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**POST-CONFLICT RECONSTRUCTION AND
DEVELOPMENT. THE CHALLENGE IN IRAQ AND
AFGHANISTAN**

DRAFT GENERAL REPORT

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* Until this document has been approved by the Economics and Security Committee, it represents only the views of the Rapporteur.

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I. DEVELOPMENT THEORY AND CONFLICT: A CHANGING PARADIGM

1. The theory of economic development has evolved significantly over the past fifty years. In the immediate post-war period, development was seen in strongly mechanistic terms. In this conception, the state invariably was understood to play the catalyst in fostering economic growth and social and institutional development. In the 1980s, however, a liberal revival denied the exceptional character of developing states and placed markets rather than states at the centre of the development process. Over the course of the last decade, however, an economic crisis throughout much of the developing world has introduced a range of caveats to this liberal model including a reappraisal of the role played by states, as well as the vital contributions to development made by civil society, cultural factors, women, markets and macro-economic policy.

2. Unfortunately, today the development community confronts another set of intellectual and policy dilemmas in conflict-ridden societies. Since the end of the Cold War, Western governments, international development and lending institutions, the United Nations and NGOs are increasingly compelled to help countries torn asunder by war to move from dependence on humanitarian relief to a reconstruction process and ultimately into a long-term development phase. Triggering sustainable development in the wake of war itself obviously poses a daunting range of intellectual, political, economic, social and cultural challenges. Violent conflict inflicts appalling visible and invisible damage on developing societies. Vital economic infrastructure is ruined, state institutions often collapse, mistrust of the state soars, schooling is disrupted, refugees flood into cities, fear replaces confidence, skilled workers flee, and war profiteers with a vested interest in conflict lurk in the shadows prepared to resurrect the very tensions that allowed them to flourish economically and politically at the expense of the society as a whole. The World Bank notes that post-conflict societies often labour under a dominating narrow elite, a fragile peace, a lack of confidence among political and economic actors and weak judicial, financial, fiscal, administrative and regulatory institutions. (Barnet, Eggleston, Webber). The damage inflicted by war can be the equivalent of several years of the country's peacetime GDP. Normal economic activity is utterly hampered by the fall in productivity capacity, physical destruction, a dearth of investment, and internal market fragmentation. Moreover, war rarely resolves underlying conflict. For societies already living under precarious economic conditions, mass violence is a disaster, and the longer conflict rages the more destructive are its consequences.

3. Much of this violence, moreover, does not fit the classic definition of inter-state conventional war. Sometimes armed sub-state groups simply seek to seize resources and other economic assets and do not hesitate to target civilians in the process. These wars can literally destroy formal economies and create enormously daunting problems for those charged with reconstruction and development (Bojicic-Dzelilovic). Not coincidentally, fifteen of the world's 20 poorest countries have experienced conflict over the past 15 years.

4. It is one of the paradoxes of international relations that the daunting costs of conflict fail to inspire more pre-conflict preventive initiatives, which, invariably, are far less costly than post-conflict interventions. In a world that still accords the notion of national sovereignty pride of place, such cost-benefit analysis is hardly sufficient to inspire a proactive approach to conflict (Schnabel). That said, in recent years, Western forces have intervened to halt a conflict in Kosovo, deployed forces in the midst of an ongoing Afghan civil conflict and waged a war in Iraq where internal conflict had long been suppressed but has subsequently boiled over. (Chesterman).

5. Moreover, for some analysts, the attacks of September 11 demonstrated that disengagement from the developing world was far more perilous and costly than engagement. Indeed, Afghanistan, a failed and highly impoverished country shattered by Soviet invasion and civil war, had hosted training centres for thousands of Jihadists, who received detailed instruction in the modalities of employing terrorist violence to achieve their millenarian vision. The nexus between security and development has also been made apparent in the borderless nature of other

development-related challenges including refugee flows, the spread of disease, and environmental catastrophe, to name just a few.

6. The attacks on New York and Washington stimulated serious rethinking of the Western approach to development issues. In the broad reassessment that ensued, US officials identified post-conflict societies as a challenge of particular importance. The change in mindset was somewhat startling as one of the major campaign themes of the Bush team in 2000, for example, had been the promise that no more would the United States entangle itself in dubious nation building projects. Although the term "nation building" is now studiously avoided for obvious reasons, the reality is that the United States has become an active proponent of nation building, most notably, although not exclusively in Afghanistan and Iraq. A newfound appreciation of how dangerous failed states are to global stability made this change of heart inevitable, (Carothers) and President Bush's subsequent National Security Strategy noted that, "America is now threatened less by conquering states than we are by failing ones." (Hamre)

7. Perhaps the most significant difference between the development challenge faced by a poor country and a poor post-conflict society lies in the hidden effects of conflict. Institutional breakdown, limited or absent government legitimacy, the existence of power vacuums, a traumatized society lacking confidence in the future, a pervasive lack of trust, fear in the revival of conflict and the presence of armed irregular forces in urban and rural areas reinforcing those concerns and willing to use those arms for plunder and political blackmail. As long as these forces remain armed, the risk of renewed fighting is real and will be seen as such by the population and the international lending community.

8. Concerns about managing post-conflict development are obviously not uniquely American. OECD (Organisation for Economic Co-operation and Development) member countries, the World Bank, the UN and a broad range of increasingly active NGO's have all engaged in considered reflection on reconstruction and development challenges in post-conflict settings (Bojicic-Dzelilovic). Yet, Western governments are still not properly structured to conduct coherent post-conflict policies. This is particularly ironic given the number of post-conflict situations in which American and Allied troops have been engaged over the past decade. More worrisome is the fact that the trend line has moved from small countries with relatively manageable problems to large countries consumed by grave difficulties. (Secretariat Report, 145 EC 04 E) Governments have been very slow to internalize the lessons of the past decade. In many Western governments there is a critical need for greater inter-agency co-operation, standing start deployability of assets, and additional funding. Vastly improved multinational coordination is also in order.

9. An entire new body of academic literature on the subject has also come to the fore, and this work reflects both the importance of the topic and the daunting and controversial intellectual and policy challenges it poses. (Duffield) From this literature, a clearer picture is emerging of what one study has identified as the four pillars of post-conflict reconstruction. These are: security or the establishment of a safe and secure environment through the establishment of legitimate and stable security institutions; justice and reconciliation which incorporates an impartial and accountable legal system, a means to deal with past and current crimes, and a humane prison system; *Social and economic well being* achieved through the provision of emergency relief, restoration of basic services, laying the foundation for a viable economy and sustainable development; and finally *Governance and Participation*, by building viable constitutional structures, capacity building in state institutions and public administration and the nurturing of an articulated civil society capable of participating in governance and relieving the state of some of its myriad burdens. (Association of U.S. Army and CSIS)

10. A reasonable degree of peace and security is the absolute *sine qua non* for economic, political and cultural reconstruction to commence. Few economic actors, for example, will consider assuming investment risks without assurances of a minimum degree of security. Increasingly,

international peacekeeping forces are asked to provide that security. NATO itself has deployed troops in recent years to Bosnia, Kosovo, the former Yugoslav Republic of Macedonia*, and Afghanistan, and several NATO member states have sent forces to Iraq with some NATO support. NATO is also soon to begin training Iraqi security forces. Western militaries are also being asked to perform vital development tasks. US forces in Iraq were not only deployed to confront rebel spoilers but also rebuild key infrastructure—a visceral manifestation of growing security-development links. In Afghanistan, NATO member countries have deployed Provincial Reconstruction Teams (PRTs) with a range of reconstruction responsibilities from bridge repair to political support. Deployed forces are asked to ensure that basic humanitarian needs are met with great dispatch, and oftentimes, by default, they are compelled to manage these operations. Simply clothing, housing and feeding an often-traumatized population poses enormous difficulties, particularly when forces are not trained for such operations. The problem can be made all the more difficult when the end of conflict prompts a massive return of refugees and internally displaced persons (IDPs).

