THE CHAIRMAN: Good morning.

DR NEMAT SHAFIK: Good morning.

THE CHAIRMAN: Let's begin. Welcome to everyone, though everyone is not very many people, I find. Given the weather, I'm not surprised.

The objectives of this session are essentially to look at more strategic issues. We have moved away from building the chronological narrative, which is pretty much complete, and we need to look at more strategic issues, and to do that by speaking to key decision-makers across the UK Government.

Today we are hearing from Dr Shafik, who was the DFID's Permanent Secretary, and you have been Permanent Secretary of DFID since May, I think, 2008.

DR NEMAT SHAFIK: March, in fact.

THE CHAIRMAN: Right, and before that you were DFID's DG for programmes. Thank you.

Next week, we are going to be speaking again to Sir Suma Chakrabarti, your predecessor, on strategic issues, having had one witness session when we were still building the timelines.

Now, this afternoon, we shall be talking to
Lord Turnbull who was Cabinet Secretary between 2002 and 2005, and just two other things to say. We recognise that witnesses are giving evidence based on their recollection of events and we, of course, are cross-checking that with the papers to which we have access.

I remind every witness that they will later be asked to sign a transcript of the evidence they have given to the effect that it is truthful, fair and accurate.

With that, by way of preliminaries, can I turn to Baroness Prashar? Usha?

BARONESS USHA PRASHAR: Thank you very much indeed.

Dr Shafik, good morning. Could you just tell us a little bit about your background? Before you were Permanent Secretary, you were DG, and then you were at the World Bank. Can you explain a little bit about what you were doing, both at the World Bank and as DG?

DR NEMAT SHAFIK: Sure. I spent 15 years at the World Bank in a variety of roles, including research, economic policy, working on the Middle East, Eastern Europe, and my last post before joining DFID was as Vice-President for Infrastructure and the Private Sector at the World Bank.

BARONESS USHA PRASHAR: What did that mean, being responsible for infrastructure in the World Bank?
DR NEMAT SHAFIK: I was responsible for a portfolio of about 500 projects that the World Bank ran worldwide, worth about $50 billion, in the sectors of water, power, transport, private sector development, small business promotion, telecommunications, oil, gas, mining.
I joined DFID then in 2004, became DG (Country Programmes) and became Permanent Secretary in March 2008.

BARONESS USHA PRASHAR: During that time were you at all involved in Iraq with country programmes?

DR NEMAT SHAFIK: Actually, Iraq was not a borrower from the World Bank throughout the Saddam Hussein period. So, while I worked extensively on the Middle East for several years, we did not have a relationship with Iraq at the time.

BARONESS USHA PRASHAR: Fine. Can you just tell us a little bit about what the UK was trying to achieve in Iraq during the period you have been Permanent Secretary?

DR NEMAT SHAFIK: During the period I was Permanent Secretary, it was dominated very much by two key events: one, the transition of Basra to Provincial Iraqi Control, which happened in December 2007, which was before I started; and then, of course, Charge of the Knights, which was in March 2008, which was the month I started.
Those two key events very much dominated the period, because they represented two key changes: one, the move toward more Iraqi control of the country; and, two, a much more benign security situation. So, because of that, our strategy shifted in some ways.

BARONESS USHA PRASHAR: How did your strategy shift and what were your priorities during that time?

DR NEMAT SHAFIK: Some elements were the same. We continued to focus on the importance of the internationalising the effort, getting the UN, the World Bank and the international financial institutions more involved. We wanted to complete the infrastructure projects in the south that we had started, but two key elements of our strategy became much more important: strengthening the centre of government in Iraq and enabling them to manage their own affairs more effectively; and it also became now possible to seriously try to promote private investment because of the growing stability in the country.

BARONESS USHA PRASHAR: Can you say a little bit about trying to strengthen the centre of government in Iraq? What did that involve?

DR NEMAT SHAFIK: We had quite an extensive programme over several years to try and strengthen key ministries, particularly the Ministry of Finance, in public
financial management, and the centre of government, the equivalent of the Cabinet Office, to co-ordinate government affairs, to support the civil service, to help Iraqi politicians make decisions and actually have those decisions translated into real impact.

THE CHAIRMAN: Excuse me, it would be very helpful if you could slow down just a bit.

BARONESS USHA PRASHAR: The three things you highlighted in the internationalising your effort, the question of the infrastructure and government, do you think these were realistic ambitions of the government of the time?

DR NEMAT SHAFIK: Well, I think they became -- I think they were realistic. They became much more difficult in the period prior to my period when the security situation was very severe and very negative, the sort of 2005 to 2007 period.

But I think, in practice, some aspects of the internationalisation worked very well; just as an example, the humanitarian effort. Throughout this period there were over 4 million Iraqis who had received humanitarian assistance; 2 million internally displaced, 2 million in other countries, and the UN played a key role in delivering that humanitarian assistance.

If they had failed, it would have been catastrophic to have over 4 million Iraqis without access to food,
water, shelter, schooling for their children. So there were some aspects of the internationalisation which worked very well: the IMF's programme in support, for example, was another element which did work, despite the difficult circumstances. Iraq got $31 billion of debt relief, one of the largest debt relief packages in the world. They achieved macroeconomic stability. The transition of the currency was orderly and the Iraqis were able to maintain macroeconomic stability throughout this period. So those were quite considerable achievements, but the bit that was the most difficult was the --

BARONESS USHA PRASHAR: Those are the achievements, but I'm thinking whether these objectives were realistic for us. I mean, yes, we achieved some, but were they realistic, in the circumstances?

DR NEMAT SHAFIK: I think because some aspects of the international system were able to deliver in Iraq, the UN, the IMF, I think they must have been realistic, because it did work. I think the longer-term reconstruction work, particularly the longer-term leads on the infrastructure side, which we were hoping the World Bank could lead, were not possible, given the security situation.

BARONESS USHA PRASHAR: What, if anything, did you achieve
on the infrastructure and how sustainable was that?

DR NEMAT SHAFIK: Most of the work that DFID did on infrastructure was about doing shorter-term repairs to infrastructure, which had been destroyed, damaged or not maintained during the conflict. The achievements were considerable. We secured access for 1 million people to 24 hour power. We secured safer water and increased access for a million people in the water sector. So those were considerable achievements.

BARONESS USHA PRASHAR: These were sustainable over a period of time?

DR NEMAT SHAFIK: Those were sustainable. What we were not able to achieve was the longer-term investment in infrastructure which had been neglected during the Saddam period, the sanctions period, and during the conflict, and it is only now that those investments can be made.

THE CHAIRMAN: We heard some evidence, if I can just butt in, that the American approach, right from 2003, was to engage in large-scale, long-term contracts, at any rate, which did start to come through but only much later, years later. So in a sense there were two parallel policies going on at the same time. Was there a balance between them?

DR NEMAT SHAFIK: I think the conclusion of the American
approach in the Iraqi Inspector General's report, "Hard Lessons", is that it was premature to do investments in large-scale infrastructure at that time. I think our approach, which was mainly focusing on repairs to existing infrastructure, maintaining facilities, getting things back on line, had a bigger bang for its buck, because we spent relatively less but we secured more services, as a result of that expenditure.

BARONESS USHA PRASHAR: Can I come back to the process that was used in agreeing the UK objectives for Iraq? Was that effective in securing a kind of shared mission and ownership across government or not?

DR NEMAT SHAFIK: At this point, we had an HMG, a government-wide strategy for Iraq. There was no DFID specific strategy. So at this stage, our strategy was completely integrated across the government and I think it was quite effective because we had a shared vision and a shared implementation capacity, both in Whitehall and in Iraq.

BARONESS USHA PRASHAR: What was that shared vision?

DR NEMAT SHAFIK: I think all of us wanted to see an Iraq which was stable, increasingly prosperous, able to conduct its own affairs and able to provide economic and social services to its population.

BARONESS USHA PRASHAR: So there was ownership of that, but
was there effective delivery operational machinery in place? Because, you know, you can have statements at a strategic level, but were there just statements made or were there some practical steps taken by government departments to make it a reality on the ground?

DR NEMAT SHAFIK: At this stage, you had a co-ordination mechanism in London through the Iraq Strategy Group which was meeting regularly at this stage, and you also had a co-ordination mechanism in Baghdad, and in Basra, by 2008, we were all co-located at the air station, including the military, the civilians, the diplomats and the development experts, all in one place. I think you have already heard from Keith Mackiggan and Nigel Haywood --

BARONESS USHA PRASHAR: Yes, indeed we have.

DR NEMAT SHAFIK: -- and Andy Salmon was the third pillar of that troika. It was quite an effective troika.

Certainly, when I visited in February with the two other Permanent Secretaries, it was quite clear that you had quite a clear sense of a shared -- a shared set of objectives, clear roles and responsibilities and people knew what their job was and knew what they had to get done.

BARONESS USHA PRASHAR: When we saw Mark Lowcock last week, he said that after the Charge of the Knights, people
thought that DFID could have moved a bit faster, but you
took rather a measured approach. Do you want to comment
on that?

DR NEMAT SHAFIK: I think, in fact, there was some pressure
on us after Charge of the Knights. I think
General Petraeus was arguing that there needed to be
a civilian surge at that stage as a sort of corollary to
the military surge.

We agreed, but we felt very strongly that there had
to be an Iraqi-led civilian surge. So we did increase
our presence after Charge of the Knights, particularly
in Basra, in order to deliver the economic initiatives,
but we continued to think that it was very important
that that process be led by the Iraqis, and even though
that might take more time, in the end, that was
ultimately going to be the most sustainable and
successful strategy.

BARONESS USHA PRASHAR: Is that how you operated on the
ground? Was that a kind of an understanding between, at
least, the UK presence, that that's what you needed to
do?

DR NEMAT SHAFIK: Yes, there was, and I can give you
a couple of examples, if that would be helpful. The
work of the Basra Provincial Council, for example, we
had been investing very heavily in their capacity to run
their own affairs. In 2006, they had the capacity to spend about $24 million. By 2008, they had the capacity to manage a budget of over $300 million. They were running, by that stage, about 800 development projects themselves. So that was a sign, I think, for us, that that approach of getting them to run their own affairs was successful.

Similarly with the Basra Investment Commission, which we helped establish, to try and be the interlocutor to attract investors into Basra. While we launched it and had great support from the military in helping to get investors safely into the country to visit potential investment sites, they facilitated about 19 investor visits with about $10 billion of potential commitments. The Basra Investment Commission is itself now handling those investor visits on its own and being the main interlocutor for investors interested in coming to Basra.

So again another example where our painstaking approach to building their own capacity has paid off and is sustainable.

BARONESS USHA PRASHAR: What lessons do you draw from that in terms of how you managed the expectations of your coalition partners -- you know, you mentioned about the American expectations, the expectations of the military
by nature engaged in the short-term and what you are
trying to do? What lessons have you learned from that,
in terms of how you managed these raised expectations
and not least the community itself?

DR NEMAT SHAFIK: Yes. I often use the parable of the man
and the fish. All of us know the story about the man
who is hungry, and the military response
is often: give him a fish, he is hungry.

The Foreign Office would often take the view of:
give him a fishing rod and build a relationship with
him, and the DFID perspective would often be: well, you
need to teach him to fish, and, actually, you need to
teach him how to make his own fishing rods, so we don't
need to be here giving him fishing rods in future.

