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Iraq Assistance Programme, 2004

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INTRODUCTION

The Madrid Donor's Conference for Iraq (23-24 October 2003) launched the international effort to assist Iraq in its political, economic and social transformation and its rehabilitation and reconstruction. Madrid announced pledges of more than \$32 billion for reconstruction until the end of 2007 and welcomed the creation of the International Reconstruction Fund Facility for Iraq managed by the United Nations Development Group and the World Bank.

At the Conference, the European Union (EU) and the Accession Countries pledged more than €1.25 billion, mainly in grants, for Iraq's reconstruction. Of this total, €200 million was pledged from the community budget for the final months of 2003 and for 2004.

This Assistance Programme has been drawn up to provide a basis for implementing the €160 million provided by the European Community (EC) budget in 2004. It reviews EU cooperation objectives, the political, economic and social agenda faced by the Iraqi administration in 2004, lessons learnt from the European Community Humanitarian Office's (ECHO) engagement in Iraq and EC experience in other post-conflict situations and sets out priorities for EC assistance in 2004.

The decision to draw up an Assistance Programme, rather than a full Country Strategy Paper reflects the unique situation prevailing in Iraq at this time and in relation to EU policy. Specifically:

- The absence of diplomatic or other direct relations between the European Community its Member States and Iraq, with the exception of the provision of humanitarian aid, due to the sanctions regime in force over the past 13 years means that, at present, the Commission has little in-house expertise.
- Full partnership between the EU and an Iraqi national government, including formal agreement on a National Indicative Programme, can be established only after the hand over to a transitional Iraqi administration in June 2004¹.
- Any multi-annual assistance strategy would require decisions on the EU's budgetary allocations for Iraq after 2004 and on the medium-term strategy for EU relations with Iraq, which will address other EU policies which have a bearing on development (e.g. trade, security, energy).

The security environment in Iraq is also relevant. Beyond those risks usually associated with a post-conflict situation, the volatile security situation in Iraq and attacks on international organisations and Non-Governmental Organisations (NGOs) place significant constraints on the delivery of reconstruction assistance.

The European Council in Brussels on 16-17 October invited the High Representative and the Commission to elaborate a medium-term strategy for the EU's relations with Iraq, making a progress report by March 2004. The Assistance Programme should therefore be seen in the context of the Union's commitment to develop a medium-term strategy for its relations with Iraq. Experience gained through its implementation, coupled with the adoption of a nationally-owned Iraqi development strategy, decisions within the EU on the future budgetary

¹ These plans may be modified in the light of the UN's mission to examine the feasibility of direct elections to the transitional assembly.

allocation for Iraq and on the components of the EU/Iraq medium-term relationship, will trigger the development of a full Country Strategy Paper for Iraq.

CHAPTER 1 EU COOPERATION OBJECTIVES

Successive General Affairs and External Relations Council (GAERC) and European Council conclusions have set out the main elements of the European Union's objectives for its support to reconstruction in Iraq. The Assistance Programme aims to reflect these priorities.

The Thessaloniki European Council of 19-20 June 2003 and the European Councils held in Brussels on 16-17 October and 12 December confirmed the EU's commitment to the development of a prosperous and stable Iraq with a representative government and a thriving civil society with which it can develop mutually beneficial relations. They also expressed the EU's determination to play a significant role in the political and economic reconstruction of Iraq, within the framework of the relevant UNSC resolutions. The European Council invited the Commission and the High Representative to submit proposals for an EU contribution.

The European Council looked forward to an important United Nations (UN) contribution to the process leading to the formation, as soon as possible, of a representative Iraqi government. It invited the Commission and Member States to support the UN Special Representative in the fulfilment of his mandate.

In its conclusions of 19 May, 16 June, 21 July and 29 September 2003, the GAERC reiterated the EU's commitment to:

- the restoration of Iraqi sovereignty and the establishment of a fully representative Iraqi Government through democratic elections. The GAERC attached particular importance to fostering a national Iraqi dialogue in order to overcome political divisions inside the country and forge unity for building a new Iraq and stressed the importance of the Governing Council consulting as widely as possible on the drafting of the fundamental law to ensure as much popular participation in the process as possible.
- close cooperation between the EU and the UN, in particular the UN Secretary General's Special Representative and the Commission, as well as coordination with other donors, and relevant institutions on the ground, in order to maximise the impact of the EU resources involved in the reconstruction process².

The Commission Communication on 'The Madrid Conference on Reconstruction in Iraq', adopted on 1 October 2003, set out proposals for an EU common approach to reconstruction in Iraq at the Madrid Conference. These proposals, and an indicative pledge of €200 million for 2003-2004 from the Community budget, were welcomed by the GAERC in its conclusions of 13 October 2003 and the European Council held in Brussels on 16-17 October 2003. A number of factors were considered essential for the success of reconstruction efforts:

- an adequate security environment,
- a strong and vital UN role,

² The tragic assassination of Sergio Vieira de Mello on 19 August 2003 hindered the fulfilment of this objective.

- a realistic schedule for the handing over of political responsibility to the Iraqi people,
- the setting up of a transparent multilateral donor fund to channel support from the international community.

On 17 November 2003, the GAERC welcomed the accelerated process of handing over executive powers to the Iraqi Governing Council and its ministries. It took note with satisfaction of the announcement by the Governing Council on 15 November 2003 of a timetable for the transfer of sovereignty to a transitional Iraqi government and for a constitutional process leading to the establishment of a democratically elected and internationally recognised Iraqi government. The GAERC expressed the hope that the positive outcome of the Madrid Donors' Conference be swiftly transformed into concrete results on the ground with a direct and immediate impact on the Iraqi people.

The European Council in Brussels on 12 December 2003 further called on all parties involved to keep the political process moving forward in an orderly and peaceful manner. It stressed the importance of ensuring the widest popular participation in the political and constitutional process. The European Council recognised and encouraged the efforts under way by the Iraqi Governing Council and its Ministers to assume more direct responsibilities and executive powers, particularly in the security field.

Successive European Councils have reiterated the EU's call on Iraq's neighbours to support stability in Iraq and in the region and the EU's willingness to contribute through deepening dialogue and cooperation in all fields with the Arab and Islamic worlds. They noted that a prosperous, stable and sovereign Iraq, whose territorial integrity is preserved, will be essential for stability in the region and beyond.

CHAPTER 2 POLITICAL, ECONOMIC AND SOCIAL SITUATION IN IRAQ

Iraq faces the daunting task of reforming its constitutional, political, economic and social systems over the coming years as well as improving the standard of living of the Iraqi population. The UN/World Bank Joint Needs Assessment ('Needs Assessment') highlighted the far-reaching challenges:

- improving personal security, allowing the population to engage in the reconstruction process and political processes.
- strengthening institutions of sovereign, transparent and good government. The Needs Assessment particularly highlights the need to build internal local Iraqi capacity within ministries to tackle the challenges of the transition.
- protecting vulnerable populations in the phasing out of the Oil For Food programme.
- restoring critical infrastructure and core human services destroyed and degraded by years of misrule and conflict.
- supporting economic and social transition that provides both growth and social protection.

