

FOLLOW THE MONEY:

The Army Finance Corps and Iraqi Financial Independence

Lieutenant Colonel Laura Landes, U.S. Army

Generals once knew that after a war, the vanquished must get their economy up and running again, and to accomplish that, the first order of business must be the establishment of a sound currency.¹

—Steve H. Hanke,
Senior Fellow, Cato Institute

Lieutenant Colonel Laura M. Landes is chief of the Plans and Finance Division within the Comptroller Office at Headquarters, United States European Command. She holds a B.A. from Methodist College, Fayetteville, NC, and an M.S. in technology management from the University of Maryland's University College. LTC Landes is a certified defense financial manager. Her previous assignments include finance positions in Panama, Italy, Germany, Kuwait, and the continental United States.

TO REBUILD IRAQ, we have to create conditions for the Iraqi people where independence is possible in a state that has quashed initiative and participative government for decades, if not centuries. One fundamental mainstay and confidence builder, among others (such as job creation), is a strong banking and financial system that supports economic growth. American leaders claim that Iraq is progressing in terms of security, but without such tangible evidence of self-determination as a sound currency and an interbank market, any appearance of progress may be illusory.

The International Monetary Fund, World Bank, U.S. Agency for International Development (USAID), and U.S. Departments of Defense and State are conducting programs to foster Iraqi financial independence and pave the way for prosperity.

Multinational Corps-Iraq's "money as a weapon" concept includes several of those ongoing programs—the Commander's Emergency Response Program (CERP), the Rewards Program, and the more recent micro-loan program—which are helping restore Iraq's economy. The CERP, which was established shortly after President Bush declared "mission accomplished," allows commanders to purchase goods and services for humanitarian relief and reconstruction to the benefit of the Iraqi people. The Rewards Program provides funds so that Soldiers can pay informants for information such as the locations of weapons caches. Both programs provide quick money to answer pressing needs without requiring answers to a host of questions. Moreover, when coupled with public works and infrastructure projects to restore critical services (e.g. telecommunications, water, sewer, gas, electricity), the programs create livelihoods for Iraqi citizens. The micro-loan program provides small loans to help individuals start or improve a business. Altogether, the programs should have a lasting civil-relations impact.

Operation Iraqi Freedom (OIF) commanders have emphasized the importance of such cash management. For example, the former commander of the 1st Cavalry Division, Major General (now Lieutenant General) Peter W. Chiarelli, stressed the importance of "economic pluralism" in a *Military Review* article about full-spectrum operations.² General David H. Petraeus has noted that "in an endeavor like that in Iraq, money is ammunition. In fact, depending on the situation, money can be more important than real ammunition."³

Although the aforementioned programs boost individual income, stimulate trade, and buy goodwill, on their own they cannot restore Iraq's deteriorated economy. Without reform and modernization in the banking structure, the health of Iraq's economy is in question. We in the U.S. Army financial community, including contracting and civil affairs specialists, are working determinedly to move the Iraqis toward a more contemporary currency and banking environment.

Banks and the New Dinar

When initial hostilities ended and the Coalition Provisional Authority (CPA) removed most remnants of the former Iraqi government bureaucracy, military organizations (primarily U.S.) filled the voids in government agencies with officers whose professional skills best fit the functions of the vacated job. Consequently, some members of the Army Finance Corps became provincial ministers of commerce. For the most part, their duties involved resuscitating looted and bankrupt banks. Finance units facilitated salary and pension distributions for government employees, transported old and new dinars during the currency exchange, audited the books, planned bank renovations, ordered automation equipment, implemented computer training, and secured funds seized in raids (including \$750,000 found with Saddam himself). The finance units held these funds in office vaults to use for Iraq's reconstruction.

To the extent resources and the security situation allowed, military finance leaders acted as ambassadors to Iraq's banks. Although they did their best to help bank managers solve problems, success was limited. The Western concept of banks holding customer deposits as capital from which to make profitable loans was alien to Iraqi banks. Moreover, Iraqis did not see banks as a place to keep their money—they used cash for financial transactions. Financial processing procedures were outmoded. Banks had no method to transfer funds electronically—they still maintained manual transaction ledgers. Iraq had six government-controlled banks before the invasion, and their primary function was to pay government salaries. Most of the



Looters push a safe out of a bank after tearing it open in Baghdad, 10 April 2003.

