

Statement of

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Statement by Mark Malloch Brown, UNDP Administrator
and Chair, United Nations Development Group

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Mr. Chairman, Excellencies, Honored Guests,

As Secretary-General Kofi Annan observed yesterday, we are gathered here for a proud purpose: to help the people of Iraq build the democratic and prosperous nation that has been denied to them through years of brutal dictatorship.

The Needs Assessment, prepared under the leadership of the United Nations and the World Bank, tells the story of a country brought down from a per capita income of US\$3,600 25 years ago to less than US\$600 today; from a per student education expenditure of \$620 to \$47. In short, a nation whose collapse is written in its social indicators as well as in the violence on some of its streets.

How do we help its people put their country back together again? As we have gathered here, the media headlines have screamed an answer: "Give them \$56 billion over the next four years," together with a pre-emptive verdict on our Conference. "Bet you won't raise that much!"

This is a sum that happens to be rather more than the world gave sub-Saharan Africa over the last four years, a region with a population some 25 times bigger than Iraq's.

Why \$56 billion? Because it is the combined sum of the UN/World Bank Needs Assessment and the additional sectors, notably oil and security, covered by a

Coalition Provisional Authority (CPA).

And yes, there is no doubt that Iraq needs a capital injection of this scale. But we made it clear in the Needs Assessment, and I quote “the Assessment notes that the \$36 billion (in addition to the \$20 billion that was assessed separately by the CPA) is not the same as the financing gap; that is, not all of the identified needs may require external donor assistance. It is expected that, over time, investment will be increasingly covered by Iraqi government revenues or private sector financing, thereby diminishing the needs for donor support.”

Let me spell out clearly what, at least this author, meant by those words:

First, in 2004, Iraq and its Governing Council will be totally dependent on donor grant financing for almost everything above its day-to-day costs, which will be met from oil revenue. We estimated for our sectors, not the CPA’s, that \$9 billion would ideally be needed for the first year, but warned that a realistic implementation rate, given the insecurity and our more general post-conflict experience, was that perhaps only \$5 billion of that could actually be implemented in 2004. So the grant finance needs for 2004, particularly when the CPA sectors are added in, are considerable, but not beyond the reach of this Conference.

Second, after 2004, for the years 2005-2007, the financing mix must change, as a grant finance effort alone would surely be an unsustainable distortion of aid flows from poor countries and other crises.

I think we could meet both these benchmarks today, a strong grant package for

2004; and the elements of a mixed financing model thereafter. If there had been a Madrid Conference in 1989 for Eastern Europe and a UN/World Bank Needs Assessment, the participants would have had sticker shock. But with hindsight, the transition was carried out by the markets. If the political track of Iraqi sovereign government is aggressively pursued in 2004, we can indeed look to a more creative financing package for 2005-2007. Then imagine what full progress towards Iraqi sovereign government by the end of 2004 would allow. In our Iraqi colleagues here with us we have seen the promise of the new leadership.

1. Iraq could enter into negotiations with the Paris Club and other creditors to re-negotiate the debt overhang, which at more than four time GDP, stifles, even concessional, lending.
2. Liberalization of the economy including the disposal of state assets.
3. A new foreign investment framework, particularly for the oil sector, that will be respected and honoured by future governments.
4. An easing of the internal tensions that feed the instability and violence that are impeding reconstruction and deterring foreign investment.
5. Above all Iraq, as the Iraqi delegation today has already been so effectively doing, would take full leadership and ownership of the development and reconstruction effort.

Together these steps by an Iraqi government enjoying full domestic and international legitimacy can convert Iraq quickly from a land of subsidies and state control to one of

rising incomes and market opportunity. In doing so, it will herald in the kind of mix of financing that transformed the countries that emerged in 1989 from behind the Berlin wall. Yes, grant finance counted, but even more, technical assistance and capacity building to adjust to a modern market economy and a global economy beyond; and a growing flow of initially concessional finance increasingly supplemented by foreign direct investment portfolio, and bond flows as well as domestic savings.

That is not aid alone. It's Iraq's future. And we have to reach for it boldly and urgently together.

By promoting loans as part of the solution I do not want to be misunderstood. I am aware that in the capital of the most generous donor today, the United States, a debate has raged about grants versus loans to Iraq. Let me side with the Administration that has insisted its assistance be grants. For the US, to convert its generosity to a tied loan would surely risk terrible resentment and opposition in Iraq in today's circumstances.

The economic transformation that Iraq now faces will be dislocating and very painful for many groups. We must therefore be ready.

1. Through UNICEF, WHO, the World Bank and others, we must assist in maintaining and improving basic services and target support to vulnerable groups.
2. Unless the security sector is effectively addressed, any reconstruction programme is jeopardized.

3. The governance technical assistance and capacity building that UNDP and others specialize in is vital, we believe, to creating the honest, transparent policy and institutional environment in which the new economics and politics of Iraq can flourish.
4. The multi-donor Facility with a common governance structure and two fund windows, a UN and a World Bank one, offers donors real options for spending in coordinated, but segregated mechanisms, parallel to the Development Fund for Iraq. We see our UN Window providing flexible, fast implementation arrangements to meet the grant needs for 2004, as well as longer-term technical assistance requirements.

Through the UN system, our experienced international and 4,000 Iraqi national staff, and our 20 years of partnership with Iraqi national and municipal officials and civil society leaders, we believe we can innovate implementation arrangements which will be effective even in today's difficult security environment.

We all have hopes for Iraq. Many of my UN colleagues were at the Canal Hotel discussing this Needs Assessment when the office was bombed on 19 August. So for us in the UN, this is a particularly precious piece of work; but so is our relationship with Iraq. We have known you through war and sanctions, through tragedy on both our sides, to the hope of peace and liberation. From the ashes of the Canal Hotel, we dream of helping you build a new Iraq.

Thank you.