



# Iraqi views on debt and reparations

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*"Iraq is not responsible for any debts which supported the regime's war machine. They are asking us to pay for the knives they gave Saddam to slaughter us."* (Dr. Hajim Al Hassani, Iraqi Islamic Party).

*"There is an overwhelming case, both in terms of economic expediency and justice, for writing off most of Iraq's debts, and doing so fast"* (The Economist, 18<sup>th</sup> October 2003)

## Introduction

During the last three weeks Jubilee Iraq has been meeting with a broad spectrum of Iraqi society. The consultation has covered the relevant Ministers, most of the political parties in the Governing Council, civil society organisations and also groups such as the Sadr II Movement which oppose the interim administration. The aim was to listen to Iraqis' views on foreign debt and war reparations in order to present these views to the creditors.

There was a widespread understanding of the seriousness of the debt problem across Iraqi society, not merely among the politicians and technocrats but also among the many taxi drivers and people on the street whom we met. This is not surprising given the huge role the debt has played in Iraq's recent history, arguably extending the Iran-Iraq war and sparking the invasion of Kuwait. We discovered that there was a great deal of common ground on the issue of debt amongst Iraq's very diverse political perspectives.

In the process of exacting a huge death toll upon the Iraqi people and impoverishing one of the wealthiest countries in the Middle East, Saddam Hussein's regime ran up a record breaking debt. The total obligations of the former regime totalled around \$200bn in debt and war reparations, which is about ten times export earnings in 2006 on the most optimistic projection. No other country has a debt level approaching this and debt which is only double export earnings is often considered to be unsustainable by the IMF.

It has been the norm – with a few notable exceptions – for countries to assume responsibility for the debts of former regimes irrespective of the nature of those regimes, the way in which the borrowed money was spent, or the needs of the people or, in short, irrespective of the validity of those debts. Jubilee Iraq was founded by a coalition of Iraqis and citizens in many creditor countries in order to challenge this norm and ensure a resolution of debt which is fair to the Iraqi people.

## Findings in brief

- Iraqis identify the debt of the former regime as one of the most critical issues facing them. A failure to achieve a good resolution could **prevent economic revival and threaten the Iraq's political stability**.
- Most Iraqis reject all **UNCC reparation payments**, judging that Iraqis were as much victims in Saddam's war as were other nationals. Some will consider individual but not corporate or governmental claims.
- Unanimously Iraqis insist that the **payments made by Gulf countries to Saddam** during the Iran-Iraq war were structured as gifts not loans. Many feel that because these gifts caused immense suffering by prolonging the Iran-Iraq war, the creditors should pay compensation.
- Around half of the debt claims are for **interest and arrears**, compounded over the period of sanctions during which Iraq was unable to make debt service payments. Iraqis believe it is unfair to ask for this interest, since the international community did not allow Iraq to earn the foreign currency which would have been needed to service the debt.
- Iraqis say that the majority of the debt is odious, relating to the war with Iran, corruption and economic mismanagement by Saddam's regime. **Every Iraqi we have interviewed stated that the odious debt should not be paid**. Many feel that at least part of the non-odious debt should be paid, although some do advocate complete repudiation.
- **The Paris Club** is viewed with suspicion, as a body most likely to serve its members interests rather than treat Iraq fairly. In particular, Iraqis would not accept the foreign control of economic policy resulting from **IMF conditionality** attached to Paris Club debt treatment. They do not think reduction of odious long term debt should be seen as a substitute for urgently needed aid.
- Most Iraqis prefer a **process of arbitration**, or an investigation by an Iraqi committee, to categorise debt as odious and non-odious and decide upon repayment terms. While some would like this to be conducted under UN auspices, many are suspicious of the UN because of the legacy of sanctions.

