

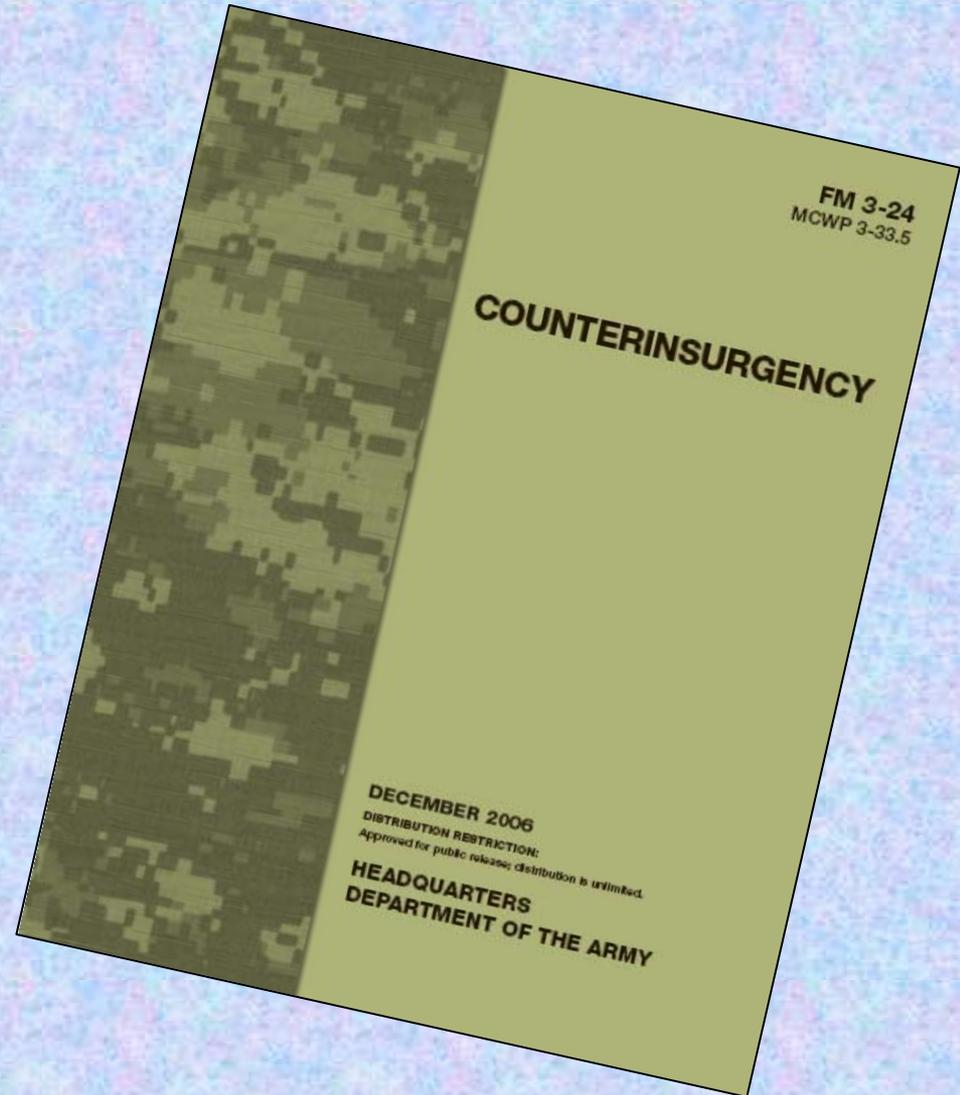
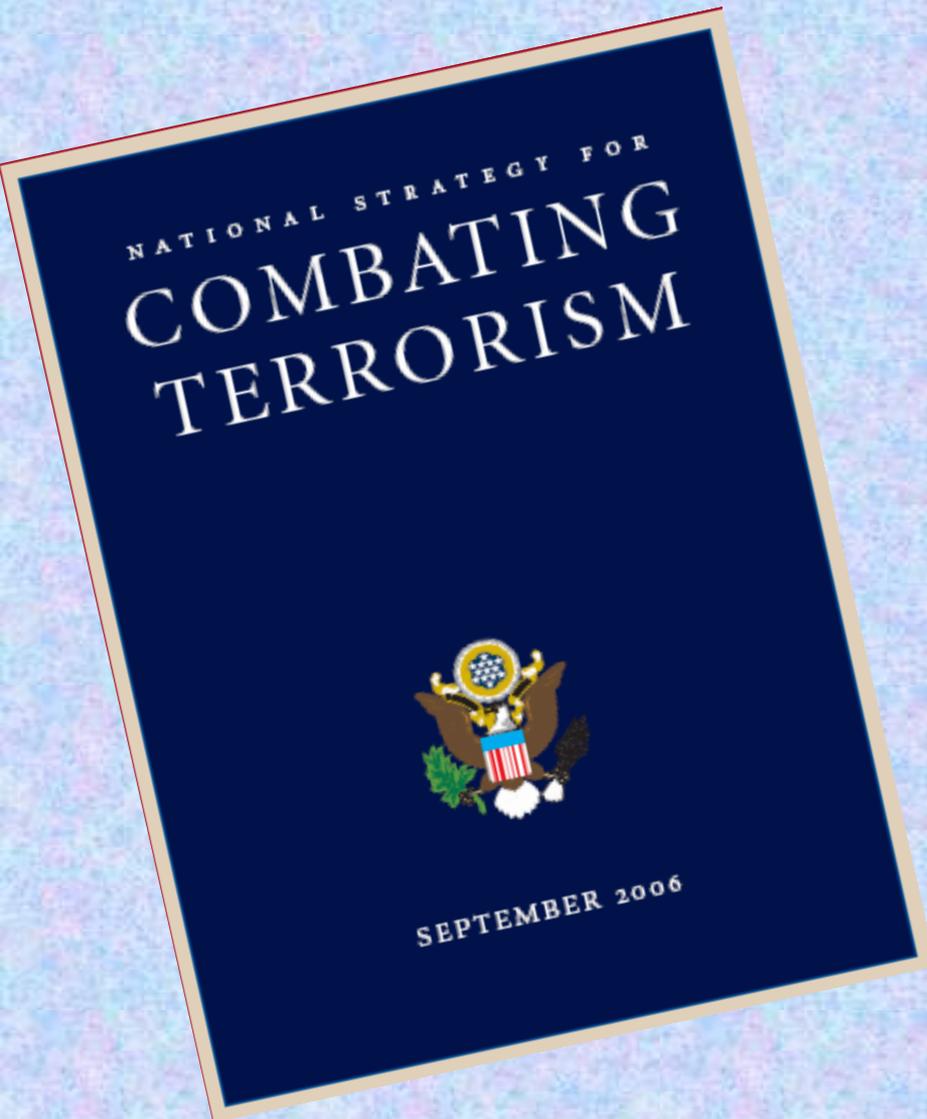
Economic Element of Counterinsurgency Doctrine

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U.S. Military Academy**

This briefing represents only the views of the author and should not be interpreted as the official position of MNF-I, MNC-I or any other government agency. For questions, please contact me at michael.meese@us.army.mil or (845) 938-2800.



