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From the Secretary of State

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File

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Dear Secretary of State,

Following our Iraq meeting on 9 February, I undertook to write with more details of DFID's reconstruction work in Iraq. Bearing in mind your comments and others' which have reached us from elsewhere in the MOD, I am clear that we need to do a better job in communicating what has already been done, the impact it has had, and what more we have planned. We are keen to share our planning with the MOD and are very open to ideas on how best to help the Transitional Government take forward Iraq's reconstruction.

The scale of DFID's operations in Iraq has been substantial: we have committed £333 million of which more than £250 million has already been disbursed.

Working in the South

You are familiar with what we have been doing in southern Iraq. We have had a continuing programme of support since mid-2003 for infrastructure rehabilitation, employment generation and strengthening the capacity of the governorates to meet the needs of local people. Our initial infrastructure regeneration projects (more than £30 million of DFID's money and £60 million from the CPA) employed several thousand Iraqis in repairing some of southern Iraq's key infrastructure. After the handover of sovereignty last June, DFID deployed a team to ensure that \$63 million worth of CPA projects in the south were completed. Our current work in the south, to which we have committed over £40 million, includes:

- £6.5 million for employment generation, which has contracted 780,000 workdays so far and has a million more coming on stream, undertaking local improvement projects (refurbishing parks and roads, dredging rivers etc) with an immediate impact on local communities and opportunities for unskilled workers.
- £10 million in further funding for emergency infrastructure rehabilitation – for example repairing bridges, power lines, and water and sewage pipes.

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- £3.48 million to fund a team of technical advisers to help coordinate reconstruction projects in line with Iraqi priorities, working closely with MND(SE), the US Project and Contracting Office (PCO) and other donors. Assisting with Iraqi priorities is essential to ensuring that donor funding has real value which is appreciated by local people. This programme is to be extended for 12 months with an increased commitment of £7 million. The team is also working with the Ministries of Electricity and Oil on long-term power and fuel strategies.
- £20.5 million over two years to help the four southern governorates to provide support for private sector development and civil society, and manage donor and domestic funding effectively. This project also supports the Ministry of Municipalities and Public Works' decentralisation programme in Basra.

In addition, a new infrastructure rehabilitation project in southern Iraq worth up to a further £40 million is due to begin in April. 75% of the funds will be earmarked for power, the rest for water and fuel services. To ensure a visible impact on the ground, larger (greater than £0.5m) projects are planned. Priority will be given to capital works that will have an impact within 6-12 months and which will generate significant local employment. We will be fast-tracking this assistance using pre-registered contractors, so that action on the ground will be visible by April. The project will also help central government design an effective infrastructure strategy for the future.

Working with others

No matter how much we do or how quickly we operate, we cannot of course make the required impact on reconstruction alone. That is why working closely with the US is so important. My officials will be talking with relevant parts of the Administration in Washington next week to encourage accelerated spending by the US Project and Contracts Office (PCO) on major projects in southern Iraq. As you know, the PCO has been very slow to get things going. Given the MOD's own contacts with the DOD, which has a line responsibility for the PCO, it would be very helpful if these points could be reinforced through those channels.

We also need much greater engagement in the south – and elsewhere – by the main international players: the UN and the World Bank. There are two elements to this which are inter-related. One is to get both organisations more involved on the ground; the other is to speed up the implementation of their Trust Fund programmes. The Prime Minister and I have both written to Jim Wolfensohn at the Bank this week, urging progress on both fronts and suggesting ways DFID can help, for example by providing logistic support and secure accommodation for Bank personnel. Again, officials will be following up in Washington next week.

One issue they will be pursuing is whether some of the Bank's funds can be channelled direct to Governorates, particularly in the south, where DFID funded experts are in place to strengthen local institutional and financial capacity. This approach holds promise for making the Bank's Trust Fund more effective. We must also improve the Trust Fund's speed of delivery in areas where it cannot rely on DFID's personnel, since for donors without a significant presence on the ground, the trust funds are the only channels available for contributing to Iraq's reconstruction. We have made very clear to the Bank that they cannot expect any more resources from us for their Trust Fund until we see real evidence of faster implementation on the ground.