AP, John Moore

government-maintained banks were looted after the fall of Saddam's regime. Only two, Rafidain and Rasheed, remained solvent.

New currency. One step the CPA took to strengthen the banking and financial system was to replace the currency. The Iraqi dinar was unstable, easily forged, and had no known value. A new dinar was introduced in October 2003. A team headed by retired Brigadier General Hugh B. Tant III collected and destroyed Iraq's old Saddam-image currency and replaced it with currency depicting Iraqi cultural sites, such as the spiral minaret in Samarra and the Hadba Minaret built in Mosul in 1172 A.D. Since its introduction, the dinar exchange rate has been stable, and inflation in Iraq has remained low.

The Central Bank. When the CPA introduced the new dinar, it also revived the Central Bank of Iraq, which Saddam had fleeced. The CPA made the Central Bank independent of Iraq's finance ministry and assigned it authority over the country's entire banking system, a move that gave the bank powers similar to those of the U.S. Federal Reserve Board. Operating under one authority (i.e., a central bank) and trusting it to be independent is a delicate venture under the best of circumstances. In Iraq, where family, tribe, and sect connections can supersede allegiance to the state, trusting that an independent central bank agency would be immune to political influence was a long shot. Iraq's long history of corruption and its unstable government were also

vulnerabilities. Even so, the Central Bank has so far maintained an untainted reputation.⁴

Establishing Banking Procedures

In the fall of 2004, there was no way to use credit or ATM cards or obtain banking services in Iraq. Coalition forces used U.S. bills to purchase items from Iraqi vendors and workers. For large payments, Soldiers often carried money in large, Pelican™-like cases. This was not only inconvenient, but also risky for both the agent and the recipient. U.S. finance units needed to establish bank accounts from which they could write checks or electronically transfer funds for such payments. This task fell to the 18th Soldier Support Group (SSG).

To open an account in an Iraqi bank, U.S. federal agencies must receive approval from the Treasury Department.⁵ Treasury will only grant permission if the State Department has sanctioned the servicing bank or financial institution. Getting permission to open a bank account in Iraq would have been problematic if the only options were the reestablished Iraqi banks that had poor or unknown reputations. Fortunately, this was not the case: international banks with solid reputations had begun to develop partnerships with local Iraqi banks. One such bank was the Credit Bank of Iraq, which was majority-owned by the National Bank of Kuwait (NBK). Officials from NBK worked with the 18th SSG and the Defense Finance and Accounting Service (DFAS) for several weeks to gain the Treasury's approval to open an account.

Meanwhile, the 18th SSG, in partnership with the NBK and some entrepreneurial civil-affairs Soldiers, led the initial effort to develop procedures to conduct bank transactions in Iraq. These transactions were surprisingly difficult. The 18th SSG could not wire funds directly into the Credit Bank of Iraq because the bank, like Iraq's other banks, didn't have the necessary technology. It needed desktop computers, routers, switches, and firewalls

in a functioning data network, along with back-end office applications, databases, and the physical cabling infrastructure to connect to the wired world. In addition, the U.S. Treasury does not allow the deposit of U.S. dollars in U.S. federally owned foreign accounts. Under these circumstances, how was the finance unit to deposit money in the bank?

Lieutenant Colonel (now Colonel) Thomas C. Steffens and Major Eric Iacobucci, both from the 18th SSG, and members of the civil affairs team formed a working group. Using a white board, they diagramed how the funds would flow from the U.S. Treasury to the Credit Bank of Iraq. According to their plan, the finance office would present a U.S. Treasury check to the New York Branch of NBK with instructions to deposit funds immediately through the Kuwait City Branch of NBK to a U.S. Army account in the Credit Bank.

Once the Treasury Department approved the account, it was only a matter of days for a U.S. Treasury check to be deposited and the first banking transaction to take place. By September 2005, the U.S. Army owned four bank accounts in Iraq, one for each of the four locations where it had finance check-signing authorities: Baqubah, Baghdad, Balad, and Tikrit.

The Buy-In

The next task was to convince reluctant Iraqi business owners and vendors to accept their U.S. payments from a private Iraqi bank. Civil affairs units bore the brunt of this difficult mandate because they interacted with local Iraqis and worked in their communities. The Soldiers tried to convince vendors that using these accounts would eliminate their exposure to extortion and murder threats each time they carried large bags of U.S. currency off military installations. They also assured the Iraqis that they would receive the Central Bank exchange rate with no additional fees imposed. To avoid revealing to others that the vendors were working with the United States, the accounts were given nondescript, generic names.

