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**DFID**

Department for  
International  
Development

## Submission to ministers

Reference Compact

From:

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Date: 27 April 2007

CC: PS/PUSS  
PS/Suma Chakrabarti

Mike Green

Baghdad  
Basra

To:

(agreed)

MENAD Iraq team  
Special Advisers

Martin Dinham (agreed)  
Minouche Shafik (Agreed. This is an appropriately conservative amount which gives Ministers considerable flexibility going forward. We would only need to deliver an additional £14 million to meet this target pledge which gives room for uncertainty around the settlement and scope for future announcements if needed. This target could be met through bilateral programmes, GCPP or EC attribution and the spending profile can be accelerated pending decisions on the future of the Iraq programme MS 1/5)  
Private Secretary

## IRAQ: COMPACT LAUNCH AND UK STATEMENT

### Issue

1. The International Compact for Iraq will be launched on 3 May 2007 in Sharm el Sheikh. What financial commitment should HMG make in the Foreign Secretary's statement?

### Recommendation

2. The meeting is not intended to be a pledging session and the UK amongst others will be focusing their comments on the better use of Iraqi resources. But participants are likely to be asked to give some indication of their future financing plans. With this in mind, I recommend that you agree that the UK statement indicates that HMG will spend at least £200m over the Compact period till 2012, on top of our

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2003 Madrid pledge of £544m. This brings our total Iraq reconstruction pledge to £744m (\$1.3 billion). The £200m incorporates the additional £100m announced by the Chancellor in November 2006 and does not commit DFID funds beyond the provisional run of figures for the Iraq aid framework contained in our draft CSR bid.

## Timing

3. Routine, but we will need to confirm figures for the Foreign Secretary's statement by early next week.

## Communications and parliamentary handling

4. Given the high level attendance, the meetings in Sharm el Sheikh are likely to attract considerable media attention. We will work with DFID and FCO press offices to agree coordinated lines. We are also considering a press notice to announce the pledge. Our story will focus on how we are supporting better use of Iraq's own resources, as well as the fact that we are one of the first donors to fully disburse our Madrid pledge.

## Information

5. The Compact process, co-chaired by the Government of Iraq and UN, started in July 2006. Several preparatory meetings were held in the latter part of 2006, but the final event was delayed due to uncertainty over regional politics. The formal Compact launch event will now take place in Sharm el Sheikh on 3 May, back to back with a Ministerial level meeting of the Iraq 'Neighbours+' group<sup>1</sup> on 4 May. These will be high profile meetings led by Prime Minister Maliki and UNSG Ban Ki Moon. The Foreign Secretary will lead the UK delegation, with Secretary Rice representing the US. Matt Baugh (Deputy Director, Iraq) will attend for DFID.

6. That the Compact and Neighbours meetings are happening together is significant. Fostering greater cooperation between Iraq and the region is a key strand of US/UK policy on reconciliation and international engagement. It is hoped that public support from the region will boost PM Maliki's credibility (domestically and internationally), while balancing this with strong messages from neighbours that more needs to be done on reconciliation and Sunni outreach in particular.

7. Given Iraq's significant wealth, financial commitments at the Compact launch are likely to be largely symbolic. Debt relief from the region (especially Saudi Arabia) is seen as the big prize, and while deals are quite a way off there are signs that the Compact meeting could point to positive progress on negotiations. The Iraqi and US Governments have also lobbied the UK to provide 100% debt relief and to encourage greater support from Europe. On the former we are sticking resolutely to the Paris Club deal of 80%, encouraging the Iraqis to focus on those who have not yet made agreements on similar terms. On Europe it is unlikely that the Commission will make a large pledge (there is downward pressure on their 2007 allocation to transfer funding to Palestine, and we can expect a gradual decrease similar to our own from 2008). We are however encouraging the Commission to play a leading role in

<sup>1</sup> Invitees include Iraq, Iran, Kuwait, Saudi Arabia, Jordan, Syria, Turkey, plus Bahrain, Egypt, P5 and G8 countries, the European Commission, Arab League, Organisation of the Islamic Conference

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Compact implementation by providing funding for a secretariat. The US plans to announce a bilateral assistance package of \$10 billion.

