SECTION 10.2

RECONSTRUCTION: JULY 2004 TO JULY 2009

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Introduction

1. Section 10 addresses the UK contribution to humanitarian assistance and reconstruction in Iraq between 2003 and 2009:

- Section 10.1 covers the period between March 2003 and the end of the Occupation of Iraq in June 2004.
- Section 10.2 continues the story from July 2004 to July 2009.

2. Sections 10.1 and 10.2 consider:

- humanitarian assistance;
- the development and implementation of UK reconstruction policy, strategy and plans;
- the UK's engagement with the US on reconstruction, including with the US-led Office of Reconstruction and Humanitarian Assistance (ORHA) and the Coalition Provisional Authority (CPA); and
- the UK's engagement with successive Iraqi governments on reconstruction.

3. Section 10.3 addresses five issues in more detail:

- UK policy on Iraq's oil and oil revenues;
- the Government's support for UK business in securing reconstruction contracts;
- debt relief;
- asylum; and
- reform of the Government's approach to post-conflict reconstruction and stabilisation.

4. Those issues are addressed separately from the main reconstruction narrative, in order to provide a clearer account of the development of the UK's engagement.

5. This Section does not consider:

- planning and preparing to provide humanitarian assistance and reconstruction, which is addressed in Sections 6.4 and 6.5;
- the financial and human resources available for post-conflict reconstruction, addressed in Sections 13 and 15 respectively;
- de-Ba'athification and Security Sector Reform (SSR), addressed in Sections 11 and 12 respectively; and
- wider UK policy towards Iraq in the post-conflict period, addressed in Section 9.

The transition from Occupation to an Iraqi Government

6. On 28 June 2004, the Coalition Provisional Authority (CPA) formally handed over to a sovereign Iraqi Government. In the 11 months that followed, the governance of Iraq was the responsibility of the Interim Iraqi Government (IIG), headed by Prime Minister Ayad Allawi.

7. The security situation in Iraq remained difficult.

8. The core UK Ministerial team was unchanged: Mr Brown remained Chancellor of the Exchequer, Mr Straw Foreign Secretary, Mr Hoon Defence Secretary, and Mr Benn International Development Secretary.

9. Mr Straw continued to chair the Ad Hoc Ministerial Group on Iraq Rehabilitation (AHMGIR), which met seven times between July 2004 and February 2005, after which its business was taken up by the Ad Hoc Ministerial Group on Iraq (AHMGI).

10. Mr David Richmond, the Prime Minister's Special Representative on Iraq, and Ambassador Paul Bremer, the CPA Administrator, left Iraq shortly after the handover ceremony.[1]

11. Ambassador John Negroponte, the new US Ambassador to Iraq, presented his diplomatic credentials to the IIG on 29 June.[2]

12. *Hard Lessons* described how, shortly after arriving in Baghdad and driven by his concern about worsening security, Ambassador Negroponte put the US$18.4bn Iraq Relief and Reconstruction Fund (IRRF2) on hold and initiated a "thorough re-examination" of US priorities.

13. Ambassador Negroponte concluded that implementing economic development programmes would be fruitless while security remained a serious problem. Three reallocations of IRRF2 funds took place in September 2004, December 2004 and March 2005. Those reallocations provided additional funds for security, the political process and "project sustainment" at the expense of infrastructure projects. The water and sanitation sector lost nearly half its funding, and the electricity sector almost a quarter of its funding.

14. Mr Edward Chaplin arrived in Baghdad on 5 July to take up post as the first British Ambassador to Iraq since 1990.

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[1] Annotated Agenda, 1 July 2004, Ad Hoc Group on Iraq Rehabilitation meeting.
[2] Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

15. Ms Lindy Cameron, Deputy Head of DFID Baghdad from January to November 2004 (and subsequently Head of DFID Baghdad), described the transition:

> "… it's hard to describe how strange the CPA was. So in a sense this period in June/July 2004 when we were transitioning from the CPA to … an Iraqi Government that was then sovereign, was a real transition because it is difficult to imagine how strange it was to be in a building of thousands and thousands of foreign officials effectively running a country, and then a very rapid transition from that to an Iraqi Government which had some of the structures it needed, but then didn't have some of the others."[3]

Efforts to accelerate the pace of reconstruction

16. On 1 July, at his request, the Permanent Joint Headquarters (PJHQ) provided General Sir Michael Walker, Chief of the Defence Staff (CDS), with advice on post-transition plans for infrastructure reconstruction.[4]

17. PJHQ advised that:

- The US Project and Contracting Office (PCO) would be the largest source of funding for reconstruction in the short to medium term, but was still developing its management structures and procedures and recruiting staff. It was likely that the PCO would not be fully functioning until September. Concerns had been expressed about a funding gap over the summer and the consequent potential for "social unrest". MND(SE) had explored the possibility of extending CPA projects or increasing the US Commanders' Emergency Response Programme (CERPs) allocation for the South, but neither option appeared possible. Ambassador Bremer had requested that additional UK resources should be used to plug the potential gap between CPA and PCO activity.
- Since the emphasis in Iraq had shifted from reconstruction to development, the bulk of the UK's future contribution clearly fell "within the competence of DFID".
- The Essential Services Plan, which had been due to complete by 30 June 2004 but had now been extended to August, remained the "major vehicle for infrastructure reconstruction" in MND(SE).
- The UK military would continue to implement projects funded by the US CERPs and UK allocations for Quick Impact Projects (QIPs).

18. The 1 July meeting of the AHMGIR considered three papers on UK priorities for the period up to the Iraqi elections (scheduled for January 2005), on the political process, security, and reconstruction and development.[5]

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[3] Public hearing, 22 June 2010, pages 12-13.
[4] Minute CivSec PJHQ to PSO/CDS, 1 July 2004, 'Infrastructure Reconstruction at Transition'.
[5] Annotated Agenda, 1 July 2004, Ad Hoc Group on Iraq Rehabilitation meeting.

19. The MOD paper on security assessed that the security situation was unlikely to improve in the immediate future.[6] The key to improving the security situation was achieving "buy-in" to the political process and making progress on reconstruction, at the same time as developing the capacity of the Iraqi Security Forces (ISF).

20. The paper highlighted the importance of job creation:

> "A major Iraqi complaint is the failure to meet expectations on reconstruction. This has the double negative effect of creating disaffection with the political process and increasing the pool of unemployed …
>
> "It will therefore be important that the reconstruction programme creates sufficient jobs to significantly reduce the number of disaffected. In the short term, continuing difficulties in the delivery of essential services could lead to serious disturbances during the summer."

21. The DFID paper on reconstruction and development assessed that the next six months would be critical for establishing stability.[7] Better security would be "central if there is to be sustained progress on reconstruction, effective engagement by the UN and World Bank, and if the Iraqi economy is to take off as it should".

22. Other key issues for reconstruction and development were:

- minimising any potential slowdown in reconstruction and development in the South over the summer, in particular as new US structures became established;
- building the capacity of Iraqi institutions to manage reconstruction;
- helping the IIG conclude debt relief negotiations and setting the foundations for macro-economic stability;
- SSR and access to justice; and
- strengthening social cohesion by supporting Iraqi participation in the political process, strengthening civil society's ability to advocate for the poor, and supporting the development of the Iraqi media.

23. At the meeting, Mr Benn welcomed the fact that "Iraqis were clearly in charge and their voices were being heard".[8] The UK was moving "from a phase of doing things for the Iraqis to supporting them doing it for themselves". The UK's focus was now on engaging the UN and World Bank, plugging any funding gap over the summer, and supporting Iraqi institutions to manage the reconstruction process and access funds.

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[6] Paper MOD, [undated], 'Security: The Next Six Months'.
[7] Paper DFID, [undated], 'Iraq Reconstruction and Development: UK Priorities for the Period up to the Elections'.
[8] Minutes, 1 July 2004, Ad Hoc Group on Iraq Rehabilitation meeting.

24. The meeting endorsed the three papers, and commissioned the FCO to co-ordinate an integrated UK strategy covering the period up to the Iraqi elections for discussion at the meeting of the Defence and Overseas Policy Committee (DOP), a sub-Committee of the Cabinet, on 15 July.

25. In his first report from Basra on 12 July, Mr Simon Collis, the British Consul General, reported that no PCO staff had yet arrived in Basra to spend the South's US$2.3bn projected share of IRRF2.[9] He continued:

> "… no one here – including my US counterpart – knows yet how the third entirely new organisation in just over a year[10] will organise itself and do business. There must be a high risk that money will be spent slowly, inappropriately, and without adequate consultation with ourselves or, more importantly, the Iraqis."

26. Mr Collis also advised that there were still no effective mechanisms in place to enable Iraqi ministries to release funds to Basra.

27. The strategy paper commissioned by the AHMGIR on 1 July was circulated to members of DOP on 13 July.[11] The introduction to the paper said that it offered:

> "… a strategic look at the position we want Iraq to be in at the end of January 2005; risks to our strategy; and priority areas in which the UK can help ensure success."

28. The paper, which had been produced by the FCO, defined the political, security and "reconstruction and economic" objectives for the period up to the Iraqi elections. The three objectives for reconstruction and the economy were:

- a functioning Iraqi Government in Baghdad and at governorate level capable of delivering basic services;
- reconstruction programmes funded by the PCO, the UN and World Bank Trust Funds, bilateral donors and the Iraqi Government which were delivering jobs and improvements to infrastructure and services; and
- a reduction in subsidies and an agreed IMF programme leading to a debt settlement by December.

29. The paper identified security as the most significant risk to achieving those objectives, in particular the risk of "a terrorist spectacular" against either the IIG or the UN. Other risks included infrastructure failures over the summer leading to popular discontent.

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[9] Telegram 76 Basra to FCO London, 12 July 2004, 'First Impressions of Basra'.
[10] The PCO, following the Office of Reconstruction and Humanitarian Assistance (ORHA) and the Coalition Provisional Authority (CPA).
[11] Paper FCO, 13 July 2004, 'Iraq: The Next Six Months'.

30. Based on those objectives and risks, the two "reconstruction and development" priorities were:

- To bridge funding shortfalls over the summer, when CPA and Development Fund for Iraq (DFI) projects ended, by implementing DFID and MOD job creation and infrastructure programmes. The UK had to maintain pressure on the US to spend its money in the South, quickly.
- To press the UN and the World Bank to send key staff back to Iraq.

31. The paper identified monthly milestones on the political process, reconstruction, and SSR tracks between July 2004 and January 2005.

32. At the DOP meeting, chaired by Mr Blair, Ministers reported that:

- Progress was being made on reconstruction. Electricity production was at its highest level so far (at 5,500 megawatts), the UK was providing expert advice to the IIG, notably to Prime Minister Allawi's office, and DFID and the MOD had funds in place to mitigate a possible funding gap over the summer.
- Implementation of the main infrastructure contracts was slow.[12]

33. DOP agreed the priorities set out in the paper, and commissioned DFID to produce a note on infrastructure issues which Mr Blair might use in discussions with President Bush.

34. The FCO paper was not the integrated strategy that Ministers had requested on 1 July.

35. The DFID note that was subsequently sent to No.10 welcomed the anticipated arrival of the PCO Regional Co-ordinator in Basra, and continued: "But PCO [Co-ordinator] will need a team to support him. Little sign of Supplemental [IRRF2] contractors on the ground. Needs impetus."[13]

36. President Bush and Mr Blair spoke by video conference on 22 July. Mr Blair's briefing for the discussion, which had been produced by Mr Antony Phillipson, Mr Blair's Private Secretary, recalled that Mr Blair had told DOP that he would speak to President Bush about the pace of reconstruction spending.[14] Since then, Sir Nigel Sheinwald, Mr Blair's Foreign Policy Adviser, had discussed the issue with Dr Condoleezza Rice, the US National Security Advisor. Mr Phillipson suggested that Mr Blair "might just mention" UK concerns about the situation in the South.

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[12] Minutes, 15 July 2004, DOP meeting.
[13] Letter Malik to Quarrey, July 2004, [untitled].
[14] Minute Phillipson to Prime Minister, 22 July 2004, 'VTC with President Bush, 22 July'.

37. The record of the video conference did not include any reference to reconstruction.[15]

38. The Annotated Agenda for the 22 July meeting of the AHMGIR stated that the responsibility for IRRF2 had passed from the US Department of Defense (DoD) to the US State Department.[16] The State Department wanted to review US priorities to ensure they were "developmentally sound" and to shift resources from infrastructure to governance; the UK had urged quick decisions to avoid delaying disbursements.

39. The Annotated Agenda advised that a PCO Regional Co-ordinator would arrive in Basra at the end of July and projects would start in September. It appeared that the US was giving priority to programmes "in 'their' areas"; there was therefore a risk of a reconstruction gap in the South. The need to speed up US reconstruction in the South had been raised at a recent video conference between Mr Blair and President Bush.

40. The Annotated Agenda set out the action that the UK was taking, in addition to lobbying the US to speed up their efforts, to address the possible short-term funding gap:

- The MOD was seeking a further £10m from the Treasury for QIPs.
- DFID was funding a five-person Project Continuity Team (PCT) based in the PCO to help implement former CPA(South) projects. The PCT had already deployed.
- DFID was funding a 10-person Technical Advisory Team (TAT) comprising infrastructure and other specialists to help link Iraqi priorities and PCO plans. The team was expected to deploy to Iraq in August.
- DFID had developed a £16m programme to generate employment opportunities and provide an emergency response facility to deal with critical failures in essential services in the South over the next six months. The programme would start immediately.

41. The Annotated Agenda also stated that the IMF was seeking early agreement on a Stand-By Arrangement for Iraq (a precondition for a Paris Club deal on debt reduction). DFID hoped to deploy advisers to support the Iraqi Government in its negotiations with the IMF.

42. A UK Trade and Investment (UKTI) secondee to the PCO told an official at the British Embassy Baghdad on 7 August that he was not aware of any PCO policy to withhold support from Basra in favour of US areas.[17] The official described the secondee as "generally very well informed on PCO policies".

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[15] Letter Phillipson to Adams, 22 July 2004, 'Prime Minister's VTC with President Bush, 22 July: Iraq and MEPP'.
[16] Annotated Agenda, 22 July 2004, Ad Hoc Group on Iraq Rehabilitation meeting.
[17] Email FCO [junior official] to FCO [junior official], 7 August 2004, 'PCO Manning in Basra'.

43. Section 9.3 describes the Sadrist uprising in Najaf in early August, and the deteriorating security situation across Iraq.

44. Mr Blair concluded at the end of August that Prime Minister Allawi needed "help now". That help included accelerating the pace of reconstruction, so that Iraqis saw improvements before the January 2005 elections.

45. Mr Phillipson wrote to the Cabinet Office on 20 August to commission a:

> "… full picture of the situation in Iraq after the National Conference,[18] how we are going to get from here to successful elections in January, and the challenges we will face."[19]

46. Mr Phillipson advised that the request followed a "long discussion" the previous day with Mr Blair, who had observed that the security situation, the slow rate at which the ISF was being trained and equipped, and "ongoing difficulties" with reconstruction posed a real risk to the achievement of the UK's objectives in Iraq.

47. The British Embassy Office Basra reported by telegram on 24 August that the PCO Regional Co-ordinator had now arrived.[20] The Co-ordinator expected the PCO to "have an impact on the ground" in the last quarter of 2004; the British Embassy Office doubted that the PCO could meet that timeline.

48. On 27 August, in response to Mr Phillipson's commission, the IPU provided a paper for the Cabinet Office.[21] Mr Neil Crompton, the Head of the IPU, advised Mr Straw's Private Office that the paper contained "little new in policy terms".

49. The IPU paper concluded that the strategy agreed by DOP on 15 July was the right one, but would require regular fine-tuning.[22] Its key judgements included:

- The IIG had made a good start, but needed to deliver results soon, particularly on security but also on essential services.
- There was growing "disquiet" in the "previously benign" South, reinforced by a sense that Baghdad and the US were neglecting its interests. Politically, Basra and Maysan were paralysed by power struggles, hindering work on reconstruction and security.
- Iraq was "awash with reconstruction funds". The challenge was delivering quickly on the ground. Security was a major hindrance.

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[18] From 15 to 18 August a National Conference was held to select an Iraqi Interim National Council (IINC) of 100 members to oversee the Iraqi Interim Government until the election of the Transitional National Assembly in January 2005.
[19] Letter Phillipson to Fergusson, 20 August 2004, 'Iraq: Next Steps'.
[20] Telegram 130 Basra to FCO London, 24 August 2004, 'southern Iraq: PCO and Saudi Development Fund'.
[21] Minute Crompton to Private Secretary [FCO], 27 August 2004, 'Iraq: Next Steps' attaching Paper IPU, 27 August 2004, 'Iraq: Next Steps'.
[22] Paper IPU, 27 August 2004, 'Iraq: Next Steps'.

50. The paper stated that President Bush was letting US officials in Baghdad "make the running", and recommended that the UK focus its effort with the President on a few key areas where Washington could make a difference, including ensuring that the US did not take reconstruction in the South for granted.

51. The paper retained the three reconstruction objectives that DOP had agreed on 15 July (a functioning Iraqi Government, reconstruction programmes funded by others delivering quickly and well, and a reduction in subsidies and an agreed IMF programme leading to debt relief by December 2004).

52. Mr Phillipson passed the IPU paper to Mr Blair, after discussing it with Sir Nigel Sheinwald.[23] Mr Phillipson's covering minute stated that the IPU paper was "too vague", did not reflect the "loss of control" in Basra and elsewhere, and did not offer a clear way forward. He recalled that Mr Blair had asked for the "unvarnished truth so that we can engage in a frank discussion about how we can help the IIG restore control".

53. Mr Phillipson recommended that a new paper should be commissioned, broken into three sections:

- how to ensure that the elections took place, on time, in January 2005;
- how the Sunni triangle could be brought "back under control"; and
- how order could be restored in Basra.

54. Mr Phillipson continued that one aspect of the effort to bring the Sunni triangle back under control should be "a short-term programme of intensive reconstruction to make a visible impact to people's lives – a Sunni outreach programme".

55. Mr Blair set out his analysis of the issues in a note to Sir Nigel Sheinwald, Mr Phillipson, Mr Jonathan Powell (No.10 Chief of Staff) and a junior member of his No.10 staff on 29 August.[24] He wrote:

> "Our strategy is fine in one sense: Iraqiisation of security and support for the democratic political process. The problem is that the urgency of the situation may overwhelm us and make our timelines for Iraqiisation naïve.
>
> "The fact is Allawi needs help now; and there has to be a clear sense of our gripping the situation now."

56. Mr Blair identified nine immediate actions, including:

- providing Prime Minister Allawi with "first-class political, media and strategic capability … now", drawing on "the best home-grown Iraqi talent" supported by "our own people" who should be "hand-picked" immediately;

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[23] Minute Phillipson to Prime Minister, 27 August 2004, 'Iraq: Next Steps'.
[24] Minute Prime Minister to Sheinwald, 29 August 2004, 'Iraq'.

- examining DFID's assistance to key Iraqi ministries, in particular defence,[25] "to ensure real robustness and … if necessary, our people put in"; and
- unblocking funding for reconstruction, in the Sunni triangle and elsewhere, as the "key to winning hearts and minds".

57. Mr Blair concluded:

> "When I meet Allawi in September, it should be with a coherent plan to change the situation."

58. Mr Benn visited Iraq from 31 August to 1 September, despite significant security concerns.[26] He reported to Mr Blair on 3 September that despite worsening security, some progress was being made:

> "But the pace of reconstruction is still too slow …
>
> "DFID's approach of encouraging the international system to help rebuild Iraq and working through bilateral programmes at the national level (to build capacity in key ministries) and in the South (to help create jobs, renew infrastructure and reduce poverty) is still right. But I will want to see substantial progress on spending and delivery before committing any more to the [World Bank and UN] Trust Funds. I have therefore concentrated on new bilateral programmes this financial year."[27]

59. Mr Benn reported that, while in Iraq, he had announced new funding for projects in the South to respond to critical needs in essential services and create jobs and build capacity in the four southern Governorates. The MOD had also secured additional funding for QIPs.

60. Mr Benn concluded: "We will need to stay flexible in responding to changing circumstances."

61. The projects referred to by Mr Benn were the £16.5m southern Iraq Employment and Service Programme (SIESP) and the £20.5m Governorates Capacity Building Project.[28]

62. On 3 September, at the request of the MOD, the Current Intelligence Group (CIG) assessed the impact of the recent Shia violence on the situation in MND(SE).[29]

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[25] Support to the Iraqi Ministry of Defence was provided by the MOD.
[26] Letter Gibbons to Simpson, 23 August 2004. 'Ad Hoc RMV – Hilary Benn's Visit to Iraq'.
[27] Letter Benn to Prime Minister, 3 September 2004, 'My Visit to Iraq'.
[28] Paper DFID, 4 November 2009, 'Iraq – DFID Timeline and Financial Commitments: 2003 – 2009'.
[29] CIG Assessment, 3 September 2004, 'Iraq Security: Shia Violence in Multinational Division (South East)'.

63. The CIG judged that the situation in MND(SE) remained "fragile" and that there had been considerable loss of public support for the MNF. Most Shia were likely to continue to support the political process, but their consent depended on expectations being met, including elections held on schedule and a government that reflected their majority status.

64. A continuing failure to improve public order, restore public services or create jobs would also increase disillusionment, risking renewed unrest.

65. During Mr Benn's visit to Iraq, officials in the British Embassy Office Basra raised concerns over the operation of the World Bank and UN Trust Funds.[30]

66. DFID responded to those concerns on 6 September:

> "Basra are right that getting PCO and Trust Fund programmes moving faster is critical, but not that our contribution to the Trust Funds is pointless."

67. The Trust Funds had several purposes:

"
- to deliver reconstruction on the ground;
- to allow donors to pool resources and streamline procedures. This reduces their overheads, and gives the Iraqis fewer donors with their own priorities and procedures to negotiate with; and
- to encourage the UN and the World Bank to re-engage".

68. The World Bank and the UN had now started disbursing money from the Trust Funds, and the Iraqi Minister for Planning and Development Co-ordination had told Mr Benn that he was "much happier" with collaboration with the World Bank and UN.

69. DFID concluded the Trust Funds had been set up "to deliver medium-term benefits to Iraq rather than quick fixes". The test now was delivery.

70. On 9 September, Sir Nigel Sheinwald and Mr David Quarrey, a Private Secretary to Mr Blair, sent Mr Blair a minute reporting on their recent visit to Iraq, for use in Mr Blair's video conference with President Bush later that day.[31]

71. The minute stated that a "joined up programme" was needed, including:

- an effective counter-insurgency strategy to "regain control of cities in the Sunni triangle";
- an IIG strategy for Sunni outreach;
- support for Prime Minister Allawi's office; and

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[30] Telegram 1 DFID to FCO Baghdad, 6 September 2004, 'Southern Iraq: Trust Funds'.
[31] Minute Sheinwald and Quarrey to Blair, 9 September 2004, 'Iraq'.

- economic development. DFID was making good progress "in helping to get the economic framework right. But hardly anyone thinks that the ordinary Iraqi will see a major dividend before the elections in January."

72. During his visit, Sir Nigel met Prime Minister Allawi, who stated that the political, economic and capacity-building strands were linked; he hoped for significant progress in each before November.[32] A copy of the record of that meeting was sent to Mr Benn's Principal Private Secretary.

73. Mr Benn told Cabinet on 9 September that during his visit to Baghdad and Basra, he had been able to "feel the difference" since the transfer of sovereignty.[33] Sunni outreach was needed in the South, where the mood was one of "persistent victimisation". Reconstruction activity was continuing, but had been adversely affected by the security situation.

74. During his video conference with President Bush on 9 September, Mr Blair raised both the need to accelerate Iraqiisation and for enhanced capacity within the IIG, without which "too much fell on Allawi himself".[34] The existing timelines for improved security and services were "too long" and risked delaying the election.

75. Mr Quarrey wrote to Mr Benn's Principal Private Secretary on 14 September, responding to Mr Benn's 3 September visit report:

> "The Prime Minister believes that we must continue to do all we can on this [reconstruction], and particularly to make sure that ordinary Iraqis see a more tangible benefit before the elections. We have a particular responsibility to deliver in the South. We agree that it is sensible to focus UK resources on bilateral programmes while the multilateral Trust Funds remain ineffective."[35]

76. Mr Blair chaired a meeting of the Ad Hoc Ministerial Group on Iraq on 16 September.[36]

77. Mr Blair's Chairman's Brief stated that one purpose of the meeting was to:

> "… **galvanise the key departments** and ensure they give Iraq their full attention in the next 5 months, in order to **achieve the necessary results on the ground in the run-up to elections**".[37]

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[32] Letter Quarrey to Owen, 9 September 2004, 'Iraq: Nigel Sheinwald's Meeting with Allawi, 8 September'.
[33] Cabinet Conclusions, 9 September 2004.
[34] Letter Phillipson to Adams, 9 September 2004, 'Prime Minister's VTC with President Bush, 9 September'.
[35] Letter Quarrey to Malik, 14 September 2004, 'Iraq: Your Secretary of State's Visit'.
[36] Record, 16 September 2004, Ad Hoc Ministerial Group on Iraq meeting.
[37] Briefing Cabinet Office, 16 September 2004, 'Ad Hoc Ministerial Group on Iraq meeting to be held in the Cabinet Room on Thursday 16 September 2004 at 0830: Chairman's Brief'.

78. The Group agreed that the MOD, DFID and the FCO would produce specific suggestions for how progress could be made in Iraq which Mr Blair could put to President Bush when they next spoke:

"
- MOD to make recommendations on how ISF capacity will develop …
- DFID to advise on where blockages can [be] removed to speed up the impact of reconstruction funding.
- FCO to advise on what political strategy Allawi should be pursuing and his capacity to deliver it."[38]

79. Sir Nigel Sheinwald met Dr Rice during his visit to Washington from 16 to 17 September.[39] He reported to Mr Blair that he had raised the continuing criticisms of the pace of the US reconstruction effort. Dr Rice had said that she did not understand why, after many enquiries, there were still blockages. Sir Nigel commented that "there was no sense that the NSC [National Security Council] was chasing this down, or that anyone else was".

80. Prime Minister Allawi visited London on 19 and 20 September.[40]

81. Mr Quarrey's briefing for Mr Blair advised that he might:

- offer whatever support Prime Minister Allawi needed for his office;
- encourage him to see reconstruction and development as "integral to his wider political strategy";
- encourage him to associate the IIG very visibly with successes on the ground;
- reassure him of UK support for debt relief. Iraq might not get the 95 percent relief that the IIG and US were pushing for, but the UK wanted relief to be well above 80 percent; and
- encourage him to press the UN and Member States for a substantial increase in support.[41]

82. During his private meeting with Mr Blair on 19 September, Prime Minister Allawi outlined his four-point strategy for Iraq covering the political process, the economy, security (the most important aspect of the strategy and his personal focus) and institution building.[42]

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[38] Record, 16 September 2004, Ad Hoc Ministerial Group on Iraq meeting.
[39] Minute Sheinwald to Prime Minister, 20 September 2004, 'Visit to Washington'.
[40] Letter Sheinwald to Adams, 19 September 2004, 'Iraq: Prime Minister's Meeting with Prime Minister Allawi, Sunday 19 September'.
[41] Minute Quarrey to Prime Minister, 18 September 2004, 'Iraq: Your Meeting with Allawi' attaching Briefing Cabinet Office, [undated], 'Briefing Notes for Allawi Visit'.
[42] Letter Sheinwald to Adams, 19 September 2004, 'Iraq: Prime Minister's Meeting with Prime Minister Allawi, Sunday 19 September'.

83. Mr Blair asked Prime Minister Allawi whether he had the "infrastructure" around him to implement IIG policy. Prime Minister Allawi agreed there was a problem. Mr Blair said that the UK would send "two or three people" to Baghdad to work on the issue. On reconstruction, Mr Blair said that each project needed to be properly publicised as an achievement of the IIG and Prime Minister Allawi.

84. Mr Blair, Prime Minister Allawi and several Iraqi Ministers discussed reconstruction and the economy over lunch.[43] The Iraqi delegation said that there had been good progress on reconstruction in recent months, but the pace of delivery was still far too slow. Nor were donors delivering on their commitments to the World Bank and UN Trust Funds. Mr Blair said that there needed to be absolute clarity on where the blockages on funding were.

85. Prime Minister Allawi stressed the need for a generous debt reduction package that would encourage foreign investment, and asked the UK to play a major role in the Iraq Grand Port project on the Faw peninsula.

86. An Iraqi delegation led by Prime Minister Allawi held a roundtable meeting on reconstruction with Mr Straw, Mr Benn and Mr Hoon on 20 September.[44]

87. The FCO reported that Prime Minister Allawi's main theme had been the importance of progress on reconstruction and its link to security.

88. Mr Mehdi Hafez, Iraqi Minister of Planning and Development Co-ordination, outlined progress towards an agreement on debt relief. Mr Benn emphasised the importance of reducing fuel subsidies if Iraq was to secure an IMF programme. Mr Hafez said that the IIG was committed to reducing subsidies (which he estimated to account for 50 percent of government expenditure), but there were political sensitivities.

89. During a discussion of the World Bank and UN Trust Funds, Mr Benn encouraged Prime Minister Allawi to press the UN to deploy staff to Iraq and to speed up disbursements from their Trust Fund. The Iraqi delegation said that the reluctance of the World Bank and IMF to engage raised questions about the value of multilateral (as opposed to bilateral) assistance. Mr Benn said that "DFID was concentrating on bilateral projects with 2004/05 money". Mr Hafez confirmed that the IIG was content with the DFID programme.

90. DFID sent the note on how to speed up reconstruction funding requested at the 16 September meeting of the Ad Hoc Ministerial Group on Iraq to No.10 on 23 September, to inform a telephone conversation between Mr Blair and President Bush the following day.[45]

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[43] Letter Quarrey to Owen, 19 September 2004, 'Iraq: Prime Minister's Lunch with Allawi, 19 September'.
[44] Telegram 73 IPU to Baghdad, 20 September 2004, 'Iraq: Visit of Allawi: Meeting with Foreign Secretary, Mr Benn and Mr Hoon'.
[45] Letter Drummond to Quarrey, 23 September 2004, 'VTC with President Bush' attaching Briefing DFID, [undated], 'Prime Minister's Video-Conference with President Bush'.

91. The DFID note advised that:

- Iraq's infrastructure had now been "stabilised" and some improvements had been made. But Iraqi citizens did not see that; it was vital for security that visible progress was made fast, and that the IIG told Iraqi citizens what was being achieved.
- There were "very few" PCO staff in the South. Could the US speed up the deployment of PCO staff, and give USAID a bigger role?
- Iraqi systems were not yet working. The US and UK needed to press Prime Minister Allawi to get Iraqi oil revenues into the provinces, and press the UN and World Bank to deploy experts.

92. Mr Quarrey's briefing for Mr Blair suggested that he could refer to Prime Minister Allawi's concern about the pace of delivery on reconstruction.[46]

93. In a telephone conversation with President Bush on 24 September, Mr Blair set out three priority issues, as discussed with Prime Minister Allawi:

- the need to strengthen Prime Minister Allawi's office;
- accelerating work to show the ISF had capacity to act; and
- increasing the pace of development activity.[47]

94. On 1 October, in response to a request for advice from Mr Benn's Private Secretary on the World Bank and UN Trust Funds, a DFID official advised that:

> "… implementation is proceeding, but not as quickly as we would wish or had anticipated when we decided to contribute to them in February".[48]

95. There was as yet insufficient evidence to decide whether DFID should make further contributions to the Trust Funds. Equally, withdrawing UK funds from the Trust Funds would be difficult to justify and would undermine UK efforts to persuade other donors (especially those not present on the ground in Iraq) to contribute to the reconstruction effort.

96. Iraqi Deputy Prime Minister Dr Barham Salih presented the IIG's National Development Strategy (NDS) at the third meeting of the International Reconstruction Fund Facility for Iraq (IRFFI) Donor Committee in Tokyo on 14 October.[49]

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[46] Minute Phillipson to Prime Minister, 23 September 2004, 'Phonecall with President Bush, 24 September'.
[47] Letter Quarrey to Owen, 24 September 2004, 'Prime Minister's Phone Conversation with President Bush, 24 September'.
[48] Minute DFID [junior official] to DFID [junior official], 1 October 2004, 'Iraq Trust Funds: Secretary of State's Conversation with Ann Clwyd MP'.
[49] Telegram 181 Tokyo to FCO London, 15 October 2004, 'Iraq: Tokyo Donor Committee Meetings, 13-14 October'.

97. The NDS set out the social and economic reforms that the IIG intended to pursue, but did not prioritise those reforms or include plans for their implementation.[50]

98. Dr Salih told the meeting that this was the first time a sovereign Iraqi Government had presented its own vision of Iraq's future to the international community.[51] Iraq needed a quick agreement on debt relief and faster implementation of pledges made by donors at the Madrid Donor Conference, in line with the priorities outlined in the NDS.

99. The IMF and World Bank presented a "relatively positive" assessment of Iraq's economy, including higher than expected oil revenues.

100. At the meeting, Mr Jim Drummond, DFID Director Iraq, underlined the importance of Iraqi leadership of the reconstruction process, urged faster disbursement from the World Bank and UN Trust Funds, and encouraged more donors to contribute to them.

101. The British Embassy Tokyo reported that the international community had come together behind "a good Iraqi-led strategy". Germany and France had engaged "more than previously, but not yet with significant support". There had been no significant new pledges, but that was not surprising given the US$32bn pledged at Madrid and rising Iraqi oil revenues.

102. Mr Quarrey described the meeting to Mr Blair as "important and successful".[52] In response, Mr Blair asked for a DFID paper on how the UK could ensure that the meeting led to a visible acceleration in the delivery of reconstruction on the ground.[53]

103. The IIG's successor, the Iraqi Transitional Government (ITG), launched a revised NDS in July 2005.

Reconstruction in areas regained from insurgent control, and Fallujah

104. Section 9.3 describes how, in the autumn of 2004, the IIG and the Multi-National Force – Iraq (MNF-I) reviewed the possibility of further military action to gain control of Fallujah from the Sunni insurgency, including the debate between the US and UK on how and when to take action.

105. A DFID official advised Mr Benn in advance of the 14 October meeting of the Ad Hoc Ministerial Group on Iraq that the FCO and "UK military" were arguing against an early clearance operation in Fallujah and for a "hybrid of security (cordon, precision strikes) and political/economic initiatives … and giving these time to work".[54]

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[50] The Iraqi Strategic Review Board, September 2004, *National Development Strategy 2005-2007.*
[51] Telegram 181 Tokyo to FCO London, 15 October 2004, 'Iraq: Tokyo Donor Committee Meetings, 13-14 October'.
[52] Minute Quarrey to Blair, 15 October 2004, 'Iraq Update'.
[53] Letter Quarrey to Naworynsky, 18 October 2004, 'Iraq'.
[54] Minute DFID [junior official] to APS/SoS [DFID], 13 October 2004, 'Iraq: Ad Hoc Ministerial Group Meeting on 14 October'.

106. Mr Benn was also advised that there had been a "breakthrough" in the relationship between the PCO and DFID in the South, with the PCO accepting and welcoming the Technical Advisory Team (TAT). After many delays, the PCO had begun work in the South.

107. Following talks in London, DFID was also seeking to work more closely with MND(SE), to "synchronise" UK reconstruction and security efforts. MND(SE) was "struggling" to disburse its QIPs and CERPs funds (totalling US$25m), largely because of a lack of capacity. The TAT might be able to assist. A DFID team would visit Basra to continue discussions.

108. The 14 October meeting of the Ad Hoc Ministerial Group on Iraq was briefed that the US military was planning military action in Fallujah.[55]

109. The Ad Hoc Ministerial Group on Iraq agreed that an operation to clear Fallujah was right in principle but the UK should try to persuade the US to give Prime Minister Allawi time to improve the political environment.

110. Mr Chaplin reported by telegram on the same day that the US planned to spend US$3.4bn on "rapid reconstruction" in 18 "strategic cities" (defined as major population or religious centres and real or potential areas of insurgency) in the run-up to the Iraqi elections, including US$1.4bn in Baghdad and US$316m in Basra.[56] The US had allocated US$75m for Fallujah, but all work there was currently suspended. The initiative covered PCO, USAID and CERPs projects.

111. Mr Chaplin's report prompted Mr Blair to request an update on developments in Najaf.[57] Mr Quarrey directed that request to the Cabinet Office.[58]

112. Sir Nigel Sheinwald and Dr Rice discussed Iraq on 22 October.[59] Sir Nigel reported that they had agreed that not enough was being done in towns where the IIG had regained control from insurgents. Dr Rice had said that she had (again) asked the NSC to find out why reconstruction funding was moving so slowly.

113. Mr Blair discussed progress on reconstruction, especially in key cities after military action, with Prime Minister Allawi by telephone on the same day.[60] Prime Minister Allawi said that effective reconstruction would have a positive impact on the security situation. Mr Blair agreed and said he would mention it to President Bush. Mr Quarrey's record of the conversation was copied to Mr Benn's Principal Private Secretary.

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[55] Record, 14 October 2004, Ad Hoc Ministerial Group on Iraq meeting.
[56] Telegram 280 Baghdad to FCO London, 14 October 2004, 'Iraq: Reconstruction Projects in Strategic Cities'.
[57] Letter Quarrey to MOD [junior official], 18 October 2004, 'Iraq'.
[58] Letter Quarrey to MOD [junior official], 18 October 2004, 'Iraq'.
[59] Letter Sheinwald to Adams, 22 October 2004, 'Conversation with US National Security Adviser, Friday 22 October'.
[60] Letter Quarrey to Wilson, 22 October 2004, 'Iraq: Prime Minister's Conversation with Allawi, 22 October'.

114. Mr Quarrey passed the Cabinet Office's paper on reconstruction in Najaf and other key cities and the DFID paper on how to accelerate reconstruction on the ground in the wake of the Tokyo Donor Conference to Mr Blair on 22 October.[61]

115. The Cabinet Office paper concluded that "the general impression is that, as yet, there is no systematic or co-ordinated approach to these key cities".[62] It identified a number of lessons, including:

- It was possible for political deals to hold long enough for the IIG/PCO to deliver enough reconstruction to start building public support and discredit the insurgents.
- There needed to be a sufficient continuing ISF presence for the IIG to remain in control and to facilitate reconstruction.
- IIG and to some extent PCO capacity to deliver reconstruction quickly was very limited. CERPs delivered impact most quickly.

116. The DFID paper on the follow-up to the Tokyo donors meeting advised that while the procedural obstacles to spending US and Trust Fund allocations had largely been overcome, the security situation was worse.[63] To "get round" that problem, there was now a greater emphasis on using Iraqi systems and contractors. In that context, to accelerate the pace of reconstruction, the UK needed to:

- Persuade the World Bank and UN at the top level to move fast, and to send development specialists to Iraq. Mr Benn had lobbied the UN Secretary-General Kofi Annan on 19 October.
- Provide funding and security for World Bank and UN liaison staff. DFID funded and housed one liaison officer for each of the World Bank and UN in Baghdad, and was considering funding a UN liaison officer in Basra.
- Support the PCO. The Head of the US Iraq Reconstruction and Management Office (IRMO) had told the UK that he wanted to work closely with the UK, but that he did not want UK staff in the PCO.

117. Mr Quarrey commented on the DFID paper:

> "Lots of good points here about the UN and World Bank. But nothing on our bilateral programme and what more we might be able to do with that …"[64]

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[61] Minute Quarrey to Prime Minister, 22 October 2004, 'Iraq Reconstruction'.
[62] Paper Cabinet Office, 22 October 2004, 'Iraq: Developments in Key Cities'.
[63] Paper DFID, [undated], 'Tokyo Follow-up'.
[64] Minute Quarrey to Prime Minister, 22 October 2004, 'Iraq Reconstruction'.

118. Mr Quarrey commented on the Cabinet Office paper:

> "Not an encouraging picture … It looks like we are a long way from the sort of integrated political/security/reconstruction packages for these key cities that we, the US and Allawi keep talking about.
>
> "We must do better on this. The lack of any reference in the DFID note to this key issue is striking."

119. Mr Blair replied: "We need to get tougher with DFID on this. Let me minute Hilary [Benn]. It's not good enough."[65]

120. Major General Andrew Farquhar, the British Deputy Commanding General of Operations in the Multi-National Corps – Iraq (MNC-I), reported on 24 October that the US had allocated US$7m from CERPs for projects in the immediate aftermath of military operations in Fallujah.[66]

121. Mr Blair wrote to Mr Benn on 26 October:

> "I remain concerned that actual delivery of reconstruction on the ground is far too slow …
>
> "We must accelerate the pace of reconstruction, not least to support the political process as we head towards the elections. The note [on the Tokyo donors meeting] includes some good ideas on pressing the UN and World Bank. But we also need to increase the impact of your bilateral programme in the short term. And we need to find more effective ways of getting the US to spend their funds more quickly and with greater impact.
>
> "I am particularly concerned about the lack of follow-through on reconstruction in those cities and towns where the IIG, with MNF support, has regained control from insurgents (e.g. Najaf, Samarra, Tal Afar). These are, of course, not in the MND(SE) region where our spending is concentrated. But DFID has considerable experience of post-conflict situations which I would like to see us using across Iraq."[67]

122. Mr Hoon briefed the 28 October meeting of the Ad Hoc Ministerial Group on Iraq on US military plans for a "short, sharp campaign" in Fallujah.[68]

123. At the meeting, Mr Benn said that DFID continued to press the PCO, but a recent proposal to second a UK development adviser to the PCO had been turned down by the US. It was difficult for the UK to offer additional assistance in cities like Fallujah "as the US was already engaged and sufficient funds were available".

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[65] Manuscript comment Blair on Minute Quarrey to Prime Minister, 22 October 2004, 'Iraq Reconstruction'.
[66] Telegram 301 Baghdad to FCO London, 24 October 2004, 'Iraq: Fallujah: Military Preparations: ISF Numbers and Capability'.
[67] Minute Prime Minister to Secretary of State for International Development, 26 October 2004, [untitled].
[68] Minutes, 28 October 2004, Ad Hoc Ministerial Group on Iraq meeting.

124. Mr Benn reported that he had spoken to UN Secretary-General Annan, and thought it unlikely the UN would deploy more staff to Iraq before the elections (the UN currently had two officers in Iraq, one supported by DFID).

125. Mr Benn said that he would be happy to help the MOD with funding for QIPs if it was better able to implement projects than civilian experts.

126. Cabinet Office, DFID, FCO and MOD officials met on the same day to consider, at No.10's request, how to "push forward" PCO reconstruction efforts.[69] The meeting agreed that the UK should:

- increase efforts to monitor PCO activity across Iraq, although with a focus on MND(SE); and
- make an "open-ended" offer of support to the US for PCO programmes across Iraq (not just in the South).

127. By 29 October, preliminary airstrikes against targets in the Fallujah area had begun.[70]

128. Mr Quarrey advised Mr Blair on 2 November that "planning for the post-conflict phase remains inadequate, and the US now seem resigned to this".[71]

129. A DFID official based in Basra advised Mr Drummond on 3 November that PCO projects in the South remained "almost invisible" to the general public, and that Iraqi engagement in and influence on PCO operations appeared to be minimal.[72]

130. Mr Blair met Prime Minister Allawi in Brussels on 5 November.

131. In preparation for the meeting, Mr Quarrey provided a list of "points that Allawi needs to cover before he approves any military action" in Fallujah.[73] Those included "the follow-up package of political and economic measures". The US said they had funding ready, but the IIG's own preparations looked inadequate. Prime Minister Allawi had to take responsibility for those preparations.

132. At the meeting, Mr Blair said that:

> "… he [Prime Minister Allawi] knew the military commanders were keen to move now. But it was vital that we balanced the political and military priorities. Unless there was an argument for an immediate move, then he believed we needed to take

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[69] Letter Cabinet Office [junior official] to Drummond, 28 October 2004, 'Iraq: Monitoring and Accelerating PCO Disbursement'.
[70] Minute Dowse to Sheinwald, 29 October 2004, 'Iraq Update – 29 October'.
[71] Minute Quarrey to Prime Minister, 2 November 2004, 'Fallujah'.
[72] Minute DFID [junior official] to Drummond, 3 November 2004, 'PCO'.
[73] Minute Quarrey to Blair, 4 November 2004, 'Iraq: Breakfast with Allawi'.

the necessary time to exhaust all avenues of dialogue with the Sunnis … We also needed to set out a package of reconstruction measures."[74]

133. Following authorisation by Prime Minister Allawi, offensive operations began in Fallujah on 8 November.[75]

134. Mr Chaplin described the UK's involvement in that decision for the Inquiry:

"Our main involvement and the main thing we emphasised afterwards was that if there had to be military action, then the [Iraqi] Government needed to organise itself to ensure there was rapid follow-up, looking after displaced people, returning them as soon as possible, looking after the humanitarian aspects. And the part of the DFID team that was working closely with the Ministry of Health was heavily involved in that …"[76]

135. Mr Benn replied to Mr Blair's letter of 26 October on 10 November.[77] He wrote:

"I share many of your concerns about the pace of reconstruction and development in Iraq. However, we should take encouragement from the Iraqi Interim Government's National Development Strategy, the extra resources (about US$3bn) that the high oil price gives them, and the new arrangements that Allawi is making in his own office, with DFID advice, to lead reconstruction …

"Security is much more difficult than we anticipated and is getting worse around Baghdad. Many contractors, including those that we regularly use to work in post-conflict environments such as Crown Agents, are unwilling to send staff outside Baghdad or Basra at present. This is affecting all donors. But we can do more. Our £6m employment generation project will start to create jobs this month … I have also allocated £10m to support essential services – water, sanitation and power – in South-Eastern Iraq. We will top this up if necessary. We are working closely with UK forces: DFID's technical expertise is available to help them implement their Quick Impact Projects, and military liaison teams will help us to make our projects happen. We will talk to MOD about resources, as we look for other ways to maximise impact."

136. Mr Benn also highlighted DFID's support for the elections, and his decision not to channel further funds through the UN and World Bank Trust Funds.

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[74] Letter Phillipson to Adams, 5 November 2004, 'Iraq: Prime Minister's Discussion with Iyad Allawi, 5 November 2004'.
[75] *CNN World,* 9 November 2004, *Battle for Falluja under way.*
[76] Public hearing, 7 December 2010, page 19.
[77] Letter Benn to Blair, 10 November 2004, [untitled].

137. On Mr Blair's suggestions that the UK needed to find more effective ways of getting the US to spend its funds more quickly and with greater impact, and that DFID should use its experience of post-conflict situations across Iraq (not just in the South), Mr Benn responded:

> "We will get closer to the Project Contracting Office (PCO). Our Basra sector specialists are working with the PCO there, and the DFID Office in Baghdad has close relations with PCO counterparts in Baghdad, including the new (good) head, Bill Taylor. He has declined our offer of a senior reconstruction specialist but we are offering technical help instead. This could help the PCO implement effective reconstruction projects in areas where the Iraqi Interim Government regains control from the insurgents."

138. Mr Benn's reply highlighted a number of decisions taken before Mr Blair wrote his letter:

- DFID's projects to create jobs and provide essential services in the South had been announced in early September.
- The decision not to channel further funds through the UN and World Bank Trust Funds had also been made in early September.
- DFID's work with MND(SE) to help implement QIPs was under way by 13 October.

139. The FCO advised the British Embassy Baghdad on 15 November that, following the meeting of officials on 28 October which had agreed that the UK should make an open-ended offer of support to the PCO, DFID had confirmed that it could provide:

- technical expertise (for example a water or health expert); and
- expertise on post-conflict reconstruction, to help deliver reconstruction in cities and towns where the IIG had regained control.[78]

140. On 16 November, following a visit to Fallujah, Lieutenant General John Kiszely, the Senior British Military Representative, Iraq, reported to the MOD and IPU that the scale of the damage to buildings dramatically outstripped the figures that the US had used in its press statement.[79] Soldiers in Fallujah had told him that between 90 and 95 percent of civilians had left before the fighting had started.

141. General George Casey, MNF-I, had decreed that MNF-I's main effort should be humanitarian assistance and reconstruction, and had appointed Lt Gen Kiszely "in charge of reconstruction".

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[78] Telegram 126 FCO London to Baghdad, 15 November 2004, 'Iraq Reconstruction: UK Assistance for the PCO'.
[79] Minute Crompton to Private Secretary [FCO], 16 November 2004, 'Iraq: Fallujah'.

142. Mr Crompton reported to Mr Straw's Private Secretary that Lt Gen Kiszely was "calm, but clearly taken aback by the damage he had seen". The IPU was:

> "… in touch with DFID to see whether they can assist with the humanitarian effort, and are feeding in some ideas to Kiszely on how best to approach the reconstruction task, using lessons learnt in Kosovo and elsewhere".

143. The Annotated Agenda for the 18 November meeting of the AHMGIR reported Lt Gen Kiszely's conclusions, and that the Red Cross and Red Crescent were being allowed into the city.[80] At least US$58m had been earmarked for reconstruction. The IIG estimated that there were 250,000 Internally Displaced People (IDPs) from Fallujah, about 95 percent of whom were staying with family or friends. The Iraqi Ministry of Health reported that there were "no major humanitarian problems".