11. Oftentimes the international community lacks both the local knowledge and the resources to establish law and order, build public administration, provide social and humanitarian services, launch the process of long-term economic development and engage in capacity building for longer-term self-government. (Schnabel) Finding resources for post-conflict reconstruction and development obviously poses a critical challenge. There is little doubt, however, that the strategic interests of large Western donor countries ultimately determine the level of aid. This is apparent if one looks at how the West has responded to conflict in Africa where the level of forces and resources dispatched into conflict and post-conflict settings are far less than, for example, in the Balkans.

12. Building security also demands effective reconciliation strategies and eventually the disarmament of warring factions. This is particularly difficult in the wake of bitter civil war. As is evident in both Afghanistan and Iraq, internal reconciliation can prove enormously challenging. Furthermore if the occupation itself inadvertently unleashes long-suppressed conflict, the development task becomes onerous. In such cases, the occupying force risks becoming a kind of scapegoat for a bleak security and economic outlook. Effective pre-deployment planning, conducted in close consultation with regional experts, is therefore critical.

13. Only after active hostilities have ceased can shift attention from humanitarian relief operations to longer-term reconstruction efforts and the return of basic government services. In these areas, there is greater scope for the institutions of the recipient country, provided, of course, that those institutions have been properly reconstituted. When the state apparatus is reasonably operational and the country stabilised militarily, the government and the international community are positioned to initiate longer-term development strategies.

14. One very important difference between normal development and post-conflict situations is that the international community is more than likely to assume a degree of authority within the war-ravaged societies in which international forces have intervened. This has potential advantages but a myriad of drawbacks. It confers representatives of the international community a higher degree of leverage in the implementation of reconstruction and initial development strategies. Some would argue that it thus presents an opportunity to implement best practices. But whether this authority can be put to effective use hinges on whether the international community is ready to accept this burden, whether the local population sees the occupying authority as legitimate and is fully consulted, and ultimately whether the international community actually understands what best practices are in local conditions. In any case, the beneficiaries of any large-scale aid project must be systematically engaged in decision-making. Whoever controls the purse strings for development assistance will need to undertake a policy of wide and deep

* Turkey recognizes the Republic of Macedonia with its constitutional name.

consultation with the recipient society. The US occupying authorities initial efforts to impose a market revolution in Iraq's nearly anarchic conditions provides a case study of what not to do. (ICG Report) There is a paradox at the core of this issue and one is forced to ask whether it is even possible to establish conditions for legitimate and sustainable national governance through a period of benevolent foreign autocracy. (Urquhart)

15. Development theory itself is increasingly focused on the need for community driven development strategies, and this is all the more important in post-conflict settings. One approach that has had some success is premised on setting up local and broadly representative councils charged with deciding how development funds will be spent. When properly implemented, such Community Development Strategies (CDRs) can help empower local communities, reinforce democratic practice and nourish a fruitful dialogue between the centre and the periphery. They can help ensure that development funds are spent on projects that communities feel are most needed - something that can spark to genuine empowerment. CDRs also increase transparency and reduce corruption by eliminating many of the middlemen who are positioned to skim away aid and budget resources. (Cliffe, Guggenheim, Koster)

16. Establishing proper levels of aid over time poses another set of dilemmas. Paul Collier and Anke Hoeffler of the World Bank have found that while the absorptive capacity for aid in post-conflict societies is roughly the same as for other developing countries over the first three years after a conflict, for the rest of that first decade, it is double that of non-conflict developing countries. Absorptive capacity is a measurement of the increments of aid that triggers economically productive activity and demonstrates the point at which further aid will only trigger economically unproductive and even parasitic activity.

17. Generally in post-conflict societies there is a brief phase of very rapid growth related to the sudden influx of aid funds and the restoration of infrastructure. This means that this initial aid is unusually productive, although high levels of corruption, ongoing violence, and poor administration can have countervailing effects. The post-conflict countries that Paul Collier studied initially grew on average 1.13% more rapidly than other developing countries. Growth tended to peak between the 4th and 7th year after a conflict, although even in the early post-conflict period it can be as much as 2% higher than normal long range growth.

18. The need for foreign assistance and the recipient country's capacity to put it to good use generally increases significantly after three years. This suggests that foreign development assistance should rise significantly at that juncture. But in practice, aid is almost never disbursed in this way. The largest inflows tend to occur in the immediate wake of a conflict and decline from that point over time (Collier and Hoeffler). Once the television cameras have gone away, sustaining a high level of political interest in donor countries can prove problematic.

19. In the past, there has been a tendency to advise countries emerging from conflict to employ policies that, while effective in normal conditions, are hardly optimal after a conflict. This happened in the early months of the Iraq occupation when some officials of the Coalition Provisional Authority (CPA) aspired to create a laboratory to neo-liberal ideas in a post-conflict setting. There are certainly many instances in which a developing country might be well counselled to push for rapid macro-and micro-economic reform, particularly when that society's institutions are sufficiently robust to sustain a difficult fiscal, monetary or other structural adjustment as well as micro-economic reforms like privatisation. Rarely, however, are societies emerging from conflict in a position to sustain such difficult transitions, at least over the short term. For this reason, Collier comes to a tentative conclusion that for post-conflict societies, priority should be accorded first to social policies, secondly to sectoral policies and only lastly to macro-economic measures (Collier and Hoeffler). While monetary reform can clearly be helpful in the early period, mass privatisation of state assets is not.

II. IRAQ AND AFGHANISTAN

20. Although Western countries are engaged in a broad range of post-conflict reconstruction efforts, Iraq and Afghanistan currently stand as the two most discussed. Western countries were directly involved in both conflicts and have obviously recognized their own vital strategic stakes in the reconstruction and development of these countries. The two situations, however, differ in important ways. As suggested above, the international community endorsed the American intervention in Afghanistan as a legitimate act of self-defence but never extended such endorsement to the Iraq operation, although the situation has now changed with the transfer of sovereignty. A second important difference is that Iraq possesses enormous oil reserves, which if fully tapped would both add significantly to global oil supplies and provide a potential foundation for future economic development. Afghanistan's natural endowments are far more limited. Yet concerns that it could once again become a haven for terrorists ensured that the country's rehabilitation would remain a priority of the international community. That said, in many respects, the progress made in Afghanistan at this juncture is far greater than that made in Iraq and much of this might be attributed to the different approaches and roles taken to each by the international community as well as to the different levels of resistance to Western forces.

A. IRAQ

21. Managing the post-conflict environment in Iraq has proven far more challenging than American leaders had initially envisaged. Coalition troops entered a country with an economy already in tatters. According to the International Monetary Fund, Iraq's economy has shrunk by nearly two-thirds since 1991. Damage from the recent war and the devastating looting that coalition troops were powerless to prevent, provide only part of the explanation. Iraq's moribund economy is the product of decades of gross mismanagement; bitter wars against Iran, Kuwait, and two international coalitions; internal repression; and utterly poor governance under the regime of Saddam Hussein. A damaging international sanction regime deprived the country of years of investments and foreign exchange earnings while spawning a massive black market that effectively socialized the society in illegal commercial practices and cronyism. Wars gave rise to what some have called "conflict entrepreneurs", or business groups that thrived in the midst of widespread violence. It is estimated that 60% of Iraq's population has relied on the UN's oil for food programme, one quarter of the country's children are malnourished, at least half of the work force is unemployed and 50% of the adult population is illiterate.

22. There has been something of a consumer led boom in recent months, triggered by the influx of aid money and the CPA decision to boost public sector wages. Inflation has also been held in check. At this juncture, however, most of the news is not good. Iraq will ultimately need to embark upon three major economic transitions simultaneously: war economy to post-conflict economy; rent/oil-based economy to one based on diversification, production, and productivity and a centrally planned to a market economy (OECD, July 2003). For all intents and purposes, it has made little progress in any of these three areas.

