

Presentation by

Dr. Mehdi Hafeedh

Minister of Planning and Development Cooperation
Chairman of the Iraqi Strategic Review Board

One Year Since Madrid:

Accomplishments and Prospects for Iraq's Reconstruction

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Amb. Shirota, Donors, Ladies and Gentlemen,

It is an honor to address you today, on the occasion of the first gathering of donors since Iraq regained its sovereignty on June 28th. I would like to thank our host, the government of Japan, for its exemplary work in organizing this conference and for welcoming us to this city.

An essential step has been taken since we last met. The reconstruction of Iraq has become the responsibility of the people of Iraq. The task has fallen to the Interim Iraqi Government to coordinate the assistance that you are generously providing. This is an important development because as we all know, reconstruction assistance is most effective when guided by those whose needs it is meant to address.

Today we launch a new phase of reconstruction under Iraqi ownership. This is a propitious time to review the progress that has been made to date. We should pause for a moment, take stock of what has been accomplished and what remains to be accomplished. We need to examine what challenges we face and consider strategies for addressing these challenges.

It was almost exactly one year ago that we gathered in Spain for the first Donor's Conference. In Madrid we reviewed the Needs Assessment that the United Nations and the World Bank had prepared, at great risk and great sacrifice. The international community affirmed its support for the reconstruction of my country and committed itself to meeting its needs through the largest pledging exercise in history. By promising approximately 32 billion dollars, the international community provided tangible expression of its commitment to the reconstruction of Iraq.

How have we done in the year since the Madrid conference? Let me begin with the central challenge to Iraq's reconstruction, both then and now.

The Challenge of Security

The dominant concern on everyone's minds in Madrid was security. Back in October 2003, violent attacks had already begun against the reconstruction effort. Coalition forces had suffered many of the casualties, but they were not alone. A car bomb struck the UN headquarters in the

Canal Hotel in Baghdad, killing over two dozen civilians including the Special Representative of the Secretary-General, Sergio Vieira de Mello.

The greatest number of casualties in this violence came from among the Iraqis themselves. Hundreds of innocent civilians had already been killed by Madrid. More were to die after the Donor's Conference as the fighting in Iraq evolved. As military targets became harder for the insurgents to attack, they turned increasingly to defenseless civilians.

This violence has a major impact on the reconstruction effort. Some projects are diverted away from afflicted areas. Others are delayed or postponed until conditions improve. Project costs increase as large security budgets are factored in. Iraqi staff are more difficult to recruit as they receive threats for contributing to the international effort to rebuild their country.

The subsidiary effects of violence also hamper Iraq's reconstruction. Much-needed private investment is discouraged, depriving Iraq of billions of dollars of potential resources. Highly-trained and educated Iraqis look for

opportunities to leave the country, depriving their homeland of their expertise.

Security remains a challenge today, as insurgents turn their fire from the Coalition forces and toward the Interim Iraqi Government. Then as now, however, it is important to see security not only as a challenge, but also as a fundamental objective of the reconstruction effort.

As we rebuild Iraq's capacity to provide for the economic and social needs of our citizens, we are also working to enhance our capacity to protect their very lives. As we develop a political system that allows for the participation of citizens in the major decisions affecting the nation, we need to stop those groups that would usurp those decisions through force.

At this time, a year after Madrid, I can report that progress is being made in this effort. We are rebuilding institutions that will allow Iraq to defend itself. There are now over 100,000 trained and active members of the Iraqi Army and the Iraqi Police Force. The Army will grow by a further fifteen battalions between now and the time elections are held in January.

Nine police academies will soon be sending as many as 5,000 trainees per week to the ranks of Iraq's police men and women.

The Iraqi Border Service is also growing. The number of guards is expected to double to 32,000, increasing Iraq's capacity to keep out foreign fighters that instigate violence within.

Perhaps the most important step toward re-establishing security in Iraq is the election of the country's first democratic government. As the government becomes more representative, the people of Iraq will have a greater stake in it.

Iraq has made great strides on the political front in the past months, laying the groundwork for elections to take place. The Transitional Administrative Law laid out the timeline last March. An Electoral Law was passed in June, to be implemented by an Iraqi Electoral Commission created the same month.

Most importantly, the Coalition Provisional Authority relinquished control of Iraq at the end of June, returning the country to the hands of Iraqis themselves.

Elections are the next step in this political process. The government stands by its commitment to holding them in the next four months. Once these have produced a representative government, and once Iraq's new security institutions are fully trained and equipped, we will have turned the corner on the instability that has constrained the reconstruction effort so far.

To sum up, security remains the central challenge to rebuilding my country. As an area of reconstruction, however, progress is being made. I call upon donors to remain committed to the cause of reconstruction through the period of elections in anticipation of the improvement this should bring.

Accomplishments

Of course, we have not waited for an improvement in security before committing to the work at hand. The reconstruction effort has made important strides over the past year.

A more complete account of accomplishments in the various sectors can be found in the document which has been circulated to you. Let me touch on a few of the key areas to demonstrate what has been accomplished and the work that still needs to be done.