A US Government Approach





Improving Postwar or Ungoverned Areas ("Sovereignty Challenged States")



Governance: Legal Responsibility

(Dayton, Geneva Conv., UN Res., SOFA, Mandate, etc.)

Security
(within
context of
Governance
structure or
"mandate")

Military

**Humanitarian
Assistance**
(to meet basic
needs)

**NGOs/PVOs/
AID/UN**

**Rebuilding
State/Political
Capacity**
(reinforcing or
creating laws &
governance)

**????
Military/NGOs/
AID/UN**

**Rebuilding
Economic
Capacity**
(providing for
economic
growth)

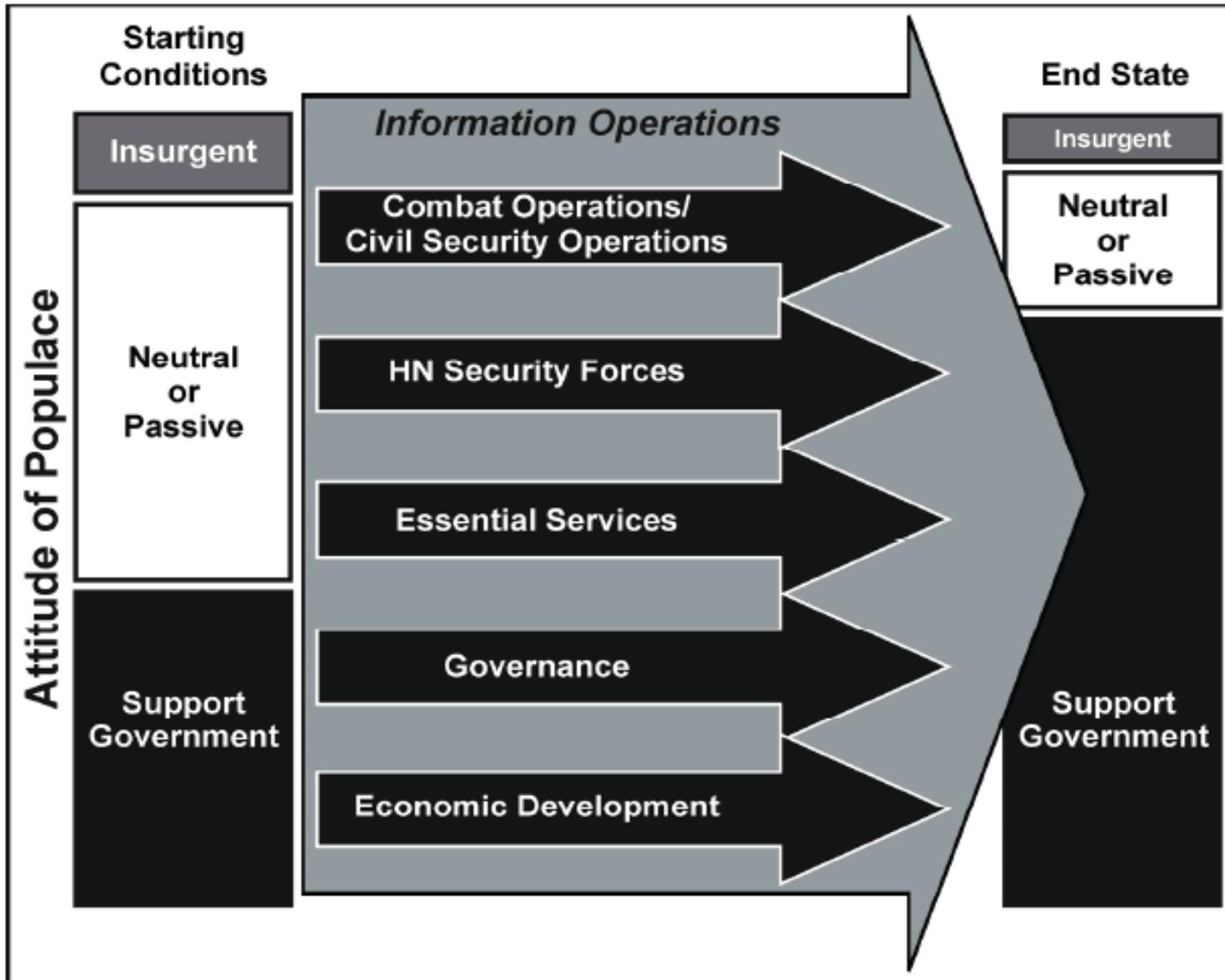
**AID/Private
Firms**

**Social
Development**

Local Conditions (People, Capital, Resources, Technology)



Lines of Operation





Economic Principles

- ◆ Markets are superior to government allocation
- ◆ **Long Term Growth:**
 - ⇒ A Function of Labor, Capital, and Technology/productivity
- ◆ **Short Term Growth:**
 - ⇒ A Function of Government (or other external [coalition]) Spending or increase in consumer spending or exports
- ◆ Short Term Work has value by itself but does not necessarily result in long term effectiveness



The Nature of Economics

- ◆ Economics “effects”
- ◆ Economics “targets”
- ◆ Economics “synchronization”





Economics--Paradoxes

History Paradox:

“Saddam did all the thinking for us.”

Control Paradox:

“Commanding the Iraqi economy is like commanding teenagers to be mature.”

Price Paradox:

“If the price is zero, then consumption is infinite.”

Motivation Paradox:

“We can't want it more than they want it themselves”



The Economic Problem/Range of Problems

Economic Preconditions: Stable Money & Macroeconomics; Finance & Banking System; Property Rights; Rule of Law

Large Projects
(Focus of CPA)

Electricity
Generation
(national grid)

Oil Production,
Transport, Refining

Infrastructure and Basic,
Common Services
Provision
(Gol funded; \$10B)

Electricity
Generation
(locally)

State Owned
Enterprises
& Other Large Industries
(skilled workers)

Agriculture

Unskilled Labor
Intensive Work
SWET

Small & Medium
Businesses,
entrepreneurs



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Micro Loans

USAID CSP

MNC-I
Micro Grants

Embassy

MoE, IRMO

MoE, IRMO

Gol
(\$10bil)

OSD
BTA



Program Roll Up

<u>Who</u>	<u>What</u>	<u>Target</u>	<u>Funding</u>
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MNC-I	Microgrants	Small Businesses (poorest sectors)	From CERP
MND-B	SWET-F	Essential Services	\$84.6 (CERP)