23. Leaving the question of whether there were sufficient numbers of coalition forces on the ground to prevent Iraq from falling into anarchy after the fall of Saddam Hussein, a number of mistakes were clearly made in the months that followed: occupation authorities arrived without a realistic plan for the reconstruction of the country. The State Department had led a comprehensive planning project which engaged Iraqi perspectives on what needed to be done and which foresaw many of the problems that were to unfold, but the lead agency, the Department of Defense, chose not to engage either the study or those involved in it. The plan initially put into place was developed by people with little knowledge of Iraq, and read more like "a list of things broken that need to be fixed" (ICG) and was premised on a free market ideology that proved totally

inappropriate to the circumstances reigning in that country at the war's ostensible end. Moreover, the level of consultation with the Iraqi people was poor and made worse by a security situation which kept CPA personnel holed up in its green line enclave. The CPA itself was beset by bureaucratic infighting and staffed by many people with little and sometimes no experience in development matters and local knowledge, many of whom left soon after arriving. (Cha) Consultation with the Iraqi people was intermittent at best, and this, in turn, spawned greater alienation and arguably fed into the cycle of violence that has put coalition forces at great risk. Finally, the November 2003 decision to accelerate the transfer of sovereignty led to an abrupt shift in CPA policy and an effort to complete certain projects whether or not they fit in to the overall development needs of the country. According to some reports, this acceleration increased the scope for corruption. (ICG Report) The development calendar was thus dictated by politics rather than by objective needs.

24. As suggested above, insofar as a plan for Iraq's reconstruction existed, it has premised on moving quickly to a free market paradigm through privatisation, free trade, and open investment rules. The goal, in effect, was to make Iraq a model of free market prosperity in the midst of a heavily statist, corrupt and impoverished region. This approach, was well intentioned but developed without any genuine consultation with well-known Iraqi economists or the Iraqi people. It failed to recognise that free markets first require functioning state institutions to flourish and that Iraq faced more dire problems that immediate market conversion could not solve and indeed would likely exacerbate. The strategy proved utterly unworkable given the post-war chaos and worsening violence, the lack of a legitimate state, the utterly degraded condition of Iraqi assets and the prevailing if nevertheless unfair suspicion among Iraqis that all of this was a strategy to seize Iraqi oil assets. As a result according to several recent studies, public confidence was eroded while the CPA was unable to implement its plan in any meaningful way. The CPA approach simply died on the vine and was replaced with a kind of "ad hocism" that was still characterised by little real consultation.

25. There are many security implications for these shortcomings and in development terms little has so far been accomplished. Public works projects like simple garbage collection have been woefully inadequate, factories remain largely abandoned and stripped of their capital goods, public service is very poor and a large share of damaged infrastructure has not been repaired. Unemployment is extraordinarily high, a situation that was dangerously exacerbated by the abolition of the army in May 2003 as well as the purging of 30,000 Iraqi civil servants, who had been Baath Party members. Both policies put thousands of angry and often armed individuals out of a job and made it very difficult to rebuild the state apparatus. Most Iraqis surveyed in a May 2004 Oxford International poll believed that the reconstruction had yet to begin. (ICG Report) It would be naïve to reject the security implications of these problems. Alienated, disenfranchised and unemployed people have swelled the ranks of the militia groups now fighting coalition forces, making their task all the more difficult, and raising the spectre of Iraq's possible disintegration. (Galbraith)

26. Whether any of the transitions outlined above will actually unfold remains very much an open question. Indeed coalition forces are still under assault from "spoilers", sectarian and tribal militias, elements of the old Baathist regime, and some foreign fighters. Although the insurgency does not appear sufficiently powerful to seize control of the state, particularly as long as the Americans maintain a preponderance of military force, it has certainly undermined a weak reconstruction effort that has not inspired confidence among the Iraqi people, a condition which has driven some into insurrection and many to a degree of sympathy with that insurrection. This August, 1,100 American troops were injured in Iraq, by far the worst month since the war began. Late this summer US units were fighting in the city of Najaf, a sprawling Shiite Muslim slum in Baghdad, and the Sunni cities of Fallujah, Ramadi and Samarra, all of which remain largely under the control of insurgents two months after the transfer of political authority. (Karl Vick, "US Troops see Highest Injury Toll Yet," *Washington Post*, 5 September 2004.) Events in Najaf have weakened

the authority of the transitional government of Iyad Allawi, which has also been weakened by Kurdish reluctance to submit to its authority.

27. The fear of common crime and insurgent violence has proven a daunting impediment to economic and political reconstruction. It has made the movement of goods and people exceedingly difficult, jacked up production costs and discouraged investment. An inordinate amount of prime contractor spending is on security as well as insurance premiums that approach 30% of company payroll. Two security guards protecting foreign business leaders can cost \$5,000 a day and still dozens of employees have been killed—a situation which is driving away other workers not to mention potential investors. (ICG Report) Aid officials and NGOs simply cannot get into the field to carry out their work.

28. Gearing up oil production has been a clear priority for those leading reconstruction efforts as oil revenues were slated to provide a major source of funding for reconstruction. Iraq earned an estimated \$9.6 billion in oil export revenues in 2003, even though it was unable to generate revenues in April and May. For 2004, Iraq's oil export earnings are expected to reach \$17.7 billion, an 85% increase from the previous year. Forecasts for Iraqi oil export revenues are complicated by high levels of uncertainty regarding future Iraqi oil exports, as well as continuing attacks on oil infrastructure (such as the recent spate of attacks on pipelines in northern and southern Iraq). In June 2004, Iraq's crude oil production stood at 1,703,000 barrels per day. The six-month average for the first half of 2004 stands at 2,037,000 barrels per day. (US Department of Energy) The total cash inflow since inception of the oil fund for Iraq is \$20.2 billion of which oil for food constitutes \$8.1 billion and proceeds from oil exports constitute \$10.8 billion. The cash outflow since inception is \$11.3 billion with outstanding contractual commitments of \$4.6 billion. (Thomas Gareth Smyth) It should be pointed out that KPMG auditors working for the UN have suggested that the funds derived from these earnings have not been disbursed in a transparent manner. ("US is criticized over spending of Iraq oil revenues," Financial Times, June 22, 2004.) The Development Fund of Iraq (DFI) has collected Iraqi oil export revenues of \$11.1 billion, more than half of the development fund's total cash income of \$20.6 billion. Nearly all of the \$20 billion in the DFI was spent or allocated by June 28 - while only 2% of the \$18.4 billion promised by the United States for reconstruction has actually been spent.

29. Private western firms are also playing a prominent role in the reconstruction effort, although to very mixed reviews. Thirty large firms were awarded contracts to manage a range of critical infrastructure projects. Those so-called prime contracts, worth a total \$18.6 billion, have been subject to widespread criticism. Although prime contractors were meant to sub-contract to Iraqi firms, in practice very little reconstruction work has actually trickled down to Iraqis. Moreover, many Western firms have brought in foreign workers rather than hire locally to the deep resentment of the Iraqi people. Others have charged that these contracts have simply provided an opportunity for corporate profit skimming. Ed Kubba, a member of the American-Iraqi Chamber of Commerce asked, "If you take \$10 million from the U.S. government and sub the job out to Iraqi businesses for \$250,000, is that fair business or is it corruption?" (ICG Report)

30. Early on, the US Administration decided to exclude companies from the bidding process that were based in countries that opposed the war. This was done ostensibly on security grounds, although the decision to award no-bid contracts to well connected firms like Haliburton invariably raised other questions in Washington. Development experts have charged that Iraq will ultimately pay a price for these exclusions, which, they argue, constitute tied aid by another name. Nancy Birdsall and Todd Moss, at the Center for Global Development in Washington, for example, have estimated that restricting development contract bidding in this fashion can reduce the value of aid by 15-30% because it prevents poor countries from procuring from the most efficient producers. They maintain that in Iraq the United States has excluded some of the world's most experienced and cost effective international companies while the proliferation of no bid contracts has led to "gold-plating" (over-billing) and other sub-optimal practices, some of which the U.S.

government is now formally investigating. Even more worrisome, however, has been the reluctance to employ Iraqi firms and workers in much of the reconstruction activity. The procedures have certainly not sparked the biggest bang for the development buck (Birdsall and Moss). Given the array of investigations into contract abuse in Iraq, it would seem that the approach taken has not been the most effective.

