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From the Secretary of State

Prime Minister Gordon Brown
10 Downing Street
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DFID Department for
International
Development

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Telephone
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9 November 2007

Dear Gordon -

One month after your statement to Parliament on the UK's role in Iraq, I thought it would be timely to update you on the various economic initiatives for Basra which you set in motion together with the Government of Iraq, and which my department together with FCO and the Basra PRT, is helping deliver. Des Browne's letter of 2 November helpfully sets out the context within which these initiatives are being developed, and the opportunity that the current security situation offers for progress on economic development.

The centrepiece of the new initiatives for Basra is the Basra Development Commission. As you said on 8 October, the Commission will bring national, regional and international business knowledge together to provide strategic advice to Iraqi authorities on investment and growth for Basra's economy. We have now identified several UK business leaders willing to invest their time to help drive forward the work of the Commission; Michael Wareing, International CEO of KPMG,

It would help to know if you are content for us to put their names to the Government of Iraq.

We are planning a launch event for the Development Commission at the time of Basra's transition to Provincial Iraqi control in mid- December. Using our Iraq media contacts, built-up through the DFID-funded media training programme, we propose to broadcast the event so that ordinary Basrawis gain a sense of the potential opportunities the Commission will help unlock.

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The Development Commission will provide the strategic advice and vision for Basra's economic growth. It will energise the work of two other institutions which the Government of Iraq has set in motion in the wake of your letter to Prime Minister Maliki of 29 July. These are the Basra Investment Promotion Agency (BIPA) and the Basra Development Fund (BDF). BIPA will work with the National Investment Commission in Baghdad (which will provide \$500,000 in running costs for 2008) to map investment opportunities in Basra, prepare investment plans and grant investment licences. Discussions have begun in the Provincial Council over the appointment of a CEO and a Management Board.

The Basra Development Fund will work closely with BIPA to provide credit to small and medium enterprises. These enterprises are a key means of expanding sustainable employment in Basra, especially in agribusiness. A CEO and a Board of Trustees will provide top level governance and oversight for the Fund. The Government has announced an initial \$30 million to capitalise the BDF.

Des rightly points out the need for dedicated UK resources to move this agenda forward as quickly as possible. DFID has deployed a Project Manager to work with the PRT at Basra Air Station exclusively on the economic initiatives. We have also re-oriented the DFID Economic and Governance consulting teams in the PRT to focus on helping the Provincial Council establish the Basra Investment Promotion Agency and the Basra Development Fund. This includes £750,000 in start-up costs for these new institutions and the construction of dedicated offices at the Air Station. Our PRT teams are also helping establish a Secretariat for the Basra Development Commission.

In Baghdad, we plan to boost capacity in Deputy PM Barham Saleh's Office through contracting an Iraqi Project Officer. DFID Baghdad and our PRT consultants are already providing technical advice to the Deputy PM's Office and the Prime Minister's Advisory Unit on the legislative and financial frameworks required at national level to support the Basra initiatives.


It is worth noting that the UK is providing support to other initiatives that will help kick start private sector led growth and investment in Basra. These include support for the development of Basra International Airport, which has the potential to be a key enabler of growth. Together with the RAF and the US Embassy, we are helping ensure that the Iraqi Ministry of Transport has a credible strategic plan, the right technical advice and the necessary financial allocation from the national budget to develop the Airport to an internationally-recognised standard.

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Another important area of work is facilitating investment lending from Japan. Japan has committed some \$2 billion in soft loans for Iraq, of which \$1.2 billion are for Basra-based projects including \$254 million for rehabilitation of Umm Qasr port. The DFID team have been working closely with the Japanese Embassy in Baghdad to move the loans through a complex government approval process. Eight of the ten loan projects have now been signed off by the Council of Representatives, and we are working to unblock the remaining two. Meanwhile, the PRT has been in discussion with the Japanese Bank for International Cooperation office in Amman, to provide technical advice on contracting and project management in the Basra context once loan money is released.

I will write again reporting further developments on the economic initiatives over the next 6 weeks, in the lead-up to Basra's transition to PIC.

I am copying this letter to the Defence Secretary, the Foreign Secretary, Chief Secretary to the Treasury, 'C', Sir Gus O'Donnell, Christopher Prentice (Baghdad), Richard Jones (Basra) and Simon MacDonald.

Yours ever,


DOUGLAS ALEXANDER

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