It worked to a degree; however, military financial managers, banking officials, and civil affairs specialists soon faced new obstacles. They found that checks could take at least seven days to clear. In addition, the process was cumbersome: the finance officer had to scan and fax a copy of the check to NBK, which forwarded it to the Credit Bank of Iraq

In the fall of 2004, there was no way to use credit or ATM cards or obtain banking services in Iraq.

so that the local banker would have a copy of the check the day before the vendor approached the teller window to cash it. Even then, when vendors required immediate cash, they could not make prompt cash withdrawals due to inadequate security and technology. Furthermore, some bankers solicited fees (bribes) of differing amounts to cash the checks, or sometimes they just turned a vendor away with no explanation. Over time, vendors who did not require a quick turnaround of cash seemed to accept the system. However, there were roadblocks to its wide acceptance. These problems are yet to be solved and will take time to overcome.

The command expected cultural resistance to change from the Iraqis, but not from our own agencies. Nevertheless, it was a challenge to get some of our counterparts in the financial management and procurement communities to subscribe to our vision. The 18th SSG depended on contracting officials to “market and advertise” the Iraqi dinar checking account option to vendors, and they worked to enact and influence mandatory payment of all contracts in Iraqi currency.

Although at the time the 18th SSG was not able to convince the contracting agents to mandate using banks, there was some success after the unit redeployed. When Colonel Karen Dyson, commander of the 266th Finance Command, arrived, she carried the message to field commanders, contractors, and corps-level comptrollers at every opportunity using several methods. She gave briefings, made phone calls, wrote policy statements, and sent numerous emails. Some agencies were enthusiastic about the service; others were not. The conversion would take time.

By late 2007, some significant steps were underway that indicated progress. The Office of the Secretary of Defense Business Transformation Agency (BTA) worked with Joint Contracting Command so that, effective 1 October 2007, all its payments over \$50,000 would be made through electronic funds transfer (EFT). The number of Iraqi banks receiving wire payments was then, and still is, steadily increasing. As of November 2007, there were up to 10 EFT-capable banks with 167 branches, yet there were reports that EFTs could take from two days to well over a month to reach a vendor’s account. Over time, and with more partnerships between the international financial community and Iraqi bankers, the situation will continue to improve and eventually modernize Iraq’s banking system.

By late 2007, some significant steps were underway that indicated progress.

Dinars versus Dollars

When the 266th Finance Command replaced 18th SSG, the handoff went smoothly. Not only did the 266th support and advocate the use of the Iraqi dinar check, but it also solicited banks to provide Iraqi dinar notes. The 266th wanted units to use dinars rather than dollars for all payments under \$2,500, for example, small CERP, micro-reward, condolence, and detainee payments. Reward payments, as described earlier, were for information; condolence payments were to compensate for the death or injury of a relative resulting from U.S. or coalition military operations; and detainee payments were to recompense Iraqi civilians for the time they were held in U.S. or coalition custody. The local unit-appointed paying agent made all these types of payments. However, similar to every other financial endeavor in Iraq, using the dinar for payments was not easy. To begin with, buying Iraqi currency outside the country was forbidden by Iraqi law. According to the “Central Bank of Iraq Law,” established on 6 March 2004, the Central Bank had the exclusive right to issue banknotes and coins intended for circulation in Iraq; thus, the new currency could not be purchased and picked up from safe havens in other countries or from international currency exchanges.

In addition, any attempt to purchase dinars directly from an Iraqi bank was difficult because of the language barrier and security issues. For instance, when the 266th tried to secure funds at the Rafidain state bank in the International Zone, the bank (at that time) did not have a representative who spoke English. When the unit brought a translator to the bank to procure dinars, the bank representative stated that they were unwilling to take the risk of bringing anything but very small amounts of dinars into their branch.