The Different Actors/Agencies

- ◆ Government of Iraq
 - ⇒ Amanant (Public Works Agency)
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 - ⇒ New Economics Czar: Amb Tim Carney
 - ⇒ Economics Section
- ◆ Other Coalition Members
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 - ⇒ International Relief and Development (IRD)
- ◆ Gulf Region District (GRD), Army Corps of Engineers
- ◆ OSD Business Transformation Agency (BTA)
- ◆ Joint Contracting Command-Iraq (JCC-I)
- ◆ MNF-I STRATEFF (MG Caldwell) Economics Section
- ◆ MNF-I Resources & Sustainment (R&S)
- ◆ MNC-I, Divisions, Brigades, Units
- ◆ 358 Civil Affairs Bde
- ◆ Provincial Reconstruction Teams (PRT) linked with BCTs as part of National Coordination Team (NCT)



Policies—Immediate Phase: **“Restore Normalcy”**

Objectives:

- ◆ Maximize Employment
- ◆ Demonstrate Progress “better every day”
- ◆ Win “hearts and minds” for Coalition

Policies:

- ◆ Early wins—SWET-F&F (sewer, water, electricity, trash, fuel, and food)
- ◆ Commanders Emergency Response Program (CERP) funds
- ◆ Coalition controlled/maximized efforts
- ◆ Measure CERP spent, Iraqis employed



Policies—Recent Phases ***“Following the Plan”***



Objectives:

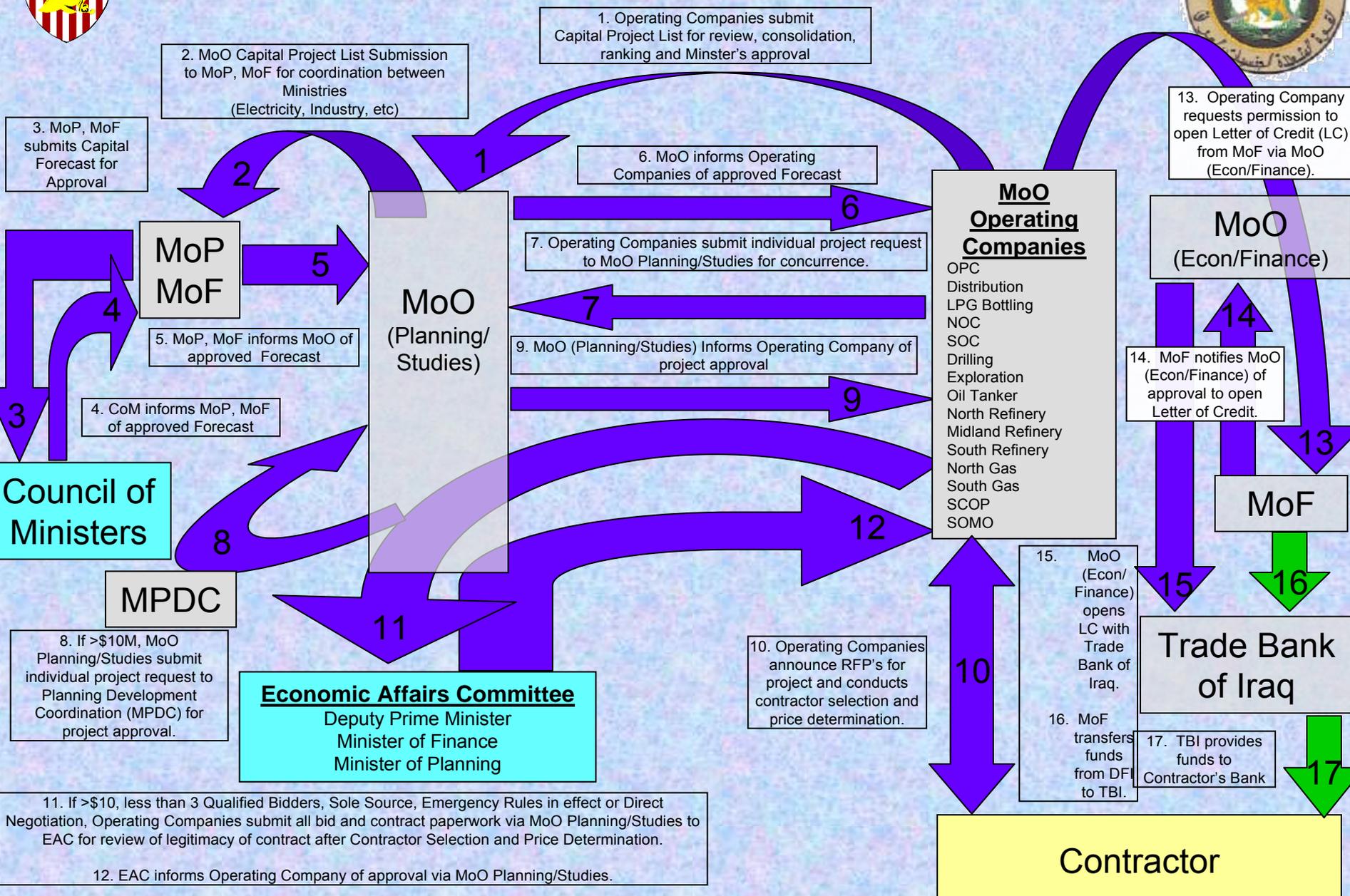
- ◆ Teach fishing—don't hand out fish
- ◆ Leverage partners and expertise
- ◆ Initiate Iraqi business formation
- ◆ Support nascent Iraq institutions

Policies:

- ◆ Engage the interagency
- ◆ Use buying power
- ◆ Shift from reconstruction to development
- ◆ Cut through bureaucracy
- ◆ Measure dollars spent and paid to Iraqis



MoO Capital Project Approval and Funding Process





Policies—Future Phases: **“Facilitate Iraqi Plan”**

Objectives:

