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Presenter: Dov Zakheim

Wednesday, October 29, 2003 3:43 p.m. EST

Comptroller and Undersecretary of Defense Dov Zakheim briefs on Iraq Donors Conference

Photos of this briefing can be viewed at <http://www.defenselink.mil/photos/Oct2003/031029-D-2987S-038.html>

MR. ZAKHEIM: Okay. I'll wait till everybody sits down.

STAFF: You should announce that you're on the record.

MR. ZAKHEIM: Yeah. I should announce that I'm on the record. So there we go. I'm on the record.

Q Not ready yet, sir.

Q We're not ready.

MR. ZAKHEIM: We're not ready yet.

Q Pool cameras.

MR. ZAKHEIM: So I may be on the record, but I'm not ready.

Q We lost your briefing. (Laughter.) Go ahead and start; it doesn't matter to me.

MR. ZAKHEIM: You ready?

Q Yes.

Q Start briefing.

MR. ZAKHEIM: Okay.

I just got back from Madrid, so I thought I'd sort of give you my sense of how things went. Obviously, we're very, very pleased with the outcome, for a number of reasons. First, 73 countries is, as I recollect, the most that have ever come together for anything like this.

Second, the amount of money that was raised, 13 (billion) to 18 billion (dollars) -- and I'll explain what the range is about -- is the most that's ever been raised at a conference of this kind, or even, I'm told, with respect to some of the Balkan conferences, multiple conferences, of this kind.

Third, what these numbers do not include, but are certainly not insignificant, are the contributions in kind of technical support, of export credits, of all kinds of educational support. We even had one country offering to send pilgrims to Iraq, and who would then spend money there.

So we had a mix of countries -- big ones, small ones, wealthy ones, not-so-wealthy ones, some in the coalition, some who had never been in the coalition, some who had not even agreed with the coalition.

We also had a large representation of international organizations, led, obviously, by the World Bank and the U.N. and the IMF, but lots of others, as well. And we had NGOs participating. We had a separate session on humanitarian issues, a separate session on security issues, an entire separate conference on private-sector investment, which had over 400 people participating in it.

So, all in all, it was a rather large production. And we think it came out quite well. We're very happy with the outcome.

And with that, I'll open it to you folks.

Q Before the conference began, you were talking about trying to obtain billions of dollars. And there was at least talk that you might top 30 (billion) to 45 (billion dollars). You've gotten significantly less than that.

MR. ZAKHEIM: There was never talk of raising 30 (billion) or 45 (billion dollars). What there was were essentially two side-by-side needs assessments. One was done by the World Bank and the U. N., and that came out to about 35, 36 billion (dollars) over the time frame 2004 to 2007. In addition, the Coalition Provisional Authority had addressed a lot of sectors, such as security being the most prominent one, that had not been addressed by the World Bank/U.N. study or needs assessment. And that came to about an additional 19 billion (dollars). That's where the two numbers -- 35 or 36 (billion dollars) on the one hand, and 55 (billion dollars) roughly, and 56 (billion dollars) on the other came up.

There was never a sense that the conference would come up with those numbers for the simple reason that 20 billion (dollars) was being asked from the Congress. And so that was something that had already been submitted as a supplemental request and was clearly not going to be asked for from the conference. In addition, there had always been an assumption -- and there still is -- that a significant amount of the required money would derive from oil revenues over the same time frame, 2004 to 2007.

So again, we weren't ever talking about thirties or fifties in terms of billions of dollars to be raised.

Yeah?

Q Do you foresee problems in actually getting the money to the projects in Iraq because of the pullout of the international financial institutions of their -- and the U.N. and a lot of the NGOs of most of their staff from Iraq?

MR. ZAKHEIM: Well, in the first place, since the U.N. and the World Bank and the Monetary Fund were all intimately involved in putting together not just the needs assessment, but actually, in the case of the two financial institutions, making major commitments of billions and billions of dollars; and secondly, since we know that the difficulties have tended to center around just one part of the country, so in any event, you've got other parts of the country where those problems don't really appear to be as salient; and third, since we're talking about a multi-year situation anyway, for all of those reasons, I don't think that's an inhibiting factor.

Yeah?

Q I know that you all have arranged for Iraq to have at least a year, maybe 18 months' worth of debt forgiveness, where they don't have to pay back their debt just yet. But that's one of the overhanging issues in Congress, is the idea that Iraq has \$120 billion in foreign debt, and so any money that's put into Iraq ultimately goes to paying back France, Russia, whoever else made loans to Saddam Hussein.