144. The Annotated Agenda stated that Prime Minister Allawi had established a Cabinet Reconstruction Committee, whose first tasks would be to co-ordinate reconstruction spending in cities won back from insurgent control and to spend US$200m of Iraqi money for emergency reconstruction in the period up to the elections. DFID advisers were "linked in well" and assisting the Committee.

145. The Annotated Agenda also stated that the PCO had declined DFID's offer to "second a senior reconstruction specialist or more technical help in Baghdad".

146. Gen Walker told the meeting there had been a slow start to reconstruction in Fallujah.[81] That was a failure of the IIG and, in part, non-military US agencies. There was no indication of an immediate humanitarian crisis.

147. Mr Benn said that he was prepared to provide Lt Gen Kiszely with a reconstruction adviser, if one was required.

148. Mr Benn reported that more generally, security remained a significant constraint on reconstruction, but that DFID programmes were progressing relatively well.

149. The AHMGIR agreed that:

- DFID and the FCO should press the UN to deploy a senior, full-time development expert to Baghdad;
- DFID and the FCO should keep pressing the PCO for credible information on reconstruction projects;
- Mr Straw and Mr Blair should speak to their French counterparts about the importance of agreeing a Paris Club debt deal;
- Mr Benn should prepare a note on reconstruction activity in MND(SE) and on wider reconstruction issues; and
- the FCO and DFID should prepare a note on why the PCO was proving slow to deliver reconstruction.

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[80] Annotated Agenda, 18 November 2004, Ad Hoc Group on Iraq Rehabilitation meeting.
[81] Minutes, 18 November 2004, Ad Hoc Group on Iraq Rehabilitation meeting.

150. Sir Nigel Sheinwald spoke to Dr Rice later that day, and expressed his concern that humanitarian and reconstruction efforts in Fallujah had been slow to get off the ground.[82] He reported that Dr Rice shared that concern, but thought that some humanitarian assistance was now getting into the city, and "everyone was adamant" that there was no humanitarian crisis.

151. The FCO advised No.10 on 19 November that there were "plenty of resources available" for Fallujah's reconstruction.[83] The IIG's response was poorly co-ordinated. The UK would monitor the IIG's response, and would feed in advice on the best way to reconstruct houses damaged in the fighting. The UK had advised Lt Gen Kiszely that the most effective approach would be to give each family a sum of money "for them to go and see to the re-building themselves". That approach, used in Kosovo, would ensure that the money was ploughed back into the Fallujah economy and secure residents' "buy-in" to reconstruction.

152. In his weekly report to Gen Walker on 21 November, Lt Gen Kiszely advised that planning for reconstruction was "well developed" within the US Embassy, led by IRMO, but almost none had taken place in the IIG.[84] Prime Minister Allawi was now "cracking the whip", which should lead to greater Iraqi Ministerial engagement. With so few inhabitants in the city, there was no humanitarian crisis, and the "vast majority" of displaced people had found accommodation with extended family or friends. There were some small tented camps around Fallujah, to which NGOs were delivering supplies. The immediate priorities were to clarify the situation and co-ordinate activity; in the absence of the IIG, that fell to MNF-I.

153. Lt Gen Kiszely also advised that his appointment as "MNF-I co-ordinator for humanitarian assistance and reconstruction" had been prompted by Gen Casey's concern about the scale of the humanitarian and reconstruction challenge.

154. Lt Gen Kiszely told the Inquiry:

> "… by the end of November/early December, it was quite clear that this [military] operation was going to be successful. And the big concern for the Americans was what was going to happen afterwards: was this going to be a microcosm, if you like, of the campaign as a whole in which the reconstruction phase was not properly planned for, or were they going to ensure that it was properly planned and managed? And they very much focused on getting this right."[85]

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[82] Letter Sheinwald to Adams, 18 November 2004, 'Conversation with US National Security Adviser: 18 November 2004'.
[83] Letter Owen to Phillipson, 19 November 2004, 'Iraq: the Political Process – Prospects for Elections and Sharm El-Sheikh'.
[84] Minute Kiszely to CDS, 21 November 2004, 'SBMR-I's Weekly Report (138) of 21 Nov 04'.
[85] Public hearing, 14 December 2009, page 16.

155. President Bush and Mr Blair spoke by video conference on 30 November. Mr Blair's briefing stated that he should raise Prime Minister Allawi's concern that humanitarian and reconstruction assistance was not getting into Fallujah and other key spots quickly enough.[86]

156. During the video conference, Mr Blair said that Fallujah "had gone well" and the story of what US forces had found there – including evidence of torture chambers – should be put into the public domain.[87] He suggested that the operation had "sent a clear message that the insurgents could not win".

157. The record of the video conference did not include any reference to the humanitarian and reconstruction effort in Fallujah or other "key spots".

158. Ms Margaret Aldred, Deputy Head Overseas and Defence Secretariat in the Cabinet Office, advised Sir Nigel Sheinwald on 1 December, in the context of a report on the situation in Fallujah, that she had received reports that a DFID adviser and a DFID-funded consultant attached to the Cabinet Reconstruction Committee were beginning to make a difference.[88] Those individuals had been re-deployed from within Iraq.[89]

159. A second DFID-funded consultant, Dr Gilbert Greenall, had arrived in Iraq that day to advise Lt Gen Kiszely on the phased return of IDPs to Fallujah.[90]

160. Mr Suma Chakrabarti, the DFID Permanent Secretary, and Mr Drummond reported to Mr Benn on 13 December:

> "DFID provides the core of Allawi's co-ordination team on Fallujah …
>
> "Fallujah demonstrates that neither the IIG nor the US thought through the humanitarian aspects of military actions, though they had allocated money for reconstruction. For the next few weeks we need to have immediate post-conflict expertise in the DFID Office in Baghdad …"[91]

161. Mr Benn told the 16 December meeting of the Ad Hoc Ministerial Group on Iraq that the IIG, with the support of DFID advisers, had put together a package of basic humanitarian support and funds for the reconstruction of homes in preparation for the return of IDPs.[92] Ministers agreed to follow developments closely.

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[86] Minute Phillipson to Prime Minister, 29 November 2004, 'VTC with President Bush, 1220 – 1300 30 November'.
[87] Letter Quarrey to Owen, 30 November 2004, 'Prime Minister's VTC with President Bush, 30 November: Iraq, Syria and Iran'.
[88] Minute Aldred to Sheinwald, 1 December 2004, 'Iraq'.
[89] Letter Cabinet Office [junior official] to Asquith, 3 December 2004, 'Iraq Senior Officials Group'.
[90] Minute Aldred to Sheinwald, 1 December 2004, 'Iraq'.
[91] Minute Chakrabarti/Drummond to Secretary of State [DFID], 13 December 2004, 'Iraq Visit, 6-8 December'.
[92] Minutes, 16 December 2004, Ad Hoc Ministerial Group on Iraq meeting.

162. Section 9.3 describes the impact of operations in Fallujah on security and the political process.

163. Five months later, on 12 May, the British Embassy Baghdad reported that Embassy staff had visited Fallujah, hosted by US forces.[93] The scale of destruction was apparent, but there was also progress:

- Between 90,000 and 150,000 of Fallujah's estimated 240,000 inhabitants had returned.
- All water treatment plants, tanks and pipes had been restored and two new pumping facilities had been installed.
- Electricity had been restored to between 80 and 100 percent of the main residential area, but only to between 0 and 40 percent of the "industrial south".
- Of the city's 69 schools, 38 were open and 15 would open by the end of the month. "Huge progress" had been made in restoring healthcare.

164. The Embassy commented:

> "This may be an over-rosy view of developments in Fallujah, it was a determined PR [public relations] effort, but the signs of life around the town spoke volumes. Likewise, the prominence of Iraqis throughout the visit and US willingness to let them lead was not what we had expected. Congratulations to the US Marines!"

Lessons from Najaf

In late January 2005, Dr Greenall and another DFID-funded consultant visited Najaf to review progress since the US intervention in August 2004 and to identify lessons for future operations in Iraq.[94]

Their assessment was more positive than the Cabinet Office paper of 22 October 2004.

The consultants reported that although the short conflict had resulted in considerable damage, there was a "permissive environment" on the streets. That could be attributed largely to an effective post-conflict assistance strategy: US$48m had been allocated for projects and "social payments", with 156 projects being completed in the first 100 days after the uprising. Funding had come from CERPs, PCO funds re-directed away from large infrastructure projects, and USAID. The impact on the local economy had been substantial.

A key strength of the US military's approach had been to engage directly with the Provincial Governor and the Mayor to ensure local ownership. The Governor remained frustrated, however, by the level of support from the Iraqi Government.

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[93] Telegram 4393/05 Baghdad to FCO London, 12 May 2005, 'Impressions of Fallujah: 12 May'.
[94] Telegram 85 Baghdad to FCO London, 3 February 2005, 'Iraq: Post-Conflict Reconstruction Lessons from Najaf'.

Ms Lindy Cameron, the Head of DFID Baghdad, commented on the report that while Najaf was not typical of "problem cities":

> "Nevertheless, it demonstrates the importance of having in place a clear strategy for immediate post-conflict support so that the military can help civilian authorities get instant access to funds, take immediate action, get essential services running and put money into the local economy, starting a virtuous circle leading in the longer-term (as in Najaf) to a conducive environment for large infrastructure projects, re-establishment of normal market mechanisms and a benign force profile."

There are no indications that Mr Blair or Ministers saw the report.

Agreement on debt relief for Iraq

165. Section 10.3 describes the UK Government's role in negotiations towards a deal to reduce Iraq's debt.

166. On 24 September, as part of those negotiations, the Iraqi Government undertook to begin to reduce fuel subsidies by the end of the year, and to raise prices to "cost recovery levels" by the end of 2009.[95]

167. On 21 November, Paris Club creditors agreed to reduce Iraq's official debt by 80 percent (a reduction of US$31.1bn).[96] The deal would be delivered in three stages: 30 percent immediately; 30 percent on IMF approval of a Stand-By Arrangement (expected to be in 2005); and 20 percent on completion of the Stand-By Arrangement (in 2008). Paris Club creditors also agreed generous terms for the repayment of the residual debt.

168. Under the agreement, the UK wrote off US$1.39bn (£954m) in Iraqi debt (£337m in UK financial year 2004/05, £337m in 2005/06 and £280m in 2008/09).[97]

169. A Treasury briefing produced for Mr Brown stated that the deal represented an important success for the international community, demonstrating an ability to act together on an issue as divisive as Iraq.[98]

Taking the strain in the South, early 2005

170. Section 9.3 describes the UK's continuing efforts to support the political process in Iraq, and in particular ensuring that elections could take place on schedule at the end of January 2005.

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[95] IMF Staff Report, September 2004, *Iraq: Use of Funds – Request for Emergency Post-Conflict Assistance.*
[96] Briefing Treasury, [undated], 'Brief: Meeting with Barham Saleh, Deputy Prime Minister of Iraq'
[97] Letter Cabinet Office [junior official] to Aldred, 13 September 2011, 'Iraq Inquiry: Request for Further Information on Funding'.
[98] Briefing Treasury, [undated], 'Brief: Meeting with Barham Saleh, Deputy Prime Minister of Iraq'.

171. At the end of 2004, in response to continuing concerns that the US and the PCO did not see the South as a priority and that the World Bank and UN Trust Funds were not yet fully operational, DFID assessed that it would have to "take more of the strain bilaterally in 2005", in particular on infrastructure and job creation in the South.

172. On 18 November, in response to a request from the FCO, Mr Collis reported on the state of reconstruction in the South.[99] The IIG was not funding any significant capital projects in the South and the PCO remained a "weak and Baghdad-centric" organisation. PCO projects would not have a significant impact on service delivery until well into 2005.

173. DFID officials met senior PCO officials in Baghdad on 2 December.[100] The British Embassy Baghdad reported that, in response to the security situation, the PCO planned to focus on "low-hanging fruit" (visible projects such as repairs to schools and clinics) at the expense of major longer-term reconstruction projects and building Iraqi capacity. In addition, if the US Congress did not agree further funding for CERPs, the PCO was likely to reallocate funds from stable to less secure areas.

174. The Embassy concluded: "We need to fight to keep PCO funding in the South."

175. At the 9 December meeting of the AHMGIR, Ministers commented that the PCO was "large and unwieldy" and faced a difficult balance between quick fixes and long-term reconstruction.[101] UK influence was limited: the PCO was a US organisation following US rules "though it was sometimes open to UK advice". Much of its effort was being pulled into Fallujah and away from the South.

176. Mr Chakrabarti and Mr Drummond visited Baghdad and Basra from 6 to 8 December to review DFID's programmes and assess priorities for 2005.[102]

177. Their 13 December report to Mr Benn advised that with the PCO "diverted" to immediate reconstruction work in cities around Baghdad, and the World Bank and UN Trust Funds not yet fully operational, DFID would "have to take more of the strain bilaterally in 2005". DFID's resources were, however, limited and "must be used to support Iraqi initiatives and strengthen their capacity".

178. On PCO activity in the South, the report stated:

> "As junior partners in the coalition, our ideas are listened to, but our influence over US spending will remain limited. We need to face up to the fact: the South will not be a strategic priority for the US."

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[99] Telegram 200 Basra to FCO London, 18 November 2004, 'Southern Iraq: Essential Services, Reconstruction'.
[100] Telegram 455, Baghdad to FCO London, 5 December 2004, 'Iraq: Project Contracting Office (PCO): Changing Priorities'.
[101] Minutes, 9 December 2004, Ad Hoc Group on Iraq Rehabilitation meeting.
[102] Minute Chakrabarti/Drummond to Secretary of State, 13 December 2004, 'Iraq Visit, 6-8 December'.

179. The report identified possible DFID priorities for 2005:

- continued support to strengthen Iraq's public administration, including Prime Minister Allawi's office;
- continued support for economic reform, including a renewed effort to get the World Bank and IMF back into Baghdad. Their officials could be accommodated in the "DFID wing" of the British Embassy;
- substantial, additional support for job creation and "emergency infrastructure works" in the South; and
- a further contribution to the UN and World Bank Trust Funds when there was hard evidence of delivery, and the UN was back on the ground.

180. Copies of the report were sent to the FCO, the MOD, No.10, the Cabinet Office and officials in Baghdad and Basra.

181. DFID's intentions were set out in more detail in a minute from Mr Drummond to a DFID official two days later:

> "… we will have to take more of the strain in 2005 on infrastructure. The TAT team and others should begin thinking now about what can be done with UK resources (possibly up to £50m) so that there are ideas ready to be appraised."[103]

182. That work would culminate in the agreement by Mr Benn of the £40m Iraq Infrastructure Services Programme (IISP) in late February 2005.

183. Mr Chaplin reported on 15 December that the US review of IRRF2 had reduced funding for water and power projects in Basra.[104] The reallocations had not been based on Iraqi advice or geographical need, but on a US desire to avoid breaching existing contracts and the PCO's belief that larger projects in the South could be more easily funded by other donors.

184. Major General Jonathon Riley, General Officer Commanding (GOC) MND(SE), reported on 20 December:

> "Wherever I go … I am greeted by Provincial Governors and others with the same set of complaints: that the promises made to them have been broken, that things are getting worse not better … The increase in my QIPS delegation is massively helpful, but the amount of money cannot change the overall situation. DFID is working really very efficiently, and we have a real partnership here, but this is not natural territory for them and again, their funds will not change the overall situation. The solution lies with Central Government in Baghdad and the PCO, which together have raided major projects in the South, such as the electricity programme, in order to fund security. I have tried to point out that investing in the South now, where the security

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[103] Minute Drummond to DFID [junior official], 15 December 2004, 'Iraq: Visit Follow-up'.
[104] Telegram 475 Baghdad to FCO London, 15 December 2004, 'Iraq: PCO Water and Power Sectors'.

> situation is benign will do two things: first, reward good behaviour and encourage further progress … and secondly, benefit the whole of the country …
>
> "I am not responsible for economic regeneration, and I do not intend to become a bore about it – so I mention it now – once, and once only. But since I am not responsible, I cannot be made accountable for the failures of others."[105]

185. Mr Blair visited Baghdad on 21 December.[106]

186. Mr Chaplin's briefing for Mr Blair described an Iraqi Government that was struggling to maintain supplies of power and fuel as the insurgency took hold, and that had abandoned hope of visible progress on reconstruction before the elections.[107]

187. During his visit, Mr Blair asked Gen Riley for advice on "big-ticket" items that might make a difference to the economy and essential services of southern Iraq.[108]

188. Mr Quarrey's report on the visit recorded that "Iraqiisation and political outreach were key themes".[109] Mr Blair remained "very concerned about the slow pace of reconstruction spending, especially in the South" and about the funding available for Iraqiisation, and wanted the UK to make a major effort to secure greater funding for both, in particular from the US. A copy of the report was sent to Mr Benn's Principal Private Secretary.

189. Gen Riley responded to Mr Blair's request for big-ticket projects on 3 January 2005, in his weekly report to Gen Walker.[110] He proposed that, at a minimum, the UK should aim to build a 200 megawatt (MW) gas turbine plant in the South at a cost of up to US$100m. USAID estimated that up to four additional power stations needed to be constructed in Iraq each year to 2020, but only one was currently planned in the South, which would be funded by Japan. A new power plant would be a visible contribution to the South and to Iraq, would boost long-term investment and would provide a more reliable power supply to the oil sector, essential services and Iraqi citizens.

190. The MOD sent Gen Riley's report to No.10 on 4 January.[111] It was not included in Mr Quarrey's weekly round-up on Iraq for Mr Blair (which issued on 7 January), and the Inquiry has seen no evidence that the report was passed to Mr Blair.[112]

191. Gen Riley's proposal was addressed in a DFID review of infrastructure requirements in the South the following month.

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[105] Report Riley, 20 December 2004, 'GOC MND(SE) – southern Iraq Update – 20 December 04'.
[106] *BBC News,* 21 December 2004, *Blair's statement in Baghdad.*
[107] Telegram 494 Baghdad to FCO London, 21 December 2004, 'Prime Minister's Visit to Iraq, 21 December: Scenesetter'.
[108] Report Riley, 3 January 2005, 'GOC MND(SE) – southern Iraq Update – 3 January 2005'.
[109] Letter Quarrey to Owen, 23 December 2004, 'Prime Minister's Visit to Iraq: Follow-up'.
[110] Report Riley, 3 January 2005, 'GOC MND(SE) – southern Iraq Update – 3 January 2005'.
[111] Letter Naworynsky to Quarrey, 4 January 2005, 'Iraq: Update' attaching Report Riley, 3 January 2005, 'GOC MND(SE) – southern Iraq Update – 3 January 2005'.
[112] Minute Quarrey to Prime Minister, 7 January 2005, 'Iraq: Weekly Round-up'.

Basra International Airport reopens to commercial traffic

UK forces continued to provide air traffic control and certain other services at Basra International Airport (BIA) after the transition from the CPA to the IIG on 28 June 2004.

During the Occupation, the UK considered but rejected opening BIA to commercial flights, due to the potential liability for the UK (see Section 10.1).

On 14 December, the UK and IIG signed a Memorandum of Understanding indemnifying the UK Government and its agents against all claims arising from the provision of services by UK personnel at BIA.[113]

Following that agreement, BIA reopened to commercial traffic on 1 January 2005.[114] UK forces continued to provide support.

192. In a video conference with President Bush on 4 January, Mr Blair said that the US and the UK should support Prime Minister Allawi's new security plan (see Section 9.3).[115] A key issue would be funding. Reconstruction would not be a problem once the security situation improved. Mr Blair asked if the US could, in the short term, redirect some US reconstruction funding to security.

193. Sir Nigel Sheinwald sent Mr Stephen Hadley, US Deputy National Security Advisor, a Note by Mr Blair on 10 January, and asked him to show it to President Bush before their video conference the following day.[116] Mr Blair's Note covered "our most pressing problems".

194. On Iraq, he judged:

> "All the problems go back to security. Without it the politics are difficult, the reconstruction shackled and the faith of Iraqis in the future undermined."

195. Mr Blair considered that four actions were necessary:

- the Iraqiisation of security forces;
- spending money more quickly on reconstruction, especially of essential services;
- being "very tough indeed on the election", including by ensuring it went ahead on schedule and encouraging participation; and
- signalling a timetable for the withdrawal of US and UK forces "when and only when, we can point to real indigenous Iraqi strength".

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[113] Telegram 474 Baghdad to FCO London, 15 December 2004, 'Iraq: Basra Airport'.
[114] Minute Allardice to DTI [junior official], 12 January 2005, 'Ad Hoc Ministerial Group on Iraq Reconstruction, 13 January 2005' attaching Briefing, [undated], 'Ad Hoc Ministerial Group on Iraq Reconstruction'.
[115] Letter Quarrey to Owen, 4 January 2005, 'Prime Minister's VTC with President Bush, 4 January 2005; Iraq, Iran and MEPP'.
[116] Letter Sheinwald to Hadley, 10 January 2005, [untitled], attaching Note Prime Minister to President Bush, 10 January 2005, 'Note'. Mr Hadley succeeded Dr Rice as US National Security Advisor later that month.

196. Mr Blair wrote: "If we had security, the blunt truth is Iraq wouldn't need much help for reconstruction." However, in those parts of Iraq where security was reasonable, reconstruction funds should be spent more quickly. This would have a powerful demonstrative effect. Mr Blair suggested to President Bush that they should get a report on the speed and priorities of the reconstruction programme.

197. The record of the video conference did not include any reference to reconstruction.[117]

DFID reduces its budget for Iraq for 2005/06

198. At the end of December, DFID's Europe Middle East and Americas Division (EMAD) submitted its Delivery Plan for 2005 to 2008 to the DFID Management Board, for approval.

199. DFID provided the Inquiry with a version of the Delivery Plan marked "Draft", but informed the Inquiry that this version could be the one that was submitted to Management Board.[118]

200. In relation to Iraq, the draft Delivery Plan stated that DFID was seeking to "strike a sensible balance between short-term fixes and longer-term development".[119] DFID planned to scale down its assistance over the following three years, shifting from "post-conflict reconstruction" towards targeted technical assistance.

201. Limiting EMAD expenditure on Middle Income Countries (MICs), including Iraq, would be a "key factor" in ensuring that DFID met its target of spending at least 90 percent of country programme resources on Lower Income Countries (LICs) in each year from 2005/06 to 2007/08. Attaining the target for 2005/06 would require some £20m of in-year savings from MIC budgets.

202. The draft Delivery Plan stated that the current, agreed DFID budget for Iraq for 2005/06 was £86m (reducing to £45m and £30m in the subsequent financial years). However:

> "It has been agreed that £20m savings in MIC programmes should be found through in-year and between-year management of spending. We expect the bulk of these savings will be found from underspending on the Iraq budget; bringing the expected spend on Iraq to closer to £66m than the full aid framework allocation of £86m …"

203. EMAD invited the Management Board to agree that those savings should be retained within EMAD, and used for its non-MIC programmes.

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[117] Letter Quarrey to Owen, 11 January 2005, 'Prime Minister's VTC with President Bush, 11 January'.
[118] Email DFID [junior official] to Iraq Inquiry [junior official], 20 January 2016, 'DFID docs on reduction in Iraq's budget for 2005/06'.
[119] Paper DFID, 22 December 2004, 'Draft: Europe Middle East and Americas Division (EMAD): Director's Delivery Plan [draft] for 2005 – 2008'.

204. The 25 and 26 January 2005 meeting of DFID's Management Board "noted that the anticipated reduction (£20m) of **programme spend in Iraq** should enable … **LIC commitments** to be met in 2005/06".[120]

205. A junior DFID official advised colleagues the following week that the Management Board had imposed a "cap" on Iraq expenditure for 2005/06 of £65m.[121] She commented that the decision was "largely to ensure that we do not undermine the agreed MIC/LIC targets".

206. The official also advised that DFID's overall budget was "running very hot" and that DFID's Finance Department had "both eyes" on the £40m of Iraq's 2004/05 budget that had not yet been allocated.

207. The £65m budget for Iraq for 2005/06 was formally confirmed on 14 March.[122]

208. DFID's Iraq Directorate undertook internal exercises in February and March to prioritise expenditure against the new, lower budget.[123]

209. The March exercise estimated that "commitments and plans" for Iraq for 2005/06 totalled £123m (against the budget of £65m), of which:

- £59m was "firm";
- £55m was high priority (including £40m for the planned Iraq Infrastructure Services Programme);
- £8.5m was medium priority; and
- less than £1m was low priority.[124]

DFID's budget for and expenditure in 2005/06

Following the 25 and 26 January 2005 meeting of DFID's Management Board, DFID reduced its budget for Iraq for 2005/06 from £86m to £65m.[125]

DFID expenditure in 2005/06 was £82m. That comprised:

- £38m for "life support costs" (accommodation, security, medical services and other services) provided by the FCO and charged to DFID (and other departments and agencies) under a Service Level Agreement. Approximately half of that charge related to services used in 2004/05 and half to services used in 2005/06;
- £35m for infrastructure projects; and
- £10m for governance projects.[126]

[120] Minutes, 25/26 January 2005, DFID Management Board meeting.
[121] Email DFID [junior official] to DFID [junior official], 31 January 2005, 'Iraq: FINSTATS 3'.
[122] Minute Calvert to [DFID] Directors, 14 March 2005, 'Resource Allocation Round: 2005-08'.
[123] Email DFID [junior official] to DFID [junior official], 14 February 2005, 'Iraq: Forecast 2005/06'; Email DFID [junior official] to Anderson, 11 March 2005, '2005/06 Commitments'.
[124] Email DFID [junior official] to Anderson, 11 March 2005, '2005/06 Commitments'.
[125] Minute Calvert to [DFID] Directors, 14 March 2005, 'Resource Allocation Round: 2005-08'.
[126] Letter Cabinet Office [junior official] to Aldred, 1 July 2011, 'Iraq Inquiry: request for further information on funding'; Paper DFID, 21 December 2011, 'A Note on DFID Iraq Programme Admin Spend for the Iraq Inquiry'.

The apparent overspend against DFID's 2005/06 budget was caused by the FCO charge for life support costs.

DFID's expenditure on infrastructure projects peaked in 2005/06. Of the £45m spent on non-life support costs in 2005/06, £35m – over 75 percent – was spent on infrastructure.[127] In comparison, DFID spent £15m on infrastructure in 2004/05 and £14m in 2006/07.

Priorities for 2005

210. In February, Ministers agreed UK priorities for 2005, including "reviewing reconstruction to find ways to make a difference quickly".

211. On 21 January, No.10 commissioned the Cabinet Office to produce a paper on Iraqiisation, the UK's military options and a game plan for engaging the US, to support a discussion on UK strategy after the Iraqi elections.[128]

212. The 28 January meeting of the Iraq Strategy Group (ISG) discussed a draft of that paper.[129] Sir Nigel Sheinwald said that Mr Blair would also want the paper to consider "what could be done to achieve quick and labour-creating results on reconstruction including outside MND(SE)".

213. Sir Nigel asked that the paper also consider the involvement of the wider international community in military, police and civil administrative capacity-building.

214. The elections to the Transitional National Assembly (TNA) and Provincial Assemblies took place across Iraq on 30 January 2005. The TNA did not convene until 16 March, after which negotiations to form the Iraqi Transitional Government (ITG) continued into late April (see Section 9.3).

215. On 1 February, Mr Blair suggested to President Bush that they should focus on four areas in order to exploit post-election momentum:

- Iraqiisation;
- political outreach, including "whittling away at the opposition, so that the hard core were left isolated";
- drawing in the international community; and
- reconstruction, including areas in which there could be a quick impact (eg power generation).[130]

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[127] Letter Cabinet Office [junior official] to Aldred, 1 July 2011, 'Iraq Inquiry: request for further information on funding'.
[128] Letter Phillipson to Baker, 21 January 2005, 'Iraq: Future Strategy'.
[129] Minute Ferguson to Sheinwald, 1 February 2005, 'Iraq Strategy Meeting – 28 January 2005'.
[130] Letter Quarrey to Owen, 1 February 2005, 'Prime Minister's VTC with President Bush, 1 February'.

216. Mr Blair proposed that these areas should be drawn into a plan by the ITG, which the UK and US could then support.

217. On 3 February, just before the announcement of the election results, the Joint Intelligence Committee (JIC) assessed the nature and strength of the insurgency.[131] Despite operational successes in Sunni areas:

> "… the military campaign is not effectively containing the insurgency in Sunni areas. Law and order, the pace of economic reconstruction, the availability of jobs and general quality of life have not matched [Sunni] expectations. Most Sunnis perceive themselves to be worse off economically, and in security terms than under Saddam. Sunni 'hearts and minds' are being lost."

218. The JIC assessed that the election results were likely to be less important in determining Sunni support for the insurgency than the degree to which credible Sunnis could be brought into the political process, "the speed at which reconstruction is taken forward" and the duration of the coalition's presence in Iraq.

219. A revised Cabinet Office strategy, drawing on the JIC assessment, was submitted to the 9 February Ad Hoc Ministerial Group on Iraq, chaired by Mr Blair.[132] The key elements of the strategy for the coming year were:

- building the capability of the ISF;
- outreach by the ITG to bring in those currently supporting the insurgency;
- drawing in the international community and giving it a new sense of purpose (including getting the UN to do more on reconstruction); and
- "reviewing reconstruction to find ways to make a difference quickly".

220. The strategy identified key "governance and reconstruction" challenges in 2005, including:

- the weak capacity of Iraqi Government institutions to drive reconstruction;
- sustained improvements in the availability of fuel and electricity needing difficult reforms and a crackdown on corruption and sabotage;
- the limited presence on the ground of international agencies and NGOs; and
- ensuring all Iraq benefited ("the South is not a strategic priority for the US").

221. The six "governance and reconstruction" actions for the UK before the ITG was formed were:

- preparing key messages to the new government on reconstruction priorities, focusing on developing a stronger relationship between Baghdad and the governorates;
- working with the US to make its reconstruction effort more effective. The US should focus on rapid job creation, and directly fund Iraqi ministries;

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[131] JIC Assessment, 3 February 2005, 'Iraq: Insurgency and Counter-Insurgency'.
[132] Paper Cabinet Office, 7 February 2005, 'Iraq Strategy for 2005'.

- supporting the handover of power to the new government, through the DFID-funded consultancy team;[133]
- pressing the UN, IMF and other donors to engage;
- completing the design of DFID's new £40m power and infrastructure programme for the South; and
- deciding on ways to expand visible job creation work in the South.

222. ITG ownership of governance and reconstruction would be crucial. The UK would strengthen the ITG's strategic communications capacity, to ensure that successes were promulgated.

223. The strategy also identified a number of economic priorities:

- ensuring the UK "plays its part" in achieving a "fair and sustainable" solution to Iraq's debt problems. Iraq would need to secure comparable debt relief from non-Paris Club debtors;
- encouraging Iraq to complete its IMF programme;
- continuing to support economic reform;
- promoting an "efficient, outward looking and transparent" oil and energy industry and the transparent management of Iraq's oil reserves; and
- advising on an effective response to inflationary risks.

224. The strategy stated that the UK's current posture in Iraq was costing around £1bn a year, but did not comment on whether this amount was appropriate or sufficient.

225. In discussion, Ministers commented that it was essential that the security, political and reconstruction tracks were synchronised if the UK was to achieve its objectives in Iraq.[134] If necessary, the UK should push ahead with plans for security and reconstruction in MND(SE), in advance of developments in the rest of the country.

226. The Group approved the strategy and agreed that No.10 should pass an updated version to the US, raising the issue of diversion of US funding for reconstruction projects from the South to other parts of the country.

227. The Group also agreed that Mr Blair and Mr Benn should press Mr Annan and Mr James Wolfensohn, President of the World Bank, to deploy staff to Basra.

228. Sir Nigel Sheinwald sent a revised version of the strategy to Mr Stephen Hadley, US National Security Advisor, on 11 February.[135]

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[133] A reference to DFID's £4.2m Emergency Public Administration Programme, which was developed to help establish the Prime Minister's Office and the Cabinet and committee system.
[134] Minutes, 9 February 2005, Ad Hoc Ministerial Group on Iraq meeting.
[135] Letter Sheinwald to Hadley, 11 February 2005, 'Iraq' attaching Paper, 'Iraq: Strategy for 2005'.

229. At the meeting of the ISG on the same day, Mr Martin Dinham, DFID Director Europe, Middle East and Americas, set out what DFID would do "in response to the renewed Ministerial mandate to press ahead with reconstruction, particularly in MND(SE)".[136] The £40m Iraq Infrastructure Services Programme (IISP) would be approved in the next few weeks. More money was available for job creation if required. But it was also key to get other donors engaged. Mr Benn and DFID officials were lobbying the UN, World Bank and IMF. Officials in Basra were conducting a review of infrastructure requirements to identify gaps.

230. Mr Blair wrote to Mr Wolfensohn on 16 February, highlighting the slow pace of delivery on Trust Fund projects and the value of having core World Bank staff (rather than a contracted liaison officer) in Iraq, and offering to provide accommodation and security for World Bank staff in Baghdad and Basra.[137]

231. Mr Benn wrote to Mr Wolfensohn the following day:

> "We need to seek innovative ways of managing the difficulties and risks associated with working in present-day Iraq. The [World] Bank might need to reallocate funding to new projects that can be delivered … One way to do this might be to channel funding directly through provincial government systems to their priority projects."[138]

232. Mr Benn repeated Mr Blair's offer to provide support for World Bank staff in Iraq, and highlighted the need for a strong World Bank presence in the power sector.

233. Mr Dinham followed up those proposals in meetings with World Bank officials during a visit to New York and Washington from 21 to 24 February.[139]

234. During the meetings, World Bank officials argued that:

- Bank officials could achieve a lot from the Bank's office in Amman, Jordan;
- there were presentational difficulties in being too closely associated with one particular Member State; and
- operating in Iraq was expensive and difficult.

235. Mr Dinham rejected those arguments, pointing out that the UN was now establishing a presence in Iraq with two permanent development specialists and a large number of staff supporting the election process.

236. Mr Dinham also pressed the Bank to accelerate disbursement from its Trust Fund. The UN was now performing better than the Bank. Mr Dinham suggested that the Bank

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[136] Minute Cabinet Office [junior official] to Sheinwald, 11 February 2005, 'Iraq: Strategy Group'.
[137] Letter Blair to Wolfensohn, 16 February 2005, [untitled].
[138] Letter Benn to Wolfensohn, 17 February 2005, 'Iraq Reconstruction'.
[139] Minute Dinham to Shafik, 28 February 2005, 'Visit to Washington and New York, 21-24 February 2005: Discussion of Iraq Issues'.

might redirect some Trust Fund money into co-financing DFID's IISP, or through the provincial governments which DFID was supporting.

237. In a meeting with IMF officials, Mr Dinham offered DFID support to help establish an IMF presence in Iraq. He reported that the IMF was "more responsive" to the offer than the World Bank.

238. In Washington, US State Department officials briefed Mr Dinham on US plans to re-programme some reconstruction funds to fund security in areas where no reconstruction could take place, and to increase funding for projects that would have more immediate impact on the ground. That meant cutting some larger infrastructure projects, including in the South. The US objective was to encourage other donors, in particular Japan, Arab states and possibly the European Commission (EC), to take on longer-term infrastructure projects.

239. In meetings with UN officials, Mr Dinham welcomed progress in implementing UN Trust Fund projects (although he felt that it could be faster) and the news that two UN senior development officials were now permanently based in Baghdad.

240. The DFID review of infrastructure requirements in the South referred to by Mr Dinham at the 11 February meeting of the ISG was submitted to the 24 February meeting of the AHMGIR.[140]

241. The paper stated that a DFID team had recently assessed how DFID could help improve infrastructure in southern Iraq. As a result, Mr Benn had "approved work to bring forward quickly" DFID's £40m IISP.

242. The majority of IISP funds would be used to undertake repairs and improvements to existing infrastructure. To ensure a visible impact on the ground, the programme would fund larger projects (with a value of more than £500,000). Priority would be given to projects which would have an impact within six to 12 months and generate significant employment. 75 percent of the budget was earmarked for power, the rest to improve water supplies and the fuel distribution network.

243. The paper stated that an "alternative approach" would be to invest available resources in new power generation. That would take several years to come on line and would be "a drop in the ocean" of Iraq's power needs. Substantially greater and quicker impact could be achieved by well-targeted repairs and rehabilitation, and building Iraqi capacity.

244. The paper also stated that: "Taken with existing commitments, this new programme [the IISP] means that there will be little scope for additional DFID initiatives in Iraq that involve expenditure in 2005/06."

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[140] Paper DFID, 21 February 2005, 'Reconstruction – outcome of DFID mission on infrastructure in the South; and involvement of other major players'.

245. The Inquiry concludes that the (brief) consideration of investment in new power generation may have been prompted by Gen Riley's 3 February proposal, in response to Mr Blair's request for advice on "big-ticket" items, that the UK should aim to build a 200MW gas turbine plant in the South at a cost of up to US$100m.

246. Mr Hoon wrote to Mr Benn on 25 February, highlighting the need to ensure that the UK did all it could to alleviate power shortages in the South over the summer (before projects under the IISP would begin to come on stream).[141] Plans for a US$10m project to provide point power generation throughout MND(SE), funded by CERPs, were well advanced. Mr Benn's offer to consider whether DFID could fund the project if CERPs funding was not released was very welcome.

247. Mr Blair wrote a note to Mr Quarrey on 25 February instructing that Mr Straw be "put in charge" of the Ad Hoc Ministerial Group on Iraq and asking him to report each week with actions on "eg reconstruction in the South; Sunni outreach; progress on security plan".[142]

248. Mr Benn discussed the World Bank's engagement in Iraq with Mr Wolfensohn on 1 March in the margins of the Palestine Conference.[143]

249. Following a meeting with Mr Benn on 8 March, Mr Michael Anderson, Head of DFID's Middle East and North Africa Department, advised officials in the UK Delegation to the World Bank that Mr Benn had "very little patience" with the Bank:

> "The SoS [Mr Benn] is very clear in his view that the slow disbursement by the Bank under the IRFFI [Trust Fund] is unacceptable …
>
> "… if the Bank is not able to show a significant increase in its engagement in Iraq by the end of March, we will be writing to the Bank to seek refund of the funds to the UK for disbursement through our bilateral programme …
>
> "His commitment to this line is strong, and we will need to find a way to carry forward his views despite the legal and reputational risks that may arise."[144]

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[141] Letter Hoon to Benn, 25 February 2005, 'Iraq: Reconstruction Priorities in MND(SE)'.
[142] Manuscript comment Blair on Minute Quarrey to Prime Minister, 25 February 2005, 'Iraq Update'.
[143] Letter Dinham to Tulu, 2 March 2005, 'Iraq'.
[144] Email Anderson to Scholar, 8 March 2005, 'World Bank and Iraq'.

Mr Benn's evidence to the International Development Committee, 10 March 2005

Mr Benn gave evidence to the International Development Committee (IDC) on 10 March 2005, as part of its inquiry into development assistance to Iraq.[145] His hearing followed a visit by three members of the IDC (Mr Quentin Davies, Mr Tony Colman and Ms Ann Clwyd) to Iraq.

Mr Davies reported that he had been struck by the progress made in reconstruction and building Iraqi capacity, and by the "very good" co-operation between DFID and the military on the ground. He challenged Mr Benn on two issues. First, that the separate budgets held by DFID and the MOD for reconstruction could lead to "some muddle". Second, that some of DFID's work to build the capacity of the Iraqi Government was inconsistent with the 2002 International Development Act.

Mr Benn welcomed the IDC's observation that DFID and the MOD were working well together on the ground. He commented:

> "DFID has come into Iraq and done things that traditionally we would not do … Why? Because that was what was required in the circumstances. We had to dust down some skills and the Post-Conflict Reconstruction Unit [PCRU] is one of the lessons from this …"

The PCRU and its role in Iraq is described in Section 10.3.

Mr Benn strongly rejected the charge that some of DFID's work was inconsistent with the 2002 International Development Act, arguing that capacity-building was crucial for poverty reduction:

> "… having states that work … governments that can do their job, is absolutely fundamental to improving services and the lives of poor people."

The imminent dissolution of Parliament brought the inquiry to a close. The IDC did not publish a report, but did publish the evidence it had gathered as part of its inquiry.

The IDC did not undertake another inquiry into the UK's reconstruction effort in Iraq.

250. Gen Riley reported on 16 March that he was "still worried" about providing sufficient power across MND(SE) over the summer.[146] Temperatures were already creeping up, and he remembered the "near-disaster" in summer 2003 caused by the failure of essential services.[147]

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[145] Seventh Report from the International Development Committee, Session 2004-2005, *Development assistance in Iraq: Interim Report*, HC244.
[146] Report Riley, 16 March 2005, 'GOC MND(SE) – southern Iraq Update – 16 March 2005'.
[147] A reference to the riots in Basra on 10/11 August 2003, which the UK assessed were triggered by fuel shortages and power blackouts.

251. While he waited for approval of the point power generation project, he had ordered MND(SE) to search for additional sources of energy and funding. They had identified 131 generators across the region, of which only 22 were working. Most of the inoperable generators had never been installed. MND(SE) had completed the installation of 32 of those generators.

252. Mr Quarrey passed Gen Riley's update to Mr Blair on 18 March, with the comment:

> "The situation is bleak, with generation levels this summer unlikely on current predictions to be significantly higher than last year – and almost certainly matched by higher demand."[148]

253. Mr Quarrey advised that funding for the point power generation project (which would become Operation AMPERE) had now been approved.

254. The funding was provided by DFID.[149]

255. Mr Quarrey also advised that officials were working on a new strategy paper on electricity, but it focused too much on the medium term and not enough on what the UK could do to improve the situation over the summer. He recommended that the next AHMGIR should focus on producing a short-term action plan.

256. Mr Blair indicated that he agreed with Mr Quarrey's proposal, and that he would raise the issue of power generation with President Bush.[150]

257. A report on a visit to Iraq by senior DFID officials alerted other departments to pressures on DFID's budget.

258. Mr Dinham and Mr Anderson visited Iraq from 14 to 19 March.[151]

259. Mr Dinham's report to Dr Nemat Shafik, DFID Director General Programmes, characterised the DFID programme as "a balance of capacity building and visible, quick impact reconstruction activity, particularly in the South". There was "accelerated progress" on both capacity building and reconstruction, helped by "excellent collaboration" with the FCO and MOD.

260. Mr Dinham warned that:

> "One side effect of the good progress we are making … is that our Iraq budget allocation for 2005/06 is under extreme pressure. If activities to which we are already committed plus extensions of existing high priority capacity building programmes proceed at the current pace, we will exceed our existing budget ceiling, without any new proposals already in the pipeline being taken into account."

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[148] Minute Quarrey to Prime Minister, 18 March 2005, 'Iraq Update' attaching Report Riley, 16 March 2005, 'GOC MND(SE) – southern Iraq Update – 16 March 2005'.
[149] Paper FCO/DFID, 22 March 2005, 'Iraq: Electricity'.
[150] Manuscript comment Blair on Minute Quarrey to Prime Minister, 18 March 2005, 'Iraq Update'.
[151] Minute Dinham to Shafik, 21 March 2005, 'Visit to Iraq'.

261. He continued:

> "The need to cut back our budget [for Iraq] in 2004/05 to help meet internal DFID financial pressures related to the estimating adjustment; plus the MIC ceiling constraint in 2005/06; plus escalating cost relating to security … have all contributed to the pressures."

262. DFID would seek to deal with those pressures through "a variety of careful financial management techniques" and an "active search for co-financing" with partners including the World Bank and the EC. However:

> "… the scope for new activity in 2005/06 is nil and we will have to delay until 2006/07 some of the proposals in the pipeline with which we hoped to proceed in 2005/06."

263. Mr Dinham also reported that Iraqi governorates did not yet have the capacity to receive supplementary funding from sources such as the World Bank and the US, as DFID had hoped.

264. Copies of Mr Dinham's report were sent to Mr Benn's Private Secretary, Mr Chakrabarti's Private Secretary, other DFID officials, and officials in No.10, the Cabinet Office, the FCO, and the MOD.

265. Mr Quarrey marked Mr Dinham's report to Sir Nigel Sheinwald with the comment:

> "This is worrying – we need to have some flexibility in 05/06, including to support ITG ideas/priorities."[152]

266. Mr Straw made his first report to Mr Blair on the work of the Ad Hoc Ministerial Group on Iraq on 24 March.[153] He attached a number of reports, included a joint FCO/DFID paper describing the state of the electricity sector, which he described as a focus for the Group's work.

267. The FCO/DFID paper stated that the Iraqi Government was struggling to sustain production at more than 4,000MW per day and was unlikely to meet its target of producing 6,000MW per day by the summer. Demand had soared as the economy had grown, and was now estimated to be 8,000MW per day (that figure would increase over the summer). Power cuts would continue.

268. The paper identified four factors behind the failure to increase power production above May 2003 levels:

- continued sabotage;
- the unreliability and inefficiency of existing power infrastructure;

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[152] Manuscript comment Quarrey on Minute Dinham to Shafik, 21 March 2005, 'Visit to Iraq'.
[153] Letter Straw to Blair, 24 March 2005, 'Iraq: Ad Hoc Ministerial Meetings' attaching Paper FCO/DFID, 22 March 2005, 'Iraq: Electricity'.

- poor management by the Iraqi Government; and
- a lack of "strategic focus" by the CPA in the immediate post-conflict period.

269. The paper advised that the Iraqi Government needed to develop a long-term energy strategy which addressed subsidy and charging issues (power was free). The World Bank had agreed to advise on strategy and co-ordination "with DFID facilitating".

270. Given limited UK funds, the UK was focusing on:

- meeting key short-term needs. The US$10m provided to Gen Riley should produce 25MW and £10m provided under the SIESP a further 50MW. In the longer-term, the IISP should produce 160MW by April 2006;
- leveraging engagement from others, and;
- providing strategic advice to the Iraqi Government.

271. The FCO/IPU concluded that planned work was unlikely to solve Iraq's power generation problem in time for the summer. The UK should encourage the Iraqi Government to plan now for next summer and the longer term, through the development of a coherent strategy for the energy sector.

272. In his covering letter to Mr Blair, Mr Straw stated that 55 percent of DFID's budget for Iraq for 2005/06 would be spent in the power sector.[154]

273. Mr Blair indicated that he had seen the letter, but did not comment on it.[155]

274. MND(SE) and the DFID Basra Office reported on 30 March that they had reached agreement on how to use the US$10m provided by DFID for power generation in the South.[156] MND(SE) had initially favoured diesel generators, DFID gas turbines. A "hybrid proposal" had emerged, involving the purchase of diesel generators for fewer sites than originally proposed and the refurbishment of existing gas turbines. MND(SE) estimated that the project – Operation AMPERE – would produce an additional 16.5MW by 1 July. It would only be a temporary solution. DFID's IISP would help to maintain existing capacity, but substantive improvement would only come through long-term restructuring, institutional reform and major capital investment. That agenda would be pursued with the ITG.

275. The effect of Op AMPERE is considered later in this Section.

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[154] Letter Straw to Blair, 24 March 2005, 'Iraq: Ad Hoc Ministerial Meetings'.
[155] Manuscript comment Blair on Note Quarrey to Prime Minister, 30 March 2005, 'Iraq'.
[156] Telegram 47 Basra to FCO London, 30 March 2005, 'Iraq: Meeting Peak Power Demands in the South this Summer'.

276. Gen Riley reported on 5 April that a fire had completely shut down the main power station in Nasiriyah, which supplied 50 percent of the electricity to the MND(SE) area.[157] He commented:

> "This simply serves to point up the fragility of the national supply and to illustrate that DFID and MND(SE) alone are never going to solve the electricity problem in southern Iraq. While I still believe that DFID's US$10m will make a small difference this summer the symbolic nature of the money is as important as the power it will produce."

277. Gen Riley concluded that "more drastic action" was needed to prevent an even bigger problem in summer 2006.

DFID reviews its Interim Country Assistance Plan

278. DFID had published its Interim Country Assistance Plan for Iraq (I-CAP) in February 2004, at a time when the UK was a joint Occupying Power in Iraq and security was improving.[158]

279. The I-CAP re-stated DFID guidance that progress against a CAP should be assessed annually, and that a CAP should be subject to a "major review" every three or four years. The I-CAP stated that, given the rapidly changing situation in Iraq, it would need a "substantial" review after one year.

280. Mr Anderson circulated a note on the programme management issues identified during his 14 to 19 March visit to Iraq to DFID colleagues only on 4 April 2005.[159]

281. Mr Anderson highlighted the next 12 months as a critical period for DFID's Iraq programme and a "key window for donor impact". US and UK development spending was set to reduce after 2006 and the UK military presence, upon which donor activities in the South relied, might draw down.

282. Mr Anderson also highlighted two DFID policy papers with implications for DFID's programme in Iraq. The first, on fragile states, emphasised the importance of realistic expectations of host government capacity and of prioritising and sequencing activities to avoid overwhelming it. The second, on security and development, highlighted the importance of personal safety and security for the poor, and emphasised that activities to promote effective security systems were integral to development work. The DFID Iraq team would meet to consider the implications of the papers in the next few months.

283. Mr Anderson detailed the work required to bring DFID's programme for 2005/06 within the new budget. Current commitments exceeded the new budget "by several tens of millions of pounds".