2.1 Political and Social Situation

Iraq has had a history of conflict and political turbulence ever since its establishment as a state in 1921. After three wars, 12 years of sanctions and 36 years of Ba'athist rule marked by

brutality and the destruction of value, Iraq currently faces both the impact of an external war and a structural crisis in its political and social institutions. Table 1 demonstrates the scale of the damage wrecked on Iraq's society, political life and economy by the policies pursued by the previous regime.

The Needs Assessment exercise also highlighted the variability between different regions and ethnic groupings in Iraq when it comes to economic deterioration and social indicators; the politicisation of budget allocations and the relative autonomy enjoyed by the Kurdish regions has led to marked differences between the northern, central and southern regions, as well as between urban and rural areas.

Although Iraq is an overwhelmingly Muslim country, it is both religiously and ethnically diverse. More than 95% of the population is Muslim, but this total is divided between Shiites who constitute around 62% of the population and Sunnis who represent about 35%. The Sunnis are divided among Arab, Kurdish, and Turkman ethnic groups. The very small Christian population, around 3%, is divided among Chaldeans, Assyrians and others. Despite the fact that the majority of the country is Shiite, the Sunnis – notably Saddam Hussein's Tikrit allies - have for several generations dominated the country, sometimes co-opting Christian support. As a consequence, the Shiites have historically felt excluded.

The combined legacy of Saddam Hussein's regime, with its policies of repression of specific ethnic groups, the use of tribal networks of power, the unequal geographic distribution of resources, and post-Saddam policies which focussed on a large-scale dismantling of Sunni dominated Ba'ath party structures, has weakened social and political stability in Iraq. Iraqi women, who saw their rights under Iraqi legislation progressively undermined by political decisions taken over the course of the 1990's, are now in a particularly ambiguous position.

The Agreement signed on 15 November 2003 between the Coalition Provisional Authority (CPA) and Governing Council decouples the process of transfer of power to an Iraqi government from the constitutional process (see Table 2 below). The short deadline for handing over responsibility to a transitional Iraqi administration is likely to limit the level of participation in the political transition process in the first half of 2004. It will therefore be important that there is sufficient participation in the drafting of the constitution to reflect the diverse interests of Iraqi society. Key issues in the constitutional process will include the role of religion, the kind of federalism that could be agreed and the position of women and minorities. For the new constitution to achieve a broad-based consensus, the emergence and consolidation of new political groups, alliances and civil society organisations to reflect and voice the various interests at stake will be necessary.

Over the medium-term, multi-party democratic pluralism should safeguard the interests of all sections of Iraqi society and reduce the risk of internal conflict. However by late 2003, divisions had emerged, both inside the Governing Council and within Iraqi society more broadly, on the process leading to the establishment of a transitional administration and the dissolution of the Governing Council. Those divisions reflect differing interests – for example, between returning exiles and emerging domestic leaders and between the political interests of Shia leaders in representing a majority of the Iraqi population and leaders of other religious and ethnic groups. The key question for 2004 is therefore whether it is possible to find a balance between interest groups which will allow the process of political and constitutional change to go forward.

2.2 Economic Situation

In the economic sphere Iraq faces a triple transition - from a war-based economy to the structures and institutions associated with peaceful development; from a highly-centralised economy to a functioning market economy; from an oil-dominated economy squeezing other areas of economic activity to more balanced sources of revenue. Three key economic challenges are emerging for 2004 – managing the social impact of the CPA-driven reform agenda, handling oil-dependency and the consequent risks to meeting budget expenditure targets, and restructuring Iraq's heavy external debt obligations.

In 2004, the reform measures initiated in 2003 will interact with the transition out of the Oil For Food programme which, until now, has constituted Iraq's primary social safety net. The instability and insecurity of the aftermath of the war and the subsequent occupation, the complexity of the political and constitutional transition, the liberal economic stance, the present subsidies granted to fuel, power, water and food, as well as the dependence of budget revenues on international oil prices and Iraq's uncertain ability to rapidly increase domestic oil production capacity, suggests that Iraq could face one or several economic shocks. In addition, security and political factors, coupled with the speed of the envisaged economic transition, create a strong risk to social stability. These risks need to be mitigated by the establishment of mechanisms, accompanied by sufficient resources, to constitute an effective social safety net.

Experience in implementing the CPA's 2003 interim budget (July-December 2003) highlights the risk posed by Iraq's oil dependency, in particular the influence of shifts in world oil prices. Further challenges may arise from the policy mix of a very liberal stance regarding trade and investment, liberalisation of the economy, including low tax rates, and public wage and recruitment policy. This mix poses potential risks to the sustainability of the budget and the competitiveness of the Iraqi economy within the region and globally and will need to be carefully managed.

The 2004 budget and the Needs Assessment are, at present, complementary. The budget concentrates on financing recurrent expenditures; external assistance for reconstruction investment and related expenditure for maintenance of these investments is sought on the basis of the Needs Assessment. However, the volatility of the situation is such that potentially unforeseen developments may put this division of labour at risk.

Investigations by the IMF and Paris Club into Iraq's external debt burden raise three issues – the magnitude of the debt burden (\$120 billion has been reported by creditor nations plus \$80 billion is outstanding for war reparations – nine times Iraq's predicted GDP in 2004), the complexity of its composition and the relatively small share covered by traditional debt reduction mechanisms. Paris Club sovereign creditors are reportedly owed \$40 billion compared to the \$60 billion interest and principal owed to non-Paris Club member governments; the London Club accounts for \$3 billion of a total of \$12 billion reportedly owed to commercial creditors. Current expectations are that a substantial debt reduction should be achieved in the course of 2004. However, reduction is likely to be subject to Evian conditions, which imply the attachment of extremely strict conditionality on an annual basis.

As a result, the international community is likely to insist that Iraq imposes a far-reaching adjustment package and policy reforms for some years to come. This will need the endorsement of the incoming administration. Debt reduction will thereby imply a uniquely high level of international involvement and monitoring of Iraq's economic policies.

Table 1: Human Development Indicators³

³ Source: Estimates. UN/World Bank Joint Needs Assessment, World Bank Interim Strategy for Iraq

Percentage of the Iraqi population dependent on food rations, 2003 (estimate)	60		
Percentage of Iraqi population without minimum level of dietary energy consumption	<u>1990</u> 7	<u>2001</u> 27	
Primary school enrolment	<u>1980</u> 100	<u>2000</u> 93	
Secondary school enrolment	47	38	
Ratio of girls to boys in primary and secondary education	<u>1985</u> 72	<u>2000</u> 76	
Estimated ratio of young literate females to males (% of ages 15-24), 2003 (estimate)	50		
Infant mortality (per 1000 live births)	<u>1979</u> 80	<u>1989</u> 40	<u>2001</u> 107
Under-5 Mortality (per 1000 live births)	120	60	133
Maternal Mortality, 2003 (estimate)	300 per 100,000 live births		
Percentage of births taking place outside health institutions, 2003 (estimate)	65		
Percentage of women giving birth without trained assistance	<u>Urban areas</u> 30	<u>Rural Areas</u> 40	
Percentage of Iraqi population with access to safe potable water	Prior to 1991 <u>Urban</u> <u>Rural</u> 95 75	2000 <u>Urban</u> <u>Rural</u> 92 46	

2.3 The reconstruction process: key challenges and risks

The UN and World Bank have argued that the Needs Assessment should be seen as an initial contribution to identifying priorities and needs for Iraq's reconstruction process, to be

developed further as stakeholder consultations can be conducted and further data gathered. They identified the following constraints to the Needs Assessment exercise:

- The absence of a political consensus and constitutional framework for post-conflict Iraq.
- The lack of available statistics and official records of the Ba'athist regime and reported weaknesses in information that had been saved.
- The short timeframe for the needs assessment missions to draw conclusions and restrictions on the scope of geographical coverage due to security threats.
- The inability to conduct full stakeholder consultations with the Iraqi population to receive their insights and to confirm the conclusions of the needs assessments.