31. To take one example of the potential problems that can arise in the post-conflict contracting business, the US army Corps of Engineers had suggested that Iraq's Sinjar Cement factory be completely rebuilt by US contractors for \$23 million. Fortunately for US taxpayers, this was deemed too expensive, and the plant went back on line after managers were able to tap into \$10,000 of the 101st Airborne division funds and \$240,000 from the factory's own bank accounts. This improvised solution got the plant back on line quickly (although it is only producing at half of its original capacity), put Iraqis to work immediately and increased the supply of desperately needed cement without an unnecessarily large outlay of ultimately scarce development funding (Hamre). Stories like this reinforce the view of some development experts that the US military has outperformed the CPA in the practicalities of getting Iraq back on its feet and getting the most from development dollars.

32. The Iraq Project and Contracting Office (PCO) was working on only 164 construction projects as of May 2004 out of the 2,390 it has planned out to 2008. The total spent on these and other smaller efforts falls well below the World Bank/UN's estimates of "immediate needs of \$17.5 billion to restore infrastructure and public services to March 2003 levels." (World Bank Note, 14 January 2004). An opportunity to generate employment and engage in capacity building through reconstruction work seems to have been initially squandered, as was the opportunity to employ lower cost local workers to do much of the work. State Department officials who spoke with the Committee this summer clearly recognised that new approaches were needed.

B. ASSISTANCE TO IRAQ

33. Iraq's reconstruction is currently funded from three principal sources: the Development Fund for Iraq (DFI), a product of UN resolution 1483; balances from the U.N. Oil for Food program; and previously frozen Iraqi funds. As of June 2004 there were \$23.4 billion available in these funds. (Cordesman) The US government has made about \$21.0 billion available under FY 2003 and FY 2004 emergency wartime Supplemental Appropriation Acts for Iraq reconstruction. (GAO report) International contributions first coordinated at the October 2003 Madrid Donors' Conference include \$13.6 billion in grants and loans pledged for 2004-2007 (U.S. excepted). (OMB report, Appendix II) In addition, in December several states agreed in principle to a Washington request to write off part of Iraq's huge \$120 billion debt against a GDP of only \$20 billion. (ICG Report) For the moment, debt repayment has been put off until 2008, although the 19 members of the Paris Club recently moved toward a deal on partial cancellation of Iraq's sovereign debt and interest. The US, which is owed only \$2.19 billion, wants at least 90% of this debt written off while Russia and France, among others, have argued that this is too much. US negotiators hope to bring opponents along by holding out the prospect of similar debt relief for poor countries in Africa, Asia and Latin America. Sorting this out is critical to instilling greater confidence among potential investors. The goal is to settle these questions by the end of the year. (Schroeder)

34. The U.S. government also contributes to international assistance efforts, but it clearly gives priority to bilateral assistance. Compared to the \$21 billion appropriated by Congress, the United States only offered some \$10 million for the international assistance fund facility at the latest Donors' Conference in Doha in May 2004. (OMB report, Appendix II.)

35. The use of all these funds is more difficult to track. Before the dissolution of the CPA, about \$11.3 billion of the \$20.2 billion committed for the DFI had been spent with another \$4.6 billion committed before the handover. (GAO report, p. 2; The Economist, 24 March 2004) In

comparison, only between \$600 and \$800 million of the U.S. appropriated funds has so far been spent (Simpson, Chicago Tribune, 18 August 2004;). Some charge that bureaucratic obstacles with the CPA made it extraordinarily difficult to disburse funds. The US government nevertheless claims that there are 2,300 US projects under way at 100 job sites with some 80,000 Iraqis directly employed in these projects.

36. Before the transfer of sovereignty to the new Iraqi interim government on 28 June 2004, the Coalition Provisional Authority (CPA) managed the DFI in consultation with the Iraqi interim administration, while the International Advisory and Monitoring Board (IAMB) had auditing responsibility. The Iraq Project and Contracting Office (PCO) under the authority of the CPA/DoD managed IRRFI Funds. Several agencies were in charge of program implementation: the DoD, USAID, the State Department, the Department of Treasury and the U.S. Institute for Peace. (OMB) On 28 June 2004, Iraq's new interim government, assumed responsibility for the Development Fund for Iraq. In addition, an 11 May 2004 Presidential directive transferred responsibility for the coordination of U.S. assistance efforts from the DoD to the State Department. US assistance is now run out of the American Embassy in Baghdad and is thus under the general direction and continual supervision of Secretary of State Colin Powell and US Ambassador to Iraq John Negroponte. The change was a relief to many development experts who had faulted the DoD-led reconstruction effort as mistake-laden, characterized by a lack of effective planning, staffed by a surprising number of highly-inexperienced individuals (in several notable instances recent university graduates with little or no work experience or development training were charged with implementing huge aid budgets) (Cha), and a steadfast refusal to consult closely with agencies with relevant experience in this area.

37. Under the CPA, reconstruction efforts focused mainly on large infrastructure repair and construction with particular stress on oil, water and electricity. But there were serious problems. Funds were not quickly disbursed while prevailing insecurity made it very difficult to carry out the work. Restoring power and other services has lagged behind schedule while the real productive economy has not yet begun to function normally. (Croker)

38. As suggested above, one exception to the generally negative assessment of the reconstruction effort has been the relatively small aid projects managed by U.S. military commanders under the Commander's Emergency Response Program, which in the estimate of some experts, has proved more successful than the CPA's ambitious but unrealistic reconstruction programs. (Cordesman) Indeed, US military forces were involved with many aspects of reconstruction, and senior military commanders, through the Commanders Emergency Relief Programme, controlled funds for infrastructure projects ranging from sewer repairs to hiring private security guards to protect core infrastructure (Pollack). According to one study, some commanders were spending up to \$6 million a week on these efforts and reports suggest that much of this spending was effective, particularly as the military took on board lessons from their experience.

39. US authorities have split the Project and Contracting Office in charge of the management of the IRRFI into two entities. A temporary organization, the International Reconstruction Management Office (IRMO), operates out of the U.S. embassy and exercises policy oversight of the reconstruction effort while coordinating all other U.S. assistance activities in Iraq. It lays out a strategic approach for U.S. assistance and provides consulting support to the Iraqi ministries. As of this September, Ambassador William Taylor, who spoke to this Committee in Washington, will be in charge of this effort. Widespread criticism of the CPA's management of both the DFI and the IRRFI (KPMG audit of the DFI) has also inspired the State Department to launch a comprehensive review of U.S. assistance to Iraq. Although it was to have been completed by July 2004, that review is ongoing at this writing.

40. Secretary of State Colin Powell has sought to clarify the new priorities: speeding up the process of committing funds from the IRRFI; redirecting funds to smaller-scale projects with

quicker and more direct impact on Iraqi society; involving Iraqis more directly in planning and implementing American-financed reconstruction projects and creating more jobs for Iraqis; providing assistance for the organization of the January 2005 elections; and improving coordination with coalition partners and international organisations (Eckholm) This will require the reallocation of some funds committed to current contracts, and Congress may have to lift certain restrictions to make this possible. The State Department agenda is far closer to the consensus view among development experts about what needs to be done. The Administration has had the good sense to make a pragmatic mid-stream correction to a process that was plummeting head-long toward failure. The central question now is whether the current rather dire situation will make it possible to implement any of this in a comprehensive fashion.

C. UN ASSISTANCE TO IRAQ

41. Because the United Nations Security Council never sanctioned the intervention^{*}, the UN has been exceedingly cautious about operating fully in Iraq; the UN's dilemma has been great. For it to sit on the sidelines risked further aggravating an already grave humanitarian situation. Recognising this, the UN decided to provide basic services to Iraq while calling on its agencies to "retain full control" of their operations and to avoid studiously any hint of political partiality (Durch). As a result, the UN would not even operate out of coalition-controlled buildings.

42. The international legal situation has evolved considerably in the wake of the initial conflict. After an extensive and sometimes acerbic debate within the Security Council, that body passed Resolution 1483 which (1) lifted pre-existing economic sanctions on Iraq, (2) acknowledged without authorising the United States and the United Kingdom as occupying powers under the Geneva Conventions, and (3) invited other powers into Iraq to work with the Coalition Provisional Authority (CPA). It also mandated a UN Special Representative to the Secretary General to work with that authority, with the people of Iraq and with others to help establish representative government in the new Iraq. Sergio Vieira de Mello was subsequently appointed to this position. When De Mello and a number of his colleagues were killed in a bombing of UN headquarters in August 2003—the Secretary General withdrew most UN personnel from the country; IMF and World Bank officials also withdrew. UN staffers were subsequently relocated to Cyprus, Jordan and Kuwait.

