25 Basra.

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1 SIR RODERIC LYNE: Is it higher than it was pre-2003?
2 DR NEMAT SHAFIK: Well, the truth is we don't know because
3 the data is very poor and it is not clear that
4 unemployment was counted in an internationally
5 recognised way under Saddam's regime.
6 SIR RODERIC LYNE: If you had to make an educated guess at
7 it, what would you say?
8 DR NEMAT SHAFIK: I don't know, is the answer. I think
9 I couldn't answer that. I think we have other measures,
10 though, too. If you look at -- we did a business survey
11 in Basra as part of our economic work and something like
12 80 per cent of people in Basra think the business
13 environment has improved, and 84 per cent think that it
14 is going to improve even more in the period ahead. So
15 there is a sign of sort of optimism there about the
16 future, which is quite reassuring.
17 So we have pieces of a picture that we can put
18 together, but I think the wider question about
19 what people think about how it was before and how
20 it is now, I think we just don't -- I don't have
21 evidence to be able to give you a complete story.
22 SIR RODERIC LYNE: So the jury is still out on whether life
23 after six years, coming up to seven years now actually,
24 since the conflict is actually getting better.
25 DR NEMAT SHAFIK: I think the polling shows that things have

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1 improved, particularly because of the improvement in
2 security but I think -- a thoughtful judgment I think I
3 would have to leave to the historians.
4 SIR RODERIC LYNE: You have visited Iraq a number of times,
5 I assume. Do you have a sense that Iraq is now on
6 a path towards stability and prosperity?
7 DR NEMAT SHAFIK: Certainly, when we went to Basra and we
8 met the just newly elect Provincial Council and we had
9 lunch with them in the central mosque in Basra and they
10 were -- you know, I have to confess, I was expecting
11 a gloomier environment. They were very upbeat and
12 optimistic, and I think what particularly impressed me
13 is that they had been talking to each other and to the
14 previous Provincial Council before the election. They
15 wanted there to be an orderly transition. They were
16 ambitious, they all had lists of plans and projects that
17 they wanted to get done and delivered for their
18 community. The fact that they were democratically
19 elected meant that they felt pretty accountable. So
20 those were very encouraging signs.
21 SIR RODERIC LYNE: We have had similar optimism, qualified,
22 obviously, from people who have been representing both
23 your department and the Foreign Office in Basra
24 recently. If you take Iraq as a whole, rather than
25 Basra, which has its very special characteristics, what

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1 would your judgment be about where it is on the road to
2 stability and prosperity?
3 DR NEMAT SHAFIK: Well, they have certainly achieved quite
4 a lot in terms of macroeconomic stability. Clearly, the
5 security situation is much improved over the recent
6 period. The economy is growing. In 2008 the economy
7 grew by 9 per cent, which is incredibly high. I think
8 most of us would be happy with a growth rate like that.
9 SIR RODERIC LYNE: If you took the growth rate over a longer
10 part, I mean baseline is rather important in growth
11 rate.
12 DR NEMAT SHAFIK: Absolutely.
13 SIR RODERIC LYNE: What would it be over the last
14 seven years?
15 DR NEMAT SHAFIK: The truth is, I don't think we have
16 accurate data for much of the conflict period because
17 collecting GDP statistics was not a high priority at
18 that time.
19 SIR RODERIC LYNE: Lets go back -- for a shorter period,
20 four/five years. I mean, the economy, presumably, was
21 shrinking in this time.
22 DR NEMAT SHAFIK: That's correct[4].
23 SIR RODERIC LYNE: So growing 9 per cent off a very low
24 thing is not actually statistically very
25 significant. What is more significant is where you are

[4] Comment from Dr Shafik after the hearing: "This is actually incorrect. IMF estimate that the economy of Iraq has grown year on year since 2004 (except for 2005 when there was a 0.7% reduction".

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1 at in relation to previous levels and high points of
2 GDP.
3 DR NEMAT SHAFIK: That's correct, and, of course, in most
4 post-conflict environments, when conflict ends, you do
5 see rapid growth. However, GDP is now $90 billion. So
6 that's a very real number, that's an absolute number,
7 not a relative number.
8 SIR RODERIC LYNE: But in GDP per head terms, where does
9 Iraq stand in the world league table?
10 DR NEMAT SHAFIK: It is still a middle income country, it's
11 on a sort of low middle income side. Now, again, we
12 don't have very high quality data because they haven't
13 been collecting very reliable data. We haven't got a
14 census. People have been displaced. So, again, I think
15 it will take time before we can make a considered
16 judgment in terms of absolute improvements in economic
17 welfare. But we do, as I said, have pieces of the story
18 that we can say with confidence now.
19 SIR RODERIC LYNE: You said just now that DFID's mission had
20 evolved in Iraq but it wasn't yet completely
21 accomplished, and it evolved partly by closing Basra and
22 focusing on Baghdad. At the outset of the conflict the
23 British Government said that it was going to be in Iraq
24 for the long-term. Is DFID in Iraq for the long-term?
25 DR NEMAT SHAFIK: We have only made decisions up until 2011,