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The UN also needs pushing, although the spending from their Fund, to which we have allocated £30m so far, is now accelerating. By the end of December it had disbursed \$116 million, about 23 per cent of the total of \$500 million available. US\$90 million of this money has been allocated to projects in the south, such as school and health facility reconstruction, re-integrating refugees returning to the marshlands, rehabilitating plant at Hartha power station and dredging the approach to Umm Qasr port. Officials will be taking forward with the UN in New York next week how the UN can build on this increased pace of delivery, and how we might provide support and accommodation to more UN personnel in the south.

Working in the Centre

In Baghdad, DFID funded experts have been having a major impact on the central government's capacity to organise itself effectively and manage its macro-economic policies, both vital to the effective operation of the state and to getting services to ordinary people.

- Our £4.2 million Emergency Public Administration Programme in Baghdad helped to set up the Prime Minister's Office and the Cabinet and committee system. It is now helping to achieve continuity in the transition to the new elected administration, and is ready to support it in establishing its own machinery of government. The Programme is also helping the Iraqi government to establish effective public expenditure management processes.
- A £4 million macro-economic programme has assisted the Iraqi government in drawing up its 2005 budget, reaching agreement with the IMF on a \$436 million post-conflict assistance package, negotiating the Paris Club debt reduction deal (worth \$96 billion if all creditors follow suit) and drafting a National Development Strategy. It is now advising on a number of the economic reform measures which will be essential to Iraq's future, in highly sensitive areas such as fuel and food subsidies and industrial restructuring. Although this kind of assistance does not have high visibility to ordinary Iraqis, it is vital to the recovery of services they expect to see. Blackouts and massive queues for fuel in Basra, for example, have more to do with dysfunctional economic policies and the subsidising of fuel and electricity prices by the state than any lack of project activity. If we can help to address these policy issues effectively, the positive impact on the streets will be striking.
- Our support to the justice sector has trained 216 Iraqi judges, lawyers and prosecutors in human rights, international humanitarian law, and independence of the judiciary. Again, the impact will take a while to register. But without this kind of assistance, sustainable improvements in the rule of law will be difficult.
- We have also helped to promote the political process through support for the electoral commission (US\$10 million plus advisers on security and public information), civil society organisations (£5m) and public participation in the elections (£5m).
- DFID staff and consultants in Baghdad played a central role in coordinating the Iraqi government's response to the military operations in Fallujah in November and minimising the humanitarian impact of the crisis. They are now advising the Iraqi government on how best to manage future humanitarian emergencies.

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I have been struck by the range of activities – many out of the mainstream of DFID's work elsewhere – in which DFID has been engaged in Iraq since 2003. DFID, as well as FCO and MOD, shares some of the thanks and admiration expressed in Prime Minister Allawi's letter of 1 February for HMG's civilian contribution to the effort since the liberation of Iraq. Not all of this has been straightforward as you know and we need to build further on what has been achieved. Contacts between DFID officials and MND(SE) have improved significantly and there is close and regular dialogue at many levels. We are assisting with the rollout of Quick-Impact Projects and MND(SE) tell us that this is going well. Close contacts between General Kizsely and the DFID team in Baghdad made a positive impact on the humanitarian effort in Fallujah.

To build further on what has been achieved, particularly in the South, it would be immensely helpful if MOD and DFID were to work even more closely together, sharing proposals and plans and, if misunderstandings arise on either side, seeking to resolve these straight away. I am glad that at the London end our senior teams have arranged to have regular bilateral sessions to tackle issues as they arise and to make sure that our combined support, with the FCO, for the incoming transitional government is as effective as possible.

You indicated when we spoke that you had some specific ideas for development proposals which DFID might pursue in the south, which would both be visible and sustainable. I would be very happy to look at these. Our resources like yours are constrained but, as I mentioned earlier, I am very open to ways in which we can build on what we are doing, in order to make a lasting difference and help to reduce poverty in Iraq. Perhaps the best way of pursuing this in the first instance would be through the new bilateral sessions that our officials are setting up.

I am copying this letter to the Prime Minister, Jack Straw and Paul Boateng.

PP

HILARY BENN

(Agreed by the Secretary of State and signed in his absence)

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