That different perspective reflected the different
timeframes and expectations of the players.

I think the lesson we have learned is that you
actually need to give him a fish, you need to give him
a fishing rod, but ultimately you also need to teach
them how to fish and make their own fishing rods.

The challenge for the comprehensive approach is to
get the sequence and timing of those three perspectives
working correctly, so that you are not there forever
giving fish, and you do have a strategy for teaching
them how to fish. I think the tensions around that are
what you have probably seen on the records, but one that
I think we have gotten much better at managing.

BARONESS USHA PRASHAR: Can you give me something about your
understanding of the term "comprehensive approach",
because I think last week we were told what we needed
was a comprehensive plan and not an approach.

These words get used, but what do they actually
mean? They must mean different things to different
people. What do they mean to you, and what is your
understanding of what is understood by that at
Whitehall?

DR NEMAT SHAFIK: My understanding is that, for the
comprehensive approach to be effective, it has to be
a partnership of equals. It is not an issue of one bit
of the machine bossing the other bits around in order to
deliver its own objectives. You need a partnership of
equals, you need a shared set of objectives. It can't
just be about the development and diplomats making life
easier for the military and buying consent for them. It
can't be the development people saying, "We just want
the military to help us deliver humanitarian
assistance". Neither of those approaches will work.

You need an approach that thinks about the
short-term objectives, the medium term and the
long-term, and it is precisely the existence of those
three sets of objectives which is essential for the
comprehensive approach to work.

I think the other issue that you have probably heard
quite a bit about is who should be in charge of the
comprehensive approach. My view is that I think there
are two criteria. One, that whoever is in charge needs
to have the integrative skills to lead, like in any
profession, a multidisciplinary team. It is a special
set of skills to be able to integrate multiple
disciplines and balance the trade offs.

Two, I think the person leading the comprehensive
approach cannot be in a uniform and carry a gun.

I think the reason for that is that, from an Iraqi
perspective, or from any country’s perspective, when
someone is there to help you develop and reconstruct
your country, it is a very different relationship when
that person is carrying a gun or not. Now, they can be
someone of military background, but when they are in
this role, it has to be a role which is seen as
a civilian role.

BARONESS USHA PRASHAR: Are the implications of that
understood at Whitehall, in terms of capacity building
and what it means in terms of the skills required?

DR NEMAT SHAFIK: Well, I think it has taken us time to
build up a cadre of people who have those skills. To be
honest, I don't think we had it at the beginning of the effort. I think it reflects the fact that, while there was much goodwill, there was not much experience in working together in the past.

THE CHAIRMAN: Could I --

BARONESS USHA PRASHAR: Sorry.

THE CHAIRMAN: When you have finished, I just want to butt in.

BARONESS USHA PRASHAR: You think there is better understanding, but what practical stems have been taken? How far down the road are we in that direction?

DR NEMAT SHAFIK: I think there are many practical steps. Let me start with the issues of incentives and then I will talk about some of the institutional structures we have set up to deal with it.

One is, I think, from the very top of the Ministry of Defence, the Foreign Office and DFID we have sent a very clear signal about our expectations about collaboration across departments. So the three Ministers and Secretaries of State meet together very regularly, the three Permanent Secretaries have regular meetings. We travel together regularly, particularly in conflict countries. We have opened up our jobs to each other, so that most of our jobs are now open to people from across Whitehall and vice versa. We do lots of
joint training now, so our own staff participate in the
military's training and their exercises, so they have
practice working together. Our own training programmes
are now opened to the MoD and the FCO. We also have
many more secondments. So the level of interaction
between the three is much higher than it used to be.

Then, practically speaking, we have actually three
very concrete institutional set-ups in which we
collaborate.

One is a stabilisation unit, which is a tripartite unit
owned by the three departments, governed by the three
departments, managed on behalf of the three by DFID,
which is the repository of expertise on stabilisation
for Whitehall.

Two, we have the civilian cadre, which we recently
launched, which has a thousand-person capacity to deploy
to conflict zones, including 200 civil servants and 800
non-civil servants with expertise in a variety of areas.

Three, we have the conflict pools, which is again
a tri-department pool of funds, which we jointly manage
collaboratively on the highest priority conflict areas
in the world.

BARONESS USHA PRASHAR: I will come back to the
stabilisation unit later, because I think the Chairman
wants to come in.
THE CHAIRMAN: I really wanted to ask you about how the comprehensive approach and the institutional model that gives it effect works, when, as typically as the United Kingdom will be, we are in coalition arrangements and usually, if not indeed always, not the senior partner, and when a comprehensive approach has not been adopted by other, or, indeed, larger coalition partners. How does that work?

DR NEMAT SHAFIK: Well, it is clearly a tension and I think we have to make the case for why our approach is compelling. I think it is interesting that when, the US General Odierno visited Basra and visited the PRT, I think, while their initial position might not have been to have civilian leadership of the PRT, he was so impressed that he made a point of saying Basra is the way forward if we are going to support the Iraqis correctly over the period ahead. So I think we have to demonstrate that our approach is more effective.

THE CHAIRMAN: It is perhaps not germane, but do you happen to know if the Americans have taken that philosophy into Afghanistan?

DR NEMAT SHAFIK: It is interesting, the approach they took in Iraq with one department, with the Pentagon clearly in charge, was not appropriate, and I think it is interesting that Secretary Gates has now become one of
the strongest advocates for strengthening civilian-led
reconstruction in the US system and has actually been
the biggest backer for increasing USAID’s capacity
and budget to provide more civilian leadership on
reconstruction.

SIR LAWRENCE FREEDMAN: It actually follows on from that.
What we have heard from a lot of the generals who were
in Basra was how much they relied on American money.
That's where their fishes, if you like, using your
parable, had to come from.

Was there a tension caused by the fact that the
generals were out there spending American money,
presumably along American guidelines, but you had your
own particular preferred way of doing things?

DR NEMAT SHAFIK: I didn't think there was a tension.
I think the CERFS money which was provided in the south
was incredibly helpful. The Americans had a pot of
money, which was for all of Iraq, and I think the fact
that we could help them spend it effectively in the
south was a good thing.

I think there was nothing wrong with having a pot of
money for the fish, a pot of money for the fishing rods
and a pot of money for teaching them how to fish, and
I don't think there were any difficulties in the way
that money was allocated or spent. I don't think that
was the issue.

SIR LAWRENCE FREEDMAN: The fact that the generals had to
look to the Americans to get this money, was that
a reflection of the disinterest in DFID at the moment
and at that time in providing the fish?

DR NEMAT SHAFIK: No, I think -- I mean, the money had a --
the CERPS money was actually allocated to the Pentagon,
so the Ministry of Defence could have also allocated
money to fish, if they felt that it was a high priority
return, and they did have some money for that in the
stabilisation aid fund, which was agreed in the last CSR.
There was 200 million.

Most of that actually now is going to Afghanistan,
as you would expect. At the time, they didn't have that
availability of resources, but they do have their own
resources for that now.

SIR LAWRENCE FREEDMAN: We were also told about the
frustration that they often felt, that the rules for
getting money above quite a low threshold was quite
difficult, so they went to the Americans because it
would have been difficult to go to our own government.
Has that changed?

DR NEMAT SHAFIK: I don't think -- I think it is -- if you
are giving out fish, you think giving out fish is always
the most important thing, and I think that's one of the
tensions in the comprehensive approach that we have to
guard against.

I think one of the lessons is that you can't let
yourself be just driven by the short-term. You have to
keep the longer term in sight, otherwise you would be
giving out fish forever.

You don't always have to agree with colleagues about
every detail, but you do need all three perspectives
there and I think, in retrospect, we were right to keep
an eye on the longer term and to make sure -- in the
end, if you look at the evidence on the impact of some
of these short-term, consent-winning activities,
I believe, if you look at the evidence, it is quite
mixed. There is quite a bit of evidence we have had,
independent evaluations of quick impact projects done by
the stabilisation unit. There have been several studies
now done in the US.

There is very little evidence that some of these
projects actually are successful at winning consent.
Some of them are very good at short-term fixing of
institutions and facility. Those tend to work. But the
evidence on consent is quite mixed, and I think I would
be -- I think you would be hard pressed to find concrete
evidence that it worked.

SIR LAWRENCE FREEDMAN: Maybe we will come back to that.
Thank you very much.

BARONESS USHA PRASHAR: I want to now move on to the question of the level of commitment in terms of resources that we made to Iraq. I mean, there are two views: that America was putting a lot of money, and I think, by the end of 2009, DFID had dispersed over 500 million, and if this was one of our top priorities, why did you not commit more resources? I mean, that's one argument.

But the other angle really is that -- you know, why did we commit so many resources, given the fact that there were kind of revenues in the region of about $32 billion? What do you say about that in terms of the level of commitment? There are two views here.

DR NEMAT SHAFIK: I think all along DFID had the view that Iraq is potentially a very wealthy country, and we did commit significant resources in the early period.

In fact, in 2003/2004, Iraq was our largest programme and it got more money than any other country in our portfolio, but from the very beginning we also knew that external resource transfer was not the answer for Iraq and that the biggest contribution we could make was in helping build their capacity to spend their own money.

Throughout the middle of the period, from about 2004
to 2007, Iraq had resources. If you look at their
capacity to spend their own budget, in 2005/2006, for
example, they were only able to spend a quarter of their
investment budget, even though you looked around you and
there were vast investment needs required in
electricity, in water, in roads, but they were only able
to spend a quarter of it.

The Ministry of Oil was only able to spend
3 per cent of its investment budget. So again, this key
sector, which was going to be generating the future
income of Iraq didn't have the capacity to spend its own
money. So it was foolish to think that us pouring more
money into that situation was going to solve anything
and that the biggest pay-off was clearly in enhancing
their capacity to spend their own money.

So that's why our focus, soon after the early
period, when, really, there were huge humanitarian needs
and there were needs for very immediate infrastructure
repairs, we shifted our focus to helping Iraqis to spend
their own resources.

BARONESS USHA PRASHAR: I think the other thing that
witnesses said to us was that Iraq was not a sort of
normal partner for DFID, but, by 2009, your White Paper
focused on how too many people are trapped in poverty
engendered by war and instability. Is it now a normal
partner for you?

DR NEMAT SHAFIK: It is interesting. Iraq was not a normal partner for us for two reasons: one, because it was in conflict; and, two, because it was middle income.

I think what has changed is that countries in conflict have become normal partners for DFID. The reason is that 50 of the poorest countries in the world are in conflict. That is where the worst and most intractable poverty is. More than half of our bilateral aid programme now is focused on what we call fragile states; states that are recently out of conflict or have huge fragility of conflict within them.

So in that dimension, Iraq was a normal partner, but because it is middle income, like for all middle income countries, we think the issue for middle income countries is not resource transfer, it is building capacity.

BARONESS USHA PRASHAR: So you have a different strategy depending on the state, but you do focus now on fragile states, even if it is a middle income country. You support it, but in a different way?

DR NEMAT SHAFIK: That's correct. But the bulk of our effort is in fragile states, low income fragile states, because we think that is where we can really have the biggest impact.
BARONESS USHA PRASHAR: Would you say you have become more flexible in your approach, more adaptable, given the circumstances?