When currency was available at the banks, Finance Corps Soldiers were responsible for retrieving it. Until the 266th found a secure method to pick up and transport funds, the 101st Finance Company



MAJ Adam Butler, 101st Financial Management commander, counting currency at the Rasheed Bank in Tikrit, Iraq, September 2006.

made runs to pick up currency for just their sector. In addition to the usual risk to U.S. Soldiers traveling anywhere in Iraq, there was the possibility that unfriendly Iraqis or insurgents would learn of their mission and attack the Soldiers when they left the bank with large amounts of Iraqi cash. The Soldiers could not just walk into the bank, pack up the money, and leave; they had to count every note. This often took several hours, even with money counters. One reason was that the Iraqi notes were usually in terrible condition. They were difficult to count by hand and would bunch up in the money counters and jam the machine. In one case, the counters failed due to sustained use and heat. Despite these problems, the finance Soldiers were obligated to count all the currency—when signing for funds, an agent of the treasury is responsible without limit for every monetary instrument or equivalent. By regulation and law, every dollar, quarter, dime, nickel, penny, dinar, riyal, pound, or whatnot must be accounted for.

The 266th continued to struggle to find sources for dinars. They succeeded when some finance officers visited the Iraqi Reconstruction Management Office for Financial and

Fiscal Affairs (a State Department section set up within the International Zone). This section had employees who transported dinars to remote Iraqi public banks when the banks ran out of currency to make payroll. One of the State Department employees recommended the 266th approach the banker Tareq Muhmood, a former Iraqi expatriate who lived in Baghdad. His bank, Dar Es Salaam (DES) Investment Bank, had installed two of Iraq's first ATMs and planned to introduce online banking within a year. The 266th was looking for banking alternatives for vendors, so it gained approval from the U.S. Treasury to open four government bank accounts with Muhmood's bank.

At the same time, the 266th also solicited NBK and world banking giant HSBC Bank, which owned a 70.1 percent stake in the DES Investment Bank, to help the command and its subordinate battalions obtain Iraqi dinars. U.S. financial officers hoped that the incentive of earning interest on large U.S. military deposits would push one of the banks to make a proposal for obtaining dinars that would suit the 266th's and U.S. government's requirements. Happily, NBK's liaison for their corporate banking group, Jassim Al Hajji, called with an offer from one of NBK's clients, SkyLink Arabia, a security firm that claimed to have transported some of the original new Iraqi dinars into Iraq. SkyLink Arabia employed an



The Basrah branch of Dar Es Salaam Investment Bank, Basrah, Iraq, September 2006.

international mix of former special operatives and had offices in Kuwait, Iraq, and Dubai.

The finance command received a funding document from Coalition Forces Land Component Command that established a funding limit for SkyLink deliveries. When a delivery was successful, the command created a payment document and then a treasury check to pay for the service. It also received deliveries of money to the International Zone by vehicle and, more important, by small airplane to Balad, the location of the 266th Finance Command central funding office.

Thus, by June 2006, the basic framework necessary to empower Iraqis financially was in place: the 266th Finance Command had mechanisms to support all methods of payment in the local currency—by check, wire, and cash.

What Can We Do Today?

Based on the finance command's experience and discussions with Middle East bankers and interagency partners familiar with Iraqi financial matters, there are five cash management initiatives that can make a difference in Iraq today.

- First, the language in all contracts for Iraqi vendors must specify mandatory payment by Iraqi dinar via direct deposit or check. If this language is not in the contracts, the vendors (who are building the foundations of a new Iraqi society and are the best hope for the future) will continue to ask for payment in U.S. dollars. Continuing to infuse dollars into the country delays the dinar's acceptance in Iraq (and internationally). It also ties up significant amounts of U.S. cash reserves and U.S. manpower in deployed locations in Iraq and Kuwait, as well as DFAS resources in Rome, New York, and Indianapolis, Indiana. We will be guilty of prolonging the status quo if we do not start forcing this difficult transition.

- Second, U.S. forces, coalition partners, and provincial reconstruction teams (PRTs) that make payments to Iraqi citizens under \$2,500 should make them in Iraqi dinar bills. As of November 2007, this was still not happening. PRTs continue to make payments in dollars, primarily for convenience.

- Third, Iraqi financial institutions must move forward quickly to follow the international financial community's technology standards. During OIF II, this author observed finance Soldiers installing

desktop computers and training bank employees. However, we have not done enough in building the framework for the financial network. Many banks outside Baghdad operate as though they are on remote islands; the lack of telecommunications forces them to conduct manual operations. (As in many situations in Iraq, the infrastructure has to be built from the ground up.) In addition to computer applications, databases, hardware, and training, the Iraqi financial system needs substantial physical infrastructure upgrades to tie into the global financial network. We must help Iraqi banks build a secure financial communications network and deliver applications and training for international e-commerce banking solutions. Like our Federal Reserve, the Central Bank of Iraq must be able to act as an "automated clearing house" so that banks can electronically run check debits and credits through accounts securely and instantly. For the Iraqi financial community to match its international counterparts in banking services, the banks should all be on the Society for Worldwide Interbank Financial Telecommunications (SWIFT) network for administrative banking communications and operations. Once U.S. Signal Corps Soldiers, contractors, or local sources install these foundation technologies and begin to implement, administer, and maintain them, the banks can fully implement other modern banking functions such as electronic debits and credits, card barcodes, and chip technologies.