Did you make any progress on some kind of a permanent debt forgiveness? Was that even on your -- was your goal? And how do you answer critics in Congress who say -- I'm sure you're aware of, in the \$20 billion, when they -- they'd like to put half of that into a loan, with the caveat being that if foreign debt is forgiven, it would -- most -- 90 percent of it would turn into a grant?

MR. ZAKHEIM: Well, I think, to answer the first part of your question, the issue was not the central focus of the conference. The president of the World Bank, Mr. Wolfensohn, in his speech, talked about the importance of resolving the issue. I think there's a consensus that there has to be a restructuring of the debt, and obviously the sooner that can be worked out in a practical way, the better. I believe Secretary Snow and the Treasury are seized of that and are working that particular problem.

Now in terms of the concern on the Hill, essentially what you have is an urgent requirement for infrastructure and security that are necessary conditions for anything else to happen. And if Iraq is to generate its own resources, you need those conditions to be met very, very quickly.

You're not going to help the Iraqis at all by burdening them with additional debt. It just won't work.

Moreover, because the jury is still out as to what the restructuring looks like, the fundamental assumption that somehow all these other creditors will get fully paid back is an open question. We don't know. We don't know until the restructuring takes place and is worked out.

What we do know is that in order for the Iraqis to be in a position to stand on their own two feet economically, they need an urgent insertion of funds. The World Bank/U.N. study itself, the needs assessment, pointed that out. In fact, the needs assessment was very explicit in saying that there was a need to identify as much as possible, up front, what the contributions might be, even if countries contributed over a number of years, simply because to do otherwise would disrupt planning and ultimately cost more money.

So I think that the issue of debt forgiveness that you raise is, A, one that has not yet been addressed in terms of restructuring for anybody to really make a definitive statement about what is likely to happen; and B, is somewhat beside the point of what the supplemental request is about.

Q Well, not to Congress.

Could you lay out for us the nuts and bolts of the \$13 billion to \$18 billion, which part of that is a grant, which is loan, and over what years that would be given, and also say what the plan is to cover any delta that exists in the next year?

MR. ZAKHEIM: Okay. We are still working out -- the World Bank is still processing the specific nature of the various countries' contributions. Thirteen billion (dollars) is a very conservative estimate; \$18 billion simply takes the higher end of the range of what the World Bank and the IMF committed themselves to providing, and presumably that's in the case of needs. So, for example, if oil revenues are higher over the next few years than is currently planned for -- not anticipated, but simply as a planning mechanism -- remember, right now they're assuming \$21 a barrel, and oil is selling at what -- \$25, \$26 a barrel? They're assuming relatively low production rates. Production rates could be higher, particularly once the money starts flowing in, to get the oil sector up to speed and modernized.

So, to the extent that you've got more oil revenue, to the extent that you've got investment, which we haven't even counted yet, then by definition, the need for World Bank and IMF assistance goes down, which explains the range. Okay?

Now, that is the bulk of the loan portion, because the World Bank and the IMF, that's how they function; they function -- they provide long-term, highly concessionary support. I mean, the World Bank's a bank. But the details beyond that are still being worked out simply because different countries have different fiscal years; different countries have made assumptions about valuing what they are providing. Other countries -- some countries haven't specified the actual outflow of the funds, what will be up-front in '04, what will be spread out. So we're getting more details on those.

Q So, is the top number \$18 billion over the next --

MR. ZAKHEIM: The \$18 billion, as I say, is simply the upper end of the range, if you take account of what the World Bank said, \$3 billion to \$5 billion, and the IMF said, \$2.5 billion to \$4.25 billion, that's nearly, you know -- that's more than \$3 billion, that gets you the higher end of the range, and that would be 2004 to 2007.

Q 2004, 2007?

MR. ZAKHEIM: Yeah.

Q Okay. And do you have any -- is there any firm number that you can give us on money that was granted outright? I know Japan coughed up some.

MR. ZAKHEIM: Well, Japan did, and that's 1.5 billion (dollars), and that's up front. The British money was all grant, and that's a significant amount. The Spanish money was all grant. The EU money -- by the way, that's another factor that, again, will influence how much is needed from the World Bank and the IMF -- the EU's money was only for 2004. And at Madrid, Christopher Patten, the commissioner for External Affairs, said that they would go back and look at getting more money for the out years. And the reason was that they had reached the end of their budget cycle, and thus, that was all they could commit at that point.

