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**NAVAL WAR COLLEGE
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**EXPLORING THE COMBAT POTENTIAL OF
FINANCIAL MANAGERS AS EXPEDITIONARY BANKERS IN THE
CONTEMPORARY OPERATING ENVIRONMENT**

by

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A paper submitted to the Faculty of the Naval War College in partial satisfaction of the requirements of the Department of Joint Military Operations.

The contents of this paper reflect my own personal views and are not necessarily endorsed by the Naval War College or the Department of the Navy.

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04 May 2009

Abstract

At the operational level of war, during stability operations, little is done to link strategic and tactical economic objectives together. Using the host nation banking system, the operational commander can nest economic objectives in a coordinated line of effort. Consequently, operational commanders should leverage the untapped potential of their uniformed financial managers to orchestrate economic objectives by cultivating the host nation banking system as a framework to strengthen economic security and synchronize cash payments within an area of operation. Following this methodology, operational commanders can leverage the non-lethal effects provided by financial managers as an offensive capability instead of exclusively employing financial managers in traditional sustainment roles. While critics may argue the U.S. Treasury is better suited to develop the host nation banking system this paper will illustrate that security constraints, insufficient capacity, and command bifurcation significantly hamper the U.S. Treasury's ability to achieve operational level economic objectives.

In March 2009, the Department of Defense conducted a first-of-its-kind economic war game at Fort Meade, Maryland. This exercise illustrated the effects of simulated economic battles between America and potential adversaries. At the conclusion of the exercise, participants discovered the U.S. lacks a synchronized approach to managing economic and lethal warfare.¹ Economic tools are used across the range of military operations to accomplish U.S. objectives. Sanctions and embargos are fundamental economic components of national power used to achieve strategic objectives. Condolence payments for non-combatant deaths and micro-grants to host nation entrepreneurs are economic tools that achieve tactical objectives by building goodwill and regenerating local businesses in an area of operation. At the operational level, however, little is done to link strategic and tactical economic objectives together.

Using the host nation banking system, the operational commander can connect tactical, operational, and strategic economic objectives in a coordinated economic line of effort. Consequently, operational commanders should leverage the untapped potential of their uniformed financial managers to orchestrate economic objectives by cultivating the host nation banking system as a framework to strengthen economic security and synchronize cash payments within an area of operation. As the banking structure matures, commanders should incrementally remove cash as the primary medium of payment and implement electronic commerce to further enhance security and leverage a forensic accounting capability.

Operational commanders executing stability operations can target economic objectives by accomplishing five sequential steps in the host nation banking system. First, physically secure the banks. Second, embed financial managers to mentor bank employees to increase efficiency and utility of the banking system. Third, use the banks to disburse

local currency for U.S. payments to vendors and citizens. Fourth, leverage the banks to track currency found with insurgents to discover financial links. Fifth, as conditions permit, upgrade the capacity of the banking system to include electronic banking. This last step will amplify physical security by removing cash from the area of operation, encourage foreign investment by moving the banking system toward international standards, and further enable the U.S. to leverage forensic accounting by observing fund flow to suspected enemies. Successfully accomplishing these steps will achieve objectives along the operational commander's economic line of effort.

Joint publications describe a line of effort as a conceptual "line connecting multiple tasks and missions, using the logic of purpose, to focus efforts toward establishing operational conditions."² While stability operations are defined as:

Various military missions, tasks, and activities conducted outside the United States in coordination with other instruments of national power to maintain or reestablish a safe and secure environment, provide essential governmental services, emergency infrastructure reconstruction, and humanitarian relief.³

As part of a joint force, the Army is often responsible for financial oversight during large-scale military operations. Therefore, Army financial management (FM) doctrine will provide the skeleton to flesh out the combat potential of expeditionary banking against the backdrop of stability operations in Iraq.

Counterinsurgency operations in Iraq have given the Army a renewed appreciation of the benefits of applying non-lethal capabilities. FM doctrine and military commanders, however, have not leveraged the combat potential of financial managers as a non-lethal capability. The Army traditionally uses FM units for sustainment purposes only. Joint and service FM doctrine does not address specifically, any tasks regarding supporting host nation banks. Instead, FM doctrine distills down to tasks including military and travel pay, cash

management, accounting, establishing financial policy, and resource management. Banking liaison is also part of Army FM doctrine, but only to the extent of financial managers coordinating with U.S. and foreign banks for the benefit of the military, not the host nation.⁴ For example, financial managers can establish a bank account in a foreign country for the specific purpose of obtaining local currency to pay military members, local vendors, and civilian employees.