## Debt could threaten democracy

All the Iraqis we spoke to agreed that resolving the debt burden is one of the critical issues for Iraq's future. *"There is no way to achieve democracy in Iraq without a solution for the economy, and resolving the debt is the most important component of this."* (Saleh Yasir, **Iraqi Communist Party**). If the debt is not resolved, **Shaikh Mauyad** painted a gruesome picture based on an Arab saying *"When the camel falls down, it is cut up with many knives"*. Iraq is the wounded camel struggling to get back on its feet, but the creditors are gathering around with knives hoping to slice off pieces of flesh – although after 13 years of sanctions and 35 years of Ba'ath rule the camel is very thin.

Sinan Al Shabibi, the **Governor of the Central Bank**, told us eloquently: *"Saddam tried to destroy Iraq's past by rebuilding Babylon with his name stamped on each brick. He destroyed the lives of many people in the current generation with wars and oppression and, if the legacy of his debt remains, then he may well destroy Iraq's future."* He emphasised that a heavy debt burden, among many other effects, will cause Iraq's currency to remain weak. Since Iraq requires significant imports of goods and services, both for reconstruction and to meet the needs of ordinary Iraqis, a weak exchange rate will be one of the most immediately felt consequences if the debt is not written-off

The **Deputy Minister of Trade**, Fakhridin Rahan, told us that heavy debt service would drain Iraq's economy and be disastrous for trade. The Union of the Unemployed sees little hope for job creation – in a country where about 60% of the work force are unemployed – if a large component of Iraq's revenues are transferred to creditors rather than used to stimulating the local economy and create jobs. Hamza Al Kafi of the **Human Rights Organisation of Iraq** – which works to help the critically poor in Iraqi society – echoes this view: *"If Iraq's revenue was spent at home, and spent well, it could have an immense impact on the millions of impoverished people."*

## Victims paying compensation?

At present 5% of oil revenue is being diverted to reparation payments, by decree of UN Security Council resolution 1483. Rommel Moushi Esho of the **Democratic Assyrian Movement** said this payment should be suspended immediately. Many Iraqis told us that the UN Compensation Commission (UNCC) process had been heavily skewed against Iraq, something which was possible because Saddam's regime received little sympathy from the international community. Malik Dohan Al-Hassan of the **Lawyers Union** argues that many of the claims brought and awarded were fictitious, frivolous or excessive, and the

process was unfair since Iraq had no representation on the UNCC to critique the claims.

Jubilee Iraq raised the suggestion that the reparation awards could be renegotiated, however the response we frequently received was that this was unnecessary because all the reparations were a responsibility of Saddam's regime not the new Iraq. The **Youth Democracy Organisation** expressed this eloquently *"When the Ba'athist regime invaded Kuwait, we Iraqis were as much victims as the Kuwaitis. Where is the international commission providing compensation for us? What is sauce for the goose should be sauce for the gander."*

Some Iraqis are prepared to consider part of the reparations, for example **Shaikh Mauyad** suggested that claims relating to individuals who were harmed during the occupation of Kuwait may be acceptable, but the claims of corporations and governments are certainly not acceptable. However, if compensation is to be paid to individuals for the crimes of the former regime, Adel Noori Mohammed of the **Kurdish Islamic Union** insists that the oppressed Iraqi groups such as Marsh Arabs and Kurds should be first in line, not the Kuwaitis who are already wealthy. On the other hand **Oil Minister** Bahr Al-Uloum said that, because the reparation awards were made by a UN body, Iraq needs to continue these payments in order to maintain international credibility.

## Unwelcome gifts from the Gulf

Few aspects of this issue are as heated as the large payments made by Gulf countries to Saddam during the Iran-Iraq war. Every single Iraqi questioned said that these payments were gifts to Saddam not loans. A typical response was: *"The Gulf countries should not receive a single dinar. The Iraqi people lost hundreds of thousands of lives because of the Iran Iraq war, which would probably have ended much earlier without the money they provided."* (Dr. Hajim Al Hassani, **Iraqi Islamic Party**). Iraqis feel that the countries which financed the Iran-Iraq war caused them serious harm and do not deserve any payment.