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1 and obviously future ministers and current ministers
2 will have to make decisions about the future of the Iraq
3 programme. I think the issue is what is a normal
4 relationship with a country like Iraq, and, you know,
5 a large development programme would not be a part of
6 a normal relationship; you would have a relationship
7 which is much wider, and that was a theme, I think, of
8 the visit that the Permanent Secretaries of Defence and
9 the Foreign Office and myself -- that was the main theme
10 of our visit, which is this is a widening of a
11 relationship to include educational ties, commercial
12 ties, diplomatic relationship, a whole array of other
13 things, and a significant development programme in
14 a middle income country is not typical.
15 SIR RODERIC LYNE: But this isn't just any other middle
16 income country; this is one that, to use
17 Alastair Campbell's words yesterday, was a unique
18 situation. It is one where, over seven years, the
19 British Government, the British nation, has invested
20 lives, huge amounts of money, huge amounts of political
21 capital. So it is a very special case, and what I'm
22 asking really is, does your department plan, over the
23 long-term, to continue involvement with Iraq on the back
24 of that huge investment of lives and resources and
25 effort?

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1 DR NEMAT SHAFIK: Just to be clear, we have always
2 over invested in Iraq relative to a normal development
3 programme.
4 SIR RODERIC LYNE: I'm not just thinking of money, I'm
5 thinking more of effort and resource and attention --
6 DR NEMAT SHAFIK: Yes, but just, you know -- for example,
7 last year, if you look at how much we should have been
8 giving to Iraq in terms of a normal development
9 programme and the criteria we use for resource
10 allocation, we were putting more than twice as much as
11 we should because of the political priorities. So we
12 were certainly responding to the sense that this was not
13 an ordinary case.
14 I think in the long-term, you know -- as I said, we
15 have budgets set until 2011. Ministers will have to
16 decide, if they think this is a unique case, what they
17 would like us to do and I think that's really for them.
18 SIR RODERIC LYNE: So it is possible that, looking beyond
19 2011 -- 2013 would only be ten years from the start of
20 the conflict; some people have said this was a task for
21 at least ten years -- that DFID would say, "We will lock
22 the door now on our office in Baghdad. This is just
23 another middle income country, bye bye Iraq."
24 DR NEMAT SHAFIK: I didn't say that. I said Ministers will
25 have to decide whether they think it is a political

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1 priority, and if they do, we will make the effort.
2 SIR RODERIC LYNE: But you will be the senior adviser to
3 those Ministers. What will you be advising them?
4 DR NEMAT SHAFIK: I think, at that -- by 2013, given the
5 recent oil concessions that Iraq has made and our
6 projections of what oil revenues will be, I think having
7 significant resources transferred at that stage would be
8 inappropriate. You know, I think --
9 SIR RODERIC LYNE: I'm not talking about money.
10 DR NEMAT SHAFIK: I haven't finished.
11 SIR RODERIC LYNE: I accept they will have money. I'm
12 thinking of partnership.
13 DR NEMAT SHAFIK: I think, whether we have a presence and
14 whether we have staff on the ground, I think that will
15 very much depend, to a large extent also, on whether the
16 Iraqis want the advice and the help, and I think, if
17 there is an appetite there, where there is expertise
18 that we can bring and support that we can bring that
19 will help advance their development, then I think there
20 may be a reason to be there.
21 SIR RODERIC LYNE: Thank you very much.
22 SIR LAWRENCE FREEDMAN: I'm just interested in terms of this
23 question of the development of Iraq since 2003 -- the
24 differential experience of northern Iraq, which we've --
25 was sort of semi-autonomous under Saddam, and we have