The Army has yet to realize the potential of reenergizing the host nation banking system as a nested objective under a larger economic line of effort. Army Field Manual 3-24 Counterinsurgency acknowledges, “gaining the initiative during an insurgency requires counterinsurgents to secure the local populace and provide for essential services”.⁵ However, it admits “many commanders are unfamiliar with the tools and resources required for promoting economic pluralism”.⁶ Commander’s financial managers serve as an untapped resource, with the functional expertise ready for commitment. Just as an artillery unit shapes the battle space with operational fires, financial managers can embed within host nation banks to shape the economic environment for the operational commander.

The first step in shaping the economic environment during stability operations is to secure the banks to maintain control of cash and mitigate potential unrest. In Iraq, looters heavily pillaged banks after the 2003 invasion, stealing millions in cash, destroying bank records, and ruining infrastructure at the Central Bank and branch offices of the state owned Rasheed and Rafidain banks that controlled 90% of the Iraqi banking industry.⁷ Just two of the 170 Rafidain branches remained open and nearly a billion in cash was withdrawn on the eve of war leaving Iraq nearly bankrupt.⁸ Cash-based economies need currency to operate; without it, the financial system will grind to a halt.

Cash-based economies provide unique security challenges that the operational commander must address. For example, Iraq uses its state owned banks to pay uninsured cash salaries and pensions to government employees. The government must transport cash from the Central Bank to numerous local banks. This vulnerable distribution system presents a tempting target for cash strapped insurgents and looters. Baghdad holds the world record for the two largest cash heists in history: Saddam Hussein committed the first when he emptied \$800 million from the coffers of the Central Bank in 2003; the second occurred in 2007 when thieves took \$282 million from the Dar al-Salam bank in Baghdad.⁹ Amplifying the extent of theft, Iraq does not insure funds through an organization like the Federal Deposit Insurance Corporation does in the U.S. When banks lose cash, they also lose the means to make payments and therefore, citizens may lose faith in their government and unrest often ensues.

U.S. forces produced mixed results working with Iraqi banks underscoring the importance of commanders maintaining control of the financial institutions. Analysts discovered that “some U.S. commanders walked into banks and demanded piles of cash from government payrolls to pay for local cleanup projects.”¹⁰ This had the unintended effect of taking money away from government employees. General Petraeus shares a more positive story about one Iraqi banker in Mosul who was able to keep a large amount of cash for government salaries from being looted; however, he was unwilling to disburse the funds until authorized. Since the Iraqi Ministry of Finance was defunct, authorization never came. General Petraeus ultimately convinced the banker to disburse the cash to the employees and mitigated a potentially dangerous situation.¹¹

A few financial managers in Iraq recognized FM units could be used in novel ways to help achieve operational objectives. The 230th Finance Battalion (FB) and later the 106th FB from 2003-04 seized the opportunity to reinforce the local economies in Tikrit and Kirkuk. They “resuscitated looted banks, facilitated salary and pension distributions for government employees, audited the books, recommended cash handling procedures, planned bank renovations, ordered automation equipment, implemented computer training, and secured funds seized in raids.”¹² These financial managers rebuilt five local banks and simultaneously instilled the citizens’ confidence in their government. The results of this initiative were valuable at the tactical level; however, operational level commanders could use and further develop this model during future stability operations to achieve operational economic objectives. These examples served to strengthen the economy, add credibility to the host nation, and underscored the positive influence of U.S. forces.

Operational commanders have the resources to proliferate this model throughout the area of operation. Financial managers can be embedded into the secured host nation banking system and provide technical assistance and mentorship to banking personnel at all levels. Financial managers can help bankers reestablish and streamline operations by making procedures more efficient thereby accentuating the reliability of the government to provide a secure banking system. Financial managers are already the Army’s bankers. They store, account, disburse, collect, and transport millions of dollars and foreign currency in deployed environments every day. These tasks performed by financial managers today are the same tasks performed by host nation bankers in Iraq. Therefore, financial managers are ideal to mentor host nation bankers.