Looking ahead to 2004, risks which may affect the prospects for rapid implementation of the resources pledged by donors for investment, as well as the overall success of the reconstruction process more generally include:

- **The security climate:** Domestic order and security is required to undertake reconstruction activities, to attract private sources of finance for investment and to stimulate private sector growth. The challenge presented by the security situation differs through Iraq's governorates, but both political and criminal violence are present. International bodies face direct threats to their personal security operating in-country to implement assistance.
- **The political process:** Iraq's occupied status in the first six months of 2004 and uncertainty surrounding the full handover of responsibilities to the transitional administration on 1 July 2004 create challenges for the international community's ability to programme reconstruction assistance around a set of known medium-term development priorities.
- **The social impact of reforms:** Unemployment has already emerged as a source of social tension within Iraq. Improper sequencing of economic reforms, inadequate provision for social safety nets and lack of attention to reducing poverty and safeguarding livelihoods, could add to social instability.
- **Oil dependency:** Weaker than predicted domestic output or world oil prices and/or major increases in key import prices (e.g. grains) would undermine the assumptions underpinning the 2004 Iraqi budget and, potentially, expenditure on those recurrent costs such as wages which support the reconstruction process and social stability.
- **Weak administrative and institutional capacity and corruption:** The reinforcement of Iraq's administrative, legal and regulatory environment needs to take hold if Iraq is to properly manage and implement donor assistance. Over the longer-term, these measures also need to be coupled with steps to ensure that transparency and the rule of law are applied throughout state institutions so that resources for reconstruction are efficiently allocated and can be sustained.
- **Debt:** The \$32 billion pledged by donors at the Madrid Conference to assist Iraq's reconstruction needs to be accompanied by a significant reduction of Iraq's external debt to sustainable levels. Pending resolution of the debt issue, Iraq will not have access to international capital markets to finance reconstruction.

CHAPTER 3 IRAQ'S POLICY AGENDA IN 2004

Since May 2003, the CPA and the Iraqi Governing Council have set out an ambitious programme of political transition, constitutional change and economic liberalisation to be pursued in parallel over the course of 2004 and subsequent years.

3.1 Agreement on political process

On 15 November 2003, the Iraqi Governing Council and the CPA concluded an agreement on the political transition process including a timetable and programme for the drafting of a new constitution and the holding of elections. The Agreement foresees the restoration of full responsibility for governing Iraq to an Iraqi transitional national assembly by 1 July 2004. The transitional national assembly will be established by 31 May 2004, chosen through a CPA-supervised process of caucuses held in the 18 Iraqi governorates. It is then expected to elect an executive branch and ministers and assume responsibility for Iraq's governance and supervise the constitutional process. These plans may be modified in the light of the UN's mission to examine the feasibility of direct elections for the transitional assembly

Table 2: Agreement on Political Process

Deadline	Action
28 February 2004	Agreement on 'Fundamental Law' by Coalition Provisional Authority and Governing Council setting out, inter alia, the scope and structures of a new transitional administration.
End March 2004	Signature of a security agreement between the Coalition Provisional Authority and the Governing Council covering, inter alia, the status of Coalition forces in Iraq.
31 May 2004	Establishment of Transitional National Assembly.
30 June 2004	Transitional National Assembly to elect executive branch and appoint ministers.
<i>1 July 2004</i>	<i>Assumption of full responsibility for governing Iraq by Transitional Administration. CPA and Iraq Governing Council dissolved.</i>
15 March 2005	Elections to be held for a constitutional conference (the new constitution is to be ratified by popular referendum).
31 December 2005	Elections for new government to be held under the ratified constitution.

The constitutional process will follow a separate, but related, track – including elections for a constitutional conference by 15 March 2005 and a popular referendum to ratify the constitution later in the year. The goal is to hold elections for a new government under the new constitution by 31 December 2005.

3.2 2004 Iraqi budget

The 2004 Iraqi budget prioritises the recurrent costs of the Iraqi government and certain capital investments deemed the most urgent. On this basis, the Needs Assessment predicts a \$19.8 billion financing gap in 2004, corresponding to the investment needs identified in the fourteen sectors covered by the needs assessment exercise⁴ plus CPA-estimated needs⁵.

The budget, which was prepared by the CPA and the Iraqi administration and released on 13 October 2003, covers all 18 governorates and projects revenues of around \$13 billion and expenditures to cover operating costs and 'essential' investment of \$13.5 billion - the shortfall being financed from refunds of unspent Oil For Food funds. Income is predicated on oil revenues which, on the basis of an oil price of \$21 per barrel in 2004-2006, amount to \$12 billion. Non-oil revenues, including tax revenues, returns from State Owned Enterprises, user pays fees and charges, interest income accruing from the Development Fund for Iraq and other sources of tax revenue and income amount to \$0.8 billion. Additional sources of revenue include transfers from the Oil for Food programme account to the Development Fund for Iraq and, although not factored into the 2004 budget, the transfer of frozen Iraqi assets from abroad.

The 2004 budget sets a fiscal framework for a balanced budget for recurrent costs in 2005 and 2006 based on the assumption of increased revenues – mainly stemming from predicted increases in oil production plus a modest increase in the fiscal effort. It is suggested that this could allow for additional investment financed by domestic resources of around \$5.3 billion in 2005 and 2006, falling short of the \$37.718 billion estimated as being required for 2005-2007.

Table 3: Macroeconomic Indicators⁶

	2002	2003	2004 (projected)
Population (million)	25.5	26.3	27.1
Nominal GDP growth rate (%)	-4	-31	33
GDP (US\$ billion)	18---24	13--17	17--22
Per capita GDP (US\$)	720-960	480-630	620-810

3.3 Economic policy

The Iraqi economic strategy presented at the IMF/World Bank Annual Meetings by Finance Minister al-Gailani on September 21 2003 focused on enshrining free markets and small

⁴ The United Nations/World Bank Joint Needs Assessment assessed requirements in the following sectors and cross-cutting themes between July and August 2003: education; health; employment creation; water and sanitation; transport and telecommunications; electricity; housing and land management; urban management; agriculture, water resources, and food security; finance; state-owned enterprises; investment climate; mine action; government institutions. Human rights, gender, the environment.

⁵ CPA-estimated needs covered security and police; oil; culture; environment; human rights; foreign affairs; religious affairs; science and technology; youth and sport.