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[157] Report Riley, 5 April 2005, 'GOC MND(SE) southern Iraq Update – 5 April 2005'.
[158] Department for International Development, *Iraq: Interim Country Assistance Plan*, February 2004.
[159] Minute Anderson to DFID [junior official], 4 April 2005, 'Iraq Programme Management Issues'.

284. A review of DFID's I-CAP was under way. It was unlikely to result in major changes, but existing activities would need to be "more focused" on the four UK objectives set out in the UK paper 'Iraq: Strategy for 2005', which had been agreed on 9 February.

285. On 6 April, the JIC assessed the state of the insurgency in Iraq following the January election.[160] It judged that a significant Sunni insurgency would continue through 2005, but that there now appeared to be greater opportunities for reducing it. The ITG's early actions would be critical in changing Sunni perceptions and eroding support for the insurgency. Sunni expectations included the direction of reconstruction money to Sunni areas.

286. Mr Blair met President Bush on 8 April. Mr Blair's briefing for the meeting suggested that he might raise four operational points with President Bush, including power supply.[161] It would be very damaging for the ITG if there was no improvement in electricity supply that summer. The UK was looking to boost supply in the short term in the South through a DFID/MOD programme; the US needed to do more quick-impact work across Iraq.

287. The record of the meeting did not include any reference to a discussion on improving power supply, or reconstruction more broadly.[162]

288. Lt Gen Kiszely completed his tour as the Senior British Military Representative, Iraq and sent his "hauldown" report to Gen Walker on 16 April.[163] Lt Gen Kiszely assessed that progress in MND(SE) had been good, with all four provinces likely to be under Provincial Iraqi Security Control by March 2006, offering "the potential for considerable reductions in UK force levels".

289. The I-CAP review process was discussed in a meeting of DFID officials chaired by Mr Anderson on 21 April 2005.[164] The meeting concluded that:

> "The starting point is that the I-CAP remains valid, but priorities within that have moved on in the light of the substantially changed situation in Iraq since last February [when the I-CAP was agreed], the 2005 Strategy and our budget constraints."

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[160] JIC Assessment, 6 April 2005, 'Iraq: the State of the Insurgency'.
[161] Minute Phillipson to Prime Minister, 7 April 2005, 'Bilateral with President Bush: 0800-0845, 8 April'.
[162] Letter Sheinwald to Adams, 8 April 2005, 'Prime Minister's Meeting with President Bush, Rome, 8 April'.
[163] Minute Kiszely to CDS, 16 April 2005, 'SBMR-I's Hauldown Report'.
[164] Minute DFID [junior official] to Anderson, 22 April 2005, 'Iraq: ICAP Review and 2005/06 Programming'.

The Iraqi Transitional Government

The Iraqi Transitional Government (ITG), led by Prime Minister Dr Ibrahim al-Ja'afari, formally took power in early May.[165] The ITG was mandated to govern Iraq until a government could be elected according to a new constitution in December 2005.

In his account of the Occupation of Iraq and the transition to democracy, Dr Ali A Allawi, ITG Minister of Finance and former IIG Minister of Defence, described Iraqi people's expectations of the ITG:

> "The public expected that the Transitional Government would immediately start to remedy the services and security situations, and the message [delivered by Prime Minister al-Ja'afari in the National Assembly] was that conditions would rapidly improve. A realistic and cold-blooded assessment … would have led to a different conclusion, one that might have been difficult for politicians to admit to, but which was nevertheless necessary to make if the expectations of the public were not to be raised too high."[166]

Dr Allawi wrote that problems with the power supply added to the feeling of "a country under siege".[167] Those problems "could not have possibly been resolved in the time-frame of the Transitional Government" and the fact that the entire sector did not collapse "was actually a sign of success".

290. DFID officials in London, Baghdad and Basra held a video conference on 17 May to discuss the I-CAP review.[168] The presentation made to the video conference by a DFID official set out a number of "conclusions":

- A "de-facto" review had already been completed, in the form of the exchange between Mr Blair and Mr Benn in October 2004, Mr Chakrabarti's visit to Iraq in December 2004, the 2005 UK Strategy, the "smaller than expected" budget for Iraq, and increased life support costs.
- The process could have been much better. There should be a better process for next year's review.

291. The official subsequently reported to Mr Anderson that the video conference had agreed that the I-CAP review had "essentially been completed". Work was now in hand to produce a text for publication, after agreement by Mr Benn. The process had been driven by events and had not been ideal. The official set out in detail the better review process that should be undertaken the following year.

292. Mr Blair and President Bush spoke by video conference on 19 May. Mr Blair's brief for the conversation advised that the electricity situation in Iraq was "parlous" (six hours

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[165] *Daily Telegraph,* 3 May 2005, *Iraq's new government sworn in*.
[166] Allawi AA. *The Occupation of Iraq: winning the war, losing the peace*. Yale University Press, 2007.
[167] Allawi AA. *The Occupation of Iraq: winning the war, losing the peace*. Yale University Press, 2007.
[168] Minute DFID [junior official] to Anderson, 19 May 2005, 'ICAP Review'

a day or less). It would be very damaging for the ITG if electricity supply that summer was worse than the last.[169]

293. The record of the video conference did not include any reference to a discussion on improving power supply, or reconstruction more broadly.[170]

294. Mr Blair spoke to Prime Minister Ja'afari for the first time on 26 May and said that "we stood ready to help in any way we could", in particular on developing the ISF.[171]

295. The newly formed Sub-Committee of the Ministerial Committee on Defence and Overseas Policy on Iraq (DOP (I)) met for the first time on 26 May, chaired by Mr Blair.[172] Mr Benn attended the meeting.

296. Mr Benn's briefing for the meeting advised that, following his decision in December 2004 on priorities for 2005, DFID's programme was now "substantially re-orientated towards bilateral infrastructure support in the South".[173]

297. It also advised that in response to a larger-than-expected charge from the FCO for life support costs and a "smaller-than-expected" budget allocation for Iraq for 2005/06:

> "… we have trimmed back some work, notably consultancy, and are planning 25 percent slippage on the £40m infrastructure work [DFID's Iraq Infrastructure Services Programme – IISP]. We are also seeking co-financing, with US$20m agreed in principle with the World Bank …"

298. Even after that trimming, planned expenditure for 2005/06 exceeded the budget; DFID would need to monitor spending very closely. It was, however, reasonable to "over-programme" given the (unspecified) "uncertainties" and the potential military drawdown in the second half of 2005/06, which might significantly affect what DFID could do in the South.

299. The Inquiry has seen no indications that other departments were informed of or consulted on the decision to slip expenditure on the IISP.

300. Mr Blair's briefing for the meeting, which was produced by the Cabinet Office, recommended that he focus on three issues:

- combating the insurgency;
- improving the effectiveness of international assistance; and
- getting media messages right, both within and outside Iraq.[174]

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[169] Minute Phillipson to Prime Minister, 19 May 2005, 'VTC with President Bush, 1220 19 May'.
[170] Letter Quarrey to Siddiq, 19 May 2005, 'Prime Minister's Video-Conference with Bush, 19 May'.
[171] Letter Quarrey to Siddiq, 26 May 2005, 'Prime Minister's Conversation with Ja'afari'.
[172] Minutes, 26 May 2005, DOP(I) meeting.
[173] Minute DFID [junior official] to Private Secretary [DFID], 24 May 2005, 'Iraq Update, 25 May' attaching Briefing MENAD, 24 May 2005, 'Iraq Update 25 May Background Note'.
[174] Briefing Cabinet Office, 25 May 2005, 'Chairman's Brief (DOP(I))'.

301. On the second point, the Cabinet Office briefing advised that:

- the pace of reconstruction was still too slow and therefore the "political dividend" was small;
- power supply was "parlous"; and
- UK funding for 2005/06 was almost all committed, requiring "tough Ministerial decisions" after further work by officials.

302. The Annotated Agenda for the meeting invited Ministers to consider:

- What impact was US and international funding for reconstruction having on the ground? Disbursement lagged behind stated international commitments. The US was focusing on short-term impact. The UN was re-establishing a presence in Iraq and was starting to "take on the role we would expect of them". Donor efforts had lacked focus; better donor co-ordination behind an Iraqi figure was one of the planned outcomes of the Brussels International Conference in June.
- What more the UK could do, to further improve UN, World Bank and international bilateral reconstruction efforts?
- What "concrete outputs" did the UK want from the Brussels International Conference and the next donor meeting in Amman in July?
- Was the funding available for reconstruction across Government adequate?
- Was the UK investing at a level that supported its objective of creating stability such that there could be troop withdrawals?
- Was the UK delivering a short-term return which would boost the political process?
- What more the UK could do, to improve power supply over the summer and boost investment in infrastructure?
- Was the UK offering the necessary support to the ITG's media effort?[175]

303. On funding, the Annotated Agenda stated that DFID's allocation for Iraq was £65m for 2005/06, but that it had already "programmed" £84.3m (£63m of which would be spent in southern Iraq). The tri-departmental Global Conflict Prevention Pool (see Section 12.1) was expected to allocate £25m for Iraq in 2005/06, of which £22m had already been programmed. The MOD would be bidding to the Treasury for additional funding for QIPs, having spent £27m on QIPs since 2003. The MOD's budget for military activity in Iraq in 2005/06 was £927m.

304. In discussion, Ministers commented that the power situation was serious and would get worse over the summer, but the UK was "doing what it could".[176]

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[175] Annotated Agenda, 26 May 2005, DOP(I) meeting.
[176] Minutes, 26 May 2005, DOP(I) meeting.

305. Summarising the outcome of the discussion, Mr Blair asked for more advice on several issues, including a "short strategy" from DFID on engaging key donors.

306. DFID sent its donor engagement strategy to the Cabinet Office on 3 June.[177] The DFID strategy advised that a significant portion of the US$32bn pledged at the Madrid Conference in October 2003 remained unspent. Some donors had spread their money over several years, some had offered soft loans that could only be activated after an agreement on debt relief, some had been waiting for an elected Iraqi Government, and many had experienced difficulties in implementing reconstruction projects in Iraq. One or two donors were "simply back-sliding". The paper identified 16 countries that the UK should lobby to secure outstanding pledges.

307. DFID advised that the US was committed to disbursing its funds as quickly as possible. The UK had limited influence over US policy and did not question its "current thrust", but should seek to:

- join up US and UK work in southern Iraq;
- encourage the US to participate in donor co-ordination processes in Baghdad; and
- work with the US to encourage other donors and the multilateral agencies to contribute more effectively.

308. The UK was lobbying Japan to allocate the bulk of its soft loans (up to US$3.5bn) to the power sector and exploring with Australia, Denmark and Canada the possibility of co-funding DFID projects in southern Iraq.

309. France and Germany remained the "two missing donors", although France had taken a constructive approach on donor co-ordination and the Brussels International Conference, and Germany was contributing to police training outside Iraq.

310. Implementation of reconstruction projects by UN agencies had improved and the UN was playing a valuable role supporting Iraqi-led donor co-ordination. DFID continued to press for further improvements to UN Trust Fund operations.

311. DFID also continued to press:

- the World Bank urgently to establish a presence on the ground in Iraq, and to find ways of implementing its projects; and
- the EC to open a permanent office in Baghdad. The EC was already making use of UK life support[178] and security facilities for its increasingly frequent visits to Iraq.

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[177] Email DFID [junior official] to DFID [junior official], 3 June 2005, 'Iraq donor coordination paper' attaching Paper DFID, 2 June 2005, 'Iraq Reconstruction: Engaging USA and Other Key Donors'.
[178] Life support includes accommodation, medical services, catering, laundry and cleaning.

312. Mr Quarrey commented to Mr Blair: "… this is OK on what we want the US to do with others, but DFID seem to have given up on influencing how the US spends its own money – still by far the most important funding source".[179]

313. Mr Blair saw Mr Quarrey's note, but did not respond.[180]

314. On 7 June, Mr Blair and President Bush held talks on a range of foreign policy issues in the White House.[181] In their discussion on Iraq, Mr Blair judged that:

> "Ultimately, without an improvement in security, little progress could be made."

315. Sir Nigel Sheinwald and Sir David Manning met Dr Rice and Mr Hadley on the same day.[182] Sir Nigel and Mr Hadley agreed that:

> " … there was scope for a major US/EU/UN initiative on developing the ability of the international community to build capacity (governance, judiciary etc) in failing states and post-conflict situations. This was the lesson of the Balkans and Iraq, and we still did not have the means to deal with this. Some sort of international co-ordination was necessary."

316. Mr Straw visited Iraq on 9 June with the EU Troika – Mr Jean Asselborn (Presidency), Mr Javier Solana (EU Common Foreign and Security Policy High Representative) and Ms Benita Ferrero Waldner (EU External Affairs Commissioner). The British Embassy Baghdad reported that the Troika had brought three main messages:

- support for the political process, and the need for inclusion;
- the importance of the Brussels International Conference, as an opportunity for Iraq to engage with the EU and wider donor community; and
- a shift in Europe. Europe had been divided over the war but was now united in its desire to help the Iraqi people.[183]

317. The Embassy reported that, under pressure from Mr Straw, Mr Waldner had told the Iraqi Government and the media that the Commission would open an office in Iraq "in months rather than weeks".

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[179] Minute Quarrey to Prime Minister, 3 June 2005, 'Iraq Update'.
[180] Manuscript comment Blair on Minute Quarrey to Prime Minister, 3 June 2005, 'Iraq Update'.
[181] Letter Phillipson to Adams, 7 June 2005, 'Prime Minister's Talks with President Bush, 7 June'.
[182] Letter Sheinwald to Adams, 7 June 2005, 'Dinner with US Secretary of State and National Security Adviser: 7 June'.
[183] eGram 65/2005 Baghdad to FCO London, 10 June 2005, 'Visit of the Foreign Secretary and the EU Troika, 9 June 2005'.

Fraud in the Southern Iraq Employment and Services Programme

DFID's Southern Iraq Employment and Services Programme (SIESP) was approved in July 2004, providing £10m for infrastructure services and £6m for employment generation.[184] £0.5m was allocated for programme administration.

In May 2005, the DFID Office in Basra closed the employment generation component of the SIESP after an assessment identified "worrying issues". The Office asked DFID's Internal Audit Department (IAD) to visit Basra to review the SIESP and identify lessons, in particular for the implementation of DFID's Iraq Infrastructure Services Programme (IISP).

The IAD identified several flaws in the design of the component. It concluded that:

- A "key driver" of the SIESP had been "political (and consequent senior management) pressure in Whitehall and beyond to achieve visible results … In retrospect, these pressures appear unreasonable but at the time were generally irresistible." Warnings against proceeding with a programme of "such high fiduciary risk and intangible benefit" had not been heeded.
- There had been limited advisory input from DFID headquarters.
- The initial decision to work through the newly formed (and unelected) Iraqi Provincial Councils (PCs) had been a misjudgement. They had limited capacity and there was evidence of widespread corruption in their operation.
- A later decision to work through local NGOs had not improved performance. Many NGOs had been set up solely to secure funding from donors. They had limited capacity, lacked local knowledge, and had proved to be "largely unreliable and/or corrupt".
- The lack of physical monitoring had undermined implementation. The security situation meant that there was little chance of DFID staff visiting projects funded under the SIESP. In Maysan, where the security situation was particularly difficult, the UK military had managed the employment generation component of the SIESP directly (bypassing the PC). The military had undertaken some monitoring as part of routine patrolling, but that had not been "adequate". The IAD concluded that the inability to monitor progress indicated that Iraq "was not ready for this type of development intervention".
- Weaknesses in the DFID Office in Basra had contributed to the problems within the SIESP. The Office had been set up "hastily under pressure from UK and locally to show a DFID presence". It had proved very difficult to recruit staff for Iraq, leading to the appointment of staff with "little or no experience in managing programmes or staff".
- The DFID Office in Basra had established "good controls" over SIESP finances. The Office's decision to close the employment generation component immediately after its initial assessment had saved £3m (the amount remaining in the employment generation budget).

[184] Report DFID Internal Audit Department, 11 August 2005, 'Visit Report: Basra, Iraq 26th – 31st July 2005'.

- Of the £3m that had been spent, the IAD estimated that over £2m had been spent in a way "that did not meet [the SIESP's] objectives". The lack of physical monitoring made it difficult to be more precise.

The IAD assessed that the incident had soured the relationship between DFID and the PCs and adversely affected DFID's reputation and credibility with Iraqi interlocutors, the UK military, other donors and "bona fide NGOs".

The IAD report detailed a number of lessons for the IISP.

In May 2006, DFID conducted an internal review in order to determine the extent of the loss from the SIESP employment component.[185] The review concluded that:

- £254,105 had been spent on projects where there was clear evidence of full or partial misuse of money, based on monitoring by DFID staff.
- £296,187 had been spent on projects where there was "**no clear evidence of either good use or misuse of money** (because there was no monitoring information on file) but where anecdotal evidence from interviews suggested that some percentage of the projects were not successfully completed".
- £1,021,223 had been spent on projects which DFID was "reasonably confident" had been successfully completed, based on information on file (in the form of photographs or visit reports) or anecdotal evidence.

The review stated that even those projects where there was evidence of misuse had "added economic value to Iraq, though less than was originally intended".

The review set out the methodology it had used to categorise projects, including that in the absence of information to the contrary, the existence of monitoring information on a project was taken as evidence that the project had been successfully completed:

> "For the remaining project … we have no monitoring reports in the file. However, there is a CD [compact disc] in the file which shows a street with sewage and garbage, and provides a commentary (in Arabic) which explains what work needs to be done. Because we have no other information, and no reason to believe that funds were not used according to the purposes intended, we assume that this project was successful."

Dr Nemat Shafik, DFID Permanent Secretary from March 2008, told the Inquiry how DFID had reacted to the fraud within the SIESP:

> "We have a zero tolerance policy on corruption and we act on it immediately. The then Provincial Council was very unhappy with us as a result … But on that, we don't compromise.
>
> "That [the SIESP] is … the only case that we are aware of, where we had a significant fraud, which, given the scale of the funds that we were disbursing, and given the context, is, I think, a pretty good track record.
>
> "In the case of the Iraq portfolio … we actually had a higher level of scrutiny than our normal portfolio because of the risks involved. So we would get monthly reporting on risks, security risk, staff risk, risks to our money …"[186]

[185] Minute Hendrie to Dinham, 19 May 2006, 'SIESP Employment Generation Project'.
[186] Public hearing, 13 January 2010, pages 54-55.

318. A draft Cabinet Office paper entitled 'Funding for Iraq 2005/06' was circulated with the record of the 3 June meeting of the ISG.[187] The draft paper stated that:

> "The UK now has a realistic prospect of reducing troop numbers over the next nine months – and should benefit from a reduction in costs in Iraq as a result. Both to ensure Iraqi capacity and consent during this process, and to meet Iraq's development needs, reconstruction on the ground needs to continue … However, [the UK's] resources for Iraq are already overstretched. Ministers will therefore need either to agree a strict prioritisation of assistance, or consider whether additional funds should be made available."

319. The Cabinet Office draft paper set out the funding currently available for Iraq for 2005/06:

- DFID had £65m available and had commitments of £86.6m.
- The GCPP had £23.3m available (an accurate figure for commitments was not yet available).
- The MOD forecast "military operational" costs of £927m (a figure for QIPs was not yet available).

320. An Annex to the draft paper advised that DFID would need to manage its programme very carefully in order to come within the £65m budget. Some (unspecified) spending could be delayed, and DFID was urgently seeking co-financing for projects from other donors, including the World Bank. An improvement in the security situation would help: £28m of the £86.6m was expected to be spent on security and life support.

321. Of the £86.6m committed to existing high-priority activities:

- £63.8m (74 percent) was committed to projects in southern Iraq.
- £14.6m (17 percent) was committed to projects supporting central Government.
- £7.2m (8 percent) was committed to projects supporting political participation ("elections, media, support to civil society groups").
- £1m was committed to multilateral organisations.

322. Ms Aldred told the 10 June meeting of the Iraq Senior Officials Group (ISOG) that Ministers needed to consider funding for Iraq "in the round", and alongside funding for Afghanistan.[188] A Treasury official agreed, and said that any submission to Ministers on funding needed to make the link between activity and the UK's objectives.

323. The ISOG agreed that officials would finalise the draft paper "to coincide with" the 14 July meeting of DOP.

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[187] Minute Cabinet Office [junior official] to Sheinwald, 7 June 2005, 'Iraq: Strategy Group' attaching draft Paper, [undated], 'Funding for Iraq 2005/06'.
[188] Letter Cabinet Office [junior official] to Asquith, 13 June 2005, 'Iraq: Senior Officials'.

324. A DFID official briefed the ISOG on the impact of the US reconstruction effort. He advised that "the US was well aware of its failings … and there was little we could tell them that they didn't already realise and were actively trying to change". The most significant impact DFID could have on the US was by working jointly with them in the South.

325. The Cabinet Office paper on funding for Iraq was finalised for the 21 July meeting of DOP, chaired by Mr Blair, which considered whether or not the UK Provincial Reconstruction Team (PRT) in Afghanistan should move from the north to Helmand and what, if any, additional force package should be deployed to support it (see Section 9.4).[189]

326. The Cabinet Office paper, which was presented as an appendix to the main MOD paper, set out the estimates of financial pressures associated with the Iraq campaign for 2005/06, 2006/07 and 2007/08.

327. On 17 June, a junior DFID official invited Mr Benn to endorse the "annual review" of DFID's Interim Country Assistance Plan (I-CAP).[190]

328. In his covering minute, the official advised that the I-CAP (which had been published in February 2004) had been expected to remain in place for two years, and contained a commitment to undertake a "substantial review" after one year.

329. However, events had "pre-empted a pro-active review". Those events were:

- the exchange between Mr Blair and Mr Benn in October 2004 on the need to accelerate the pace of reconstruction and increase the impact of DFID's bilateral programme in the short term;
- Mr Chakrabarti's and Mr Drummond's visit to Iraq in December 2004 to review DFID programmes and assess priorities for 2005;
- Mr Benn's agreement in December 2004 to priorities for 2005;
- the agreement in February 2005 of the 2005 UK Iraq Strategy. That Strategy included "most of the items that we suggested", and was in line with priorities agreed by Mr Benn; and
- subsequently, "unexpected and significant funding constraints" arising from a smaller than expected budget for 2005/06 and an increase in life support costs levelled by the FCO.

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[189] Paper MOD Officials, 19 July 2005, 'Afghanistan: Resources and Strategic Planning'.
[190] Minute DFID [junior official] to Private Secretary [DFID], 17 June 2005, 'Iraq: Interim Country Assistance Plan: Annual Review' attaching Paper DFID, [undated], 'DFID: Iraq Country Assistance Plan Review 2004/5'.

330. The official also advised that:

> "A major constraint to DFID's programme, not highlighted in the I-CAP review, is the limited capacity of Iraqi institutions to drive forward reform and reconstruction. This is exacerbated by the short political horizons inherent in the Transitional Administrative Law (TAL), which militate against far-reaching reform. Corruption is also becoming increasingly apparent and might become the main constraint on reconstruction and development if security were to improve significantly."

331. The I-CAP review comprised short reports on:

- political and economic progress in Iraq;
- progress on reconstruction. Deteriorating security – identified as a key risk in the I-CAP – was a major constraint. Projected costs of UK staff working in Iraq for 2005/06 were more than £500,000 per person-year;
- the activities of other donors;
- key challenges for reconstruction in 2005/06. Those included the limited life-span of the IIG and the ITG, which affected their ability to implement major reforms; and
- examples of the impact of DFID projects in 2004/05.

332. The I-CAP review stated that:

> "DFID's work programme has evolved to take account of the difficult security situation and the absence of some traditional donors. The objectives and approach set out in our I-CAP remained valid."

333. DFID would:

- continue to promote broader and more effective international support;
- continue and deepen work at the national level to build Iraqi capacity and encourage greater Iraqi leadership of reconstruction; and
- "expand and accelerate" DFID's programme in the South, where high levels of poverty persisted.

334. There are no indications that other government departments or international partners contributed to the production of the I-CAP review.

335. The I-CAP review submitted to Mr Benn was not the "substantial review" promised in the I-CAP. In particular, it did not:

- provide a comprehensive assessment of the political, economic and social context in Iraq, reflecting the major changes since the I-CAP had been produced, including the existence of a sovereign Iraqi Government (with its own priorities and constraints) and the profound impacts of growing insecurity;

- consider the lessons that DFID had identified since the I-CAP was produced, and how it would respond to them;
- consider how the reconstruction effort could and should contribute to broader UK objectives; and
- consider whether the level of resources available to achieve DFID's objectives in Iraq was right, and whether DFID was working in the most effective way.

336. In the absence of that analysis, the I-CAP review could not (and did not) test the position that DFID had reached.

337. Mr Anderson visited Iraq from 13 to 18 June.[191]

338. In his report to Mr Dinham, copies of which were sent to officials in DFID, the FCO and the MOD, Mr Anderson identified a number of "strategic issues", including the expected decline in the amount of aid going to Iraq. US funding would decline from US$18.4bn over two years (the current IRFF2 package) to around US$1bn in 2006/07. Japanese grants were "now exhausted" and DFID's programme would decline in 2006/07. There might be "modest increases" in UN and World Bank programmes but "even in the most optimistic scenario, there will be a dramatic decline in aid levels due to the changing US position".

339. That rapid decline raised three strategic issues:

- What impact would declining aid have on security?
- Was this the right time for donors to be reducing aid? Research showed that aid during or immediately following conflict tended to be wasted. It was most effective between four and seven years after a conflict.
- Was DFID right to treat Iraq as a MIC? The planned decline in DFID's programme was based on the "premise" that Iraq had adequate resources to fund its own development. But did that hold true when security was poor and oil revenues difficult to obtain?

340. DFID has not been able to provide the Inquiry with any response from Mr Dinham, or any record of a discussion of aid volumes.[192]

341. Dr John Reid, the Defence Secretary, circulated a paper on the options for future UK force posture in Iraq to DOP(I) on 16 June (see Section 9.4).[193]

342. The paper stated that there was a "clear UK military aspiration" to transfer security responsibilities to Iraqi forces in Muthanna and Maysan in October 2005, with the remaining MND(SE) provinces (Basra and Dhi Qar) following in April 2006. That was

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[191] Minute Anderson to Dinham, 19 June 2005, 'Back to Office Report: Iraq 13 – 18 June'.
[192] Email DFID [junior official] to Iraq Inquiry [junior official], 19 June 2013, 'Iraq Inquiry New Queries'.
[193] Paper Reid, 14 June 2005, 'Options for Future UK Force Posture in Iraq'.

expected to lead to a significant reduction in the overall level of UK troops in Iraq from around 8,500 to around 3,000 personnel.

343. On 22 June, over 80 countries and organisations participated in the International Conference in Brussels.[194] The Conference was co-hosted by the EU and US. Mr Straw led the UK delegation. The Box below describes the UK's engagement in the development of the Conference.

344. The UK Permanent Representation to the EU in Brussels (UKRep) reported that, at the Conference, the ITG had set out its vision for the future and asked the international community to provide more support. Iraq had received many promises in return; both the Iraqi and the US delegations had emphasised the need to translate those into action on the ground.

345. UKRep commented that the Conference had been "a further successful step" in enhancing EU (and wider) engagement in Iraq, following the visit of the EU Troika to Iraq earlier that month. UKRep had taken the opportunity to brief the EC on the help it could expect from the UK in opening an office in Baghdad; UKRep would keep pushing to achieve that by the end of the year.

The International Conference on Iraq, 22 June 2005

Planning began in early 2005 for an International Conference on Iraq, to be co-hosted by the EU and US.

Mr Straw advised Mr Blair on 24 March that the UK was working closely with the US to define the scope and objectives of the Conference.[195] Key objectives included:

- ensuring an inclusive process to build a wide base of international support for the Iraqi political process; and
- a reformed approach to donor co-ordination.

US and UK officials discussed the Conference on 31 March.[196] The US saw the ITG being in the lead, and using the Conference to set out their "broad direction" and secure international support for it. Mr Crompton said that the UK agreed with that approach, and suggested that "deliverables" from the Conference should include:

- agreement on an improved mechanism for international assistance; and
- securing EU support for the rule of law.

An FCO official advised the 6 May meeting of the Iraq Strategy Group that the EU and US were not working towards the "outcome orientated" Conference that the UK had hoped for.[197] Sir Nigel Sheinwald said that the UK should not invest enormous effort into shaping the Conference as it was not "mission critical".

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[194] Telegram 7391/05 UKRep Brussels to FCO London, 23 June 2005, 'Iraq International Conference, Brussels 22 June'.
[195] Minute Straw to Prime Minister, 24 March 2005, 'Iraq: Ad Hoc Ministerial Meeting'.
[196] Minute Cabinet Office [junior official] to Sheinwald, 1 April 2005, 'Iraq: VTC with US Inter-Agency Team'.
[197] Minute Cabinet Office [junior official] to Sheinwald, 9 May 2006, 'Iraq: Strategy Group'.

346. Mr Blair met Prime Minister Ja'afari on 27 June.[198]

347. Mr Quarrey's briefing for Mr Blair suggested that the main points to cover included:

- The International Conference. The UK judged that the Conference had been a success, even if concrete outcomes had been thin.
- Reconstruction. The UK was constantly pressing for the better use of reconstruction funds "so that we get a political dividend". The UK should encourage Prime Minister Ja'afari to take a similarly close interest.

348. Mr Quarrey's record of the meeting indicates that the discussion focused on security and the constitutional process, and that reconstruction was not raised.[199]

349. On 5 July, the British Embassy Baghdad provided an assessment on progress on donor co-ordination.[200] Some progress had been made before and during the International Conference, but a gap was emerging between Iraqi expectations (more money) and what was needed (better Iraqi strategy and clearer priorities). The ITG had advised donors to "do anything, because everything is a priority".

350. Mr Blair met President Bush in the margins of the G8 Summit on 7 July (see Section 9.4).[201] Mr Blair said that the US and UK objective must be to divide Sunni insurgents from foreign jihadists.

351. At its meeting on 13 July, the JIC reviewed the effectiveness of efforts to bring Sunni Arabs into the political process.[202] It judged that:

> "Winning over Iraq's Sunni Arab population is key to reducing the insurgency over time …"

352. Sunni political and insurgent groups did not have a unified strategy. There was a range of Sunni political objectives: demand for a timetable for MNF withdrawal and the release of detainees featured strongly. The JIC continued:

> "Sunnis also want to ensure they benefit economically from Iraq's natural resources (held in predominately Shia and Kurd areas), gain access to jobs and markets, and see greater evidence of reconstruction – so far efforts to rebuild Sunni areas have been disproportionally hampered by the security situation."

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[198] Minute Quarrey to Blair, 24 June 2005, 'Iraq: Your meeting with Prime Minister Ja'afari, 27 July [sic]'.
[199] Letter Quarrey to Siddiq, 27 June 2005, 'Iraq: Prime Minister's Meeting with Jaafari'.
[200] eGram 8254/05 Baghdad to FCO London, 5 July 2005, 'Iraq: Donor Coordination Sitrep and Prospects for Amman Donor Conference'.
[201] Letter Sheinwald to Adams, 8 July 2005, 'Prime Minister's Meeting with President Bush, 7 July'.
[202] JIC Assessment, 14 July 2005, 'Iraq: Outreach to Sunni Arabs'.

353. Mr Straw sent an Iraq Oil and Gas Strategy to Mr Blair on 12 July.[203] The strategy, which had been developed by FCO, Department of Trade and Industry (DTI) and DFID officials over the previous month, defined three UK objectives:

- "The development of an efficient, outward-looking and transparent oil and gas industry, capable of delivering sustainable export revenues to meet the development needs of the people of Iraq and meeting domestic needs for energy in an efficient, equitable and secure manner.
- Increasing involvement of the private sector, leading to sustained investment over the next five to 10 years and substantial business for UK companies …
- To promote Iraq's role in international oil and gas markets and as a constructive influence within OPEC."

354. Mr Quarrey marked the strategy to Sir Nigel Sheinwald with the comment: "I do not intend to put in the box! Looks OK."[204] Sir Nigel agreed.[205]

355. The UK revisited the strategy in March 2006, and retained those objectives.[206]

356. The strategy and the UK's engagement on oil and gas issues are considered in Section 10.3.

357. Deputy Prime Minister Salih launched the ITG's National Development Strategy (NDS) at the fourth meeting of the IRFFI Donor Committee in Amman on 18 and 19 July.[207] The IIG had launched an earlier national strategy in Tokyo in 2004.

358. In his introductory remarks, Mr Salih said that the high level of unemployment in Iraq was fuelling economic despair and insecurity. The reconstruction effort had focused on large-scale, capital-intensive infrastructure projects. Those "mega-projects", though appropriate and essential, had not succeeded in providing Iraq's basic needs quickly enough. The answer was to complement them with "community-level" projects that demonstrably changed people's lives for the better.

359. Mr Salih highlighted the shortfall in funding for electricity supply. The October 2003 World Bank/UN Joint Needs Assessment had estimated that US$20bn would be required to restore power to 1990 levels. Less than half that amount had been allocated. Production averaged around 5,000MW against a demand of 20,000MW.

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[203] Letter Straw to Blair, 12 July 2005, ' Iraq: Oil and Gas Strategy' attaching Paper FCO/DTI/DFID, [undated], 'Iraq: Oil and Gas Strategy'.
[204] Manuscript comment Quarrey to Sheinwald, 13 July 2005, on Letter Straw to Blair, 12 July 2005, 'Iraq: Oil and Gas strategy'.
[205] Manuscript comment Sheinwald to Quarrey on Letter Straw to Blair, 12 July 2005, 'Iraq: Oil and Gas Strategy'.
[206] Paper IPU/FCO, 28 February 2006, 'UK Objectives for Iraq's Oil and Gas Sector'.
[207] International Reconstruction Fund Facility for Iraq, 18 July 2005, *Speech by H E Barham Salih Minister of Planning and Development Cooperation to the International Reconstruction Fund Facility Committee Meeting, Dead Sea, Jordan,18-19 July 2005.*

360. The NDS was organised around four "key drivers of prosperity":

- strengthening the foundation for economic growth;
- revitalising the private sector;
- improving quality of life; and
- strengthening good governance and improving security.[208]

361. DFID officials in Iraq commented on the NDS: "Better than before (Tokyo) but still weak on identification of priorities and objectives. No understanding that resource constraints will force ITG and donors to make tough choices."[209]

Preparing for transition to Iraqi control in the South

362. The 15 July meeting of the ISG considered a draft version of a paper from Dr John Reid, the Defence Secretary, on operational transition in Iraq (see Section 9.4).[210]

363. Dr Reid described a process in which Iraqi Security Forces would take primacy province by province. The MNF would take on a reserve role as they did so. So long as Iraqi capacity continued to increase and the security situation did not deteriorate seriously, the transfer would be implemented from October in Maysan and Muthanna. Basra and Dhi Qar would follow in spring 2006. This would lead to a reduced profile for UK forces, and reductions in numbers to around 3,000 by summer 2006.

364. The ISG made a number of recommendations for improving the paper, including that it needed to cover more clearly the implications for other government departments and international actors.[211]

365. DOP(I) met on 21 July, chaired by Mr Blair, and considered Dr Reid's paper on operational transition.[212]

366. The revised paper stated:

> "It is … possible that other (FCO and DFID) activity in Iraq aimed at developing the Iraqi Police Service and reconstruction will need to be curtailed or reduced, with consequent implications for HMG's wider effort, because of the difficulties of running projects without UK military support and protection. This will need to be looked at in more detail with Other Government Departments."[213]

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[208] Iraqi Strategic Review Board, 30 June 2005, *National Development Strategy 2005 – 2007.*
[209] Report DFID, 11 July 2005, 'DFID Iraq Weekly Summary, 11 July'.
[210] Letter Cabinet Office [junior official] to Iraq Senior Officials, 15 July 2005, 'MOD Paper on Operational Transition in Iraq' attaching Paper MOD, [undated],'Operational Transition in Iraq'.
[211] Letter Cabinet Office [junior official] to Sheinwald, 15 July 2005, 'Iraq Strategy Group'.
[212] Minutes, 21 July 2005, DOP(I).
[213] Paper Secretary of State for Defence, 18 July 2005, 'Operational Transition in Iraq'.

367. The section on "handling" in the previous draft had been expanded to include "NGOs":

> "The announcement [of] any drawdown of UK forces in the South will have to be carefully managed to ensure that there is no loss of confidence by NGOs (in particular the UN agencies and the World Bank), which might lead them to postpone plans for greater engagement in Iraq."

368. The section on resources had also been expanded:

> "Other Government Departments operating in Iraq may … face increased security costs as they are forced to seek commercial alternatives to military force protection."

369. DOP(I) agreed Dr Reid's recommendation that, subject to the continuation of current trends in the capacity of the Iraqi security forces and to there being no major deterioration in the security situation, the UK should plan to implement transition to Iraqi control in Maysan and Muthanna from around October 2005, and in Dhi Qar and Basra from around March 2006.[214]

370. DOP(I) commented that too much of the money allocated for reconstruction had been spent on foreign contractors and security.[215] The UK should now be focusing on delivering through Iraqi structures.

371. DOP(I) also considered an FCO paper entitled 'Splitting the Jihadists from the National Opposition'.[216] The FCO recommended action on eight "lines", the last of which was reconstruction:

> "**Rapid implementation** of reconstruction projects, specifically following large scale anti-insurgency operations or local cease-fires:
>
> "Aims: Demonstrate ITG/MNF ability to rebuild and compensate following operations/cease-fires. Quick support to Iraqi capacity to deliver. Installation of basic services. Establishment of political and security structures. Employment creation. Deny opportunity to insurgency to work up dissatisfaction.
>
> "Means: … Key donors and ITG to review how to reprogramme/redefine donor assistance to make available rapidly disbursable aid (eg. creation of a special fund for quick impact projects in politically sensitive areas), including from the private sector. Media (foreign and Iraq) coverage of successful redevelopment projects."

372. DOP(I) agreed the "broad approach" set out in the FCO paper.[217]

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[214] Minutes, 21 July 2005, DOP(I) meeting; Paper Secretary of State for Defence, 18 July 2005, 'Operational Transition in Iraq'.
[215] Minutes, 21 July 2005, DOP(I) meeting.
[216] Paper FCO, 18 July 2005, 'Iraq: Splitting the Jihadists from the National Opposition'; Minutes, 21 July 2005, DOP(I) meeting.
[217] Minutes, 21 July 2005, DOP(I) meeting.

Responding to the new US Clear-Hold-Build strategy

373. Ambassador Zalmay Khalilzad succeeded Ambassador John Negroponte as the US Ambassador to Iraq in June 2005.[218]

374. To assess the situation and propose a way forward, Ambassador Khalilzad established a Joint Civil-Military Strategic Planning Group, generally known as the Red Cell or Red Team. The Red Team was tasked to devise a plan that would break the back of the insurgency within one year and defeat it within three.

375. Before Ambassador Khalilzad's his arrival in Iraq, the DoD and the State Department had initiated independent reviews of reconstruction strategy (led by General Gary Luck and Ambassador Richard Jones respectively). Those reviews informed the new approach developed by Ambassador Khalilzad.

376. A key issue was the amount of US funding that remained available. After a slow start, the US reconstruction effort was "in high gear". Of the US$18.4bn appropriated for IRRF2, three-quarters had been obligated and one-third disbursed.

377. Ambassador Khalilzad met Mr Adam Ingram, Minister of State for the Armed Forces, on 20 July.[219] The Ambassador raised the subject of Provincial Reconstruction Teams (PRTs), some of which had worked well in Afghanistan, and asked whether there was a role for them in Iraq. Mr Ingram wondered whether PRTs would, in many parts of Iraq, be too exposed. He also commented that "one of the problems of even considering such fresh approaches … was the risk that they could be leaked".

378. Ambassador Khalilzad offered to share US thinking on PRTs with the UK, including on whether projects should be driven by "operational security" or longer-term development goals.

379. Mr William Patey, Mr Chaplin's successor as British Ambassador to Iraq, reported on 27 July that the availability of electricity and fuel was barely different from a year earlier.[220] Progress was being made, but it would be "a long haul" and managing Iraqi expectations would be key. He commented:

> "Ordinary Iraqis are becoming increasingly frustrated that, over two years after Saddam's fall, there has been little discernible improvement to essential services …
>
> "Ultimately, the Iraqis need to plan much longer term … There needs to be an integrated energy strategy … The current focus – including from US advisers – is short-term. DFID is funding two advisers to help the Ministry of Electricity (and Ministry of Oil) develop a coherent longer-term strategy, including creating the legal

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[218] Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.
[219] Minute Johnson to DJC DD Iraq, 22 July 2005, 'Minister(AF) Meeting with Ambassador Khalizad'.
[220] Telegram 9933/05 Baghdad to FCO London, 27 July 2005, 'Iraq: Oil and Electricity: Are Things Getting Better?'.

and regulatory framework to encourage investment. We should continue to support this as the only means of creating a sustainable electricity network in Iraq."

380. Mr Quarrey passed the report to Mr Blair, with the comment:

"The conclusion that the only solution is a long-term plan is consistent with DFID's approach but fails to address the damage done in the meantime to the political process."[221]

381. Lieutenant General Robin Brims, the Senior British Military Representative, Iraq, reported to Gen Walker on 31 July that "the US with ourselves" were establishing a "Red Cell" to examine critically counter-insurgency strategy.[222]

382. Mr Anderson advised Mr Benn's Private Secretary on 12 August that, despite intensive efforts by DFID and MND(SE), Op AMPERE (the US$10m point power generation project developed by MND(SE) and DFID and approved in March 2005) had not met its objective of providing additional power during the summer months.[223] The failure had been due primarily to inexperienced suppliers, poor security and a lack of access. Six of the planned 10 generators had now been commissioned; work continued to commission the remaining four.

383. The Red Team reported on 31 August.[224] Section 9.4 describes the report and the UK's response in detail.

384. The Red Team assessed that the coalition's current strategy – based on transitioning security responsibilities to the Iraqi Government – would enable coalition forces to disengage from Iraq but would leave Iraqi Security Forces that would not be able to defeat the insurgency in the foreseeable future.

385. The Red Team proposed an alternative strategy, based on what it described as the "classic 'ink spot' counter-insurgency model", which sought to create success in small areas and then steadily expand outwards until the areas flowed together to form larger regions of security.[225] Military operations were to be more closely co-ordinated with "political-economic actions" tailored to the specific needs of local communities. Action was also needed at the national level, to set the conditions for the counter-insurgency campaign.

386. The report proposed that a Joint Inter-Agency Counter-Insurgency Task Force should be established to plan, co-ordinate and implement governance reform and economic sector development work in support of the counter-insurgency campaign.

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[221] Minute Quarrey to Prime Minister, 29 July 2005, 'Iraq Update'.
[222] Minute Brims to CDS, 31 July 2005, 'SBMR-I Weekly Report (172) 31 July 2005'.
[223] Minute Anderson to Private Secretary [Benn], 12 August 2005, 'Iraq Situation Update' attaching Report DFID, [undated], 'Iraq Situation Report: 12 August'.
[224] Red Team Report, 31 August 2005, 'An integrated Counterinsurgency Strategy for Iraq'.
[225] Red Team Report, 31 August 2005, 'An integrated Counterinsurgency Strategy for Iraq'.

387. Sir Nigel Sheinwald's advice to Mr Blair on the Red Team report focused on political and security aspects of the proposed strategy.[226] On the economic aspect of the proposed strategy, he commented:

> "There is nothing new to say here. There will be no serious reconstruction effort for as long as the security situation remains bad, and political engagement at national and local levels remains poor …
>
> "There is little point in talking about a new surge of economic reconstruction until we see the shape of the next Iraqi Government."

388. *Hard Lessons* identified the Red Team report as one important element of the US strategy review and development process initiated by Ambassador Khalilzad which, by the autumn of 2005, had produced a new approach comprising:

- A renewed focus on broadening Sunni participation in the political process.
- Defeating the insurgency using the "ink-spot" model (articulated by the Red Team and others). That required closer integration of military and civilian resources and the use of civilian reconstruction resources as part of a military-led campaign, and a shift away from large infrastructure projects towards smaller, Iraqi-led projects designed to deliver jobs and services to the most vulnerable, violent and politically significant neighbourhoods.
- Increased support for provincial governments, including through the deployment of PRTs into provinces.
- Increased support for central government institutions, including by embedding civilian advisers. The increased support for provincial and central government reflected US analysis that their strategy of "pulling back to let the Iraqis do it themselves" had failed; provincial governments remained weak and disconnected from central government.[227]

389. The new strategy would become known as "Clear-Hold-Build".

390. On 19 September, two UK soldiers were arrested by the Iraqi Police Service in Basra, following an incident in which they killed one Iraqi police officer and wounded another (see Section 9.4). The soldiers, and six negotiators who had attempted to secure their release and who had also been detained, were subsequently released in an armed operation undertaken by MND(SE). The episode became known as the Jameat incident.

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[226] Minute Sheinwald to Prime Minister, 19 September 2005, 'Iraq: UK Strategy'.
[227] Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

391. Mr James Tansley, the British Consul General in Basra from September 2005 to April 2006, told the Inquiry:

> "The Jameat incident effectively destroyed working relationships between ourselves and Basra Council and the governorate. Although we patched things up, there was still an underlying suspicion, and it was difficult to build … particularly constructive relations with the officialdom or the government in Basra province throughout my time."[228]

392. Mr Tansley commented that the combination of deteriorating security and, following the Jameat incident, political constraints limited the progress that the UK could make on reconstruction, SSR and preparing for the transfer of provincial control to the Iraqi authorities.

393. Against a background of increasing insecurity, DFID continued to press the World Bank to accelerate disbursement from its Trust Fund and to establish a presence in Iraq.

394. Dr Shafik met Mr Chrik Poortman, World Bank Vice-President for the Middle East, on 20 September.[229] Mr Poortman argued that the rate of disbursement from the Bank's Trust Fund was comparable with other post-conflict countries and expressed concern that faster disbursement could increase the risk of corruption. He also regretted the UK's "continual public criticism" of the rate of disbursement, which was damaging the Bank's ability to attract donor support.

395. The report of the meeting was copied to DFID and Treasury officials. Mr Anderson commented:

> "Chrik's arguments about disbursement rates are technically correct …
>
> "That the Bank's disbursement in Iraq is comparable to other … countries is beside the point – aid to Iraq is not business as usual. That Iraq requires a different approach … is the core point that Chrik does not accept."[230]

396. Mr Chakrabarti met Mr Poortman a few days later.[231]

397. Mr Chakrabarti's briefing for the meeting stated that the Bank's presence in Iraq comprised one international consultant (now funded by the Bank, formerly by DFID) and seven local staff. Of the US$400m committed to the World Bank Trust Fund, only US$31m had been disbursed by July. DFID still saw the Trust Fund "as an emergency fund to be disbursed quickly".

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[228] Public hearing, 22 June 2010, page 57.
[229] Email DFID [junior official] to Dinham and Anderson, 20 September 2005, 'Read-out from Minouche/Rain Meeting with Chrik'.
[230] Email Anderson to Newton-Smith, 21 September 2005, 'Chrik's Views'.
[231] Briefing DFID, [undated], 'Chrik Poortman Meeting – Washington, 24-25 September 2005'.

398. The briefing also stated that the World Bank had agreed to channel US$21m from its Trust Fund to a power project in Najibiyah, through DFID's IISP. The Najibiyah project had, however, floundered in the absence of Iraqi Government support; DFID was exploring "all possible alternative options" for the funding.

399. On 30 September, Mr Dinham sent Sir Nigel Sheinwald a paper providing an "honest assessment" of progress on reconstruction, following a discussion between Mr Dinham and Sir Nigel earlier that month.[232]

400. The DFID paper listed the achievements that had been made in re-establishing the economy, electricity generation, water and sanitation, employment, education, health, and transport and communications. DFID also listed factors which had hindered reconstruction:

- insecurity, which meant that few other donors had a presence on the ground in Iraq;
- poor co-ordination and little buy-in from the Iraqi Government and local authorities;
- limited capacity of Iraqi institutions and rapid turnover of political figures;
- "large additional funds … are unlikely to accelerate progress on reconstruction without corresponding policy and institutional reform and capacity building";
- security costs had "eaten into" reconstruction funds;
- the US had been "distracted by hotspot cities" at the expense of a "strategic reconstruction programme". Significant amounts of US funding had been re-allocated from basic services to tackle security and oil;
- problems with the sustainability of large-scale projects; and
- unrealistic Iraqi and international expectations. In other countries, DFID allowed between five and 15 years for "the first phase of governance projects", to allow time for institutional culture to change. In Iraq, international partners were trying to reform institutions in less than two years.

401. DFID concluded:

> "A carefully balanced approach is needed: on the one hand, an acceptance of the realistic pace of reconstruction will help to manage expectations and encourage more sustainable, long-term projects; on the other hand, some continuation of high-profile, short-term activity will be needed to provide signs of visible progress while longer-term activity is under way."

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[232] Letter Dinham to Sheinwald, 30 September 2005, 'Iraq: Reconstruction Situation' attaching Paper DFID, [undated], 'DFID Information Note on Reconstruction Progress in Iraq'.