- Fourth, the local mayor's cell (similar to the traditional garrison commander and staff), with assistance from banking liaison officers and the U.S. Treasury, must open Iraqi banks on enduring coalition military installations. These banks will allow contractors to open accounts in a secure environment that they equate with stability. Commanders and mayor cells should establish a program to encourage local and foreign-national employees who work on such military installations to direct deposit their salaries in an Iraqi bank. This change would require nothing new. We have successful examples of local banks operating on coalition installations in Afghanistan.

- Fifth, the Central Bank of Iraq should authorize or request the printing of Iraqi dinars in larger denominations. Having to carry a large number of bills discourages wide acceptance of the dinar. Titan, a U.S. systems integrator that paid Iraqi translators



U.S. Marine Corps, MSG Paul D. Bishop

U.S. Marines and Navy Sailors sort bags of Iraqi Dinars at Taqaddum Air Base, Iraq, 28 August 2007. The dinar is being moved from the Rasheed and Rafidayn Central Banks to other banks in Haditha, Fallujah, and Ramadi.

and reconstruction teams working numerous local projects, reported that the amount of dinars necessary to transact business dissuaded them from using the currency. Iraqis should not have to carry around big wads of cash to make daily transactions. Since the bill with the highest denomination—25,000 dinars—is worth around \$20, Iraq should produce 50,000- and 100,000-dinar bills.

The Once and Future Dinar

Before the years of dictatorship and international sanctions under Saddam, Iraq's financial system operated under a currency board monetary policy. From 1931 to 1949, it used the British Pound Sterling, and from 1916 to 1931 the country operated under a "dollarization" policy with the Indian Rupee. Prior to 1916, when Iraq was under the Ottoman Empire, it used the Turkish Pound (with the Imperial Ottoman Bank, owned by British and French shareholders, issuing banknotes). Saddam instituted the "dinar" when he came to power

in 1979. It had been the common monetary unit in early Muslim countries, and its origin was emblematic of Iraq's rich historical legacy. The second modern reemergence of the Iraqi dinar is fundamental to the hope and success for Iraq's future in the global economy.

Cultivating a strong, stable currency has two potential benefits for Iraq: first, it will build the people's confidence as they become members of the world's markets; and second, a new national currency can serve as a unifying symbol among Shi'as, Sunnis, Kurds, and other sects. So far, actions taken by private enterprises, international banking firms,

U.S. agencies, and coalition forces have started the Republic of Iraq on a path toward financial independence. That path will probably be long and bumpy, given the current low levels of security, technology, and confidence in the country. But with more guidance, support, and nurturing from the U.S. Army Finance Corps, Marine finance specialists, the State Department, the Treasury Department, USAID, and America's coalition partners, Iraq's financial system will attain a level of service that, coupled with a stable currency, will eventually provide Iraqi society the economic stability it deserves. **MR**

NOTES

1. Steve H. Hanke, "An Iraq Currency Game Plan," *The International Economy* (Summer 2003).
2. LTG Peter W. Chiarelli and MAJ Patrick R. Michaelis, "Winning the Peace: The Requirement for Full-Spectrum Operations," *Military Review* (July-August 2005).
3. GEN David H. Petraeus, "Learning Counterinsurgency: Observations from Soldiering in Iraq," *Military Review* (January-February 2006).
4. In similar circumstances, the International Monetary Fund, which was responsible for developing the Balkan monetary policy, chose a different method. It established a currency board and decision-making body independent from political institutions to operate for the first six years after the Bosnia and Herzegovina civil war ended.
5. *Treasury Financial Manual Part 4*—Chapter 9000, "Foreign Exchange," Section 9030, "Designated Depositories" (December 2001).

The second modern reemergence of the Iraqi dinar is fundamental to the hope and success for Iraq's future in the global economy.