⁶ Source : UN/World Bank Joint Needs Assessment, October 2003, World Bank Interim Strategy, January 2004

central government. It envisaged a macroeconomic strategy based on 5 core principles aimed at the establishment of an open market based economy to improve living standards:

- Economic openness (restricted role for the public sector).
- Private sector development (including a focus on Small and Medium-sized Enterprise development and open Foreign Direct Investment rules).
- International integration (re-joining the international political and economic community, forging new open trade and financial ties).
- Public transparency (public scrutiny and accountability for Iraqi institutions).
- A safety net for the poor (alleviating the impact of transition through market-based schemes).

The economic measures taken by the CPA since May 2003 reflect these principles and have included the publication of the national budget, the establishment of a fully independent central bank, the launch of a new unified and fully convertible Iraqi Dinar and the ending of the previous regime's unconstrained approach to the money supply and public finances. In terms of trade policy, tariffs and duties have been suspended and replaced by a 5% reconstruction levy on most imports, with the exception of humanitarian goods, from 1 March 2004 for 2 years. A regulatory code for oil distribution was enacted on 3 October 2003, running for 9 months with the aim of combating theft and smuggling of Iraqi oil resources. A new Iraqi trade bank has been established to purchase key capital imports. Foreign Direct Investment rules allow for 100% direct foreign ownership, full national treatment, no local content requirements and full and immediate repatriation of foreign firm profits with the exception of key strategic sectors. Income taxes have been set at a maximum marginal rate of 15% /from 1 January 2004 and corporate taxes at a flat rate of 15% to encourage better tax discipline and discourage capital flight. New financial sector and banking rules requiring local bank capitalisation of \$5 million within 18 months, and international standards thereafter have been agreed. These also open entry to Iraq's financial sector and provide national treatment to international banks; in particular, the banking law allows six foreign banks to purchase 100% of local banks within 5 years and an unlimited number of foreign banks to purchase up to 50% of local banks. Public sector conditions of employment and salary scales have been unified and pay increased.

These reforms will take hold in the course of 2004. In addition, a number of pressing policy choices will need be made, in particular regarding the establishment of a social safety net and mechanisms to take over from the food basket previously supplied to 60% of the Iraqi population via the UN's Oil For Food Programme (responsibility for which was handed over to the CPA under UN Security Council Resolution 1483 on 21 November 2003), and the reform of public sector pensions (which have been characterised by emergency flat rate payments in 2003). The in-coming transitional administration may also decide to consider measures towards restructuring, and potentially privatising, Iraq's State Owned Enterprises.

CHAPTER 4 EC ASSISTANCE TO IRAQ

4.1 EC cooperation to October 2003

The commitment of the European Union to Iraq is not new. Since 1992, through ECHO, the Community has been the largest source of humanitarian aid for Iraq after the UN-administered Oil for Food programme, providing €157 million. An additional amount of €100 million was earmarked for humanitarian aid to Iraq in 2003.

Immediately after the war, humanitarian assistance was directed to supporting humanitarian deliveries, emergency water and sanitation and healthcare provision, the distribution of food and medical supplies to the Iraqi population and supporting the coordination of the various humanitarian organisations in the field. On 22 April 2003, €10 million was allocated to meet urgent medical needs following bomb damage and widespread looting that affected hospitals and other health facilities.

From June to November 2003, ECHO assistance focused on financing mine action activities to facilitate the work of humanitarian organisations delivering assistance, meeting the basic needs of targeted vulnerable populations and preventing the further deterioration of the most essential services in Iraq, particularly the health/nutrition, water/sanitation and food sectors.

In December 2003, ECHO committed the remainder of the €100 million to continue these activities, adding a special security component to its programmes to support the reinforcement of the security of its implementing partners, including the UN agencies, and promote coordination. The selected projects, which will be implemented in 2004, support interventions in the following sectors: health (€8 million), water and sanitation (€3 million), humanitarian mine actions (€2 million), assistance to the most vulnerable, including Internally Displaced Persons (€3 million), education, principally the rehabilitation of schools (€9 million).

4.2 EC reconstruction assistance in 2003

Following the Madrid Donor's Conference for Iraq, held on 23-24 October 2003, the Commission committed an additional €42 million in 2003 for reconstruction activities. This contribution, building on the work undertaken by ECHO in the humanitarian field, expanded the scope of EC assistance to encompass the strengthening of Iraq's institutions and efforts to build the capacity of the Iraqi administration.

A first contribution of €9 million was made in November 2003, to support the UN's efforts to rehabilitate basic social services in Iraq - water and sanitation, education, and health - and to implement livelihood and income generating schemes for the Iraqi people. The €9 million was channelled through the United Nations Development Programme (UNDP) Thematic Trust Fund for Crisis Prevention and Recovery and is being disbursed through the UNDP and the UN agencies (mainly the United Nations Children's Fund and the World Health Organisation). Specific objectives for this assistance include increasing the amount of potable water available to urban and rural populations; improving sewage treatment and solid waste management; increasing immunisation among the most vulnerable sectors of the population; reducing the risk of malnutrition; reducing the risks that affect maternal and child health; increasing children's access to education; rehabilitating existing or building new schools; improving the planning and monitoring capabilities of the Iraqi Ministry of Education. In addition, EC funding was made available for employment generation schemes and local authority capacity building, the provision of micro-credits and vocational training for the disadvantaged and to the creation of small scale labour-oriented enterprises.

A second EC contribution to Iraq's reconstruction, committed in December 2003, aims at supporting the UN's role and helping Iraqis manage the reconstruction processes. A €3 million contribution from the European Initiative for Democracy and Human Rights (EIDHR) was dedicated to supporting UN efforts in four areas: restoring and establishing national and local institutions for representative governance and transparent and effective local civilian administrations; developing a free and independent media; assisting in the development of a fair and effective justice system promoting the protection of human rights; and helping the development of advocacy and civil society organisations to increase the Iraqi population's ability to influence national and local policies and participate in the reconstruction effort.

A further €2 million contribution from the de-mining budget line was made to the UN to fund activities including a landmine impact survey.

Finally, €8 million was committed from the Rapid Reaction Mechanism (RRM) to help launch the International Reconstruction Fund Facility for Iraq. A €5 million contribution was made to UN-managed operations, in particular to support to the activities of the UN Special Representative of the Secretary General, and a €3 million contribution to the World Bank to launch a technical assistance programme to assist the Iraqi administration in managing donor assistance thereby increasing absorption capacity.