402. Mr Quarrey passed the DFID paper to Sir Nigel with the comment:

> "This has more detail than we've seen for a while, and in some areas looks reasonably encouraging. But overall the picture is still pretty bleak. What the paper does not give is (a) much sense of what is happening now (eg what's getting better or worse); and (b) whether there is much we can do about it. I think we have other, more immediate priorities for No.10 effort in the short term. Do you want to do anything with this?"[233]

403. Sir Nigel was more critical:

> "I take a less positive view. I see it as a lot of useless, mostly input, statistics. But there's little on outputs, no comparison of pre-invasion and now, no case studies, no sense of Najaf then and now. ie not what I asked for."[234]

404. The Inquiry has seen no indication that the paper was passed to Mr Blair, or that No.10 or Sir Nigel responded to DFID.

405. Also on 30 September, Mr Straw's Principal Private Secretary sent Mr Quarrey a paper containing the joint advice of FCO, MOD and DFID officials on the implications of the Jameat incident.[235] Mr Straw had not yet seen and agreed their advice.
The FCO/MOD/DFID paper advised:

> "The … incident … highlights what was previously more opaque, that we face acute challenges in achieving our objectives in the south-east region. Stability in the south-east is being threatened by intense rivalry among political parties and their militias. Criminality, jockeying for patronage and leaders' differing political visions are being exacerbated by tribalism and increasing religiosity."

406. The paper concluded that "alternative options to our current policy are limited":

> "**Our only realistic option is to maintain our course and see the job through.** But **we need to make adjustments to our policy**, while sticking to our strategic approach of ensuring in due course successful transition of responsibility for rule of law in the south-east to the Iraqis."

407. An immediate problem was the threat of reprisal attacks. DFID and FCO staff were "essentially locked down".

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[233] Manuscript comment Quarrey to Sheinwald, 4 October 2005, on Letter Dinham to Sheinwald, 30 September 2005, 'Iraq: Reconstruction Situation'.
[234] Manuscript comment Sheinwald to Quarrey, 6 October 2005, on Letter Dinham to Sheinwald, 30 September 2005, 'Iraq: Reconstruction Situation'.
[235] Letter Hayes to Quarrey, 30 September 2005, 'Iraq: Basra' attaching Paper FCO/MOD/DFID, 30 September 2005, 'South-East Iraq: Impact of Security Incident in Basra'.

408. The authors identified a number of "longer-term challenges" including:

- **"We may not be able to deliver, by next year, the minimum standards required in rule of law and governance."** The UK should consider whether its aspiration to draw down troops by the middle of 2006 would be premature, and how its response to a more challenging security environment might deter organisations such as the UN and World Bank from establishing a presence in the South.
- **"We will need to allocate more resources, which might include military resources, to security."**

409. Over the weekend of 1 and 2 October, Mr Blair considered separate pieces of advice from Sir Nigel Sheinwald and Mr Powell on the implications of the Red Team report, the FCO/MOD/DFID paper on the implications of the Jameat incident, and a 28 September JIC Assessment.[236]

410. Mr Blair set out his conclusions in a Note to No.10 staff on 2 October:

> "I don't think the Red Team report is advocating a different strategy; just a means of implementing the existing one …
>
> "The 'ink spot' strategy is right. It isn't what we have done so far. What we've done is take a city, give it back to the Iraqis and hope. The 'ink spot' strategy is to take it and then only when the Iraqi civilian capability of governance is properly established with the necessary military back-up, do we withdraw."[237]

411. Sir Nigel Sheinwald wrote to Mr Straw's Principal Private Secretary on 4 October, in response to the 30 September FCO/MOD/DFID paper on the implications of the Jameat incident.[238] Copies of the letter were sent to Cabinet Office, MOD, DFID, FCO, Home Office and Treasury officials.

412. Sir Nigel wrote:

> "The Prime Minister agrees that we do not need to change our overall strategy. He is convinced, however, that we need a major and sustained push over the next few months on the political and security lines of operation if we are to get what we need – the political process moving ahead on time and producing an effective and moderate Iraqi Government after the elections, with visible progress on the Iraqiisation of security."

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[236] Minute Quarrey to Prime Minister, 30 September 2005, 'Iraq Update'.
[237] Note Blair, 2 October 2005, [untitled].
[238] Letter Sheinwald to Hayes, 4 October 2005, 'Iraq Strategy'.

413. Sir Nigel went on to set out in detail Mr Blair's views in relation to policy on the political process and security. The single paragraph on reconstruction read:

> "It is unlikely that we will be able to enhance significantly the impact of reconstruction activities in the period before elections. But he [Mr Blair] would be grateful if Hilary Benn could work hard with the World Bank and UN in particular – their future engagement is critical. We also need a more effective link-up between DFID and the US agencies involved."

414. Sir Nigel reported that Mr Blair planned to chair a meeting of DOP(I) every fortnight if possible. Sir Nigel would chair weekly meetings of senior officials. Mr Straw and Dr Reid were also to chair regular Ministerial meetings in their areas.

415. Mr Chakrabarti and Mr Dinham visited Iraq from 4 to 6 October to review DFID's programme and consider future plans in the light of the forthcoming Iraqi elections and UK military transition planning.[239]

416. Their report to Mr Benn, copies of which were sent to Sir Nigel Sheinwald, senior officials in the Cabinet Office, MOD, FCO and the Treasury, and UK military commanders and officials in Iraq, recommended that DFID should shift its focus from the South and infrastructure projects to building institutional capacity in Baghdad. That recommendation reflected "remarkable unanimity of advice from a range of interlocutors, including our political and military colleagues in both Baghdad and Basra" on where DFID's comparative advantage lay in a "uniquely difficult environment".

417. Mr Chakrabarti and Mr Dinham reported that UN staff were back in Iraq and playing a key role in donor co-ordination. The EC was "visible, albeit with a small and focused presence". A key gap remained the absence of a permanent World Bank or IMF representative.

418. The Iraqi Government remained unenthusiastic on the Najibiyah power plant project (for which DFID had hoped to secure US$21m in funding from the World Bank Trust Fund); there was no value in pressing this further.

419. On funding, the US was now looking for other donors to "pick up the tab" for reconstruction; none had yet stepped forward:

> "A[n] … immediate worry for the first year of an incoming Government is the likelihood of a funding crisis as US money thins out and the multilaterals are not yet on stream."

420. If DFID was to focus on building institutional capacity in Baghdad, it would need to consider whether its current model – using international consultants, with their attendant high security costs – remained "fit for purpose". The Iraqi Government was

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[239] Minute Chakrabarti and Dinham to Secretary of State [DFID], 7 October 2005, 'Iraq Visit, 4 – 6 October 2005'.

starting to turn down offers of assistance, primarily on cost grounds. Mr Chakrabarti and Mr Dinham reported that their initial feeling was that alternative models now needed to be explored, including:

- a greater use of consultants drawn from the Iraqi diaspora;
- the use of current or former senior UK civil servants on short visits; and
- deployment of additional DFID advisers to Baghdad and Basra.

421. Mr Chakrabarti and Mr Dinham concluded that DFID should produce a new Country Assistance Plan (CAP) for Iraq, setting out its intentions.

422. DFID told the Inquiry that it could not find any evidence of a response from Mr Benn or of any documents relating to a consequent discussion of aid modalities, and that work to produce a new CAP was not taken forward.[240]

423. On 10 October, the Joint Committee to Transfer Security Responsibility (JCTSR) produced its "Conditions for Provincial Transfer", which set the framework for MNF-I to transfer security responsibility to an Iraqi civilian authority (see Section 9.4).[241] The document set out a series of standards in four areas:

- the insurgency threat,
- ISF capability,
- governance capacity, and
- residual support from coalition forces.

424. General Mike Jackson, Chief of the General Staff, visited Iraq from 10 to 13 October.[242] His report to Gen Walker, copies of which were sent to senior military officers only, welcomed the US proposal to deploy PRTs as they would address the critical need to build the capacity of the Iraqi Government. The UK would be expected to share "the PRT burden" in the South.

425. Gen Jackson agreed with the Red Team's argument that the insurgency would only be defeated by a co-ordinated effort across all lines of operation, but cautioned that the "ink spot" concept sounded similar to the "seven cities" and "Strategic Cities" initiatives which had floundered in 2004:

> "I am increasingly hearing the same strategic principles (undoubtedly sound ones) being dressed up in different initiatives, but without ever being implemented effectively on the ground. I suspect there are several reasons for this: certainly a lack of resources for non-military LOO [lines of operation], but also, perhaps, entrusting responsibility for delivering these lines of operation to the wrong type of

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[240] Email DFID [junior official] to Iraq Inquiry [junior official], 19 June 2013, 'Iraq Inquiry New Queries'.
[241] International Mandate Republic of Iraq National Security Council, 10 October 2005, 'Joint Committee to Transfer Security Responsibility'.
[242] Minute Jackson to CDS, 18 October 2005, 'CGS Visit to Iraq: 10-13 October 05'.

people. There are many capable diplomats in both the UK and US Embassies, but are they the best people to deliver predominately 'non-diplomatic' objectives?"

426. The referendum on Iraq's draft Constitution took place on 15 October.[243]

427. The day after the referendum, President Talabani issued a decree announcing that Parliamentary elections would take place on 15 December, in accordance with the TAL.[244]

428. Mr Patey reported by telegram on 18 October that the new US approach to reconstruction and building Iraqi Government capacity had two strands:

- capacity-development programmes in 10 national ministries; and
- 15 PRTs and one Regional Reconstruction Team (RRT), to cover the provinces under the Kurdish Regional Government.[245]

429. MND(SE) and DFID had fed in concerns over the introduction of PRTs, centred on the lack of consultation with the Iraqi Government, coalition members and the UN.

430. The first three PRTs would be established on 1 November. The US expected all the PRTs and the RRT to be established by March/April 2006.

431. Mr Patey advised that the US expected coalition partners to bear the running costs of PRTs in their areas. Those costs would be significant.

432. Dr Rice told the US Senate Foreign Relations Committee on 19 October that the US strategy to "assure victory" in Iraq, working with the Iraqi Government, was to "clear, hold, and build".[246] She described the US strategy:

"With our Iraqi allies, we are working to:

- Clear the toughest places – no sanctuaries to the enemy – and disrupt foreign support for the insurgents.
- Hold and steadily enlarge the secure areas, integrating political and economic outreach with our military operations.
- Build truly national institutions working with more capable provincial and local authorities. Embodying a national compact – not tools of a particular sect or ethnic group – these Iraqi institutions must sustain security forces, bring rule of law, visibly deliver essential services, and offer the Iraqi people hope for a better economic future."

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[243] eGram 15692/05 Baghdad to FCO London, 16 October 2005, 'Iraq: Constitution: Referendum Day Passes Peacefully'.
[244] eGram 15761/05 Baghdad to FCO London, 17 October 2005, 'Iraq: Elections'.
[245] eGram 15865/05 Baghdad to FCO London, 18 October 2005, 'Iraq: Provincial Reconstruction Teams'.
[246] US Department of State Archive, 19 October 2005, *Iraq and US Policy: Secretary Condoleezza Rice, Opening Remarks Before the Senate Foreign Relations Committee, Washington, DC, October 19 2005.*

433. The strategy required deeper integration of civilian and military activities, including by restructuring part of the US Mission in Iraq as PRTs:

> "These will be civil-military teams … training police, setting up courts, and helping local governments with essential services like sewerage treatment or irrigation. The first of these PRTs will take the field next month."

434. *Hard Lessons* described the difficulties the US experienced in establishing PRTs:

> "Coaxing the Departments of State and Defense to set the terms of their first major operational collaboration in Iraq required a Herculean effort … A patchwork quilt of memoranda of agreement, cables, and military orders – many of them at cross-purposes – evolved to codify policy for PRTs. More than a year elapsed before basic issues of budgets, the provision of security, and command and control relationships were resolved, delaying full deployment of the PRTs and limiting their early effectiveness in the field."[247]

435. The 3 November meeting of DOP(I) considered an IPU discussion paper on how PRTs could be configured to "add value to current arrangements".[248]

436. The IPU paper set out lessons from Afghanistan, and concluded that there was no "fixed template" for a PRT. PRTs were most effective when:

- they contained an appropriately resourced, integrated military and civilian team;
- they had the support of local authorities, a close working relationship with international organisations and NGOs, and sought to extend the reach of central authorities; and
- they operated in relatively benign security environments where they could seek to contain rather than confront conflict.

437. The IPU identified three major risks to the implementation of the US proposal:

- a lack of Iraqi "buy-in" at local and national level;
- a perception among "local Iraqis" that PRTs represented a failure to deliver a transfer of control to Iraqis; and
- a lack of resources. The success of the PRTs would be commensurate, to some degree, with the financial resources available to them. The US planned to fund the three pilot PRTs from within existing resources. The UK would need to consider whether further PRTs could be established on that basis: "In particular, we would need to ensure that PRTs did not divert … effort from essential capacity-building efforts elsewhere. In MND(SE) existing military/

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[247] Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience.* U.S. Government Printing Office, 2009.
[248] Paper IPU, October 2005, 'Provincial Reconstruction Teams (PRTs) in Iraq: Discussion Paper'.

civilian teams … could form the basis for the [PRT] teams, together with the DFID-funded single Public Administration Adviser per province."

438. DFID briefing for Mr Benn for the DOP(I) meeting stated:

"We and MOD are both concerned about the risks of this approach. It is expensive, will divert funding from other priorities, and we do not believe it will make a dramatic difference in outcomes. It may slow military transition … The agreed Whitehall approach is that we will be constructive; find out more and try and influence the US approach; and that we will repackage our effort in the South as a PRT but not do very much differently."[249]

439. At DOP(I), Ministers commented that PRTs should be tailored to their environment, and that Iraqi ownership and the involvement of international donors were essential.[250]

440. The British Embassy Baghdad reported on 8 November that the US Embassy was happy to allow the UK time to develop its own ideas for PRTs in the South, and to be fully engaged in planning.[251] The strong preference of the US, however, was for individual PRTs to be established in each of the four southern provinces (in line with the US approach in the rest of Iraq). The Embassy had argued that the UK would need to take account of existing governance arrangements in the South, and the effect of PRTs on the transfer of security responsibility.

441. An MOD briefing for Gen Walker described that effect:

"The [US] proposal sees the establishment of a … PRT in every Province for at least two years. This would almost certainly undermine MND(SE) transition plans, with a significant risk that UK forces would be fixed in Maysan and Muthanna into the medium term."[252]

442. Dr Rice inaugurated the first PRT in Iraq on 11 November during a visit to Mosul.[253]

443. Dr Reid told the 15 November meeting of DOP(I) that the UK's exit from Muthanna and Maysan had been delayed from February until May 2006, reflecting the UK's commitment to the Japanese.[254] Dr Reid hoped it would be possible to complete the handover within this timescale in order to start reducing the UK's troop commitment in Iraq during 2006.

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[249] Minute DFID [junior official] to Private Secretary [DFID], 1 November 2005, 'Iraq: Oral Briefing in Preparation for DOP(I), 3 November'.
[250] Minutes, 3 November 2005, DOP(I) meeting.
[251] eGram 17627/05 Baghdad to FCO London, 8 November 2005, 'Iraq: Provincial Reconstruction Teams (PRTs)'.
[252] Minute DCJO(Ops) to PSO/CDS, 14 November 2005, 'Provincial Reconstruction Teams in MND(SE) – Implementation'.
[253] US Institute of Peace, 20 March 2013, *Provincial Reconstruction Teams in Iraq*.
[254] Minutes, 15 November 2005, DOP(I) meeting.

444. The British Embassy Baghdad provided further advice on US views on 22 November.[255] US Ambassador Dan Speckhard (Head of the IRMO) had told them that Ambassador Khalilzad had no intention of running Iraq, but would not allow the mission to fail because the Iraqi Government could not swiftly establish effective institutions at national or local level. The UK should see PRTs as providing a "one-off structural shot in the arm" to establish those institutions while international military forces remained to support civilian activities.

445. Ambassador Speckhard had said that the US remained content for the UK to offer a way forward in the South, but there were "clear red lines":

- Civilian and military operations must be integrated.
- "[T]here must be a 'genuine' PRT in each province – satellite PRTs served by resources located in another Governorate would not be an adequate option for substantive not just political reasons."
- PRTs must be a "new venture", supported by additional resources. "Rebadging" existing efforts under a PRT banner would not be well received.

446. The Embassy commented that it should be possible to present a proposal for four PRTs transitioning to two as consistent with US objectives.

447. Following a visit to Iraq from 22 to 23 November, Gen Walker advised Dr Reid:

> "The jury is out on the pilot PRTs – both amongst the military and the diplomats. Whatever the outcome, I recommend an early bid to run them in the four MND(SE) provinces to save us heartache later. If we don't, they have the potential to fix us through force protection requirements at places and for periods not of our choosing."[256]

448. The DOP(I) meeting on 1 December considered an IPU paper on how the UK should respond to the US proposal on PRTs.[257]

449. Mr Benn's briefing for the meeting stated that, while the US wanted to see PRTs in all of Iraq's Provinces, financial constraints made it unlikely it would be able to establish its own PRTs in the South.[258]

450. The IPU paper identified three options for the UK:

- Support four PRTs in the four southern provinces until 2008 (the US envisaged that PRTs would operate for two years with international staff, and then for a further two years with Iraqi staff only). That would "match" the US initiative, but

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[255] eGram Baghdad to FCO London, 22 November 2005, 'Iraq: Update PRTs'.
[256] Minute CDS to SofS [MOD], 25 November 2005, 'CDS's Visit to Iraq 22-23 Nov 05'.
[257] Minutes, 1 December 2005, DOP(I) meeting.
[258] Minute DFID [junior official] to Private Secretary [DFID], 29 November 2005, 'Briefing for DOP(I), 1 December 2005 Meeting' attaching Briefing DFID, 30 November 2005, 'Flag B: Background Briefing'.

would mean extending the UK military presence in the South beyond current planned dates for transition (PRTs would require appropriate force protection and Quick Response Forces), and require significant additional resources for programmes and security.

- Establish one PRT in Basra to cover all of MND(SE). That would not affect UK plans for transition in the other three southern provinces. The US might want to establish its own PRTs in those provinces, increasing Iraqi resentment of the US presence and raising presentational difficulties in the UK if the US was seen to take over from the UK in the UK's area.
- Transition from "(mini) PRTs" in four provinces towards a single "super-PRT" in Basra. That would ensure coverage across MND(SE) but would not affect UK plans for transition.[259]

451. The IPU assessed that while none of the options was "satisfactory", the third option was best. It would permit continued governance and capacity-building work in all four provinces, would not affect UK military transition planning, and would minimise security risks to civilian staff.

452. The IPU recommended that DOP(I):

- Agree that the UK establish a PRT structure in southern Iraq, with Iraqi buy-in.
- Agree that the focus of the PRT should be on improving co-ordination and delivery of UK assistance, strengthening the links between the central authorities and Governorates, and improving the UK's "strategic oversight" of southern Iraq.
- Accept that while there were "presentational advantages" in establishing a PRT in MND(SE), improvements in the effectiveness of the UK's engagement would be "marginal".
- Note that while the PRT models might encourage other coalition partners to engage in reconstruction in the South (early indications were that Germany and Japan might supply experts or funding), multilateral donors were known to be sceptical about the PRT model and were unlikely to engage fully.
- Adapt the US PRT model to suit local circumstances in the four southern provinces:
  - In Basra, the current effort should be "re-organised along PRT lines", with the addition of a UK senior civil servant as its head. This regional "super-PRT" would comprise around 30 civilian staff, 21 military officers, and between 20 and 30 locally engaged staff.
  - In Dhi Qar, the current effort should also be "re-organised along PRT lines", possibly staffed and led by Italy until transition.
  - In Maysan and Muthanna, the current effort should continue "under a PRT banner" until UK military transition, at which time Iraqi teams could

[259] Paper IPU, 28 November 2005, 'Iraq: Provincial Reconstruction Teams'.

be supported by surge capacity from Dhi Qar and Basra (and eventually just Basra).

453. The IPU described this as the "4-2-1" model, as four PRTs reduced to two (Basra and Dhi Qar) and then one (Basra) over time.

454. The IPU advised that the US would need to agree the UK model, which might require Ministerial-level discussions with US counterparts.

455. At the meeting, Mr Straw said that the IPU paper "proposed that we went along with the United States' proposal but without disrupting our own plans for military transition".[260] Dr Reid agreed that the UK response should be positive, but stressed the need to keep control of and tailor developing PRT plans in the provinces where the UK was directly involved.

456. DOP(I) agreed the paper.[261]

457. Officials revisited the decision to adopt a 4-2-1 model in January 2006.

458. Mr Straw wrote to Mr Benn at the end of November, reporting that the Deputy Governor of Basra and members of the Basra Provincial Council had pressed for more visible UK development projects, and had drawn attention to a number of DFID projects that had recently been closed.[262]

459. Mr Straw understood that those projects had been funded from the employment generation component of the southern Iraq Employment and Services Programme (SIESP), which DFID had closed down in August 2005. Mr Straw recognised the security constraints and the need to ensure funds were properly used, but asked that DFID officials look for some way to respond to the Councillors' request for "highly visible, 'flagship' projects".

460. Mr Benn replied on 9 December, highlighting the work DFID was doing in Basra and with the Provincial Council.[263] He did not offer new proposals and cautioned that DFID had to be "extremely careful" about publicising reconstruction projects, in case such publicity made workers and projects more attractive targets for insurgents.

461. The Iraqi elections took place on 15 December.[264] Mr Patey reported that the day had passed off peacefully with no major security events.

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[260] Minutes, 1 December 2005, DOP(I) meeting.
[261] Minutes, 1 December 2005, DOP(I) meeting.
[262] Letter Straw to Benn, 28 November 2005, 'Basra Development Projects: My Meeting with Basra Provincial Council, 11 November'.
[263] Letter Benn to Straw, 9 December 2005, 'Basra Development Projects: Your Meeting with Basra Provincial Council, 11 November'.
[264] eGram 20961/05 Baghdad to FCO London, 16 December 2005, 'Iraq: Elections: Election Day'.

462. Papers for the final DOP(I) meeting of 2005, on 20 December, included a post-election work plan by the IPU, an update on progress with Iraqiisation and a note on the handover of security responsibility.[265]

463. The IPU work plan described the UK's immediate objectives post election as:

"
- A short and well-managed interregnum between Transitional Government and the next Government, leading to;
- Rapid formation of a competent and representative Government, legitimate in the eyes of all Iraq's communities, followed by;
- A limited number of key decisions (which serve the Iraqi people and partnership between Iraq and the Coalition) taken quickly and visibly, in parallel with;
- Increasing Sunni Arab political participation and;
- Smooth progress in the South-East towards transition
- Visible international commitment, in context of 2006 partnership with Iraq."[266]

464. The IPU hoped that it might be possible for an Iraqi government to be formed by the end of January, six weeks after the election.

465. Negotiations to form a new government continued into spring 2006. Section 9.4 describes UK efforts to encourage the formation of a broad and inclusive government of national unity.

466. One month after the DOP(I) decision to adopt a 4-2-1 model for PRTs in the South, the UK adopted a new model which focused on Basra and Dhi Qar only.

467. Air Chief Marshal Glenn Torpy, the Chief of Joint Operations, advised Lt Gen Fry on 21 December that the 4-2-1 model appeared to satisfy the US.[267] The UK now needed to press ahead quickly to keep the initiative. First indications were that neither the FCO nor DFID could find additional financial resources; the MOD would have to "bridge the gap". Initial funding requirements might be "modest" and could be generated by making savings elsewhere in MND(SE). The MOD would also need to push the other departments to deploy the staff necessary to get the PRTs off the ground quickly.

468. The 29 December IPU update for DOP(I) members stated that, faced with logistical and financial difficulties, US enthusiasm for the PRT model was waning and their roll-out timetable was slipping.[268] US officials were "increasingly flexible" about UK plans for the PRT structure in the South and would "not look too closely at implementation (especially in Maysan and Muthanna)". That provided the UK with an opportunity to establish the

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[265] Paper Cabinet Office, 19 December 2005, 'DOP(I) Meeting: Agenda'.
[266] Paper IPU, 16 December 2005, 'Iraq: Post-Election: UK Work Plan'.
[267] Minute CJO to DCDS(C), 21 December 2005, 'Key Operational Issues for Early 2006'.
[268] Letter Siddiq to Quarrey, 29 December 2005, 'Iraq: Update as at 29 December' attaching Paper IPU, 29 December 2005, 'Iraq: Update as at 29 December'.

PRT structure which best fitted the situation in the South and to ensure that the PRTs assisted rather than hindered "our main transition effort".

469. The Cabinet Office chaired a video conference of officials in London, PJHQ, Basra and Baghdad on 5 January 2006 to discuss how to establish PRTs in the South.[269] The record of the meeting stated that:

> "With the US in disarray over PRTs, and following further UK scoping work in theatre, a 4-2-1 approach to PRTs no longer appears to be either a necessary or best solution."

470. There was a fundamental mismatch between:

- the timelines for UK military transition in Maysan and Muthanna (planned for May 2006, only five months away);
- the civilian and military resources available; and
- the time needed to recruit, train, deploy and get value from staff posted into a new PRT.

471. A focus on Basra and Dhi Qar was likely to be "sellable to the US".

472. The meeting concluded that Ministers should be invited to agree a revised approach that focused on Basra and Dhi Qar.

473. Ministers approved the new approach, comprising a UK-led PRT in Basra and an Italian-led PRT in Dhi Qar, later that month.[270]

474. A DFID official briefed Mr Benn on 31 January that:

> "We [DFID] are working to ensure that management mechanisms and funding remain shared responsibilities between the three departments [MOD, FCO and DFID]. We would welcome a discussion with you about our ideas on how to remain helpful and engaged, while avoiding being asked to lead on PRTs."[271]

475. The UK-led PRT in Basra was established in May 2006.

476. In her evidence to the Inquiry, Ms Cameron, who had visited Iraq over Christmas 2005 to help develop the UK's response to the US PRT proposal, suggested that the need to see off the "bad ideas" encapsulated in the proposal, and the need to develop a response which did not undermine the UK's plans for transition in the South, had meant that the UK had not had the time to stand back and think through what it needed to deliver in Basra.[272] She concluded that the PRT model was an improvement on the

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[269] Minute Cabinet Office [junior official] to Cabinet Office [junior official] 5 January 2006, 'Iraq: PRTs'.
[270] Paper DFID, 10 January 2006, 'Iraq Update'.
[271] Paper DFID, 10 January 2006, 'Iraq Update'.
[272] Public hearing, 22 June 2010, pages 100-101.

previous, more fragmented, arrangement, but less of a "step-change" than it might have been.

477. Mr Tansley agreed with that assessment.[273]

Preparing for the transfer of security responsibility in Maysan and Muthanna

478. Section 9.4 describes planning and preparations for the transfer of lead responsibility for security in Muthanna and Maysan to the Iraqi authorities (scheduled for May 2006).

479. Mr Patey issued his annual review of the state of Iraq on 10 January.[274] He characterised 2005 as a "year of democracy", despite the persistent violence. The development of the Constitution and elections had diverted attention from establishing "effective governance", and in a number of areas Iraq had regressed:

> "The year ended with Baghdad on three hours of power a day and falls in oil exports. The Government did just enough (courtesy of a high degree of flexibility from the IMF and much help from us) to achieve an interim SBA [Stand-By Arrangement] that keeps the debt relief programme in track but there is not much else to report by way of achievements."

480. Mr Straw visited Iraq on 6 and 7 January. His report to Mr Blair focused on progress in forming a new Iraqi Government but also highlighted the need to consider how to increase international engagement.[275]

481. The key would be to persuade the UN to play a more active role. The UK and US were working on the problem of providing the UN with air assets and security. The UK also needed to persuade the US "to take the UN more seriously into its confidence": the US had been receptive at official level but the message needed to be reinforced at a political level.

482. In discussion with President Bush on 10 January, Mr Blair said that it would help to unlock outstanding aid pledges if the new Iraqi Government set out a "forward programme" covering security, coalition posture and reconstruction, which the UN and coalition could get behind.[276]

483. The 12 January meeting of DOP(I) discussed Mr Straw's report.[277]

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[273] Public hearing, 22 June 2010, page 101.
[274] eGram 384/06 Patey to FCO London, 10 January 2006, 'Iraq: Annual Review'.
[275] Letter Straw to Prime Minister, 11 January 2006, 'Iraq: Post-Elections and Government Formation'.
[276] Letter Quarrey to Siddiq, 10 January 2006, 'Prime Minister's VTC with President Bush: Middle East Issues'.
[277] Minutes, 12 January 2006, DOP(I) meeting.

484. Mr Straw's briefing for the meeting stated that the obstacles to deeper UN engagement were "acute scepticism" within UN headquarters about Iraq and "justifiable" UN concern that it lacked the transport and security assets it needed to do a decent job.[278] On the latter point, only the US had sufficient resources to help. The UK was lobbying the US to engage with and support the UN, using the argument that an empowered UN leading international engagement in 2006 offered the US (and the UK) a way of gradually reducing their commitment.

485. At the DOP(I) meeting, Ministers commented that a "new effort" was needed to increase UN engagement in Iraq in 2006.[279]

486. Mr Blair's Private Secretary advised him on 17 January that the power situation in Baghdad was "dire", with only two hours of electricity a day.[280]

487. In discussion with President Bush on 17 January, Mr Blair suggested that there should be a big push on the UN.[281] The UN had to show leadership.

488. The Italian Government announced on 19 January that it hoped to withdraw Italian troops from Dhi Qar by the end of the year.[282]

489. The Cabinet agreed on 26 January to deploy UK troops to Helmand province, Afghanistan (see Section 9.4).

490. Mr Straw sent two IPU papers to Mr Blair on 7 February.[283] Copies of Mr Straw's letter and the IPU papers were sent to DOP(I) members and Sir Gus O'Donnell, the Cabinet Secretary.

491. The first paper considered how the UN should transform its role in Iraq.[284] The UK wanted the UN to:

- contribute to the new international partnership that the UK envisaged;
- act as an honest broker between Iraqi communities, before and after government formation;
- support provincial elections and the constitutional review;
- help reduce the risk of conflict in Kirkuk; and
- scale up their reconstruction and development presence.

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[278] FCO [junior official] to Foreign Secretary, 10 January 2006, 'Iraq: DOP-I Meeting, 12 January'.
[279] Minutes, 12 January 2006, DOP(I) meeting.
[280] Minute Phillipson to Prime Minister, 17 January 2006, 'VTC with President Bush, 1220 17 January 2006'.
[281] Letter Quarrey to Siddiq, 17 January 2006, 'Prime Minister's VTC with President Bush: Middle East Issues'.
[282] *BBC News*, 19 January 2006, *Italy to pull out of Iraq in 2006*.
[283] Letter Straw to Prime Minister, 7 February 2006, 'Iraq: International Partnership and the UN's Role in 2006' attaching Paper IPU, 3 February 2006, 'Iraq: UN Role in 2006' and Paper IPU, 1 February 2006, 'Iraq: Implementing the Concept from Security Coalition to International Partnership'.
[284] Paper IPU, 3 February 2006, 'Iraq: UN Role in 2006'.

492. On reconstruction and development, the UN was now a "key player". UN development agencies wanted to increase their presence in Iraq, but with a UN ceiling of 125 staff and priority consistently given to constitutional and political specialists, the UN could "at best" accommodate only three development or humanitarian specialists at any one time. The UK also wanted the UN to do more to help improve Iraqi observance of human rights; at present, the UN appeared reluctant to engage.

493. The UK would help secure increased UN engagement through Ministerial and official level lobbying of the UN (to encourage them to play a greater role), the US (to underline the value of the UN), and the EC, Japan and European countries (to get them to lobby the UN to play a greater role, and to fund it to do so).

494. In his letter to Mr Blair, Mr Straw described a transformed UN effort as "a catalyst to broader and deeper international engagement".[285]

495. The second paper considered how the UK could support transition in Iraq from a "primarily security based coalition" to a broader international partnership.[286] The UK's strategic objective would be to enable the Iraqi Government to assume more effective control over Iraqi territory and the security, political and economic agendas. The UK would seek to develop a broader international partnership, which would require improved security and an increased UN presence.

496. Mr Tansley reported from Basra on 20 January that the situation in Maysan and Muthanna was likely to allow a transfer of security responsibilities in May.[287] Muthanna was the poorest province in Iraq but essential services were "adequate" and "basic governance structures" were functioning. Maysan had a weak economy but enjoyed better essential services and more effective governance than Muthanna. Securing effective links with central Government would be critical for both provinces.

497. Mr Tansley commented on the decision not to establish PRTs in those provinces:

> "The situation … in Maysan and Al-Muthanna underlines why PRTs in those provinces are not required. Military transition will mean no international staff will be stationed in Maysan and Muthanna, and travel there by them is likely to be only possible with military escort (it would likely require a battle group). This will also affect our international partners including the UN … and USAID … (this will need to be factored into our discussions with the Americans on the 2-1 PRT formula)."

498. The DOP(I) meeting on 2 February discussed transfer of security responsibility for Maysan and Muthanna.[288]

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[285] Letter Straw to Prime Minister, 7 February 2006, 'Iraq: International Partnership and the UN's Role in 2006'.
[286] Paper IPU, 1 February 2006, 'Iraq: Implementing the Concept from Security Coalition to International Partnership'.
[287] eGram 1266/06 Basra to FCO London, 20 January 2006, 'Iraq: Military Transition in Maysan and Muthanna'.
[288] Minutes, 2 February 2006, DOP(I) meeting.

499. Ministers commented that the UK needed to consider transition in the wider context of the legacy that the UK would leave behind in those provinces.

500. Ministers also commented that it would not be possible to retain DFID international staff in Maysan and Muthanna after transition. In practice, their contribution was "useful but not vital" and infrastructure projects would continue. Civilian control of both provinces had been in the hands of the Iraqis since the dissolution of the Coalition Provisional Authority (CPA) and even without the transition, the intention was to focus the reconstruction effort in the South on Basra and Dhi Qar. The security challenges posed by the transition have a significant impact on other donors, including the UN.

501. DOP(I) commissioned the MOD to produce a paper on the transition reflecting cross-departmental concerns about the transition, "based on a robust assessment of the conditions in the two provinces".

502. Dr Reid presented that paper to DOP(I) on 15 February (see Section 9.4).[289]

503. The MOD paper recommended that both provinces should transition as soon as possible, with the end of May as a target date.

504. The MOD stated that the withdrawal of coalition forces would reduce the amount of development assistance that could be provided to Muthanna and Maysan by the UK and other donors, and confirmed that DFID was "content with this, recognising that their existing support is useful, but not essential, to provincial stability". The MOD continued:

> "DFID will encourage other donors (e.g. the Japanese) to ensure that any unfinished … projects are completed before closure of permanent bases or able to be completed by local staff and contractors in slower time, and that plans for operation and maintenance of completed projects have been made … DFID will encourage donors with large numbers of local staff (USAID, the UN) to consider how best they could deploy these in Maysan and Muthanna to continue capacity building and governance support."

505. Commanders in MND(SE) were confident that they could facilitate travel by FCO, DFID and international personnel into the provinces after transition.

506. The MOD assessed that the UK's legacy would be "considerable". ISF development was on track and would complete in October 2006. In addition:

> "UK support has also helped Provincial Governments get on their feet. Working with ministries in Baghdad, Provincial Councils are able to take decisions, deliver services, manage budgets and work with donors at a basic level. They are functioning, but fragile. Increased capacity and recent reforms may not survive political rivalries and reduced levels of donor support. But in both Provinces we have

[289] Paper Secretary of State [Defence], 14 February 2006, 'Iraq: Handover of Security in Maysan and al Muthanna Provinces'.

reached a point where we will achieve diminishing returns if we stay much longer. The Iraqis are in a position to assume the mantle."

507. At the meeting, Dr Reid said that the political and developmental issues associated with the transfer of security responsibility in Muthanna in May had been resolved.[290]

508. DOP(I) agreed the approach set out in the paper.

509. Also on 15 February, at the request of the ISOG, the JIC assessed Iraq's expected development in 2006.[291] The JIC concluded that the new Iraqi Government would be judged largely by its ability to deliver security, fuel, electricity, jobs and a timeline for MNF withdrawal, but that there would be little progress on the first four issues over the next 12 months. The main obstacles to progress were:

"The security situation is the greatest immediate obstacle to economic recovery …

"The new government will be no more competent or united than its predecessor, at least initially. The new Prime Minister … will have to develop policy within a more complex political landscape … The tendency of new Ministers to replace the top tier of officials with friends, family or tribal members will add to the difficulties.

"The Iraqi civil service lacks the ability to deliver at all levels … Although there are talented individuals, institutional capacity was effectively destroyed under Saddam's dictatorship and in the aftermath of his overthrow: de-Ba'athification, which removed many experienced bureaucrats, has been especially damaging … Endemic corruption is a significant brake on economic development, pervading the highest levels of government, but also reaching into provincial and local levels."

510. The JIC concluded that:

- The new government would come under international pressure to revitalise its oil sector and push ahead with economic reforms (including the reduction of domestic fuel and food subsidies), but would proceed cautiously given the potential for public discontent.
- The fragile state of Iraq's energy infrastructure and continuing insurgent and criminal attacks would preclude any early progress on energy supplies. Electricity production currently met only about 45 percent of demand.
- There could be no "international solution" to improving essential services in Iraq. The Iraqi government needed to adopt a strategy to increase growth and invest in services and infrastructure. Bilateral and multilateral donors could play a supporting role, for example by strengthening the budget process and providing technical advice.

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[290] Minutes, 15 February 2006, DOP(I) meeting.
[291] JIC Assessment, 15 February 2006, 'Iraq's Development: Expectations and Delivery in 2006'.

511. On 22 February, the al-Askari mosque in Samarra, the fourth most revered shrine in Shia Islam and the only major Shia shrine under sole Sunni protection, was bombed.[292]

512. Section 9.4 describes increasing concerns within the UK Government on the level of sectarian violence in Iraq and the possibility of civil war.

513. On 15 March, at the request of the FCO and MOD, the JIC assessed the security situation in southern Iraq.[293]

514. Key Judgements included:

> "I. Levels of violence in southern Iraq are much lower than in Baghdad and Sunni areas in the centre and north …
>
> …
>
> "III. Across the South, there is no strong administrative machinery to promote security and stability. Government structures and capacity are fragile. The lack of central authority has encouraged protracted, and occasionally violent, local squabbles over power. Multiple sources of authority persist and carry equal weight …"

DFID's Portfolio Quality Review, March 2006

DFID undertook an internal review of the performance and "value-for-money" of its projects in Iraq in March 2006.[294]

The review's main conclusions were:

- 71 percent of current, large (over £4m) projects in Iraq were "high risk", compared with just over 10 percent of DFID projects globally. Most projects were subject to the same (political and security) risks, so scope to balance risk was limited.[295]
- Of the 14 current, large projects, nine were likely to completely or largely achieve their objectives and five were likely to partly achieve their objectives or to achieve their objectives only to a very limited extent.
- 44 percent of all DFID projects in Iraq had achieved or were likely to completely or largely achieve their objectives, compared with 68 percent of DFID projects globally.
- Many projects had benefits beyond their stated objectives, for example in terms of setting policy agendas, leveraging in other donors' resources, and "giving DFID credibility to influence Whitehall".

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[292] Minute Banner to Prime Minister, 23 February 2006, 'Samarra Shrine Bombing – Background and Update'.
[293] JIC Assessment, 15 March 2006, 'Iraq: the Security Situation in the South'.
[294] Minute Hendrie to PS/Secretary of State [DFID], 27 March 2006, 'Iraq: Portfolio Quality Review'.
[295] Not all the figures used in the text of the Portfolio Quality Review are consistent with the information presented in the supporting graphs and table. Where there is inconsistency, the Inquiry has drawn information directly from the supporting graphs and table.

The review identified the strategies that DFID had pursued to improve project performance:

- constant monitoring and management (though that was hampered by insecurity);
- using innovative techniques to deliver projects, such as working through local Iraqi engineers and helping the Ministry of Finance to set up an office inside the International Zone (within which international consultants could work);
- using the fragile states analysis to focus on a few immediate priorities. In Iraq, DFID had focused on strengthening central Government and getting economic reform on track;
- systematically tracking poor performance;
- adapting delivery methods to inside fiduciary risk;
- building clear exit strategies into projects, including dedicating significant effort to leveraging in other donors; and
- working closely with Whitehall.

515. Mr Asquith advised the 7 April meeting of the ISG that following rocket attacks on Basra Palace on 4 April, and given the continuing non-co-operation by the local authorities in Basra with UK officials following the Jameat incident, some UK civilian staff were unable to operate.[296] The FCO and DFID planned to recommend to their Ministers a drawdown of civilian staff from Basra Palace until conditions on the ground had improved.

516. Mr Benn was briefed on 19 April that significant numbers of Shia were moving south and Sunnis moving north.[297] MND(SE) was providing some (unspecified) short-term support to Internally Displaced People (IDPs).

517. Mr Benn was also briefed that running costs for the Basra PRT continued to be a "major sticking point". No government department (or other country) had a budget for this. The Post-Conflict Reconstruction Unit (PCRU) was "holding the fort", and departments were exploring whether they might be able to continue leading in the longer term.

518. Late on 21 April, four months after the December 2005 elections, the United Iraqi Alliance announced the selection of Mr Nuri al-Maliki as its candidate for Prime Minister (see Section 9.4).[298]

519. The British Embassy Baghdad reported on 22 April that the new Government had produced a "100-day plan", focusing on urgent measures to improve security, oil, electricity, employment, agriculture and housing.[299]

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[296] Letter Cabinet Office [junior official] to Sheinwald, 10 April 2006, 'Iraq Strategy Group: 7 April 2006'.
[297] Minute DFID [junior official] to PS [DFID], 19 April 2006, 'DOP(I) Briefing 19 April 2006'.
[298] eGram 13011/06 Baghdad to FCO London, 24 April 2006, 'Iraq: Formation of the New Government: Al-Maliki Nominated by UIA as Prime Minister'.
[299] eGram 13036/06 Baghdad to FCO London, 22 April 2006, 'Iraq: Preparations for Government'.

520. The Embassy commented that on both security and electricity, the plan adopted a "Baghdad-first" approach (Baghdad had a third of the country's population and was suffering more than other areas).

521. The Embassy reported that the Iraqi Government had discussed the 100-day plan with the British and US Embassies. As a result of those discussions, the Minister of Planning had agreed:

- a UK recommendation to include Iraqi signature to the Extractive Industries Transparency Initiative (EITI) in the plan; and
- to "play up" the monetarisation of the food subsidy, bank restructuring and civil service reform as priorities for the new Government.

522. Sir Nigel Sheinwald met Mr Maliki in Baghdad on 24 April.[300] Mr Maliki said that his priorities were security, the economy and services. There would have to be the toughest possible penalties for corruption.

523. Sir Nigel said that the UK's ability to help with reconstruction in Basra was hampered by the security situation. Mr Maliki said that he knew little of the detail of the situation in Basra, but had heard that the population felt the UK had achieved very little for them, even before security deteriorated. He advocated patience, waiting for local elections that might bring change, and doing what the UK could to improve the economy. Employment would reduce the security threat.

524. Sir Nigel's report of his visit to Mr Blair focused on government formation (see Section 9.4).[301] Sir Nigel confirmed that, as Mr Blair had suggested, the UK and US had offered to help Mr Maliki establish his Government. The UK's main contributions would be:

- two officials (one FCO, one DFID) in the British Embassy working on the substance of the Iraqi Government's programme;
- one official to advise the British Ambassador and the Iraqi Government on media and political strategy;
- No.10, FCO and MOD press officers to help with communications in key ministries;
- three Adam Smith Institute Ltd consultants to advise on the structure and operation of the Prime Minister's Office and other key institutions; and
- a substantial MOD advisory team for the new Defence Minister.

525. Mr Blair commented: "[W]e must make sure this team is strong enough."[302]

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[300] Telegram 13126/06 Baghdad to FCO London, 24 April 2006, 'Iraq: Government Formation: Maliki's Views'.
[301] Minute Sheinwald to Prime Minister, 27 April 2006, 'Visit to Iraq'.
[302] Manuscript comment Blair to Sheinwald on Minute Sheinwald to Prime Minister, 27 April 2006, 'Visit to Iraq'.

526. Mr Blair spoke to Mr Maliki on 28 April, to congratulate him and assure him of the UK's support.[303] Mr Blair said that it was important that Mr Maliki had good, capable people around him, and that the UK stood ready to offer advice and assistance, on both policy and communications.

527. The Cabinet Office circulated a draft FCO paper on Basra, which had been produced for DOP(I), to members of the ISOG on 28 April.[304] The draft FCO paper stated that:

> "Security and governance in Basra are bad and worsening. Attacks on us, and both criminal and sectarian violence, are rising. Basic services are not being delivered. Basra is one of the four provinces in Iraq judged by MNF(I) to be furthest away from transition to full Iraqi control.
>
> "The UK civilian effort in Basra is increasingly hunkered down. We face a lack of co-operation from the local authorities and severe restrictions on our movement. Our local staff … suffer growing intimidation. Against this background, much of our effort – notably the Provincial Reconstruction Team we are standing up in May – can make little headway."

528. The FCO paper was not submitted to DOP(I), but did inform discussions on 22 May between senior officials on how to achieve UK objectives in Basra.

529. Mr Blair held a Cabinet reshuffle in early May 2006. Mr Benn remained Development Secretary; Mr Des Browne replaced Dr Reid as Defence Secretary; and Mrs Margaret Beckett replaced Mr Straw as Foreign Secretary.

530. Mr Mark Lowcock, DFID Director General Policy and Programmes, and Mr Anderson visited Baghdad from 2 to 5 May.[305] They reported to Mr Chakrabarti that the new Iraqi Government faced a daunting economic reform agenda. The 100-day plan contained some of the necessary reforms, but it seemed unlikely that it would garner wider political support given the fragile political deals underpinning the new Government.

531. Iraq had enjoyed a "massive windfall" from the rising oil price, possibly an additional US$20bn a year. That dwarfed the amount of aid provided to Iraq. While some of that windfall had been used to increase the budget:

> "… billions – some people say tens of billions – has been lost through large-scale corruption and other leakage. Who has got the money and what do they plan to do with it? And how is the Government going to regain control?"

532. Mr Lowcock and Mr Anderson confirmed that DFID should "continue to move towards more capacity building and … internationalising the effort in Iraq".

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[303] Letter Banner to Siddiq, 28 April 2006, 'Nouri al-Maliki'.
[304] Paper FCO [draft], 27 April 2006, 'DOP(I): Basra'.
[305] Minute Lowcock and Anderson to Chakrabarti, 5 May 2006, 'Visit to Baghdad 2-5 May'.

533. They also stated that the "refocusing" of the US effort from infrastructure to capacity-building might have (unspecified) implications for DFID.

534. The British Embassy Baghdad reported the following week that, according to a report issued by the Iraqi Oil Inspector General, some US$4.2bn worth of oil products had been smuggled out of Iraq in the previous year.[306]

Turning Basra around

535. The Basra PRT was established on 14 May 2006, and was expected to be fully operational within three weeks.[307] Its first Head was Mr Mark Etherington (a consultant contracted by PCRU).

536. PCRU funded three new posts in the Basra PRT (its Head, a Communications Manager and an Office Manager).[308] It was otherwise staffed by bringing together the existing US, UK and Danish teams.[309]

537. Mr Etherington wrote to a Cabinet Office official on 17 May outlining the challenges facing the Basra PRT, the most significant of which was a lack of "operational coherence":

> "Military and civilian lines of activity are not integrated, and the separation between military headquarters … and the Consulate in Basra Palace [the British Embassy Office Basra] has made the formulation and execution of sophisticated unitary approaches … very difficult. Our outputs are hence fragmentary, prone to duplication and intrinsically wasteful of resources; and neither are they subsumed to an over-arching strategy.
>
> "This is because no over-arching, integrated strategy has yet been articulated, although the need for one has been identified … UK 'policy' in S[outhern] Iraq is hence little more than an aggregation of departmental approaches …"[310]

538. While the PRT's work "must focus overwhelmingly upon Basra", it should have a "low-key southern Iraq co-ordination role".

539. Mr Etherington advised that "reporting was fragmented and lines of authority divided". He therefore intended to establish a "Basra Steering Group", bringing together MND(SE), the British Embassy Office Basra and the PRT. Its aim would be to "create a

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[306] eGram Baghdad to FCO London , 9 May 2006, 'Iraq: Corruption – Inspector General's Report'.
[307] Minute Etherington to Cabinet Office [junior official], 17 May 2006, 'Basra PRT: Challenges and Opportunities'.
[308] Minute Teuten to PCRU [junior official], 31 July 2006, 'Visit to Baghdad and Basra, 19 – 25 July'; Minute Etherington to Cabinet Office [junior official], 17 May 2006, 'Basra PRT: Challenges and Opportunities'.
[309] Minute DFID [junior officials] to Mr Anderson, 31 July 2006, 'Iraq: Allocation of Governance Resources to PRT in southern Iraq'.
[310] Minute Etherington to Cabinet Office [junior official], 17 May 2006, 'Basra PRT: Challenges and Opportunities'.

comprehensive strategy across all lines of activity, to prosecute it in detail and to review it monthly".