Once financial managers strengthen the host nation banking system, the operational commander can use the banks to synchronize economic objectives. Three years following the massive U.S. led objective to distribute a new dinar across Iraq, the Army continued to pay Iraqi vendors with U.S. dollars because of stipulations from Multi National Force-Iraq Joint Contracting Command. Consequently, the U.S. paid millions of dollars to print and distribute the new Iraqi dinar to help establish a stable host nation economy, but ironically continued to pay Iraqi vendors and citizens with billions of U.S. dollars. Instead, had these payments been made in Iraqi dinar, the legitimacy of the currency would be reinforced while reducing the amount of U.S. dollars in the area of operation. Common use of U.S. dollars in an area of operation has considerable potential destabilize the supported nation's economy and undermine U.S. economic objectives.

Paying contracts in local currency at secure host nation banks add security to the inherently risky cash transaction. Payment methods used today by financial managers include requiring local vendors to be paid at finance offices inside U.S. bases. This process unnecessarily exposes U.S. forces to intelligence gathering efforts by potential insurgents, or their supporters, since most finance offices are well inside the secure parameter. It also forces the vendor to leave the base with large amounts of cash making the vendor a target for robbery and possibly serious injury or death. A second approach widely used, is funding a U.S. paying agent who delivers cash directly to the local vendor at his place of business or residence. This manner exposes both the paying agent and the vendor to the same risk described previously. A recent example from April 2009 in Iraq involved several insurgents launching grenades at a U.S. patrol disbursing micro-grants. The result was four casualties including one American.¹³

The amount of these payments to a vendor can range from hundreds to thousands of dinar. A large container may be required to haul off the cash depending on the exchange rate and available assortment of currency denominations. If vendors were paid at host nation banks, their funds could be deposited into an account keeping the cash secure. When vendors need cash, they could withdraw only what they need, keep the remaining funds at the bank, and reduce the risk of losing all their money from theft. The vendor could also transfer cash at the bank from one account to another to pay for goods and services and reduce risk even further.

Making payments through host nation banks leverages the Army's immense purchasing power that can encourage vendors and citizens to depend on their own financial system to steer the country toward economic stability. "Between 2003 and 2008, Army FM units in Iraq purchased from or made payments to Iraqis for goods and services worth nearly \$7 billion in cash. Including the nearly \$12 billion of cash seized from the previous regime tendered to the Iraqi government, the total reaches \$19 billion in cash introduced by the Army into the Iraqi economy. Factoring in the second and third order effects of spending all this cash in the Iraqi economy, this sum represents approximately 20 percent of official Iraqi gross domestic product from 2003 to 2007."¹⁴ Instead of financial managers making these payments directly, the Army's spending in Iraq should be channeled through the Iraqi banking system under the mentorship of the embedded financial managers. This would leverage the funding flow to serve as the conduit to breathe life into the banking system.

The operational commander, using financial managers, can further leverage banks to inject funds at targeted locations through micro-grants and loans to foster the growth of small businesses. "One of the key lessons from the transition experience in the years following the

dissolution of communism in Eastern Europe is that small business development is critical to sustainable growth generating as much as two-thirds of all new jobs.”¹⁵

The Army recognized that using “money as a weapon” has proved valuable in Iraq. One such example is the Commander’s Emergency Response Program (CERP) that serves as a tool to spread goodwill and win the loyalty of the local nationals. CERP payments are made to Iraqis for a variety of reasons including condolence payments for killed or injured civilians, property damage reimbursement, and medical supplies.¹⁶ CERP also funds the creation of new jobs to put unemployed people back to work. This allows the citizens to provide for themselves and their families, which makes them less likely to join insurgents for economic reasons.