DR NEMAT SHAFIK: We have changed many things as a result of that and we can come to that in terms of lessons learned, but there are many things in DFID that are different now, partly as a result of the experience in Iraq and partly because of the changing nature of poverty.

So, for example, the kind of skills that we are recruiting has changed, the way we deploy people, the flexibility, the incentive packages we give to try and create incentives for more of our people to work in difficult environments.

Some of the ways that we operate have changed. The kinds partnerships we are building have changed. Some of the instruments we use now have changed in order to cope with these more difficult environments.

There are many aspects to it and I think we will continue to change to adapt, because these are tough places to work, but certainly for us to achieve our objective to reduce poverty in the world, we need to be able to work in them.

BARONESS USHA PRASHAR: Okay. Can I now move on to the resources used in terms of people as opposed to money?
Because, according to the data that was provided to us by DFID, the indications are that you never had more than 11 people deployed in Iraq at any one particular time.

I mean, wasn't this a small number of people, compared to the scale of the task that you had on the ground?

DR NEMAT SHAFIK: We had, on average¹, about 15 mixed between Baghdad, Basra and consultants, and then we had a team supporting them in London of about the same order of magnitude. It varied over time, depending on the needs, and the consultants came and went at different times. So the numbers varied.

BARONESS USHA PRASHAR: What was the team size in London?

DR NEMAT SHAFIK: It was roughly between 12 and 15 at various times, and you may well ask: why so many in London? The fact is it was very expensive to deploy people in Iraq. So if there were tasks that were more administrative, preparing briefings for Whitehall, that kind of thing, it was much more cost-effective to do that from London than in Iraq.

BARONESS USHA PRASHAR: So it was reverse outsourcing?

DR NEMAT SHAFIK: A little bit, because we had to be aware of the costs and risks of deployment. So we had the people who were in Iraq doing the most critical things

¹ DFID has agreed to provide the Inquiry with an update on the number of staff deployed to Iraq.
that had to be done there. I think that is not a low number, given the way we work. We are not an organisation -- again, there is a slight difference with the military who have standing capacity that they deploy. We tend to work through others.

So our people are much more catalytic rather than implementers. We don't have engineers and plumbers and accountants in our labour force. Our people are the ones who organise that and bring in that capacity. If you include the wider resources that we had working under our programme, those would number in the many hundreds.

BARONESS USHA PRASHAR: I mean, the situation in Iraq, when you said you brought up expertise, did you employ a lot of local people or did you bring in expertise? What was the balance?

DR NEMAT SHAFIK: Normally DFID would have a large number of local people working in our programme, and in the early stages in Iraq, we did do that, but, because of security reasons, and they were very much under threat, we were unable to have many Iraqi staff in our team in the later stages. It was just too risky for them.

BARONESS USHA PRASHAR: What was the balance in the way you worked in Baghdad and Basra? Because you had about 11 people. How were they deployed and where were the
priorities?

DR NEMAT SHAIFIK: Again, it varied a bit over time. We always had a significant core team in Baghdad who were working on the centre of government programmes amongst other things.

In Basra, the numbers were lower. We did have a bit of a civilian surge, where we deployed about ten additional people to work on the economic initiatives. So we went from four in January 2008, including people who were working on investment promotion, private sector development. We had someone come from the Northern Ireland Investment Promotion Programme to work with the Basrawis on how to promote investment in a post-conflict environment.

BARONESS USHA PRASHAR: Was that because of the skills they had?

DR NEMAT SHAIFIK: Yes, because the Northern Ireland experience was quite a relevant experience for Basra. We had specialists coming in on the airport to help with the airport. So there was a mix of specialists that came in, and, at that time, it was much easier to bring them in because of the improved security situation.

BARONESS USHA PRASHAR: But you also deployed, I think, more junior staff than the FCO and the MoD counterparts did. Did that have an impact on how this worked across in
terms of government relations, because you had more
junior staff than the other departments did?
DR NEMAT SHAFIK: I'm not sure they were more junior. They
might have been younger, but not necessarily more
junior. Sorry, that may reflect an age bias.
So, I don't -- I think our staff were pretty feisty
and pretty good at getting heard. So I think -- and we
also frankly deployed a lot more women than other
departments, and, again, you know, I think there might
have been an initial getting used to difference, but
I think most people had a huge amount of respect and
capability --
BARONESS USHA PRASHAR: So young women and a different
approach. You think those were the factors, rather
than --
DR NEMAT SHAFIK: Than seniority, yes.
BARONESS USHA PRASHAR: I think the NAO report on DFID
"Operating in insecure environments"
highlighted the difficulty of recruiting staff
for Iraq. What are the lessons you have learned in
terms of deploying the right sort of staff and skills
and what does that mean for the future?
DR NEMAT SHAFIK: We actually had a review that was done by
Tim Foy of all of our fragile states to try to
understand what we could do differently, and we actually
looked at a large number of organisations that face similar challenges: the MoD, the FCO, the State Department, the private sector, international NGOs who work in conflict zones, and what we concluded from that was -- it is interesting, in the private sector, the financial package is quite important to attract people; in the public sector, it is career development that really matters to people. People need to feel, "If I go to this difficult posting, what will be my next posting? Will I be recognised in the organisation?"

So the management in DFID started to send very strong signals that we were going to support people who went to these postings, that they were going to go on to good jobs thereafter.

Many of our private offices had a number of people in them in very high profile jobs who had been in Iraq or Afghanistan, and we also did look at the financial package and try to find ways to make that more attractive.

We also -- and you may have heard this from other witnesses -- in the most difficult environments, like Iraq and Afghanistan, we have a six weeks on, two weeks off deployment. Because of the difficulties of the posting and because you can't take your family, it was quite important for us to be able to attract key people
there for a long time.

BARONESS USHA PRASHAR: I think it was Keith Mackiggan last week who talked about the importance of interpersonal skills, because we had asked him that question. I mean, how much effort is made at interviewing people at the right time, because in a way it is balancing those who want to go, and getting the people with the right skills.

Have we put anything in place to make sure that you are able to attract the right sort of person with the right sort of skills to go out?

DR NEMAT SHAFIK: When we select people for these postings, we do look at, obviously, their professional skills, but also their personal qualities and their emotional resilience, and they do get pre-deployment training and a bit of psychological profiling, to see if they have the tenacity and resilience to be able to work in such tough environments.

We also make sure to support them when they are there. So -- particularly after security incidents, we make sure that our welfare people and our counselling services are available to them to deal with any concerns that they have, but it is providing emotional support. Also, in terms of management attention and pastoral care, it is quite an important part of keeping people
productive and I must say they have done a remarkable job.

BARONESS USHA PRASHAR: Can I come back to the Stabilisation Unit now, for which you kind of now have a lead, I understand. I mean, what do you expect the contributions of the Stabilisation Unit to make to the UK effort on Iraq?

DR NEMAT SHAFIK: Well, the Stabilisation Unit, its predecessor was the post-conflict reconstruction unit which was created in 2004. The Stabilisation Unit was actually created at the end of 2007, and it has always been housed and largely paid for by DFID as our contribution to this emerging skills set that was needed in Whitehall.

Its contribution in Iraq was relatively modest, because, by that stage, the numbers of people that we needed to deploy were relatively small. It has become hugely important in Afghanistan, and has become the primary source of staffing for the Afghanistan effort.

I certainly think, you know, in the beginning I think we did scramble to find the right people and the right skills. I think now we have quite a well functioning machine that has a database of hundreds and hundreds of professionals, both inside and outside government, who have the necessary skills.
We know what languages they know, we know they have all been trained. Many of them have already had training in deployment into hazardous environments, and so I think we are much better equipped now to deploy people to high risk environments.

I should also say that, in addition to it becoming the primary source of people for Afghanistan, it has also supported us in deployment in other places like DRC, like Zimbabwe, other post-conflict environments where it has proven quite useful.

BARONESS USHA PRASHAR: What are the other priorities of the Stabilisation Unit apart from staffing?

DR NEMAT SHAFIK: It is interesting, its role has very much evolved. I think you will probably have heard and seen in the papers a sense that, in the early days, it was considered what was called a body shop. You rang them up and said, "I need three agricultural experts to go to Helmand. What have you got?", and its job was to very quickly provide that capacity.

I think its role has evolved enormously in two important ways. One, it has become the repository for expertise on how to do stabilisation well: how do you do quick impact projects? How do you evaluate them? How do you organise PRTs? All that expertise which we learned in Iraq, Afghanistan and elsewhere is now housed...
in the Stabilisation Unit.

Also, in Afghanistan, as it has built up its credibility in Whitehall, it has started to actually lead programmes. So it is no longer, "Give me three agricultural specialists", it is, "Can you run this programme for us on counternarcotics and wheat production in Helmand", which I think is an important evolution in its role.

THE CHAIRMAN: Just a point on the Stabilisation Unit, we heard some, not, I think, formal evidence, but from army reservists very early on in this Inquiry, on how very often they possessed extremely valuable skills in civil life, but this was not, as it were, used or capable of being used in the military setting. I just wonder whether the Stabilisation Unit had that dimension as well nowadays.

DR NEMAT SHAFIK: Actually, I have just got a letter from Bill Jeffrey at the MoD where now we have agreed with the reservists that their expertise, their civilian expertise, will now be captured by the Stabilisation Unit, so that we can use their skills in deployment.

Similarly, we are going to let civilians who are in our database, who are willing to serve in these posts, and give them information on the Territorial Army and the reserves, if they would like to join.
I think, for us, we see this as a very important use of skills, both skills around security, but also around civilian skills. I think the key thing, though, is that, when people deploy, they have to be clear what they are doing. Are they there as a soldier or are they there as a civilian? I think that distinction of roles is quite important, but tapping into the expertise is a huge potential gain.

THE CHAIRMAN: You made a point earlier about people in uniform, that is presumably one of the issues to be resolved, as to what role people are being posted in?

DR NEMAT SHAFIK: That's right, and if a reservist, for example, happens to have skills in accounting or in agriculture, they can be employed by the Stabilisation Unit, but in their civilian capacity.

THE CHAIRMAN: Right.

BARONESS USHA PRASHAR: Can I come back to the question of the safety of the staff? Because you said to the Public Accounts Committee that, "Our top priority is keeping our people safe, so we can make no compromises on that". Obviously, that's very important, but we have heard from previous witnesses what a difference greater civilian mobility made to the programmes of monitoring and actual delivery.

How do you balance the two? Because, in a way --
you know, how do you manage risk without actually compromising the delivery of your projects?

DR NEMAT SHAFIK: We have taken a very, I think appropriately, cautious approach about safety. A key aspect of us being able to get people to go to difficult places is for them to know that we will do everything we can to keep them safe.

In terms of our balancing this -- I should start by saying that the Foreign Office actually has the lead on civilian staff security. So they are the ones who have the expertise and we have always complied with their guidance. So they are responsible for the post security person in the field. They are the ones who make the calls about who can go where and when, and they are the ones who make the judgments about the overall security and threat level in a particular environment.

I think they do an excellent job and it is not our job to second-guess them, because they have got the expertise.

In terms of making the trade-offs, I think we have had to make some trade-offs and we don't take a kind of mechanistic view of it. I suspect you have also probably heard from other witnesses about the issues around differential duty of care between the military and the civilians from the Foreign Office and
BARONESS USHA PRASHAR: Yes, indeed.