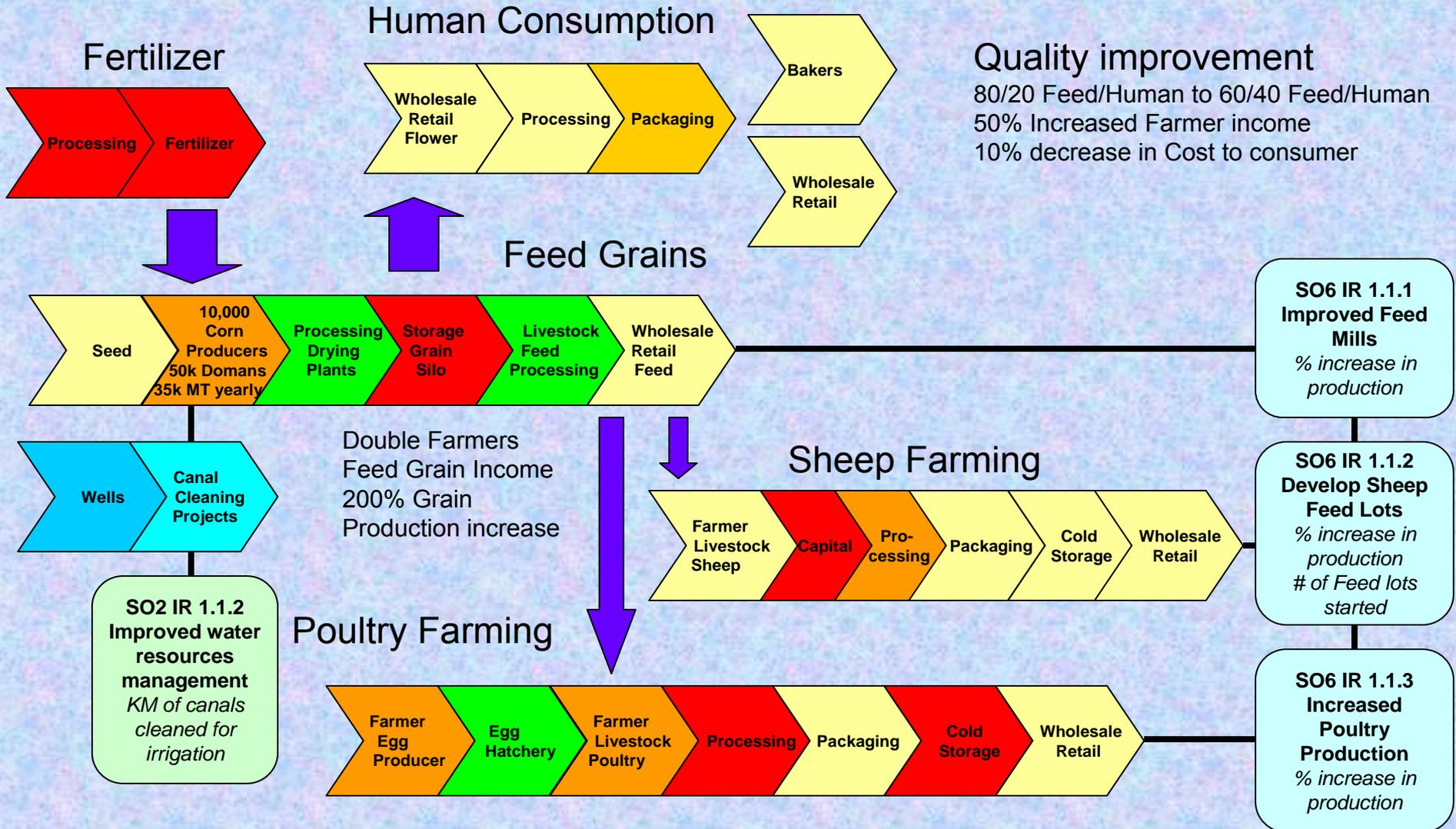
- ◆ Focus on Iraqis first
- ◆ Work on Provincial Budget Execution, especially capital budget
- ◆ Increase Iraqi businesses and entrepreneurship
- ◆ Facilitate market actions

Policies:

- ◆ USAID, and Iraqi employment and training programs
- ◆ Push Iraqi development of economic infrastructure: power, oil, banking, transportation
- ◆ Decentralize and facilitate PRT actions
- ◆ Phase out price controls
- ◆ Measure budget execution and economic growth

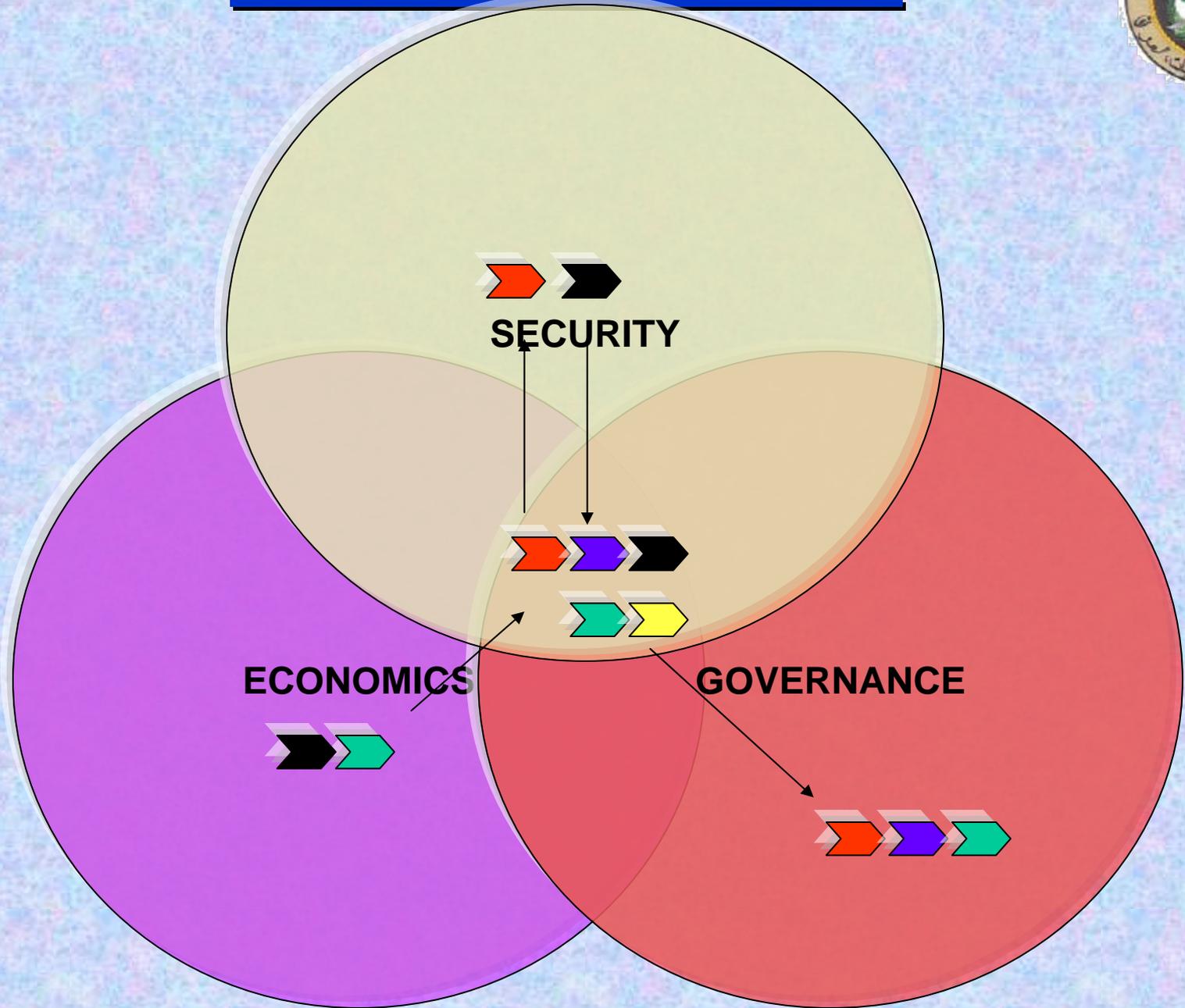


Illustration: Value Chains



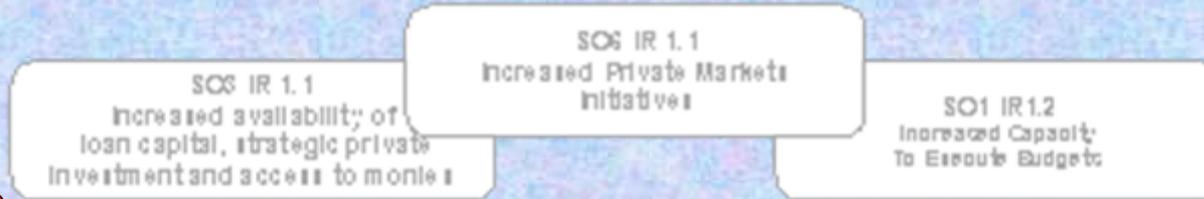


“Value Networks”