540. Mr Etherington highlighted the need adequately to fund PRT running and programme costs. The PRT had been allocated £350,000 for "start-up" costs; a request for additional funding had been sent to PCRU. Mr Etherington estimated that the cost of running the PRT (including the cost of the three consultants provided by PCRU) would be US$1.74m per year. The US had allocated US$15m to each PRT for programme costs but those funds were unlikely to appear before the summer and would in any case be insufficient for a province of Basra's size and challenges. In the meantime, the PRT might be able to access US CERPs funding and some £190,000 from DFID's Governorate Capacity Building Project.

541. Gen Jackson visited Iraq from 15 to 18 May.[311] He reported to Air Chief Marshal Sir Jock Stirrup, Chief of the Defence Staff, that there appeared to be some confusion about the role of the Basra PRT. Mr Etherington believed that its role was to deliver the "coherent UK cross-government approach" in the South that was currently lacking. Others believed that the PRT should limit itself to reconstruction. Gen Jackson commented:

> "I sense that we, the UK, have not really thought what we want our PRT to achieve. If we have, it is not clear in theatre."

542. Gen Jackson reported that his meetings in Basra had caused him to "reflect once again on the extent to which our military progress in Iraq is mortgaged against the economic and political LOO [line of operation]". The constraints imposed on the economic line of operation by the UK's International Development Act were an "enduring concern":

> "To be involved in two campaigns simultaneously [Iraq and Afghanistan] where one of our three levers of national power is not sufficiently agile or flexible to deliver immediate campaign effort seems absurd."

543. Prime Minister Maliki appointed his Cabinet (minus the Ministers for Interior, Security and Defence) on 20 May. The remaining Ministers were appointed on 8 June. Sections 9.4 and 9.5 describe the formation of Prime Minister Maliki's Government.

544. The 22 May meeting of the ISOG discussed how to draw together a strategic plan to deliver the UK's objectives in Basra, in the light of the "serious problems" that the UK faced.[312]

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311 Minute Jackson to CDS, 22 May 2006, 'CGS Visit to Iraq: 15-18 May 06'.
312 Letter Aldred to Lamb, Cooper & Kavanaugh, 23 May 2006, 'Basra: The Way Forward' attaching Paper, [undated], 'Getting Basra Better: A Strategic Agenda for Action'.

545. Ms Aldred sent a "strategic agenda for action" to UK military officers and officials working in Basra the following day, seeking advice which:

"
- … looks innovatively and ambitiously at options to deliver our strategic objectives, including potential resources implications; and
- clearly indicates … a critical path to success".

546. Mr Blair met President Talabani and, separately, Prime Minister Maliki in Iraq on 22 May.[313] Both men asked Mr Blair whether media reports that the UK was looking to withdraw from Iraq were accurate.

547. Mr Blair's Private Secretary recorded that Prime Minister Maliki had highlighted the contribution that "economic reform and prosperity" could make to tackling terrorism and insecurity.[314] Terrorists were exploiting the lack of basic services to create dissatisfaction. Prime Minister Maliki hoped the international community, including Iraq's neighbours, would help achieve rapid progress in this area and asked for Mr Blair's help to mobilise international support. Mr Blair said that he would be happy to do this.

548. Mr Blair proposed, and Prime Minister Maliki agreed, that one element to mobilising international support would be to show results in one or two key areas, such as security and electricity supplies in Baghdad. Prime Minister Maliki said that he was working with MNF-I and ISF to develop a Baghdad security plan, which would allow an increase in electricity supply.

549. A joint statement issued by the two Prime Ministers at a press conference after their meeting stated that they had "discussed the situation in Basra and agreed to work closely on ensuring greater security and stability there". A high level Iraqi delegation would visit Basra soon.

550. The day after Mr Blair left Iraq, Sir Nigel Sheinwald wrote to Mr Straw's Principal Private Secretary to set out Mr Blair's view of priorities for Iraq.[315] The key elements were:

"
- Drawing up a **timetable with conditions** setting out the potential path to MNF withdrawal …
- To ensure improved **ISF build-up …**
- Backing the **Baghdad security and electricity** plans. As the PM [Mr Blair] set out to Maliki, the new Iraqi Government will need to show early progress on these priority issues …

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[313] Letter Banner to Siddiq, 22 May 2006, 'Iraq: Prime Minister's Meeting with Talabani'; Letter Banner to Siddiq, 22 May 2006, 'Iraq: Prime Minister's Meeting with Nouri al-Maliki'.
[314] Letter Banner to Siddiq, 22 May 2006, 'Iraq: Prime Minister's Meeting with Nouri al-Maliki' attaching Paper, [undated], 'Joint Statement about the Visit of the UK Prime Minister'.
[315] Letter Sheinwald to Hayes, 23 May 2006, 'Iraq'.

- Turning around the situation in **Basra,** following the Prime Minister's private conversation with Maliki. This will require
  - a political understanding with parties representing the spectrum of political opinion there;
  - a package of UK and international reconstruction assistance;
  - a larger role and presence for the Iraqi forces, working alongside UK forces …
- Promoting **international support** for the new Government …
- Ensuring that **Arab countries** respond positively to requests for assistance from the new Iraqi Government …
- Stepping up our **outreach** activities to both Sunni and Shia militants … to ensure that they are given opportunity and incentives to participate in the political process …
- **Capacity building** for Iraqi ministries. We need a paper setting out our and the US's current assistance … and a plan for addressing the gaps."

551. Sir Nigel's letter alerted members of DOP(I) that Mr Blair was likely to want to discuss these issues the next time they met.

552. Mr Dinham told the Inquiry that Mr Blair's visit took place at a point when security was deteriorating and "there wasn't an awful lot that was strongly visible" on reconstruction.[316] Work to build the capacity of the Iraqi Government was progressing but was "below the radar" and DFID's infrastructure and essential services projects had taken some time to "get off the ground":

> "So I think what he [Mr Blair] wanted was – I think what we all wanted – was to have some visible effect."

553. DOP(I) met on 25 May.[317] Mr Blair told the meeting that the UK should focus on:

- the development of the ISF;
- seeing progress in Basra; and
- supporting the Iraqi Government's efforts to restore security and electricity provision in Baghdad.

554. Minsters commented that:

- DFID was seconding two officials to Deputy Prime Minister Salih's office, to help with planning and preparation for a donor conference in September.
- The key to further progress on electricity production lay in co-operation between Iraqi ministries and the development of realistic plans, rather than donor funding.

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[316] Public hearing, 17 December 2010, pages 65-66.
[317] Minutes, 25 May 2006, DOP(I) meeting.

- Mr Benn had spoken to Mr Paul Wolfowitz, the President of the World Bank, the previous day and there was now agreement that the World Bank would open a permanent office in Baghdad. Mr Benn had pressed Mr Wolfowitz to provide assistance to the energy sector.

555. DOP(I) agreed that the action points set out in Sir Nigel Sheinwald's letter of 23 May should be pursued.

556. A Cabinet Office official chaired a meeting to discuss Mr Etherington's letter of 17 May on 25 May.[318] The meeting:

- agreed the "**light-touch regional role for the PRT**" proposed by Mr Etherington;
- endorsed the proposal to create a Steering Group "to discuss strategic issues". The scope of the Steering Group would be informed by "wider work under way on Basra";
- on running costs, agreed that "in principle, [the] FCO could look to fund security and life support costs … and that PCRU could fund staff costs";
- on programme funding, asked departments to provide details of their current and proposed programmes to the PRT; and
- discussed but did not reach a conclusion on to whom the PRT should report in Iraq and in London.

557. Prime Minister Maliki and Vice President Tariq Hashemi visited Basra on 31 May.[319] During his visit, Prime Minister Maliki declared a state of emergency in Basra, lasting one month.[320]

558. Mr Patey reported on 2 June that the new Iraqi Minister of Electricity, Dr Karim Wahid, had asked for UK assistance in funding two power projects in the South, at a combined cost of US$60m.[321]

559. Mr Blair held a private meeting with Mr Browne on 6 June.[322] He asked Mr Browne to focus on the situation in Basra, and to:

> "… make sure that the political and military strategies were aligned and proceeding together. This required micro-management. We had been slow to grip the situation there …"

560. In mid-June, Prime Minister Maliki formally launched the Baghdad Security Plan (see Section 9.5).

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[318] Minute Cabinet Office [junior official] to Aldred, 25 May 2006, 'Ad Hoc Discussion on PRTs'.
[319] Minute Cooper, 1 June 2006, 'MND(SE) – southern Iraq Update – 1 June 2006'.
[320] *The Guardian*, 31 May 2006, *State of emergency for Basra.*
[321] eGram 21675/06 Baghdad to FCO London, 2 June 2006, 'Iraq: Meeting with Minister of Electricity'.
[322] Minute Sheinwald to Banner, 8 June 2006, 'Iraq and Afghanistan'.

561. The Cabinet Office produced an update on work on the "review of policy" requested by Mr Blair following his 22 May visit, "including in response to serious concerns over the situation in Basra", for the 15 June meeting of DOP(I).[323]

562. On electricity, the Cabinet Office paper stated that following positive early meetings with the new Electricity Minister, DFID was focusing on "demand issues and planning" by:

- getting the World Bank and other donors including the EU and Japan engaged. DFID was funding a World Bank adviser on energy sector management, and part-funding the new World Bank Country Office;
- leveraging World Bank loans for power projects in response to specific requests from the Electricity Minister; and
- offering a consultant to the Ministry of Electricity to advise on an electricity plan.

563. On international support, US and UK officials were discussing options for a compact between Iraq and the international community.

564. The UK's role in the development of the International Compact is described later in this Section.

565. On capacity building, the UK was supporting a number of key Iraqi institutions but that effort was "**dwarfed by a very large … often overambitious US programme**". The US had offered to share work it was undertaking to map and improve its capacity-building effort. That would provide a basis for discussions on a complementary approach.

566. On Basra, officials had been undertaking a "major review of policy" in MND(SE), in response to concerns (shared by the US) that Basra was not on track to meet the proposed transition timelines. The "work plan for Basra" had been organised around four strands: political framework; security; Rule of Law and governance; and economic development and reconstruction.

567. On the economic development and reconstruction strand, departments had been reviewing their programmes to ensure that:

- key short-term requirements were met;
- plans were in place for the Iraqi Government and the wider donor community to tackle Basra's medium- and long-term requirements; and
- all projects were delivering a visible dividend to Baswaris.

568. Funding had been found from existing resources for a number of new initiatives, but departments were still scoping the cost of further short-term measures. An initial estimate was that an additional £85m might be required.

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[323] Paper Cabinet Office, 13 June 2006, 'Follow-up to the Prime Minister's Visit, Including Delivering a Step-Change in Basra'.

569. DOP(I) agreed that Mr Browne should take the lead in pulling together a strategy for Basra, with the support of the Cabinet Office and assistance from other departments.[324] Mr Benn would monitor developments on electricity and power supply.

570. Prime Minister Maliki announced on 18 June that Muthanna would transfer to Provincial Iraqi Control (PIC) on 13 July.[325]

571. Mr Browne visited Iraq from 18 to 22 June.[326] He wrote to Mr Blair while in transit between Baghdad and Basra:

> "There is a tension between, on the one hand, our growing conviction that reconstruction and better governance must be delivered alongside improved security, rather than coming a few months down the track, and on the other, the difficulties our FCO and DFID representatives face in getting out on to the ground to do this."

572. The British Embassy Washington reported on 30 June that senior US officials had confirmed that in response to UK lobbying, the Basra PRT was likely to receive more than the US$15m allocated to other PRTs.[327] The US Embassy Baghdad was considering the exact amount.

573. The US provided US$30m for the Basra PRT in 2007.[328] The amounts allocated to other PRTs for that period varied from US$80m (for Baghdad) to US$18m.

574. Mr Browne sent Mr Blair an update on Basra on 4 July.[329] Mr Browne advised that he would be asking DOP(I) to agree a number of new projects which would be required to support the "'Better Basra Action Plan", at a total cost of £30.7m for the remainder of the financial year. That was "a relatively small sum given the strategic importance of Basra". The total comprised:

- £14.3m for additional UK support for the police (see Section 12.1);
- £11.4m for additional UK support for the judiciary, prisons and witness protection (see Section 12.1); and
- £5m for a Rapid Response Fund for the southern Iraq Steering Group, to support good governance and other priority areas.

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[324] Minutes, 15 June 2006, DOP(I) meeting.
[325] Minutes, 6 July 2006, DOP(I) meeting.
[326] Letter Browne to Blair, 22 June 2006, 'Update on Visit to Iraq'.
[327] eGram 28036/06 Baghdad to FCO London, 30 June 2006, 'US-Iraq: Basra'.
[328] Email Cabinet Office [junior official] to Hendrie, 18 February 2008, 'US Economic Surge Information' attaching Paper, [undated], 'Snapshot of PRT Engagement in Iraq'.
[329] Letter Browne to Blair, 4 July 2006, [untitled], attaching Paper, [undated], 'Background on Additional Basra Work'.

575. Mr Browne also advised that in response to Mr Blair's visit to Iraq in late May:

> "… the southern Iraq Steering Group has been set up, chaired by [the] Consul General with participation from across departments and agencies to co-ordinate delivery of a coherent strategy for southern Iraq, focused on Basra. Much of the work on governance, rule of law and infrastructure will now be delivered in a coherent fashion through the new UK-led Provincial Reconstruction Team in Basra, drawing together inputs from the US, Danes and other international partners."

576. The Basra PRT was now fully staffed, but lacked funding for project work and would need funding for running costs from December 2006. US funds had not yet arrived.

577. The 6 July meeting of DOP(I) discussed Mr Browne's letter to Mr Blair and agreed his proposals in principle.[330]

578. Mrs Beckett and Mr Benn said that their budgets for Iraq were fully committed, but were asked to look again at reprioritising their spending to fund the Better Basra projects.

579. Ministers agreed that there was a need for a comprehensive communications plan to highlight UK activity on reconstruction to politicians in Baghdad and Basra. The plan should include other donors' activity, to give a clear picture of the totality of development assistance that the UK presence was bringing to southern Iraq.

580. Ministers also recognised the risk to locally engaged staff, who were being targeted. At least three locally engaged members of staff working for the Coalition had been killed. FCO and DFID locally engaged staff were being offered the chance to resign, work at home, or work at a different location.

581. Discussions on funding the Better Basra Action Plan continued into August.

582. A Treasury official advised Mr Stephen Timms, Chief Secretary to the Treasury, on 15 August that departments had agreed to provide a total of £20.4m from existing resources to fund the Better Basra Action Plan, now costed at £26.5m (due to the later start for some of the work).[331] The FCO had contributed £12.4m (of which £7m was from the GCPP Reserve), the MOD £4m and DFID £4m. Negotiations had been difficult, with the MOD offering "considerable resistance" to the need to find its contribution from the core defence budget.

583. Mr Timms wrote to Mr Browne the same day, welcoming the successful conclusion of negotiations and agreeing to provide an additional £4m for the Plan from the central Reserve.[332]

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[330] Minutes, 6 July 2006, DOP(I) meeting.
[331] Minute Treasury [junior official] to Chief Secretary, 15 August 2006, 'Better Basra Plan'.
[332] Letter Timms to Browne, 15 August 2006, 'Better Basra'.

584. Mr Dinham told the Inquiry that the Better Basra Action Plan was a "proper, agreed, bought-into, cross-Whitehall plan", which had led to greater unity of purpose across the UK effort.[333] He added that the Plan did not seek to reflect the totality of the UK effort; for example, major DFID projects to increase power supply were starting to come on stream and contributed to achieving the UK's objectives.

585. Mr Etherington told the Inquiry that the Better Basra Action Plan was "a set of aspirations" rather than a plan.[334]

586. Mrs Beckett told Cabinet on 13 July that responsibility for security in Muthanna had been handed from British to Iraqi forces earlier that day.[335]

587. On 19 July, the JIC judged that violence was at the highest sustained level since April 2003, outpacing the Iraqi Government's ability to respond.[336] "Spiralling sectarian violence" was the most immediate threat to Iraq's progress.

588. Mr Patey's valedictory report from Baghdad on 20 July opened with the warning: "Strategic failure in Iraq a distinct possibility but not inevitable."[337]

589. Mr Patey advised that:

> "Without progress on security the encouraging start made by DPM [Deputy Prime Minister] Barham Salih and his economic team will be stillborn. The exodus of businessmen and the Iraqi middle class continues due to security concerns. They will take some persuading to return a second time but their entrepreneurial skills will be vital if the country is to thrive."

590. Mr Patey's valedictory report was passed to Mr Blair on 21 July.[338]

591. The ISG reflected on reporting from Baghdad, and its implications for the existing strategy, on 27 July.[339] The ISG agreed that although success or failure in Baghdad would be critical to overall campaign success in Iraq and was therefore the coalition's highest priority, the "best way for the UK to contribute to the wider military campaign was to continue to focus our limited resources on MND(SE), in particular, on Basra".

592. At the meeting, Mr Dinham argued that the UK should focus its future support on central government and in particular on budgetary management and critical economic reforms. Iraq was now enjoying increased revenue as a result of higher oil prices and slowly rising exports; the challenge was to ensure those revenues were redirected from wasteful and damaging subsidies to investment in public services. The security situation

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[333] Public hearing, 17 December 2009, page 67.
[334] Public hearing, 9 July 2010, page 26.
[335] Cabinet Minutes, 13 July 2006.
[336] JIC Assessment, 19 July 2006, 'Iraq: Insurgency, Sectarianism and Violence'.
[337] eGram 31514/06 Baghdad to FCO London, 20 July 2006, 'Iraq: Valedictory'.
[338] Minute Banner to Prime Minister, 21 July 2006, 'Iraq: Update and Maliki Meeting'.
[339] Minute Cabinet Office [junior official] to Sheinwald, 27 July 2006, 'Iraq Strategy Group, 27 July'.'

meant that undertaking major new infrastructure projects had become impossible. The ISG agreed that this was:

> "… an entirely sound approach, but noted the large gap between what we planned to offer and Iraqi expectations. This would need careful management."

593. Dr Rosalind Marsden, the newly arrived Consul General in Basra, reported on 24 August that her first impression of the Basra political scene was of "stasis".[340] The Provincial Government had yet to show itself capable of responding to Basra's major security and economic challenges. Local leaders were comfortable blaming each other and the coalition for the lack of progress, while pursuing their "criminal interests". The Better Basra Plan had "most of the ingredients" to break the log-jam, but the UK's influence was diminishing.

594. Section 9.5 describes the development in August and September of Operation SALAMANCA, the operation to implement the military elements of the Iraqi Government's Basra Security Plan.

595. Major General Richard Shirreff, who took over as GOC MND(SE) in mid-July,[341] told the Inquiry that Op SALAMANCA comprised three major elements:

> "… what we did was select different areas of the city, and … surging with concentration of force, secure the area, put teams into the police stations to go through the police stations with a fine-toothed comb, to establish the state of police stations …
>
> "We surged police training teams in, Royal Military Police and contract policemen from elsewhere. At the same time we conducted a number of pre-planned reconstruction and other projects, everything from levelling football pitches to playgrounds, to refurbishing schools."[342]

596. Mr Martin Howard, MOD Director General Operational Policy, told the 25 August ISOG meeting that Mr Browne would want to be reassured that "arrangements for delivering civilian activities" were in place and robust before approving Op SALAMANCA.[343]

597. The British Embassy Office Basra issued a detailed brief on Op SALAMANCA (which it described as "the security pillar of Better Basra") by eGram on 12 September.[344] The brief identified the importance of exploiting the conditions created by Op SALAMANCA. Short-term projects under Op SALAMANCA should be linked to longer-term initiatives. Funding (primarily Iraqi funding) was available, "most of the right

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[340] eGram 36964/06 Basra to FCO London, 24 August 2006, 'Iraq: Basra: Political Overview'.
[341] Report Cooper, 13 July 2006, 'GOC MND(SE) – southern Iraq Update – 13 July 2006.
[342] Public hearing, 11 January 2010, pages 19-20.
[343] Minute Blake to Banner, 25 August 2006, 'Iraq Senior Officials Group'.
[344] eGram 42792/06, Basra to FCO London, 12 September 2006, 'Iraq: Basra: Operation Salamanca/Date Palm'.

people" were in place (the PRT had "marshalled an impressive array of UK and partners' talent"), and teams in Basra were working together "more closely than ever" through the southern Iraq Steering Group.

598. The transition to PIC in Dhi Qar province took place on 21 September.[345]

599. Maj Gen Shirreff reported on 28 September that Operation SINBAD (the new name for Op SALAMANCA) had at last begun, after a "tortuous" round of final negotiations with Iraqi politicians.[346]

600. On 5 October, at the request of the FCO, the JIC assessed the performance of the Iraqi Government, its level of popular support and its prospects over the year ahead.[347] The JIC judged that after five months in office:

> "… the faction-based Iraqi Government is proving ineffective … Co-ordination between and within Government ministries is poor. None of this looks likely to improve in the near future. Meanwhile, sectarian and insurgent violence is at a record high, and fuel, water and electricity shortages persist across much of the country."

601. The 12 October meeting of DOP(I) received a paper by officials on the medium-term prospects for Iraq.[348]

602. A DFID official advised Mr Benn in advance of the meeting that the paper had been "inspired by" Mr Patey's valedictory telegram (which had assessed that strategic failure in Iraq was a distinct possibility but not inevitable), and was set in the context of increasing insecurity.[349]

603. The official advised Mr Benn that discussions around the paper provided a good opportunity for DFID to reassure departments – especially the MOD – that it was "shouldering our share of the burden" in Iraq. DFID's two current projects in the South, the IISP and the Governorate Capacity Building Project, were due to finish in March 2007, when DFID would aim to close its office in Basra. Deteriorating security meant no new projects could be designed or implemented. There was "little/no expectation" from the MOD or FCO that DFID would continue to invest in infrastructure, given the flow of US CERPs money and anticipated investments by Japan, the World Bank and the Iraqi Government itself. The official concluded:

> "We have largely won the argument that DFID should shift focus from physical investments in Basra to technical assistance in Baghdad to maximise our impact, and the [medium-term] paper reflects this in its recommendations."

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[345] Report Shirreff, 21 September 2006, 'GOC MND(SE) – southern Iraq Update – 21 September 2006'.
[346] Report Shirreff, 28 September 2006, 'GOC MND(SE) – southern Iraq Update – 28 September 2006'.
[347] JIC Assessment, 5 October 2006, 'Al-Maliki's Government: Interim Progress Report'.
[348] Paper, 10 October 2006, 'Iraq: Medium Term Prospects and Implications'.
[349] Minute DFID [junior official] to Private Secretary [DFID], 6 October 2006, 'Iraq: Future for DFID Programme from 2007'.

604. The medium-term prospects paper assessed that Iraq had reached a critical juncture, with violence at its highest ever level, reconciliation making little headway and public services still in a parlous state.[350] The UK's existing goal for Iraq was:

> "A democratic, stable, united and law-abiding Iraq … providing effective, representative and inclusive government for all its people."

That was now likely to be the "best case outcome", and unlikely to be achievable in full. The best achievable outcome was likely to be:

> "… an Iraq which can govern and sustain itself nationally and provincially, and where sectarian and other violence is contained short of the point where it would overwhelm Iraq's institutions and precipitate chaos and/or civil war."

Achieving that outcome lay primarily in the hands of the Iraqi Government. The UK's ability to influence its decisions would continue to decline. The coalition's current strategy of direct support combined with building Iraqi capacity remained the only credible way to exert influence.

605. The paper argued that Iraq's economic success depended more on the policies and actions of the Iraqi Government than on the backing of the international community. High oil prices had bolstered Iraq's finances, but the Iraqi Government needed assistance in managing the economy, bringing about structural reforms, and unblocking domestic investment to improve public services. The implications for the UK were:

- The UK's effort in Basra should be channelled as far as possible through the PRT, which might need to continue work into 2008 in line with the planned UK military effort.
- DFID's programme should increasingly be directed at enabling the Iraqi Government to tackle key challenges at the centre, including reconciliation, economic management and critical capacity deficits.

606. The DOP(I) meeting touched only very briefly on the paper, as Mr Browne indicated he would like more time to discuss and agree it formally at a later date.[351]

607. DOP(I) discussed the medium-term prospects paper at their next meeting, on 20 October.[352] Mr Blair was not present, so Mr Browne chaired the meeting.

608. Mr Browne began by saying that the existing goal would be difficult to achieve, but Ministers had to be certain that there was not more the UK could do before accepting anything less.

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[350] Paper DOP(I), 10 October 2006, 'Iraq: Medium Term Prospects and Implications'.
[351] Minutes, 12 October 2006, DOP(I) meeting.
[352] Minutes (revised), 20 October 2006, DOP(I) meeting.

609. Mr Browne also said that DFID's aspiration to move its focus to Baghdad was well understood, but the UK had a significant stake in the South and needed a clearer understanding of the impact of such a move on activity there.

610. In discussion, a member of DOP(I) said that most DFID projects in the South were likely to be completed by spring 2007 and that no new projects could be started under current security circumstances. The UK's medium-term legacy depended on getting economic management and reconciliation going and Baghdad functioning, which meant building capacity in central ministries.

611. DOP(I) agreed that the UK should keep the existing policy goal, but recognise that the best outcome achievable might fall short of it.

612. It also agreed that a progressive reduction of UK forces to 4,500 in 2007, in concert with US and other allies, was possible, with more ambitious reductions being considered at the end of November.

613. The medium-term prospects paper was discussed again at the 26 October meeting of DOP, alongside an update from Mr Browne on security developments in Iraq.[353]

614. ACM Stirrup advised that Op SINBAD "could not be going better, although there had been an increase in the number of indirect fire attacks on the Basra Palace Compound". The main concern of Basrawis was whether the success of the operation could be sustained, which "would require engagement and funds from the Government in Baghdad".

615. DOP agreed the analysis and recommendations contained in the medium-term prospects paper.

616. Section 15.1 describes the increasing threat posed by rocket and mortar fire to Basra Palace Compound (BPC), and the discussions within the UK Government on how to respond.

617. At the 27 October meeting of the ISG, Mr Simon McDonald, FCO Director Iraq, reported that the security situation in Basra had deteriorated to the point where Mrs Beckett had decided it was necessary to withdraw the majority of civilian staff from the BPC to Basra Air Station (BAS) or out of theatre.[354]

618. The BPC housed the British Embassy Office Basra, the DFID Basra Office, elements of the police and prisons teams, and the PRT.[355] MND(SE) was already located at BAS.

619. The lack of hardened accommodation suitable for civilian staff at BAS meant that not all staff could be relocated immediately.

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[353] Minutes, 26 October 2006, DOP meeting.
[354] Minute Cabinet Office [junior official] to Sheinwald, 30 October 2006, 'Iraq Strategy Group, 27 October'.
[355] Paper Iraq Policy Unit, 25 October 2006, 'Iraq: Basra Palace Site'.

620. The PRT withdrew to Kuwait and redeployed to BAS in mid-December, when sufficient hardened accommodation had been constructed.[356]

621. Mr Blair was advised by his Private Secretary later that day that "this move is likely to be seen as a victory by those attacking us".[357] Dr Marsden and four FCO civilian staff would remain in the BPC, while other staff would relocate elsewhere (the majority to the BAS).

622. The US Office of the Special Inspector General for Iraq Reconstruction (SIGIR) published its audit of PRT capability on 29 October.[358] The audit, which had been conducted over the summer, concluded that while the creation of 10 PRTs and eight satellite offices was a "noteworthy achievement", many obstacles to effective operation remained. Those included insecurity, delays in providing funding, the difficulty of recruiting and retaining qualified civilian personnel, and the difficulty of integrating civilian and military personnel.

623. On the Basra PRT, SIGIR assessed that the unstable security situation meant that PRT members had not been able to interact personally with their Iraqi counterparts, significantly limiting the PRT's ability to achieve its mission. It questioned "whether the continued deployment of PRT personnel to … Basra … makes operational sense at this time".

624. The Inquiry has seen no indications that the UK Government discussed the SIGIR audit.

625. The 2 November weekly update from GOC(MND)SE, which was sent by Maj Gen Shirreff's Chief of Staff, reported that the withdrawal of civilian personnel had come as a surprise to MND(SE).[359] It was expected to have an adverse impact, including by disrupting long-term reconstruction because of the "haste with which the PRT has been evacuated".

626. On 7 November, the British Embassy Baghdad and the British Embassy Office Basra responded to an IPU request for accounts of what life was like for ordinary Iraqi citizens. Their replies warned that they could offer only an impressionistic view due to the constraints under which they operated.

627. The Embassy reported that:

> "Our protected circumstances constrain our ability to interact with ordinary Iraqis or even visit Baghdad. Our impressions can only be gleaned through the press, or piecemeal, anecdotally and at second or third hand."[360]

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[356] Report PCRU/DFID, 19 December 2006, 'Refocusing Civilian Efforts in Basra in the Run Up to PIC'.
[357] Minute Banner to Blair, 27 October 2006, 'Iraq Update, 27 October'.
[358] Office of the Special Inspector General for Iraq Reconstruction, 29 October 2006, *Status of the Provincial Reconstruction Team Program in Iraq*.
[359] Report Everard, 2 November 2006, 'GOC MND(SE) – southern Iraq Update – 2 November 2006'.
[360] Letter Gibson to IPU [junior official], 7 November 2006, 'Life in Baghdad for Ordinary Iraqis'.

628. The British Embassy Office Basra offered a similar view:

> "We cannot go into ordinary Iraqi homes, shops and schools or move freely around the city (or even our own compound). Nearly all our local staff have left because of death threats and intimidation."[361]

629. The accounts were passed to Mr Blair on 10 November.[362]

630. DOP(I) considered the impact of the withdrawal of civilian personnel on 16 November.[363] Mrs Beckett and Sir Suma Chakrabarti reported that the impact of the withdrawal of civilian personnel from the BPC on the Better Basra Action Plan and on DFID's programmes had been "marginal".

631. Mrs Beckett summed up that officials should develop some clear and agreed forward planning on the future of the civilian and military presence in Basra.

632. A December 2006 joint DFID/PCRU report assessed that the impact of the PRT's withdrawal from the BPC to Kuwait on its work was "significant but not catastrophic".[364] Little of its work required face-to-face contact with Iraqi citizens.

633. The relocation of the PRT from Kuwait to BAS was under way, and the benefits of co-location with MND(SE) were already apparent. The PRT's access to military partners went some way to overcoming problems caused by the lack of a common secure communication system between civilians and the military. Informal contacts were also helping to build mutual understanding of objectives and aims.

634. A number of witnesses told the Inquiry that the move to BAS led to much greater contact between UK civilian personnel and Iraqi citizens. Mr Robert Tinline, Deputy Consul General in Basra, described BAS as a "neutral venue":

> "Because we were next to the airport, which was Iraqi obviously, but close enough to our security … that meant they [our Iraqi interlocutors] didn't have to come and see us and we didn't have to go and see them. So it was actually very good."[365]

635. Section 9.5 describes the wider implications of the withdrawal of civilian personnel, including for US/UK relations.

636. Mr Gordon Brown, the Chancellor of the Exchequer, visited Basra on 18 November.[366] During that visit, Maj Gen Shirreff expressed his concern that long-term economic and development work was being prioritised above short-term interventions that would yield more immediate results. He proposed that the UK should establish a

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[361] Letter Marsden to IPU [junior official], 7 November 2006, 'Iraq: Basra; Life for Ordinary Iraqis'.
[362] Minute Banner to Prime Minister, 10 November 2006, 'Iraq Update: 10 November'.
[363] Minutes, 16 November 2006, DOP(I) meeting.
[364] Report PCRU/DFID, 19 December 2006, 'Refocusing Civilian Efforts in Basra in the Run Up to PIC'.
[365] Public hearing, 24 June 2010, pages 10-11.
[366] Minute Treasury [junior official] to Chancellor, 13 December 2003, 'Basra Visit: Responding to Major General Shirreff's Concerns'.

joint (civilian and military) taskforce, under a single (unspecified) command, to plan such short-term interventions.

637. Section 9.5 describes the development in October and November of the UK's Forward Plan, at Mr Blair's request.

638. Mr McDonald sent a draft Plan to Mr Blair's Private Secretary on 24 November.[367] Copies of the draft were sent to Mrs Beckett, Mr Browne and SIS, but not Mr Benn.

639. The draft Plan recognised that:

> "The wider context … is the growing reality of Iraqi sovereignty. The Iraqi Government and political class have their own priorities, which are not the same as ours. Maliki's highest priority now is accelerating the pace of security transition."

640. The draft Plan included proposed actions under three headings:

- Political accommodation;
- Governance and economic development; and
- Security.

641. On governance and economic development, the draft Plan identified the "core problems" as a lack of political will and leadership and weak capacity across the Iraqi Government to drive forward a reform agenda and spend its budget. The immediate objective was to impress upon Prime Minister Maliki and his senior Ministers and advisers that economic management and reform required sustained attention and visible leadership, as a strategic and security issue. Prime Minister Maliki also needed to ensure that provincial governments were properly resourced and held to account, as part of the process of forging a political settlement.

642. Immediate actions that Prime Minister Maliki might take included:

- striking a deal on oil revenue sharing and starting to restructure the oil sector so it behaved more like a business;
- striking a deal on fiscal federalism, and getting Iraqi resources flowing to the provinces to improve services; and
- by early 2007, adopting the International Compact as a key part of the Iraqi Government's reform agenda.

643. The UK would also press Prime Minister Maliki to:

- establish and chair an "economic Task Force" to give strategic direction on economic management and reform and hold Ministers and provincial governments to account;

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[367] Minute McDonald to Banner, 24 November 2006, 'Iraq Forward Plan' attaching Paper [draft], [undated], 'Iraq: Forward Plan'.

- appoint effective technocrats to replace the "most egregiously partisan" and underperforming ministers;
- take personal responsibility for Iraq's engagement with the International Compact;
- secure agreement on a Hydrocarbons Law;
- push for a full and effective multilateral presence in Iraq;
- start reforming key ministries; and
- get Iraqi resources to the provinces to improve local services and create jobs.

644. The draft Plan stated that that was an ambitious and complex agenda. Progress on reform had so far been limited and the UK needed to be realistic about chances of "widespread success" in the next six months, although traction was improving in some areas as the quality of Ministers and political leadership improved.

645. Responding to Mr McDonald, Mr Blair's Private Secretary reported that he had described the Forward Plan as "an excellent piece of work".[368] The Private Secretary asked for the Plan to be finalised and implemented.

646. No.10 sent the White House a copy of the Forward Plan on 25 November, stressing that it remained "work in progress".[369]

647. Maj Gen Shirreff's weekly report of 30 November offered an assessment of progress on Op SINBAD (two months into the Operation).[370] He reported that a great deal had been achieved:

- Over US$50m had been committed to more than 150 short- and medium-term projects, creating over 12,000 jobs. The projects had been selected with the relevant Iraqi authorities; that approach had won public and political consent at the local, regional and national level.
- There had been an improvement in the general security situation and in the confidence and capability of the ISF. Further action was needed to reduce indirect fire and tackle corruption in the Iraq Police Service.

648. On reconstruction, Maj Gen Shirreff commented:

> "… the area that will underwrite the success of Op SINBAD is reconstruction and economic development. I have previously mentioned the need to fill the gap between the immediate impact projects of Op SINBAD and whatever longer-term activity is undertaken by the PRT as well as the requirement to co-ordinate the efforts of the MOD, FCO and DFID in southern Iraq better, hence recent efforts to breathe life back into the comprehensive approach before it is completely moribund."

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[368] Letter Banner to McDonald, 27 November 2006, 'Iraq: Forward Plan'.
[369] Letter Sheinwald to Hadley, 25 November 2006, [untitled], attaching Note Blair, 27 November 2006, 'Iraq Forward Plan' and Paper, [undated], 'Iraq: Forward Plan'.
[370] Report Shirreff, 30 November 2006, 'GOC(MND)SE – southern Iraq Update – 30 November 2006'.

649. Maj Gen Shirreff reported that he had agreed with Dr Marsden and the Head of the DFID Office in Basra that to address that gap, the PRT needed to be directed to work more closely with MND(SE), and that it needed clearer direction from London to ensure it focused on delivering short-term projects rather than on long-term projects to build Iraqi capacity. Those steps might "obviate the need for a JIATF [Joint Inter-Agency Task Force] under command MND(SE)".

650. The report was sent to No.10 on 1 December and passed to Mr Blair the same day.[371]

651. Lt Gen Shirreff told the Inquiry that the US had agreed to provide "significant amounts" of US funding for the reconstruction component of the operation, of which he spent US$80m.[372]

652. Lt Gen Shirreff also told the Inquiry that while MND(SE) worked with the PRT as much as it could, the PRT was in "some state of disarray" at that time.[373] He had "pretty close links" with Dr Marsden and the British Embassy Office Basra, including through a forward headquarters in Basra Palace, but effective co-ordination was difficult as long as MND(SE) and the British Embassy Office Basra were not co-located.

653. Lt Gen Shirreff concluded that the "inter-governmental piece" had failed by the time of Op SINBAD.

654. In response to the concerns that Maj Gen Shirreff had raised with Mr Brown on 18 November, the Treasury convened a meeting with DFID, FCO and MOD officials on 7 December to consider whether the UK should prioritise short-term economic interventions in Basra.[374]

655. A Treasury official advised Mr Brown on 13 December that the meeting had concluded that:

- Money was not a "binding constraint" in the South. The "potential pool" comprised US$176m from the Iraqi Government, US$260m from the US and US$550m in soft loans from the Japanese. Money was available for short-term interventions: only £1.1m of the £5m Rapid Reaction Fund (part of DFID's SIESP) had so far been spent.
- The inability to generate good project ideas was a constraint.
- Bringing the southern Iraq Steering Group under a single command would be possible and could be effective but might prove contentious.

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[371] Letter McNeil to Banner, 1 December 2006, 'Iraq: Update' attaching Report Shirreff, 30 November 2006, 'GOC(MND)SE – southern Iraq Update – 30 November 2006'; Minute Banner to Prime Minister, 1 December 2006, 'Iraq Update: 1 December'.
[372] Public hearing, 11 January 2010, page 16.
[373] Public hearing, 11 January 2010, pages 20-21.
[374] Minute Treasury [junior official] to Chancellor, 13 December 2006, 'Basra Visit: Responding to Major General Shirreff's Concerns'.

- PCRU officials were visiting Iraq to explore how civil/military co-ordination could be improved.

656. The official commented:

> "… it is important to be realistic about what can be achieved and in what timeframe. The Armed Forces can interpret 'short-term' to be 48 hours but for DFID it means 6 months."

657. The Inquiry has seen no indications that Mr Brown or Treasury officials replied to Maj Gen Shirreff.

658. Maj Gen Shirreff raised his concerns with Mr Blair at the end of December.

UK plans for 2007, and the US surge

659. Section 9.5 describes President Bush's decision in late November to deploy additional US troops to Iraq to conduct a full-scale counter-insurgency campaign in Baghdad, the UK's response to that decision, and US concerns over UK plans to draw down troops in the South.

660. In preparation for the 7 December meeting of DOP(I), officials prepared a paper on military plans for southern Iraq in 2007 and a paper on the UK's objectives and presence in Basra.

661. The MOD paper on military plans for southern Iraq reported that Op SINBAD could create the conditions to achieve PIC in Basra as early as March 2007.[375] The intention was to "re-posture" UK troops from bases in Basra City to BAS at the end of Op SINBAD. From there, UK forces would perform a "Military Assistance Mission". That would lead to a reduction in troop numbers from 7,100 to 4,500 in May 2007, and possible further reductions later in the year.

662. The Basra paper, which was produced by the FCO, considered the implications of that re-posturing and of the continuing security threat to civilian operations.[376] The FCO paper recommended aiming for PIC in Basra at some point between March and June 2007. The civilian effort would be led from BAS as there was no prospect of being able to return to the BPC. Although this meant a limit on the number of civilian staff and tougher conditions, there would be "significant advantages in co-location with the military – making possible a more cohesive approach".

663. The FCO recommended that the main objectives of the civilian effort during 2007 should be to:

- help deliver PIC in Basra;

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[375] Paper MOD, 5 December 2006, 'UK Military Plans for southern Iraq in 2007'.
[376] Paper FCO, 1 December 2006, 'Basra: Objectives and Presence in 2007'.

- continue political engagement, SSR, and capacity-building in the provincial government; and
- ensure that Baghdad delivered the resources that Basra needed.

664. At the DOP(I) meeting, Mr Benn advised that the UK's major development projects were now reaching completion.[377] The arrival of a gas pumping plant in the next few days would significantly increase gas supply and leave a positive legacy. Although the water towers projects had been delayed by security risks, DFID planned to move its focus to capacity-building. The main challenge now would be ensuring the Provincial Council received the necessary funds from Baghdad.

665. Mr Benn also said "a silent crisis" was unfolding in Iraq, as Iraqi citizens fled from sectarian violence. That was putting increasing pressure on Iraqi services. DFID had provided £1.4m to the International Committee of the Red Cross (ICRC).

666. DOP(I) agreed the overall intent of the MOD and FCO papers.

667. Mr Blair wrote to President Bush on 20 December.[378] He emphasised the importance of support for Prime Minister Maliki, through increasing the speed at which the Iraqi Army was developing, supporting the reconciliation and outreach work, and helping to create a more effective system for the disbursement of money within Iraq.

668. On 5 January 2007, President Bush briefed Mr Blair ahead of his speech on Iraq the following week.[379] During the call he described a significant increase in US and Iraqi troops, and a number of personnel changes.

669. Mr Blair said that it was vital to break the back of the violence in Baghdad. He urged President Bush to focus on reconciliation and reconstruction as well as security, suggesting that it might be helpful to designate individuals who would be accountable for leading work on those areas.

670. Mr Blair's Private Secretary wrote to Mrs Beckett's Private Secretary on 8 January:

> "We are entering an important new phase in the Coalition effort in Iraq, as – following the US review and in the light of our plans in Basra – we and the US attempt to help the Iraqi Government entrench genuine change and progress in the areas of security, reconstruction and reconciliation. The Prime Minister judges that our present level of effort should be stepped up in response. He would like to see a qualitative change in our ability to monitor progress in these key areas, to identify blockages to progress, and to take rapid action to fix these."[380]

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[377] Minutes, 7 December 2006, DOP(I) meeting.
[378] Note [Blair to Bush], [20 December 2006], 'Note'.
[379] Letter Phillipson to Hayes, 5 January 2007, 'Prime Minister's Phonecall with President Bush, 5 January: Iraq'.
[380] Letter Banner to Siddiq, 8 January 2007, 'Iraq'.

671. The letter asked for detailed reports and weekly updates on key areas, including:

- a detailed report on reconstruction; and
- a weekly report on political development, security and economic activity in Basra.

672. Mr Blair and President Bush spoke again on 9 January.[381] Mr Blair said that he had asked for changes in the way that the UK system monitored and chased up progress in Iraq. Information, for example on reconstruction, was incomplete. The US and UK needed to be sure that everything that could be done on reconstruction was being done. Mr Blair said that he wanted someone on the UK side "such as a senior military figure" to travel around Iraq and report on what was actually happening, for example in Najaf. The US and UK needed to improve delivery of assistance in calmer areas, to demonstrate that peace brought dividends.

673. An 11 January JIC Assessment judged that:

- There continued to be real economic growth in Iraq, but the Iraqi Government had shown little commitment to economic reform and large-scale job creation was highly unlikely in the next two years.
- The Iraqi Government was not short of funds (the JIC estimated that the Government had accumulated some US$12bn since 2003 as a result of unspent budget allocations), but public investment was hampered by weak central Government ministries and a lack of competent staff at all levels of Government.
- The security situation remained the main obstacle to private sector development and foreign investment.[382]

674. President Bush announced the new US strategy in an address to the nation on 10 January:

> "The situation in Iraq is unacceptable to the American people – and it is unacceptable to me …
>
> "It is clear that we need to change our strategy in Iraq."[383]

675. President Bush said that a successful strategy needed to combine robust military operations with visible improvements in Iraqi neighbourhoods and communities. As well as providing 20,000 additional US troops and increasing efforts to build the capacity of the ISF, the US would also increase its efforts to build the capacity of the Iraqi Government, including by doubling the number of PRTs and giving US military commanders and PRT leaders greater flexibility in how they used resources for economic assistance.

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[381] Letter Banner to Hayes, 9 January 2007, 'Prime Minister's Phonecall with President Bush, 9 January: Middle East Issues'.
[382] JIC Assessment, 11 January 2007, 'Iraq: Economic Prospects'.
[383] The White House Archive, 10 January 2007, *President's Address to the Nation*.

676. The result of the new strategy set out by President Bush is often referred to in contemporary documents as the new Baghdad Security Plan.

677. The British Embassy Baghdad reported on 11 January that the new Iraqi-led Baghdad Security Plan was under way.[384] In contrast to previous plans, there was greater emphasis on reconstruction, with a focus on job creation. Five "mini-PRTs" had been embedded with troops in Baghdad to assist with reconstruction operations. The US also planned to inject funds into Iraqi State-owned enterprises to generate rapid job creation (the Bradley Initiative).

678. The British Embassy Baghdad reported on 26 March that the US had spent US$1.6bn on 1,678 reconstruction projects as part of the new Baghdad Security Plan.[385]

Major General Shirreff's proposal for a military-led UK effort in the South

679. In parallel with discussions on the new US strategy, the UK Government considered and rejected Maj Gen Shirreff's proposal for a military-led Joint Inter-Agency Task Force in the South.

680. Maj Gen Shirreff wrote to Mr Blair on 29 December to offer, in response to Mr Blair's request during his recent visit to Iraq, "some thoughts on how a Joint Inter-Agency Task Force would deliver concentrated British effect in SE Iraq and improve the prospects of achieving strategic success".[386]

681. Surveys indicated that Op SINBAD was having a positive effect, but it could do no more than:

> "… create a window of opportunity that must be filled by mass economic effect, a Rooseveltian New Deal for Basra. Only thus will the militia be defeated. This requires the mass injection of Iraqi Government funds …"

682. Maj Gen Shirreff proposed that to achieve that:

- the Iraqi Government should establish a reconstruction committee for Basra with authority and capability to spend central Government money; and
- the coalition should establish an organisation capable of providing the right advice and planning capability.

683. The current arrangement lacked unity of command and purpose. HQ MND(SE) had the planning muscle, the energy, the staying power and the unity of command to execute an overarching plan (such as Op SINBAD), but it lacked expertise on reconstruction. The

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[384] eGram 1160/07 Baghdad to FCO London, 11 January 2007, 'Iraq: Reinvigorated Baghdad Security Plan'.
[385] eGram 12261/07 Baghdad to FCO London, 26 March 2007, 'Iraq: Update on the 'Economic Surge''.
[386] Letter Shirreff to Blair, 29 December 2006, [untitled].

PRT, currently below strength and operating out of a hotel in Kuwait, preferred to focus on long-term capacity-building. Co-location in the new year, when the PRT moved to the BAS, would help but would not solve the underlying problems.

684. Maj Gen Shirreff recommended that the UK should establish a Joint Inter-Agency Task Force (JIATF) with coalition partners, combining military and reconstruction expertise under single military command.

685. Lt Gen Shirreff told the Inquiry that his proposal for a JIATF under military command was a response to the fragmented UK effort at the time:

> "… this was sort of desperate times and desperate measures. I'm not sure I would necessarily propose the same solution today … But at the time, it seemed to be the only way …"[387]

686. The ISG discussed Maj Gen Shirreff's letter on 5 January 2007.[388] Vice Admiral Charles Style, Deputy Chief of Defence Staff (Commitments), said the letter did not reflect the "MOD corporate view", but that he had some sympathy for the need for better co-ordination and command: the southern Iraq Steering Group had met only five times since May 2006, which was not good enough. Co-location at the BAS should solve much of the problem, and the organisation needed to be tauter and more focused, but not necessarily military-led.

687. Sir Nigel Sheinwald told the ISF that Iraq was "entering a new phase, which required a coherent structure under a single point of contact" and asked for the ISOG to work on new structures.

688. Sir Nigel reported to Mr Blair after the meeting that Maj Gen Shirreff's views:

> "… represent his frustration, shared by the MOD, that the civilian reconstruction effort is uneven. We all agree that we need to make sure that we have an effectively led Basra operation for the next year (at least)."[389]

689. Sir Nigel advised that co-location of HQ MND(SE), the PRT and the British Embassy Office Basra at BAS from late February would help co-ordination enormously. He had asked the departments concerned, led by PCRU, to advise on the right structure for the British effort. The balance of opinion was that "it should be civilian-led, with strong military input and follow-up".

690. Sir Nigel added that both DFID and the FCO were:

> "… very fed up with Shirreff's disparaging comments about the civilian effort … But the fact is that there have been constant problems between the military

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[387] Public hearing, 11 January 2010, page 42.
[388] Minute Cabinet Office [junior official] to Sheinwald, 5 January 2007, 'Iraq Strategy Group, 5 January'.
[389] Minute Sheinwald to Prime Minister, 5 January 2007, 'Iraq: Weekly Update' attaching Paper Cabinet Office, 5 January 2007, 'Basra'.

and civilian people in Basra from the start. We must make a last effort to get a joined-up operation."