Some people even went so far as to claim that Saddam went to war at the request of the Gulf countries, who felt threatened by the Iranian Revolution. Malik Dohan Al-Hassan of the **Lawyers Union** told us that the Iran-Iraq war was planned by the Gulf countries in 1979, and Saddam reportedly announced on TV that "The Ministers of these [Gulf] countries have asked me to go to war – they will provide the money, we will provide the soldiers." The implication of this is that *"since the Gulf countries paid Saddam maintainers for the Iran-Iraq war, they were partners in this crime against the Iraqi and Iranian people. According to most legal systems, someone who pays a murderer is also guilty."* (Adel

Noori Mohammed, **Kurdish Islamic Union**). Indeed a number of the people we consulted raised the suggestion that the countries which financed Saddam's war with Iran should pay compensation to Iraqis.

## Loans for war and corruption

All the Iraqis we talked with insisted that it was critical to investigate how the loans were spent. They want the new Iraqi state to be seen as a respectable and law abiding member of the international community, but they do not consider repaying the personal loans of Saddam's regime to be a legal obligation. *"Iraq is not responsible for any debts which supported the regime's war machine. They are asking us to pay for the knives they gave Saddam to slaughter us. Really it is the creditors who should be paying compensation to Iraq."* (Dr. Hajim Al Hassani, **Iraqi Islamic Party**). Dr. Saleh Yasir of the **Iraqi Communist Party** estimates that at least two thirds of the debt relates to the military. The former Polish finance minister Marek Belka suggested at the IMF September summit in Dubai that the military component may as high as 90% of the debt.

While the bulk of the odious debt relates directly to the military, there may be other debts which look to be innocuous at first sight but were in fact part of Saddam's war effort. **Finance Minister**, Kamil Al-Gialani explained that, for example, the Saudis gave Saddam many cars which he distributed as patronage to senior members of the military, and rations for the army fighting in Iran were structured as export credit debt for food. The **Union of the Unemployed** gave a particularly sophisticated assessment of which civilian debt should be paid. They gave the example of two factories which were built in the 1980s. The first was a silk factory which was financed by Germany, the second an iron factory financed by Russia. The iron factory was destroyed by US bombing in 1991, but the silk factory is still operating. The German loan relating to the silk factory should therefore be repaid (though without interest from the sanctions period) out of the factory's profits. However the loan for the iron factory should not be paid since there is no corresponding asset which Iraqis are receiving a benefit from.

A further consideration is corruption, which was rife in Iraq during the Ba'ath period. One Iraqi we interviewed in the street explained: *"Look at the millions of dollars which have been discovered stashed in the houses of Ba'ath party members – Saddam's followers became very rich by corruption, and much of this money came from the foreign loans."* So part of the loan relating to the silk factory mentioned above may still be odious since it was spent in paying bribes. The Lesotho high court has recently convicted a number of multinational companies of bribing officials to win contracts relating to a hydroelectric dam, and there is little doubt that similar bribes were required and paid in Saddam's Iraq.

Some Iraqis were even critical of loans which were spent on beneficial things but which, as a result, provided resources and freed up money which enabled Saddam to wage war against Iran and against the Iraqi people. One example of this is the agricultural credits which were granted by the US in the late 1980s at the time of Halabja and the al-Anfal campaign of genocide against the Kurds, and which form the bulk of the US debt claims. These loans for imported food were needed precisely because Saddam was decimating one of the richest agricultural regions in Iraq.