4.3 Lessons learnt

Only a short period of time has passed since the first EC contributions for Iraq's reconstruction were made. However, a wealth of experience has been gained in the humanitarian field through the long-term engagement of ECHO and through the EC's actions in other post-conflict situations. Lessons learnt, include the need to:

- Fully recognise the special nature of risks to medium-term sustainability when implementing assistance programmes in situations where political factors are highly influential. Successful EC strategies in this context in the past have focused on training and human resources development. However, the need to pay closer attention to conflict prevention, peace building, gender issues and environmental sustainability has also been identified.
- Take sufficient account of government commitment and absorptive capacity.
- Identify a strategic focus for EC assistance to reconstruction, in order to help rapid start up and increase the impact of assistance. Experience suggests that explicit objectives need to be set from the start, rather than pursuing ad hoc objectives awaiting further developments.
- Utilise the EC's scope for funding projects of local partners with an existing presence and fully exploit local networks and in-country experience.
- Ensure adequate support for local ownership of reconstruction programmes, community development approaches and mechanisms through which resources can be allocated for small projects. Despite the resource intensive management of these types of projects, experience suggests they can play a supporting role alongside contributions to institutional and physical reconstruction and have a high impact and visibility. In the case of support to civil society, dedicated support can help broaden political participation and contribute to medium-term stability.
- Resolve tensions between administrative and strategic approaches and reduce the emphasis on the commitment of funds as opposed to the monitoring of impact which have created

weaknesses in past EC reconstruction assistance. Improved management, more systematic appraisal, more emphasis on the monitoring of impact, the adoption of more flexible procedures and a closer dialogue with partners have been identified as means to combat this weakness.

- Stress the central importance of coordination among the different implementing agencies, including the UN agencies, commercial contractors and Non Governmental Organisations assisting in the reconstruction process to overall success.
- Recognise that strong donor co-ordination equally assists in the rapid implementation of both humanitarian and reconstruction assistance. The EC should seek a closely coordinated EU wide response in order to avoid overlap in certain sectors and regions.

CHAPTER 5 EC RESPONSE STRATEGY AND PRIORITIES FOR 2004

5.1 Principles

Using the Country Strategy Paper framework⁷, Chapters 2-4 have analysed current trends in Iraq and the opportunities and challenges the country will face in 2004. The Assistance Programme set out in Chapter 6 therefore represents the Commission's assessment of how the Community can best contribute to relief, rehabilitation and reconstruction in Iraq in the course of 2004.

Focussing on the "immediate needs" identified in the Needs Assessment, including actions which lay the foundations for Iraq's medium-term development, the Assistance Programme aims to reflect the post-conflict context and build in a high degree of flexibility in response to the uncertainties surrounding Iraq's reconstruction process in 2004. The central objective for EC assistance in 2004 is to ensure that reconstruction assistance works towards ensuring a smooth transition from the humanitarian phase to medium-term sustainable development. The Assistance Programme thereby conforms to the principles set out in the Commission's Communication on Linking Relief, Rehabilitation and Development⁸ and the related working paper entitled 'The case of countries in conflict or emerging from a crisis'⁹. Planned activities for 2004 also build on the lessons learnt from past humanitarian interventions in Iraq and other post-conflict situations.

In this initial phase of reconstruction, EC assistance should help lay the groundwork for a successful and Iraqi-led reconstruction process over the medium-term by:

- (a) Supporting and accompanying broad participation in the political and constitutional processes.

⁷ See Commission staff working paper – "Community cooperation: Framework for Country Strategy Papers" SEC (2000)1049.

⁸ COM (2001)153 of 23 April 2001.

⁹ Commission working paper "The Case of Countries in Conflict or Emerging from a Crisis", April 2000. In particular, the Assistance Programme aims to recognise that the assumptions which underpin the usual Country Strategy Paper conceptual framework – "that the partner country has most of the attributes of a functioning modern state, including a reasonably efficient public service, an effective macro-economic capacity and an ability to manage public revenues and expenditures in a transparent budget-based system, a reasonable degree of political stability and the existence of an effective civil society" – are not necessarily fully realised in Iraq.

(b) Increasing the capacity of central and local administrations and non state actors to direct and manage the reconstruction process and ensure a smooth transition through the hand over of power on 1 July 2004.

(c) Ensuring that challenges related to political and social stability and sustainable development are addressed in the reconstruction process from the start (most notably human rights, gender issues and environmental safeguards).

(d) Spreading the benefits of reconstruction to all sectors of Iraq society, in particular the poorest and most disadvantaged.

(e) Retaining flexibility in the allocation of available EC financial resources in order to rapidly adapt to changes in Iraqi priorities and other developments which may impact on the reconstruction process.

The scale of Iraq's needs relative to EC resources, maximum efficiency and impact imply:

- Focussing EC resources on a limited number of priorities.
- Ensuring those priorities are supported by and complementary to Iraqi plans.
- Pooling resources with those of other donors, pursuing complementarity and avoiding inefficient overlap with other donor's intended areas of activity.
- Making full use of the EC's in-house expertise in certain sectors where it has a track record of bilateral delivery.

Taking into account the analysis set out in Chapters 2-4, particularly the political transition scheduled for the first half of 2004, the EC's interim response strategy will also need to respond to the risks outlined in Chapter 2.3. Most notably by:

- Pursing a balance between the impact, visibility and responsiveness of EC reconstruction assistance, the safety of both EC staff and the staff of international organisations implementing EC funding.
- Factoring the additional transaction cost created by the volatility of the security environment into financing plans.
- Building flexibility into planned activities in order to be in a position to adapt to potential changes in reconstruction plans and priorities following the hand over of responsibilities to a new transitional Iraqi administration on 1 July 2004.

In order to demonstrate the EU's support for the multilateral framework for reconstruction and to contribute to increased aid efficiency, strong donor coordination and a decreased burden on the Iraqi administration, the Commission indicated in its Communication of 1 October 2003, that the majority of EC resources would be channelled through a multi-donor trust fund. This decision also reflected a realistic assessment of the Commission's own capacity to rapidly implement reconstruction assistance in the course of 2004.

Agreement on the creation of the International Reconstruction Fund Facility for Iraq was reached at the Madrid Donor's Conference. The Facility consists of two trust funds – one managed by the UN, the other by the World Bank – through which donor's can channel and

pool their resources. The two trust funds have common structures for coordination with the Iraqi administration and donors. In line with the commitment in the 1 October 2003 Communication, the Commission will channel the majority of EC resources for 2004 through the International Reconstruction Fund Facility. Implementation of the Assistance Programme will therefore be pursued via the UN and World Bank trust funds, once they commence operations.

5.2 Cross Cutting Issues

Many of the challenges facing Iraq affect all sectors and activities. The issues that will most impact on the success of the political process and social stability in 2004 and beyond include employment, the participation of local communities in recovery and reconstruction activities, the development of a broad based civil society, protection of human rights and the rule of law, measures to address past crimes and resolve local conflicts and the role and status of women.

When it comes to setting the framework for medium-term sustainability, measures to promote geographic and ethnic balance in the distribution of resources, protect vulnerable groups, particularly female-headed households and children, safeguard the environment and address past environmental degradation, safeguard Iraq's rich cultural heritage from further looting and degradation, tackling issues related to migration and displacement of persons as well as organised crime, corruption and trafficking will be of increasing relevance to the success of the reconstruction process. In addition, Iraq needs to ensure that policies and activities implemented during the reconstruction process support the development of fruitful economic and social relations with its immediate neighbours and the broader region.

Working within the multilateral framework, the EC will aim to address immediate needs in these areas and help ensure that proper foundations are laid for medium-term sustainability by:

- Encouraging the UN and World Bank to ensure that employment creation and income generating activities, sustainable development, and gender considerations are all fully addressed in reconstruction programmes.
- Advocating community based development initiatives and stakeholder participation.
- Supporting dedicated programmes in areas such as the promotion of human rights and the rule of law, civil society development, including the media, and conflict resolution.