691. Mr Blair wrote on Sir Nigel's minute: "Put Shirreff in charge. The Army gets things done."[390]

692. A No.10 official wrote to Mrs Beckett's Private Secretary on 8 January, advising that Mr Blair retained an open mind on how to improve civilian/military co-operation in Basra.[391] He looked forward to receiving advice from officials, and was "if necessary … content that this should be delivered via a task force under military leadership".

693. At DOP(I) on 11 January, Ministers commented that "unbalanced reporting from the military in theatre, disparaging the civilian effort" was "extremely unhelpful".[392] It was not the right time to create a new UK military-led structure when the UK was trying to put the Iraqi Government in the lead.

694. Mr Dinham, who attended the DOP(I) meeting, reported to DFID colleagues that Mr Benn had spoken strongly against Maj Gen Shirreff's proposal, arguing that the UK should let existing, Iraqi-led organisations find their feet, accept that the Iraq Government might not be that interested in our continued advice and help, and recognise that the time for further UK bilateral pushes on reconstruction was coming to an end.[393] Mr Dinham added that ACM Stirrup had "agreed absolutely with everything that Hilary [Benn] had said".

695. After receiving a further update from Basra on 12 January, Mr Blair wrote: "I still need more info on Basra and have we established the Joint Working yet, led by the military?"[394]

696. The meeting of the ISOG on the same day discussed the problems with civilian/military co-ordination.[395] The ISOG agreed that there were a number of contributing factors, "including personalities, departmental differences in duty of care, and too infrequent meetings of the southern Iraq Steering Group". There was a need to revise structures, to balance the military effort with the civilian, to balance long- and short-term efforts, and that "a military lead was not the right way to go at this time". Dr Marsden and Maj Gen Shirreff, supported by PCRU, were preparing recommendations on a revised structure.

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[390] Manuscript comment Blair on Minute Sheinwald to Prime Minister, 5 January 2007, 'Iraq: Weekly Update'.
[391] Letter Banner to Siddiq, 8 January 2007, 'Iraq'.
[392] Minutes, 11 January 2007, DOP(I) meeting.
[393] Email Dinham to DFID [junior official], 11 January 2007, 'Restricted: DOP(I)'.
[394] Manuscript comment Blair on Minute Banner to Blair, 12 January 2007, 'Iraq Update, 12 December'[sic].
[395] Minute Cabinet Office [junior official] to Sheinwald, 12 January 2007, 'Iraq Senior Officials Group'.

697. On 16 January, Mr Blair raised the issue of civilian/military structures in Basra during a meeting with ACM Stirrup and senior officials from the FCO, SIS, the MOD, DFID and the Cabinet Office.[396]

698. ACM Stirrup said he did not agree with Maj Gen Shirreff's proposals. It was too late to establish a JIATF; the UK's focus should be on building Iraqi capacity to deliver assistance. The military should not lead that work. Mr Dinham agreed. The No.10 record of the meeting did not report Mr Blair's view.

699. Mr Dinham reported separately to DFID colleagues only that Mr Blair had nodded, "seeming to accept" the argument against a move to a military-led reconstruction effort.[397]

700. Maj Gen Shirreff told the Inquiry:

> "… it was pretty clear to me that … looking over the period as a whole of my time in command – we had a strategy that involved extraction rather than necessarily achieving mission success. It was, in a sense, an exit strategy rather than a winning strategy. A winning strategy was going to require significant additional resources."[398]

701. Major General Jonathan Shaw succeeded Maj Gen Shirreff as GOC MND(SE) in January.

702. At the 25 January meeting of the ISG, Sir Nigel Sheinwald asked the FCO and Dr Marsden for a note on the new civilian/military structure in Basra for Mr Blair.[399] That note was issued on 2 March.

Preparing for Provincial Iraqi Control in Basra

703. Sections 9.4 and 9.5 describe the sharp rise in sectarian violence after the bombing of the al-Askira mosque in Samarra in February 2006, and the consequent displacement of Iraqi citizens along sectarian lines. The Government's response to that displacement is addressed later in this Section.

704. Section 9.5 describes the discussions between UK and US senior military officers and officials on UK plans for the drawdown of UK troops from MND(SE), and continuing US concerns that UK plans were premature given the security situation in MND(SE).

705. Mr Etherington completed his tour as Head of the Basra PRT in January 2007.[400] Two PCRU officials provided short-term cover as Head of the PRT between January and April 2007.

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396 Letter Banner to Siddiq, '16 January 2007', 'Iraq: meeting with officials'.
397 Email Dinham to DFID [junior official], 16 January 2007, ' Iraq'.
398 Public hearing, 11 January 2010, page 7.
399 Minute Cabinet Office [junior official] to Sheinwald, 26 January 2007, 'Iraq Strategy Group, 25 January'.
400 Minute DFID [junior official] to Private Secretary [DFID], 13 March 2007, 'Iraq: Future of DFID's Presence and Programme in Basra'.

706. At DOP(I) on 11 January 2007, Ministers commented that Internally Displaced People (IDPs) were "principally an Iraqi Government responsibility – it should address the violence and push forward reconciliation, and had the resources to address the needs of the displaced".[401]

707. Mr Benn wrote to Mr Blair on 24 January to provide an update on the situation:

> "Displacement is causing a de facto geographical separation along sectarian lines, as different ethnic groups move to areas in which they will be the majority.
>
> "There is clearly a strong political dynamic to the situation and it is essential that we address both the cause and the symptoms … We should press the Iraqi Government to address displacement issues as part of reconciliation, and to do more itself to provide basic services to meet humanitarian needs. The picture is unpalatable for the Iraqi Government … and indeed for the coalition (hence the largely silent nature of the humanitarian crisis so far) …
>
> "It is clear that while not letting the Iraqi Government off the hook, we must also continue to respond to humanitarian needs in Iraq … "[402]

708. The first set of reports requested by Mr Blair's Private Secretary on 8 January was passed to Mr Blair on 19 January.[403] It included a report from Dr Marsden on developments in Basra.[404]

709. On the economy, Dr Marsden reported that the PRT "continues to focus on building the capacity of the Provincial Council to identify priority investment, secure funding and spend it in a transparent way".

710. DFID produced its first fortnightly update on reconstruction for Mr Blair on 25 January.[405] The paper, which he welcomed,[406] highlighted the need to persuade Prime Minister Maliki to see reconstruction as a strategic issue:

> "As the sectarian conflict in Iraq deepens, the coalition's ability to buy consent through quick impact reconstruction projects is waning. Alongside security, Prime Minister Maliki's Government must start providing basic services to help it win back legitimacy from the militias and other armed groups …
>
> "There are some signs that the Government is at last starting to grasp this agenda. It has set up an economic committee … and a basic services committee … These committees, with US support, aim to co-ordinate civil-military action to build local

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[401] Minutes, 11 January 2007, DOP(I) meeting.
[402] Letter Benn to Blair, 24 January 2007, [untitled].
[403] Minute Banner to Prime Minister, 19 January 2007, 'Iraq Update, 18 January'.
[404] Letter Marsden to Aldred, 18 January 2007, 'Basra: Weekly Report'.
[405] Paper DFID, 25 January 2007, 'Iraq: Reconstruction Update'.
[406] Paper DFID, 25 January 2007, 'Iraq: Reconstruction Update'; Letter Banner to Siddiq, 29 January 2007, 'Iraq'.

support by delivering a reconstruction 'peace dividend'. As yet, it is too early to judge how successful this approach is likely to be."

711. DFID also reported that its aim in the run up to PIC in Basra was to help the Provincial Council demonstrate that it was in charge and delivering services. The first step was to secure Baghdad's approval for Basra's provincial strategy and associated budget. The second was to get Baghdad to release the funds. The third was to help the Council to communicate and deliver services. The US had adopted a similar focus.

712. DFID's second fortnightly update on 8 February expanded on the problems that the Iraqi Government had in spending its money.[407] With oil prices topping US$60 per barrel, the Iraqi Government was "cash rich", but in the nine months to October 2006, it had spent just 14 percent of the US$8.2bn allocated to public investment. The Ministry of Oil had spent only one percent of the US$3.5bn allocated to it. DFID attributed the underspend to:

- poor security;
- poor planning by line ministries (and failure at the centre to demand plans); and
- paralysis resulting from distrust between the Ministry of Finance (responsible for disbursing and accounting for funds) and the Ministry of Planning (responsible for reviewing plans and agreeing allocations).

713. The Iraqi Government was considering setting up a National Council for Reconstruction and Development, chaired by the Prime Minister, to accelerate disbursement. The US was setting up a "Budget Execution Cell" in the Deputy Prime Minister's Office, which might increase disbursement in the short term but was unlikely to be sustainable or to lead to significant improvements in services. DFID commented: "In reality, there are few quick fixes to improving services in Iraq."

714. DFID also reported that the World Bank would open an office in Baghdad the following week. It would have three full-time staff, "supported by DFID and protected under the [UK] security umbrella". As the coalition scaled back during 2007, the Bank was likely to become the Iraqi Government's "partner of choice".

715. On the Iraqi Government's failure to disburse, Mr Blair commented, "we must get this sorted out"; on Iraqi and US action to increase disbursement, he asked, "can't we provide the competence?".[408]

716. Dr Marsden reported on 9 February that the centre of a "revamped" Better Basra Action Plan would be a political plan for getting Basra to PIC and beyond. That political plan would be supported by the other lines of operation ("military, police, reconstruction etc").[409]

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[407] Paper DFID, 8 February 2007, 'Iraq: Reconstruction Update'.
[408] Manuscript comment Blair on Paper DFID, 8 February 2007, 'Iraq: Reconstruction Update'.
[409] Letter Marsden to Aldred, 9 February 2007, 'Basra: Weekly Report'.

717. Dr Marsden commented that it was important to acknowledge that the UK did not have a sufficiently clear picture of Basrawi politics and their connection to Baghdadi politics to be confident that any plan was credible.

718. The MOD sent No.10 a report on the effects of Op SINBAD on 16 February, as background material for Mr Blair's statement to the House of Commons the following week.[410] It concluded that "quick impact projects, short-term employment, and the demolition of the Jameat police building" had improved consent levels and provided an opportunity to make progress towards PIC.

719. MND(SE) had spent US$77m on quick impact projects during Op SINBAD, generating 25,000 short-term jobs. Those economic results had not been decisive; many of the economic problems in southern Iraq stemmed from a lack of national and Provincial Government capacity to prioritise and spend resources:

> "The Provincial Council need to start leading and delivering projects for decisive and sustained economic effect to be felt."

720. Mr Blair told the House of Commons on 21 February that the UK hoped that Maysan could be transferred to full Iraqi control "in the next few months", and Basra in the second half of 2007.[411] The transfer of security responsibility would result in a reduction in the level of UK forces from 7,100 to roughly 5,500. With the exception of those troops which would remain at Basra Palace, UK forces would be based at the BAS and be in a support role.

721. At the end of February, at Mr McDonald's request, Dr Marsden produced a second report on life for ordinary Iraqis in Basra.[412]

722. Drawing on over 100 interviews carried out in and around Basra by a member of the PRT, poll data and other sources, she reported that life was "still grim". Violence and lawlessness were Basrawis' overwhelming concern. Women were increasingly afraid to leave the house, fearing kidnap, harassment or sexual violence. Many had been forced to give up their jobs. The police were not trusted, with many interviewees telling stories of intimidation, kidnapping and death squads.

723. Support for the national Government and Prime Minister Maliki was high, support for the Provincial Government low. Local politicians were seen as corrupt, unqualified and linked to militias. No interviewee was able to give an example of something that the Provincial Government had done to improve the lives of ordinary people. After security, unemployment was the most commonly cited concern: polling indicated that some 30 percent of Basrawis were employed. Few interviewees saw any improvements in basic services: what work had been done was of poor quality. Most Basrawis had

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[410] Letter Beadle to Banner, 16 February 2007, 'The Effects of Op SINBAD 20 September 2006 to 14 January 2007'.
[411] House of Commons, *Official Report*, 21 February 2007, columns 261-280.
[412] Letter Marsden to McDonald, 28 February 2007, 'Basra: everyday life for ordinary Iraqis'.

electricity for between seven and 12 hours a day. Mains water was not suitable for drinking; families that could afford it bought bottled water. Hospitals were dirty and poorly staffed and equipped. Experienced doctors had left the country or been killed. Medicine was expensive and in short supply. School standards were low.

724. More positively, Dr Marsden reported that people still rejoiced in their greater political freedom. Civil society was growing. The better off could enjoy new consumer goods and the freedom to travel outside Iraq. There were signs of growth in the local economy and public sector salaries had steadily increased.

725. Dr Marsden sent Ms Aldred the third iteration of the Better Basra Action Plan (BBP3) on 2 March.[413] In her covering letter, Dr Marsden advised that:

> "For the first time we have got a fully integrated plan that has been drafted jointly by the Consulate [British Embassy Office Basra], the PRT and MND(SE)."

726. Dr Marsden also advised that BBP3 had also been discussed in detail with the Head of the US Embassy Regional Office in Basra, who was content with it (though he did not intend to clear it formally with Washington).

727. BBP3 stated that it was "a comprehensive strategy for bringing Basra to the point where it can transition to Provincial Iraqi Control (PIC)". It sought to ensure that all nine "lines of operation" (political, security, rule of law, the judiciary, prisons, governance, infrastructure, economic development and strategic communications) were integrated under a single, overarching political strategy. BBP3 set out for each line of operation, key benchmarks for March and June 2007, a detailed work plan, and an estimate of the cost of implementing proposed new projects (which totalled some £21m in 2007/08). Delivery of BBP3 would be "driven by" the southern Iraq Steering Group (SISG).

728. The political and security lines of operation are described in Section 9.5 and the rule of law, judiciary and prisons lines of operation in Section 12.1.

729. On governance, BBP3 stated that the UK's focus would continue to be to help the Provincial Council to plan for, access and spend resources in a prioritised, transparent and accountable way, and to develop an effective working relationship with Baghdad to ensure that Basra got its share of the national budget.

730. On infrastructure, the UK's objective was to support the Provincial Council to deliver better services using Iraqi resources, while continuing to use CERPs funding, where appropriate, for "last mile service provision".

731. On economic development, the UK's priorities were to boost job creation, lay the foundations for more entrepreneurial activity and cross-border trade, support the agricultural sector, and build the Provincial Government's capacity to support economic

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[413] Letter Marsden to Aldred, 2 March 2007, 'Better Basra' attaching Paper Basra Consulate/PRT/MND(SE), 1 March 2007, 'Better Basra Mark 3: The 2007 plan'.

development. Activities included the establishment of a Basra Provincial Development Agency and Development Fund.

732. BBP3 stated that:

> "We have to be realistic about what we can achieve. With the time and resources available, we cannot address all Basra's problems nor every falling in its public administration and security forces. 'Better Basra' seeks to address those identified as most critical to making progress against established transition readiness indicators."

733. Mr Rob Tinline, Deputy Consul General in Basra from February 2007 to February 2008 and one of the authors of BBP3, told the Inquiry:

> "… one of the great debates was: is it [BBP3] a British plan or is it a coalition plan? And obviously with GOC MND(SE) saying, 'Well, if it's going to be mine, it's going to have to be a multi-national plan', the Consul General saying, 'Well, hang on, we can't clear this through the State Department, it will take forever', what do you do? I think I'm right in saying 90, 95 percent of the money that was spent in Basra was American money. So if we wrote a British plan with five per cent of the money, well …
>
> "So how you wrote a plan was actually a ridiculously complicated thing, and we ended up … with a sort of compromise where we'd shown it to the Americans and they sort of said, 'Yes, this is more or less right', but it was a British plan … We would never have got a multi-national plan for the South through the American system."[414]

734. A September 2008 review of the Basra PRT undertaken by the Stabilisation Unit, the successor to the PCRU, offered a view on the Better Basra planning process at this time:

> "There is no [UK Government] wide strategy for Iraq … Although the Better Basra Plans did go some way towards addressing this absence in 2006 and 2007, these evolved in an incremental bottom-up way, hampered by a lack of strategic guidance from Whitehall, and frequent change-over of personnel in theatre, and so eventually fell by the wayside during the course of 2007."[415]

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[414] Public hearing, 24 June 2010, page 27.
[415] Report Stabilisation Unit, 3 September 2008, 'Review of the Basra Provincial Reconstruction Team'.

735. Also on 2 March, Dr Marsden and Maj Gen Shaw wrote to Ms Aldred, in response to Sir Nigel Sheinwald's 25 January request for a note on civilian/military structures in Basra.[416] They advised that:

> "The profile of the security concerns in southern Iraq should not obscure the fundamentally political nature of the end state we are pursuing. Military action must be supportive of the political and civilian lines of operation."

736. Consistent with that assessment, the SISG, chaired by Dr Marsden, would oversee delivery of the strategic objectives identified in BBP3. The SISG would take strategic direction from and report to the ISG and the ISOG in London.

737. Maj Gen Shaw told the Inquiry:

> "… I had inherited a situation where the military commander and the Consul General had joint ownership of the southern Iraq Steering Group.
>
> "Well, I've always adhered to the principle that … if you can't identify who is in charge, you are in trouble, and joint ownership strikes me as a recipe for disaster because you don't know who is in charge.
>
> "I said to the Consul General [Dr Marsden], 'Listen, this is a political problem, not a military one now. We're supporting you in achieving a political end state for Iraq. So you are in charge, I'm in support. What do you want me to do?' …"[417]

738. Dr Howells briefed Ministers on the finalisation of BBP3 and the process for implementing it at the 8 March meeting of DOP(I).[418] BBP3 would be circulated out of committee the following day for Ministers "to note".

739. The 8 March meeting of DOP(I) also considered the deteriorating humanitarian situation in Iraq.[419] The Government's response to the humanitarian situation is addressed later in this Section.

740. A DFID official advised Mr Benn on 13 March that Mr Tinline (the Deputy Consul General) would "double-hat" as the PRT Team Leader from 1 April.[420] That should ensure better co-ordination between civilian and military elements. PCRU officials had covered the post since Mr Etherington's departure in January.

741. Mr Tinline told the Inquiry that, during his time in Iraq, the British Embassy Office Basra had an (international and local) staff of 100 and the PRT a staff of 30.[421]

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[416] Letter Marsden and Shaw to Aldred, 2 March 2007, 'The Comprehensive Approach: Application in southern Iraq'.
[417] Private hearing, 21 June 2010, pages 20-21.
[418] Minutes, 8 March 2007, DOP(I) meeting.
[419] Minutes, 8 March 2007, DOP(I) meeting.
[420] Minute DFID [junior official] to Private Secretary [DFID], 13 March 2007, 'Iraq: Future of DFID's Presence and Programme in Basra'.
[421] Public hearing, 24 June 2010, page 106.

742. Mr Benn was also advised that the final component of DFID's IISP, the Basra water towers, should be completed in October; that would conclude DFID's direct infrastructure work.

743. Maysan transferred to PIC on 18 April. Maysan was the third province within MND(SE) to transfer, Muthanna and Dhi Qar having done so in July and September 2006 respectively. This left Basra as the only province for which the UK retained security responsibility.

744. Section 9.5 describes the UK's focus in early 2007 on encouraging the Iraqi Government to do more to promote reconciliation in Iraq, against a background of continuing sectarian violence. The UK saw a Hydrocarbons Law as one element of an effective reconciliation process.

745. Mr Richard Jones, Dr Marsden's successor as the British Consul General in Basra, reported on 19 April that "out of the blue", a demonstration against Governor Waili "throws open the political future of Basra".[422] Mr Jones assessed that the demonstration had been motivated in large part by "a straight power struggle" in Basra drawing on concerns over corruption, and in part by national politics.

746. Mr Robert Tinline, Acting Consul General in Basra, reported on 26 April that the ongoing power struggle in Basra, centred on Governor Waili, was diverting energy from other activity.[423] Several key meetings on development had been postponed. If the uncertainty dragged on, the UK would begin to lose momentum on key strands of work.

747. Mr Browne briefed Cabinet on 3 May that the political vacuum in Basra threatened to undermine UK efforts and the gains made by Op SINBAD.[424] Governor Waili was assailed on all sides and was ineffective. Militias were vying for political power.

748. On the same day, members of the international community gathered in Sharm el-Sheikh, Egypt, to launch the International Compact with Iraq.[425] It was formally launched by Prime Minister Maliki and UN Secretary-General Ban Ki-moon. The UN described the Compact as:

> "… a five-year national plan that includes benchmarks and mutual commitments from both Iraq and the international community, all with the aim of helping Iraq on the path towards peace, sound governance and economic reconstruction."

749. At the launch, Mrs Beckett announced that the UK would spend at least an additional £100m on rebuilding Iraq.[426]

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[422] Letter Jones to Aldred, 19 April 2007, 'Basra: Weekly Report'.
[423] Letter Tinline to Aldred, 26 April 2007, 'Basra: Weekly Report'.
[424] Cabinet Conclusions, 3 May 2007.
[425] United Nations, 27 April 2007, *Fact Sheet on the International Compact with Iraq*.
[426] *BBC News*, 3 May 2007, *UK pledges extra £100m for Iraq.*

750. A DFID official advised Mr Benn that that commitment, added to the £544m pledged at the Madrid Donors Conference in October 2003 and the £100m announced by Mr Brown in November 2006 (when it had been thought the launch of the Compact was imminent), brought the UK's total "Iraq reconstruction pledge" to £744m.[427] £660m of that had already been spent and £730m was forecast to be spent by the end of 2008. The pledge therefore required only very modest expenditure on Iraq between the end of 2008 and 2012 (the end of the Compact period).

The International Compact with Iraq, May 2007

The International Compact with Iraq was formally launched by Prime Minister Maliki and UN Secretary-General Ban Ki-moon on 3 May 2007.[428]

Preparatory work on the Compact began in early 2006. The UK hoped that the Compact would draw in international support (with the UN and World Bank at the centre) to help Iraq deliver its National Development Strategy.[429] Delivery of residual Madrid Donor Conference pledges and non-Paris Club debt relief would complement the Compact.

The UK progressively lowered its expectations. Mr McDonald reported to ISOG on 3 November 2006 that there was a "clash of objectives", with Iraq asking for funding and the international community requesting "evidence of progress".[430] ISOG agreed the UK should focus its effort on the period after the launch, to ensure "robust implementation".

Later that month, a DFID official advised Mr Benn that the Compact was likely to have "very little developmental value".[431] It did not reflect Iraq's slide into sectarian conflict, and Iraqi ownership of and commitment to reform was limited.

Deputy Prime Minister Barham Salih discussed the launch of the Compact with Sir Nigel Sheinwald on 12 April 2007.[432] Mr Salih requested the "UK's leadership" in urging Europe to commit resources to Iraq over the next four to five years. Sir Nigel agreed. Mr Salih also asked the UK to lobby European partners to agree to write off 100 percent of Iraqi debt.

Mr Blair was advised the following day that departments were considering what more the UK and other European countries could do, but that encouraging investment in the current security climate and in the absence of progress on the reconciliation agenda would be difficult.[433]

751. Mr Blair announced on 10 May that he was standing down as Leader of the Labour Party and would be resigning as Prime Minister on 27 June.[434]

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[427] Minute Winterton to Private Secretary [DFID], 27 April 2007, 'Iraq: Compact launch and UK statement'.
[428] United Nations, 27 April 2007, *Fact Sheet on the International Compact with Iraq*.
[429] Minute Asquith to Private Secretary [FCO], 24 May 2006, 'Iraq: DOP-I: 24 May'.
[430] Minute Cabinet Office [junior official] to Sheinwald, 6 November 2006, 'Iraq Senior Officials Group'.
[431] Minute DFID [junior official] to Private Secretary [DFID], 13 November 2006, 'Iraq: briefing' attaching Paper DFID, November 2006, 'Iraq: International Compact'.
[432] Letter No.10 [junior official] to Hickey, 12 April 2007, 'Iraq: Nigel Sheinwald's conversation with Barham Saleh, 12 April'.
[433] Minute No.10 [junior official] to Prime Minister, 13 April 2007, 'Iraq Update, 13 April'.
[434] *BBC News*, 10 May 2007, *Blair will stand down on 27 June*.

752. Mr Jones reported on 23 May that he understood that the Iraqi Minister of Finance had instructed the Iraqi Central Bank to freeze all development funds in its Basra accounts until the conflict between Governor Waili and the Provincial Council had been resolved.[435] He had done so because Governor Waili had written to the Central Bank requesting that those funds be transferred from both his own and the Provincial Government's accounts to another, unspecified, bank account. The Provincial Council had protested. Mr Jones commented that the UK had been working for months to persuade Baghdad to provide the finance that Basra deserved for development work. The freeze was another incentive to resolve the political impasse as soon as possible.

753. Mr Jones also reported that:

> "All of our contacts speak of deterioration in the security situation … The electricity supply has also deteriorated … The lack of power has stopped the electric water pumps from working. Potable water is scarce and 70 percent of the city is without a mains supply (worst affected are poorer areas such as the Shia flats)."

754. In his evidence to the Inquiry, Mr Jones characterised the poor relations between Prime Minister Maliki and Governor Waili, and between Governor Waili and the Provincial Council, as a challenge to UK engagement in Basra but not a constraint.[436]

755. On 12 May, Mr Brown's Principal Private Secretary commissioned advice for Mr Brown on how the UK might increase support for economic development and reconstruction in Iraq and, in particular, Basra.[437]

756. A Treasury official provided that advice on 24 May.[438] Economic growth and job creation had a vital part to play in building sustainable peace and stability and reconciling Iraq's divided communities. The three priorities which would do most to boost economic growth were:

- building on existing macroeconomic stability;
- improving the efficiency and effectiveness of the public sector; and
- expanding and improving the efficiency of the oil industry. That required a Hydrocarbons Law, improved security and an integrated energy strategy covering investment and reform.

757. The UK could also consider shorter-term initiatives (although those would become harder to implement after the drawdown of UK forces), including:

- further initiatives on the lines of Op SINBAD; and
- initiatives which aimed to revitalise Iraqi industry.

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[435] Letter Jones to Aldred, 23 May 2007, 'Basra: Weekly Report'.
[436] Public hearing, 24 June 2010, page 81.
[437] Email Treasury [junior official] to Treasury [junior official], 12 May 2007, 'Iraq – latest situation/economic development'.
[438] Paper Treasury, 24 May 2007, 'Economic Aspects of Stability in Iraq'.

758. The official also advised that there was a limit to the number of jobs that could be created in the short to medium term and that "whilst more jobs may help to divert some energies away from conflict, it will only be a small contributory factor to reducing the violence, whose root causes are multifaceted".

759. Mr Brown and Mr Browne made a joint visit to Baghdad on 11 June and met a number of key individuals, including Prime Minister Maliki.[439] Mr Brown told Prime Minister Maliki that:

> "… the UK was keen to support the Prime Minister on changes to the Constitution, new laws and reforms and economic infrastructure and support."

Responding to the displacement crisis

760. Sections 9.4 and 9.5 describe the sharp rise in sectarian violence after the bombing of the al-Askari mosque in Samarra in February 2006.

761. The International Organization for Migration (IOM) reported that the violence caused hundreds of thousands of families to flee their homes; displacement peaked in June 2006 when over 16,000 families fled their homes.[440]

762. A No.10 official sent Mr Blair a UN High Commissioner for Refugees (UNHCR) update on the situation on 1 December 2006.[441] UNHCR advised that approximately 425,000 Iraqi citizens had been internally displaced since the Samarra bombing. In total, there were at least 1.6m Iraqi citizens displaced within Iraq and between 1.6m and 1.8m Iraqi refugees in the region; there were also 50,000 refugees from other countries in Iraq. The needs of Internally Displaced People (IDPs), returnees, refugees and their host communities were "dramatic and to a large extent unmet".

763. On 11 January 2007, the British Embassy Baghdad reported that UNHCR had launched an appeal for US$60m to meet the humanitarian needs of Iraqi refugees and IDPs in 2007.[442] UNHCR estimated that, of the 1.7m IDPs in Iraq, one million had been displaced before 2003 and up to 490,000 since the Samarra bombing. Obtaining accurate figures was difficult as many IDPs were living with extended family or not registering with the Government. UNHCR expected that it would be difficult to raise funds from donors, given Iraq's budget surplus.

764. At the 11 January meeting of DOP(I), Ministers commented that IDPs were "principally an Iraqi Government responsibility – it should address the violence and push forward reconciliation, and had the resources to address the needs of the displaced".[443]

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[439] Letter Bowler to Banner, 13 June 2007, 'The Chancellor and Defence Secretary's Visit to Baghdad'.
[440] International Organization for Migration, [undated], *Iraq Displacement 2007 Year in Review.*
[441] Minute Banner to Prime Minister, 1 December 2006, 'Iraq Update, 1 December' attaching Paper, [undated], 'UNHCR Update on the Iraq Situation'.
[442] eGram 1267/07 Baghdad to FCO London, 11 January 2007, 'Iraq: Update on the Situation with Internally Displaced People'.
[443] Minutes, 11 January 2007, DOP(I) meeting.

765. Mr Dinham, who attended the DOP(I) meeting, reported to DFID colleagues that Mr Benn had said that he would be urging the UN to use unspent donor funds to meet the UNHCR appeal.[444] Mr Browne had favoured pressing the Iraqi Government to contribute to the UNHCR appeal; this was a problem for which the Iraqi Government was responsible and there was no shortage of Iraqi money.

766. The 11 January report from the British Embassy Baghdad was passed to Mr Blair on 12 January.[445] A No.10 official commented on the report: "We are encouraging the GoI [Iraqi Government] to get its act together, given that these are its citizens."

767. Mr Benn wrote to Mr Blair on 24 January, providing an update on the humanitarian situation in Iraq:

> "Displacement is causing a de facto geographical separation along sectarian lines, as different ethnic groups move to areas in which they will be the majority.
>
> "There is clearly a strong political dynamic to the situation and it is essential that we address both the cause and the symptoms … We should press the Iraqi Government to address displacement issues as part of reconciliation, and to do more itself to provide basic services to meet humanitarian needs. The picture is unpalatable for the Iraqi government … and indeed for the coalition (hence the largely silent nature of the humanitarian crisis so far) …
>
> "It is clear that while not letting the Iraqi Government off the hook, we must also continue to respond to humanitarian needs in Iraq …"[446]

768. Mr Benn advised that he had therefore decided to contribute £4m to the International Committee of the Red Cross (ICRC).

769. On 23 February, a No.10 official advised Mr Blair that there had been little improvement in the humanitarian situation, and that the Iraqi Government remained "largely silent" on the issue.[447] The Iraqi Ministry of Displacement and Migration was trying to help but it had little capacity to respond; its budget was "woefully inadequate". Meanwhile, the international community was stepping up its response. DFID continued to look at ways of unlocking unspent donor funding.

770. The 8 March meeting of DOP(I) returned to the issue of the humanitarian situation in Iraq.[448]

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[444] Email Dinham to DFID [junior official], 11 January 2007, 'DOP(I)'.
[445] Minute Banner to Blair, 12 January 2007, 'Iraq Update, 12 December [sic]'.
[446] Letter Benn to Blair, 24 January 2007, [untitled].
[447] Minute Fletcher to Prime Minister, 23 February 2007, 'Iraq Update, 23 February' attaching Paper DFID, 22 February 2007, 'Iraq: Reconstruction Update'.
[448] Minutes, 8 March 2007, DOP(I) meeting.

771. In a briefing paper for the meeting, DFID reported that the number of people displaced since the Samarra bombing had risen to 650,000.[449] UNHCR estimated that the total number of IDPs in Iraq could rise to 2.3m by the end of 2007. The number of Iraqi refugees in the region had risen from 1.8m to over 2m.

772. The trend was of "increasing polarisation" along sectarian and geographical lines, which would have a considerable impact on the political landscape and made a national response more complex. In contrast to previous displacements, the moves were permanent.

773. In Iraq, security had compromised delivery mechanisms, and weak Iraqi public services had not been able to keep up with demand. The Iraqi Government had failed to recognise that this was a strategic issue with long-term political consequences. There was an increasing risk that militias were being seen by Iraqi communities as guarantors of local security. The UK's objective remained to build Iraqi capacity to provide security and basic services; however:

> "It will take years for Iraq to undertake the necessary reforms and develop the systems for effective service delivery. There is therefore a humanitarian imperative for the international community to assist in the short term."

774. DFID stated that it would contribute a further £5m to humanitarian relief operations in Iraq and the region (bringing DFID's total contribution to the crisis for 2007 to £9m).

775. Other major contributions were:

- Japan had pledged US$104m;
- the EC had pledged €20m; and
- the US had pledged US$23m.

776. Introducing the DFID paper at the DOP(I) meeting, Mr Benn said that Prime Minister Maliki remained more focused on security and his own political concerns, but the UK continued to push the Iraqi Government to allocate adequate resources to the problem.[450]

777. The DOP(I) meeting concluded that the UK should lobby the Iraqi Government, UN, ICRC and the IOM to step up their actions to address the crisis.

778. DFID made further contributions to the international humanitarian response later in March and in November, bringing the UK's total contribution for 2007 to £15m.[451]

779. On 18 April, a No.10 official advised Mr Blair that the UN assessed that the refugee and IDP situation was becoming more acute.[452] The Iraqi Government had pledged

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[449] Paper DFID, 7 March 2007, 'The Humanitarian Situation in Iraq'.
[450] Minutes, 8 March 2007, DOP(I) meeting.
[451] Paper DFID, 4 November 2009, 'Iraq – DFID Timeline and Financial Commitments: 2003 – 2009'.
[452] Minute Phillipson to Prime Minister, 18 April 2007, 'VTC with President Bush – 1800 18 April'.

US$25m to the UN, but that amount was “fairly minimal, given the resources required, and that it has primary responsibility for the well-being of Iraq’s citizens”.

780. The IOM’s review of displacement in Iraq in 2007 reported that displacement had slowed over the course of the year, due to improved security in some areas and the “sectarian homogenization” of previously mixed neighbourhoods: “in other words, there were fewer and fewer people to force out”.[453] Conditions continued to deteriorate for the 2.4m IDPs in Iraq.

781. On 12 March 2008, a DFID official advised Mr Douglas Alexander, who had succeeded Mr Benn as International Development Secretary, that the UN estimated that there were now 2.2m IDPs in Iraq.[454] The Iraqi Government had recently announced a US$40m contribution to the UN’s US$265m Consolidated Appeal (which had been launched in February), but was doing little to support vulnerable people inside Iraq.

782. DFID contributed a further £29m to the international humanitarian response in 2008.[455]

783. A study by The Brookings Institution-University of Bern Project on Internal Displacement, published in December 2008, suggested that smaller minority groups in Iraq comprised a disproportionately large percentage of displaced people, due to the harassment they had experienced after 2003.[456] The study offered a comparison of the estimated numbers of minority groups in Iraq in 2003 and 2008:

Table 1: Displacement of minority groups within Iraq

Group	2003	2008
Christians	1.0 to 1.4m	600,000 to 800,000
Jews	A few hundred	10 to 15
Mandaeans	30,000	Fewer than 13,000
Palestinians	35,000	15,000
Turkomans	800,000 claimed	As low as 200,000
Yazidis	Not known	About 550,000

[453] International Organization for Migration, [undated], *Iraq Displacement 2007 Year in Review*.
[454] Minute DFID [junior official] to PS/Secretary of State [DFID], 12 March 2008, ‘Iraq: Humanitarian Assistance’.
[455] Paper DFID, 4 November 2009, ‘Iraq – DFID Timeline and Financial Commitments: 2003 – 2009’.
[456] The Brookings Institution-University of Bern Project on Internal Displacement, December 2008, *Minorities, Displacement and Iraq’s Future*.

Reconstruction under Mr Gordon Brown's Premiership

784. Mr Gordon Brown took office as Prime Minister on 27 June 2007. He appointed Mr Douglas Alexander as Development Secretary, replacing Mr Benn, and Mr David Miliband as Foreign Secretary, replacing Mrs Beckett. Mr Des Browne remained Defence Secretary.

785. The most pressing issues facing the UK in Iraq remained the timing of the withdrawal of UK forces from Basra Palace, and Basra's transition to PIC (see Section 9.6).

786. The introductory briefing produced by DFID officials for Mr Alexander described Iraq as a wealthy country (with oil revenues of US$37bn in the current year) which was unable to spend or manage its resources effectively to deliver public services because of poor security, poor political leadership and a lack of technical ability.[457]

787. DFID's priority was to build the capacity of the Iraqi Government to deliver public services, by providing high-level policy and technical advice in Baghdad on economic reform. DFID was also looking at options to provide further support for reconciliation, and providing humanitarian assistance to the four million people displaced in Iraq and neighbouring countries.

788. In Basra, DFID's power and water infrastructure programmes would end in late 2007, having delivered improved access to water for over one million people and added or secured enough power to provide 700,000 people with 24-hour electricity.

789. DFID was also seeking to promote economic growth and private sector investment in Basra by supporting:

- the creation of a Basra Development Commission (BDC);
- the creation of a Basra Investment Promotion Agency (BIPA);
- the creation of a Basra Development Fund; and
- those institutions' priorities, including a Basra Economic Development Strategy, investor visits and youth employment initiatives.

790. Mr Alexander's briefing for a trilateral meeting with Mr Miliband and Mr Browne in early July highlighted the constraints on reconstruction, including the politicisation of ministries and deteriorating security:

> "The Ministry of Finance does not function effectively and is subject, like many Ministries, to partisan control. Combined with an almost total lack of transparency, the Ministry is able to withhold funding to certain ministries.

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[457] Paper DFID, [undated], 'Iraq: Briefing for New Ministers, June 2007'.

> "We are increasingly unable to visit key ministries in Baghdad … We need to be realistic about what is achievable."[458]

791. The briefing also stated that DFID's budget for Iraq for 2007/08 was £30m, down from £45m in 2006/07. Officials anticipated a "further tapering" over the next few years, although that had not yet been announced.

792. Mr Brown spoke to Prime Minister Maliki on 5 July.[459] On Basra, Prime Minister Maliki said that he hoped it would be possible to reduce the burden on UK forces and for Iraqi forces to take the lead within three months.

793. Mr Brown said that he would like to discuss the scope for economic initiatives, and promised to send suggestions in the next few days. No.10 asked DFID for a draft letter for Mr Brown to send to Prime Minister Maliki "setting out draft proposals for an economic initiative".

794. Mr Brown discussed Iraq with President Bush by video link on 9 July.[460] Mr Brown commented that the Iraqi Government was making slow progress. Faster action was needed on the Hydrocarbons Law and on "democratisation".

795. In an interview on the *BBC's Today Programme* on 11 July, Mr Brown described the UK's strategy in Iraq as:

- establishing security;
- promoting reconciliation; and
- "to get people, and this is often forgotten, a stake in the future by helping the economic development of Iraq".[461]

796. Mr Brown continued:

> "… I think one of the failures at the beginning was that we didn't put the resources and the help in to economic reconstruction that was necessary … we can do a lot better in the future."

797. Mr Brown said that as the UK moved from a combat role to overwatch, it would bring in the resources that were necessary for economic development.

798. The Overseas and Defence Sub-Committee of the Committee on National Security, International Relations and Defence (NSID(OD)), the successor to DOP(I) as the principal forum for Ministerial discussion on Iraq, was scheduled to meet for the first time on 19 July to discuss transition in Basra.

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[458] Minute DFID [junior official] to PS/Secretary of State [DFID], 29 June 2007, 'Iraq: Briefing for DFID/FCO/MOD Ministerial Trilateral' attaching Paper DFID, [undated], 'DFID/FCO/MOD Ministerial Trilateral on Iraq and Afghanistan'.
[459] Letter Banner to Hickey, 5 July 2007, 'Conversation with Iraqi Prime Minister'.
[460] Letter Henderson to Hayes, 9 July 2007, 'Iraq/Afghanistan: Prime Minister's VTC with President Bush'.
[461] *BBC Radio 4,* 11 July 2007, *Today Programme.*

799. In advance of the meeting, FCO and MOD officials produced a joint paper setting out the latest "assessments and plans on security transition and the associated re-posturing and drawdown of UK troops in Basra" (see Section 9.6).[462]

800. The FCO and MOD assessed that the UK had achieved "only some" of its objectives in Iraq. Iraq had "the forms of democracy" but the constituent parts of the Iraqi Government were not working together to a genuine national unity agenda and there was no commitment to reconciliation. In that context, the paper reported that:

> "Ministers treat their Ministries as party and personal fiefdoms, sources of funds and patronage. The writ of central Government runs weakly outside the Baghdad International Zone."

801. The FCO and MOD set out the process by which judgements were reached (by MNF commanders and Prime Minister Maliki) on whether provinces were ready for PIC, and an assessment of Basra's progress against the four PIC conditions (security conditions and threat levels, ISF capacity, the Governor's capacity to take responsibility for security, and the coalition's ability to re-intervene if necessary). The UK was also monitoring progress against an additional condition, which it judged to be important:

> "capability of the provincial authorities to direct reconstruction, and to spend their budgets wisely and accountably".

802. The last UK military base in Basra city was the Basra Palace Compound (BPC), which the paper described as "the most heavily mortared and rocketed place in Iraq". The UK planned to hand over the BPC to the Iraqi authorities, and withdraw UK troops based there to Basra Air Station (BAS), on 31 August. That would represent the "de facto handover of responsibility" to the Iraqi authorities, as UK forces would only be able to intervene from BAS "in extremis".

803. PIC should take place as soon after the handover of the BPC as possible: a long gap would place the UK in a difficult position, "responsible for security in Basra city, but unable to deliver it except at high risk".

804. The FCO and MOD advised that the UK should stick to its transition strategy, including PIC in Basra in the autumn.

805. Looking ahead to Basra after PIC, the FCO and MOD advised:

> "Our planning should assume that the UK civilian presence in Basra will have to be wound up shortly before the removal of the UK military envelope which enables it to operate (though if the US were to decide to move a military presence of their own to Basra Air Station, and to retain a US civilian presence, we could expect US pressure for us to maintain some sort of ongoing commitment to the Basra Provincial Reconstruction Team)."

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[462] Paper FCO/MOD, 12 July 2007, 'Iraq: Transition in Basra'.

806. The FCO and MOD argued for "a long-term UK commitment in Iraq", which would include influencing the Iraqi Government and supporting the long-term development of its capacity, in particular through the provision of advice to ministries in Baghdad.

807. The 19 July meeting of NSID(OD) was cancelled and not reinstated.[463]

808. On 11 July, a DFID official sent Mr Simon McDonald, Mr Brown's Foreign Policy Adviser, a draft letter for Mr Brown to send to Prime Minister Maliki.[464]

809. The draft letter reflected guidance from Mr Alexander that the UK should be realistic about the role of economic reform and only propose initiatives that had a good chance of being realised.[465]

810. Mr McDonald passed the draft letter to Mr Brown on 27 July, after consulting the FCO and the British Embassy Baghdad.[466] Mr McDonald commented that the approach set out in the draft letter was:

> "… sensible and realistic but not particularly ambitious … But the Embassy argue that, taking into account the security situation and the lack of political will … this is as much as we would be able to get Maliki to consider."

811. Mr Brown wrote to Prime Minister Maliki on 29 July.[467] While establishing security remained the "abiding priority", it was vital that people were given a stake in their future. Mr Brown suggested that the UK could help the Iraqi Government to:

- secure a new IMF Stand By Arrangement by the end of 2007;
- develop an integrated energy strategy, alongside the World Bank;
- reform the banking sector, also alongside the World Bank;
- strengthen financial management, by continuing to fund an economic reform team; and
- establish the BIPA to identify and promote investment opportunities throughout the province. The UK had allocated funds to help establish the Agency. If successful, it could be replicated in other Provinces and inform the creation of a National Investment Commission.

812. Mr Brown told the Inquiry:

> "… if you can show people that their economic prosperity is possible, then the risks of returning to violence are seen by people to be too great to put at risk something that they were now about to enjoy. So I wanted to show in Basra … that the chance

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[463] Minute Cabinet Office to NSID(OD) members, 11 February 2010 [sic], 'Ministerial Meeting on Iraq, Cancellation Note'.
[464] Letter DFID [junior official] to McDonald, 11 July 2007, 'Iraq: Prime Minister's Economic Initiative'.
[465] Minute DFID [junior official] to PS [Alexander], 11 July 2007, 'Iraq: 'Economic Initiative' – Prime Minister's Letter to Prime Minster Maliki'.
[466] Minute McDonald to Prime Minister, 27 July 2007, 'Iraq: Economic Initiative'.
[467] Letter Brown to Maliki, 29 July 2007, [untitled].

> of prosperity was something that people should value and should not put at risk by allowing the militias to have control in the area."[468]

813. Mr Brown discussed Iraq with President Bush at Camp David on 30 July.[469] The meeting note produced by Mr Brown's Private Secretary recorded only that Mr Brown welcomed the common ground between himself and President Bush on Iraq and had outlined the UK's proposals for a "development agency" in Basra.

814. Mr Asquith called on Prime Minister Maliki on 1 August, to deliver Mr Brown's 29 July letter on economic reconstruction and to discuss politics in Basra and nationally.[470]

815. Mr Asquith reported that Prime Minister Maliki warmly welcomed Mr Brown's letter, which was in line with his desire to deepen co-operation with the UK on issues other than security and with his own Government's focus on economic development. Prime Minister Maliki said that he would approve a request from the Basra Provincial Council to establish the BIPA.

816. Prime Minister Maliki said that he was also interested in bigger projects in the Basra region which were national in scope such as the Grand Port project in the oil sector, which would attract large-scale international investment.

817. Prime Minister Maliki also advised that the "troublesome" Governor Waili had been legally dismissed but was appealing that decision, causing a delay in his removal.

818. Mr Jones' weekly report of the same day advised that the Deputy Prime Minister's Office had identified bringing Basra International Airport up to international standards as its top economic priority in the province, and had requested UK advice on how to achieve that.[471] Mr Jones was pursuing the issue with the RAF and the US.

819. Prime Minister Maliki replied to Mr Brown's letter on 7 October.

820. Jaysh al-Mahdi (JAM) in Basra called a month-long cease-fire, beginning on 13 August.[472] Sir John Scarlett, Chief of SIS, told the Inquiry that:

> "… the cease-fire for a month on 13 August worked straight away. There was an immediate falling away of attacks, and it then carried on. It went beyond the month and it became effectively a permanent feature. So it was remarkably successful."

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[468] Public hearing, 5 March 2010, pages 38-39.
[469] Letter Clunes to Gould, 31 July 2007, 'Prime Minister's Meeting with President Bush: Iraq […]'.
[470] eGram 32637/07 Baghdad to FCO London, 1 August 2007, 'Iraq: Meeting with Prime Minister Maliki, 1 August'.
[471] Letter Jones to Aldred, 1 August 2007, 'Basra: Weekly Report'.
[472] Private hearing, 10 June 2006, page 41.

821. Mr Jon Day, MOD Director General (Security Policy), told the Inquiry that the cease-fire not only brought a reduction in attacks on coalition forces in Basra:

> **"**But the critical strategic dividend, as far as we were concerned, was that the overall decline in violence helped encourage the resurgence of real political activity …
>
> "Another consequence, which … was felt to be quite important by those on the ground at the time … is that prior to the understandings, coalition-sponsored reconstruction work in Basra had almost come to a stop. The understandings reduced the threat to military and civilian workers and that allowed work on projects such as the Basra Children's Hospital to start up again and to enable us to plan to do more work elsewhere in Basra."[473]

822. Section 9.6 describes negotiations between the UK and JAM1.

823. Mr Asquith's 16 August valedictory letter to Mr Miliband focused on security and the political process, but also reflected on the UK's role in reconstruction:

> "Outside the military contribution, our favoured route has been through providing expertise. That will remain necessary, but insufficient. The Iraqis prize lasting legacies … We should consider with an open mind taking a leaf out of the Japanese book, making use of some of the savings on the defence side to establish a joint or soft loan financial development fund for specific projects in the education or health sectors. Easier, and more realistic, would be to establish a large trust fund for a permanent scholarship scheme to supplement Chevening. Or we should switch our … focus to an area where we can operate – namely the Kurdish region which we have consistently and puzzlingly ignored."[474]

824. UK troops were withdrawn from the BPC to BAS on 2 and 3 September.[475]

825. DFID advised No.10 on 5 September that since Mr Brown's 29 July letter to Prime Minister Maliki, there had been slow but sure progress on Mr Brown's economic initiative.[476] With the support of the PRT and DFID, the Basra Provincial Council had:

- Agreed a new Provincial Development Strategy. The flow of funds from Baghdad was also starting to increase.
- Agreed with the central Government the "broad shape and purpose" of BIPA, which would be to identify investment opportunities, provide advice to business and government, and implement programmes to stimulate private sector development. The UK was also helping the Council to take forward plans for the physical establishment of the BIPA.

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[473] Public hearing, 6 January 2010, pages 35-36.
[474] Letter Asquith to Miliband, 16 August 2007, 'Iraq: Valedictory'.
[475] Minute Binns to CJO, 6 September 2007, 'GOC HQ MND(SE) – southern Iraq Update – 6 September 2007'.
[476] Paper DFID, 5 September 2007, 'Basra – Economic Initiative Progress Report'.

- Agreed to establish and fund the Basra Development Fund, which would provide investment and credit for small and medium sized enterprises.
- Begun work on an investment plan and budget to upgrade Basra International Airport, using Iraqi funds, to meet international standards.