## Saddam & creditors responsible

One aspect of odious debt is the fact that it is spent in ways that do not benefit the people of a country. Another aspect is that the people have no say in the borrowing. *"The Ba'ath Party did not ask the people of Iraq, and certainly not the women of Iraq, about borrowing the money or how it should be spent. It is not our responsibility, rather it is the responsibility of those countries that financed Saddam – they created the problem."* (Layla Mohammed, **Women's Freedom Organisation**) This sentiment was repeated by Waleed Al-Hilli of **Al Da'wa**: *"The Iraqi people had no say, even regarding the civilian debts. All the creditors knew that Saddam was an oppressive dictator – everyone knew that, everyone."*

Mohammed Kamil of the **Iraqi Prospect Organisation** put it this way: *"Saddam's regime was judged to be unacceptable by the international community in 1991. How can the Iraqi people be required to pay for the support countries gave in building up that regime? When Saddam executed people, he used to charge their families for the bullets used – this is precisely what the creditor countries who financed Saddam are asking of Iraqis today."* Representatives of the Kurds feel particularly strongly that not only were they not responsible for the loans, but that the creditors were responsible in part for their suffering: *"The creditors cooperation enabled Saddam to rule for 35 years – presiding over atrocities such as Halabja and mass graves. Saddam never spent money for the benefit of the Iraqi people, but just for himself and his followers. The creditors should cancel the debt to cancel some of their sins."* (Perweez Mohammed, **Patriotic Union of Kurdistan**)

## Arbitration not the Paris Club

The Paris Club, a cartel of the leading creditor nations, tends to take the lead in international debt negotiations, fixing terms of repayment and requiring debtor countries to achieve comparable treatment from other creditors. The Paris Club places the decision making power firmly in the hands of the creditors and it has never admitted that any of its members loans are odious. There are some conceivable alternatives to the Paris Club, for

example a multilateral commission, similar to the UNCC, focused on assessing which debts are not odious, or a process of arbitration in which Iraqis have equal representation to the creditors, along with neutral jurists.

None of the people we interviewed were hopeful that the Paris Club would produce a fair settlement of the debt. Furthermore Paris Club debt relief, such as the Highly Indebted Poor Countries (HIPC) initiative, has often treated by countries as an alternative to development aid. In the case of Iraq, where the debt is not yet being paid and is largely odious, this packaging of debt relief as altruistic aid would be unacceptable. *"We don't want countries to provide debt relief in place of genuine aid funds."* (Kamil Al Gialani, **Minister of Finance**).

Most controversially, Paris Club negotiated debt agreements are subject to conditions, namely that a country follows certain economic policies dictated by the IMF. The theory behind this is that debt is created through economic mismanagement, and the IMF policies will ensure this is not repeated in the future. However it is very debatable whether the IMF does proscribe the correct policies. Argentina, for example, is often cited as an example of a county who's economy has been shattered precisely because of inappropriate IMF conditions. In the case of Iraq the debt was not accumulated because of structural problems in the economy, which IMF policies might attempt to rectify, but because of a dictator who was fighting unnecessary wars and controlling the country with oppression and patronage. Dr. Saleh Yasir of the **Iraqi Communist Party** asserted that they *"definitely would not accept IMF conditions because they neglect the social consequences of economic policies. The experience of the Soviet Union shows that the transformation costs were immense, and Iraqis could not bear these social costs in their miserable condition. An IMF structural adjustment program would create more social tension and cause a social explosion which might destroy the transition to democracy."* **Oil Minister** Bahr Al-Uloum thought the policies the interim government wants to pursue are similar to those the IMF would recommend, however he still rejected conditionality because of the limitation on Iraq's freedom: *"We are Iraq! We were the cradle of civilisation and I don't want to see anyone controlling out economy by any means."*

Only a few people were enthusiastic about a UN process, since Iraqis associate the UN with the dreadful sanctions regime. **Sheikh Maayed** of the Abu Khanifa Mosque put it this way *"In the Paris Club process, the enemy is the judge, this cannot be fair. Iraqis don't trust the UN and so an arbitration tribunal would be the best solution."* **Oil Minister** Bahr Al-Uloum also favoured a case-by-case assessment of loan legitimacy by a panel of judges. Some of those we consulted took a very

strong line, asserting that since the debts were Saddam's responsibility alone there is no need for any negotiation, the debts should simply be repudiated. Amjad Ghadur of the **Iraqi Workers Communist Party** said *"the first thing an Iraqi government should do is reject the debts - all reasonable people in the world would agree with us."* If the current interim government does make an agreement with creditors to pay debt, Sheikh Abdul Haadi, spokesman for the **Sadr II Movement**, made it clear that they believe this would be contrary to the views and interests of the Iraqi people and they would overturn the agreement and repudiate all Saddam's debt and reparations.