43. In October 2003, the UN Security Council approved Resolution 1511 which finally recognised the role of the United States and the UK in the occupation of Iraq, and this past January, Kofi Annan suggested that the UN would consider sending back a team to Iraq as long as its autonomy would be ensured. This team, led by Lakhdar Brahimi, helped select an expanded and more broadly representative governing council, which assumed sovereignty from the US-led coalition this past June. It is governing Iraq until direct elections can be held (Wright, 2 March 2004). An important step was taken this March when the governing council, overcoming initial objections from the Shia leader Ayatollah Ali Sistani, signed an interim constitution, which will remain in place until an elected assembly agrees on a permanent charter that is subsequently approved in a nationwide referendum (Chandrasekaran). The United Nations assisted but not sponsored the preparation and organisation of the national conference that selected an interim national assembly supposedly with the power to veto any decision by the interim government. The problem is that many of the dissenting groups in Iraq remain outside this forum either by choice or exclusion and thus have no stake in its success. (Drummond) The United Nations is also helping to prepare for national elections to be held by January 2005 at the latest. A UN electoral team led by Carina Perelli recently travelled to Iraq to assist with the appointment of an Independent Electoral Commission to monitor those elections.

^{*} The United States and the United Kingdom dispute this.

44. A new permanent Special Representative of the Secretary General also acting as head of United Nations Assistance Mission for Iraq (UNAMI), Pakistani diplomat Ashraf Jehangir Qazi, was appointed on 13 July 2004 to succeed the late Sergio Vieira de Mello. The full return of UNAMI to Iraq, however, is now conditioned by the security situation. The Secretary General currently judges the risk to be "high to critical", and accordingly has not allowed the full deployment of UN staff to Iraq (Annan Report). Resolution 1546 addressed this issue by providing for the creation of a multinational force designed specifically to guarantee the security of UN staff. Yet, the international community has not yet offered sufficient troops to carry out this mission.

45. UN activities in Iraq cover 3 broad areas: coordinating and implementing projects for the economic and social reconstruction of Iraq; managing and overseeing the use of funds provided for the reconstruction of Iraq; and lending support to the political and constitutional process. Capacity building, reconstruction, development and humanitarian assistance are top priorities. A United Nations Country Team (UNCT) brings together all 20 UN agencies and programs with activities in Iraq.¹ The work of the UNCT is divided into 11 clusters² informed by 5 intersecting themes: security, human rights, gender, environment and employment generation. (NY Times 20 July 2004, 6 August 2004).

46. The United Nations is the custodian of funds the international community pledged at the Madrid conference in October 2003. This UN Trust Fund, together with the World Bank Trust Fund, is one of the two components of the International Reconstruction Fund Facility for Iraq, (IRFFI). The UN Fund has received pledges of \$600 million. In the first six months of 2004, \$100 million worth of projects have been implemented (Annan Report). The latest meeting of the Donor's Committee in Doha adopted the following priorities for the use of the IRFFI funds: re-establishment of essential services with an emphasis on health and education, infrastructure rehabilitation, job creation, poverty reduction, governance, and capacity building. The United Nations is also interested in measures designed to generate employment. (Ross Mountain).

D. EU ASSISTANCE TO IRAQ

47. On 9 June 2004, the European Commission proposed a new framework for the European Union's relations with a sovereign Iraq. The appointment of a new Iraqi Interim Government, the full transfer of sovereignty and power on 30 June 2004 and the reinforced role of the UN offered an opening to the EU to reengage in the reconstruction effort, something that was not politically possible prior to the transfer of sovereignty. The Commission hopes to contribute to the development of a stable and democratic Iraq and to the establishment of an open, stable, sustainable and diversified market economy. Accordingly, it will support elections and assist in the

¹ The Economic and Social Commission for Western Asia (ESCWA); the Food and Agriculture Organisation (FAO); the International Labour Organisation (ILO); the International Organisation on Migration (IOM); the International Telecommunications Union (ITU); the Office of the UN High Commissioner for Human Rights (OHCHR); the United Nations Development Programme (UNDP); the United Nations Environment Programme (UNEP); the United Nations Education, Science and Cultural Organisation (UNESCO); the United Nations Population Fund (UNFPA); the United Nations Centre for Human Settlements (UN-HABITAT); the United Nations High Commissioner for Refugees (UNHCR); the United Nations Children's Fund (UNICEF); the United Nations Industrial Development Organisation (UNIDO); the United Nations Fund for Advancement of Women (UNIFEM); the United Nations Mine Action Service (UNMAS); the United Nations Office on Drugs and Crime (UNODC); the United Nations Office for Project Services (UNOPS); the World Food Programme (WFP); the World Health Organisation (WHO).

² 1. Education and culture; 2. health; 3. water and sanitation; 4. infrastructure and housing; 5. agriculture, water resources and environment; 6. food security; 7. mine action; 8. internally displaced persons and refugees; 9. governance and civil society; 10. poverty reduction and human development; 11. support to the electoral process.

development of civil society, the rule of law and voter education. It will launch an EU/Iraq informal political dialogue while encouraging the positive engagement of Iraq's neighbours. The EU also foresees extending GSP (General system of preference) trade preferences, and providing support on debt forgiveness/restructuring. It has also put together a 305 million euro package of humanitarian and reconstruction assistance.

48. Ultimately the Commission also hopes to launch a formal political dialogue with the Government, create working groups in sectors of mutual interest, support regional dialogue and confidence-building measures, promote democratisation and human rights, and expand bilateral technical assistance and capacity building programs. Once the Iraqi people adopt a constitution and elect a government, the EU expects to adopt medium-term measures including: open negotiations for EU/Iraq contractual relations; assistance on economic diversification and poverty reduction; further assistance for democratisation, human rights and rule of law; and European Investment Bank lending. (www.europa.eu.int 16 June 2004; DG RELEX web site).

49. On the security front, although several European countries are working in the American led coalition, France, Germany, and several other EU member governments are not prepared to deploy troops to the war-torn nation, and Spain recently withdrew from the coalition. These countries remain wary of involvement in an increasingly complex mission that is widely unpopular in their own countries. French President Chirac said it would support a deployment of NATO forces only "if the sovereign Iraq government clearly expressed its desire to do that". At the Istanbul summit, NATO members have agreed to provide training to Iraqi security forces, and to send 300 soldiers to the country. Over the coming months, NATO will discuss whether to take a greater role in training although there is currently no consensus on the direction to take. (Dombey)

50. As recent events in Najaf suggest, the situation in Iraq remains very much in flux. The country remains highly unstable, and sectarian tensions are mounting. The immediate development challenge, in fact, is to restore a modicum of security to the country, something that has so far proven elusive and has gravely complicated the fundamental development task. It remains to be seen whether coalition officials and Iraq's emerging leadership will be able to reverse the situation or even hold the country together. A greater role for the international community, facilitated now by the transfer of sovereignty to an Iraqi authority, may well be critical to the outcome.

E. AFGHANISTAN

51. Twenty years of war, drought, and tragic misrule have consigned Afghanistan to the ranks of the world's poorest countries. Per-capita income is estimated at \$300, infrastructure remains in a terrible state where it exists at all. The road system has been utterly neglected, electrical power failure is common, clean water is scarce, and war-lordism, insurgency and government bureaucracy have all had a discouraging effect on business activity. Yet the economy has made some progress over the last two years and there are signs of economic activity in those areas where a reasonable degree of security is evident. The currency reform of 2002 stabilized the national currency and is providing a foundation for economic transactions. As in Iraq, however, a tenuous security situation remains the most serious impediment to progress. According to one recent study based on the Collier-Hoeffler analysis of the determinants of post-conflict growth, Afghanistan experienced a growth spurt in the early months of 2004 in those cities where there has been a reasonable degree of security. With the help of international assistance, agriculture has also begun to recover from years of drought and official neglect.

