Chapter 10

How Department of Defense Spending Was Used to Resuscitate Local Business

A Select History of Civilian-Military Engagement in Iraq

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Introduction

Early 2006 was an especially challenging period for the United States as Operation Iraqi Freedom (OIF) entered its third year. The numbers of attacks on coalition forces and Iraqi casualties reached record levels.[1] The bombing by militants of the al-Askari Mosque, one of Shi'a Islam's most revered shrines, triggered a spate of retaliatory killings between the country's Sunni and Shiite Muslim communities that analysts feared had ushered in an era of Iraqi civil war.[2] Additionally, a major study commissioned by the US Congress found that, despite tens of billions of dollars spent by the US government on reconstruction projects, results were anything but indicative of success.[3] Pentagon leadership actively sought new means of stabilizing the country.

In June of that year, Gordon England, deputy secretary of defense, ordered the creation of the Task Force for Business and Stability Operations to facilitate Iraq's economic revitalization. To encourage new thinking on the application of economics-based programs as a means of stabilizing the country, he sought to incorporate a private-sector perspective largely absent from other US reconstruction and development initiatives. He selected as task force director a former JDS Uniphase Corporation chief information officer, who, in turn, appointed former private-sector executives from corporations including Nortel Networks and IBM to other senior organizational positions.

The task force initially focused on restarting select state-owned enterprises that had been shuttered following the US invasion but quickly expanded its activities. Rather than undertaking large-scale reconstruction projects or limiting focus to particular Iraqi provinces, as was typical of US reconstruction efforts at that point, task force leadership sought to create conditions that would cultivate private-sector activity in the hope that commercial enterprise would eventually minimize the need for governmental efforts to stabilize and develop the country's economy.[4]

In its role as a business development agent, the task force undertook a variety of measures, which included building the capacity of Iraq's National Investment Commission, brokering the country's first private investments in Iraq's state-owned enterprises, and providing support and materials that aided the emergence of hundreds of agricultural enterprises within the country. A subset of these business development initiatives included directing US military spending on goods and services toward Iraqi firms, helping to establish a modern banking system within the country, and facilitating foreign direct investments by major multinational corporations within targeted sectors of the country's economy.

Programs within this more limited set were unique in that they leveraged in different ways billions of dollars' worth of existing military procurement spending that was necessary to sustain military operations. Such programs evolved through significant cooperation among officials from the task force and defense agencies responsible for contracting and business-systems development, US military contracting officers, and various civilian partners, including officials from the US Department of the Treasury (Treasury), Iraqi Ministry of Finance, and Iraqi National Investment Commission, Iraqi bank executives, and corporate executives of major multinational corporations.

These programs and the specific forms of civilian-military collaboration that underpinned them are described in the following sections. The conditions under which these initiatives emerged were much the result of unique cooperative arrangements between defense agencies that may be unlikely to rematerialize naturally during possible future conflicts given bureaucratic reorganizations that have since taken place. Therefore, if the Department of Defense (DOD) is to apply initiatives in future operations similar to those described in this chapter, plans should be developed that would allow for the rapid establishment of intradepartmental and interagency collaboration necessary to facilitate the appropriate public-private partnerships. Because the task force initiatives described were made possible by, and indeed were a reaction to, the large spending levels inherent to operations within a theater of significant troop deployment, this piece serves specifically to inform future stabilization operations in which the United States has deployed substantial numbers of troops, civilians, or contractors.

Iraqi First

For years following the initiation of OIF, the US military relied largely upon complex supply lines originating out of the United States and countries neighboring Iraq to sustain the war effort. Yearly spending on goods and services required to maintain operations in theater amounted to billions of dollars. Following the end of major hostilities, US Central Command's (USCENTCOM) primary contracting entity, Joint Contracting Command–Iraq (JCC–I, later Joint Theater Support Contracting Command [JTSCC]), entered each year into contractual commitments worth billions of dollars with US and other non-Iraqi firms.[5]

As the insurgency in Iraq developed, DOD officials increasingly recognized the untapped potential that existed to stimulate host-nation business by contracting directly for goods and services offered by Iraqi firms. In 2006, George Casey, former Army chief of staff and then commanding general for Iraq, requested that the director of JCC–I establish a local contracting program.

For contracting officials of JCC–I, the case for local procurement, while distinct, was great. The practice of purchasing locally offered savings to contracting officials, for whom cost considerations were second only to ensuring the timely provision of goods and services to the troops whom they were entrusted to serve. Prices for goods that were produced locally or imported from neighboring countries did not reflect the cost of transportation as did goods originating from the United States. Significantly, not all savings were strictly monetary. Materials shipped into and within Iraq by US military forces required protection against attack, subjecting US service personnel to the dangers associated with travel within the country.