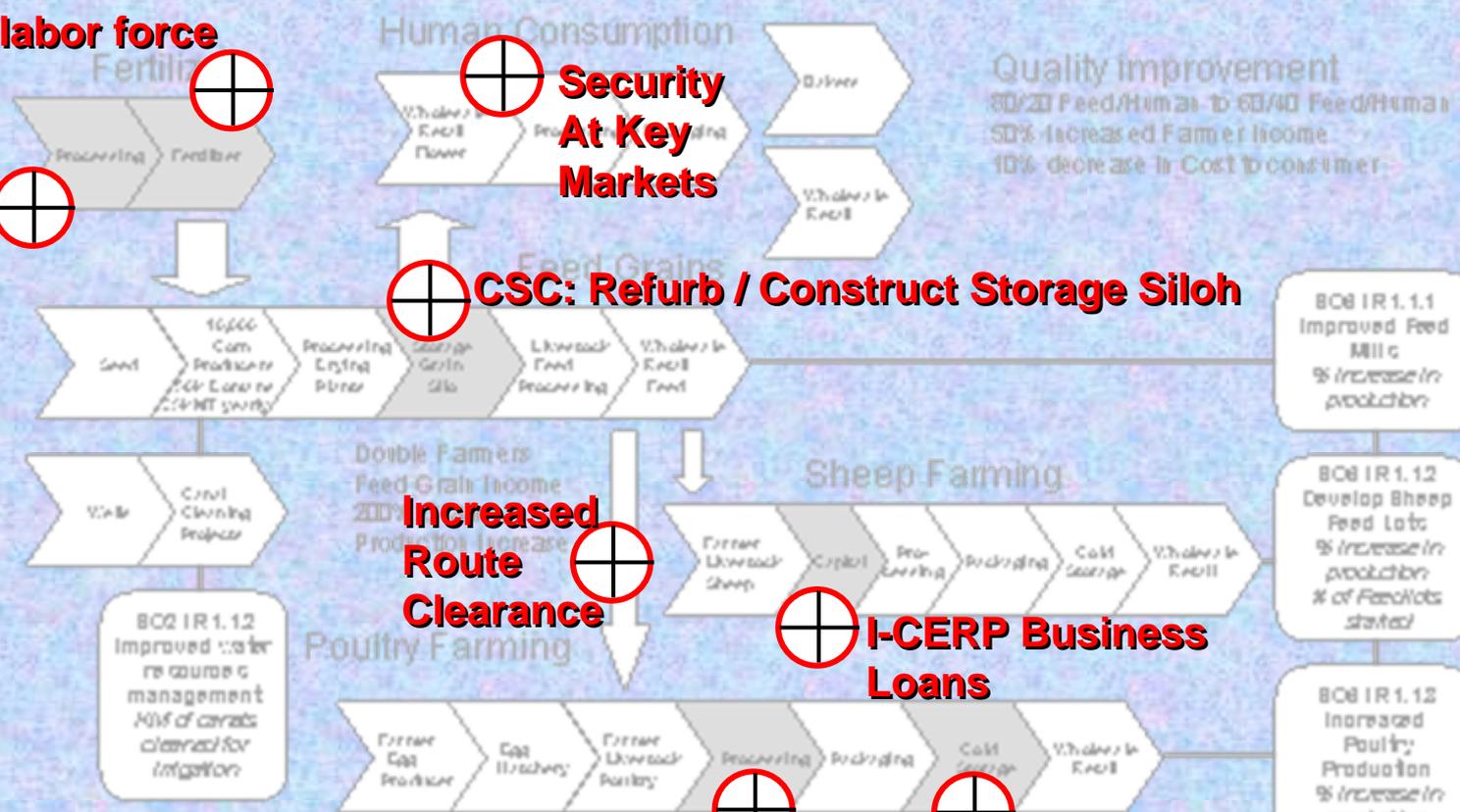


Division Involvement "Influence Priority Networks"



**JTERP Skills to
produce labor force**

**TFBSO
Project**



**Security
At Key
Markets**

CSC: Refurb / Construct Storage Siloh

**Increased
Route
Clearance**

**I-CERP Business
Loans**

**JTERP Skills on
Livestock processing**

CSC: Cold Storage



Summary

◆ Two Principles:

- ⇒ Economic growth is a function of labor, capital, and productivity
- ⇒ Government has a role

◆ Paradoxes:

- ⇒ History
- ⇒ Control
- ⇒ Prices
- ⇒ Motivation

◆ Policies:

- ⇒ Continues to evolve
- ⇒ Increasingly focused on Iraqis
- ⇒ Continuity and sustainability is critical

BACK UP SLIDES
(DO NOT PRINT)



Perceptions



(I'm okay; you....not so good)

I feel safe and secure in my neighborhood.

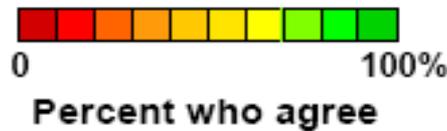


Nationwide average = 79%

I feel safe and secure traveling outside my neighborhood.