## Implications for creditors

The picture which has emerged from the consultation is very clear – Iraqis are not prepared to accept the status quo in which national debts roll over unquestioned to successor governments. They recognise that the provision of foreign financing has been immensely damaging for Iraq, and so many feel that it is the creditors who owe Iraq rather than visa versa. Certainly Iraqis do not believe they should be held responsible for Saddam's actions. This is seen most clearly in their rejection of reparations – they accept that damage was done, but argue that the Ba'ath regime was the perpetrator and they like the Kuwaitis were among the victims.

Iraqis take a very reasonable and pragmatic view of commercial debts. If they have inherited a productive asset on their balance sheet from the former regime, many are willing to consider the corresponding debt. But they are not prepared to pay for money wasted in corruption, goods distributed as patronage to Saddam's followers or related to the war, or indeed for assets which were destroyed in the wars. The creditors chose to take a significant risk in lending to Saddam. If he had remained in power they are unlikely to have received a single dinar of payment, so they should not feel hard done by if the Iraqi people are not willing to assume responsibility for debts which had no corresponding benefit for them.

In terms of negotiation, the lesson for creditors is that they cannot ignore the issue of debt legitimacy, and package debt reduction as altruism. A process, probably an arbitration tribunal needs to be established which accesses which loans benefited the Iraqi people and which are odious in a way that Iraqis consider to be fair and transparent. Jubilee Iraq has proposed a procedure for such a tribunal based on previous cases of arbitration such as the 1981 US-Iran Claims Tribunal, and this is something the creditors should seriously consider. If the creditors refuse the reasonable request for odious debt arbitration, then our conversations make it clear that most Iraqi politicians would favour repudiation of the debt, and there is a strong body of

international opinion on both the left and right which will support them.

Finally, it must be emphasised that it is actually in the enlightened self-interest of many countries to act with justice regarding the debt. Dr. Adel Mahdi of the **Supreme Council for Islamic Revolution in Iraq** emphasised that writing off debt to allow Iraq to prosper would be in the interest of creditors, since trade and investment in Iraq would be worth far more than the debt service payments they might hope to receive.

## Appendix: key non-Iraqi quotes

"Iraq has almost \$200 billion in debt and reparations hanging over it **as a result of Saddam's economic incompetence and aggressive wars**. Iraq is in no position to service its existing debt, let alone to take on more. Mountains of unpayable debt contributed heavily to the instability that paved Hitler's path to power" (*Paul Bremer*, 22 September)

"**About 90% of Iraq's potential, virtual debt is war-related**...I cannot see how a country like Iraq can bear this burden... A serious, serious write off (is needed)." (*Marek Belka*, former Polish Finance Minister, organiser of Madrid donor conference, 20 September)

"we wouldn't blame (Iraq's) leaders if they decided that some of those financial obligations are indeed "odious." And given that this is such an extreme case, **international lenders probably wouldn't hold it against them for long**." (*Wall Street Journal*, 30 April)

"While Kuwait may have to forego collecting tens of billions of dollars in Iraqi debt and war reparations, nevertheless, these will be more than offset by the major shot in the arm that greater security and a revived Iraqi market would give the country's private sector." (*Henry Azzam*, CEO Jordinvest, 17th April)

"Receiving even part of the debt would be a plus for Russia because **no one expected Saddam Hussein would repay the money**. The debt has been a dead weight all these years. (*Andrei Zagorskii*, Dep. director of Moscow's Institute for Applied International Studies, 15 April)

