



International Reconstruction Fund Facility for Iraq



**Third Donor Committee Meeting
Tokyo, Japan, 13 October 2004**

Draft Agenda Item 1

**Keynote Address – “Vision for Sovereign Iraq”
Dr. Barham Saleh, Deputy Prime Minister**

**KEY NOTE ADDRESS
BY IRAQ'S DEPUTY PRIME MINISTER
DR BARHAM SALIH
TO THE THIRD DONORS COMMITTEE MEETING
TOKYO, JAPAN**

Excellencies,

Ladies & Gentlemen,

Today, for the first time, a sovereign Iraqi government is presenting its own vision of Iraq's future to an audience of international donors a future decidedly democratic and reliant on a vibrant private sector. This is an historic moment for all Iraqis and I hope that you will understand and even share the sense of responsibility I feel standing here before you.

We welcome and are grateful for the assistance we have received so far from the international community. But let me be clear from the outset: please do not delay. The time to make firm commitments is now honour your pledges now. And we need you to understand, support and share our vision. I know that I speak for the aspirations of most Iraqis when I say that we want to make our own way in the world.

As you know, Iraq's history is one of great cultural and financial wealth. But, this wealth has been utterly squandered by tyranny. Emerging before you today and tomorrow will be a vision of a democratic federal Iraq that is determined to rebuild our society. The prize, ours and yours, is a place for Iraq as a trustworthy member of the community of nations a nation at peace with itself

and at peace with the world. But, if our vision is to become reality, now is the time to convert your pledges into firm commitments. We need you to work with us to channel funding and support into the areas that we rate as priority.

Sure, Iraq needs to overcome many obstacles and challenges if we are to progress. We want to talk candidly and directly about these challenges. We are going to explain why we believe that the support of the international donor community will be the catalyst for turning the vicious cycle of poverty and terrorism into a virtuous circle of economic growth, tolerance and peace.

I hope that you regard your support as investment, not charity. It is investment not only in the future of Iraq, but in the future of our region and indeed in the future of the world and its economy. Let me elaborate:

You, the world's donors, are gathered here in conference not – as so often - to deal with a case of natural disaster, a financial crisis or the economy of a failing state. You are here to support a proud and potentially wealthy nation in a strategically vital region of the world. Iraq, however, lies on the fault-lines of the global war on terror.

Your support, if it is applied now, will contribute enormously to the process of stabilising this region. Moreover it will help Iraqis throw off the shackles of generations of oppression, genocide, mass graves, corruption, stagnation and incompetence.

The rest of the Middle East, an increasingly alienated region seething with ancient and modern mistrust of the West, will be watching all of us. Honour your pledges: show the Iraqi people and the people of the Middle East that you really care.

In this ever more connected world our future is your future. The return on your investment will be a peaceful, democratic Iraq that is itself a donor. So, we urge you to take up with renewed vigour and resources the challenge of rebuilding Iraq. There is, there can be, no alternative.

I believe I can say with confidence that Iraqis are renowned for their hospitality and generosity. In spite of all the horrors that we have been through this spirit has endured. So before I go on to introduce our strategy, and by way of expressing my immense gratitude to the organisers of this conference, I am hopeful that it won't be long before we meet in Iraq. You will be our welcome and honoured guests. Ahlan wa sahalan.

Now I wish to turn to our strategy.

Despite the scenes of calamity portrayed on the world's TV screens, many of Iraq's provinces are secure and ready for economic transformation. Regions such as Kurdistan are an example of what Iraqis can achieve when we have peace and feel secure. However, there are still pockets where the horror of terrorism is destroying lives and livelihood: the effects of terrorism are familiar to us all.

Today, however, I am not going to dwell on these brutalising effects or the active measures we are taking to alleviate these security concerns and hopefully in tomorrow's session I shall elaborate more on this. Rather, I wish to share with you a development strategy for dealing with the causes, the roots, of the violence we are battling. It is a strategy that stands on three pillars of reform: governance; the economy; and social reforms.

These three pillars are essential. If we design and build them correctly we will create a society that enables all Iraqis to reach their full potential in a secure democracy. A society where sustainable use of human and natural resources, equal opportunities for men and women, an enriching education system, a free and independent media and a vibrant private sector will all contribute to Iraq's regeneration.

Let me first turn to Governance.

In terms of political process we have already in this year alone - defied the sceptics several times. We've met the January deadline for writing our interim constitution. In June, we met the scheduled hand-over of sovereignty. In August a National Council convened for the first time. We are determined to prove the doubters wrong again and hold elections next year as planned. Our political process is on track despite the odds.

What then about our financial governance?

The Government of Iraq is collectively committed to the principles of accountability and transparency in public financial management. We're aiming at best practice but we recognise that there's much still to do to convince the international community and our own constituents. So, let's start here and get down to the detail.

We are committed to working with the IMF and submitting to its programme under the Emergency Post Conflict Agreement. We've done this voluntarily rather than as a result of enforced conditionality. Our main purpose is not to access IMF funding, but rather to show our commitment to efficient management of our public finances.