Where issues cannot be satisfactorily addressed through the International Fund Facility for Iraq, the Commission could consider making use of certain bilateral instruments. These include the European Initiative for Democracy and Human Rights and NGO co-financing budget lines as well as the Food Security/Food Aid line.

5.3 Linking Humanitarian and Reconstruction Support

Effective linking of EC humanitarian and reconstruction support is crucial in ensuring a comprehensive response to Iraq's needs in 2004. A top priority is the need to continue actions to protect the most vulnerable sectors of Iraq's population.

As recovery and reconstruction proceeds, sustainability will depend on linkages between humanitarian and development support and ensuring there is a smooth, well planned process of transition. ECHO support committed in 2003 focused on the health, water and sanitation and education sectors as well as financing mine action activities and coordination between

humanitarian actors. The Assistance Programme seeks to ensure that EC reconstruction assistance builds on this work by financing continuing action in these sectors and further promotes a concentration on the needs of the most vulnerable.

ECHO has already programmed an amount of €24 million for Iraq in 2004, which will respond to humanitarian needs in the above mentioned sectors.

5.4. Coherence and Complementarity with Other Donors

The donor community needs to ensure that assistance for reconstruction is well coordinated in order to maximise the impact of aid flows. The EC strategy has therefore been based on finding a value-added role, coordinated with other donors.

Most bilateral donors are still in the process of developing their respective strategies towards Iraq in 2004 and beyond. However, certain trends are already emerging, most notably the focus of the largest external donor to Iraq – the United States – on security and physical reconstruction activities, particularly infrastructure. Of the \$18.6 billion provided by the US supplemental budget request for Iraq, \$5.1 billion will be spent on police and police training, border enforcement, fire and civil defence, public safety training and a communications network, the establishment of a national defence force, and the justice system. The majority of the remaining funds will go to infrastructure programs in Iraq, including \$5.7 billion for the electrical system; \$2.1 billion for oil infrastructure; \$3.7 billion for potable water, sewer systems, and related public works; and \$3.7 billion for water resources, transportation, telecommunications, housing and construction, health and private sector development.

The Commission will take steps to ensure coordination with EU Member States as they develop their assistance strategies.

5.5 Coordination and monitoring mechanisms

Through its membership of the Liaison Group established by the UN and the Iraq Core Group established to prepare the Madrid Donor's Conference, the Commission is playing a full role in donor coordination at the strategic level. These efforts will continue through 2004, and be supplemented by the mechanisms established under the International Reconstruction Fund Facility for Iraq, namely a donor committee, a facility coordination committee and a secretariat.

The Commission will participate in the donor committee to be established as part of the International Reconstruction Fund Facility for Iraq. The donor committee will meet on a semi-annual basis to discuss overall priorities and provide strategic guidance for operations conducted by the UN and World Bank trust funds. In addition, a facility coordination committee, led by the World Bank and UN with IMF observation, will meet monthly and serve as the operational point of contact with the Iraqi administration to ensure that Fund Facility programmes and activities are in line with Iraqi priorities, the national budget and coordinated with reconstruction work being carried out by bilateral donors. In addition, a Secretariat, staffed by representatives of the UNDG and World Bank, will be created to provide information, administrative and secretarial support to the facility coordination committee and the donor committee.

The donor committee is also tasked to ensure that adequate reporting is provided to all donors on the operations carried out by the trust funds. The detailed reporting arrangements for the trust funds established by the UN and the World Bank are set out in their respective terms and

conditions. The main reporting mechanism for both the UN and World Bank trust funds will be a consolidated Fund level report describing contributions, disbursements and implementation progress provided to all donors on a semi-annual basis. Both the UN and the World Bank also envisage additional arrangements for providing individual donors with further reporting on progress.

Coordination arrangements within the Iraqi administration and between the administration and donors were agreed by the CPA and Governing Council in November 2003. These centre on the Ministry for Planning and Development Cooperation and involve a three pillar process with an Iraqi Strategic Review Board (ISRB), chaired by the Minister, responsible for reconstruction project prioritisation, review and approval and coordination with donors and the Iraqi line ministries; a secretariat provided by the Ministry of Planning and Development Cooperation which screens project proposals before submission to the ISRB; and a liaison mechanism for external donors in the form of the Council on International Cooperation chaired by the Minister for Planning and Development Cooperation.

The Commission has not yet decided on the establishment an EC presence in Baghdad but hopes to facilitate and increase EU coordination and allow for day-to-day coordination with the UN and World Bank in 2004 by attaching staff to the Amman Delegation in the first half of the year. Overall donor coordination should be facilitated by the presence of most of the major bilateral donors to Iraq in the IRFFI donor committee.

5.6 Conclusions

In line with the principles outlined above, reflecting in particular the need to seek coherence with the 2004 Iraqi budget and complement the activities of other major donors, the Commission has identified three areas where EC resources may be focused to assist Iraq's reconstruction. Within the overall objective of promoting Iraq's stability, recovery and sustainable prosperity, the Assistance Programme for 2004 set out in more detail in Chapter 6 aims to:

- Restore and strengthen the delivery of key public services.
- Improve livelihoods and reduce poverty
- Strengthen governance, civil society and human rights

It may be necessary in the course of 2004 to consider additional humanitarian aid and, potentially, the use of complementary instruments available in the EU budget, such as aid for uprooted people, de-mining, the food aid/food security and/or further relevant sectoral or horizontal budget lines.

CHAPTER 6: IRAQ ASSISTANCE PROGRAMME 2004

This Assistance Programme reflects the Commission's intention to use the multilateral framework provided by the International Reconstruction Fund Facility as the primary mechanism through which to channel resources to the Iraqi population in 2004. It should therefore be considered in the context of the UN and World Bank's respective work programmes for 2004. In particular, the description of programmes, expected results, indicators, conditionalities and risks should be read with full understanding that they will be

interpreted and implemented by these two organisations in line with the terms and conditions for the trust funds.

6.1 Restoring and strengthening the delivery of key public services

a) Background and justification

Iraq's social and human development indicators demonstrate a falling off of the progress that had been made since the 1970s and, in many cases, a decline. The UN/World Bank Needs Assessment identified a number of negative trends in the provision of Iraqi healthcare, education, water and sanitation services, in particular the impact of the fall in per student expenditure on the provision and quality of education; increases in maternal and infant mortality, malnutrition rates and the re-emergence of communicable and non-communicable diseases; the inadequate level and inequitable distribution of healthcare resources; the decline in coverage of urban and rural water services coverage and the sewerage collection and treatment system and an extensive deterioration of the solid waste sector.