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1 heard that it sort of carried on and the economy did
2 perfectly well. Does this give us a glimpse of the
3 Iraq -- because, presumably, they are just further ahead
4 than the rest. Is that fair?
5 DR NEMAT SHAFIK: I think that's true. I mean, I think they
6 had a huge advantage because things were more stable
7 there and they didn't lose those years in which conflict
8 meant that you couldn't make the kind of investments in
9 capacity and development and infrastructure that the
10 rest of the country couldn't do. So, yes, I think it
11 is.
12 SIR LAWRENCE FREEDMAN: So, presumably, northern Iraq was
13 growing, even through the bad years of the middle of the
14 past decade.
15 DR NEMAT SHAFIK: Yes, and I think it is interesting that,
16 you know, to the extent there was an NGO presence -- for
17 example, the Red Cross is based in the north but then
18 makes trips to the south. So they were
19 able to have NGOs and international operations based
20 there, which just created a whole new set of
21 opportunities. Similarly with investment and foreign
22 investors being able to visit; they had a head start
23 because of that stability.
24 SIR LAWRENCE FREEDMAN: So just finally, does northern Iraq
25 give us an indication of what best practice may be or

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1 things to avoid in the coming few years?
2 DR NEMAT SHAFIK: Possibly. I mean, I'm not an expert on
3 northern Iraq, so I couldn't draw those lessons for you.
4 But I'm sure there are lessons to be learned.
5 SIR LAWRENCE FREEDMAN: Thank you.
6 THE CHAIRMAN: One last question. We have heard, I think
7 from witnesses -- and anyway we are more generally
8 aware -- that DFID's, your department's, reputation
9 before 2003 was very high in the international
10 development community, perhaps as high as anyone,
11 perhaps even the highest. What has been the impact of
12 the war and the development experience since on that
13 standing today?
14 DR NEMAT SHAFIK: To be completely honest, I don't think
15 there has been a huge impact directly, in the sense
16 that I think DFID's reputation comes from
17 other things. I think DFID's reputation comes from --
18 from the quality of our people, the policy approaches
19 that we have taken, our performance on a variety of
20 things. I think the capability reviews which were done
21 in Whitehall -- we came out quite well. We were the
22 top-performing department in Whitehall, both in 2007 and
23 2009. The DAC peer review, which is the OECD review of
24 all development agencies round the world, has called us
25 the model bilateral donor, and I think that stems from

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1 a wide variety of things and Iraq is part of that story,
2 but it has to be seen in the wider context.
3 I do think, though, Iraq has changed us and taught
4 us a lot. Iraq was in
5 many ways the beginning of us learning how to operate in
6 really tough environments, and there are huge synergies
7 with what we have learned in Iraq with the wider agenda
8 for us on fragile states. Fragile states are now going
9 to be half of our programme going forward, and our
10 recent White Paper committed us to continuing to have at
11 least half our programme in fragile states.
12 I think, if I may draw the lessons from that,
13 I think what operating in Iraq taught us was that many
14 of the principles of good development practice, which is
15 the basis of DFID's reputation, apply. Countries have to own
16 the solution; you can't impose your own.
17 Capacity-building really matters and invest in capacity,
18 before you invest in hardware. Worry about
19 sustainability; don't just leave it behind and hope for
20 the best and not fuss about maintenance.
21 Those lessons of good development practice actually
22 all applied in Iraq, and the fact that we carried those
23 lessons into Iraq -- that experience into Iraq was very
24 important.
25 I think the two things that were different in Iraq

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1 for us was learning how to apply those principles in
2 a very insecure environment and, two, learning how to
3 apply those principles in a much more complex
4 interagency process, where you had a Ministry of
5 Defence, a Foreign Office and a coalition process, which
6 was a different set of
7 actors than we were used to interacting with, and
8 I think those were the two things that were new for us
9 and where we learnt quite a great deal from Iraq and the
10 Iraq experience.
11 THE CHAIRMAN: Thank you. I was going to ask you whether
12 you had any final reflections but those might be them.
13 DR NEMAT SHAFIK: I think those are pretty much them. I
14 mean, I think the only other thing is that -- this wider
15 point about fragile states being core business for us
16 now, I think -- I think you have asked me before about,
17 you know, Iraq was such an unusual case for you. Well,
18 the middle income, I think, will always be rare for us.
19 We don't do much business in middle income countries --
20 appropriately, because we are concerned about poverty
21 and middle income countries have their own resources and
22 can solve their poverty problems with their own
23 resources.
24 But dealing with fragility and the post-conflict situation
25 is actually a core part of who we are and what we will

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1 do going forward, and I think that is a very important
2 dimension of DFID and something that the experience of
3 working in Iraq has taught us.
4 THE CHAIRMAN: Thank you to our witness and thank you, those
5 of you who have been here through the morning.
6 The afternoon session will begin at 2 pm, when we
7 shall be seeing Lord Turnbull, the former
8 Cabinet Secretary. Until then we shall go into recess.
9 Thank you.
10 (12.13 pm)
11 (The short adjournment)
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