826. At the national level, the Iraqi Government was establishing a National Investment Commission and had announced its intention to set up a National Development Fund to provide loans to small enterprises across the country.

827. General Richard Dannatt, Chief of the General Staff, visited Baghdad and Basra from 5 to 7 September.[477] He reported that the situation in Basra was "tentatively quiet". There was probably only a very narrow window of opportunity to reinforce the success that had been achieved on the ground; the emphasis had to shift away from the military line of operation:

> "… sustainability … will only be possible if we now begin to deliver some results on the ground in terms of reconstruction and development. This effort cannot be delivered by the Army – the FCO and DFID must now be prepared to rapidly increase their overall effort, not draw it down …
>
> "Perhaps it is even time to consider whether we should be pushing the FCO or DFID into a more leading role?"

828. Mr Brown and Mr Miliband, accompanied by ACM Stirrup and officials, met General David Petraeus, Commanding General MNF-I, and US Ambassador Ryan Crocker[478] on 18 September.[479] The discussion focused on PIC in Basra.

829. Mr Brown said that economic development of the South remained a major UK priority. Gen Petraeus said there were a number of initiatives on which the UK should engage, including the clearance of Basra port.

830. At the end of the discussion, Mr Brown highlighted three areas for follow up:

- further discussion, including with the Iraqis, of the timeframe for Basra PIC;
- an enhanced UK effort on economic development, including the Basra port; and
- further US/UK discussion of long-term force requirements.

831. Mr Brown visited Iraq on 2 October.[480] The objectives for the trip were to underline:

- the UK's commitment to Iraq;
- the importance of building on progress on security by making a decision soon to transfer to PIC in Basra;

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[477] Minute Dannatt to CDS, 10 September 2007, 'CGS Visit to Iraq 5-7 Oct'.
[478] Ambassador Crocker took up post as the US Ambassador to Iraq in March 2007.
[479] Letter Fletcher to Gould, 18 September 2007, 'Prime Minister's Meeting with General Petraeus and Ambassador Ryan Crocker, 18 September'.
[480] Letter Fletcher to Forber, 3 October 2007, 'Prime Minister's Visit to Iraq, 2 October'.

- the need for progress on reconciliation; and
- the need for economic progress and service delivery as a strategic priority.[481]

832. DFID's briefing for the visit stated that the UK's approach was to help build Iraq's capacity to use its own resources effectively.[482] DFID was therefore proposing a "three part development 'package'", in addition to its water and power projects in the South and capacity-building work in Baghdad. This comprised:

- An additional £5m in response to the humanitarian crisis in Iraq and the region, bringing the total DFID contribution in 2007/08 to £15m.
- Support for a number of initiatives designed to promote public and private investment in Basra including:
  - support to establish the BIPA and the Basra Development Fund;
  - support to develop Basra International Airport. The PRT, MND(SE) and Basra Council had produced a US$40m plan to upgrade the airport to international standards; the UK was working to secure that funding from central Government; and
  - the promotion of free trade between Basra and Kuwait.

  Those initiatives, together worth over £10m, would be implemented through the Basra PRT.
- Continuing efforts to "leverage in" funding for Basra from central Government. The 2007 budget was expected to include over US$300m for investment in Basra.

833. DFID was also working with MND(SE), other major donors and central Government to accelerate the renovation of Umm Qasr port. DFID had successfully lobbied central government to approve over US$250m in soft loans from the Japanese Government for port renovation.

834. During his meeting with Mr Brown, Prime Minister Maliki said that 2008 would be the "year of reconstruction".[483] It was good that the UK was ready to play a greater role on reconstruction. Mr Brown said that Basra should receive adequate resources from central Government, and identified the Basra Investment Forum as an important opportunity to promote economic regeneration.

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[481] Minute Cabinet Office [junior official] to Brown, 1 October 2007, 'Iraq Visit: 2 October 2007'.
[482] Paper DFID, September 2007, 'UK Development Package for Iraq'.
[483] Letter Fletcher to Forber, 3 October 2007, 'Prime Minister's Visit to Iraq, 2 October'.

835. After Mr Brown returned from Iraq, his Private Secretary commissioned advice from the Cabinet Office on:

- how best to support a Basra Investment Forum;
- securing greater UK resources for the effort on reconstruction and economic development;
- whether the UK should do more to support the clear-up of Umm Qasr port;
- how best to maximise pressure on Iraqi political leaders; and
- how the UK could offer troops in theatre better access to the internet.[484]

836. Ms Kathleen Reid, Head of the DFID Office in Basra from August 2007 to September 2008, reflected on the impact of Mr Brown's visit in her evidence to the Inquiry:

> "When he [Mr Brown] came in October 2007, to be honest, we were doing quite a few of those things, or struggling away at trying to do a lot of those economic things. Things like the Basra Investment Promotion Agency was something we would have been working on well before he came and visited. Likewise trying to establish the Basra Development Fund, some discussions around Iraq/Kuwait borders. But … there just wasn't necessarily the environment to be able to do that or the impetus behind it, and I think he came and gave far more impetus to that. We put more resources towards it, and … with the … changing security in the following months, it gave more opportunity to then really deliver some results on the ground."[485]

837. Ms Reid also told the Inquiry:

> "Each successive visit from Ministers, from Prime Ministers … gave us more clarity, certainly in terms of timelines.
>
> "When I arrived [in August 2007], there was no real sense of [whether] the PRT was going to be there for another six months or four years, and that became much clearer as time went on and allowed us to do, on the civilian side, our planning."[486]

838. Prime Minister Maliki replied to Mr Brown's letter of 29 July on 7 October.[487] He welcomed the UK's interest in supporting private sector development in Iraq and expressed particular interest in working with the UK in the oil sector, and specifically on infrastructure repairs, installation development, and the development of an integrated energy strategy.

839. NSID(OD) met for the first time on 8 October.[488]

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[484] Letter Fletcher to Forber, 3 October 2007, 'Prime Minister's Visit to Iraq, 2 October'.
[485] Public hearing, 24 June 2010, pages 13-14.
[486] Public hearing, 24 June 2010, page 13.
[487] Letter Maliki to Brown, 7 October 2007, [untitled].
[488] Minute Cabinet Office [junior official] to Prime Minister, 5 October 2007, 'NSID(OD) Iraq Meeting – Steering Brief: Monday 8 October 09:30'.

840. At the meeting, Mr Brown said that there had been little progress on political reconciliation but economic reconstruction in Basra was making better progress, largely as a result of the improved security environment.[489]

841. According to Sir John Scarlett's own account of the meeting, Mr Brown:

> "… spoke very strongly on the ceasefire in Basra and the dramatic improvement in the security situation. This represented a huge opportunity."[490]

842. On the afternoon of 8 October, Mr Brown told the House of Commons that the UK expected to establish PIC in Basra in the next two months.[491] The UK planned to reduce the number of UK troops in southern Iraq from spring 2008 to around 2,500.

843. Initial guidance on a new format and process for producing DFID Country Assistance Plans (CAPs) was circulated to DFID officials on 11 October.[492]

844. Ms Barbara Hendrie, DFID Deputy Director Iraq, wrote to DFID Heads of Department on the same day:

> "We have only ever had a 'rough and ready' version of an I-CAP [Interim Country Assistance Plan] for the Iraq programme, which is now well out of date. Minouche [Dr Shafik] asked the team this summer to think of producing a 'very light touch' CAP, as the programme is over £20m. We've been in the process of looking at the CAP guidance and trying to adapt it to the Iraq context (not easy!)"[493]
>
> "Hence, the revisions to the CAP process are very welcome …"

845. The following day, Ms Hendrie wrote to a junior DFID official:

> "It seems pretty clear that we're going to need to do some form of strategy document/CAP … it would be great … for you to hold the pen on this."[494]

846. The Inquiry has seen no indications that work on a new CAP was taken forward.

847. DFID told the Inquiry that the I-CAP produced in February 2004 was not superseded until February 2011, when DFID Iraq published its 'Operational Plan 2011-2012'.[495] DFID closed its Iraq programme in March 2012.

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[489] Minutes, 8 October 2007, NSID(OD) meeting.
[490] Email C, 9 October 2007, 'Iraq NSID 8 Oct 2007' attaching 'NSID Iraq – 8 October 2007'.
[491] House of Commons, *Official Report*, 8 October 2007, columns 21-25.
[492] Email DFID [junior official] to DFID Heads of Department, 11 October 2007, 'For Information: New CAP Format and Process'.
[493] Email Hendrie to DFID [junior official], 11 October 2007, 'Action Monday 15 Oct: New CAP format and process'.
[494] Email Hendrie to DFID [junior official], 12 October 2007, 'Action Monday 15 Oct: New CAP format and process'.
[495] Email DFID [junior official] to Iraq Inquiry [junior official], 12 October 2012, 'New Queries from the Inquiry' attaching Paper DFID, February 201, 'Operational Plan 2011-2012'.

848. DFID also told the Inquiry that it decided not to revise the I-CAP because of:

- the consistency in DFID "strategic priorities" and funding between 2005 and 2007;
- the high turnover of Heads of DFID Baghdad; and
- from 2007, DFID's move away from producing published CAPs (under Mr Douglas Alexander).

849. A Cabinet Office official advised Mr Brown on 12 October that Governor Waili's appeal against his dismissal from post had been successful.[496] The UK planned to "resume low-key co-operation with him in the interests of moving beyond the political stand-off in Basra" while the Iraqi Government took other steps towards his dismissal. The security situation in Basra remained "relatively calm".

850. Major General Graham Binns, GOC MND(SE), reported on 18 October that Gen Petraeus had agreed Lt Gen Odierno's recommendation of PIC for Basra in December.[497]

851. In a message to the FCO in London on 23 October, Mr Christopher Prentice, British Ambassador to Iraq, set out some of the implications of Mr Brown's 8 October statement.[498]

852. Mr Prentice argued that given the UK's strategic interests and the scale and cost of its commitment to Iraq so far, "we [the UK] need to accept now that we are in this for some years to come".

853. The UK would be judged by the progress Basra made following PIC. By the end of 2008, key Basra economic initiatives would only just have started and would need continuing UK support. There was also a case for the UK "planning a last high profile project as visible proof for Basrawis of our continuing support and as a lasting UK legacy".

854. Mr Prentice reported that the UK was already increasing its emphasis on the "civilian development agenda". In the longer term, DFID "understandably wish to normalise its role in a wealthy oil-producing country i.e. close its programme". It would be right to do so – but only when the "whole Iraq project" was on track. Unless the UK was "surprised by success", 2009 was likely to be too early to begin to close the programme.

855. The conditions might be favourable by 2009 to re-establish a UK Trade and Industry presence in Basra "to pursue the huge commercial opportunities there will eventually be there".

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[496] Minute Cabinet Office [junior official] to Prime Minister, 12 October 2007, 'Iraq – Weekly Update'.
[497] Report Binns, 18 October 2007, 'GOC HQ MND(SE) – southern Iraq Update – 18 October 2007'.
[498] eGram 43230/07 Baghdad to FCO London, 23 October 2007, 'Iraq 2009 and Beyond – Unfinished Business'.

856. Mr Browne visited Iraq between 29 October and 2 November.[499] He reported to Mr Brown that it had been "markedly the most encouraging of my seven visits to Basra". He continued:

> "So progress there has been, but, as you well know, the space we have achieved is fragile and temporary. We have a window of opportunity in Basra and it is vital that both we and the Iraqis apply political and economic leadership to make the most of it."

857. Mr Browne had impressed upon everyone he met in Iraq the need to announce "a detailed economic plan for Basra" to coincide with PIC in December.

858. Mr Browne concluded: "If we are to deliver, and we must, this will need dedicated and energetic UK resource in London, Basra and Baghdad."

859. Mr Browne's visit prompted Maj Gen Binns to evaluate progress made since the summer.[500] His 1 November weekly report advised that:

> "We are now subject to far fewer attacks, are constructively engaged with the Governor … and the Provincial Council, we transit through Basra in force … without opposition … and are looking to make more of the large amount of reconstruction work we are responsible for (through US resources) in Basra through good information and media operations."

860. Mr Alexander sent Mr Brown an update on the Basra economic initiatives on 9 November.[501]

861. Mr Alexander advised that DFID had identified several UK business leaders willing to help drive forward the work of the BDC, including Mr Michael Wareing, International CEO of KPMG. The BDC (which Mr Alexander described as the "centrepiece" of the Basra economic initiatives) would bring together national, regional and international business knowledge to provide strategic advice to the Iraqi authorities on investment and growth for Basra's economy. DFID was planning a launch event for the BDC to coincide with PIC in Basra.

862. Mr Alexander agreed with Mr Browne's assessment (in his 2 November letter to Mr Brown) that dedicated UK resources were required to move the economic initiatives forward. DFID had:

- deployed a Project Manager to the Basra PRT to work on economic initiatives; and
- re-orientated DFID's Economic and Governance team in the PRT to support the initiatives, and provided £750,000 to establish the BIPA and the Basra Development Fund.

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[499] Letter Browne to Brown, 2 November 2007, [untitled].
[500] Report Binns, 1 November 2007, 'GOC HQ MND(SE) – southern Iraq Update – 1 November 2007'.
[501] Letter Alexander to Brown, 9 November 2007, [untitled].

863. DFID continued to support other initiatives that would promote growth and investment in Basra, including Basra International Airport and leveraging in Japanese loans. Officials were working closely with the Japanese Embassy in Baghdad to help progress Japanese soft loans through a "complex" Iraqi Government approval process. Japan had committed some US$2bn in soft loans to Iraq, of which US$1.2bn was for Basra-based projects including US$254m for the rehabilitation of Umm Qasr port.

Japanese support for reconstruction

Japan pledged and disbursed more assistance for Iraq's reconstruction than any country other than the US.

Japan pledged up to US$5bn at the Madrid Donors' Conference on 24 October 2003, consisting of US$1.5bn in grants (increased to US$1.7bn by July 2009) for power generation, education, water and sanitation, health and employment, and Security Sector Reform, and up to US$3.5bn in concessional loans.[502] By July 2009, Iraq and Japan had signed agreements for 12 loan projects worth up to US$2.43bn, of which US$1.37bn was for seven projects in the South:

- Umm Qasr Port Rehabilitation Project. Up to US$270m to dredge shipping lanes, remove wrecked ships, rehabilitate port facilities, and provide equipment and materials.
- Samawah Bridges and Roads Construction Project. Up to US$30m to build and rebuild bridges across the Euphrates River and to build connecting roads in the vicinity of Samawah, in Muthannna.
- Irrigation Sector Loan Programme. Up to US$90m for irrigation drainage pumps, equipment and materials including in Muthanna.
- Basra Refinery Upgrading Project. Up to US$20m to increase capacity.
- Khor al-Zubair Fertiliser Plant Rehabilitation Project. Up to US$160m to supply machinery for the Kohr Al-Zubair Fertiliser Plant in Basra.
- Crude Oil Export Facility Reconstruction Project. Up to US$430m for the construction of an on-shore/off-shore pipeline to export oil and installation of off-shore loading facilities in al-Faw, Basra.
- Basra Water Supply Improvement Project. Up to US$370m to improve the water supply facilities in and around Basra City.

In November 2005, following the Paris Club agreement on debt relief, Japan agreed to reduce Iraq's official debt to it by 80 percent, with a value of US$6.7bn.

From February 2004 to July 2006, Japan maintained an Iraq Reconstruction and Support Group, comprising some 600 troops, in Samawah.[503] The Group was mandated to deliver humanitarian and reconstruction assistance only; Australian and UK forces provided protection.

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[502] Government of Japan, Factsheet, August 2009, *Japan's assistance to Iraq (Fact Sheet).*
[503] *BBC News*, 8 February 2004, *Japan soldiers begin Iraq mission'*; *BBC News,* 16 July 2006*, 'Japan troops withdraw from Iraq*.

864. NSID(OD) met on 20 November to take stock of the situation in Basra.[504] Cabinet Office officials briefed Mr Brown that the main aim of the meeting was "to ensure that the transfer to Iraqi control in Basra, scheduled for 17 December is not delayed" and that the meeting would need to assess the security situation in Basra and look at how to sustain the present reduction in violence, including through possible political or economic measures.

865. At the meeting, Mr Alexander reported that Mr Wareing had agreed to help drive forward the work of the BDC. Several of the projects included within the BDC's 2007 plan had been requested by local militia leaders, which would help "lock them into the economic and political process".

866. Mr Browne observed that, from a force protection perspective, it would be important to keep local militia leaders engaged and bring them into the wider political and economic process as much as possible. Sir John Scarlett agreed that it would be important to find ways of broadening the dialogue to address a wider range of political and economic issues.

867. Summing up the meeting, Mr Brown said that:

- the UK should "press ahead" with the transfer of Basra to PIC on 17 December;
- economic projects should be agreed through proper discussion with local representatives, rather than favouring any faction or individual, though that "did not preclude using a coincidence of interest to draw local militia leaders into the wider political process";
- Mr Alexander should write with plans for the launch of the BDC; and
- the UK should continue to encourage the Iraqi Government to hold provincial elections as soon as possible.

868. After the meeting, Sir John Scarlett's Private Secretary produced a summary of his account of the meeting.[505] The summary stated that Mr Alexander had expressed concerns about development projects agreed with JAM1 drawing resources and expertise away from existing projects. There was general support for resource decisions to be taken in theatre where conflicts arose between priorities.

869. Mr Jones told the Inquiry that:

> "… there had been a debate in advance of PIC as to how we could be sure that the whole situation in Basra remained stable. The economy was identified as the crucial thing, and we had many hours of amusement discussing that in Basra with our military colleagues, the degree to which we could help."[506]

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[504] Minute Cabinet Office [junior official] to Prime Minister, 19 November 2007, 'NSID(OD) Iraq Meeting – Steering Brief: Tuesday 20 November 16:45-17:30'.
[505] Minute PS/C, 21 November 2007, 'NSID (IRAQ) 20 NOV 2007'.
[506] Private hearing, 24 June 2010, page 58.

870. Section 9.6 describes negotiations between the UK and JAM1.

871. Mr Miliband was advised on 7 December that Prime Minister Maliki and Governor Waili had met on 5 December and "cleared the air between them", paving the way for PIC.[507]

872. Lt Gen Rollo reported on 10 December that with Prime Minister Maliki and Governor Waili now reconciled, the UK had to focus on how the promises to be made at the Basra Development Forum would be kept:

> "General Petraeus' challenge, reiterated to each UK visitor, to fulfil our Prime Minister's intent has been very clear. Barham Salih [the Deputy Prime Minister] underlined this point when he spoke to the MOD and FCO Permanent Secretaries who visited this week along with the DFID Director covering the Middle East. He said that while long term capacity building remained essential, 'jump starting' was now necessary … That should give us our lead. The way that money has been poured into Anbar, by both the US and the GOI [Iraqi Government], to reinforce success is also setting the standard; recognising that in counter-insurgency operations, all the lines of operation must be properly supported."[508]

873. Prime Minister Maliki and Governor Waili jointly hosted a meeting of the Basra Development Forum at Basra International Airport on 12 December.[509] Mr Alexander represented the UK. Mr Salih formally launched the BDC and Mr Alexander announced Mr Wareing's appointment as its co-chair.[510]

874. Mr Prentice reported the following day that the Forum had been a "hugely successful event" which struck "an optimistic note on the governance and economic agenda to complement the security handover" which was due to take place four days later.[511] The Forum had:

- focused the attention of local and central Government on Mr Brown's economic initiatives, and what needed to be done to implement them;
- allowed Prime Minister Mailiki and Governor Waili to publicly bury the hatchet. At Prime Minister Maliki's insistence, Governor Waili had pledged to tackle corruption and improve governance;
- showed Basra that Baghdad cared. Prime Minister Maliki had not visited Basra since July 2006; and
- been "authentically Iraqi and Basrawi", rather than a creation of the PRT.

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[507] Minute Paterson to PS/Foreign Secretary, 7 December 2007, 'Iraq – Basra Developments'.
[508] Minute Rollo to CDS, 10 December 2007, 'SBMR-I's Weekly Report (280) 9 Dec 07'.
[509] eGram 50733/07 Baghdad to FCO London, 13 December 2007, 'Iraq: Basra Development Forum'.
[510] Letter Jones to Aldred, 13 December 2007, 'Basra: Situation Report'.
[511] eGram 50733/07 Baghdad to FCO London, 13 December 2007, 'Iraq: Basra Development Forum'.

875. Maj Gen Binns reported that at the event, Prime Minister Maliki had described 2008 as "the year of redevelopment and reconstruction".[512]

876. Mr Wareing told the Inquiry he had three roles:

- to champion economic development, particularly in Basra and the south;
- to champion international investment into Iraq; and
- to help set up and to chair the BDC.[513]

877. Mr Wareing added that his role was not specifically to promote British investment:

> "…the line that I pursued was … to try to push investment, not just from a British or indeed a European or even a western … point of view, but basically any investment – and there was a significant amount of investment from the Gulf region."[514]

878. Mr Alexander visited Iraq from 11 to 12 December.[515]

879. Ms Hendrie reported that both Gen Petraeus and Lt Gen William Rollo, the Senior British Military Representative, Iraq, had asked Mr Alexander what more DFID could do to accelerate economic development in Basra to take advantage of the current improvement in security. Both had made suggestions for additional projects and for an increase in people – a "civilian surge".

880. In response, Mr Alexander had made clear that any discussion of the DFID programme "should be set within a larger conversation about UK objectives in Iraq".

881. Ms Hendrie told DFID colleagues on 14 December that Mr Alexander wanted a robust discussion with other Ministers about the UK's strategy in Iraq:

> "My sense is that he believes, in the absence of clear Ministerial guidance about what HMG can and should be trying to achieve, [that] DFID are being landed with pressure to deliver an enormous agenda on economic growth in southern Iraq which a) we are not necessarily best-suited for and in any case cannot be viewed as the responsibility of a single department, and b) cannot produce meaningful results in the context of a 'broken' politics at the centre in Baghdad and a highly problematic security environment. He plans to engage actively in the conversation about what HMG's ambitions on the economic front should be and the role of economic development in relation to security and political reconciliation."[516]

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[512] Report Binns, 13 December 2007, 'GOC MND(SE) Weekly Letter – 13 December 2007'.
[513] Public hearing, 16 July 2010, page 3.
[514] Public hearing, 16 July 2010, page 12.
[515] Minute Hendrie to Wardell, 15 January 2008, 'BTOR: Secretary of State Visit to Iraq, 11-12 December 2007'.
[516] Email Hendrie to DFID [junior official], 14 December 2007, 'Follow-Up to SoS Iraq Visit'.

882. Mr Alexander sent Mr Miliband and Mr Browne an update on progress on Mr Brown's economic initiatives on 21 December.[517] He advised that the success of the Basra Development Forum was due in part to the reconciliation of Prime Minister Maliki and Governor Waili, but also reflected:

> "… years of often invisible effort in building up capacity of provincial government to spend Iraqi resources for reconstruction and development … This is the right approach – helping to set up Iraqi institutions to spend Iraqi resources, and it is bearing fruit."

883. Mr Alexander continued:

> "My visit also confirmed that we cannot view economic development in isolation from politics or security. They are inter-related and require an HMG-wide effort. We should therefore guard against terminology that suggests a civilian or economic surge will continue to be the driving force in determining Iraq's stability and prosperity … We need a conscious broadening of the effort across HMG, the mechanisms for which need to be discussed; and we need to ensure that our civilian and military plans for Iraq are co-ordinated. We also need to be clear about what we are aiming to achieve."

884. Basra province transferred to PIC on 16 December.[518] All of the four provinces within MND(SE) had now transferred to PIC.

885. Mr Brown met Prime Minister Maliki in the UK on 3 January 2008.[519] On reconciliation, Mr Brown said that he wanted to see rapid progress on the Hydrocarbons Law and local elections. On economic reconstruction, he encouraged Prime Minister Maliki to appoint Iraqi nationals to support Mr Wareing's work. Prime Minister Maliki replied that he would speak to Mr Salih; he also confirmed that he would double Basra's budget.

886. Lt Gen Rollo reported on 14 January that the Iraqi Minister of Finance had signed off the first eight Japanese soft loans.[520] The UK was working with the US Embassy to ensure that the first loan, which covered Umm Qasr port, was taken forward immediately. Lt Gen Rollo would continue to track the issue, but he remained of the view that the "real answer" was a Basra Development Office in Baghdad.

887. The 16 January meeting of the ISG considered a draft strategy for Iraq.[521] Mr McDonald underlined the importance that Mr Brown attached to the economic

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[517] Letter Alexander to Miliband, 21 December 2007, [untitled].
[518] *BBC News*, 23 March 2009, *Timeline: UK Troops in Basra*.
[519] Letter Fletcher to Carver, 3 January 2008, 'Prime Minister's Bilateral with Prime Minister of Iraq, 3 January'.
[520] Minute Rollo to CDS, 14 January 2008, 'SBMR-I's Weekly Report (283) 14 Jan 08'.
[521] Minute Cabinet Office [junior official] to McDonald, 17 January 2008, 'Iraq Strategy Group, 16 January'.

initiatives in Basra, and said that Mr Brown wanted to see "tangible progress in 2008 – for example at the port or airport".

888. Section 9.6 describes the development of the UK's Short-Term Strategy for Iraq between November 2007 and April 2008.

889. Ms Sue Wardell, DFID Director Middle East, said that a choice needed to be made between maintaining current levels of effort during 2008 or "surging resources temporarily". The surge might focus on the agricultural sector, its links with the oil sector, and regional trade.

890. Mr McDonald asked DFID to present options and recommendations to Ministers.

891. Lt Gen Rollo reported on 3 February that there had been "positive discussions" with DFID in Basra on the deployment of additional experts to Basra and Baghdad to support Mr Brown's economic initiatives.[522] He added:

> "Given that the initiative was originally announced in early October 2007 it would be good to see decisions in London to turn these into effect. General Petraeus' enquiries into what hard measures are in place to support the PM's words have become pointed and public."

892. Maj Gen Binns left MND(SE) on 12 February and was succeeded by Major General Barney White-Spunner.[523]

893. Reflecting on progress over the previous six months, Maj Gen Binns commented:

> "It has taken me six months to develop an understanding of the Economic and Political Lines of Operation. I have learned to measure economic redevelopment in decades, to be patient, to listen to, and take the advice of, specialists in the PRT, some of whom have been in Iraq for more than 3 years. We should stop beating up on DFID; those, like me initially, who talk of 'windows of opportunity' and 'economic surges' are misguided. Iraq is awash with money. The Iraqis need help in spending it and overcoming corruption through good governance, which is exactly the approach taken by our PRT. Of course we will continue to use CERPs money to buy consent for military operations, but let us not pretend that this is sustainable development, because on some occasions it is the reverse. In 10 years time Basrawis will remember that the US Army Corps of Engineers built their Children's Cancer Hospital; they will probably have forgotten Operation SINBAD."

894. In his formal end of tour report, Maj Gen Binns commented that co-operation between departments in theatre was "superb".[524]

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[522] Minute Rollo to CDS, 3 February 2008, 'SBMR-I's Weekly Report 3 Feb 08'.
[523] Minute Binns to CJO, 7 February 2008, 'GOC MND(SE) Weekly Letter – 07 February 2008'.
[524] Minute Binns to CJO, 12 February 2008, 'Op TELIC – GOC 1 (UK) Armd Div Post Operation Report'.

895. The ISG discussed a further draft strategy for Iraq on 14 February.[525] Mr McDonald again emphasised that Mr Brown was focused on achieving economic effect in 2008, and that the UK should make every effort to do so in the limited time available.

896. On 18 February, Lt Gen Rollo reported that Gen Petraeus had asked to see Mr Wareing during his upcoming visit to Iraq.[526] The meeting would be a useful opportunity to explain how the BDC would deliver on "what Petraeus sees as a British commitment to kick-start the economy of the South". Gen Petraeus believed that campaign success in Iraq depended on the regeneration of the country's economy.

897. Lt Gen Rollo assessed that the UK could do more to support Mr Wareing and, by extension, economic development in the South. This included establishing a Basra Development Office in Baghdad "to leverage US and Iraqi initiatives and work to remove the many legal and political obstacles to investment in Basra".

898. Mr Wareing made his first visit to Basra on 18 and 19 February, to participate in the first meeting of the BDC.[527] Maj Gen White-Spunner described the visit as "excellent": Mr Wareing had met Governor Waili and had had a genuine exchange of views with his Iraqi colleagues at the BDC and key opinion formers. The BDC had agreed to produce a Basra Economic Development Strategy by June 2008, with the aim of stimulating the economy and fostering private sector development.

899. Mr Wareing was unable to travel to Baghdad to meet Gen Petraeus because of bad weather.[528]

900. Section 9.6 describes the deteriorating security situation in Basra from the end of January, and the development by the Iraqi Government of plans to confront militias in Basra.

901. Mr Alexander agreed on 20 February to increase DFID's security headcount limit (the number of staff allowed in post at any one time) from seven to nine for Basra and from five to six for Baghdad.[529] The new post in Baghdad would have specific responsibility for facilitating the Basra economic initiatives. A DFID official advised that the increase:

> "… should be characterised as organising ourselves to give the Basra economic initiatives the best chance of delivering in the shortest timeframe. It is not a 'surge' but nor is it business as usual."

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[525] Minute Cabinet Office [junior official] to McDonald, 15 February 2008, 'Iraq Strategy Group, 14 February'.
[526] Minute Rollo to CDS, 18 February 2008, 'SBMR-I's Weekly Report (288) 17 Feb 08'.
[527] Letter White-Spunner to CJO, 21 February 2008, 'GOC MND(SE) Weekly Letter – 21 February 2008'.
[528] Manuscript comment on Letter White-Spunner to CJO, 21 February 2008, 'GOC MND(SE) Weekly Letter – 21 February 2008'.
[529] Minute DFID [junior official] to PS/Secretary of State [DFID], 20 February 2008, 'Iraq: Delivering the Basra Economic Initiatives'.

902. Mr Browne visited Kuwait and Iraq from 12 to 14 March in conjunction with Mr Wareing.[530] Mr Browne reported to Mr Brown that the mood in Iraq was optimistic, reflecting the improved security situation, political progress and the new focus on economic regeneration:

> "Inevitably in Iraq, the pace of change is slower than we would wish and no-one believes it is irreversible, but we have an opportunity over the next year or so to contribute to a step-change in the country's economy and to put our bilateral relationship onto a sustainable long-term footing. That does, however mean we need to redouble our efforts now … to exploit the progress we have already made."

903. On the economic initiatives, discussions in Iraq had identified three areas where the UK could do more:

- reinforcing the UK team in Basra and Baghdad. Gen Petraeus thought that the UK was "under-gunned";
- re-doubling the UK effort to unblock the investment and hydrocarbons legislation, and to encourage international business to invest in Basra; and
- a diplomatic initiative, with the US, to encourage a constructive partnership between Basra and Kuwait.

904. Mr Browne commented that working alongside the US should help improve the UK's relationship with the US. Although Gen Petraeus had been polite during their meeting, and also during his later meeting with Mr Wareing, he had previously been critical of the scale of the UK's non-military engagement in Basra.

905. The British Embassy Baghdad reported that Gen Petraeus had spelt out his concerns in his meeting with Mr Wareing:

> "In his [Gen Petraeus] view the UK had not been aggressive enough in trying to achieve development change in Basra, and we needed to 'increase our horsepower'… He felt that the PM [Mr Brown] and the Foreign Secretary [Mr Miliband] had promised much, but that he hadn't seen much delivery … he would make his concerns clear to the PM when he comes through the UK in April."[531]

906. The Embassy commented that Gen Petraeus wanted the UK to set up an office in the Green Zone in Baghdad to promote Basra, and to increase the UK presence in Basra.

907. Mr Alexander sent Mr Brown a further update on progress on the economic initiatives on 31 March, in advance of the planned discussion of the UK's Iraq Strategy at the 1 April meeting of NSID(OD).[532]

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[530] Letter Browne to Brown, 18 March 2008, 'Visit to Baghdad and Kuwait'.
[531] Telegram 10285/08 Baghdad to FCO London, 17 March 2008, 'Michael Wareing to Baghdad, 14 March'.
[532] Letter Alexander to Brown, 31 March 2008, [untitled].

908. He advised that DFID had increased the number of full-time equivalent staff working on the economic initiatives from four in January 2008 to 10. DFID would also establish a Basra Support Office in Baghdad. DFID was recruiting internally to staff that office, and was discussing with other departments including the FCO, the MOD and UK Trade and Investment what role they could play. Mr Wareing had stated that this level of staffing was "fully adequate" to deliver the initiatives.

909. In his evidence to the Inquiry, Mr Wareing highlighted three major successes within the Basra economic initiatives:

- the youth unemployment programme, which Prime Minister Maliki had expressed interest in rolling out nationwide;
- Basra International Airport and Umm Qasr port, where Mr Wareing had been able to bring together the UK military, DFID and local Iraqi leaders; and
- the establishment of the National Investment Commission and the Basra Investment Commission.[533]

910. Mr Keith MacKiggan, Head of the PRT from September 2008, told the Inquiry that the economic initiatives had been "very effective", as evidenced by:

- the interest shown by the Iraqi Government in replicating the initiatives country-wide;
- the amount of investment that they attracted into Basra; and
- the economic confidence that they had helped to engender.[534]

Charge of the Knights, March 2008

911. On 25 March 2008, in response to growing concerns over the security situation in Basra, Prime Minister Maliki launched a major offensive against Basra militias.[535]

912. Section 9.6 considers the genesis and implementation of that military operation, which came to be known as the Charge of the Knights, and the damage to UK-Iraqi and UK-US relations.

913. Mr Browne reported to Cabinet on recent events in Basra on 1 April.[536] He said that the decision to launch the operation had come as a surprise to everyone. Mr Brown said that Ministers would have a further discussion of the implications of recent events at NSID(OD).

914. NSID(OD) met later that day, with Mr Brown in the chair, to consider the UK's "continuing role in Basra in 2008/2009, and the timelines and considerations for taking

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[533] Public hearing, 16 July 2010, page 55.
[534] Public hearing, 7 January 2010, pages 22-23.
[535] *BBC News,* 25 March 2008, *Basra's gun rule risks Iraq future*.
[536] Cabinet Conclusions, 1 April 2008.

decisions on force level options".[537] The meeting was provided with three papers: a Short-Term Strategy, a draft of Mr Browne's planned statement to Parliament , and Mr Alexander's letter to Mr Brown of 31 March on progress on the economic initiatives.

915. The Short-Term Strategy paper considered four options for drawing down UK troops in Iraq, set out the civilian and military tasks that the UK could continue to undertake in each case, and assessed the impact of withdrawing from Iraq on the UK's reputation.[538]

916. The paper suggested criteria which might be used to evaluate those options, but did not attempt such an evaluation and made no recommendation on troop withdrawals. The criteria for evaluation included the ability to deliver Mr Brown's economic initiatives and the provision of a secure platform for political and economic work.

917. The paper also identified a number of areas in which the UK should continue to work in the absence of a significant military presence in Basra. Those included:

- Economics. In Baghdad, the UK had carved out a "niche role alongside the massive US effort". UK support for building Iraqi Government capacity for economic policy and public finance/budget management was highly valued by Iraqi officials and had given the UK a seat at the "coalition policy-making table", providing critical leverage to lobby for greater engagement by the World Bank and other multilateral institutions. In Basra, Mr Brown's economic initiatives were making "real progress" under Mr Wareing's leadership. The paper assessed the work to be of high importance (because a successful economy was an important driver of stability), but the UK's impact to be "low to medium" (because of the programme's relatively small scale and the fact that real progress would depend on the Iraqi Government).
- Governance and security/justice sector reform. Both the US and the Iraqi Government valued the UK's work to build capacity in these areas. The work was of medium importance (as DFID's projects and the FCO policing mission represented "niche added value") and the UK's impact "medium".
- Pressing for more substantive multilateral and regional engagement by the UN, EU, IMF and World Bank. The work was of high importance (as more substantive engagement by multilateral organisations would ease the burden on the US and UK and positive regional engagement was crucial for Iraq's long-term stability) and the UK's impact also "high" (as it had more leverage with the EU, UN and World Bank than the US).

918. At the meeting, Mr Brown recognised that it was difficult to take firm decisions on longer-term options until there was a clearer assessment of events in Basra.[539] It was

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[537] Paper Cabinet Office, 31 March 2008, 'Iraq'.
[538] Paper FCO, March 2008, 'Iraq: The Short Term'.
[539] Minutes, 1 April 2008, NSID(OD) meeting.

good that the Iraqi Army had sought to take control, but the way in which it had done so threatened to have a negative impact on political and economic progress, as well as the security gains achieved by UK forces. The UK "could not afford to be perceived to be irrelevant to the situation in Basra".

919. Mr Browne said that there were now US forces involved in Basra, and they were unlikely to leave.

920. Ministers agreed that troop levels should remain at 4,100 until the situation became clearer and that no decision on longer-term military commitment should be taken at present.

921. Concluding the discussion, Mr Brown said that hopes for political and economic stability to take hold in Basra had been "set back". The UK needed to wait and assess the implications of events "but work to bring our political and economic objectives back on line".

922. The Iraqi Government and the US moved quickly to boost reconstruction in Basra in the wake of the Charge of the Knights.

923. The UK was concerned that the wave of new money, the focus on short-term projects, and the actions of central Government would undermine existing Provincial Government structures and systems (which the UK had helped to establish).

924. Mr Prentice attended the Iraqi Ministerial Committee on National Security on 6 April, and reported that the Iraqi Government's main priority was finding civilian employment for 25,000 unemployed Basrawis.[540] Acting Justice Minister Dr Safa al-Safi had been appointed to co-ordinate the Iraqi Government's economic efforts in Basra.

925. The British Embassy Office Basra reported on 7 April that a nine-strong US Civil Military Operating Centre (CMOC) would arrive later that day, and would be operational within 24 hours.[541] The PRT had welcomed their arrival. The CMOC's focus would be on shorter-term employment schemes ("how to get young men off the payroll of JAM and other militias").

926. The British Embassy Office Basra reported the following day that it would be important that the CMOC shared the UK's philosophy that "we not do things for the Iraqis, but with them".[542]

927. A DFID official in Baghdad reported to DFID colleagues on 9 April that the Iraqi Council of Ministers had agreed to provide US$100m for economic work in Basra.[543] Dr al-Safi had arrived in Basra and had set up a number of committees. In parallel,

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[540] eGram 13078/08 Baghdad to FCO London, 7 April 2008, 'Iraq: Ministerial Committee on National Security, 06 April 2008'.
[541] eGram 13086/08 Basra to FCO London, 7 April 2008, 'Basra Update – 7 April 2008'.
[542] eGram 13285/08 Basra to FCO London, 7 April 2008, 'Basra Update – 8 April 2008'.
[543] Email DFID [junior official] to DFID [junior official], 9 April 2008, 'Basra'.

the US military was developing its own mass employment schemes and USAID was considering what more it might do.

928. The official commented that it was possible that the US could "do things" that the UK had not tried, as it could:

- dedicate more people and more money to the task;
- change the security environment to secure better civilian access;
- operate outside Iraqi structures;
- ensure better linkages to US work in Baghdad; and
- "apply sufficient clout at the Baghdad end" to secure the Iraqi Government's attention.

929. The UK was lobbying the US on the need to engage with local government and the PRT in order to avoid setting up parallel systems and losing the benefits of local knowledge and experience. The key risk was that UK programmes (which were designed to be Iraqi-led, and thus required a considerable amount of Iraqi engagement and energy) would be "crowded out" as Iraqi counterparts focused on the larger and more immediate US programmes.

930. A UK official in the Basra PRT agreed with that assessment and commented:

> "None of this is going to stop and it is going to be a big distraction for a small PRT team … trying to force the military to listen to what we have to say, and trying to stop MNF taking over the show completely … It's not just on the economic/governance agenda – it's the same for our CivPol mission and all the policing work we have done …"[544]

931. In his weekly report of 10 April, Maj Gen White-Spunner described recent events as:

> "… a real opportunity for Basra and hence our involvement here. The time for any recrimination … is behind us; we now have a better chance than we have arguably had for two years to achieve better security and some initial development goals in the city. We will not have long to do so …"[545]

932. Dr Christian Turner, Cabinet Office Overseas and Defence Secretariat, sent Mr Brown an assessment of the implications of the Charge of the Knights on 11 April, in advance of Mr Brown's visit to Washington.[546] Dr Turner described the UK's military options (step up to take full responsibility for MND(SE), steady-state or an accelerated withdrawal).

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[544] Email FCO [junior official] to Hendrie, 9 April 2008, 'Basra'.
[545] Minute White-Spunner to CJO, 10 April 2008, 'GOC MND(SE) Weekly Letter – 10 April 2008'.
[546] Minute Turner to Prime Minister, 11 April 2008, 'Iraq: Implications of Basra Operations and US Visit'.

933. Dr Turner also advised that the UK would need to redouble its effort on the economy:

> "Presentationally, the US effort risks overshadowing UK economic initiatives. The likelihood is that the US will focus on quick impact projects … Funding will come from the US military (up to US$70m) and the Government of Iraq (US$100m or more).
>
> "We will need to ensure our projects are co-ordinated and complementary. Experience over the past five years in such [quick impact] projects is that they provide short-term benefits, but are often not sustainable. DFID's view remains that economic recovery will require … a resolution to address the deep-seated problems in the Basra economy and the building of sustainable Iraqi institutions … Our message to the US will need to be that such work takes time."

934. In his weekly report of 17 April, Maj Gen White-Spunner advised that MND(SE) continued to focus on drawing as much US and Iraqi resource into Basra as possible in order to take advantage of the "unexpected but very welcome changes" that the Charge of the Knights had brought.[547]

935. A DFID official provided a briefing for Mr Alexander on the impact of the Charge of the Knights on 18 April.[548] Street-life in Basra was "noticeably more confident", with pop music and alcohol on sale. Dr al-Safi had set up a committee to review project proposals from the Provincial Council, the Governor and local Sheikhs, but had said that he did not want proposals from the coalition. He was determined that the Iraqi Government should be seen to be in charge and favoured quick impact projects focused on infrastructure, implemented through line ministries and tribal leaders. On the US side, "large numbers" of people were flowing into the US CMOC.

936. The major risk for the UK Government remained that the Provincial Government would be undermined by the decision to channel funding through line ministries, tribal leaders and NGOs. The UK continued to engage with the US and Dr al-Safi to emphasise the advantages of engaging with the Provincial Government, the Provincial Council and the PRT, rather than creating parallel systems.

937. Mr McDonald told the 28 April meeting of the ISG that: "It was now clear that there was a shared UK/US operation in the South, and that we would need to decide on their tasks and the division of labour."[549] The UK needed to focus on its remaining political, economic and military tasks. The first two required provincial elections to take place, and tangible outcomes from the work of Mr Wareing and the BDC.

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[547] Minute White-Spunner to CJO, 17 April 2008, 'GOC MND(SE) Weekly Letter – 17 April 2008'.
[548] Minute DFID [junior official] to Private Secretary [DFID], 18 April 2008, 'Information Note: Latest Consequences of Iraqi Operations in Basra'.
[549] Minute Cabinet Office [junior official] to McDonald, 28 April 2008, 'Iraq Strategy Group, 28 April'.

938. Mr Miliband visited Baghdad and Erbil in mid-April.[550] He wrote to Mr Brown on 29 April:

> "However unfortunate its genesis, Maliki's operation in Basra has created an opportunity to reshape our approach there and set a new direction towards transition. 2009 is the year we will need to move from a Basra military strategy to an Iraq political and economic strategy."

939. The Iraqi Government was "for the first time since 2003" giving full attention to Basra. In support of that, the US had committed "serious assets" to strengthen MND(SE). Those combined US, UK and Iraqi resources would "accelerate the rate of positive change in Basra", paving the way for a "proper and respectable end" to the UK's role as "lead partner in the coalition" in the course of 2009.

940. Mr Miliband identified seven goals towards which substantial progress would need to be made if the UK was to make that "final transition", including:

- "reconstruction clearly under way; sturdy green shoots of economic revival;
- the BIPA and BDF [Basra Development Fund] well-established;
- the airport on its way to be a development and business hub and transport hub;
- Umm Qasr port better managed and with development plans in place"; and
- the start of "a broad-based and natural relationship with the new Iraq, the 'whole Iraq policy' which we have long wanted".

941. Maj Gen White-Spunner reported on 1 May that:

> "What is becoming increasingly evident, as our situational awareness improves, is just what a poor state the city is in, with basic services non-existent in some areas and a serious problem with raw sewage and mounds of rubbish on the streets."[551]

942. Mr Brown hosted a reception at No.10 on 28 April, to raise the profile of southern Iraq as an investment destination and enhance Iraqi Government interaction with potential investors.[552]

943. Mr Brown was subsequently advised that between 25 and 30 companies, including BP and Shell, had expressed a serious interest in exploring investment opportunities.[553]

944. Mr Brown met Gen Petraeus and Ambassador Crocker in London on 1 May.[554] Mr Miliband, Mr Browne, Mr Alexander and senior officials attended.

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[550] Letter Miliband to Prime Minister, 29 April 2008, 'Iraq'.
[551] Minute White-Spunner to CJO, 2 May 2008, 'GOC MND(SE) Weekly Letter – 1 May 2008'.
[552] Minute Cabinet Office [junior official] to Prime Minister, 25 April 2008, 'Basra Investors' Reception, No10: 28 April 2008'.
[553] Minute Cabinet Office [junior official] to Prime Minister, 30 April 2008, 'Iraq: Meeting with Petraeus and Crocker, 1 May 2008'
[554] Minute Cabinet Office [junior official] to Prime Minister, 30 April 208, 'Iraq: Meeting with Petraeus and Crocker, 1 May 2008'.

945. The Cabinet Office briefing for Mr Brown stated that Gen Petraeus believed that the UK should mount a civilian surge, and had advocated a more hands-on (rather than Iraqi-led) approach. Dr al-Safi and Prime Minister Maliki had both recently told UK interlocutors that they did not think UK-led economic development in Basra was proceeding quickly enough. Dr al-Safi was "resistant" to UK lobbying in favour of channelling Iraqi Government funds through the Provincial Government.

946. The DFID briefing for Mr Alexander stated that the US military was becoming increasingly frustrated with the pace of the Provincial Government's clear-up of the streets after the fighting, and warned that the US might be tempted to take control of the operation themselves.[555] That would be a significant step backwards. The PRT was trying to resist, but the pressure to make things happen was strong.

947. The briefing also advised that DFID feared that the Iraqi Government's reconstruction money was being used as a way of consolidating central Government or Dawa party control over Basra. That would represent a patronage-based, unaccountable way of managing Basra.

948. The Iraqi Army and MND(SE) were now in control of Umm Qasr port (previously under militia control) and corruption and smuggling had ended. With the improved security environment, it would be possible to return to US plans for the commercialisation of the port.

949. Mr Brown's meeting with Gen Petraeus and Ambassador Crocker covered a range of political, security and economic issues (see Section 9.7).[556]

950. At the meeting, Mr Alexander described the 28 April investors' reception as a success, and identified the development of the port and airport and the capacity of central Government to support Basra as priorities.

951. Summing up the discussion, Mr Brown said that the central UK focus would be accelerated training of Iraq's 14 Division, preparations for provincial elections, progress on handing control of Basra Airport to the Iraqis and economic reconstruction. Decisions on troop numbers would be taken in the context of completion of these tasks.

952. The record of the meeting did not report any criticism by Gen Petraeus of the scale or nature of the UK's engagement on economic development.

953. Mr McDonald advised Mr Brown the following day that the UK would need to retain around 4,100 troops in southern Iraq for the next six months to complete those key tasks.[557]

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[555] Minute DFID [junior official] to Private Secretary [DFID], 30 April 2008, 'Briefing for Attendance at PM/Petraeus meeting on 1 May'.
[556] Letter Fletcher to Rimmer, 2 May 2008, 'Iraq: Prime Minister's Meeting with General Petraeus, 1 May'.
[557] Email Fletcher to Brown, 2 May 2008, 'Iraq Troop Numbers – Note from Simon'.

954. Mr Nick McInnes, UK Trade and Investment (UKTI) Director International Group, briefed UKTI colleagues on 3 May that there was growing pressure from the British Embassy Baghdad and the MOD for a larger UKTI presence in Baghdad.[558] Their arguments for that were:

- the increased interest in Iraq from UK companies;
- the likelihood that Mr Brown's economic initiatives would stimulate further interest; and
- the possibility of sales of UK military equipment to Iraq.

955. Section 10.3 describes the UK Government's efforts to promote UK businesses.

956. In an Assessment of 14 May, the JIC examined the impact of the Charge of the Knights on JAM, Prime Minister Maliki, his Government and the Sadrists.[559] The JIC's Key Judgements included:

- Prime Minister Maliki was enjoying broad political support following the success of the Charge.
- The Charge had significantly weakened JAM in Basra.
- In Basra, expectations were high. Prime Minister Maliki would need to deliver improvements in public services and job creation "in weeks".