CERP has benefits, but it is not without problems. In 2009, the Special Inspector General for Iraq Reconstruction (SIGIR) discovered that 51 of 173 CERP projects were missing key documents.¹⁷ A separate audit discovered that the U.S. could not account for \$135 million of CERP funds.¹⁸ Compounding these issues was the “rapid and large influx of independent funding sources [external to CERP] that precluded synchronization of projects and fostered an atmosphere of haphazard reconstruction.”¹⁹ In one case, U.S. forces paid Iraqi day laborers \$8 a day while an adjacent unit paid \$10 at the same time.²⁰ This caused internal competition among U.S. forces and unnecessarily drove the cost of day labor higher. Potential for this type of conflict is not insignificant when considering that in 2007 nineteen brigades simultaneously disbursed CERP funds across Iraq with reporting channels for these payments to four separate staff directorates of Multi National Corps-Iraq (MNC-I).²¹

If financial managers are embedded throughout the host nation banking system they can address these issues. CERP payments made in local currency through host nation banks

would facilitate document auditing and cash accounting. Bankers disbursing CERP payments would retain the documentation for the embedded financial managers to audit. It is easier for financial managers to account for cash at banks instead of tracking hundreds or even thousands of paying agents scattered throughout the area of operation. Recent analysis showed that the number of outstanding paying agents in Iraq and Afghanistan ranged from 433 to 2257 holding \$36 to \$81 million with few controls to track, audit, or account for payments.²² Using banks has the added benefit of freeing line commanders from the responsibilities to store, account, and audit cash. This helps the commanders to focus their limited resources on accomplishing their assigned tasks. Since cash management, accounting, auditing are core competencies of financial managers they are ideal to facilitate this program with Iraqi bankers.

Using programs like CERP to infuse cash into an area of operation is a quick method to stimulate an economy. However, it comes with significant risk that operational commanders must understand. Cash is a target for insurgents because the funds fill their coffers to pay for weapons, recruits, and bribery of corrupt officials.²³ Military analysis shows that insurgents in Iraq are obtaining up to \$200 million a year through criminal activities.²⁴ It is highly probable that cash paid by U.S. forces found its way into the hands of insurgents. For example, insurgents coerced local national vendors in Al Anbar to pay for protection services for the vendor's employees and equipment. One vendor noted, "If I fill gravel in Hesco bags within the confines of the International Zone I charge about \$16,000. However, if I perform the same job in Ramadi or Fallujah the cost is \$120,000 with \$100,000 of that going to the Mujahideen."²⁵

Leveraging banks to pay vendors increases security to the payment process and provides the opportunity for the operational commander to engage the insurgency through a new conduit. Army Field Manual 3-24 reminds us that “controls and regulations that limit the movement and exchange of funds attack insurgent financial vulnerabilities.”²⁶ Cash flowing through banks provides a serial number audit trail that financial managers can use to track funds. If an insurgent has cash, investigators can potentially follow the trail to a particular vendor paid by an Iraqi bank.

Ultimately, financial managers should upgrade host nation banking capacity to accept electronic banking. Introducing the citizens to electronic commerce is a cumbersome task, but it allows the U.S. to efficiently monitor the manner in which local nationals make payments and collections. Consequently, it places a U.S. critical capability of forensic accounting against a critical requirement of the insurgent’s insatiable quest for financing. The U.S. has proven extremely adept at cutting off insurgent funds by placing an electronic stranglehold on bank accounts of suspected terrorists. At the early stages of Operation Enduring Freedom, President Bush issued an executive order targeting bank accounts. He commented “the first shot of the war was when we started cutting off their money, because an al-Qaeda organization can’t function without money.”²⁷ Within the first year of the program, over \$4 billion of terrorist assets were frozen.²⁸

Upgrading a cash-based economy to accept electronic banking is a significant challenge. Cultural differences and infrastructure limitations may hamper economic development. This underscores the importance of the operational commander accomplishing economic objectives with mutually supporting parallel lines of effort. For example, information operations that build confidence in host nation banks and the reconstruction line

of effort that restores electric plants that power the banks must support the economic line of effort. Moreover, nation building is not quickly accomplished. A recent study by the Rand Corporation analyzed seven U.S. nation building experiences including post World War II Germany and Japan to other more recent cases. None of these operations took less than seven years to complete.²⁹

Today's technological advances in automation and communication may hasten the pace of increasing banking capacity. Recent initiatives in mobile banking that use telecommunication devices to allow account holders to view account balances, payments, deposits, withdrawals, and transfers enable the account holder to conduct financial transactions from outside the bank. Financial managers and banks can pay a vendor electronically without requiring the vendor to visit the bank for payment. In Afghanistan, "a country with no electronic payroll system and only a fledgling banking sector, telecommunications giant Vodafone created a system that allows businesses and ordinary Afghans to transfer money via their mobile handset."³⁰ Although, this initiative may prove more difficult during other future operations, the Eagle Cash Card is another option that has some of the same benefits.