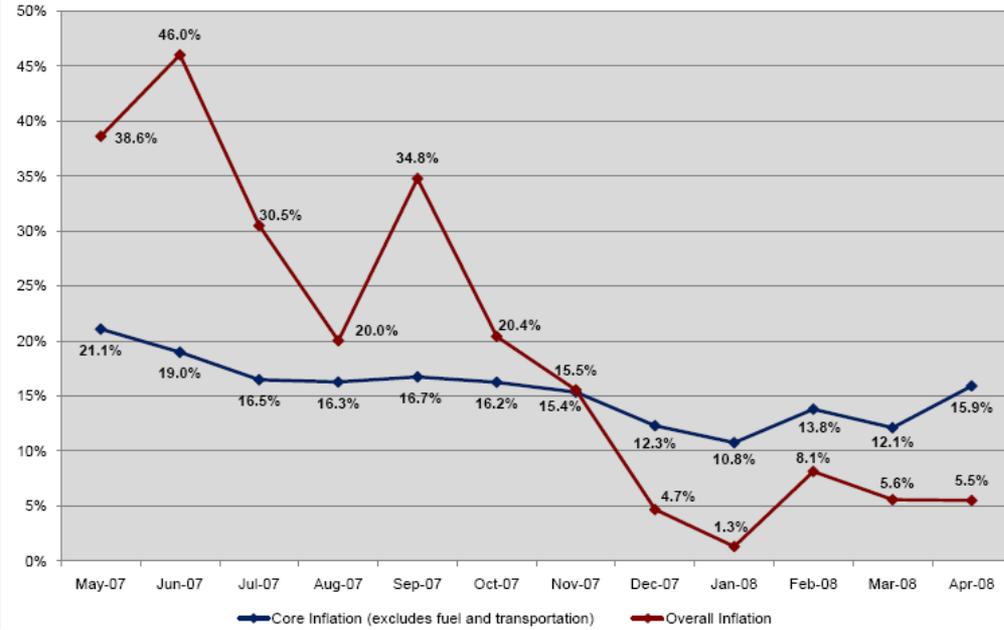
Nationwide average = 49%





Inflation and Banking

Year-on-Year Inflation



Growth in EFT Capability of Iraqi Banks

Source: DoD Iraq Contracting Office, Baghdad, Iraq

	Banks	Branches
Total	39	727
- % with-Comms	1	158
- P. Network	32	269
EFT Capable	10	145
- % with-Comms	1	5
- P. Network	9	140

- Ashur International Bank
- Bank of Baghdad
- Byblos Bank
- Commercial Bank of Iraq
- Credit Bank of Iraq
- Dar Al-Salaam Investment Bank
- Emerald Bank
- Iraqi Middle East Investment Bank
- Trade Bank of Iraq
- Wabira Bank



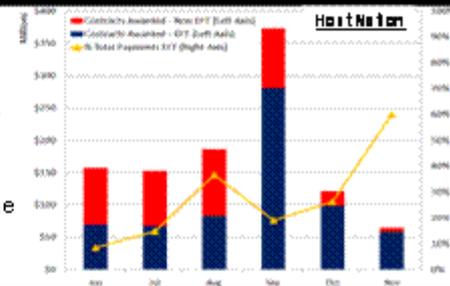
EFT Capability exists in 25% of Banks and 20% of Branches

New JCC-1 Policy:

➤ Beginning 1 October 2007, all payments on any contract for an amount \geq \$50,000 awarded in and around Baghdad shall be paid electronically

Goal / Impact (JCC-1/A):

➤ Baghdad: 90-95% contract payments will become electronic
 ➤ All Iraq: 70-75% electronic



Leveraging DoD Spend to Drive Business to Capable Iraqi Banks

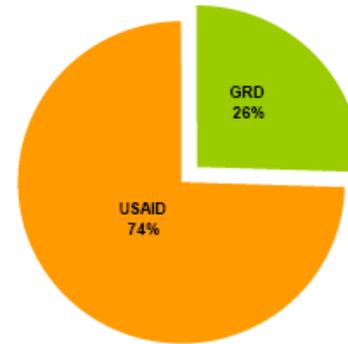


Iraqi Employment by USG



Employment Program	Iraqis This Week
GRD - IRRF	22,704
GRD - ESF (Includes ISP and PRDC)	4,951
GRD - CERP	2,744
GRD - OTHERS (Includes MILCON/OMA)	144
GRD - ISFF	4,696
USAID - IRRF	2,084
USAID- ESF	99,864
GRAND TOTAL	137,187

