

FROM:

Ext:

DATE: 31 October 2002

CC: Carolyn Miller
Alistair Fernie

To: Tom Dodd CO

Economic issues in Iraq after regime change: Internal Policy and External Engagement.

1. I received the above paper, which was written by , and was asked for any comments. I subsequently discussed with and I would like to offer the following:

Transition

2. Disruption to the food distribution system during war would have severe consequences for an already fragile humanitarian situation. UNSCR 986 has created unprecedented levels of dependency, especially in Northern Iraq. Any unplanned changes to the existing food ration and its distribution systems would dramatically increase economic hardship and food insecurity, with potentially disastrous consequences given the already high proportion of poverty. It is therefore vital during the transition phase that food a distribution system (based on an **expanded** food ration system) is resumed as early as possible, with flexible and rapid delivery structures and UN oversight. I would strengthen the recommendation that there should be a **switch from external to local food procurement**, as this is fundamental in reducing the risk of food insecurity once the food ration is brought to an end. I would also strengthen the recommendation that priority be given in the transition phase to maintaining and developing the **agricultural sector** to expand and sustain domestic production, including through related service and infrastructure provision.

Northern Iraq/ economic federalism

3. 60% of the population in northern Iraq is living in dire poverty. 20% are entirely reliant on the food ration and have virtually no access to income. The poor have little capacity to expand to other coping strategies and economic activities. Therefore careful thought is needed on how to manage the transition towards "normal" economic activity and how economic regeneration could take place.

4. I strongly support the recommendation for the **integration of Northern Iraq into a more federal economic structure**, with decisions made at an early stage of how to share oil and other budgetary revenues. It is my

impression from discussion with independent experts on Iraq, that securing access to oil and other budgetary revenues would help contain any Kurdish separatist tension. On longer-term issues, DFID are already in the process of providing support to a capacity building project in Northern Iraq, through IMC consulting, to develop the strategic planning capacity of the Kurdish Regional Authorities. The purpose of the project is to prepare regional economic development strategies and sector plans. The project is not yet in its implementation phase, although extensive dialogue has already been undertaken with the PUK and KDP and civil society in the region, strengthening local ownership. Its implementation should form part of any externally led and broader development strategy for northern Iraq.

Other issues: Revised Oil for Food Programme?

5. There is a need to dovetail humanitarian relief efforts with a transition phase, reconstruction and longer-term reform. The Cabinet Office paper of 31 October discusses the option of restarting a version of OFF as soon as possible post regime change. This could provide the necessary links between provision of humanitarian assistance and development programmes but would require significant improvement to the way OFF is currently run. Any revised version of OFF should incorporate **development planning** (sector development, economic planning and strategy), provide a clear structure of roles and responsibilities between external administration, and internal delivery and management, and provide channels for supporting government administrative and planning structures (possibly making plans to transfer the management responsibility of OFF to a new government.)

Economist
Middle East and North Africa Department
DFID