Office of the DAC Chair

CHAIR'S SUMMARY:
OECD DAC REFLECTION ON RECONSTRUCTION IN IRAQ (21-22 July 2003)

This note is the final version of the Chairman's Summary of the DAC Reflection on Reconstruction in Iraq (21-22 July 2003). An earlier draft had been forwarded to participants for comment by 6 August 2003 via the letter RM(2003)15 dated 23 July 2003.

This note represents the conclusions of the Chair on the basis of the discussion. In his opinion, it is a fair reflection of the views expressed. Perspectives of delegations, of course, differed, and the detailed language cannot fully reflect the views of every participant. This summary should be read accordingly but it is hoped that it represents, nevertheless, a widely-shared basis for moving forward.

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OECD DAC REFLECTION ON RECONSTRUCTION IN IRAQ
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Chair’s summary

The following paper represents the conclusions of the Chair on the basis of the discussion. In his opinion, it is a fair reflection of the views expressed. Perspectives of delegations, of course, differed, and the detailed language cannot fully reflect the views of every participant. The summary should be read accordingly but it is hoped that it represents, nevertheless, a widely-shared basis for moving forward.

1. The “DAC Reflection on Reconstruction in Iraq” provided a forum for an informal exchange of views on the challenges that lie ahead in the relief, recovery and reconstruction of Iraq. It was timed to build on the UN/World Bank-led conference on emergency and reconstruction requirements in Iraq (23/24 June 2003) and to support preparations for the forthcoming donor co-ordination meeting (October 2003).

2. On the basis of UN Security Council resolution 1483 of 22 May 2003 and recognising the unique circumstances of Iraq’s transition, the participants focussed on issues for the donor community, including how a wider partnership of co-operating countries and international institutions might best help strengthen institutions of governance, security, economic policy and human and social infrastructure.

3. Participants welcomed the presentation of a 2003 budget by the Coalition Provisional Authority (CPA) and the progress made with the needs assessments led by the UN in conjunction with the World Bank and the IMF in preparation for the donor conference planned for October 2003. They noted the importance of integrating the needs assessment with the preparation of the 2004 budget by the CPA and the Governing Council of Iraq.

4. Participants¹ assessed humanitarian and reconstruction strategies through the lens of experience in comparable situations and of DAC guidance on preventing violent conflict, reconstructing post-conflict countries and establishing good governance. All donors shared the same basic concern to advance the emergence of a stable and secure Iraq with a representative and accountable political system which embodies human rights of all people and a functional economy that produces sustainable growth and poverty reduction. It is essential to ensure Iraqi ownership of these processes.

Main points of discussion

5. The assistance effort must continue immediate humanitarian relief for the provision of basic goods and services and for removing on-going obstacles which hinder the return of displaced persons and refugees. It must simultaneously aim to provide recovery and development assistance throughout different parts of a country undergoing deep political and economic transitions.

6. Iraqis need to perceive positive change as soon as possible, as well as to establish ownership of the reconstruction process. The views of the people and their long-term needs should underpin any actions and be given heavy weight in the use of international reconstruction resources. The important role of the United Nations in this context was underlined.

7. Iraq’s oil revenues will be constrained in the near term, and there are difficult technical and governance issues in increasing production significantly over the medium term. High priority should

¹ Representatives of DAC members and non-DAC OECD members, the UN system, humanitarian organisations, the World Bank and the IMF, the CPA, and individual experts.
be given to addressing these issues. Although oil reserves are among the largest in the world, Iraq is at present a relatively poor country with high population growth and declining social indicators. The size of the international assistance effort still needs to be assessed but is likely to be considerable. This raises the issue of how to mobilise additional aid resources in order to avoid diversion from the needs of other developing countries in the context of the Millennium Development Goals and other recognised priorities of the international community.

8. The socio-political and security environment as well as economic growth needs must be carefully assessed in order to ensure long-term structural stability, security and sustainability within the context of human rights for all. It is essential to avoid all forms of discrimination, such as on the basis of ethnicity, religion or sex, to ensure full and effective representation in political, social and economic life as well as access for all to education, social services and income generating activities.

9. Participants noted the importance of addressing the current prevalent feelings of trauma and confusion and a persisting culture of entitlement among many Iraqis. Following the overthrow of the former regime, there is also, however, a sense of opportunity. Iraqi civil society is taking advantage of this to increase its strength and vitality. At the same time, there exist unrealistic expectations as to the pace of progress and a lack of confidence in the likelihood of a secure future. Changing this climate will involve building trust and improving communication with the Iraqi people as well as action in areas such as the media and education.

**Security**

10. Participants noted the difficulties engendered by violence in certain parts of the country and the need to address security and public safety issues as rapidly as possible. It was emphasised that security problems significantly hinder political and development efforts.

11. Personal security is a central and pressing concern for the Iraqi people and donors, and, in particular, for Iraqi women seeking to participate again in the economic, political and social life of their country.

12. Addressing security issues in the longer term requires an integrated approach to transforming the security system. This includes reviewing the roles of military, police and security forces as well as the need for civilian oversight and complementary reforms in areas such as judicial, prison and governance institutions.

