

CONFIDENTIAL  
**DECLASSIFIED**



From the Secretary of State

**DFID**

he.  
Department  
for  
Internatio  
nal  
Developmen  
t

1 Palace Street, London SW1E 5HE

TF  
✓ NC  
GS  
SMC (alt)  
MC  
JG  
NYP  
Lindy Cameron (alt)

20 November 2008

**Dear Prime Minister,**

- 1. Following my visit to Iraq on 6<sup>th</sup> November, I wanted to update you on the development and economic progress that is being made in Basra and on how I see DFID's role in Iraq changing over the coming months, in parallel with HMG's wider fundamental change of mission.**
- 2. The overwhelming impression from my visit was of a newfound optimism, which was nowhere more obvious than on the streets of Basra. As we move towards a more normalised bilateral relationship with Iraq, it is essential that HMG forges the enduring relationships that will allow us to capitalise on this progress in the longer term, and ensure a positive legacy for the UK.**

**Progress on the Basra Economic Initiatives**

- 3. In Basra, I attended the launch of one of your key economic deliverables, the Basra Investment Commission (BIC - formerly the Basra Investment Promotion Agency), which DFID has helped to set up. With our continuing technical support, the BIC will have taken over responsibility for attracting investment into Basra by mid 2009. They will then lead on supporting investors to visit Basra and turning proposals into contracts. So far DFID has already facilitated 18 investor visits by 14 companies, with proposals worth over \$9 billion submitted to the Government of Iraq (GoI).**

**4. However, my visit also revealed that the key obstacle to investment is the inability of central government to agree to proposals from international investors in Basra. In my meeting with PM Maliki, he was unwilling to acknowledge that any progress had been made in Basra to promote or attract investment - despite the fact that there are \$9 billion of proposals awaiting his government's follow-up.**

**5. The Basra Development Commission is also making excellent progress:**

- Michael Wareing will be visiting Iraq at the end of November to officially launch the Basra Economic Development Strategy for 2008/2009, which sets out the steps required to take forward Basra's economic development and also capitalise on investor interest over the next 12 months;**
- The Youth Unemployment Task Force has identified the first 500 16-30 year olds to take part in a pilot vocational training and job placement scheme. Shell have expressed an interest in working with the Task Force. Their gas flaring project (estimated to be worth over \$3 billion) could create as many as 20,000 jobs.**

**6. On the 'Basra Development Fund', we should respond to the Gol's request to provide technical assistance to their national programme which provides credit to SME's throughout Iraq, including in Basra, rather than establishing a stand alone fund as originally envisaged. This national scheme - currently worth US\$400 million per year - will have the advantage of benefiting SME's across the whole of Iraq, as well as ensuring Basra has access to longer term national funding. We would also work with Basra directly, to ensure they are well placed to access funds in this scheme.**

CONFIDENTIAL  
**DECLASSIFIED**

**Reconstruction and development progress in Basra**

- 7. Allied to this progress on the economic initiatives, much of DFID's other work in Basra is coming towards a successful conclusion. Our infrastructure projects – which will improve or secure power and water supplies for over 1 million people – will be completed by the end of the year. The most iconic of these – three water towers in the poorest part of Basra – is now undergoing the final stage of testing. Once handed over, they will provide 250,000 people in the poorest suburbs with a more regular supply of clean water.**
- 8. Our work in support of the Provincial Council is also seeing success. The Council is now better able to plan, manage and deliver public services using their own money, and have taken the lead on reconstruction and development. While in 2006 the Provincial Council only spent \$23.5 million, this year they are one of only six provincial councils to have committed their entire budget of over \$300 million – which is over \$150 million more than any of the other five. In total, since 2006, they have contracted out over 800 reconstruction projects, worth over \$650 million.**
- 9. However, there are still many challenges. As with inward investment, many of the obstacles to further progress lie within central government. For example, Basra Provincial Administration is not responsible for electricity production, only its distribution. To provide a long term solution to shortages, sustained infrastructure investment from central government is required. Without further reform of central government and their public financial management, this investment will not be possible.**

**HMG's future support to Iraq**

- 10. As the UK military transitions out of Basra and cedes coalition responsibility for southern Iraq to the US, we have an opportunity to look at how best DFID can support HMG's strategy to move to a more normalised bilateral relationship with Iraq and secure a positive legacy. We have made significant progress in Basra, with Iraqi institutions now leading on reconstruction and development. By the middle of next year the majority of our work in Basra will have come to a natural conclusion.**
- 11. When I met Ambassador Crocker in Baghdad he confirmed that the US was keen to take leadership of the reconstruction and development effort in Basra once the UK military have drawn down and the US military have taken command – albeit with some continued UK input and advice. The key to securing a positive legacy for the UK will now be securing inward investment into Iraq, to provide jobs and prosperity for normal Iraqis.**
- 12. Given that the key obstacles to investment and economic development are in central government, DFID will focus its programme on Baghdad, applying the lessons we have learnt in Basra at a national level, to help the GoI actually get investment flowing. This is in line with the wishes of PM Maliki, who again made clear that he wants the UK to support the 'whole of Iraq', not just Basra.**
- 13. This does not mean that we would stop supporting Basra altogether. The Basra Support Office in Baghdad would continue to support investment and economic development in Basra as required, and our SME credit programme would be piloted in Basra. However, work to attract investors will increasingly fall to national and provincial investment promotion agencies, with UKTI**

CONFIDENTIAL  
**DECLASSIFIED**

taking on the work DFID has been doing with British companies.

14. Key to our plans - and Iraq's development - will be increasing the effectiveness of the World Bank. The Bank should be playing a leading role on economic development, including private sector development and Public Financial Management. Ambassador Crocker agreed, We  
agreed that we would work together to apply high level political pressure to increase the Bank's engagement in Iraq. I will raise this with Zoellick early next week.
15. To build our longer term relationship with Iraq, HMG's priority must be to increase economic and cultural ties, as per PM Maliki's wishes. UKTI will have a central role to play; as he has done with all recent HMG Ministerial visitors, PM Maliki reiterated that he was keen for UK companies to invest in Iraq, but that they have been much slower than others at registering their interest and risk missing out on opportunities. I have already spoken to Peter Mandelson about UKTI's role in Iraq and a possible joint visit with Michael Wareing. I understand that he has agreed to look at leading a UK trade delegation there early next year.
16. There is also a strong demand from the Gol for assistance in re-establishing their former excellence in higher education. DFID will therefore also support the British Council to establish higher education links with Iraq.

DECLASSIFIED

17. I am copying this letter to the Secretary of State for Foreign Affairs, the Secretary of State for Defence, the Secretary of State for Business, Enterprise and Regulatory Reform, the Secretary of State for the Department for Energy and Climate Change, "C", CDS, Nigel Sheinwald in Washington and Christopher Prentice in Baghdad.

Yours ever,



DOUGLAS ALEXANDER