DR NEMAT SHAHIF: Peter Ricketts, the Permanent Secretary of the Foreign Office, and Bill Jeffrey, the Permanent Secretary at the Ministry of Defence, and I, had a series of conversations about this over 2008 and we worked very hard to see whether we could develop a common duty of care regime for all civilians, and the security teams, particularly in the MoD and the FCO, worked very hard on this, and I'm sure they could give you more detail, but in the end of that process, we realised that our civilians are doing such different things that it didn't make sense to have identical regimes.

Just to give you a small example, in an Iraq context, a Foreign Office diplomat or a DFID person would have to have close protection, bodyguards in conventional parlance, when they go out. If you are a MoD civilian deploying with a military group, having additional bodyguards, when you are surrounded by soldiers, is a little bit redundant and not very sensible.

So one had to be a bit practical about the fact that, in different contexts, you may have a different approach. What we did agree, though, as a result of
that process, whereby we accepted that civilians under
the MoD and DFID and the FCO might have different
security regimes. We did agree that in some cases --
and I think you will see a letter on the records from me
to Bill Jeffrey, whereby, under certain situations, we
would delegate duty of care to the Ministry of Defence
in certain situations, and in certain situations we
would make exceptions if it was a particularly high
priority issue.

I can give you a couple of examples of that. In the
case of the investor visits which we facilitated in
Basra, there were a couple of occasions where the
Ministry of Defence and the military was incredibly
helpful to us in getting investors to sites that we
could not get them to.

So in one case an agriculture site, and in one case
an industrial site, when an investor was interested in
going to see the site and we delegated the duty of care
for those site visits to the MoD, and they did
an excellent job.

We have also had some cases where there were very
high priority meetings, for example, which a DFID person
was asked to attend, and it was a really critical
decision where we could have huge influence on something
that really mattered. In those cases, those decisions
came to me. I took the decision to allow the person to
go. I got a call when the person was back home and
safe. So we did agree a regime for exceptions when they
had to be taken, but we had to stick to the
Foreign Office's guidance under normal circumstances.

BARONESS USHA PRASHAR: Did this happen after your
appearance before the Public Accounts Committee where
I think you told them that the military had declined to
support your staff?²

DR NEMAT SHAFIK: I would have to check the dates on that,
actually. I think we started doing this in the latter
half of 2008, but I would have to check --

BARONESS USHA PRASHAR: Because your appearance was on
5 November, and you said you asked the military to
provide protection and they had declined.

DR NEMAT SHAFIK: Yes. I would have to check the actual
dates when those particular -- I think the investor
visits were in 2009, and, at that stage also, security
had improved.

BARONESS USHA PRASHAR: So this is again a work in progress?

DR NEMAT SHAFIK: It is a work in progress. I do think we
have an acceptable regime at the moment and I think you
don't hear too many complaints about this.

Of course, the security situation in Iraq has
improved, but it is a continuing issue in places like

² The discussion at the Public Accounts Committee was about whether the military could provide close protection services to DFID staff in general. It was not a discussion about specific support for investor visits.
Afghanistan and I think we have an acceptable solution at the moment.

BARONESS USHA PRASHAR: Because you said earlier that in terms of the level of staff you had, it is expensive because, you know, you have to look after them and so on, and I think, according to my calculations, about 20 per cent of your money is sort of spent on protection of staff.

DR NEMAT SHAFIK: That's right.

BARONESS USHA PRASHAR: Do you think that's a good balance in terms of taxpayer's money? Because you are there to do development work and yet a lot of money is going on protecting staff. Do you have any observations on how you justify that?

DR NEMAT SHAFIK: I think we have no choice but to protect the staff that we have. I think, because of the expense we do have to be very prudent about how many we deploy and make sure they are doing very high priority things. I think it also reinforces our fundamental strategy, which is to build Iraqi capacity and work through Iraqis, because it is both more cost-effective and also more sustainable.

BARONESS USHA PRASHAR: So you think it is value for money?

DR NEMAT SHAFIK: You try to reduce those costs as much as you can over time. Clearly, the best way to reduce
costs is to improve security, but that is slightly outside my remit.

THE CHAIRMAN: I have got a couple of questions drawing from what you have been saying to us. The first is: is Iraq a normal case for DFID? No, it is middle income, although it is also fragile, and you said there was something like 50 states where fragility and conflict are the common thing. None of those, I guess, would be middle income. Iraq would be unique, do you think? Or possibly, I don't know, South Africa and Latin America?

DR NEMAT SHAFIK: Yes, there are a couple that are middle income but not many. Some of them in Eastern Europe, a little bit in Latin America. We would not have large programmes in those countries, by and large.

THE CHAIRMAN: Sure. I just wondered whether there was a big difference in terms of the balance between capacity building and resource transfer and DFID looking at the globe as opposed to Iraq, resource transfer must still be very important, I would think.

DR NEMAT SHAFIK: It is a valid point. There actually exists something which we helped launch in the development community, called "The Principles for Operations in Fragile States", which is the key lessons learned globally, and one of the key principles is that,
in fragile environments, doing massive resource transfer
before you have built capacity usually is a mistake.
I think that is a very important lesson from the work we
did in Iraq: you first have to invest in capacity
building, technical assistance, building local capacity
before you start putting lots of money through the
system. You can do small things when capacity is weak,
but not large-scale resource transfer.

THE CHAIRMAN: The foundation for any effort is
a sufficiently secure situation, I guess.

DR NEMAT SHAFIK: Yes, I think that's correct.

THE CHAIRMAN: I think Sir Roderic has one or two questions.

SIR RODERIC LYNE: Just one or two questions to pick up on
different points. In the year before you joined DFID,
Clare Short resigned. Now, she led DFID from its birth
six years previously and she had given it very strong
leadership. She put her stamp on the department. But
for the reasons that Alastair Campbell -- I don't know
if you have seen the evidence he gave us -- but he
explained to us yesterday, she and her department had
been excluded by Number 10 from the innermost parts of
policy work on Iraq, and we have heard from a series of
witnesses, many of them senior military officers, how
DFID, at that time, under her leadership, was not
regarded as a trustworthy and co-operative part of the
British Government. It really wasn't joined up.

When you arrived at DFID, did you find that the legacy of this separation from the rest of the government still persisted? You have talked about the way that you now join up, particularly with the Foreign Office and the MoD. Do you feel that this historic problem of the first six years, which culminated in her resignation, has now been overcome?

DR NEMAT SHAFIK: I mean, I guess on the nature of the historic problem, I think it is probably better to ask my predecessor and Clare Short herself about that period. I think it is interesting to note, though, that this was not a UK specific problem. Just to give a parallel in the US system, we know, for example, that Andrew Natsios, who was the head of USAID at the time, and also a former soldier, I believe, himself, was excluded from discussions and planning on Iraq until well after the war had started. So I think there is a wider issue here than one around personalities.

I think in terms of your question about whether I think it is an issue now, I don't think it is an issue. I think, you know, we have both experience in working together, we have got institutional structures which support that. We have got staff who have crossed institutions and crossed boundaries and who have worked
side by side for many, many years. I don't think it is an issue.

SIR RODERIC LYNE: You are fully integrated now. You talked particularly about the relationship with the Foreign Office and the MoD. To what extent are the Treasury and the Cabinet Office part of this comprehensive approach now?

DR NEMAT SHAFIK: I think they have been -- they have been part of the approach all along in terms of decision-making. I mean, the Cabinet Office is obviously the key central co-ordinator of the Iraq Strategy Group and of any discussion about our operations in an international context. So the Cabinet Office has always been central and the Treasury have always participated in those cross-Whitehall meetings.

I think the comprehensive approach, as we now call it, to be honest, is more focused on the partnership between the international departments, the Foreign Office, the Ministry of Defence and DFID. But clearly, we have to work with the Cabinet Office and the Treasury to make that comprehensive approach work.

SIR RODERIC LYNE: That must include the area that you worked in, in your previous life, international finance?

DR NEMAT SHAFIK: Absolutely, and I think that's a very good
example, where DFID has the lead for the relationship with the World Bank, but the Treasury has the lead for the relationship with the IMF, and, in the case of Iraq, we worked side by side to secure debt relief for Iraq, for securing the IMF programme and for working on the World Bank engagement, and those were very important joint efforts of us and the Treasury.

SIR RODERIC LYNE: One of the mistakes that was made at the beginning in Iraq was in the management of expectations. Effectively, we overpromised and underdelivered. But this is not easy in a conflict situation, where there is a great urge to get a strong message across to people that life is going to get better.

How can one actually make the management of expectations realistic? What is the lesson to be learned from the mistake we made in Iraq, particularly in the south-east?

DR NEMAT SHAFIK: I mean, I agree with you that expectations were unrealistic at many levels, both in terms of the security situation and also in terms of a peace dividend that would result from a post-conflict period.

I think that -- the main lesson is for political leaders to be honest about what will happen. I think also to be honest about how long development takes and how long reconstruction takes. You know, I often give
an example. I used to run the World Bank's infrastructure programme. An average infrastructure project takes 18 months to plan and at least five years to implement. So promising people fantastic -- you know, going up from four to eight hours of power to 24-hour power. That is a decade-long project and I think being honest is quite important. I think the other dimension in Iraq, which was -- I think you have also heard frequently in this Inquiry -- is the lack of information about the initial conditions and how poor they were, both because of decades of neglect under Saddam's regime, because of the sanctions regime, because of the lack of investment, and I think that meant that unrealistic expectations were even further away from reality, because people had little information about the initial conditions.

SIR RODERIC LYNE: Drawing on the World Bank experience, was this lack of information universal or were there pockets of it in international institutions that the British government and perhaps the American Government were not tapping into?

DR NEMAT SHAFIK: I have to say I don't think there was information in the international financial institutions in the IMF and World Bank, because they had no relationship with Iraq. Iraq was formally a member but
never had an relationship with the IMF or the
World Bank. There was information at the UN, because
the UN was operating the sanctions regime and they did
have information, and I know certainly in DFID we drew
on that information to do what little planning that we
could, based on that, but there wasn't -- you know, this
was not an open country in which there were lots of
academics going in and out and data available and
research being done and there was also not a large NGO
presence. So there were not even those sources of
partial information available.
SIR RODERIC LYNE: And, as we have heard from earlier
witnesses, there were constraints imposed on DFID in
their ability to have a dialogue with the UN before the
war about the situation in Iraq.
DR NEMAT SHAFIK: That's correct.
SIR RODERIC LYNE: I believe that the United States have
some military units that specialise in post-conflict
reconstruction. Should we have in our military?
DR NEMAT SHAFIK: I think the -- I think the lesson from the
"Hard Lessons" report that the Iraq Inspector General
did has a very interesting quote from Condoleezza Rice
who said that they made a mistake by putting all their
eggs in one department, that having the Pentagon lead on
the entire effort was a mistake, and I think that's
a clear lesson from the US experience. So I think it
would be a mistake for us to go back and try something
which they have tried and has failed.
SIR RODERIC LYNE: But we have no eggs in that department.
DR NEMAT SHAFIK: We have some. Frankly, I think the right
solution is a tri-departmental egg.
SIR RODERIC LYNE: An egg with three yolks.
DR NEMAT SHAFIK: Yes, or three hens? Three parents?
I think the key to making this work is to not have one
bit of expertise being the dominant one and being the
lead one. The key to making it work is to have
diplomacy, development and defence working together as
equal partners with an integrative capacity at the top
which, as I said, can come from anywhere but has those
integrative skills.
I think having it in one department will inevitably,
I think, as you well know, the way Whitehall works, that
department's culture, processes, priorities, will tend
to dominate and I think that would be a mistake.
THE CHAIRMAN: I think Lawrence has a question.
SIR LAWRENCE FREEDMAN: Yes, just one. You just mentioned
the lack of an NGO presence within Iraq. I understand
that DFID likes to work through NGOs and international
organisations. Clearly, some NGOs did expect to go to
Iraq. How much of it was a problem that there really
weren't NGOs there with which you could work?