So, you've got a number of significant contributors in grants. Kuwait's 500 million (dollars) was a grant, and that was a significant grant and that was over and above what they had already committed before, which I think the foreign minister said was about a billion dollars. So, you've got some pretty chunky amounts of monies in grants. In many cases, like the EU, like Japan, already a clear commitment as to what will be done in the first year. The British have indicated that the larger -- a significant part of their contribution will be done in the first year, because they recognize the importance of front-loading. So --

Q (Off mike) -- for Spain and Britain --

MR. ZAKHEIM: The British number was in the vicinity of 900 million, the Spanish said approximately 300 million euros, which is whatever it is right now in dollars -- maybe 350 million (dollars), give or take. And again, they recognize the importance of front-loading. But the World Bank is actually working with the individual countries to see what is going to be provided initially and how the out years spread out.

Q Does the British amount include supporting their own troops in country? (Off mike.)

MR. ZAKHEIM: No. In fact, the numbers -- let me tell you what is not included in this estimate, so you can be very clear about it. We did not include monies for military support. We did not include monies for humanitarian support. We did not include export credits. Like I say, the Saudis gave half a billion (dollars) in export credits. We -- let's see, what else? And we didn't include, of course, assistance in kind: training, whatever. Now, those all have value, but we didn't include them.

So again, 13 -- I mean, if you want to focus on the number that came out of Madrid, which is 13 (billion dollars), is a very, very conservative number.

Yeah?

Q What's the future for fundraising on this? Will there be other donor conferences, and at what intervals and --

MR. ZAKHEIM: Well, the chairman's statement -- summary at the end of the conference said that we would look into that. I mean, the way -- there has been a core group of countries working with the U.N., the World Bank and the IMF that have essentially prepared this conference and also worked on the preparatory conference in New York. And it will function in some form, not -- maybe not exactly the same participants, but there will be something like that that will be looking at issues like following up, getting the money that has been offered or contributed, considering whether there should be another conference and when. You know, for instance, with respect to Afghanistan, we have had follow-up conferences. We had one in Brussels, for example, and a mini one in Dubai not long ago.

So that is clearly an open question. We have not said no. We have to see how things progress on the ground.

Q Could -- can I also follow up? Can you give us the smallest contribution and the largest and who they were from?

MR. ZAKHEIM: Well, I mean, there were contributions as small as a few tens of thousands of dollars in money. And I think countries that did that were really trying to make a statement -- and these weren't wealthy countries. I mean, these were -- they were trying to make a statement, and a very important statement, that the international community feels that it is terribly important that there be a secure, stable, viable, peaceful and representative Iraq. And so, there were a number of contributions less than a million dollars -- you know, some -- a couple of hundred thousand euros, in some cases; things of that sort from some of the smaller European countries, some of the smaller members of the European Union. You had a number of countries from the former Soviet bloc that clearly aren't awash with money, but nevertheless contributed token amounts to make that statement. And, of course, the biggest one outside of us was the Japanese contribution, and then you had the British, and you had the Kuwaiti. You had --

Also, I would stress the interlocking effort to get people to contribute. And we really appreciate this. I'll give you an example of what I'm talking about.

The Canadians went -- you know, they've contributed 300 million Canadian themselves, by the way. They actually solicited other countries that were sort of debating whether they should contribute. And they solicited them. And they were successful in a number of cases. Actually, quite a number of cases.

Q Did you get any sense that countries were -- hesitant, reluctant, unwilling to donate because of their concerns about the continuing security problems in the country, or a sense that if -- that people were waiting, that maybe they would give more, or give something?

MR. ZAKHEIM: Well, obviously, a number of countries made statements to that effect in Madrid. And others said, Look, we recognize the security issues, but we still have to make the commitment. So they were -- you know, it -- nobody was blind to what's going on in the country. The real issue was how do you -- how do you deal with it. And one way to deal with it, one way to develop a secure environment, is to create the wherewithal for job creation, for some kind of economic future for people. I mean, the best way to break the back of some of the difficulties that are still arising out there is to give people a viable alternative. And what this conference did and what the influx of funds is going to do is to give people a very, very viable alternative.

Q How locked in are these contributions? Is it possible that a change of political temperament in some of these countries may undo the promises made at Madrid?

MR. ZAKHEIM: I'd be very surprised. I think that when a country sends its foreign minister or finance minister or trade minister to get up in front of 72 others and the international organizations and all the rest, and make a statement, they won't look too good if they renege. And I think they all recognize that. And I think that the fact that they made multi-year commitments is significant.