8. UK objectives for the Compact have focused on the need to avoid a pledging event, focusing instead on supporting the Government of Iraq to make better use of their own resources. We see this as the key to further reform, and will be pressing for Compact implementation to focus on the Iraqi budget rather than external assistance. In the Foreign Secretary's statement on 3 May we will be expected to make reference to UK financial commitments. The FCO is working on a draft, for which we will need to confirm figures early next week.

## UK Financial Commitment

9. At the Madrid Donor Conference in 2003, the UK pledged to spend £544m on Iraq's reconstruction through to 2006. In November 2006 the Chancellor announced that the UK would spend at least another £100 million on top of our Madrid pledge. We estimate that at the end of March 2007 the UK had spent £660m against this revised pledge, calculated as follows:

<i>(amounts in £millions)</i>	Estimates in 2003 Madrid Pledge	Actual spend at end March 2007
DFID programme	378	398
DFID EC attribution	38	85
GCPP (Iraq)	30	64
GCPP (Peacekeeping)	0	37
FCO (Global Opportunities Fund)	7	0
FCO (experts seconded to CPA)	0	38
MOD Quick Impact Projects	30	38
HMT Reserve Allocation	60	0
<b>Total</b>	<b>544</b>	<b>660</b>

10. Our recommended Compact commitment takes the Chancellor's announcement as the starting point. The increased total reflects greater clarity on spend so far, particularly from GCPP (as the above table shows, we have already spent £116m over and above the Madrid pledge). Allocations this financial year take the post-Madrid total to £186m (£30m DFID framework; £22m GCPP Iraq; £10m police support from GCPP Peacekeeping; and at least £8m EC attribution<sup>2</sup>).

11. The £200m total is based on the assumption that HMG will spend at least £14m between 2008 and 2012 (the Compact implementation period is 5 years). The attached table shows our calculations in more detail.

## **Advice**

12. We have already exceeded the Chancellor's additional pledge, and are likely to have spent a post-Madrid total of £730m by the end of 2008. A £200m pledge is therefore a cautious approach, requiring HMG to spend a further £14m between

<sup>2</sup> EC attribution figures are based on 16% of the annual euro allocation (using the lower end when these are only estimates)

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2008/09 and 2011/12. Our CSR bids for £30m (2008/09), £20m (2009/10) and £10m (2010/11) indicate that we will easily meet this target. Even if our CSR figures are not agreed in full, there is ample flexibility - provided by the outer year (2011/12) and the fact that our estimates beyond 2007/08 do not include GCPP or EC attribution - to meet our commitment.

13. I judge the £200m post-Madrid pledge to be a manageable commitment, as well as a positive contribution to the UK's Compact position since it exceeds the £100m that the Iraqi Government (and US) will be expecting to hear. This would increase our overall pledge to Iraq reconstruction to £744m. The UK is Iraq's third largest bilateral donor (after US and Japan), with one of the best records on disbursement.

14. With forecasted 2007 revenues of US\$33 billion, availability of funding is not the issue in Iraq. Iraq's budget consistently under spends due to poor security, lack of capacity and weak public financial management. The Iraqi Government has recently shown renewed commitment to tackle the blockages and increase spending. But longer term reforms will be essential to improve the way in which money is spent, so that this translates in to better public services for Iraqis. Priorities will be improving the budget cycle (effective planning and monitoring as well as just spending), and developing a credible plan for the energy sector. The Compact provides a useful framework for taking this forward, but implementation will need to be prioritised. By signing up to the Compact the Iraqi Government is signalling its willingness to act, but we should be realistic about how much progress can be achieved in the short term.

Senior Programme Manager, Iraq

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