JCC–I, however, lacked the capabilities necessary to establish the local procurement program requested. The command lacked sufficient Iraqi business relationships to undertake local procurement on a meaningful scale. Moreover, during the initial years of the conflict, US military contracting officials had relied on a vendor database that included virtually no Iraqi firms. Iraqi vendors were generally unaware of specific business opportunities with the US military, and those Iraqi executives who attempted to engage in business with the US military encountered difficulties associated with fulfilling vendor registration requirements developed for the US business community that often proved insurmountable.

Because of these difficulties, the JCC–I director solicited the assistance of the task force. In his role as the Business Transformation Agency (BTA) codirector, the task force director instructed members of that agency to design the necessary business systems to support a local procurement strategy. Simultaneously, the task force augmented its efforts to develop a local purchasing program by deploying 14 host-nation business advisors to regional contracting commands throughout Iraq who were charged with developing relations with Iraqi vendors on behalf of the US military. Utilizing contact details obtained from Iraqi chambers of commerce and business centers, these advisors engaged in a major telephone and e-mail campaign to apprise Iraqi business owners of commercial opportunities with the military. They also played an important cultural role during this period of outreach, in part by seeking to dissuade their audiences from adhering to edicts issued by radical Islamic clerics that banned engagement with members of the coalition.

These initiatives laid the groundwork for the large-scale initiation of local purchasing. As regional contracting commands forged relations with members of local business communities, web-based BTA systems were introduced to Iraqi vendors, permitting them to view and respond to US military solicitations. Meanwhile, the advisors held seminars throughout Iraq at which they trained on the process and procedures of contracting with the US military. The business systems gathered basic Iraqi vendor information and the cost, schedule, and performance of vendor activities, creating a database that US contracting officials throughout the country could consult for a variety of goods and services.

In the years that followed, procurements from local businesses increased considerably, and decision makers introduced a similar program relying upon the same business systems in Afghanistan. By the end of 2011, the JTSCC had made approximately $10 billion in contractual obligations for various commodities, construction projects, and services from more than 6,000 private Iraqi and Afghan businesses.[6] This figure represents more than just the dollar value the DOD has contributed to spurring host-nation business activity within both countries. The local firms successfully executed the vast majority of the contracts they were awarded.[7]

Following completion of his assignment as director of JCC–I, Maj Gen Darryl Scott was appointed deputy director of the task force and, later, of the BTA. This assignment served to promote continued cooperation among the task force, BTA, and JCC–I on the Iraqi and Afghan First programs. It also aided in subsequent efforts to improve Iraq's banking sector and to create conditions conducive to international investment in Iraq. The former JCC–I director applied his expertise of the Defense Federal Acquisition Regulations to assist the task force and BTA to continue to leverage departmental spending on the war effort to encourage Iraqi private-sector development.

Banking

An underdeveloped Iraqi banking sector presented a specific challenge to task force officials who sought to generate business in the country. Iraq's government had nationalized the banking system in 1964, and the government did not license private banks to operate until the early 1990s.[8] Even then, however, strict deposit reporting requirements remained in effect, and private banks were not allowed to open correspondent accounts until much later. According to the task force, a "lack of activity in the banking sector of the last 50 years . . . [and frequent government raids] for any accumulated hard currency bank notes" contributed to "low loan to deposit ratios" in Iraqi banks.[9] From the organization's perspective, this was problematic on two levels. First, limited borrowing opportunities stifled domestic private-sector reconstruction activities. Second, despite these restrictions, it was important for Iraqi firms to deposit their proceeds with Iraqi banks in order to make use of electronic funds transfer (EFT) capabilities, which the task force and US Treasury leadership saw as critical to attracting investments by major multinational corporations and creating a climate wherein small and medium enterprises could effectively meet the needs of Iraq's government.[10]

The US Treasury had deployed a team of specialists to Iraq to assist local bank officials in promoting such capability. These officials worked with members of the Central Bank of Iraq to implement a Real Time Gross Settlement System and Automated Clearing House for Iraqi banks. Yet once these systems were in place, Iraq's bank and business executives were loath to adopt EFT practices. While the Central Bank assessed no fee for domestic interbank transfers, Iraqi bank and business executives had few incentives to adopt the new technology. These individuals were accustomed to conducting their business affairs in cash, and the immediate benefits of adopting EFT practices were unclear. Further complicating matters, bank officials were often reluctant to cooperate with one another, citing privacy issues and risk of customer flight.[11]