"**There is an overwhelming case, both in terms of economic expediency and justice**, for writing off most of Iraq's debts, and doing so fast... The Paris Club will no doubt belatedly negotiate some sort of rescheduling... almost certainly on the basis of what lenders judge to be Iraq's ability to pay – which will no doubt be on the high side – not on the rightness of its having to do so. **That is not good enough**." (*The Economist*, 18th October)

## List of all those consulted

Ministries	Religious and/or Ethnic Parties	Secular National Parties	Civil Society
Central Bank Finance Oil Planning Trade	Al-Da'wa Al-Fadhila DAM IIP KIU Sadr II Movement SCIRI PUK	CCM ICP INA INC Iraqi Peace Party IWCP Peace and Democracy Front	Human Rights Organisation in Iraq Iraq Prospect Organisation Iraqi Workers Federation of Trade Unions Lawyer's Union Shaikh Mauyad – Abu Hanifa Mosque Union of the Unemployed Women's Freedom Organisation Youth Democracy Organisation

\*Al Da'wa – Waleed Al-Hilli, member of the ruling council of seven

Al Fadhila Islamic Party – Professor Nadeem Al-Jaberi, President

Central Bank – Sinan Al Shabibi, Governor

Constitutional Monarchy Movement (CCM) – Sharif Ali

\*Democratic Assyrian Movement (DAM) – Rommel Moushi Esho, President of Assyrian Aid Society

Human Rights Organisation of Iraq – Hamza Al Kafi (lawyer)

Iraq Prospect Organisation (IPO) – Mohammed Kamil, Sabah Mushin, Sadaqa Adnan, Zahra Al-Mosawi

\*Iraqi Communist Party (ICP) – Dr. Saleh Yasir

\*Iraqi Islamic Party (IIP) – Dr. Hajim Al Hassani, Spokesman

\*Iraqi National Accord (INA) – Akeel Al-Saffar (also President of Iraq Economists Association)

\*Iraqi National Congress (INC) – Entifath Qambar, Spokesman

Iraqi Peace Party – Abu Ahmed Al-Khafaf

Iraqi Workers Communist Party (IWCP) – Amjad Ghafur, Chairman of Politburo

Iraqi Workers Federation of Trade Unions – Subhi Al Mashadani, General Secretary

\*Kurdish Islamic Union (KIU) – Adel Noori Mohammed, Baghdad Representative

Lawyers Union – Malik Dohan Al-Hassan, President

Minister of Oil – Ibrahim Bahr Al-Uloum, Minister

Ministry of Finance – Kamil Al-Gialani, Minister

Ministry of Planning – Dr. Sami Metti, Deputy Minister

Ministry of Trade – Fakhridin Rashaan, Deputy Minister; Madhi Hafiz, Minister

\*Patriotic Union of Kurdistan (PUK) - Perweez Mohammed, Baghdad representative

Peace and Democracy Front – coalition of 18 parties. We met with the presidents of all the parties at their weekly coordination meeting.

Sadr II Movement – Sheikh Abdul Haadi, Spokesman for Muqtada Al Sadr

Sheikh Mauyed – Abu Khanifa Mosque (leading Sunni Cleric)

\*Supreme Council for Islamic Revolution in Iraq (SCIRI) – Dr. Adil Mahdi, rep. of Abdul Aziz Al-Hakim

Union of the Unemployed

Women's Freedom Organisation – Layla Mohammed, Chair of Baghdad women's shelter

Youth Democratic Organisation

We also talked with many ordinary Iraqi citizens.

## Contacted but unable to schedule meetings

Ayatollah Sistani (Baghdad comprehensive, Ssaid Ali Al-Waad)

Foreign Ministry

\*Kurdish Democratic Party (KDP)

\*National Democratic Party (NDP)

Protestant churches (coordinator, Georges Sada)

\*Turkoman Front (TF)

(Parties marked with a star \* are represented on the Interim Governing Council)