52. Agriculture constitutes another area of concern. Much of the farming infrastructure was destroyed over nearly two decades of war, livestock is diseased, and an estimated 40% of cattle and sheep suffer from foot-and-mouth disease - something US veterinarians have been helping to fight. Civil war has largely destroyed the Soviet-built irrigation network. According to the UN

Office on Drugs and Crime, poppy cultivation has spread to 28 of Afghanistan's 32 provinces compared with 14 in 2001, earning farmers an estimated \$1 billion in 2003. Those funds are already distorting the national economy, underwriting warlords and terrorists and generally contributing to a climate of lawlessness that reigns in much of the countryside. It is also provoking tension with the other countries of Central Asia, Russia and the international community at large. The FAO recently estimated that \$25.5 billion is needed to underwrite alternative crop production in a country that is increasingly relying on opium production to generate revenue in the countryside. If this problem is not addressed, the risk is that Afghanistan could rapidly become an ungovernable narco-state - once again prone to penetration by criminal and Jihadist groups that flourish in lawless climates. Afghanistan is expecting a bumper opium crop this year and will likely be the source of 90% of Europe's heroin. Opium sales will generate one third of Afghanistan's GDP (Champion, Burnett).

53. In several superficial respects, the situation in Afghanistan is similar to that of Iraq, but the differences are important. First of all, the international community has managed to operate more easily in Afghanistan, in part because the UN legitimised the initial intervention. In Resolution 1368 the UN Security Council called for the perpetrators, organisers and sponsors of the September 11 attacks to be brought to justice; in Resolution 1378, the UN Security Council expressed its support for the efforts of the Afghan people to replace the Taliban regime, in Resolution 1386, adopted on 20 December 2001 the UN Security Council authorised the establishment of the International Security Assistance Force (ISAF) to help maintain security in Kabul and the surrounding areas. The March 28, 2002 Security Council Resolution 1401 established the United Nations Assistance Mission in Afghanistan (UNAMA), and in August 2003 NATO assumed responsibility for ISAF, which is currently under French command. In this way, the international community both endorsed the American-led effort to overthrow the Taliban regime and in so doing legitimised the full participation of the international community in Afghanistan's reconstruction. Unlike in Iraq, therefore, the international community has willingly accepted its responsibilities for the country's rehabilitation, and as a result the United Nations and many of its members are fully engaged. Such engagement has proven more elusive in Iraq's case.

54. While the UN has been very hesitant to take on a major role in Iraq, it has been enormously helpful in providing a context for the reconstitution of a central government in Afghanistan and in providing relief to the people of that beleaguered country. In December 2001, UN officials and other representatives of the international community helped broker the Bonn agreement, which set out a path for the reconstruction of the country politically and economically. By 22 December 2001, a provisional government headed by Hamid Karzai had been established. The UN subsequently played a critical role in organizing the first *Loya Jirga* in the spring of 2002 which brought together 1500 delegations from 400 Afghan districts to lay out a map for the country's political future, and in January 2004 a second *Loya Jirga* agreed a new constitution for the creation of an Islamic Republic (Ghani). Last spring, Berlin hosted yet another international donor's conference which raised another \$4.4 billion for Afghanistan's reconstruction and this October Afghans will choose a new President in elections for which the international community is providing a great deal of support. Nine million Afghans have so far registered to vote. When asked to compare the situation in Iraq and Afghanistan, a senior State Department official told members of the NATO PA Economics and Security Committee in June 2004 that the active engagement of the UN in all aspects of Afghanistan's reconstruction and the international community's endorsement of the effort constituted an important difference. (Secretariat Report, 145 EC 04 E) Although beset by serious problems the government has also managed to win an impressive amount of public support. Recent polls indicate that 68-73% of the public is supporting the government. The support goes beyond Afghanistan. The Organisation of Islamic Conferences has welcomed it as have a number of the governments in the region. The Security Council too has added its endorsement and this was reinforced at the Sea Island, Dublin and NATO Summits. The legitimacy of this fledgling state apparatus, in turn, provides a focal point for the development community.

55. That said, re-establishing a sovereign, legitimate, effective and broadly-recognised central government has proven enormously difficult. This is largely a function of a regrettable security situation, which, as in Iraq, remains the single greatest barrier to the implementation of humanitarian relief, reconstruction and development strategies. Not only is the Taliban showing signs of resurgence, but warlords, many enjoying privileged positions in the central government (Rashid), have entrenched themselves throughout the country and now constitute the most daunting impediment to the establishment of a central governing authority with a national reach, a modicum of human rights protections and an integrated national market. Warlords in Afghanistan control an estimated 100,000 troops (Rashid), and many are engaged in all manner of criminal activity including the opium trade, extortion, highway robbery, and murder. A resurgent Taliban has targeted a number of development workers, NGOs and UN offices. In November 2003, UNHCR temporally pulled out international staff from the country's southern and eastern regions following the shooting of a French employee (Burnett) and Médecins sans Frontières has left Afghanistan after insurgents killed several of its staff. The human rights record of some of these local chiefs is particularly horrific. (Heffernan, Leaning) This has led some to argue that Western donors should channel as much assistance through the central government as possible in order to help it extend its authority over the entire country.

56. The problem is exacerbated by the fact that the West has only deployed a relatively small number of forces in the country. ISAF has largely been confined to Kabul while US forces, engaged in Operation Enduring Freedom, are fighting Taliban elements and hunting for al-Qaeda mainly in the south and eastern provinces. There are also a number of NATO countries supporting small Provincial Reconstruction Teams (PRTs) each consisting of 200-300 personnel working throughout the country to provide support for reconstruction. But some critics have suggested that the PRTs lack the numbers to provide security to a critical mass of the population and cannot help resolve local conflicts or impede rampant opium trafficking. (Rashid) This September, NATO member governments agreed to bolster the number of soldiers to 10,000 to better help it extend the reach of the central government. Forces are moving beyond the Kabul enclave into the areas of Faryab, Badakhshan and Baghlan, and Konduz. (Burnett 14 July 2004) This suggests that NATO governments are finally heeding former NATO Secretary General Lord Robertson's warning that NATO's very credibility as an alliance capable of managing operations outside of Europe was at stake in Afghanistan. NATO will bolster its PRTs by deploying a rapid reaction force to Mazar i Sharif. All of this should help the security situation but will not provide a panacea, particularly if Western forces do not broaden their mandate to deal more forcefully with the opium problem. The border regions with Pakistan in the South are not under control and violent campaigns by Islamic extremists have paralysed reconstruction efforts. More than 30 aid workers have been killed since January, and UN maps suggest one third of the country is under the control of dangerous opponents of the government. (Burnett, 19 August 2004)

57. Indeed, if the number of Western troops in Iraq seems small compared to the needs of the country; in Afghanistan the disparity is even more daunting. The situation has been made worse because the Iraq war has inevitably drawn US forces out of Afghanistan, and this has led to a strategy predicated on working with the country's warlords to take on Taliban and al-Qaeda elements and to restore central authority. The problem is that the warlords themselves pose a serious threat to stability and unity in the country and are impeding both reform and broader integration efforts. Yet the government is making progress in this area as well. Although the Afghan national army is still less consequential than the country's private armies, it is gathering size and strength and has the potential advantage of being ethnically diverse and thus a truly national army. The national police force now numbers about 23,000 and is being trained by US and German personnel. (Burnett, 19 August 2004)

58. Generating sufficient funds to underwrite humanitarian relief, reconstruction and longer-term development projects in Afghanistan has represented yet another challenge. Humanitarian relief, reconstruction and development assistance are all needed simultaneously as well as significant

political and security support. In the view of many experts, the level of support on all of these fronts has not been sufficient to meet the country's minimal needs. Yet the presence in the country of so many relief agencies, national development officers and NGOs paradoxically at times have overwhelmed the government and made it even more difficult for it to achieve policy coherence. Some have charged, for example, that NGOs often fail to consult with line ministries while the government, for its part, sometimes underestimates the potential value of NGOs in supporting the most vulnerable. Improved communication is needed between donors and the government, but this is difficult when the government itself is stretched so thin.