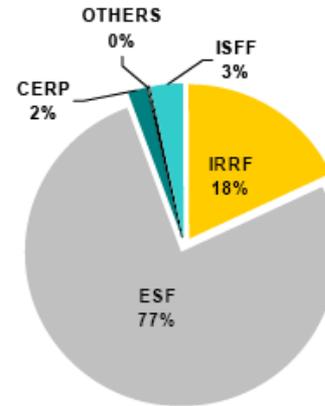
Iraqi employment by agency



Total Iraqi employment



Iraqi employment by Funding program

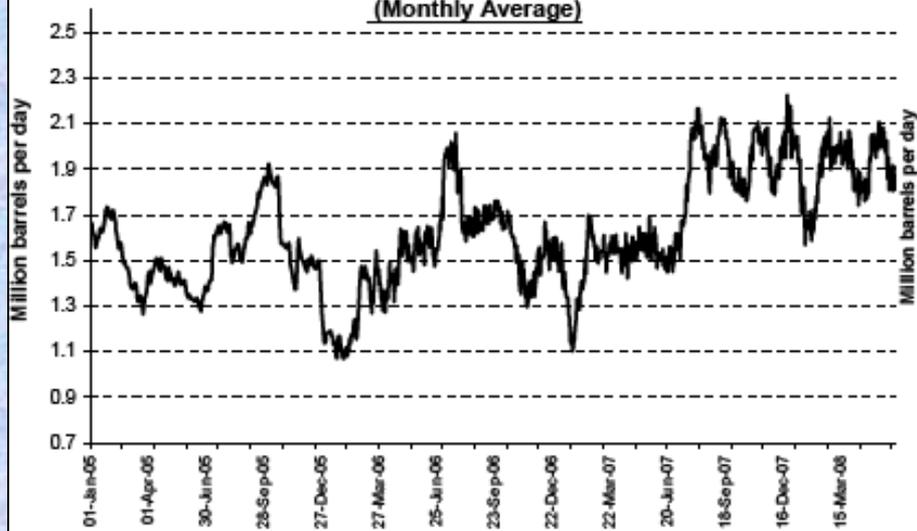


Iraqi Unemployment: 28% in 2003; 18.5% in 2007; 38.3% work < 35 hours/week

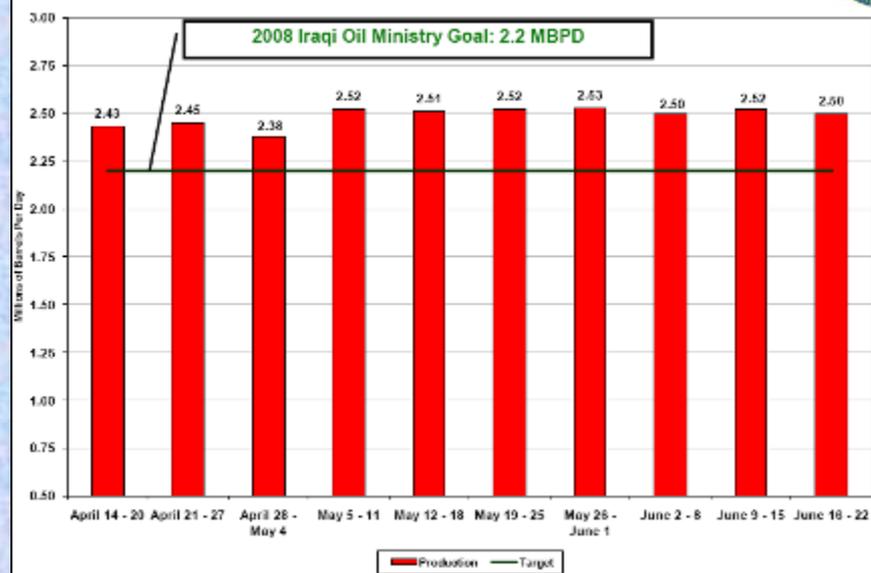


Oil Production

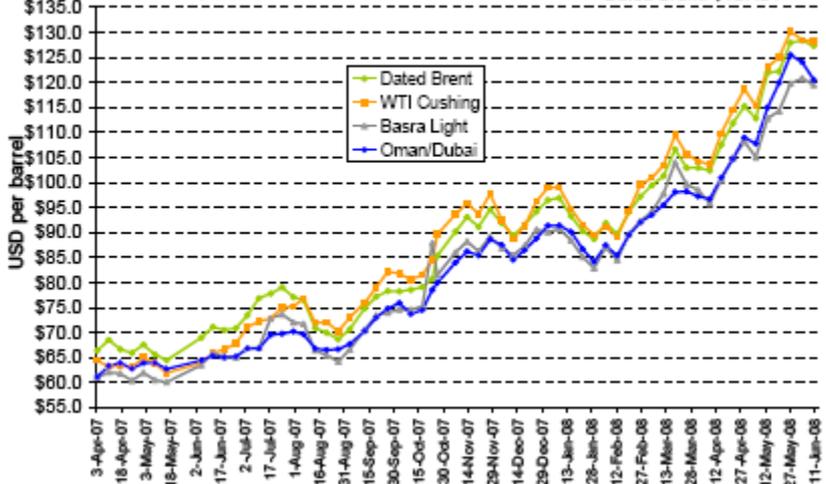
Iraqi Crude Exports - 2005 to Present
(Monthly Average)



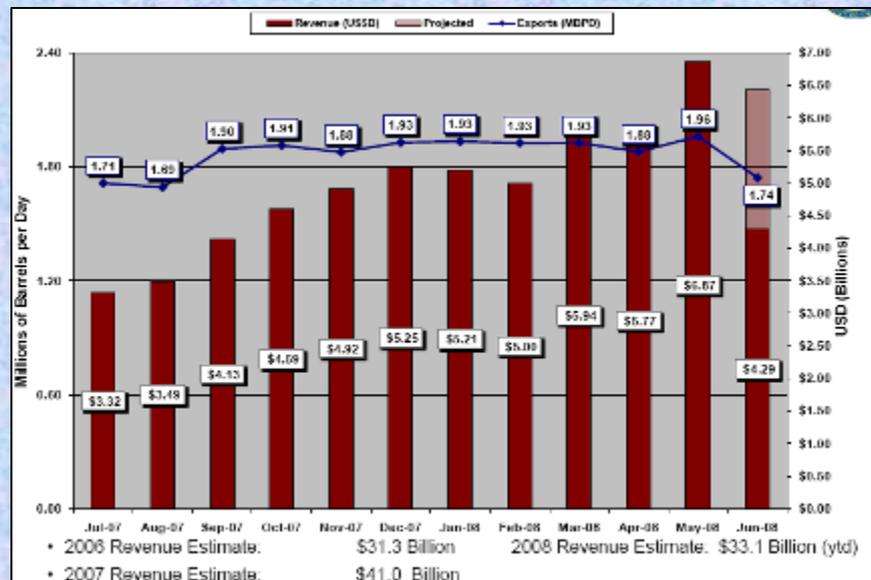
2008 Iraqi Oil Ministry Goal: 2.2 MBPD



Basra Light: \$119.48
Oman/Dubai: \$120.49
Oil Prices
WTI Cushing: \$128.14
Dated Brent: \$127.24



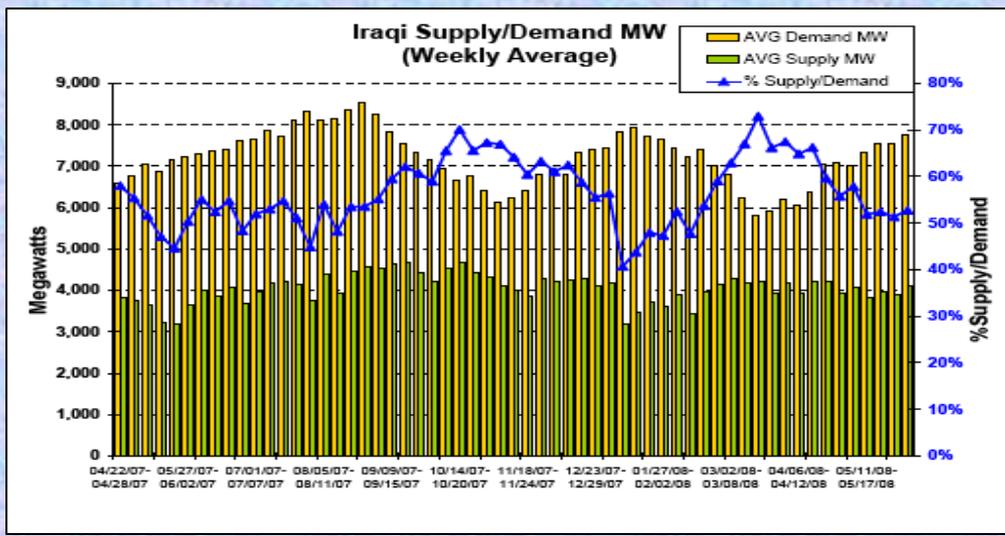
Revenue (US\$B) Projected Exports (MBPD)



• 2006 Revenue Estimate: \$31.3 Billion 2008 Revenue Estimate: \$33.1 Billion (ytd)
• 2007 Revenue Estimate: \$41.0 Billion