Task force officials recognized, however, that the US military was well positioned to alter the incentive structure facing many Iraqi firms. By the time task force officials turned their attention to Iraq's banking sector, business between the US military and Iraqi firms had grown considerably. Thousands of Iraqi firms held contracts with the military, but nearly all payments on such contracts were made in cash.[12] The military, task force leadership reasoned, could condition future business with Iraqi firms on their adoption of payment by EFT.[13]

From the military's perspective, Iraqi firms' limited use of banking services was problematic. Iraqi vendors without accounts could be paid only in cash for goods and services provided. Payment in cash was logistically burdensome for both US military contracting authorities and the Iraqi vendors with whom they did business. Cash payment reduced the efficiency with which contracts could be processed. And, for members of the military's intelligence apparatus, payment in cash obscured efforts to track the flow of finances within the country.

Yet despite the shared recognition by civilian-military officials of the benefits of banking services, technical barriers existed to prevent the implementation of a program by which the US military could pay Iraqi firms through EFT. While task force banking specialists were qualified to provide Iraqi banks with the technical guidance necessary to establish EFT capability throughout the country and contracting authorities could introduce EFT payment conditions into future contracts, incorporating EFT payment to Iraqi vendors into DOD business systems required structural modifications. The task force director made use of his position with the BTA to remedy this matter by directing that agency to assume responsibility for necessary accounts-payable restructuring, an initiative that also attracted the support of the Defense Finance and Accounting Service and the Department of the Army's Finance Command.

Once the necessary systems and procedures were in place, instructions were issued to contracting officials mandating that payment to any firm for contracts valued at more than $50,000 be paid through EFT; six months later, the contract value threshold for required EFT payment was further reduced to $25,000.[14] Within a period of less than four months of establishing EFT capabilities for 10 banks in Iraq, the US military successfully transitioned from paying approximately 90 percent of its contracts in cash and the remaining 10 percent through EFT to paying 10 percent in cash and the remaining 90 percent through EFT.[15] Task force personnel eventually helped 11 Iraqi banks establish EFT capabilities within a total of 256 branches throughout Iraq. As a point of illustration, in calendar year 2007, more than $420 million in US military contracts in Iraq were paid in cash.[16] By the end of the following year, that number had decreased to less than $100 million, while the US military made nearly a half billion dollars in EFT payments to Iraqi firms.[17] And the benefit to the banking system was ultimately quite positive, particularly in the encouragement of financial intermediation.

Corporate Development

While the task force undertook efforts to funnel business to Iraqi firms and develop the country's banking infrastructure, a separate group of task force employees sought to broker investments by major multinational corporations in Iraq. Such investments, it was hoped, would create employment opportunities for Iraqis and establish a critical supply of goods and services to the postwar Iraqi government and private sector. Executives of various corporations indicated that their respective firms were likely to establish operations in Iraq once exposure to political and security risk was deemed sufficiently minimal.[18] Yet many executives judged risk estimates too great to warrant market entry over immediate time horizons. The task force thus sought to change conditions for the firms in a manner that would expedite their (re)entry into Iraq.

From a development perspective, task force personnel recognized that modifications to the Iraqi First program could be made whereby planned spending on various goods and services in support of military operations could be leveraged to encourage development of critical sectors of the Iraqi economy and further stimulate local economic activity. Specifically, contracts could be extended to multinational firms willing to partner with host-nation businesses to produce a good or service locally for US forces that would otherwise be imported. In this way, spending on procurements could be directed to promote the targeted development of economic sectors deemed critical to US economic stabilization and development objectives for Iraq while ensuring that coalition requirements in theater remained satisfied. For certain corporate executives, the contractual guarantees were sufficient incentive to move their firms forward with establishing Iraq-based operations. And for military contracting officials, such investments were advantageous for the cost reductions they offered, as described previously with respect to the Iraqi First initiative. Moreover, such initiative promised to satisfy a primary goal of the Iraqi First mandate: development of "vocational, trade skills, and business management training to the vendors . . . [in order to] build valuable skills in the Iraqi workforce that are critical for long-term economic growth."[19] To ensure the greatest benefit to the host-nation labor force, military contracts issued to foreign corporations that would partner with host-nation businesses could be written to include features designed to promote human-capital development.[20]

Enterprising contracting officers successfully applied this concept of utilizing contractual guarantees to encourage the formation of joint ventures in Iraq, although on a somewhat limited and ad hoc basis. Under the advice of task force personnel, US military contracting officials leveraged appropriated funds in the form of sole-source contracts to facilitate foreign direct investments by Fortune 500 firms within industrial sectors of the domestic economy. Through such efforts, major industrial corporations developed operations in Iraq in partnership with Iraqi firms. For example, Cummins, Inc. and Iratrac, Caterpillar's sole authorized dealer for Iraq, established generator repair services for tens of thousands of worn US and Iraqi-held diesel generators.[21]

Task force members also recognized that the Iraqi First program could be expanded through appropriate contractual modification so as to facilitate, where appropriate, the transfer of critical, modern infrastructure established in support of US military operations in theater to the Iraqi public/private sector. Such a concept was successfully applied in the area of water purification and bottling.