957. Mr Browne visited Iraq briefly, on his way to Afghanistan, at the end of May, where he "realised a personal ambition by having a cup of tea downtown", the result of "a remarkable transformation of the security situation".[560]

958. A DFID official briefed Mr Alexander on 30 May that, following Mr Browne's visit to Iraq, there were growing expectations among some military colleagues that UK civilians would soon be able to travel "beyond the wire" (outside Basra Air Station).[561] Visits to Basra Palace by PRT and DFID staff were currently being undertaken at night, by helicopter, and were approved on a case-by-case basis. The situation was not yet good enough to enable PRT and DFID staff to visit Iraqi Government offices on a regular basis, but DFID would keep the situation under review.

959. Ms Reid told the Inquiry that shortly after the Charge of the Knights, Dr al-Safi agreed to meet UK officials but not at the Basra Air Station:

> "That basically forced a decision … It [the meeting] was something that was so important … there was so much pressure coming from Baghdad and from London, that we need to go and have this discussion with him. And at that point … authority for me to go went back to my Permanent Secretary to get the okay, because it was

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[558] Email McInnes to Haird, 3 May 2008, 'Resourcing Commercial Work in Iraq'.
[559] JIC Assessment, 14 May 2008, 'Iraq: the Charge of the Knights'.
[560] Letter Browne to Brown, 4 June 2008, 'Visit to Basra'.
[561] Minute DFID [junior official] to PS/Secretary of State, 30 May 2008, 'Iraq: Ministerial Trilateral Discussion, 2 June 2008'.

turning around something that had been in place for so long and there was so much nervousness about it.

"What that did was started a discussion which was the default can't necessarily remain …

"So by the time I left in October [2008], decisions on moves to the Palace could be made by the head of DFID Baghdad. They didn't have to go back through a lengthy chain in London. Decisions on some other road moves would still go through my boss back in London, but gradually that got moved more and more to theatre, became much more like the Baghdad experience of Red Zone moves."[562]

960. The 2 June meeting of the ISG focused on economic development.[563] Ms Aldred said that "economic deliverables" would form a core part of the narrative that Mr Browne had asked for following his visit to Basra, and asked DFID to lead on compiling it. Mr McDonald said that Mr Brown would want to announce economic progress – or, at the very least, a Basra economic plan – in his planned Parliamentary statement in July.

961. Ms Hendrie reported that Dr al-Safi was making little progress in spending the Iraqi Government's reconstruction funds for Basra and that, despite UK lobbying, he remained reluctant to use established structures. The Basra Support Office in Baghdad would become operational on 7 June. UKTI had expressed interest in appointing a First Secretary (Commercial) to Baghdad, but was reluctant to fund or staff the post.

962. A 9 June Current Intelligence Group (CIG) Assessment of Basra's economy, commissioned by DFID, judged that the Charge of the Knights had secured "a window of opportunity to create the conditions for economic growth" but that reconstruction and development would continue to be constrained by:

- the absence of any systemic approach to project and financial management within the Iraqi Government;
- competing political agendas, which meant that reconstruction was subject to "political manoeuvring";
- corruption, which would remain endemic under the present Government or any likely successor;
- the uncertain legislative environment, which continued to hold investors back. International oil companies were in negotiation with the Ministry of Oil but they were unlikely to make long-term investments until a Hydrocarbons Law had been adopted;
- security, which remained fragile;
- crime and smuggling; and

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[562] Public hearing, 24 June 2010, pages 66 and 67.
[563] Minute Cabinet Office [junior official] to McDonald, 2 June 2008, 'Iraq Strategy Group, 2 June'.

- a “brain drain”. Militia violence and intimidation, which specifically targeted middle-class Basrawis, had prompted many to leave, resulting in a shortage of capable local entrepreneurs.[564]

963. DFID deployed an aviation industry consultant to Basra International Airport on 11 June, with the long-term aim of achieving “international certification” within two years.[565] In the shorter term, the consultant aimed to raise the capacity of the airport from four or five to 15 flights per day.

964. Ms Hendrie and Mr Donal Brown, her successor as DFID Deputy Director Iraq, visited Iraq from 13 to 22 June.[566] Their report to Mr Anderson and DFID colleagues focused on what could be done in the next 12 months (while there was likely still to be a significant UK military presence) which would constitute “a reasonable package of ‘deliverables’” in Basra. Components of that package included:

- Basra International Airport. There was “some confusion” over what the UK could deliver. International Civil Aviation Organisation (ICAO) accreditation was done at a country level rather than for an individual airport (so the UK could not hand over an accredited airport). Support for the airport was a joint DFID/MOD responsibility.
- Completion of Pumping Station 2 and the water towers. The last two of DFID’s infrastructure projects in the South, their completion would “go some way toward demonstration that the UK has done something for the people of southern Iraq”.
- Mr Brown’s economic initiatives.
- The PRT’s economic and governance work. The Cabinet Office and MND(SE) wanted a youth employment programme.

965. Ms Hendrie and Mr Donal Brown commented that it was “important that the Head of the PRT has sufficient time allocated [to leading the PRT] alongside her expanding political work as Deputy CG [Consul General]”.

966. Gen Dannatt visited Basra at the end of June, reporting a “very positive mood within MND(SE) and a real sense that we may actually be able to deliver success, although within a realistic timeframe”.[567] He remained “unconvinced that the PRT in Basra is demonstrating enough energy, purpose and drive to be able to deliver meaningful results in the timeframe we require”.

967. Mr McDonald told the 3 July meeting of the ISG that Mr Brown’s statement to Parliament could highlight three key objectives for the next six months: training 14 Division; successful provincial elections; and handing over Basra Airport to civilian

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[564] CIG Assessment, 9 June 2008, ‘Iraq: Basra’s economy’.
[565] Minute Hall to PS/Secretary of State [DFID], 30 May 2008, ‘Iraq: Ministerial Trilateral discussion, 2 June 2008’.
[566] Minute Hendrie and Brown to Anderson, 27 June 2008, ‘Iraq BTOR – 13th – 22nd June 2008’.
[567] Minute CGS to various, 4 July 2008, ‘CGS Visit to Iraq and Cyprus – 30 Jun-2 Jul 08’.

control.[568] An FCO official cautioned against exaggerating Basra Airport's success – flight numbers had been dropping.

968. NSID(OD) met on 15 July, to discuss a paper prepared by Cabinet Office officials on UK strategy in Iraq 2008/2009.[569]

969. A DFID official briefed Mr Alexander in advance of the meeting that:

- Dr al-Safi was drawing the BDC into "party political wrangling", questioning the validity of its constitution and the UK's role in relation to it. Prime Minister Maliki had recently said that the BDC was "colonialist inspired".
- Meanwhile, the BDC was drawing up a Basra Economic Development Plan which "in practice … will be based on Wareing's own 'Key Goals' document".
- Dr al-Safi claimed to have allocated US$100m to 200 projects in Basra and to have hired 15,000 people for public works, but there was little evidence of that on the ground. DFID was lobbying for the funds to be spent through "transparent channels".
- "Partners" had raised concerns about the capacity of the Basra PRT. The Deputy Consul General in Basra also headed the PRT and was "overloaded". DFID was working closely with the FCO to improve the capacity of "this FCO-led team".[570]

970. A separate DFID briefing for Mr Alexander stated that Mr Wareing had identified four issues as "critical" to UK success in Basra:

- Basra International Airport. The UK needed to "define objectives for success" and clarify responsibility within the UK Government for delivery.
- UKTI support for the Basra Support Office in Baghdad. UKTI had declined to fund a post.
- Improving the performance of the Basra PRT. The US had suggested that it was under-performing compared with other PRTs.
- Improving Iraq/Kuwait economic ties.[571]

971. The DFID briefing also stated that there was:

> "… a continuing view amongst some Iraqi politicians (i.e. Dr al-Safi and – to a lesser extent – Prime Minister Maliki) … that reconstruction and development work is not proceeding fast enough to capitalise on improved security. We are working through the Basra Support Office in Baghdad and the PRT … to counter these views …"

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[568] Minute Jones to McDonald, 7 July 2008, 'Iraq Strategy Group, 3 July'.
[569] Paper Cabinet Office Officials, 11 July 2008, 'Iraq'.
[570] Minute DFID [junior official] to PS/Secretary of State [DFID], 3 July 2008, 'Information Note: Update for the Secretary of State'.
[571] Email DFID [junior official] to PS/Secretary of State [DFID], 11 July 2008, 'Iraq Ministerial Trilateral 14 July – Briefing' attaching Briefing DFID, [undated], 'Iraq (Trilateral) – 14 July'.

972. Cabinet Office officials invited Ministers to agree that the UK's key tasks for 2008/2009 should be:

"
- training and mentoring the Iraqi Army's 14 Division, until it is capable of independent operations with minimal Coalition support – expected in about April 2009;
- supporting provincial elections, due by the end of 2008; and
- supporting economic development in Basra, based on Michael Wareing's outline Economic Development Strategy."[572]

973. Officials also invited Ministers to agree that the UK should continue to press for passage of the Hydrocarbons Law.

974. Officials assessed that Basra's economy was gaining momentum. Since the No.10 reception on 28 April, foreign investors had begun to pursue projects with a potential value of US$4.3bn. The UK had helped Basra Provincial Council to secure US$400m from central Government for the current year. However, the UK was still being criticised for not doing enough and local politics was slowing economic progress, including on the Basra Development Fund and BIPA. The UK needed a focused effort to deliver and demonstrate UK achievements by early 2009, based on the Economic Development Strategy being developed by Mr Wareing and the BDC.

975. At the meeting, Mr Alexander reported on Mr Wareing's draft Economic Development Strategy.[573] Mr Wareing was optimistic: four major companies were already examining investment opportunities in Basra.

976. Concluding the discussion, Mr Brown welcomed the opportunity that his 22 July statement would provide to set out UK policy publicly. The UK's key goals for the year ahead should be to:

- push for early provincial elections;
- hand over Basra Airport by the end of 2008;
- produce an economic plan shortly; and
- complete training of 14 Division by the end of May 2009.

977. Mr Brown met Prime Minister Maliki in Iraq on 19 July.[574] Prime Minister Maliki gave an upbeat account of progress: IDPs were returning to their homes, children were returning to school, 650 doctors had returned from abroad and many university professors were returning to work. There were improvements in the economy, infrastructure and oil production and factories were working again.

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[572] Paper Cabinet Office, 11 July 2008, 'Iraq'.
[573] Minutes, 15 July 2008, NSID(OD) meeting.
[574] Letter Fletcher to Hickey, 19 July 2008, 'Prime Minister's Meeting with Prime Minister Maliki, 19 July'.

978. Mr Brown underlined the UK's wish to help on key issues, including Basra port, oil and the steel industry. Mr Brown said that UK forces would not stay longer than was necessary to "finish the tasks we had started", specifically:

- training 14 Division;
- preparing to make Basra Airport operational; and
- supporting local authorities with provincial elections.

979. Mr Brown also visited Basra.[575] His programme focused on SSR, although he also visited Basra Airport and met key economic figures. The British Embassy Office Basra reported that Mr Brown was "particularly struck by the need for rapid development of the airport and ports".

980. Mr Brown told Cabinet on 22 July that the UK was pursuing four key functions with Iraq:

- UK forces had moved from a combat to an overwatch role. UK troops' primary role was training and mentoring Iraqi forces, with a last resort intervention capability, though that was also gradually being taken over by Iraq.
- Pursuing economic development, which was showing some evidence of success, providing Iraqi citizens with work and a stake in their future.
- Local government elections would give former members of the militia the opportunity to engage in democratic politics.
- Working to transfer Basra International Airport from military to civilian control.[576]

981. Mr Brown said that the BDC would produce an economic plan in the autumn and he hoped that local elections would take place by the end of the year; likewise the handover of Basra Airport. Training of 14 Division should also be completed by the end of the year, with additional training of headquarters and specialist functions required in early 2009. Mr Brown "expected that we would be able to make substantial reduction in the number of British forces next year, but that would depend on circumstances. He was not going to make an estimate of the numbers now."

982. Mr Brown concluded that if the UK had left Iraq a few months earlier, the job would not have been finished; with the improvements in security, momentum for economic development and a move towards local democracy once the elections were held, the Iraqi people now felt that they had a stake in the future.

983. In his statement to Parliament on 22 July, Mr Brown described the impact of the UK's reconstruction effort:

- "British-led" projects in the South had helped to deliver electricity for 800,000 people and water for over one million people.

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[575] eGram 28460/08 Basra to FCO London, 20 July 2008, 'Iraq: Prime Minister's Visit to Basra, 19 July'.
[576] Cabinet Conclusions, 22 July 2008.

- UK funding had helped the UN and World Bank to repair and re-equip 1,000 health centres and more than 5,000 schools, and to train nearly 150,000 teachers.
- With British training and equipment, Basra International Airport was now handling more than 20 flights a day.
- British mentoring and support had helped the Basra Provincial Council access US$400m in central Government funds.[577]

984. Mr Brown stated that it was right that the UK completed the tasks it had set itself. It expected the BDC to publish a detailed Economic Development Strategy in the autumn, and for the Iraqi authorities to "take over development" of Basra International Airport by the end of the year.

985. Major General Andrew Salmon took up post as GOC MND(SE) in August 2008.[578]

986. Mr Nigel Haywood, UK Consul General in Basra from April 2008, told the Inquiry that:

> "When [Major] General Salmon and I jointly went to call on the Governor in his office in August, that was the first time anybody had called on the Governor's office for two years, nobody had been out really operating in the town [since] October 2006."[579]

987. On 24 August, in his first weekly report from Basra, Maj Gen Salmon reported that he was having "very positive" discussions with the PRT on how to enable the movement of civilian staff.[580] He was also developing with the Consul General a "realistic six to nine month programme of works that will deliver tangible effects, based on Iraqi need".

988. In his next weekly report, Maj Gen Salmon advised that:

> "… the inability of central and provincial government to translate cash into essential services, jobs and electricity could become a central security issue. A re-oriented reconstruction strategy accompanied by imaginative information operations should help mitigate this risk."[581]

989. Maj Gen Salmon also reported that Basra needed a "Business Support Facility" to cater for the expected rush for potential investors to Basra as security improved: "The investor phenomenon is accelerating exponentially."

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[577] House of Commons, *Official Report*, 22 July 2008, column 661.
[578] Public hearing, 20 July 2010, page 1.
[579] Public hearing, 7 January 2010, page 7.
[580] Minute Salmon to CJO, 24 August 2008, 'GOC MND(SE) Weekly Letter – 24 August 2008'.
[581] Minute Salmon to CJO, 31 August 2008, 'GOC MND(SE) Weekly Letter – 31 August 2008'.

990. The Stabilisation Unit (formerly the Post-Conflict Reconstruction Unit – PCRU) undertook a review of the Basra PRT in August, at the request of the FCO. The aim of the review was to:

- assess whether the PRT's objectives remained valid in the light of developments since the Charge of the Knights; and
- evaluate the PRT's performance.[582]

991. The "primary purpose" of the review was to ensure that the PRT functioned to its full potential and delivered "tangible and sustainable benefits" over the next 12 months. It seemed likely that the PRT would not exist in its current form once British troop levels reduced in early or mid-2009, and that the US would take over the PRT at that time.

992. The Stabilisation Unit review reported that while all PRTs in Iraq were constrained by insecurity and a lack of Iraqi capacity, the Basra PRT faced a number of additional challenges:

> "… a part-time leader since January 2007, a dysfunctional structural legacy, limited resources, and an absence of a long-term strategy due to uncertainty over its future ever since its creation in April 2006."

993. Given those constraints, the Basra PRT had performed well in some areas, in particular in securing Provincial Council ownership of the Provincial Development Strategy and building Iraqi capacity on budget planning and execution. The PRT had also responded well to reconfigure itself to support Mr Brown's economic initiatives.

994. It was, however, clear that the PRT was not performing as well as it could. It also needed to respond to the priorities set out in Mr Brown's 22 July statement to Parliament.

995. The Stabilisation Unit made 26 recommendations, of which one was highlighted in the review's Executive Summary: the appointment of a full-time Head for the PRT. The Stabilisation Unit assessed that while the decision in 2007 to double-hat the Deputy Consul General as the Head of the PRT had been reasonable, the increased expectations on the PRT in the light of the improved security situation and from the US, and the increased willingness of Iraqi citizens to meet members of the PRT both on and off Basra Air Station, meant that "the PRT and PRT Head … could and should be busier". The double-hatting arrangement had led the US to express concern that the UK did not attach sufficient importance to the Basra PRT, and that the PRT was too concerned with delivering UK as opposed to coalition goals. The Stabilisation Unit concluded that the arrangement was no longer credible.

996. Maj Gen Salmon reported on 7 September that, together with Mr Haywood and the Head of the PRT, he had launched a re-orientated reconstruction programme with

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[582] Report Stabilisation Unit, 3 September 2008, 'Review of the Basra Provincial Reconstruction Team'.

an initial focus on electricity, water, rubbish and sewage, designed to deliver tangible improvements in essential services and create jobs.[583] Resources would come from the US CMOC and the PRT, and delivery would be through task-based Joint Reconstruction Action Teams (JRATs). The JRATs would be under joint civilian-military leadership (each having a military head and civilian deputy head or vice versa), and would work with the appropriate Iraqi authorities.

997. Mr Keith MacKiggan arrived in Basra in late September 2008 to take up post as the Head of the Basra PRT.[584] His arrival signalled the end of the practice of double-hatting the Head of the PRT and the Deputy Consul General. He described the situation in Basra at that time:

> "We were able to get out to meet … clients, NGOs, officials in the local administration, local businesses and so on. Equally importantly, they were able to come and visit us because they no longer felt the fear they had previously of being associated with the Multi-National Force.
>
> "It also meant that we could expand our capacity building work, both in a geographical sense and also in a functional sense … we were now much more able to get beyond the city [Basra] to the furthest reaches of the province … and dig below the level of the Provincial Council to the level of the local Councils and really start to stitch the different parts of the governance structures in Basra together."

998. In their evidence to the Inquiry, Maj Gen Salmon, Mr Haywood and Mr MacKiggan agreed that the UK effort in Basra was well integrated during their time there.[585]

999. Maj Gen Salmon told the Inquiry that that integrated approach had emerged in the context of clear UK objectives (as set out in Mr Brown's 22 July statement to Parliament) and a timetable for withdrawal, but in the absence of an overall UK strategic plan agreed in London.[586]

1000. Maj Gen Salmon described how the move to a more integrated approach had been driven by decisions in Basra:

> "Well, we had a set of objectives. There was no comprehensive strategic plan that I ever saw. So what we decided to do – when I say 'we', that is the Consul General, the Head of the Provincial Reconstruction Team … and to a certain extent the Head of US Regional Embassy Office … [was] ensure that we had much more collective consensus, joined-up approach, because nobody was in charge.
>
> "So that was the only way that we could think of working out what the strategy needed to be and how we were going to prosecute that strategy, run it, steer it,

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[583] Minute Salmon to CJO, 7 September 2008, 'GOC MND(SE) Weekly Letter – 7 September 2008'.
[584] Public hearing, 7 January 2010, pages 1, 10-11.
[585] Public hearing, 7 January 2010, page 6; Public hearing, 20 July 2010, page 24.
[586] Public hearing, 20 July 2010, page 24 and 32.

effectively. So we basically got together and decided that's what we were going to do and worked it from there."[587]

1001. Maj Gen Salmon told the Inquiry that JRATs were one expression of that integrated approach, combining personnel from the PRT and MND(SE) working to a "common plan".[588]

1002. Lieutenant General Peter Wall, Deputy Chief of the Defence Staff (Commitments), updated the 11 September meeting of the ISG on the emerging plan for UK military drawdown and transition to US command in southern Iraq.[589] He said that:

- At the end of November 2008, command of Maysan, Muthanna and Dhi-Qar provinces would transfer to an expanded MND(C), under US command.
- At the end of March 2009, command of Basra would transfer to a new Basra-based US division, bringing UK forces there under US command.
- At the start of May 2009, US forces would begin to deploy to Basra.
- By the end of June 2009, the UK departure would be complete.

1003. Mr Brown and Mr Browne met the Chiefs of Staff and Sir Bill Jeffrey, MOD Permanent Secretary, on 18 September.[590] ACM Stirrup reported that "remarkable progress" had been made in Iraq over the past 18 months, though it was "fragile and reversible". In the South, the biggest risk was stalled economic progress.

1004. Mr Brown said that it would be important to have projects that helped with employment in place before the UK left Basra, and to establish a UKTI presence there. The main obstacle was not security but the business climate.

Transition to a normal bilateral relationship with Iraq

1005. Mr Alexander visited Baghdad and Basra on 6 November.[591] The British Embassy Baghdad reported that, in his meeting with Mr Alexander, Prime Minister Maliki had continued to insist that the UK had done little for Basra, and questioned whether the Basra Development Forum had led to any tangible progress. Prime Minister Maliki welcomed Mr Alexander's assurances that the UK wanted to move towards a more normal bilateral relationship including closer economic, cultural and educational links.

1006. Mr Alexander also met Ambassador Crocker. The two men agreed that the US would take over the leadership of the Basra PRT as part of the UK/US transition in Basra

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[587] Public hearing, 20 July 2010, pages 27-28.
[588] Public hearing, 20 July 2010, pages 34-35.
[589] Minute Cabinet Office [junior official] to McDonald, 15 September 2008, 'Iraq Strategy Group, 11 September'.
[590] Letter Catsaras to Rimmer, 18 September 2008, 'Prime Minister's Meeting with Defence Chiefs, 18 September'.
[591] eGram 45112/08 Baghdad to FCO London, 12 November 2008, 'Iraq: Visit by Secretary of State for International Development to Baghdad and Basra, 6 November'.

in 2009. Ambassador Crocker said that the US would value some continued UK support in a US-led PRT.

1007. Mr Alexander and Ambassador Crocker also agreed that the World Bank should be lobbied "at the highest levels" to increase its presence in Iraq.

1008. The Embassy also reported that Mr Alexander had set out DFID's plans to withdraw from Basra in mid-2009 and move to a "whole of Iraq" approach, delivered through support to central Government, in line with Prime Minister Maliki's wishes.

1009. In Basra, Mr Alexander attended the launch of the Basra Investment Commission – formerly known as the Basra Investment Promotion Agency (BIPA).

1010. The 7 November meeting of the ISOG discussed a draft post-drawdown strategy (in advance of an NSID(OD) discussion the following month).[592] The meeting asked for departments to take action on a number of issues, including:

> "DFID to consider whether a presence only in Baghdad supported by a communications strategy and programme funding in the south, would be sufficient to sustain our legacy there, protect our reputation and ensure the US did not win credit for progress that we had engineered."

1011. Mr Alexander wrote to Mr Brown on 20 November to provide an update on progress in Basra and to set out how he saw DFID's role changing in the context of the UK's "change of mission".[593]

1012. He reported that DFID had already facilitated 18 investor visits by 14 companies, with proposals worth over US$9bn submitted to, but not yet processed by, the Iraqi Government. The Iraqi Government's inability to process those proposals was the main obstacle to international investment in Basra.

1013. DFID's infrastructure projects would be completed by the end of 2008, and its work with the Basra provincial administration would come to a "natural conclusion" by mid-2009. The key to achieving a positive legacy for the UK was securing inward investment. Given that the key obstacles to such investment were in central Government, DFID would focus its effort there. That was in line with Prime Minister Maliki's wish for the UK to support the whole of Iraq, not just Basra.

1014. Mr Wareing visited Basra in late November, to launch the Basra Economic Development Strategy.[594]

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[592] Minute Cabinet Office [junior official] to Aldred, 10 November 2008, 'Iraq Senior Officials Group, 7 November'.
[593] Letter Alexander to Brown, 20 November 2008, [untitled].
[594] Minute Cabinet Office [junior official] to Prime Minister, 28 November 2008, '[redacted] Iraq: Update'.

1015. Mr Brown met ACM Stirrup on 4 December for a "personal and confidential" discussion.[595] On Iraq, Mr Brown said that it would be important for the UK to show that the withdrawal of UK troops was happening because the UK had completed all the tasks it had set out. A "last push" on economic development was needed, along with a communications plan for the next few weeks.

1016. The 9 December meeting of NSID(OD) discussed a Cabinet Office paper on arrangements for transition in Iraq.[596] The paper, which is considered in detail in Section 9.7, included an annex listing the components of the UK's future bilateral relationship with Iraq and how they would be resourced. In addition to the diplomatic/political and defence relationships, the components were:

- "Economic/development: Influence Iraqi economic policy, including improving the climate for foreign investment, help improve World Bank and IMF engagement in Iraq, capacity-building on public finance management, continued support for the Prime Minister's [Mr Brown's] economic initiatives and support to other departments' work on investment, trade and higher education." Work would be funded from DFID's existing Iraq programme (£20m in 2009/10 and £10m in 2010/11) and, potentially, from the Stabilisation Aid Fund. Staffing levels would be established according to programme needs, with all in-country staff based in Baghdad.
- "Energy: ensure security of Iraq's oil supply and long-term increase in oil output through political lobbying on hydrocarbons legislation and national energy policy and regional support." Work would be undertaken primarily by FCO staff.
- "Commercial: support for trade missions, UK investor visits and political lobbying to ensure a level playing field for UK experts/investors." A new, short-term International Business Specialist would provide recommendations in early 2009 on exactly what resources were needed.
- "Educational: increased collaboration with Iraqi educational institutions, civil society, student exchanges and English language training, to be funded by the British Council."

1017. At the meeting, Mr Brown outlined "strong progress" on the UK's four key tasks (training the Iraqi Army, promoting economic development, readying Basra Airport for transfer to Iraqi control and preparing for provincial elections).[597]

1018. Mr Brown concluded that more should be done to improve economic development and prospects for investment, including with ministries in Baghdad. A visit by Lord Mandelson, Secretary of State for Business, Enterprise and Regulatory Reform, would be welcome. It would also be important to make progress with the Hydrocarbons Law.

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[595] Letter Catsaras to Rimmer, 4 December 2008, 'Prime Minister's Meeting with Chief of Defence Staff, 4 December'.
[596] Paper by Cabinet Office Officials, 8 December 2008, 'Iraq: Arrangements for Transition'.
[597] Minutes, 9 December 2008, NSID(OD) meeting.

Mr Brown would raise those points with Prime Minister Maliki when he visited Iraq later in the month.

1019. NSID(OD) agreed that agreement to the UK's new Long-Term Strategy for Iraq would be sought out of committee.

1020. Following the NSID(OD) meeting, and in advance of Mr Brown's visit to Iraq, a DFID official wrote to No.10 detailing four investment proposals, together worth over US$5bn, which were currently awaiting agreement from the Iraqi Government.[598] The letter did not state why there had been a delay in agreeing the proposals.

1021. Mr Brown met Prime Minister Maliki in Baghdad on 17 December.[599] Prime Minister Maliki repeated his call for a wider long-term relationship, including investment and economic co-operation, and stronger cultural and educational links. He added that UK companies should invest in all Iraq, not just Basra. Mr Wareing briefed Prime Minister Maliki separately on the main investment proposals for Basra and handed over DFID's letter detailing the investment proposals awaiting an Iraqi Government response.

1022. Mr John Tucknott, Deputy Head of Mission British Embassy Baghdad from November 2007 to July 2009, described the change in the UK's relationship with Iraq and the challenge it presented to the UK Government:

> "I think Basra remained important … but the messaging that was coming out of London, which we were conveying to the Iraqis, was that we wanted to move, and this was the message that Gordon Brown gave to Maliki in December 2008 when he visited. You know, we are talking about a whole Iraq policy now. We want to do things with you which we haven't been able to do before. We want to move on to a proper footing … a less military footing.
>
> "The problem that we had in the Embassy was persuading some parts of Whitehall, some Government departments, to recognise that we were moving to this, that we wanted to increase trade, that it was important that visas were issued to students. Part of Prime Minister Maliki's education scheme was to send 10,000 postgraduates or undergraduates to go to overseas universities to study. We need to provide a proper visa regime, not the one that we cobbled together.
>
> "So that was a difficulty we faced, actually getting that message out to the wider Whitehall machinery, that Iraq is moving forwards, and if we want to play an important role in this process, we had to move with it.
>
> "Messages did get through in the end. We have got a trade and investment section now … poor old DFID were doing their best in their absence …"[600]

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[598] Letter DFID [junior official] to Fletcher, 12 December 2008, [untitled].
[599] Letter Catsaras to Gould, 18 December 2008, 'Prime Minister's Meeting with Iraqi Prime Minister, 17 December'.
[600] Public hearing, 24 June 2010, pages 116 and 117.

1023. Section 10.3 describes the growing pressure on UKTI from spring 2008 to post a Commercial Officer to Baghdad, in response to the increased interest in Iraq from UK companies.

1024. Mr Brown's Assistant Private Secretary wrote to Mr Richard Abel, Mr Mandelson's Principal Private Secretary, on 18 December informing him that Mr Brown believed, following his visit to Iraq the previous day, that there were opportunities in Iraq and interest from British companies that were not being exploited.[601] Mr Brown was convinced that there was an urgent need for a significant UKTI presence in both Baghdad and Basra, both to consolidate security gains and to ensure that UK investors had every chance to benefit from commercial opportunities in Iraq. Mr Brown asked UKTI to start planning immediately for a long-term presence in Iraq, consulting Mr Wareing and DFID.

1025. Mr Abel replied to No.10 on 16 January 2009, advising that an International Business Specialist would deploy to Iraq later that month and would make recommendations on UKTI's future footprint in Iraq by the end of March.[602] Mr Abel added: "There will be no gap in our commercial representation in Iraq."

1026. The International Business Specialist arrived in Baghdad at the end of January.[603] He was joined by a second UKTI consultant on 12 February.[604]

1027. Iraqi authorities took control of Basra Airport in January 2009; transferring control of the airport by the end of 2008 had been one of the UK's key goals for 2008. 903 Expeditionary Air Wing had operated Basra Airport since 2003.[605]

1028. Mr Brown was informed on 14 December 2008 that the transfer of control was "effectively completed".[606] Since July, the Iraqi civil authorities at Basra Airport had taken on control of air-traffic control, the airport fire brigade, and other services. The final stage would be a formal transfer of legal responsibility for Basra Airport to the Iraqi Government.

1029. Control of Basra Airport was formally transferred to the Iraqi Government on 1 January 2009.[607]

1030. During the period that Basra Airport was operated by the UK military, it received significant funding from a variety of military and civilian sources (including US CERPs and the UK's Stabilisation Aid Fund). The Inquiry has not been able to form

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[601] Letter APS/Prime Minister to Abel, 18 December 2008, 'UKTI presence in Iraq'.
[602] Letter Abel to Catsaras, 16 January 2009, untitled.
[603] Report DFID, 1 February 2009, 'Weekly Update: 1st February 2009'.
[604] Report DFID, 15 February 2009, 'Weekly Update: 15th February 2009'.
[605] Report Salmon, 15 May 2009, 'COMUKAMPHIBFOR OP TELIC 12/13 (HQ MND(SE) Post Operational Report (POR)'.
[606] Minute Lyon to Prime Minister, 14 December 2008, 'Visit to Iraq, 17 December'.
[607] Report Salmon, 15 May 2009, 'COMUKAMPHIBFOR OP TELIC 12/13 (HQ MND(SE) Post Operational Report (POR)'.

a comprehensive picture of the support provided to Basra Airport by the UK and other international partners.

Long-Term Strategy for Iraq, February 2009

1031. Mr Miliband's Private Secretary circulated a draft strategy for "UK policy towards and relations with Iraq following military drawdown" to No. 10 and the Private Offices of NSID(OD) Ministers on 13 January 2009.[608] The draft strategy had been agreed by officials from all interested departments and by Mr Miliband.

1032. The draft strategy, which is described in detail in Section 9.7, stated that the UK had a "strategic national interest in a strong, stable and non-hostile Iraq that:

- acts in accordance with international law and does not threaten its neighbours;
- provides a counterweight against Iran, ideally as a pro-Western state …;
- is able to deny AQ-I [Al Qaida in Iraq] and other terrorist groups a safe haven in its national territory;
- contributes positively to stable world energy markets by maximising its potential as a producer and exporter of oil and gas, and increases EU energy security through developing new supply routes."

1033. The draft strategy identified a number of "essential" and "highly desirable" factors for achieving the UK's strategic interest of a "strong, stable and non-hostile Iraq". The essential factors included a "functioning economy", which would require agreement on the Hydrocarbons Law. Highly desirable factors included:

- that Iraq should be "a broadly democratic state";
- that Iraq should address critical humanitarian issues, in particular the large number of refugees and displaced people; and
- that Iraq should develop a strong and open market economy.

1034. The draft strategy listed a number of elements of a future Iraq/UK relationship, including:

- Economic: the UK would help build Iraqi capacity to deliver economic growth and opportunity (DFID to lead).
- Energy: the UK would help Iraq to bring greater volumes of oil and gas to the market (FCO and the Department of Energy and Climate Change (DECC) to lead, with MOD).
- Commercial: the UK should ensure a level playing field for UK firms in Iraq (UKTI/FCO to lead).
- Education and culture: increased educational and cultural exchanges would underpin other elements of the relationship.

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[608] Letter Hickey to Catsaras, 13 January 2009, 'Iraq: Strategy', attaching Paper [draft], [undated], 'Iraq: a Review of Strategy'.

1035. The draft strategy stated that much of DFID's work in Basra would come to a "natural conclusion" by mid-2009. DFID would respond to changing conditions on the ground, but anticipated "drawing down from Basra" by that date. It would continue to provide some support to programmes through the Basra Support Office in Baghdad. DFID resources for Iraq would reduce from £25m in the current financial year (2008/09) to £20m in 2009/10 and £10m in 2010/11.

1036. The Stabilisation Aid Fund (SAF) and the FCO's Peace-Keeping Budget (PKB) were essential sources of funding for UK programmes in Iraq. There was unlikely to be any PKB funding for Iraq in 2009/10. MOD, DFID and FCO officials were reprioritising the £15m SAF allocation for Iraq for 2009/10, to support "initiatives which support key Prime Ministerial deliverables" and the Rule of Law.

1037. Mr Alistair Darling, Chancellor of the Exchequer, Mr John Hutton, the Defence Secretary, and Mr Alexander confirmed their agreement to the strategy.[609]

1038. Mr Donal Brown informed the 4 February meeting of the ISG that the US would take over the Basra PRT on 31 March.[610] The US had agreed to retain programmes that were important to UK objectives.

1039. On 9 February, Mr Brown's Assistant Private Secretary told the Private Secretaries to Mr Miliband and Lord Mandelson that Mr Brown had endorsed the strategy, which was consistent with the approach described to Parliament on 18 December.[611]

1040. Mr Brown remained "keen to ensure maximum savings as we move to a normal bilateral relationship", but agreed that:

> "… the UK will retain an important strategic interest in the emergence of a stable and prosperous Iraq, able to contribute to regional stability and global energy security; and that we will have important bilateral interests in Iraq which need to be secured and promoted …
>
> "In particular, the Prime Minister continues to believe that improving trade and investment in Iraq is key both to consolidating the security gains that have been made, and ensuring UK investors are able to benefit from the opportunities in Iraq … We also need to ensure that investors in Basra continue to be supported as our military hands over to US."

1041. A planned visit by Prime Minister Maliki to the Invest Iraq Conference in London at the end of April would be "an important milestone for showcasing progress in the transition to a new relationship with Iraq".

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[609] Letter Jordan to Hickey, 26 January 2009, 'Iraq Strategy'; Letter Ferguson to Catsaras, 29 January 2009, 'Iraq: Strategy'; Letter Wright to Catsaras, 5 February 2009, 'Iraq Strategy'.
[610] Record, 4 February 2009, Iraq Strategy Group meeting.
[611] Letter Catsaras to Hickey and Abel, 9 February 2009, 'Iraq Strategy'.

1042. Lord Mandelson visited Iraq on 6 April, at the head of a delegation of 23 companies.[612] The objectives of the visit included:

- underlining the UK's commitment to building a new broad-based, long-term partnership with Iraq, with a strong emphasis on economic and trade co-operation;
- countering Iraqi complaints (from Prime Minister Maliki and others) about the lack of interest from UK business, while assisting the business delegation to build contacts with Iraqi Ministers and members of the Iraqi business community; and
- supporting UK companies pursuing business in Iraq.

1043. In Baghdad, Lord Mandelson and the delegation met Prime Minister Maliki.[613] Mr Prentice reported that the meeting had been "entirely positive" and a "powerful demonstration of the new civilian focus to our bilateral relationship".

1044. In Basra, Lord Mandelson and the delegation attended an investment conference at Basra Airport.[614] Mr Haywood reported that the event had been "timed perfectly" so that the UK could "demonstrate that whilst the military were drawing down, the UK's commitment to Basra continued". The mood at the event had been "optimistic", reflecting the mood in Basra: recent polling showed that over 80 percent of Basrawi businesses thought that the economic environment had improved over the past year and would continue to improve.

1045. The Iraqi National Investment Commission, with support from DFID, hosted the Invest Iraq Conference in London on 30 April.[615] Mr Prentice described the Conference as the UK's "headline initiative … demonstrating in a practical way our desire for a new and normalised bilateral relationship".

1046. Mr Brown made a statement to Parliament on the UK's involvement in Iraq on 15 June.[616] He reported that the objectives set out in his statement of 18 December, including "to promote the reconstruction of the country, economic growth and basic services", "were being achieved". On reconstruction, Mr Brown said:

> "Since 2003, the UK has spent more than £500m in Iraq – for humanitarian assistance, infrastructure and promoting economic growth. Support to the health sector has included 189 projects in Basra, including the refurbishment of Basra general hospital and the building of Basra children's hospital. As a whole, the

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[612] Briefing, [undated], 'Visit of the Rt Hon Lord Mandelson to Bahrain, Kuwait, Iraq, Abu Dhabi and Dubai, 5 – 8 April 2009'.
[613] eGram 12764/09 Baghdad to FCO, 8 April 2009, 'Iraq: Lord Mandelson's Visit to Baghdad, 06 April 2009'.
[614] eGram 12607/09 Basra to FCO London, 7 April 2009, 'Iraq: Lord Mandelson's Visit to Basra, 6 April'.
[615] eGram 15041/09 Baghdad to FCO London, 28 April 2009, 'Iraq: Invest Iraq Conference, London – 30 April – 1 May.
[616] House of Commons *Official Report*, 15 June 2009, columns 21-23.

international community has rehabilitated more than 5,000 schools. Despite high unemployment and the scale of the global recession, economic growth in Iraq this year is predicted to be nearly seven percent.

"Significant challenges remain, including that of finding a fair and sustainable solution to the sharing of Iraq's oil reserves, but Iraq's future is now in its own hands …

"At the core of our new relationship … will be the diplomatic, trading and cultural links that we are building with the Iraqi people, supporting British and other foreign investors who want to play a role in the reconstruction of southern Iraq."

Resources available for reconstruction

1047. The table below sets out UK expenditure on humanitarian assistance and development assistance (reconstruction) by UK financial year.

Table 2: UK expenditure on humanitarian and development assistance (£m)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Humanitarian and development assistance[621]									
Humanitarian assistance	19	110	21	5	10	20	16	8	209
Development assistance		99	27	82	39	20	17	13	297
Imputed share of multilateral aid		11	11	6	14	9	14	8	73
Sub-total	**19**	**220**	**59**	**93**	**63**	**49**	**47**	**29**	**579**

1048. DFID provided £297m for reconstruction and a further £209m for humanitarian assistance in Iraq between 2002/03 and 2009/10. Iraq was DFID's largest bilateral programme in 2003/04, when DFID spent a total of £220m. That included a £110m contribution to the humanitarian relief effort following the invasion and a £70m contribution to the World Bank and UN Trust Funds (which would be spent by the World Bank and UN in subsequent years). The size of DFID's programme decreased over the following years.

1049. In addition, UK forces in MND(SE) spent £38m from UK funds on Quick Impact Projects (QIPs).[618]

1050. It is not possible, from the information available to the Inquiry, to produce a definitive breakdown of the allocation of DFID funding between national programmes and programmes in the South. The Inquiry calculates that, from 2003/04 to 2007/08,

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[617] Letter Cabinet Office [junior official] to Aldred, 1 July 2011, 'Iraq Inquiry: request for further information on funding'.
[618] Paper DFID, January 2010, 'DFID Non-Humanitarian Spend by Region'.

between 76 percent and 52 percent of DFID funding was allocated to programmes in the South.[619] DFID's expenditure in the South peaked in 2005/06.

1051. UK forces also had access to significant amounts of US funding from the Commander's Emergency Response Program (CERPs) to spend on urgent relief and reconstruction needs.

1052. The Government has not been able to provide a full breakdown of the amount of CERPs funding used by UK military commanders, but it appears to have been greater than the total amount provided by the UK for reconstruction. The US allocated US$66m from CERPs to MND(SE) in 2005/06.[620] In the same year, in MND(SE), DFID spent some £35m on infrastructure and job creation[621] and the MOD spent £3m on QIPs.[622]

1053. By April 2009, the US had spent or allocated to ongoing projects US$351m from CERPs in MND(SE), and spent or allocated to ongoing projects some US$3.3bn from all sources in MND(SE).[623] Over the same period, in MND(SE), DFID spent at least £100m[624] and the MOD spent £38m on QIPs.[625]

1054. UK funding was also available for Iraq from the Global Conflict Prevention Pool (and subsequently the Stabilisation Aid Fund and the Conflict Pool). Most of that funding was allocated to Security Sector Reform (see Section 12). The table below sets out expenditure from the Pools.

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[619] Calculation excludes DFID funding for humanitarian assistance, the World Bank and UN Trust Funds, and programme support cost such as security, accommodation and communications. It is not possible to produce a reliable estimate of the proportion of the funding provided for those purposes that related to the South.
[620] Briefing, October 2006, 'PQ06267S: CERP Funds FY06 (1 Oct 05 – 30 Sep 06)'.
[621] Calculation excludes DFID funding for humanitarian assistance, the World Bank and UN Trust Funds, and programme support cost such as security, accommodation and communications. It is not possible to produce a reliable estimate of the proportion of the funding provided for those purposes that related to the South.
[622] Paper DFID, January 2010, 'DFID Non-Humanitarian Spend by Region'.
[623] Special Inspector General for Iraq Reconstruction, *Quarterly Report and Semiannual Report to the US Congress*, 30 July 2009.
[624] Calculation excludes DFID funding for humanitarian assistance, the World Bank and UN Trust Funds, and programme support cost such as security, accommodation and communications. It is not possible to produce a reliable estimate of the proportion of the funding provided for those purposes that related to the South.
[625] Paper DFID, January 2010, 'DFID Non-Humanitarian Spend by Region'.

Table 3: UK expenditure from the Conflict Pools (£m)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Interdepartmental Conflict Pools[630]									
GCPP		5	16	15	20	16			72
Stabilisation Aid Fund							19		19
Conflict Pool								11	11
Total		**5**	**27**	**32**	**35**	**22**	**26**	**12**	**159**

1055. SIGIR reported in July 2009 that, as at June 2009, a total of nearly US$140bn had been allocated for the relief and reconstruction of Iraq.[627] That comprised:

- US$71bn from Iraqi capital budgets and the Development Fund for Iraq (DFI);
- US$52bn from the US; and
- US$17bn from other international donors.

1056. The US allocation included US$21bn from the Iraq Relief and Reconstruction Fund (IRRF), US$18bn from the Iraq Security Forces Fund, US$4bn from the Economic Support Fund and US$3.6bn from the CERPs.

Reflections on the impact of the UK's reconstruction effort

1057. From the available information, it is not possible fully to assess the impact of the UK's reconstruction effort.

1058. One difficulty is that the Government never defined what contribution reconstruction should make to achieving broader UK objectives and so what would constitute success or failure.

1059. The environment in Iraq made reconstruction very difficult. For almost all of the period covered by the Inquiry, insecurity was the major constraint. Other constraints were:

- the lack of capacity within the Iraqi Government, both in Baghdad and the South, to support and lead reconstruction;
- the form and implementation of de-Ba'athification;
- the politicisation of Iraqi institutions, and corruption;
- the series of relatively short-lived Iraqi administrations between 2004 and 2006 (with limited remits to initiate reform and an inevitable churn of Ministers and senior officials);

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[626] Letter Cabinet Office [junior official] to Iraq Inquiry [junior official], 1 December 2011, 'Iraq Inquiry: Funding'.
[627] Special Inspector General for Iraq Reconstruction, *Quarterly Report and Semiannual Report to the US Congress*, 30 July 2009.

- an international community which, because of the circumstances of the invasion, was not fully invested in the reconstruction of Iraq; and
- the persistent lack of co-ordination between the Iraqi Government and international partners, and between international partners.

1060. Staff and contractors developed a number of approaches to managing the risks inherent in working in such an environment:

- using innovative techniques to deliver projects, such as working through local Iraqi contractors, using the military (who were more frequently able to visit project sites) to manage and monitor projects, and helping the Ministry of Finance to set up an office inside the International Zone in Baghdad within which international consultants could work;
- systematically tracking poor performance;
- adapting delivery methods to reduce fiduciary risk; and
- building clear exit strategies into projects, including dedicating significant effort to bringing in other donors.

1061. The Inquiry recognises the dedication and skill of the staff and contractors who worked in Iraq, often in discomfort and at personal risk.

1062. Witnesses to the Inquiry and contemporary documents identify three areas in particular where the UK had made a significant contribution to Iraq's reconstruction:

- building Iraqi capacity at the centre of government (including the Prime Minister's Office and the Cabinet Office), and strengthening the linkages between Baghdad and the provinces;
- building the capacity of the provincial administration in Basra; and
- building the capacity of successive Iraqi Governments to manage the economy (including the launch of a new Iraqi currency in 2003) and engage effectively with the IMF.

1063. The Inquiry met a number of senior Iraqi politicians and officials, and asked them for their views on the UK's reconstruction effort. DFID's focus on building Iraqi Government capacity to plan and manage was recognised and welcomed. That was contrasted with short-term activities, including building schools and hospitals, which Iraq could do for itself.

1064. In Basra, the Inquiry was told that there was little to show for the UK's reconstruction effort. A small number of projects were identified as continuing to have a positive impact, including:

- training in the UK delivered by the PRT;
- job creation programmes supported by DFID; and
- improvements to the sewerage system supported by the UK military.

Key economic and social indicators

1065. It is possible to consider the impact of the international community's reconstruction efforts in Iraq by looking at the changes in a number of key indicators. The table below presents selected economic and social indicators.

1066. In relation to the economy:

- Electricity production fell from around 4,000 megawatts (MW) per day before the invasion to 500MW in May 2003 (immediately after the invasion), before recovering to around 4,000MW in June 2004 (the transition to a sovereign Iraqi Government).[628] By July 2009, production was around 6,000MW.
- Oil production fell from around 2.9m barrels a day (bpd) before the invasion to around 0.3m bpd in May 2003, before recovering to 2.3m bpd by June 2004. By 2009, production remained below pre-conflict levels.

1067. The under-five mortality rate fell from 42 to 38 (per 1,000 live births) between 2003 and 2009. Other key social indicators remained stable.

1068. Perceptions of corruption in Iraq worsened between 2003 and 2009. Iraq fell from 113th out of 133 countries surveyed for Transparency International's Corruption Perceptions Index in 2003, to 176th out of 180 countries surveyed in 2009.

1069. The UN's 2009 Common Country Assessment concluded that, while Iraq had fulfilled its constitutional mandate requiring 25 percent of Parliamentary seats to be filled by women, women remained under-represented at higher levels within the public sector and government.[629] Women also had higher illiteracy levels than men, participated in smaller numbers in the labour force, were paid less and were segregated into certain occupations. A disproportionate number of households in poverty were headed by women.

[628] Brookings, Iraq Index, *Electricity.*
[629] UN, 2009, *Common Country Assessment: Iraq.*

Table 4: Iraq: selected economic and social indicators

	1989	2002	2003	2004	2009
GDP at market prices (current US$bn)[634]	65.6	n/a	n/a	36.6	111.7
GDP per capita GDP (current US$)[635]	3,850	n/a	n/a	1,391	3,725
Electricity production (megawatts)[636]		3,958	500 – 3,456	4,030	5,700
Oil production (million barrels per day)[637]	2.90	2.02	1.31	2.01	2.39
Under-five mortality rate[638]	55	43	42	42	38
Primary school enrolment, both sexes (%)[639]	90	n/a	94	93	92
Employment (%)[640]	43	43	43	43	44
Corruption[641]	n/a	n/a	113/133	129/146	176/180

[630] World Bank, Data, [April 2016], *Iraq: GDP at market prices (current US$).*
[631] World Bank, Data, [April 2016], *Iraq: GDP per capita (current US$).*
[632] Brookings, Iraq Index, *Electricity.* Figure for 2002 is a estimated pre-war level.
[633] US Energy Information Administration website. *Iraq Crude Oil Production by Year.*
[634] World Bank, Data, [April 2016], *Iraq: Mortality rate, under-5 (per 1,000).* Under-5 mortality rate is a leading indicator of the level of child health and overall development in countries.
[635] World Bank, Data, [April 2016], *Iraq: Net enrolment rate, primary, both sexes (%).* Figure for 2009 relates to 2007 survey.
[636] World Bank, Data, [April 2016], *Iraq: Labor force participation rate, total (% of total population ages 15-64).*
[637] Transparency International, *Corruption Perceptions Index (CPI).* Iraq was not included in the CPI before 2003. The CPI draws on multiple data sources.