DR NEMAT SHAFIK: We had a big increase in our funding to NGOs in the early period prior to my period, mainly focused on humanitarian support, but, after that, because of the deterioration in the security situation, most NGOs left and so that clearly was a constraint. We do continue to support some NGOs in Iraq. We don't tend to advertise it, because we don't want to jeopardise their security. So it has been a constraint. We have found ways -- some ways to work around it.

I should say, though, that we continue to support NGOs on a large scale on the humanitarian side and that has been --

SIR LAWRENCE FREEDMAN: This is with the refugees?

DR NEMAT SHAFIK: This is with the refugees and also with the internally displaced refugees. The Red Cross in particular has been a long-term partner for us and it has been a huge endeavour. I think we sometimes forget the humanitarian side, but DFID has contributed over £170 million to that over this period, and that effort has avoided what could have been a catastrophic humanitarian situation with over 2 million internal displaced people in Iraq. 2 million people in neighbouring countries, like Syria and Jordan, who have been quite generous in housing them.
If we had not planned for a humanitarian response of some sort and did not have the capacity of the UN and the Red Cross to deal with that, we would have had a catastrophic situation which would have been on the headlines of all of our newspapers and we avoided that because of that capacity.

SIR LAWRENCE FREEDMAN: Given your previous answers on that, obviously very important issue, I mean, this is an area where you do have to constantly provide the fish and there aren't obvious mechanisms at the moment to get them to people back home.

DR NEMAT SHAFIK: In fact, we are starting to see some improvements. So if you actually look at what is happening on the humanitarian side, we are continuing to provide support up until now, but you do see a steady reduction in the number of internally displaced people. We are seeing a steady reduction of people beginning to come home to Iraq, and so the numbers the humanitarian organisations are having to take care of are declining, and we would be happy to provide those numbers. So there is improvement on that situation, albeit gradual.

THE CHAIRMAN: Let's take a break and come back at about quarter past.

(11.05 am)

(Short break)
THE CHAIRMAN: Well, let's restart and Sir Martin Gilbert will take up the questioning. Martin?

SIR MARTIN GILBERT: My first question relates to the decision of the Iraqi Government to put a tremendous amount, more than two thirds of its budget, into subsidies and essentially to neglect its growing problems of unemployment, dilapidation of infrastructure, and I wondered what impact that decision has had on the delivery of our objectives for Iraq.

DR NEMAT SHAFIK: It was clearly the most important macroeconomic issue that we faced and something that the IMF was very much engaged in discussing with the Iraqis. The energy subsidies alone absorbed a huge proportion of their budget, but, like in most countries, removing energy subsidies in the middle of conflict is quite political dynamite, and what we have been urging the Iraqi Government and the IMF to do is develop a phased programme of phasing out those energy subsidies, to then create room to spend on infrastructure investments and education and all the array of other needs.

So it has been a key policy issue that we have worked on, and our work on the centre of government has been supporting some of the technical work. We have also supported the World Bank doing technical work on...
how to develop a programme of moving towards a more rational basis in the energy sector. So it is a very important focus of our work.

SIR MARTIN GILBERT: Are our efforts having some success? Can you see progress in this regard?

DR NEMAT SHAFIK: I don't think, again, because of the political situation, an immediate appetite to move quickly on those subsidies but I think the Iraqi Government itself is well aware of it. I think, in my experience in oil economies, they don't tend to move until the budget is tight. So at the moment the Iraq economy is now $90 billion, government spending is now $50 billion. They can spend about 85 per cent of their budget. I think, as that number eases up and they are able to spend 90 or 100 per cent of their budget and it starts to get a bit tight, I think they will start to tackle the issue of energy subsidies and I suspect a more stable political environment will help.

SIR MARTIN GILBERT: You will be happy then about the direction?

DR NEMAT SHAFIK: Much happier, because that will free up all sorts of resources to do other high priority things.

SIR MARTIN GILBERT: Another question relating to the
decision of the Iraqi Government. The figures which you
sent us from DFID show that of the £466 million in
bilateral disbursements, 180 million was spend
a humanitarian assistance, and there has been some
mentions of that.

    Given that the Iraqi Government chose not to use its
own revenues to support these -- this enormous number of
displaced persons, was this a problem for you with
regard to the use of DFID's resources as something which
could have been resourced elsewhere, and is this
something also we have been able to take up with the
Iraqi Government?

    DR NEMAT SHAFIK: Yes, it is an issue. I should say that
the Red Cross does work very closely with the Iraqi
Red Crescent, which is a local NGO, which has
significant presence, and so there is a relationship
there. So there is Iraqi capacity and that is supported
in Iraq.

    But we have -- we have discussed this issue on the
humanitarian side with the Iraqi Government, and clearly
they need to have a strategy of how to fund this going
forward. They either need to build up their own
capacity to deal with humanitarian issues or continue to
fund NGOs like the Red Cross and the Red Crescent to
deliver services to displaced people, and I think that's
a policy issue they have to face themselves, and we have
been talking to them about it, because clearly, over
time, one would hope that this situation would stabilise
and people would be able to relocate and go home.

SIR MARTIN GILBERT: How are these discussions being
conducted?

DR NEMAT SHAFIK: The UN is actually in the process of
developing something called an UNDAF, which is a UN
development assistance framework, under which the future
of humanitarian work will be planned. That will agree
the division of labour between the UN system, the
Red Cross and other NGOs, and local NGOs, and it is in
the context of working on that UNDAF with the
Iraqi Government that decisions will be made as to who
will take responsibility for what.

SIR MARTIN GILBERT: Another question which has arisen with
previous witnesses relates to corruption, and according
to the transparency, internationally Iraq was ranked
third in the most corrupt of 181 countries, which were
examined in 2008.

How does DFID tackle this? I have read your
evidence on this, but can you say a little more about
how this, again, affects what we are able to provide and
how we monitor it and how we tackle it?

DR NEMAT SHAFIK: It is clearly an issue of concern. We had
one significant fraud prior to my taking over as Permanent Secretary, which we had with the previous Provincial Council, which was an unelected Provincial Council which had serious issues of corruption. So we had an employment programme of seven projects, which we cancelled immediately once we knew that that was an issue.

We have a zero tolerance policy on corruption and we act on it immediately. The then Provincial Council was very unhappy with us as a result of that, as you might imagine. But on that, we don't compromise.

That is actually the only case that we are aware of, where we had a significant fraud, which, given the scale of the funds that we were disbursing, and given the context, is, I think a pretty good track record.

We did have a NAO review of our monitoring and accounting systems and they gave us a clean bill of health and they said we had a good track record and there were signs that our monitoring systems and our management of public finances in Iraq was sound.

SIR MARTIN GILBERT: Can you say a little something about the actual monitoring systems?

DR NEMAT SHAFIK: Yes. All of our programmes actually have quite elaborate monitoring systems. So we -- all of our
teams are required to report regularly on both expenditures, outputs, outcomes and their achievements.

We, at a senior level, get reporting on that on a monthly basis. In the case of the Iraq portfolio and our Middle East portfolio in general, we actually had a higher level of scrutiny than our normal portfolio because of the risks involved. So we would get monthly reporting on risks, security risks, staff risks, risks to our money, issues around disbursements and why there may be problems with implementing and monitoring certain things. So we had quite a high level of scrutiny on that.

THE CHAIRMAN: I am aware from experience of the nervousness an accounting officer may have faced with corrupt misuse of one's own departmental funds, but the broader question is surely one of capacity building within the Iraqi Government's systems?

DR NEMAT SHAFIK: Absolutely, and that's why the investments that we were making on public financial management, which has been a constant theme -- and I know it is a bit boring, but for those of us who are accounting officers it is a very important issue, and, in the end, it is what has made the difference.

So the investments in public financial management in the centre of government in Iraq, in the Ministry of
Finance and also in the Provincial Council, which has been a constant theme of our programme throughout this period, has been key.

SIR MARTIN GILBERT: I wanted actually to ask you some more about that. At a trilateral between DFID and the MoD and the FCO about two years ago, DFID stressed very much its capacity, its concerns for capacity building, that this would be a priority. You have spoken of it earlier. It was obviously central.

My first question really is: how did the Iraqi Government react to our contribution? Was it something which they understood, they welcomed, they took on board as fully as they might have done?

DR NEMAT SHAFIK: It is hard to give a general answer to that, because there were so many different reactions in different bits of the government, and I think there was quite a lot of appreciation for the work we were doing at the centre of government, particularly the work on public financial management, on helping the Cabinet Office in Iraq actually run properly and co-ordinate government efforts, helping them with budget execution, which, again, sounds like a very boring issue but it is the key issue of: can they spend their own money well? That is actually quite a difficult thing to do. I think that work was very much appreciated.
I think, again, on some of the specific capacity building efforts, like on -- you know, the airport in Basra and helping to get that running again was quite appreciated, and, at the technical level, the work at the Provincial Council level was also appreciated.

I think there was some criticism, like in any context like this, about, "Why do we have all these external consultants coming in and advising us?", and, "We don't need the advice, we just want the money", and I think that exists in any development programme in any development context. I think some of that also was directed at the US effort, which was very intensive, in terms of, not just external advisers, but external implementers who supplanted Iraqi capacity rather than to help build it.

SIR MARTIN GILBERT: What was the ratio between us and the United States with regard to our capacity building contribution?

DR NEMAT SHAFIK: That's a difficult question to answer. I mean, the overall effort -- I mean, they were about 18 times bigger than us in terms of overall effort in terms of the aid programme, but in terms of capacity building, I think we -- we gave less money, but I would like to think we focused more on building the Iraqi capacity rather than importing capacity from outside.
If you look at, again, the Iraqi Inspector General's report, what they say is that probably the largest source of waste in the US aid programme in Iraq is all the investment they made without concomitant investments in capacity and the lack of maintenance and sustainability of those investments is probably the biggest area of waste.

So I think they probably underinvested in capacity building relative to the size of their aid programme.

SIR MARTIN GILBERT: In terms of the actual capacity building projects, were those, the ones that you have mentioned, and the other ones, exclusively UK or did they also have some sort of match with the Americans or other capacity building helpers?

DR NEMAT SHAFIK: We had a division of labour between us. So they knew that we were doing the work on centre of government, Ministry of Finance, for example, and they knew we were doing the capacity building in the Basra Provincial Council. So there was a division of labour among us, and in the development business that is a very common way of approaching it, so that not everybody is overlapping and covering the same space.

SIR MARTIN GILBERT: Can one make any comparisons, without being invidious, with regard to our capacity building efforts and those of others, the efficacy of them?
DR NEMAT SHAFIK: In terms of other partners and donors who are operating in Iraq?