STAFF: Yeah?

Q Do you think that if there is a steady long-term improvement in security, that that would really go a long way towards facilitating additional pledges?

And let me just return to the issue of the total sum of grant money. Forgive my bad math, if it does turn out to be bad. But just from the numbers you gave, is it in the approximately \$4 billion --

MR. ZAKHEIM: Well, as I say, we're still scrubbing the numbers. So --

Q Am I in the right neighborhood there?

MR. ZAKHEIM: You might be, but then again, you might be off. I mean, the fact is that when people before the conference were asking us if they were in the right neighborhood when they said we were going to raise 3 billion (dollars), we kind of knew it was going to be better than that, but we preferred not to say.

It's not that I'm being coy. I think, you know, with the World Bank doing what the World Bank is doing, it's not fair to them to prejudge what the number is. And they'll be coming out with that as soon as they can. Again, they're scrubbing each contribution. A number of these contributions were articulated only in speeches, and so you want to see whether -- you know, whether there's an actual fiscal spread and what it looks like, what the budget lay-down looks like for them.

So I just don't want to be unfair to the World Bank, who's been a very important player in all this.

As to your security question, I mean, obviously it's intuitive that if there's a better security environment, more people will come in. The question is, what do you mean by more people coming in? And it seems to me that we also have to look at the private sector. And clearly we anticipate that just from the turnout in Madrid, in the current security environment, it's pretty clear that a lot of people are sufficiently bullish on Iraq that they're prepared to go in.

And they will be, of course, careful as to where they put their people. But this would not be by any means the first time that you've had an environment that wasn't entirely stable, that people nevertheless were prepared to take business risks because of the big rewards. And there's no question that given the Iraqi -- Iraq's potential economic standing in the future, the rewards are going to be huge.

Yeah?

Q You didn't answer what can be done about any delta -- any money that is needed that hasn't been pledged or loaned --

MR. ZAKHEIM: You mean in terms of the overall objective and -- oh, well, I'm not sure we're going to have a problem. And again, let me walk you through that.

Let's leave aside, but it's useful to bear in mind, that you've got this range that the World Bank and the IMF are committed to. Presumably, if there's a need, they'll fill it. Otherwise, what's the point of the range? You have the oil sector, which, as I said, was underestimated, deliberately so, but that's probably, you know, 15 billion (dollars), give or take, if not more. You have what the United States, hopefully, the Congress will approve and the president will sign, you know, imminently, soon. You then have on top of that, private investment. Well, if you do your sums, you'll see that you've broken 55 billion (dollars).

Q Could you also address the \$1.4 billion that -- some of this Congress have included in that \$20 billion supplemental, and the 1.4 (billion dollars) is to extend Tri-Care to reservists; why you-all are against that, because that's one of the --

MR. ZAKHEIM: Well, we're not terribly happy about it. And, you know --

Q I think to someone listening at home, they'd say, "Why don't you want reservists, who are carrying such a large load in this war on terror, to have health care?"

MR. ZAKHEIM: Well, but it's not that they don't have health care. They all do have health care, and they do have health care when they're on active duty. That has never been the issue. The issue is extending it when they're not on active duty. And many of them -- in fact, most of them, in fact the overwhelming proportion of them, if I'm not mistaken, do have some form of health care. So what you're really talking about is giving them an alternative form of health care when they're not serving. But being a reserve, as I understand it, means that, you know, you're sometimes serving and most of the time you're not serving. And so the question is, is that what you want to do? And we think that that's probably not the best way to address the issue of how to compensate reserves.

Q Going back to how locked in these contributions are, were any of them conditional on anything?

MR. ZAKHEIM: Not the ones that were made, to my recollection, no. Otherwise, we would have, frankly -- when we came up with the estimate in Madrid, the core group, together with the U.N., the World Bank and the IMF, sat down together. We had a rough tally of numbers. And we looked at that rough tally, we looked at the ranges and said, okay, now what do we tell the world? And the consensus was we would err on the low side. I am absolutely confident that the number, when finally scrubbed, will be better than the 13 (billion dollars). In fact, we did say more than 13 (billion dollars). We didn't say how much more, if you look at the statement that was issued. But it is a lot safer to err on the low side. So, you know, anything that was uncertain, that, you know, for whatever reason, we hadn't clearly understood, we didn't count.

Okay. Well, thank you all very much.

Q Thank you.

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