For years following the coalition's invasion of Iraq, incidents of cholera and typhoid afflicted Iraqi communities, where dilapidated water and sewage treatment plants had grown dysfunctional or were damaged by attack.[22] Yet potable bottled water produced by modern purification and bottling facilities constructed in country and operated by a US firm under contract with the DOD was widely available to military personnel throughout the country. Problematically, military contracting regulations prohibited the US firm from selling excess product to the Iraqi government or private sector.

Under the advice of task force officials, military contracting authorities amended the terms of the firm's contract to permit product sales to Iraqi consumers, laying the groundwork for commercial operations and transfer of the firm's treatment and bottling plants and other infrastructure constructed on US military installations to the Iraqi private sector and government.[23]

Conclusion

The efforts of the DOD during OIF included the unique application of military spending to advance business revitalization efforts as part of a broader initiative to combat insurgency through a campaign of reconstruction and stabilization.[24] The link between economic activity and strength of insurgency in Iraq remains a point of contention and matter of continued academic inquiry.[25] Nevertheless, these initiatives had a direct and significant effect on Iraq's business environment. For this reason, defense leaders may wish to reemploy some variety of these capabilities in future operations either because future studies demonstrate their effectiveness against insurgency or because US officials seek to generate local business activity for other purposes (as in, for instance, a post–disaster relief-setting in which large numbers of US military units have been deployed to assist).

To ensure that defense officials can employ the type of business development initiatives described in this piece in future operations, such programs should be established through proper planning as an enduring feature of emerging US stability operations. Unless these programs are supported by the DOD's extensive human and financial resources and business systems and are capable of being deployed worldwide, future operations in which such capabilities could be of benefit are likely to suffer the same limitations of ad hoc engagement and delayed development time that plagued US efforts in Iraq.

The task force director's concurrent role as codirector of the BTA allowed for the development of critical business systems capabilities that made various business revitalization initiatives possible. And the task force's unique relationship with JCC–I, US CENTCOM's primary in-theater contracting entity, created conditions under which contracting officials governed by strict US contracting regulations could effectively drive business revitalization initiatives. Yet such unique circumstances are unlikely to exist during possible reconstruction and stabilization efforts in which the DOD may someday be engaged.

The BTA no longer exists as an agency. As part of an initiative to reduce DOD costs, Robert Gates, the former secretary of defense, announced in August 2010 the planned closure of the agency. While certain BTA functions, including support for the war fighter, endured, they were transferred to other departmental entities, including the Office of the Deputy Chief Management Officer and the Department of the Army. Moreover, unlike the first JCC-I director who assumed positions with the task force and BTA upon completion of his assignment with the command, his successors did not establish such relations with either entity. Meanwhile, the task force also experienced organizational shuffle. While overseen throughout OIF by the deputy secretary and, later, the secretary, the organization was repositioned under the Office of the Under Secretary of Defense for Policy following the task force director's resignation from office. More importantly, it is uncertain that the task force will continue to operate beyond the planned cessation of major military operations in Afghanistan.[26]

While some of the programs developed to revitalize business in Iraq were incorporated into ongoing reconstruction and stabilization efforts in Afghanistan, as US forces are withdrawn from Afghanistan in accordance with the administration's plans to end combat operations in the country, these remaining business-development programs will likely be terminated. Unfortunately, no plan currently exists by which such business-revitalization initiatives could be applied to future operations. Even if the capabilities that existed within the task force, BTA, and JTSCC were to remain resident within the department, those familiar with federal bureaucracies can appreciate the difficulties that would effectively obstruct reemploying such during future operations without formal guidance and procedures in place for doing so.

If the United States is to apply public-private partnerships of this sort effectively in future operations, it must establish them through proper planning as an enduring structural feature of emerging US stability operations. And unless the DOD's extensive human and financial resources and business systems support such programs and those programs are capable of being deployed worldwide, future operations in which such capabilities could be of benefit are likely to suffer the same limitations of ad hoc engagement and delayed development time that plagued US efforts in Iraq.