SIR MARTIN GILBERT: Yes.

DR NEMAT SHAFIK: It is difficult because -- it is difficult -- you don't always have like for like in terms of equivalent projects. Because nobody else was doing centre of government work. So it is hard to compare that.

If you look at the PRTs, I think the work of the Basra PRT compared to the other PRTs was very high quality and it got much better, once we had -- like in many situations, once security improved and once we had a good partner. I think that is probably in many ways the most important factor in good capacity building, is the quality of your partner.

THE CHAIRMAN: I just wanted to ask on this theme of corruption, capacity building at the centre of government both national and provincial in Basra, but if you are an average Iraqi and an ordinary person or an ordinary Basrari, indeed, you see a totally corrupt system, don't you, and that affects all sorts of things, like acceptance of democratic accountability at all levels of government. It affects even interpersonal and commercial relationships at every level.

What I don't get the sense of is whether that much
broader target is capable of being addressed or, indeed, is part of, in this case, DFID's own strategy.

DR NEMAT SHAFIK: I think there is a temptation with corruption to always, you know, to want to go for the high profile targets, the individuals who are the ones that everyone talks about.

Actually, corruption is a systemic issue and actually it is the boring, green eyeshades work of the accountants and the auditors that eliminate the opportunities for corruption. There is the real solution. So I think that is actually the ultimate source of the solution in Iraq and elsewhere.

THE CHAIRMAN: Can the answer to that broad issue ever come from outside? There can be the contribution of the men and women with the green eyeshades, but ultimately it must come from the political leadership.

DR NEMAT SHAFIK: I think that's right. I think it is a combination of political leadership and the technical capacity to make that political leadership have traction. You can't prosecute a corruption case unless you have got an audit trail and you have got evidence and you have got accounts that can hold people in check.

THE CHAIRMAN: And a justice system --

DR NEMAT SHAFIK: And a justice system.

SIR LAWRENCE FREEDMAN: I was just interested in whether the
answer really is always with accountants. The systemic
corruption that we are talking about surely comes at the
point where anybody has to require a favour of the
state, however lowly the level, and different social
structures make that more or less likely. So that it is
also a question of the professionalisation of state
functions at a -- again, we are talking about the
police, minor civil servants who were in charge of
contracts -- that is one where the accountants may come
in, but a lot of things there will be no audit trail at
all.

DR NEMAT SHAFIK: That's absolutely right and that's why
I say it is a systemic issue. You have to deal with the
systems, the accountants, the police, the justice
system, the whole system for enforcement is essential.
I think there are some good examples. If you look
at the recent awards of the licences for the oil
concessions that Iraq has just made, they have been
highly competitive and quite transparent, and that is
not an obvious outcome and it is an accomplishment that
they have gotten such good deals from a wide array of
investors, ranging from Shell to Lukoil, to a Malaysian
oil company, to Statoil, and they have got good deals
and they have got good prices and they have negotiated
well in a fairly transparent way. That, arguably, would
have been the most obvious area in which you would have large-scale corruption.

SIR LAWRENCE FREEDMAN: That's at a macro level. It is the micro stuff that may be harder to pick up.

DR NEMAT SHAFIK: That's correct, but the macro stuff is where the big money is, and the fact that they have managed that process relatively well I take as an indicator that, at some level, some of these systemic improvements are beginning to pay off.

SIR MARTIN GILBERT: I would like to turn now to the World Bank question, which several witnesses have brought up, as you know.

You told the Public Accounts Committee in November 2008, "We were very dissatisfied with the World Bank's performance and made a lot of noise about it and it has continued to be an issue for us".

Can you explain to us why this remains an issue and its importance with regard to DFID's work in Iraq?

DR NEMAT SHAFIK: Yes, I think it is -- I should explain why I think the World Bank found it difficult to work in Iraq and I think there are a number of reasons.

First, the World Bank is a co-operative, it has got 185 shareholders, who are 185 countries in the world. The UK is one shareholder. The board operates by consensus. I don't think anything has actually come to
a vote on the board of the World Bank in 60 years and
I don't think it was possible for the World Bank
management to get a consensus on its board as to
operations in Iraq. I think that reflects the wider
political legitimacy questions around the whole
endeavour. So that was one issue.

I think the second issue was the Wolfowitz factor,
for the period Paul Wolfowitz was the President of the
World Bank, in many ways paradoxically he was more
constrained, because, if he was seen to be pushing the
Bank into more operations in Iraq, it would have raised
even more questions about his legitimacy which was
already under question, given the way he left the
institution.

I think the third factor is security and I think the
bombing of the UN headquarters had huge ripple effects
for the entire international system being seen as a soft
target in a context like Iraq. I think the fourth
issue is a more systemic issue, which I think
Mark Lowcock raised with you about the bank's
performance in fragile states.

That's an issue which we have raised consistently at
the World Bank, both in our role as shareholder on the
board, as a major funder of the concessional lending arm
of the World Bank. I don't think a senior visitor has
visited Washington in the World Bank in the last four to five years and has not raised this issue, and we have a long paper trail of correspondence between different Secretaries of State and the President of the World Bank, between the Prime Minister and the President of the World Bank, and records of literally dozens and dozens of meetings where we have consistently raised this as an issue.

I think -- I could go into much more detail on this if you would like me to.

THE CHAIRMAN: Just to ask, the driving force of all those visits and all those representations made is the Iraq experience or more broadly?

DR NEMAT SHAFIK: Yes, it was both. Iraq was a particular priority, but there was also a much more general issue about how the World Bank operates in fragile states.

Maybe I will just make two more points. One is -- I think the other issue in both the World Bank and the UN's defence was that they felt they were getting more representations from the UK and the US about their engagement in Iraq than they were getting from Iraqis, and I think they would say, "Well, there didn't seem to be a lot of Iraqi ownership in wanting us to really be involved", and I think that has changed over time and there is now a bit more Iraqi ownership, and I think, as a result of that, they will be more responsive.
I think the other point just in terms of the systemic issues, we are -- we are very concerned because we, ourselves, because of our interest in reducing poverty in the world, want to see the international system being more effective in fragile environments.

So a huge part of our shareholder role in these institutions is to lobby them very hard to get them to be more effective, to be better at getting people deployed on the ground in difficult environments, to changing their human resources systems, to being more flexible on risk, and also to get them to work better together.

So, for example, the Secretary General of the United Nations has just launched a report on peace building and peacemaking in conflict environments, and we have been very closely involved in shaping that report and trying to make sure that it strengthens the UN's ability to work in environments like Iraq and others, and we have also been strong supporters of a new Memorandum of Understanding between the UN and the World Bank on working in fragile states and conflict environments, so that they can, for example, manage money on each other's behalf in these kinds of environments.

SIR MARTIN GILBERT: Have you seen positive results coming
from that activity?

DR NEMAT SHAFIK: We are seeing slow progress, to be honest, and it varies a lot -- a little bit by country and personality. I think that's the frustration. The World Bank's performance in Afghanistan, in contrast, has been excellent, and they have been a hugely useful driver of reforms and provider of development services to the international community in Afghanistan, and it is the same with the UN.

I think the problem we face is that when we have good people deployed in certain environments they get support from their headquarters, these institutions can do very, very well, but, when we don't get that, they do very poorly, and this can't be about personalities and individuals, it has to be about creating an international system that can support post-conflict countries.

SIR MARTIN GILBERT: In terms of our own investments made in Iraq, particularly --

THE CHAIRMAN: Martin, I'm so sorry, before we leave the last point, I think both Usha and Roderic would like to raise something.

BARONESS USHA PRASHAR: You have given a very interesting analysis of the role of the World Bank and why you were unable to engage, but last week, when we were talking
with Mr John Jenkins, the current Ambassador to Iraq, he
gave a very graphic description of the kind of -- how
fragile the democracy is, although the foundations are
there, and the sense one got was that that needed a lot
of sustaining work in terms of capacity building of
institutions which would underpin that democracy.

Obviously that is something that the UK can't do on
its own and you need to work with other agencies, and,
if the objective is to internationalise, is there a kind
of coherent programme in terms of doing the analysis,
what you talk about division of labour, who does what?
Because the impression one gets is it is quite ad hoc,
who happens to be there, what their priorities are and
they take that particular project on.

Do you think there is some room that, you know,
poverty eradication is one, but obviously to eradicate
that, you need a stable democracy and, therefore,
capacity building is part of that. Is this part of our
agenda in the way we influence these organisations, not
just to become more engaged, but how they engage in
different scenarios?

DR NEMAT SHAFIK: Yes, it is. Our view, as to how this
should work would be that in conflict and post-conflict
environments, the UN needs to be in the lead in
coor-dinating the international effort. That is for
many reasons, and I know you have heard many different views around the capacity of the UN to do that, but in the end, it is the only organisation out there that is legitimate to do it, and, therefore, whether it is good at it, or excellent, or poor at it, we need to build the capacity for it to do it, because nobody else can. So in post-conflict environments, it needs to be a UN lead. When you get beyond the conflict stage and you have moved towards reconstruction and development, the norm should be that the World Bank should lead that effort. They are the ones who normally chair what we call a consultative group, which is a group of all the donors who were supporting a country. Increasingly, we prefer that the country itself chairs that group and the World Bank supports them in chairing it. So the Government of Iraq, or Afghanistan, or DRC, or Zimbabwe, or Ethiopia will chair a consultative group at which all the donors will come together and you would agree a coherent plan and division of labour.

That would be our vision, and that's why getting the UN and the World Bank to work together well is quite key, because that transition from immediate post-conflict where the UN should be in the lead to reconstruction and development, that handover has to happen very smoothly between the UN and the World Bank
BARONESS USHA PRASHAR: Is it beginning to happen in Iraq, though? I mean, are you on plan?

DR NEMAT SHAFIK: Is it happening in Iraq? I think there is a process, but I cannot say yet that the World Bank is sufficiently embedded in that process for that handover to be smooth yet. It is still not clear whether the Iraqis, for example, would be interested in borrowing from the World Bank.

When I was there last, they did imply that they were thinking about it, particularly in the energy sector where the World Bank has a lot of experience and can help them, but, on the other hand, Iraq may not need to borrow because they have their own resources, and the question is: how do they get the World Bank's advice without necessarily borrowing their money?

BARONESS USHA PRASHAR: Are you trying to influence that particular process?

DR NEMAT SHAFIK: We are, because we think it would be helpful to have the World Bank engaged because of the technical capacity that they bring.

SIR RODERIC LYNE: Following on from that, you said it wasn't possible to get a consensus on the World Bank board. We have heard from a number of other witnesses the argument that the damage, at least to the
United Nations within the international community, was repaired fairly quickly. We have got UN Resolutions and some have argued that the divisions that existed over the conflict around 2003/2004 have not left a lasting damage. But are you saying that the World Bank board is still so divided over Iraq that it can't take decisions?

DR NEMAT SHAFIK: They have taken some decisions. There have been, I believe, four concessional loans made to Iraq. So in the recent period, when the situation was -- there was more international support, they have actually been able to take some decisions.

Where they have had difficulty is less on the -- making some modest decisions about lending and technical assistance, but about having significant presence on the ground, and I think that is less of a political issue and more of a management issue.