**Governance and Democracy**

13. The transition and reform agenda for development is contingent on establishing institutions of governance and democracy that are, and are perceived to be, credible, transparent and representative. Evolving Iraqi institutions at national, provincial and local levels must be legitimate in the eyes of the Iraqi people and must be reconnected with the country and with the rest of the world as soon as possible. Participants recognised the importance of the recently established Governing Council of Iraq as a first step towards a democratically elected government.

14. The participants considered the fundamental challenges involved in determining the appropriate sequencing and timing of political transformation. Consistent with the United Nations Security Council resolution 1483, the international community must support the people of Iraq in the process of building a constitution and in progress towards country-wide free elections.

15. Existing competencies of the Iraqi people, communities, institutions and the nascent private sector should be built on and encouraged as a basis for creating new capacity and strengthening the public sector and civil society including at provincial and local level. Participants discussed the need to ensure the emergence of accountable political and administrative structures which make use of the professionalism of Iraqi staff.
16. The empowerment of women in the political transformation is very important and will require identifying and addressing barriers to women’s full participation in governance processes at all levels.

17. Difficult issues of political economy are involved in the transition of an oil-based economy away from the negative dynamics of authoritarian power based on political use of oil rents. Participants underlined the importance of establishing and maintaining transparent political processes and preventing corruption and the control by vested interests of key assets and institutions.

**Economic management**

18. Iraq is attempting to undertake three major economic transitions simultaneously. It is moving from (i) a war economy to a post-conflict, peace economy (ii) a centralised to a market-orientated economy and (iii) a rent/oil based economy to one that is diversified and based on production and productivity.

19. Participants discussed the need for a stable and sound macro-economic environment. This involves such questions as the transformation of the banking and payments system, monetary issues, fiscal policy, and dialogue with Paris Club and other creditors.

20. The participants discussed the challenges related to the achievement of economic growth in the short and the long term, including drivers of job creation and income generation. There is an urgent need to create employment opportunities for large numbers of people in the short term through the rapid spread of micro-credit schemes and the expansion of public works programmes where rebuilding infrastructure and basic services offers much scope.

21. Participants noted the particular sensitivity of oil revenue receipts and the dangers of corruption and competition for control of Iraq’s oil resources as a means to exert power through systems of patronage. Transparency and accountability in the processes and mechanisms of economic governance are essential and urgent issues.

22. In the medium and longer term, the diversification of the economy beyond oil and the strengthening of the private sector will be critical to economic growth, to the reduction of poverty and to augmenting the participation of women and opportunities for youth. A major challenge is how to ensure that the transition from the Oil-for-Food Programme does not create gaps in the availability and affordability of basic social services and particularly food security for poor people and vulnerable groups. Issues relate to financial sustainability, incentives and other steps needed for agricultural production and marketing, and the time required to address the employment issue. Related economic priorities include stimulating local markets and reviewing property rights.

**Delivery of Focussed and Co-ordinated Aid**

23. Participants emphasised the importance of working through a single budget framework which provides transparency and a strong priority review process for programme approval and thus a basis for co-ordinating external support. This implies strong investment in local systems for accountability and audit. (It was suggested that a World Bank-led Country Financial Accountability Assessment (CFAA) should be considered.) A concurrent monitoring, tracking and evaluation system through benchmark measures and indicators would enable mid-course corrections and accountability. Transparency is of critical importance. As far as the existing Development Fund for Iraq is concerned, it was noted that the International Advisory and Monitoring Board, whose terms of reference are currently under discussion, is a key element in this respect. Participants welcomed indications that procurement guidelines currently being drafted will recognise international practices and competitive international bidding for the Development Fund for Iraq (DFI).

24. There was considerable support for financial transfers through a joint financing facility, such as a multi-donor trust fund (MDTF), to supplement the DFI. Such a MDTF is currently being discussed. Some donors argued that such a trust fund should not be the exclusive vehicle for the flow of finance.
Many stressed that government to government donor finance should be integrated into the budget framework and should be demand rather than supply driven.

25. Donor actions should take into account the priorities emerging from budget and sector frameworks, the international needs assessments, the regional and local characteristics and the needs of each of the provinces. This requires close co-operation between the Coalition Provisional Authority, Iraqi ministries and the donors. The meeting was briefed on the role that the Council for International Cooperation of the CPA can play in facilitating this process.

26. Participants stressed that coherent principles of harmonisation and co-ordination agreed in Rome should be applied as far as possible to Iraq. Co-ordination among ministries within each donor government will help increase effectiveness and diminish inconsistencies in policies. All parties should co-ordinate to establish a common vision and strategic priorities and clear integrated structures for the country as a whole and by sector to support Iraqi-led reconstruction efforts.

27. The meeting noted the important role that many non-governmental organisations were already playing in humanitarian work. As the situation stabilised, it would be important to harness their considerable energies and resources behind locally-owned sector strategies and efforts to rebuild civil society.

28. It was suggested that the DAC should contribute to the deliberations of the Liaison Group established to build a common understanding on how to approach the reconstruction effort.

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