Today, the Army reduces cash in an area of operation by using the Eagle Cash Card. This form of electronic payment used by U.S. forces leverages a card that when placed in a kiosk with a personal identification number transfers funds from the service members bank account to the card that can in turn, be used to pay for goods and services like a debit card. A similar system can be set up for host nation use as an intermediate step between a cash-based and electronic economy.

The Financial Management Center (FMC) is the organization that coordinates the implementation of the Eagle Cash Card. One issue hampering the FMC is command and control. The FMC responsible for both Iraq and Afghanistan works from Kuwait. The chain of command for the FMC is external to MNF-I and the International Security Assistance Force (ISAF). Therefore, the technical knowledge and capability that resides in the FMC is outside of the operational commander's organization.

Critics may argue that strengthening host nation banks during stability operations is not a critical requirement. Further, if required, the U.S. military is ill-suited to rebuild a banking system. Instead, the U.S. Treasury working with nongovernmental organizations such as the World Bank and International Monetary Fund (IMF) can create the best banking environment for the operational commander. These organizations have the knowledge to establish or strengthen banking structure, develop standardized banking policy, train leaders in the banking industry how to run a centralized banking system, and encourage foreign investment through robust global information campaigns. Consequently, the U.S. Treasury can bring influential economic capabilities to bear for the operational commander.

In 2003, the U.S. deemed the Saddam dinar inappropriate for Iraq to use and introduced a new currency to help restore Iraqi faith in the national economy. The U.S. Treasury hired a retired Army brigadier general from the financial management ranks, who orchestrated the distribution of the new dinar from the Central Bank of Iraq to 243 branch banks across the country. To accomplish this task, however, the U.S. Treasury, working under the Coalition Provisional Authority (CPA), contracted a 700 man force from Global Risk Strategies to provide security during the cash distribution.³¹ The cost of this contract was \$27 million.³² Comparatively, in 2007, without the aid of contracted security, financial

managers transported \$1.5 billion in cash from vaults in Germany to Iraq and Afghanistan.³³ Once the cash arrived in theater, financial managers further distributed the cash to over 175 locations throughout the area of operation.³⁴

The lack of organic security significantly hinders the U.S. Treasury during hazardous conditions that often exist during stability operations. From 2003-2008 in Iraq, the U.S. suffered over 35,000 casualties including 4,200 deaths. The number of Iraqi civilians wounded or killed during this same time was far greater.³⁵ The U.S. Treasury is ill-suited to work independently in these type surroundings and must contract security or depend on military escorts that are often times required to accomplish different objectives.³⁶ The U.S. Institute for Peace discovered that in Iraq, successful CPA economic initiatives met with limited success “only when security was not a constraining factor....The CPA could write regulations, but not create a nationwide banking system from an office in the Green Zone.”³⁷ This observation is confirmed by Colonel Mansoor commander of 1st Brigade 1st Armor Division in Baghdad during 2003, who noted “CPA personnel rarely ventured outside the Green Zone due to a shortage of security personnel and military escort vehicles, cultivating a remoteness that colored their perception of life beyond the blast barriers”.³⁸

The U.S. Treasury also lacks the necessary capacity to develop host nation banking at the operational level of war. A March 2004 Office of Personnel Management report showed that only six of the 558 CPA government employees were from the U.S. Treasury.³⁹ Still today, concerns with interagency civilian capacity in stability operations exist. In April 2009, the Obama administration “turned to military personnel to fill hundreds of posts in Afghanistan that had been intended for civilians. Unlike the armed services, nonmilitary

agencies do not have clear rules to compel rank-and-file employees to accept hardship posts.”⁴⁰