Over 40% of the ECHO funds allocated to meet emergency humanitarian needs in 2003 have been channelled through the UN agencies. In addition, the EC contributed just over €19 million to the activities of UNICEF and the WHO in meeting the priorities identified in the UN/World Bank Needs Assessment in the fields of education, health and water and sanitation. A further intervention in one or several of these sectors in 2004 would help ensure proper transition from emergency humanitarian and relief activities into the reconstruction phase and help lay the foundations for effective medium-term policy development.

b) Specific objectives

- Restore education infrastructure and provide equipment and enhance access to quality education at primary and secondary levels. Improve education system with particular attention paid to improving provision in rural areas and increase the participation of women and girls. And/or;
- Re-establish basic healthcare infrastructure and services, increase immunisation coverage, increase access by vulnerable groups, including women and children. Formulate a national health sector master plan and affordable new healthcare policies based on primary care, prevention and evidence-based policy. And/or;
- Increase access to potable water and coverage of sewage, solid waste and sanitation services, with particular attention to rural areas. Develop Iraqi water, sanitation, and waste management strategies.
- Reform policies developed and Iraqi institutional planning and monitoring capacities increased in supported sectors.

c) Description of programme

Support to UN and World Bank programmes could be considered in one or more of the following sectors:

- Health
- Education

- Water and sanitation

d) Expected results

Contribute to:

- Improvement in delivery of healthcare, education and water and sanitation services to Iraqi population, with particular attention to improving the position of the most vulnerable and disadvantaged.
- Sustainable increases in local employment in these sectors.

e) Indicators

- Progress against the Millennium Development Goals in the areas of primary education, gender equality, infant mortality, maternal health, AIDS and communicable diseases and sustainable development, measured against 2000 baseline¹⁰.

6.2 Livelihoods and poverty reduction

a) Background and justification

Unemployment has already emerged as a source of social tension within Iraq. Improved social stability risks being undermined by improper sequencing of economic reforms, inadequate attention to reducing poverty, correcting geographical and ethnic imbalances in the distribution of resources, providing safety nets for the most disadvantaged and vulnerable and safeguarding livelihoods. Iraq's dependence on oil sales to finance budget expenditures creates a strong vulnerability to exogenous shocks. This risk – and the potential spill-over effects on the welfare of the Iraqi population – needs to be mitigated by early measures to create income generating activities through the mobilisation of local communities and public infrastructure work programmes and to promote the development of the non-oil economy. The presence and poor condition of thousands of tonnes of Explosive Ordnance (EO) and Unexploded Ordnance (UXO) presents a massive hazard for affected communities and vulnerable groups and presents an obstacle to making progress in physical reconstruction.

Through ECHO humanitarian assistance, the EC has focused resources on protecting the most vulnerable and disadvantaged in the immediate aftermath of conflict in 2003 and initiating mine action. €8.4 million in reconstruction assistance was provided to the UNDP in 2003 for income-generating schemes. €2 million was channelled to the UN in December 2003 to conduct further mine action, including a comprehensive Landmine Impact Survey. Continuity should be maintained in 2004 to facilitate the transition between the humanitarian and reconstruction phases and to mitigate the risk of social instability undermining the medium-term prospects for political and economic reconstruction.

b) Specific objectives

- Increased social cohesion through the reduction of poverty and measures to address the needs of the most vulnerable and disadvantaged.

¹⁰ Where data exists.

- Increased employment opportunities and sustainable alternative sources of income and livelihoods for the Iraqi population.
- Diversification of the Iraqi economy and the creation of new enterprises in the non-oil sector.
- Alleviation of the impact and presence of landmines, EO and UXOs.

c) Description of programmes

Support to UN and World Bank programmes could be considered in the following sectors:

- Creation and implementation of social safety net provisions.
- Employment generation.
- Rural infrastructure and development.
- Private sector development, particularly micro-enterprise creation.
- Mine action.

d) Expected results

Contribute to:

- Protection of vulnerable groups through the continuation and development of social safety net provisions
- Improved geographical balance in the distribution of reconstruction and Iraqi domestic resources
- Increased employment and sustainable alternative sources of income and livelihoods created.
- Restored and extended access to small-scale social and economic infrastructure services in rural and peri-rural areas.
- Increased economic activity in non-oil sectors.
- Mitigation and removal of the threat posed by landmines, EO and UXOs to local communities.

e) Indicators

- Incidence and degree of poverty – urban and rural – including proportion of the Iraqi population living below the national poverty line (once established) being factored into Iraqi policy making.
- Improved data on incidence and impact of landmines, EO and UXO on Iraqi population available.

6.3 Strengthening governance, civil society and human rights

a) Background and justification

The UN/World Bank Needs Assessment identified the need to strengthen Iraq's institutions of sovereign, transparent and good government as a core development priority for Iraq. In order to succeed, the political transition and a constitutional process will need to engage all sectors of the Iraqi population. Managing the high volumes of external donor assistance pledged to Iraq's reconstruction at the Madrid Conference (\$33 billion) while taking forward economic transition requires urgent and considerable strengthening of Iraq's administration to ensure transparency and accountability and to combat the potential for corruption.

In 2003, the EC contributed – via the RRM and the EIDHR – a total of €8 million to the UN's activities to promote the political process, civil society, justice and human rights. An additional €3 million was provided via the RRM to launch World Bank-managed capacity building activities. Awaiting a decision on the UN's eventual role in the political process, the €8 million has not yet been fully disbursed. Further interventions in 2004 would send a signal of continued EU support for the UN's role in the political process, including – potentially – elections, provide additional resources for the expected expansion of UN activities after June, and allow for the expansion of capacity building work across a range of sectors, in support of contributions to physical and institutional reconstruction.

b) Specific objectives

- A political transition process that has the assent of all segments of the Iraqi population.
- Strengthened governmental and non governmental actors contributing to the creation of an open, dynamic and democratic Iraqi society, with due attention paid to human rights, gender equality, child rights/protection, media and sustainable development.
- An Iraqi administration with the capacity to direct, manage and monitor public and donor resources.

c) Description of programme

Support to UN and World Bank programmes and/or by targeted bilateral instruments could be considered in the following sectors:

- National and local institutions for representative governance, including electoral assistance.
- Civil society and media.
- Justice system and transitional justice mechanisms.
- Human rights.
- Training, technical assistance and policy advice for central and local administrations in the principles and practice of good governance.

Security situation permitting, bilateral programmes could be designed to deliver, at Iraqi request, expert advice in fields of EU comparative advantage – namely trade policy, customs and regional integration issues.

d) Expected results

Contribute to:

- Establishment of transitional Iraqi administration in the course of 2004.
- Strengthened civil society, judicial system, media and human rights.
- Improved Iraqi capacity in financial, fiduciary, procurement and project management at central and local levels.

e) Indicators

- Continuing progress in political and constitutional transition towards credible elections.
- Training courses provided to Iraqi line ministries and local administrations.

6.4 Conditionality, risks, assumptions

The Assistance Programme assumes the following risks can be effectively overcome:

- A security environment which creates obstacles to the preparation and implementation of programmes and projects.
- The low existing capacity of the Iraqi administration to identify priorities in each sector, implement programmes, coordinate the implementation of externally managed programmes and develop medium-term policy strategies in the course of 2004.

It is also assumed that:

- The rate of programme implementation in Iraq will depend on the extent to which an operational presence in the country can be established by implementing partners.
- The new Iraqi authorities will wish to facilitate programmes and projects and welcome and/or accept EU involvement in a given sector.
- The recurrent costs of maintaining sector programmes will be factored into future Iraqi national budgets.