SIR RODERIC LYNE: How much has the Wolfowitz factor that you mentioned been part of this? Can you expand on this just a little?

DR NEMAT SHAFIK: Well, it was a major issue for the period he was there, of course, in the recent period, Robert Zoellick has been the President for the last two years and that has no longer -- it is no longer a factor in the current period.

SIR RODERIC LYNE: But the issue was that he had been such
a strong architect of the Iraq operation that members of
the World Bank were offended by his presence? What was
the issue?

DR NEMAT SHAFIK: I think the issue was that, because he had
been such a strong architect of the war around which
there had been lots of controversy, had he pushed
World Bank management to have a significant role in
Iraq, it would have been seen as an extension of his
role in the US administration rather than an appropriate
position for the head of an international organisation,
who was supposed to be serving the desires of
185 shareholders, not just one.

SIR RODERIC LYNE: Thank you.

SIR MARTIN GILBERT: My last questions concern
infrastructure projects. By the end of March 2008, DFID
had spent some £90 million on infrastructure projects in
southern Iraq. My first question is: how to ensure that
the investment made into these projects is sustained,
maintained, monitored, developed?

DR NEMAT SHAFIK: I think the best insurance that we could
make is to ensure that the Iraqi capacity is there.
First, that they were involved in choosing those
projects and making sure that we were responding to
their priorities, and that they had the capacity to
maintain them. That was an essential part of all of the
We made sure that the projects we worked on, that the Iraqi side was involved in planning them, choosing them, designing them and also then transferred the skills on maintenance.

We -- and the information that we have is that our investments continue to be in good working order.

SIR MARTIN GILBERT: How, again, in terms of, for example, providing power and water to more than 1 million Basraris, which clearly was a considerable achievement but how do we monitor that? How do we ensure it is permanent? Is it permanent? Can it be?

DR NEMAT SHAFIK: Well, when we complete a project, we do something called a project completion report to make sure that we delivered against the objectives. We assess our own achievement in terms of that and that's usually done by somebody different than the one who originally designed it, to have some sort of objectivity.

In the medium term, it will be the responsibility of the Iraqi authorities to maintain and sustain those projects, and in some cases we go back many years later to check, as part of our evaluation efforts, but, in the end, it has to be their responsibility and our job is to make sure that they have the capacity to take on that
SIR MARTIN GILBERT: There is nothing we can do other than check? We can't involve ourselves in it any further?

DR NEMAT SHAFIK: That's correct, and we do have a formal process of handing over assets and projects to our Iraqi counterparts.

SIR MARTIN GILBERT: There was a curious critique in the National Audit Office report in 2008 in its review of DFID's operations in insecure environments. I would like to quote it and just ask your comments on it:

"The National Audit Office said there is a limited research and experience on delivering effective aid in insecure environments, so the information on which DFID is able to base its decisions is weak."

Would you agree with that and is that something which -- for which steps could be taken to improve, to redress it?

DR NEMAT SHAFIK: Yes. I think it is true. There is lots of research on conflict and conflict environments.

There is not a lot of development knowledge and practice about how operations have to be adjusted.

We have a growing body of experience, and I think, you know, we would be happy to share that, but I think longer-term, rigorous, academic research that would hold up scrutiny in terms of clear baselines, clear
counterfactuals and impact evaluations are thin.

As a result of that, we are actually designing a new long-term research programme on conflict, state fragility and social cohesion to gather more information on how to deliver aid effectively in insecure environments.

We have also now done evaluations of our own programmes in insecure environments so that we can learn from our own experience in 18 different countries about what interventions have been most effective in these environments.

SIR MARTIN GILBERT: What particular lessons are being drawn in this regard from the experience in Iraq and southern Iraq?

DR NEMAT SHAFIK: Quite a few. I think -- I think, if I may just rattle off a few of them, if that's all right.

First, security is paramount. I think it is quite telling, if you look at the quality of DFID's portfolio, for example, we monitor the performance of our portfolio of programmes in a particular country over time. DFID's portfolio quality tracks security pretty well.

It is interesting to note that our average programmes were delivering 55 to 65 per cent of our objectives in the period of insecurity. It is now delivering more than 75 per cent of our objectives, and
that reflects the fact that we can do much more and
operate more effectively. In fact, the Iraq portfolio
is now above the DFID average in terms of performance.
So security is paramount.

Second, I think we were actually -- it is good that
we planned for a humanitarian crisis, because it didn't
happen in the immediate aftermath of the war, but it did
happen, and the fact that we were able to mobilise and
respond to that humanitarian crisis was important³.

SIR MARTIN GILBERT: We were able, in the humanitarian
crisis, as it in fact took place, with the displaced
persons, to draw on the preparations that had been made
earlier?

DR NEMAT SHAFIK: Exactly, and the knowledge that the UN
system had. I could go on, but I won't.

I guess the other thing is just investing in
capacity early actually pays off. People are impatient
in crisis and conflict countries because everything
needs to be done. This isn't just an Iraq problem. You
go to DRC, it is exactly the same. They need schools,
they need water, they need electricity, they need roads,
they need everything, and there is that sense of
urgency, where we must do everything, but, actually, in
the long run, building local capacity is the solution.

You must do some of those short-term things, but

³ Please note my covering e-mail
actually, if you lose sight of the capacity building,
you will waste all the investment you make in real
assets.

THE CHAIRMAN: Sir Lawrence, did you want to come in on
that?

SIR LAWRENCE FREEDMAN: I'm just interested in what you are
saying about the need for research in this area. Under
Clare Short -- I mean, still, my own colleagues were
very involved in researching in this area, and this
often came under the heading of security sector reform.
There were a couple of issues, one of which was a clash
of cultures, if you like, between the people who were
concerned with security and the people who were
concerned with development, and we have seen, to some
extent, a reflection of those different cultures, even
in this Inquiry.

So I'm just interested in your observations about
whether the development community is learning to live
with the security community, but there is also the
question of the responsibility of the interest of DFID
in these questions of security. I'm not saying this is
something for the military to do, but how they support
those sorts of issues. I would be interested in your
views on that.

DR NEMAT SHAFIK: I think the development community has
evolved. I think it is quite telling that in the early 1990s -- sorry, in the late 1990s, there was quite an influential report and study that was put out by the World Bank called "Voices of the Poor", where they surveyed thousands and thousands of poor people across the world.

What was most interesting for a lot of development professionals was how high security was on the list of priorities, that poor people in most countries are victims of the police, they are victims of harassment, they are victims of crime, and, for them, in many countries that was a much higher priority than getting clean water.

So I think that was the beginning of a process in which the development community started to appreciate the degree to which, if you cared about poverty, you had to care about security.

I think, for us in DFID, the culmination of that awareness and knowledge has been our recent White Paper where we committed to treating security as a basic service, equivalent to other basic services like health and education, and that we committed to massively increasing our own spending in that area.

Now, our angle on security would be: how do we make sure that poor people in poor communities feel safe and
feel secure and are able to get on with their lives?

But I think, for us, we have come to appreciate how important it is, if you care about poverty.

THE CHAIRMAN: Martin?

SIR MARTIN GILBERT: The office in Basra has now been closed and essentially you are reducing your programme overall in Iraq. Was this because of mission accomplished? Was it because you felt you had done all you could do, or were there other factors which fed into that, including competing demands elsewhere?

DR NEMAT SHAFIK: I think the main criteria was mission evolved. So not completely accomplished, but changed. We still have programmes in Basra, which we continue to manage from Baghdad, but I think for many reasons, including the Iraqis' own preference, all along, I think, the Prime Minister of Iraq and Iraqi senior politicians were keen for us to take what they called a "whole of Iraq" approach. They were not comfortable with our laser-like focus on Basra. They felt that we needed to see the country as a whole and support the country as a whole.

Many of the issues and the challenges that Basra and the south face need to be solved in Baghdad in terms of resource flows and getting those flows to work effectively, and it is a part of the wider normalisation
of the relationship.

I think for the period that I have been Permanent Secretary over the last two years, it has been the process of normalising and moving towards a more normal relationship with Iraq, and in most countries, unless they are very large federal countries like India, we are present in the capital.

SIR MARTIN GILBERT: Given the developments since April 2009 and Invest Iraq, how was DFID involved in those and are they something which you are able to have a continuing input into?

DR NEMAT SHAFIK: It is interesting. We supported the Invest Iraq conference and the support to the Basra Investment Commission as part of the Prime Minister's economic initiatives, and it was -- I think it was really incredibly successful. You had an event in London, with 250 of the world's largest companies interested in investing in Iraq. We had to turn about 200 companies away because we had such demand for participation. So a real sense of interest and energy.

And it was appropriate that DFID supported that work in the beginning, particularly because the Iraqis themselves had a concern that the UK was interested in this for commercial reasons and that we were only going to help them get UK companies to invest in Basra, and it
was appropriate that DFID, who is neutral about which
investors come, was the appropriate lead on that. We
were keen to see any investor, from any part of the
world, come and invest and create jobs in Iraq, and so
we did that effort and have now handed over
responsibility for that to the Basra Investment
Commission, who continue to work with investors from all
over the world.

I think, as you heard from others, UKTI has now
established a presence in Iraq and they are pursuing
support to UK companies. But in the early stages
I think it probably was appropriate that DFID lead on
that work.

SIR MARTIN GILBERT: Looking back over the whole period and
the tremendous DFID expenditure of more than
£500 million in Iraq -- for Iraq, what impact did this
have on the wider DFID budgeting and financing in
countries which were essentially poorer and fragile?

DR NEMAT SHAFIK: Well, I think that the financial pressures
were more in the earlier period, when my predecessor
Suma Chakrabarti was Permanent Secretary. So he is
probably better to answer that than I am. But for the
period that I was in, it was not really an issue, to be
honest. The size of the Iraq programme in this period
was -- went down from 30 million to 20 million, and next
year we anticipate about £10 million, and that was
fairly easily accommodated in DFID's budget. So there
were no real resource pressures.

SIR MARTIN GILBERT: Thank you very much.

THE CHAIRMAN: I think we are coming towards the close of
this session. Others? Roderic, you have got
a question, I think.

SIR RODERIC LYNE: What is the situation like in Iraq now?
How is the quality of life for ordinary Iraqis? Is it
better than it was under Saddam Hussein?

DR NEMAT SHAFIK: Well, all I can do is give you indicators
of progress. I can't -- I think you would have to ask
Iraqis themselves whether they think it is better. But
we have moved from a situation where, pre-war, Iraqis
had four to eight hours of power; they now have 15 hours
of power. I think it is interesting that, if you look
at the polling, for much of the period from 2003 to 2007
the major concern of Iraqis in the polling was security.

When I visited Basra in 2009, the main concern in
the polling of Basraris was unemployment. Now,
I suspect, if you poll people in the UK, that would be
pretty high on their list. That was a reassuringly
normal thing for people to be worried about.

Unemployment is very high in Iraq and particularly in
Basra.
SIR RODERIC LYNE: Is it higher than it was pre-2003?

DR NEMAT SHAFIK: Well, the truth is we don't know because the data is very poor and it is not clear that unemployment was counted in an internationally recognised way under Saddam's regime.

SIR RODERIC LYNE: If you had to make an educated guess at it, what would you say?