Compounding the lack of capacity is bifurcation of command channels that inhibit unity of command. The U.S. Treasury often works outside military command and control. In Iraq, the U.S. Treasury worked for the CPA and not Coalition Joint Task Force 7 (CJTF-7). Assuming there were no conflicting objectives or priorities between the U.S. Treasury and CJTF-7, at best, the two organizations could only achieve unity of effort. This split command and control creates significant potential for unsynchronized operations. The CJTF-7 Commander highlighted this concern when he stated, “if the military headquarters had even a minimum of economic capacity, the military could have done a very credible job bringing stability and security to Iraq.”⁴¹ Lieutenant General Sanchez remarked during stability operations in Kosovo, “there is no U.S. government agency more effective to rebuild a nation’s capacity than the U.S. military.”⁴² General Peter Chiarelli reinforced this comment when he explained, “it comes down to a simple answer of capacity relative to the situation. The military is built to create secure conditions, but long-term security does not come from the end of a gun; it comes from a balanced application of all lines of operations.”⁴³

This paper identifies the combat potential of financial managers acting as expeditionary bankers during stability operations primarily using the backdrop of Operation Iraqi Freedom. During the next stability operation, however, banks may not exist or cultural differences may complicate how financial transactions are accomplished. However, every society uses some system to trade and purchase goods. Financial managers must understand the unique economic environment of each area of operation and that stability operations are about reinforcing or expanding existing capacity, not necessarily establishing new structures.

For the highest chance of continued stability after U.S. forces redeploy, the host nation must have both a vested interest and a willingness to accept U.S. improvements to their systems.

Commanders considering the application of financial managers as expeditionary bankers may wish to review four amplifying recommendations. These recommendations include updating doctrine, creating new assignment opportunities, further economic education, and implementing a cohesive task organization that can enhance the effectiveness of financial managers. First, financial managers must update joint and service FM doctrine to address expeditionary banking. This is the starting point to document the capability and role of financial managers as expeditionary bankers. Second, the Army should provide financial managers with assignment opportunities at commercial banks, U.S. Treasury, Federal Reserve, IMF, and World Bank. These assignments will build relationships and expand the knowledge of financial managers. Third, expanded civilian education opportunities should be offered to financial managers specifically in banking, economics, and international finance. Concurrently, the Army should update the military educational system to include resident and online economic and banking education for financial managers. Fourth, the operational commander should consider task organizing the FMC under his command and control to avoid command bifurcation. This unity of command will allow the operational commander to oversee the accomplishment of economic objectives in relation to mutually supporting parallel objectives.

In conclusion, because of America's military dominance, some of our adversaries have resorted to low technology irregular warfare as the medium to conduct combat operations. Choosing not to face the U.S. tank on tank, but instead, influence battlefield conditions to the extent U.S. combat power is not the mechanism required to win our nation's

wars. The contemporary operating environment in Iraq led the senior U.S. State Department policy advisor to the Iraqi Deputy Prime Minister to conclude, “the fundamental issue was that the average citizen was economically vulnerable to malign influences.”⁴⁴ Although the Army is evolving combat forces in recognition of this new threat, the tasks performed by financial managers have remained relatively unchanged since the founding of the Continental Army in 1775.

A fundamental shift must occur regarding how commanders employ FM forces during stability operations. Sustainment responsibilities of financial managers are important, but FM is also a capability that can help achieve peace through securing and rebuilding the host nation banking system. Financial managers are deployable forces trained and equipped to project an expeditionary banking capacity for the operational commander. They have the inherent knowledge and skill developed through years of sustainment support to the joint force that can be leveraged to reestablish host nation banking in austere conditions until the supported government can resume control. Meanwhile, the U.S. Treasury can work at the strategic level of war from a secure position to establish national financial policy and steer the host nation economy toward reputable international fiscal standards.

Operational commanders must recognize that “economic reconstruction depends upon adequate security; yet security depends upon successful reconstruction.”⁴⁵ Security and economics are closely tied; therefore, a successful operational plan should leverage the combat potential of financial managers employed as expeditionary bankers to achieve the greatest efficiency. The first step is to secure the host nation banks to create a protected environment for host nation banking. Second, embed financial managers in the banks to mentor personnel and streamline banking procedures. Third, using the banks, inject local

currency in the economy through contract payments, CERP disbursements, and micro grants to foster economic growth. Fourth, leverage the banks to track currency found with insurgents to discover financial links. Last, build the requisite structure to remove cash from the area of operation through the use of electronic banking. Through these five steps, the operational commander can achieve economic objectives.

NOTES

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