Notes

1. For data on insurgent attacks, see the Multi-National Corps–Iraq SIGACT-III dataset used in Eli Berman, Jacob N. Shapiro, and Joseph H. Felter, "Can Hearts and Minds Be Bought? The Economics of Counterinsurgency in Iraq," *Journal of Political Economy* 119, no. 4 (2011): 766–819. For data on civilian casualties, see Luke N. Condra and Jacob N. Shapiro, "Who Takes the Blame? The Strategic Effects of Collateral Damage," *American Journal of Political Science* 56, no. 1 (2012): 167–87.

2. Edward Wong, "A Matter of Definition: What Makes a Civil War, and Who Declares It So?," *New York Times*, 26 November 2006, http://www.nytimes.com/2006/11/26/world/middleeast/26war.html?pagewanted=all&_r=0.

3. James A. Baker III and Lee H. Hamilton, *The Iraq Study Group Report* (New York: Vintage, 2006).

4. The task force was not the only US government entity to engage in efforts to promote private-sector development within Iraq. The Department of Commerce's Iraq Investment and Reconstruction Task Force and Overseas Private Investment Corporation, for instance, were actively engaged in this regard. This piece, however, deals specifically with a particular set of business revitalization efforts led by the Task Force for Business and Stability Operations.

5. Joint Theater Support Contracting Command Contracting Actions, US Central Command, "Army Business Center for Acquisition Systems," 2011, https://secleebiis.army.mil.

6. Ibid., 5.

7. Ibid.

8. The Louis Berger Group, Inc., *Investor Guide of Baghdad*, report prepared for the US Agency for International Development, 2011, http://export.gov/iraq/static/Investor%20Guide%20of%20Baghdad_Eng_Final_Latest_eg_iq_041335.pdf.

9. Mary "Kat" Woolford and Hemin Qazi, "Electronic Funds Transfer (EFT) and the State of Banking in Iraq"(presentation to Multi National Corps–Iraq, Economics and Governance section, Task Force for Business and Stability Operations, 21 June 2009), 8.

10. Kristopher Haag, deputy director of the Task Force for Business and Stability Operations, interview by author, Washington, DC, 19 August 2011.

11. Woolford and Qazi, "Electronic Funds Transfer," 10.

12. Ibid.

13. The number of Iraqi firms with which the US military was then doing business was growing rapidly. In 2007, for instance, the US military contracted with roughly 5,000 Iraqi firms through the Iraqi First initiative.

14. Business Transformation Agency, US Department of Defense, *Final Report on Defense Business Operations to the Congressional Defense Committees* (Washington,

DC: DOD, 15 March 2009), 81, http://dcmo.defense.gov/publications/documents/March_2009_Congressional_Report%20.pdf; and Haag interview.

15. Woolford and Qazi, "Electronic Funds Transfer," 10.

16. Ibid., 5.

17. Ibid.

18. Gerald Brown, director of corporate development for the Task Force for Business and Stability Operations, interview by author, Washington, DC, 30 August 2011.

19. Gen. Raymond Odierno, commander, Multi-National Force–Iraq to Multi-National Force–Iraq personnel, Headquarters, Multi-National Force–Iraq, memorandum, 28 September 2008, http://info.publicintelligence.net/IraqiFirstProgram.pdf.

20. Woolford and Qazi, "Electronic Funds Transfer," 19.

21. Ibid.

22. Federal Research Division, US Library of Congress, *Country Profile: Iraq* (Washington, DC: LOC, August 2006), http://lcweb2.loc.gov/frd/cs/profiles/Iraq.pdf.

23. Woolford and Qazi, "Electronic Funds Transfer," 19.

24. Comparable versions of certain such programs were later also implemented in Afghanistan in support of Operation Enduring Freedom.

25. See Berman et al., "Can Hearts and Minds Be Bought?"; Eli Berman, Michael Callen, Joseph H. Felter, and Jacob N. Shapiro, "Do Working Men Rebel? Insurgency and Unemployment in Afghanistan, Iraq, and the Philippines," *Journal of Conflict Resolution* 55, no. 4 (2011): 496–528; and Andrew Beath, Fotini Christia, and Ruben Enikolopov, "Winning Hearts and Minds through Development: Evidence from a Field Experiment in Afghanistan" (working paper, MIT Political Science Department Research Paper No. 2011–14, Cambridge, MA, 13 April 2012), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1809677.

26. Interview with high-ranking DOD official, Princeton, NJ, 9 November 2011 (unattributed interview).