We already have a Financial Management Law and a Debt Law and with help from the World Bank, USAID, British DFID, and other international organisations we have commenced work to strengthen the Ministry of Finance and the accounting systems that will enable tracking of all expenditure, including donor-financed projects by sector, donor and programme through clearly defined accounting procedures.

Our 2005 budget, which is nearly finalised, will meet requirements to reduce the level of deficit financing. We can then begin the task of ensuring fiscal sustainability by making tough decisions to reduce the distortions of subsidies and transfers. We will tackle the inefficient and expensive Public Distribution System as well as broader welfare issues.

But, this won't happen over-night. Some of you here today won't need reminding that the British, for example, kept their wartime ration system running until the early 1950's, many years after the end of the Second World War.

These painful choices will require careful sequencing and consensus building if they are to succeed. Unleashing economic and financial 'shock therapy' on a battered and weary people will not work. So, we will carefully design and implement a process to manage the human cost of the hard choices we must make - choices that will almost certainly impact millions of ordinary Iraqi pensioners and public sector employees. Our vision is a fairer system for all Iraqis.

To achieve our goals in this area will require a partnership between Iraqis and donors. We will look to the international community to join us in making and keeping some tough commitments. And I'm talking here about critical issues. Let me briefly diverge to focus on two of them:

Firstly, in-country support from international organizations such as the United Nations. I say now to the UN: "Where is the critical support for the political process that the UN is mandated to provide?" "Where is the commitment under UN Resolution 1546?" We need more UN support and we need it now. Please don't let the Iraqi people down.

Secondly, I feel I must address the awful legacy of the previous regime's debts. You will all be aware that much of this debt is to countries that armed and supported that outlaw regime.

Our future was mortgaged to build its palaces, its futile monuments and its vast war machine.

Iraqis have suffered enough. We simply ask that these debts should not compromise the ability of our people to escape from the former regime's long, dark shadow.

We know that there are complex conventions, as well as legal and economic arguments surrounding the question of debt relief. Neither do we wish to establish a pattern for future behaviour. But it is our firm belief that debtor countries should consider relief positively as an investment in Iraq's future. So, we are requesting solutions that deliver deep and comprehensive debt relief. Solutions that will enable rapid reconstruction and that will stimulate faster growth. These form the platform for a peaceful and democratic Iraq. In short, we ask for sustainable solutions.

Now I wish to turn to an issue that has always been at or near the top of my political interest.

The battle against corruption in Iraq, as elsewhere, is very tough but it is one we must win. In part, corruption in our country is a legacy of the past. However, we are not complacent. I recognise that we have not yet done enough to build robust systems and procedures to prevent its corrosive effects. But, we have made a

start. For example, the appointment of Inspectors General in all Ministries that I referred to earlier. We are determined to succeed.

In this, as in so many areas, we need your technical assistance to complete the task. The reality is that corruption is a significant obstacle to our development. We are therefore wholly committed to creating a totally transparent system for the collection and application of all revenue and expenditure. In particular we will focus on the oil sector which is so vital to our strategic vision. We must ensure that our oil supplies are well protected and sustainable. For this reason one of our highest priorities for capital investment in the 2005 budget is directed to securing the oil sector.

This leads me onto the second of our three pillars, Economic Reform.

The lodestone of this pillar is the creation of long-term economic growth sustaining viable and productive employment. Here, as with all elements of our strategy, our approach is partially driven by the urgent need to create a secure and peaceful Iraq. Put simply, people with meaningful and rewarding jobs are too busy, and have no reason, to make and throw bombs.

Today, 94% of all our revenues are derived from oil. Spreading the wealth from this sector in an equitable way is a priority for our government. We cannot expect to rely only on the oil sector, not least because we are price-takers and not price-makers in this volatile sector. Moreover our oil industry can only provide 3 – 4% of total employment in the country. The key to new job creation, a

peaceful Iraq (and a successful economic future) lies, therefore, in the support that the government and donors give to build the conditions for a vibrant and diverse private sector.

That there is a role for the state in setting the right conditions for economic growth is undeniable. But, all over the world is evidence of the benefits that accrue when the dead hand of state control is lifted from the levers.

For too long the Iraqi state has maintained a fiction of employment and economic activity. Under the old regime most of us had little choice about how our intellectual capital could contribute to economic growth and social advancement. The result has been stagnation and worse.

Now, however, Iraqis, with your support, have a chance to set an example to our region, and to developing economies around the globe. We have an opportunity to develop real jobs: to create new wealth for the benefit of all. This is a chance we are determined to take.

Your support here is urgent. However, we are not sitting idly by waiting for your assistance to arrive.

We have established an Oil Policy Commission to consider and review policy options aimed at restructuring the oil sector and to enhance production capacity through disengaging the government from direct management of commercial enterprises, while asserting its vital role in policy making and regulatory oversight,

and opening undeveloped areas into investment, including foreign investment and encouraging Iraqi private sector to be involved in many facets of the industry.

We have established a special Ministerial Commission on Privatisation, chaired by Muhsin al Dahawi a respected Iraqi businessman, supported by specialist advisers. Its remit is to gather information on all our SOE's. It is expected to develop a realistic strategy for privatisation as well as the plans for a supporting institutional framework.