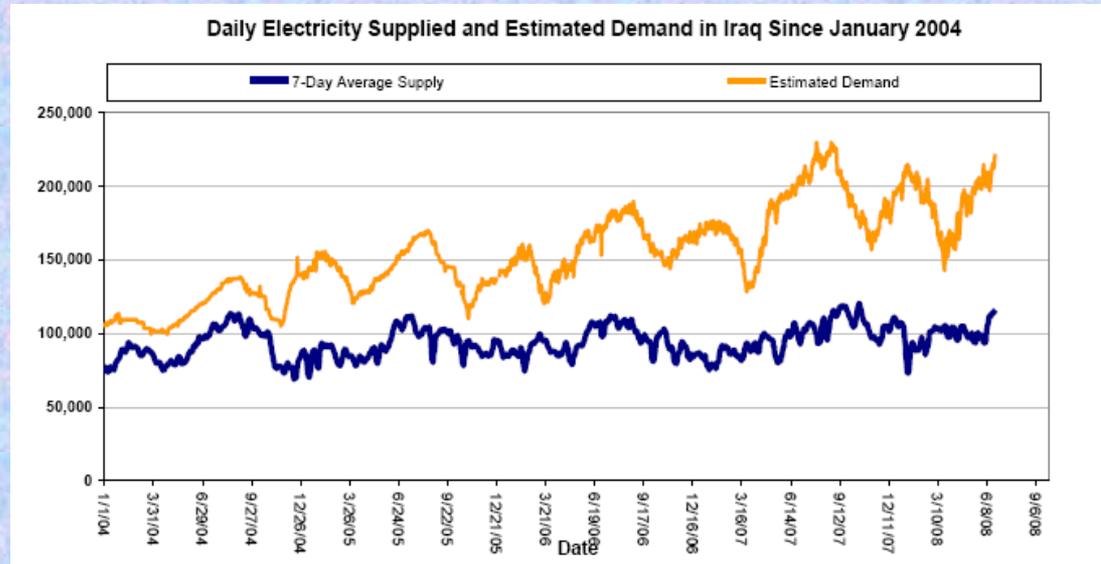
Electricity Production/Demand



Electrical Grid Overview 06/01/08-06/07/08

Province	Hours of Power	% of Allocation Consumed *	% of Total Demand Met
Baghdad	10	81%	41%
Dahuk	14	121%	57%
Ninewa	13	111%	52%
Sulaymaniah	12	78%	51%
Erbil	13	114%	55%
Tamim	15	127%	64%
Salah Ad Din	16	154%	68%
Anbar	11	122%	47%
Diyala	15	146%	64%
Babil	11	112%	48%
Karbala	10	106%	42%
Najaf	13	124%	53%
Wasit	11	81%	46%
Qadisiyah	11	175%	47%
Muthanna	11	145%	46%
Dhi Qar	17	174%	70%
Maysan	12	164%	49%
Basra	18	165%	75%
Iraq	13		53%

* Percentage is based on weighted national average.





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SWET-F

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Businesses,
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(\$10bil)

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Program Roll Up

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Political Progress

- ◆ Pension Law – Dec 2007
- ◆ Accountability & Justice Law (de'Baathification) – Jan 2008
- ◆ Amnesty Law – Feb 2008
- ◆ Provincial Powers Law – Feb 2008 (veto)
- ◆ Elections Law – working
- ◆ Article 140 – waiting
- ◆ Hydrocarbon Law – stalled



Economic Progress

- ◆ 63% capital budget execution in 2007 (vice 25% in 2006)
- ◆ Budget past (\$49.9 bil.) Feb 2008
- ◆ GDP: \$60 bil. 7% growth
- ◆ Inflation: 12% vs. 32% in 2006
- ◆ Unemployment: 19% to 38%



Economics and Security *in Iraq: Abstract*



Abstract: There have been several different attempts at economic stabilization conducted in various nations, most notably Iraq and Afghanistan, over the past several years. These programs have met with varying degrees of success. Many of these programs were led by military forces that have significant organizational capacity, but which may not have the most robust background in economic development. At best, they have resulted in mixed successes. Some of the challenges are a function of the paradoxes that are inherent in conducting economic development in a post-conflict environment. Other challenges are a function of the difficulty of interagency cooperation and getting the right people from the right agencies in the right places to be most effective. In spite of these challenges, there are some successes in both different areas of the economy and different regions. These successful efforts have been the function of effective policies, persistent individuals, and cooperative organizations. As part of the process in which lessons are gathered from Iraq, this paper provides an overview of some of those lessons and general principles that can apply in other contexts.



The Role of Economics

- ◆ Economics is an “**area fire**” weapon and does not always have a precision effect (usually has unexpected positive benefits (multiplier/spinoff growth) and sometimes negative impact (transitions)).
- ◆ Economic actions **change incentives** which alters behavior.
- ◆ Economic actions can “raise all/most boats” and are helpful in a **counterinsurgency** (winning “hearts and minds” providing alternatives and employment)
- ◆ Economic actions have less effect in a **civil war/sectarian strife**. People who are killing for political reasons or ethnically cleansing are rarely going to stop because of a new job opportunity. (Economic actions probably will not hurt in a civil war—provided it does not favor one party over another).



Synchronization of Economic Actions

- ◆ **While synchronization is common and indeed critical to military operations, it has a different impact with regard to economic actions:**
 - ⇒ In some cases economic actions may not be effective because they require other parts of an economic system to function. E.g. Building a cement factory may not be effective if there is no power to sustain the factory or no effective way to transport the product.
 - ⇒ On the other hand, providing power to a fertilizer factory, that enhances agriculture, that can be transported and sold can have a huge impact on employment and economic prosperity with relatively little investment.
- ◆ **Precise synchronization is not critical:**
 - ⇒ While a synchronization matrix for economic actions can be helpful, they are not like “fires” that be turned off prior to the onset of kinetic actions.
 - ⇒ Similarly they can and should progress at different stages and rates throughout different provinces and even in different districts within a city.
 - ⇒ The real need to use the term synchronization is to ensure that coalition forces, Iraqis, and other agencies rapidly and constantly push for economic actions as a complement to kinetic actions.



Two Principles Expressed in Two Equations

Long Run

Output (GDP) = Productivity *(Labor + Capital)

$$\% \Delta \text{ GDP} = \% \Delta \text{ Prod.} + (.7) \% \Delta \text{ L} + (.3) \% \Delta \text{ K}$$

Short Run

Output (GDP) = Consumption + Investment +
Government + (Exports – Imports)

$$\text{GDP} = \text{C} + \text{I} + \text{G} + (\text{Ex}-\text{Im})$$



Paradoxes of Applying Economics Principles In Iraq

- ◆ History Paradox:
 - ⇒ Under Saddam, non-economic means (command and control, tribes, parties) were used to allocate resources. Consequently a highly bureaucratized system currently dominates decision making.
 - ⇒ This bureaucratized system is exactly the opposite of a market-based system that supports effective economic decision making.
“Saddam did all the thinking for us.”

- ◆ Control Paradox:
 - ⇒ The most effective economic progress is from decentralized, independent individual initiative and government intervention normally distorts effective market processes.
 - ⇒ The organizations (Iraq and coalition government and military) supporting development are motivated to “command” action.
“Commanding the Iraqi economy is like commanding teenagers to be mature.”

- ◆ Motivation Paradox:
 - ⇒ Coalition organizations have an inherent interest in solving economic problems to complement security and transition rapidly.
 - ⇒ Iraqi may not be as motivated to incur transition costs of new economic programs.
“We can’t want it more than they want it themselves.”

- ◆ Price Paradox:
 - ⇒ The prices of many essential goods (esp. propane, benzene, electricity) are artificially low, following Saddam’s model.
 - ⇒ Raising prices is essential to support economically rational incentives but lowers support for government.
“It the price is zero, then consumption is infinite.”