59. The government has drawn a coherent development line that has paid off in many respects. It has tended to accord greatest weight to social policies precisely as the Collier analysis recommends. Back-to-school programmes, the removal of gender discrimination policies and community-driven investment initiatives along with a labour-intensive public works programme that generated some 2 million workdays last winter have improved the lot of many Afghans and helped the government win support. Afghanistan's National Solidarity Programme has assisted communities in defining local priorities and has underwritten projects to achieve those priorities. But of course, resistance to all of these efforts is evident. In much of the country, it is impossible to introduce any kind of development programme because of local instability, insurgency and a lack of co-operation from local leaders intent on preserving their privileges.

60. The Karzai government has also sought to stimulate activity in the private sector and particularly in agriculture. It hopes to revive traditional export markets for Afghan nuts, dried fruit, carpets and transit trade, and, over the longer term, even to exploit the country's tourist trade. Over the longer term, it wants to encourage the construction of a network of energy pipelines through the country in order to link the Caspian region with the dynamic energy markets of India and Pakistan. But until the country is stabilised, those projects are likely to remain tacked to the drawing board. Capital remains very expensive in Afghanistan even though the government is making some concessionary loans to stimulate the commercial sector.

61. The international community has played a critical role in reconstruction and in reinforcing the government's authority. Participants at the Tokyo Pledging Conference in January 2002 considered a draft reconstruction programme drawn up by United Nations Development Programme (UNDP), the World Bank and the Asian Development Bank and pledged financial support for it. Yet, as in Iraq, tracking these pledges poses a challenge because of differing degrees of transparency in donor programs, conflicting budgetary and payment cycles, unclear distinctions between grants and loans, and confusion over whether funds were earmarked for humanitarian or reconstruction assistance. Most of the funds were given directly to the UN, international lending institutions, the International Committee of the Red Cross (ICRC) and NGOs with initially only a small trust fund left for the operation of the interim government.

62. The Afghan government had trouble coping with the varied and sometimes conflicting political interests of donors. The Afghanistan Reconstruction Steering Group (ARSG), chaired by the United States, the EU, Japan and Saudi Arabia was to provide overall direction to the reconstruction effort. Some observers initially worried that the ARSG frequently ignored the Afghan government's interests. The interim government and the ARSG subsequently created a consultative group chaired by the government to ensure that Afghan input feeds into the decision making process. The Afghanistan Reconstruction Trust Fund helps underwrite the national budget and is designed to grant the government a degree of budgetary leeway. This is critical because setting budget priorities remains one of the most important steps in the post-conflict reconstruction process, and donor countries must allow local and national leaders to play the lead role. The Afghanistan Reconstruction Trust Fund allows Afghans themselves to set the priorities; although the donors can and do demand accountability for the outlays while the World Bank provides general oversight. This approach ensures that development projects are properly and locally

defined. It also has capacity building effects as it accords critical responsibilities to local actors. (Secretariat Report 145 EC E) Recently the government began to impose taxes although the tax base is minuscule. Total government revenues will only cover half of the \$609 million operating budget. But the government is working to ensure that it rather than local warlords is the agent for collecting taxes in Afghanistan. (Burnet 19 August 2004)

63. By assuming ever-growing control over the development process, the state acquires greater legitimacy in the eyes of its own citizens. The World Bank has endorsed the notion that the government budget itself must become the primary vehicle for channelling and coordinating aid. According to one European Commission report, "The recurrent budget is crucial to establishing the authority of the ATA (Afghanistan Transitional Authority) as a national governing body. The budget supports day-to-day operating costs and is the source of all salaries for public servants. Supporting the recurrent budget ensures teachers, policemen, and other civil service employees are paid, and thus underpins the re-launch of essential services. Without a fully funded budget, the ATA will have difficulty meeting the conditions set down by the international community at the Bonn conference in December 2001.

64. Communication between donor countries and Afghanistan's transitional authorities has been far from perfect. The Karzai government has suggested that the amounts discussed in preliminary needs assessments were far too low, particularly when compared with similar assessments made in Bosnia, East Timor and Kosovo. In 2002-2003, aid commitments approached 25% of GDP, but aid expenditures, in fact, were somewhat less. Most of the funding pledged in Tokyo (\$4.5 billion) covered basic humanitarian assistance and reconstruction efforts over five years. Since then, the total has risen to \$5.2 billion plus the \$4.4 billion for financial year 2004-2005 recently pledged in Berlin. (Blenkinsop) Yet the government's new investment plans submitted at the Berlin pledging conference calls for \$28.5 billion over seven years, a figure many see as unrealistically high given current donor constraints. (Champion). The government has also suggested that too much of the aid flowing into the country has focused on humanitarian relief when the country's greatest need is real investment, which packs a greater multiplier effect over the longer term. Moreover, humanitarian assistance is often in-kind (e.g., food) rather than cash-based, and this initially hindered the emergence of a monetized economy, reduced the government's decision-making flexibility and distorted local food markets.

65. The UN has sought to help the authorities build up their administrative capacity, but there are tensions here as well, therefore the government has suggested that the only way to build capacity is to allow it a greater say in the disbursement and administration of funds. Mr Karzai has publicly expressed his concerns that the international community effectively created parallel and redundant state structures that drew authority away from a government that must build up its own capacities and its authority if it is eventually to wean itself from its current level of dependence on international support. This is also the express goal of Ashraf Ghani Ahmadzai, a former World Bank employee who now heads the Afghanistan Assistance Coordination Authority (AACA). Ahmadzai has advanced the idea that donors unite behind the government agenda and support its priorities not theirs. The problem is that some of the largest donors have refused to have their money pooled into a trust fund for the whole of Afghanistan. Donor countries want to exercise control over their particular projects and take political credit for them. This leads to what Mr Karzai calls "*Red Tapis*".

66. In November 2003, the US Congress approved an \$87.5 billion package to underwrite military operations and aid in Iraq and Afghanistan. Most of the funding, in fact, has gone to military operations and the great bulk of these were directed to Iraq. Yet the United States has nonetheless made fairly substantial commitments to Afghanistan. Foreign donors promised \$8.2 billion at the Berlin conference on top of \$5.2 billion offered in Tokyo. The US government's \$1.7 billion pledge in Berlin made it by far the largest single donor. USAID will spend 1.2 billion this year on roads, schools, training teachers and on financial advice. (Burnett 19/08/04) The United

States is, for example, a principal underwriter of the most important infrastructure project - the Kabul-Herat Road, which will greatly facilitate commercial life in the country and create an opportunity for more international trade.

III. CONCLUSIONS AND RECOMMENDATIONS

67. Given the costs of war, its utterly detrimental impact on developing countries, and the fact that the international community generally spends far more coping with the aftermath of war and internal conflict than it would have had it taken measures to prevent the outbreak of conflict, conflict prevention should always be the top priority for statesmen. But this is obviously easier said than done, and there is a range of political, diplomatic and legal obstacles to elevating prevention to the highest echelon of potential responses. As long as serious barriers exist to taking preventive measures (including preventive interventions), the international community will likely continue to face the critical problem of assisting post-conflict societies - recognising, of course, that "preventive" interventions can imply conflict. One development expert recently characterized the pattern of Western post-conflict interventions as one in which "no wheel shall go unreinvented." That is unacceptable and policy makers need to apply the many lessons that have been learned in post-conflict settings to new situations.

68. Several core principals should shape post-conflict reconstruction policy: security is *sine qua non* for beginning the reconstruction process; little can be achieved without cultivating a sense of local ownership of the process and a degree of decentralisation in decision making and resource allocation; it is essential to forge a broad agreement on reconstruction plans among intervention forces and their governments and local and national leaders from the crises country. Other actors like international lending organisations and NGO's should also be part of the mix; means are needed to ensure that aid arrives with dispatch, that there is accountability and transparency in its delivery, earmarking or tying aid should be as limited as possible; rapid job creation and the restoration of basic utility, health and social services can broaden the sense that society has a stake in the reconstruction process; and finally that the timing of the process is driven by local conditions rather than artificially established deadlines dictated by Western political calendars.

