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IRAQ: BRIEFING FOR NEW MINISTERS, JUNE 2007

Iraq is a wealthy country, with oil revenues this year at \$37 billion. But because of the security situation, a dearth of strong political leadership and lack of technical capacity, the Iraqi Government is unable to manage and spend its own resources effectively to deliver public services. Our priority is to build the capacity of the Iraqis to do this. To this end, we are focusing on those areas where we can add the most value: providing high-level policy advice and technical assistance to Baghdad on economic reform, supporting the centre of Government, and capacity building in the Ministry of the Interior. We are also looking at options for supporting further engagement on reconciliation and ways to reduce the level of violence. Finally, we are supporting key humanitarian agencies to provide assistance to the four million displaced people in Iraq and neighbouring countries. Compared to other donors (especially the US), the UK is a small player in financial terms. But we add value through the high quality of our wider team (including consultants), as well as our ability to respond in a flexible, pragmatic and timely way.

In Basra, as part of the general transition of responsibilities, we are moving away from direct delivery of projects to supporting the Iraqis to take the lead. We are concluding our infrastructure projects; by the time these are complete in late 2007 they will have improved access to water for over one million people and added or secured enough power to provide 700,000 people with 24 hour electricity. In parallel to this we are continuing to build the capacity of Iraqi officials in Basra to the point where they can convincingly lead their own reconstruction efforts with financial resources from Baghdad. Work in Basra is delivered through the UK-led Provincial Reconstruction Team.

The UK has pledged £744m for reconstruction and development in Iraq since 2003. So far £610m has been disbursed, of which £488m has been spent by DFID (including EC contributions). This includes over £125m to support humanitarian agencies since 2003 (£10m of which has been spent in 2007). The DFID budget for Iraq in 2007/8 is £30m.

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A. *Iraq*

- Iraq is a relatively wealthy country, with a 2008 budget of US\$70 billion. The challenge is to unlock Iraqi resources and improve Government of Iraq capabilities to invest in public services, reduce poverty and generate jobs.
- PM Maliki's Government is becoming more confident. Security remains volatile but has improved significantly – violence is now at its lowest level since 2004. A number of successful Iraqi led security operations have boosted confidence in the GoI and Iraqi forces. GoI capacity at national and provincial level remains limited but is improving. GoI, with donor support, needs to capitalise on the improved environment to make everyday life better for Iraqis.
- Weak political leadership, lack of political will, significant levels of corruption and sectarian divisions continue to hamper government effectiveness and politics. Underlying political tensions around reconciliation and inclusion remain. Political manoeuvring over the Elections Law is a manifestation of this and impacts on international perceptions of Iraqi development.
- Since 2003, DFID has committed £100 million to infrastructure projects in southern Iraq. By the end of 2008, DFID will have improved water supplies to over 1 million people, and added and secured 470 MW - enough power to give 24 hours electricity to a city the size of Leeds. In addition, following our technical capacity building and increased funding from central government, Basra's Provincial Council is now leading on reconstruction and public service delivery, planning, budgeting and managing strategies and projects.
- Long term prosperity and job creation lies in private sector development. Alongside our continuing priority of capacity building, we are also focusing on stimulating economic growth and private sector investment in Basra by supporting the creation of Iraqi owned institutions: Basra Development Commission, Basra Investment Promotion Agency and Basra Development

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Fund; and their priorities: a Basra Economic Development Strategy, investor visits and youth unemployment initiatives.

Upcoming decision / events

October: Provincial elections. These have already slipped until December and may well slip into next year due to continued wrangling over ratification of the Elections Law.

Year end: Completion and hand over of our largest power and water projects - a gas compressor on the gas pipeline and three large water towers and reservoirs. We aim to achieve earlier handover, but despite full involvement, Iraqi political will to sign formal agreements is weak.

Year end: US and UK negotiating agreements on Status of Forces as their current mandate ends December 2008. Expect will see work accelerate to effect UK troop reductions.

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