First, we have restored oil production capacity, a vital step toward rehabilitating the Iraqi economy. Over the last few weeks, we have achieved the target of producing 2.5 million barrels per day. By the end of the year, we expect that number to increase to 2.8 million.

Iraq is on track to exploit fully its fortunate position as the country with the second largest known reserves in the world.

Iraq has also made great strides in developing a favorable environment for commerce. A wide series of market-oriented laws relating to banking, securities and investment have been passed. Foreign banks have been reintroduced to the country, and interest rates have been liberalized.

No less important has been the stabilization of the Iraqi dinar. A stable exchange rate and low inflation rates augur well for future development.

Iraq's dilapidated infrastructure has suffered from decades of underinvestment. Progress is being made here, too, amidst obstacles such as sabotage, unrealistic public expectations, and reprofiling of donor funds.

Electricity is key both to economic recovery and to social stability. In this sector, we have restored power to pre-war levels, and generation capacity continues to grow. Demand remains below supply however, and few Iraqis enjoy 24-hour access to power. More investment is clearly needed in this sector.

Another important sector is water. Many advances have been made, including new work on four dam projects, two irrigation and drainage projects, and eight pumping stations. Unclear water nevertheless remains a major contributor to health problems across the country.

Both water and electricity will receive fewer resources in the upcoming year than originally envisaged. The largest bilateral contributor, the United States, will divert funds from these sectors to deal with the security situation. This is a reasonable shift of priorities. It does however threaten to leave major needs unmet if other donors do not contribute to replace the diverted funds.

In the social field we have introduced a number of major innovations to change the way that services are provided to the Iraqi people.

We are, for example, moving the health sector from a purely responsive model to a more pro-active primary health care system. Donor contributions to the rehabilitation of facilities have helped considerably. With these changes, we are on track to return our national health indicators to where they belong: ranked close the top of our region, not close to the bottom of the world.

Some sectors of Iraqi society are receiving government attention for the first time. There are now ministries for human rights and for women's affairs, both working to address persistent challenges in these areas. Civil

society is flourishing and the government is encouraging NGOs where the previous regime had persecuted them.

Another new task the Iraqi government has taken on is environmental protection. A Ministry of the Environment has been created and is developing unprecedented measures to improve conditions in a country that had no regulation before.

Donor Coordination

Now that Iraq has assumed primary responsibility for the reconstruction effort, we are working hard to coordinate the assistance you provide. This has been difficult as the previous regime in Iraq lacked real institutions. We have had to build from scratch.

The Council for International Coordination remains the primary vehicle by which I brief the international community on a regular basis on progress in reconstruction.

Perhaps the most significant forum for coordination is the Iraqi Strategic Review Board. Capacity building is required to enhance the ability of the Ministry of Planning and Development Cooperation to support the Board in its decisions. Nevertheless, the ISRB has worked closely with the UN and the World Bank. It is clear from our meetings that projects coming from the Trust Funds have been subjected to strong quality control and intensive coordination with ministries of the Interim Iraqi Government.

In sum, our donor coordination mechanisms require further development, but are working so far.

Assessment

While we have made significant progress, there is much work left to do. Happily, while our outstanding needs are enormous, they are temporary. If Iraq gets your help now, we will not need to look for handouts indefinitely. Donor input can make a critical difference at this juncture.

The one billion dollars that the UN and the World Bank have provided through International Reconstruction Fund Facility for Iraq is a strong start.

I want to thank all of you that have made contributions so far. This money has already been programmed, but needs dwarf the contributions made to date. This money has already been programmed, however, and outstanding needs dwarf the contributions made to date.

On the bilateral front, the majority of donors have made good progress in identifying how they will provide support and in putting their plans into action. Donors need to remain dedicated and be creative in responding to the challenge of security. We also need to see greater rapidity in delivering programs. The reconstruction process must be accelerated as much as possible.

Furthermore, the entire process is jeopardized by the crushing debt burden that Iraq continues to bear. At up to 125 billion dollars, our burden is five times as high as our national GDP.

IMF studies have concluded that this amount is simply unsustainable. For Iraq to service this debt would divert funds from pressing economic, social and security goals, jeopardizing the interests of Iraq's creditors. Debt forgiveness is the only feasible route. Many of you donors are also creditors.

I ask you to consider forgiving the loans you gave to the previous regime.

This step is essential for the successful reconstruction of Iraq.

Conclusion

In closing, we have come a long way since our meeting twelve months ago in Madrid. Security remains the number one challenge to our efforts, but progress is being made. After we hold Iraq's first democratic elections in January 2005, Iraqis will have a greater say in their government and Iraqi institutions such as the Army and the Police will have grown in their capacity to restore law and order.

Your assistance has been essential in helping us accomplish the goals we have met to date. Ongoing support is absolutely vital in helping us through this critical period. With debt forgiveness and the perseverance of donors through the difficult months ahead, we will all contribute to putting Iraq back on its feet. I look forward to your continued help in returning Iraq to its rightful place as a strong, prosperous and stable member of the world