69. International peace operations should theoretically begin with a political basis for peace, followed by a mandate for a UN mission and then the allocation of resources to underwrite that mission. Too often mandates are structured along the lines of resource availability; this is not enough.

70. Economic analysis has shown that there is only a small window of opportunity to put a country on the road to development after a conflict. Western governments and international organisations therefore need an improved capacity to kick-start this process by providing rapid humanitarian relief and the restoration of basic services. Governments also need to improve their capacities to galvanise the reconstruction and development phases. Frankly, Western governments do not have a great track record in post-conflict development, and this is made even worse when the UN, which has important capacities and experience in this area, is purposefully marginalized. Standing structures for emergency post-conflict interventions are needed as is a higher level of inter-ministerial and inter-governmental co-ordination. (Orr). Efforts are also needed to ensure that the distribution of aid empowers rather than weakens central government authorities. At the same time though, a sense of local ownership of the reconstruction and development process cultivated through close consultation and shared decision-making is utterly essential to ultimate success.

71. Efforts must be made to "untie" foreign assistance to post-conflict societies. The practice of tied aid may reward developed country firms, but it imposes enormous hidden burdens on the recipient countries, squanders precious resources on corporate welfare, and is a bad deal for

western taxpayers who are asked to underwrite conflict development programmes not corporate welfare schemes. Boosting western firms' balance sheets is certainly not the *raison d'être* of foreign assistance, and the practice actually puts Western security and humanitarian interests at risk. Insofar as possible, contracting and hiring locally should always be a priority particularly as this can reduce unemployment and increase local capacities.

72. It is also important for the donor community to strive for a "light footprint". Too often in post-conflict situations, highly qualified individuals including judges, teachers and experienced civil servants willingly abandon their posts to take positions as drivers of leading international civil servants simply because the pay is so much higher. The international presence in post-conflict regions can thus have a grossly distorting impact that complicates reconstruction. Empowering central authorities and local communities to take the lead in the development process can help in this regard and reduces reliance on highly paid westerners. Reconstruction schedules must be dictated by local conditions, not by the political or international strategies of the big powers. The rush to complete non-essential projects in Iraq before the end of the CPA's term is an example of the latter.

73. It makes great sense to engage local firms in reconstruction, to the extent this is possible, and not to turn conflict ridden regions into "gold plate specials" for Western companies. There are many reasons for this, but above all it directly engages the local population and local companies in national reconstruction. It prevents an influx of highly paid westerners whose presence can distort national economic life, and it provides a foundation for appropriate local commercial development. This is not to say that Western companies do not have a role to play particularly when there are no local options. But local producers should be given priority. Creating jobs after a conflict stymies one of the surest means of creating "insurgents" (or so-called "spoilers"). Mobilizing the oftentimes large diaspora of the country can provide a boost to reconstruction.

74. In forging post-conflict development strategies, more weight should be given to achieving social stability over radical liberalization schemes, even resilient markets will ultimately be needed to bring medium and longer term development. Radical privatisation agenda, for example, are unlikely to succeed soon after conflict because the institutions for managing privatisation are not likely to be sufficiently reliable while the mechanisms even for achieving a consensus on this strategy are even less likely to be sufficiently robust. Experience has shown that privatisation imposed without a reliable institutional framework to structure it can have very adverse economic, political and social fallouts; moreover if a sovereign government is not in place, it is simply against international law for the occupying authority to sell off state assets. It is far better to focus on building the framework beforehand and accepting the inefficiencies of the public sector as a short-term cost of the reconstruction process (Mahdi) (Stiglitz). That said, private businesses should be encouraged to compete with the state sector as soon as possible as this will ultimately nourish a fledgling market and create competition.

75. Local civil societies are often shattered in conflict, and the reconstruction effort must therefore rebuild social trust and encourage the emergence of a more vibrant civil society. Along these lines, it is counterproductive to ban labour unions, even when economies are operating in a highly precarious situation. Unions are key civil institutions that build the habit of dialogue and the practice of pluralism. Equally, encouraging a free and independent media in post-conflict societies is not only important to a country's political development, it can also help ensure greater transparency in the use of development funds and the organization of reconstruction efforts.

76. Although locally administered aid programmes are essential to long-term development, it is also important to empower central governments through foreign assistance. National projects need to be defined with the input of the central government, and providing support through a single budget framework can make a real difference. It is likely to increase transparency in donor funding which, is best channelled through joint financing facilities like multi-donor trust funds.

Strictly bilateral giving all too often leads to redundancies that can thus be enormously burdensome to recipient countries.

77. Donor countries need to ensure that their own structures, initially forged in the midst of the Cold War and now commonly outdated, are coherent with post-conflict development goals. Creating permanent inter-ministerial crisis management teams represents a crucial first step in introducing such coherence. These crisis management teams should also establish links with similar teams from allied countries as well as international organisations and NGOs that are also likely to be on the ground in the event of a compelling post-conflict situation. Part of this process should involve training and the development of standard operating procedures based on lessons learned in previous post-conflict situations. Again why reinvent the wheel? An important body of lessons already exists, which need to be taken on board more systematically. Otherwise, we can only expect more chaotic international responses to post-conflict situations. Countries should consider naming one person in their national governments with overarching responsibility for post-conflict reconstruction issues.

78. Although Afghanistan and Iraq have emerged as key priorities for many of NATO's members, the international community must take steps not to allow the resources dedicated to these two countries to crowd out resources needed to assist other developing countries. A new reconstruction coalition, far broader than the war-fighting coalition, must be built; this will require greater flexibility on the part of all participants. An effort is needed to facilitate the UN's presence in Iraq. This will bolster the legitimacy to the international community's presence there and encourage reluctant states to commit resources to the effort. Iraqis are likely to see a genuinely international as opposed to a largely American presence as more acceptable. It will also relieve what increasingly seems like an unsustainable burden on hard-pressed US forces and US resources.

79. Winning the peace in Afghanistan and Iraq is in the vital interest of the international community and the member nations of NATO. The chances for peace and stability as well as genuine development will not be possible without achieving a degree of security in both countries. This is a real catch 22, and the only exit strategy therefore is success on the political, economic and security fronts. This implies that the West will have to remain highly committed to these two crisis-ridden countries for some time to come. Engagement invariably is costly, but failure will exact a far higher toll. This shared goal should help both recast and reunite an Alliance that has doubtless been weakened in the debates leading up to the intervention in Iraq.

80. Iraq has a very important asset in oil and it is essential that this wealth be put to good use. In too many oil-exporting countries, oil generates wealth for a few elites, and benefits fail to accrue to the society at large. That endowment also risks provoking a resource struggle in Iraq that in some respects has already begun. The authorities in Iraq need to ensure that the oil contracts are administered in a transparent fashion and that revenues help underwrite needs like a basic social safety net as well as economic diversification.

81. Western policies, which have empowered Afghanistan's warlords at the expense of the central authority, must be revisited. The private armies of these commanders could potentially tear apart this fragile country and many are already doing so by charging illegal tolls, running drugs and suppressing fundamental human rights (Rashid). Simply put, more needs to be done to bolster the central government's capacity to assert its authority throughout the country, while the system of fiefdoms must be brought to an end for the sake of the country's long-term stability. Failure here promises a return to a terrible and dangerous *status quo ante*, the end of which was a key justification for international intervention. The international community needs to increase the presence of international security forces in the provinces or risk the country's inexorable return to the nefarious status of a failed state. NATO efforts to help Afghanistan create a viable unified military should prove helpful in this regard.

82. The international community and the Afghan government must develop innovative strategies to curtail poppy production in Afghanistan. This means increasing interdiction efforts, engaging the other countries of the region in a common approach, and finding alternative production options for Afghan farmers while granting access to Western markets to sell these products.

83. In both Iraq and Afghanistan, continued efforts are needed to ensure the protection of basic human rights, without which development of any kind is not likely. Special concern must be paid to women's rights, which, particularly in Afghanistan, remain non-existent in much of the country due to the medieval outlook of several of the country's warlords.

84. Members of the Paris Club need to redouble their effort to reduce Iraq's crushing debt. If achieving a final deal requires writing off the debt of several other poor countries then all the better.

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