DR NEMAT SHAFIK: I don't know, is the answer. I think I couldn't answer that. I think we have other measures, though, too. If you look at -- we did a business survey in Basra as part of our economic work and something like 80 per cent of people in Basra think the business environment has improved, and 84 per cent think that it is going to improve even more in the period ahead. So there is a sign of sort of optimism there about the future, which is quite reassuring.

So we have pieces of a picture that we can put together, but I think the wider question about what people think about how it was before and how it is now, I think we just don't -- I don't have evidence to be able to give you a complete story.

SIR RODERIC LYNE: So the jury is still out on whether life after six years, coming up to seven years now actually, since the conflict is actually getting better.

DR NEMAT SHAFIK: I think the polling shows that things have
improved, particularly because of the improvement in
security but I think -- a thoughtful judgment I think I
would have to leave to the historians.

SIR RODERIC LYNE: You have visited Iraq a number of times,
I assume. Do you have a sense that Iraq is now on
a path towards stability and prosperity?

DR NEMAT SHAFIK: Certainly, when we went to Basra and we
met the just newly elect Provincial Council and we had
lunch with them in the central mosque in Basra and they
were -- you know, I have to confess, I was expecting
a gloomier environment. They were very upbeat and
optimistic, and I think what particularly impressed me
is that they had been talking to each other and to the
previous Provincial Council before the election. They
wanted there to be an orderly transition. They were
ambitious, they all had lists of plans and projects that
they wanted to get done and delivered for their
community. The fact that they were democratically
elected meant that they felt pretty accountable. So
those were very encouraging signs.

SIR RODERIC LYNE: We have had similar optimism, qualified,
obviously, from people who have been representing both
your department and the Foreign Office in Basra
recently. If you take Iraq as a whole, rather than
Basra, which has its very special characteristics, what
would your judgment be about where it is on the road to
stability and prosperity?

DR NEMAT SHAFIK: Well, they have certainly achieved quite
a lot in terms of macroeconomic stability. Clearly, the
security situation is much improved over the recent
period. The economy is growing. In 2008 the economy
grew by 9 per cent, which is incredibly high. I think
most of us would be happy with a growth rate like that.

SIR RODERIC LYNE: If you took the growth rate over a longer
part, I mean baseline is rather important in growth
rate.

DR NEMAT SHAFIK: Absolutely.

SIR RODERIC LYNE: What would it be over the last
seven years?

DR NEMAT SHAFIK: The truth is, I don't think we have
accurate data for much of the conflict period because
collecting GDP statistics was not a high priority at
that time.

SIR RODERIC LYNE: Lets go back -- for a shorter period,
four/five years. I mean, the economy, presumably, was
shrinking in this time.

DR NEMAT SHAFIK: That's correct.4

SIR RODERIC LYNE: So growing 9 per cent off a very low
thing is not actually statistically very
significant. What is more significant is where you are

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4 Comment from Dr Shafik after the hearing: "This is actually incorrect. IMF
estimate that the economy of Iraq has grown year on year since 2004 (except for
2005 when there was a 0.7% reduction)."
at in relation to previous levels and high points of GDP.

DR NEMAT SHAHIK: That's correct, and, of course, in most post-conflict environments, when conflict ends, you do see rapid growth. However, GDP is now $90 billion. So that's a very real number, that's an absolute number, not a relative number.

SIR RODERIC LYNE: But in GDP per head terms, where does Iraq stand in the world league table?

DR NEMAT SHAHIK: It is still a middle income country, it's on a sort of low middle income side. Now, again, we don't have very high quality data because they haven't been collecting very reliable data. We haven't got a census. People have been displaced. So, again, I think it will take time before we can make a considered judgment in terms of absolute improvements in economic welfare. But we do, as I said, have pieces of the story that we can say with confidence now.

SIR RODERIC LYNE: You said just now that DFID's mission had evolved in Iraq but it wasn't yet completely accomplished, and it evolved partly by closing Basra and focusing on Baghdad. At the outset of the conflict the British Government said that it was going to be in Iraq for the long-term. Is DFID in Iraq for the long-term?

DR NEMAT SHAHIK: We have only made decisions up until 2011,
and obviously future ministers and current ministers will have to make decisions about the future of the Iraq programme. I think the issue is what is a normal relationship with a country like Iraq, and, you know, a large development programme would not be a part of a normal relationship; you would have a relationship which is much wider, and that was a theme, I think, of the visit that the Permanent Secretaries of Defence and the Foreign Office and myself -- that was the main theme of our visit, which is this is a widening of a relationship to include educational ties, commercial ties, diplomatic relationship, a whole array of other things, and a significant development programme in a middle income country is not typical.

SIR RODERIC LYNE: But this isn't just any other middle income country; this is one that, to use Alastair Campbell's words yesterday, was a unique situation. It is one where, over seven years, the British Government, the British nation, has invested lives, huge amounts of money, huge amounts of political capital. So it is a very special case, and what I'm asking really is, does your department plan, over the long-term, to continue involvement with Iraq on the back of that huge investment of lives and resources and effort?
DR NEMAT SHAFIK: Just to be clear, we have always over invested in Iraq relative to a normal development programme.

SIR RODERIC LYNE: I'm not just thinking of money, I'm thinking more of effort and resource and attention --

DR NEMAT SHAFIK: Yes, but just, you know -- for example, last year, if you look at how much we should have been giving to Iraq in terms of a normal development programme and the criteria we use for resource allocation, we were putting more than twice as much as we should because of the political priorities. So we were certainly responding to the sense that this was not an ordinary case.

I think in the long-term, you know -- as I said, we have budgets set until 2011. Ministers will have to decide, if they think this is a unique case, what they would like us to do and I think that's really for them.

SIR RODERIC LYNE: So it is possible that, looking beyond 2011 -- 2013 would only be ten years from the start of the conflict; some people have said this was a task for at least ten years -- that DFID would say, "We will lock the door now on our office in Baghdad. This is just another middle income country, bye bye Iraq."

DR NEMAT SHAFIK: I didn't say that. I said Ministers will have to decide whether they think it is a political
priority, and if they do, we will make the effort.

SIR RODERIC LYNE: But you will be the senior adviser to those Ministers. What will you be advising them?

DR NEMAT SHAFIK: I think, at that -- by 2013, given the recent oil concessions that Iraq has made and our projections of what oil revenues will be, I think having significant resources transferred at that stage would be inappropriate. You know, I think --

SIR RODERIC LYNE: I'm not talking about money.

DR NEMAT SHAFIK: I haven't finished.

SIR RODERIC LYNE: I accept they will have money. I'm thinking of partnership.

DR NEMAT SHAFIK: I think, whether we have a presence and whether we have staff on the ground, I think that will very much depend, to a large extent also, on whether the Iraqis want the advice and the help, and I think, if there is an appetite there, where there is expertise that we can bring and support that we can bring that will help advance their development, then I think there may be a reason to be there.

SIR RODERIC LYNE: Thank you very much.

SIR LAWRENCE FREEDMAN: I'm just interested in terms of this question of the development of Iraq since 2003 -- the differential experience of northern Iraq, which we've -- was sort of semi-autonomous under Saddam, and we have
heard that it sort of carried on and the economy did
perfectly well. Does this give us a glimpse of the
Iraq -- because, presumably, they are just further ahead
than the rest. Is that fair?
DR NEMAT SHAFIK: I think that's true. I mean, I think they
had a huge advantage because things were more stable
there and they didn't lose those years in which conflict
meant that you couldn't make the kind of investments in
capacity and development and infrastructure that the
rest of the country couldn't do. So, yes, I think it
is.
SIR LAWRENCE FREEDMAN: So, presumably, northern Iraq was
growing, even through the bad years of the middle of the
past decade.
DR NEMAT SHAFIK: Yes, and I think it is interesting that,
you know, to the extent there was an NGO presence -- for
example, the Red Cross is based in the north but then
makes trips to the south. So they were
able to have NGOs and international operations based
there, which just created a whole new set of
opportunities. Similarly with investment and foreign
investors being able to visit; they had a head start
because of that stability.
SIR LAWRENCE FREEDMAN: So just finally, does northern Iraq
give us an indication of what best practice may be or
things to avoid in the coming few years?

DR NEMAT SHAFIK: Possibly. I mean, I'm not an expert on northern Iraq, so I couldn't draw those lessons for you. But I'm sure there are lessons to be learned.

SIR LAWRENCE FREEDMAN: Thank you.

THE CHAIRMAN: One last question. We have heard, I think from witnesses -- and anyway we are more generally aware -- that DFID's, your department's, reputation before 2003 was very high in the international development community, perhaps as high as anyone, perhaps even the highest. What has been the impact of the war and the development experience since on that standing today?

DR NEMAT SHAFIK: To be completely honest, I don't think there has been a huge impact directly, in the sense that I think DFID's reputation comes from other things. I think DFID's reputation comes from -- from the quality of our people, the policy approaches that we have taken, our performance on a variety of things. I think the capability reviews which were done in Whitehall -- we came out quite well. We were the top-performing department in Whitehall, both in 2007 and 2009. The DAC peer review, which is the OECD review of all development agencies round the world, has called us the model bilateral donor, and I think that stems from
a wide variety of things and Iraq is part of that story, but it has to be seen in the wider context. I do think, though, Iraq has changed us and taught us a lot. Iraq was in many ways the beginning of us learning how to operate in really tough environments, and there are huge synergies with what we have learned in Iraq with the wider agenda for us on fragile states. Fragile states are now going to be half of our programme going forward, and our recent White Paper committed us to continuing to have at least half our programme in fragile states.

I think, if I may draw the lessons from that, I think what operating in Iraq taught us was that many of the principles of good development practice, which is the basis of DFID's reputation, apply. Countries have to own the solution; you can't impose your own. Capacity-building really matters and invest in capacity, before you invest in hardware. Worry about sustainability; don't just leave it behind and hope for the best and not fuss about maintenance.

Those lessons of good development practice actually all applied in Iraq, and the fact that we carried those lessons into Iraq -- that experience into Iraq was very important.

I think the two things that were different in Iraq
for us was learning how to apply those principles in
a very insecure environment and, two, learning how to
apply those principles in a much more complex
interagency process, where you had a Ministry of
Defence, a Foreign Office and a coalition process, which
was a different set of
actors than we were used to interacting with, and
I think those were the two things that were new for us
and where we learnt quite a great deal from Iraq and the
Iraq experience.

THE CHAIRMAN: Thank you. I was going to ask you whether
you had any final reflections but those might be them.

DR NEMAT SHAFIK: I think those are pretty much them. I
mean, I think the only other thing is that -- this wider
point about fragile states being core business for us
now, I think -- I think you have asked me before about,
you know, Iraq was such an unusual case for you. Well,
the middle income, I think, will always be rare for us.
We don't do much business in middle income countries --
appropriately, because we are concerned about poverty
and middle income countries have their own resources and
can solve their poverty problems with their own
resources.

But dealing with fragility and the post-conflict situation
is actually a core part of who we are and what we will
do going forward, and I think that is a very important
dimension of DFID and something that the experience of
working in Iraq has taught us.

THE CHAIRMAN: Thank you to our witness and thank you, those
of you who have been here through the morning.

The afternoon session will begin at 2 pm, when we
shall be seeing Lord Turnbull, the former
Cabinet Secretary. Until then we shall go into recess.

Thank you.

(12.13 pm)

(The short adjournment)