6.5 Budget 2004

The total budget for Iraq in 2004 is € 160 million¹¹ on Heading IV budget line 19 08 07 'Support to rehabilitation and reconstruction of Iraq'. The indicative allocations set out below have factored in support provided to equivalent objectives in 2003 (see Annex 1) and the UN and World Bank's requests for donor funding contained in their work programmes for 2004.

¹¹ In the course of 2004, it may be necessary to consider additional humanitarian aid and, potentially, the use of complementary instruments available in the EU budget, such as aid for uprooted people, demining, the food aid/food security and/or further relevant sectoral or horizontal budget lines.

They do not reflect any judgement on the relative importance of each priority for Iraq's reconstruction.

Table 4: Indicative allocation per objective (2004)

Priority	€millions
Restoring and strengthening the delivery of key public services.	90
Improving livelihoods and reducing poverty	60
Strengthening governance, civil society and human rights	10
TOTAL	160
Humanitarian assistance	24
EIDHR	p.m.

**Annex 1: Summary of total EC assistance (humanitarian and reconstruction) to Iraq
2003 by sector and by budget line**

Sector of intervention	2003 (€millions)
Immediate relief.	8
Mine action.	9.89
Health, Education, Water and Sanitation, Vulnerable people (including IDPs), Food Aid.	101.99
Governance and political process.	11
Support for security, coordination and technical assistance for of humanitarian partners. Humanitarian reserve.	8.26
Total	139.14¹²

Budget line	2003 (€millions)
Emergency Budget Reserve <i>(23 02 01/B7-2 1 0)</i>	79
ECHO <i>(23 02 01/B7-210)</i>	21
Other actions in favour of developing countries in the Near and Middle East <i>(19 08 06/B7-432)</i>	29
Rapid Reaction Mechanism <i>(19 02 05/B7 6 7 1)</i>	8
Development and consolidation of democracy and the rule of law – respect for human rights and fundamental liberties <i>(19 04 03/ B7-7 0 1 0)</i>	3
Community participation in actions relating to antipersonnel mines <i>(19 02 04/ B7-6 6 1)</i>	2
Total	142

¹² The difference in the total committed and disbursement in 2003 is explained by the early termination of certain humanitarian projects for security reasons which led to some funds from the €100 million originally foreseen by ECHO being de-committed.

Annex 2: Summary of Pledges made by donor's at the Madrid Donor Conference¹³

International Donors' Conference for Iraq Madrid, October 23-24, 2003

Summary Table by Donor

Table 2

in USD millions

Donor	2004	2005-2007	Unspecified by Year	Total
Countries	569.59	758.62	25,118.50	26,446.71
Australia	45.59	0.00	0.00	45.59
Austria	1.94	3.53	0.00	5.48
Belgium	5.89	0.00	0.00	5.89
Bulgaria	0.64	0.00	0.00	0.64
Canada	0.00	0.00	187.47	187.47
China	0.00	0.00	25.00	25.00
Cyprus	0.00	0.00	0.12	0.12
Czech Republic	7.33	7.33	0.00	14.66
Denmark	26.95	0.00	0.00	26.95
Estonia	0.08	0.00	0.00	0.08
Finland	5.89	0.00	0.00	5.89
Greece	0.00	0.00	3.53	3.53
Hungary	1.24	0.00	0.00	1.24
India	10.00	0.00	0.00	10.00
Iran	5.00	0.00	0.00	5.00
Ireland	3.53	0.00	0.00	3.53
Iceland	1.50	1.00	0.00	2.50
Italy	0.00	0.00	235.62	235.62
Japan	0.00	0.00	4,914.00	4,914.00
Korea	0.00	0.00	200.00	200.00
Kuwait	0.00	0.00	500.00	500.00
Luxembourg	1.18	1.18	0.00	2.36
Malta	0.00	0.00	0.27	0.27
Netherlands	9.42	0.00	0.00	9.42
New Zealand	3.35	0.00	0.00	3.35
Norway	4.29	8.58	0.00	12.87
Oman	0.00	0.00	3.00	3.00
Pakistan	0.00	0.00	2.50	2.50
Qatar	0.00	0.00	100.00	100.00
Saudi Arabia	120.00	380.00	0.00	500.00
Slovenia	0.27	0.15	0.00	0.42
Spain	80.00	140.00	0.00	220.00
Sri Lanka	0.00	0.00	0.00	0.00
Sweden	0.00	0.00	33.00	33.00
Turkey	0.00	0.00	50.00	50.00
United Arab Emirates	0.00	0.00	215.00	215.00
United Kingdom	235.48	216.85	0.00	452.33
United States	0.00	0.00	18,649.00	18,649.00
European Community	235.62	0.00	0.00	235.62
EC + EU Member States + Acceding Countries	614.83	369.04	272.54	1,256.41
International Financial Institutions	1,350.00	4,200.00 — 7,900.00	0.00	5,550.00 — 9,250.00
IMF	850.00	1,700.00 — 3,400.00	0.00	2,550.00 — 4,250.00
World Bank	500.00	2,500.00 — 4,500.00	0.00	3,000.00 — 5,000.00
Total	2,155.21	4,958.62 — 8,658.62	25,118.50	32,232.33 — 35,932.33

This table summarizes pledges made at the International Donors' Conference for Iraq in Madrid, Spain, on October 23-24, 2003.

A pledge is an indication of intent to mobilize funds for which an approximate sum of contribution is specified.

Source for all exchange rates: IMF exchange rates in SDR terms for October 24, 2003

Amounts do not include identified humanitarian assistance (total of 115.17 M USD).

Amounts do not include export credits and guarantees: Austria 11.78 M USD, Saudi Arabia 500 M USD, and Denmark 154.54 M USD

The World Bank and the IMF announced a range of assistance.

Most donors were not able to specify the type of grant assistance at the time of the Donors' Conference.

Amounts unspecified between grants and loans are: Italy (235.62 M USD) and Qatar (100 M USD)

Many donors were not able to provide a breakdown of their by year.

The US pledged 20.3 B USD at the Donors' Conference, subject to Congressional approval. Subsequently, the US Congress approved 18.6 B USD in grants toward security and reconstruction needs.

In addition to the amount in the table above, Iran pledged an economic package, with an estimated value of 1,495 M USD, which includes credit facilities, restoration of religious sites, tourism and pilgrimage, technical and advisory services, trade, investment, market access, and humanitarian assistance.

Japan's assistance of 4,914 M USD consists of (i) grant assistance of 1,414 M USD for the immediate reconstruction needs of Iraq within the Japan's commitment, chiefly corresponding to the reconstruction needs anticipated through 2004; and (ii) assistance of up to 3,500 M USD, basically utilizing concessional yen loans, chiefly corresponding to the medium-term reconstruction needs for a period extending approximately through the year 2007, taking into account the situation of Iraq including security and the advancement of political process, the progress of the reconstruction projects, developments toward the solution of debt issue, and discussion of the international community etc.

In addition to the amount in the table above, Norway pledged up to 30 M NOK from NORAD's global facilities for promoting private enterprises.

The following countries offered in-kind assistance: Bahrain, Chile, Egypt, Germany, Jordan, Latvia, Mexico, Poland, Philippines, Portugal, Slovakia, Sri Lanka, Switzerland, Thailand, Tunisia, Vietnam.