Every economic adviser I have ever met tells me that Iraq has the potential to be an economic powerhouse for our region – the Japan of the Middle East perhaps. Well, however distant that may look today, I believe them. After all, this region is no stranger to private enterprise. The fundamentals of modern business and trade: contract law, property rights and banking were invented within the boundaries of modern Iraq.

I know, though, that this vision of a dynamic private sector is only attainable if we ensure Iraq's mineral wealth is not wasted. Providing support to moribund state enterprises and propping up a bloated public sector is a sure road to ruin, as others are fast discovering.

Before we can begin to attract the investment a diverse private sector needs, we must guarantee our personal and collective security. As I hope I have made clear, security is inextricably linked to the delivery of basic human needs. Once again I say, turn

your pledges into firm commitments now. Enable us to begin laying the foundations of an Iraq where the state is an enabler not the sole proprietor.

It is in the area of social reform, the third pillar of our strategy, that I believe the state has the most important role to play and I wish to turn to our ideas and requirements here.

We have identified three social sector priorities where your support is most urgently needed:

- healthcare, water and sanitation;
- education; and
- housing.

Not that many years ago, Iraq's health service was the envy of the Middle East. Now, too many Iraqi doctors and other healthcare professionals practice their profession around the world, and who can blame them. This is one export we'd like to stop – at least for a while.

We want to create a health service that meets all the needs of all Iraqis and that rewards its professionals appropriately. Iraqi human capital exists to do this. It's the other sort we need to achieve our goals.

Four millennia ago, the two great rivers that run through our country enabled our region to flower into one of the great

civilisations. the fount of what today has become 'western' civilisation. Iraq is certainly not a dry, desert country!

Our challenge now is to restore basic standards of water and sanitation. We have set ourselves the short-term target of increasing access to potable water in urban areas by 15 percentage points and that of rural areas by 20 percentage points. We will reduce water wastage everywhere by 10 percentage points and increase sanitation coverage by a similar margin. But this merely gets us back to former standards of quality. To address the decades of economic failure and to meet the demands of a growing and increasingly wealthy population will require major investment. That investment cannot start soon enough.

As well as having an abundance of water and oil, Iraq has considerable human wealth, 60% of it under the age of 20. Just over 5 million Iraqi children attend our schools, including 95% of all secondary school-age children. And yet, our literacy rates, once the highest in the region are declining. Everyone at this conference knows that illiterate and virtually unemployable youth are the prey on which terrorist vultures feed.

More than this, the vision of an energetic private sector that I have outlined today will come to nothing unless we empower our youth with an enriching and stimulating education. So, your help is required here as well. Let me be clear, this is an immediate and urgent requirement. In two years time another 1.5 million Iraqi children will enter and leave our schools. What system will we

receive the arrivals with; and what legacy will the leavers carry with them as they take their first adult decisions in life?

And finally in the sector of social reform we must address another fundamental requirement. Providing adequate housing is a serious and urgent challenge. We estimate that there is a shortage of 1.5 million basic housing units including those that require rebuilding from war damage. In fact the problem is much worse than this. Thanks to the incompetence and corruption of the previous regime, between 30 and 35% of our existing housing stock is below even the most basic of internationally acceptable standards.

Once again, though, the Government is not just waiting complacently for assistance. Instead of the Government embarking on yet another social housing scheme, we have set up a housing fund with an initial capital of \$200 million to provide small loans to first-time owners of up to \$12000 to build new homes.

We know that this is a small start. Your help now will ensure that these seeds grow quickly.

As everyone in this room will be aware, the Government of Iraq recently agreed to a transfer of US\$3.4 billion from the US government's supplementary budget. This money, originally targeted at reconstruction and social welfare projects, has now been redirected to security and oil sector enhancements. This was essential and we understand that. However, there has been a negative impact on the speed at which we can rehabilitate our

social services, in particular in the areas of health, educations, water and sanitation. We see this as an opportunity for other donors to stand up and fill the breach – are you ready to do this?

Conclusion

Development and stability in Iraq cannot be driven forward through the barrels of guns. Assistance and aid in the short term is the key to destroying the causes of terrorism. It is also the only way we will build a sustainable, long-term future for our people. We have a limited opportunity to secure this. With a little luck and much good judgement, we also have a chance to change the course of history in the Middle East.

For those countries that have joined together with us in starting the mighty effort to renew and invigorate Iraq we ask that you stay firm and redouble your efforts to support us through aid and technical assistance.

For those countries that held back on political or geo-political grounds we ask that you should not withhold or delay your support any further. The past must be allowed to rest in the past. The Iraqi people have suffered enough already.

Thank you for listening to me today. We all have much work to do in the next 48 hours. We have brought together a dynamic team that includes the Ministers of Planning, Health, Public Works, Communication and Electricity together with representatives from all concerned ministries. As you can tell, we are taking this

conference very seriously. And my colleagues and I are looking forward to our time together with eager anticipation. Before we break to begin the working sessions here is my most important message: invest now and your return (and ours) will be a market based democratic Iraq that will peace with itself and at peace with the world.

Thank you once again to the graceful organisers.