

BEYOND BRICKS AND MORTAR: THE “CIVILIAN SURGE” IN IRAQ

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Introduction

I've long had enormous respect for the U.S. Institute of Peace. You made a major contribution to the transition in East-Central Europe; these countries are now our partners in Euro-Atlantic institutions and in Iraq. Thank you very much for welcoming me and welcoming me and giving me an opportunity to describe our activities in Iraq. My position at Embassy Baghdad is focused entirely on transition – a one-of-a-kind job at a one-of-a-kind time. It exists because we are changing our relationship with Iraq. As we do, our assistance is also in transition. We are moving from infrastructure – from “bricks and mortar” projects – to assistance that promotes long-term economic development, ensures democratic governance, and leverages Iraq's own resources to get the most bang for our buck.

Today, I'm going to tell you how. I will focus on what we call the “civilian surge” – the personnel we have placed in key areas to help the Iraqi

government, at the national and provincial level, make maximum use of its own resources.

The Context

First, a little background. I sometimes say that Iraq has a democratic government but the remnants of a Stalinist economy. The economy now is in such a state as the result of decades of mismanagement under Saddam, compounded by the disastrous war with Iran and the debt Iraq incurred to fight it. Central control of the economy increased in the 1990s, when – in response to sanctions – Iraq built additional inefficient state-run industries to substitute for imported goods. The “Oil for Food” program created the Public Distribution System – a system to provide monthly allocations in kind of food to every Iraqi. And the PDS today is the largest single expenditure item in Iraq’s national budget. In all, Iraq is a country used to having resources directed from the top down, from the national government in Baghdad to state institutions and to the provinces.

Coalition forces that ousted Saddam found critical infrastructure had been ruined under decades of neglect, and essential resources lacking because of

corruption and mismanagement. For that reason, much of our initial assistance was directed to “bricks and mortar” projects to help restore services vital to the Iraqi people: reconstruction in the concrete – literally -- sense of the word. We focused on projects that would get the lights on, make basic health care available, ensure energy and transportation security, get the water running. That was the right thing, the necessary thing, to get Iraq’s key infrastructure up and running.

But now it’s time to change direction. When I took this job last July, the International Zone, where I live and work, was experiencing near-daily alarms warning of mortar volleys. Other parts of Iraq were experiencing the same. But as the 2007 military surge took hold, the threats lessened. Economic activity picked up – slowly but measurably. They were brave, these early entrepreneurs seeking to take back their neighborhoods and government institutions. The security situation was and is extremely fragile. Effective ministers, deputy ministers and senior officials still risk kidnapping or targeted assassination. But gradually, we saw that the military surge had given us an opening to make important progress on economic and governance issues -- if we could direct our resources, fast, where they would

have maximum effect. We needed to change our focus from bricks and mortar to giving our Iraqi partners the technical assistance they needed.

Notice that I said “partners.” Iraq’s national budget doubled from \$20 billion in 2004 to \$41 billion in 2007, largely as a result of dramatically higher oil prices. Iraq is making its own investment decisions to address the major challenges it faces. We decided it was time to use our assistance dollars as leverage in a productive partnership.

How? By addressing some of the critical economic priorities that would bolster stability and improve the Iraqis’ ability to govern. If we could do that – bring even a modest economic revival to neighborhoods now experiencing greater security – the gains of the military surge would be less likely to be undermined by still active insurgents looking for ways to create chaos.

The Priorities: Encourage Employment . . .

One of the major challenges Iraq faces is unemployment and its close cousin, underemployment. Officially unemployment is eighteen percent, but

underemployment is much higher – perhaps as high as forty to fifty percent. Employment opportunities give Iraqis a stake in their society – in its stability, its economic growth and its democratic government.

Last fall, as the military surge expanded, local Iraqis stepped up to provide security for economic infrastructure in their communities. The Concerned Local Citizens program was designed to give them support; we are now working with the Iraqi government to find them opportunities for follow-on training and employment, whether in the public or private sector.

We also established a Community Stabilization Program to provide short-term jobs, bolster essential services such as trash removal, offer vocational training and provide micro-grants, particularly in recently stabilized areas. And a pilot Civilian Service Corps program launched by U.S. forces will provide jobs and vocational training to Iraqis who undertake reconstruction and infrastructure development projects in their neighborhoods. But the long-term solution must be economic growth, and a market economy that promotes and sustains employment.

Investment . . .

Economic growth requires investment, domestic and international. Recent security gains have brought a surge in Iraqi business confidence. A December survey of Iraqi business leaders showed that 84% of them believed that security had been better in 2007 than in 2006. More than three-quarters of the business owners anticipated growth in the national economy over the next two years, and almost half – 45% -- believe sales will increase in the next six months. The IMF projects 7 percent growth for 2008.

But to make that happen, Iraq needs to undertake key reforms. Iraqis need to restructure their banking industry to provide for private banks and increase lending. They need to privatize unprofitable state-owned industries. They need to maximize profitability of the energy sector. Above all, Iraq needs to attract investment.

Let me give you an example of how tough that can be. Last summer, in 120 degree heat, I toured an Iraqi electrical transformer factory. The plant leaders led me to a locked box, carefully closed each night to protect it from dust, which housed the factory's precious 1980s-era computer. One of the

employees showed me how he nursed along another piece of critical equipment, carefully rewiring it whenever it broke. These are industries that will need significant investment if they are to restructure and be competitive.

Improve Government responsiveness . . .

Iraq's government institutions need to develop their human resources, a crucial commodity for development. The more effective the Iraqi government is, at all levels, the more confidence Iraqi citizens will have in the democratic process. The Iraqi government must demonstrate it is listening, and responding, to the needs of its citizens.

How can you tell if your government is listening? By seeing it spend resources on the problems you care about. In 2006, the Iraqi government spent only 22% percent of its capital investment budget. Officials needed training in procurement, contracting, anti-corruption safeguards, and technology.

Response: Using PRTs to identify and address local needs . . .

We took on these post-surge challenges with a toolbox of programs specially tailored through USAID and the Embassy's Iraq Transition Assistance Office to complement others run by the U.S. combat brigades. And we decided to surge civilian personnel with specific skills that Iraq needs. First, we expanded our Provincial Reconstruction Teams. When the President announced the surge, there were only ten PRTs. Now, a little more than a year later, that number has more than doubled to twenty-five. PRTs operate in provinces as diverse as Ninewa, Anbar, Babil, Diyala, Basrah. Some are embedded with military forces. They ride in humvees and MRAPs, and they have taken fire. But they also interact every day with local governmental and non-governmental leaders, and with businessmen and farmers. They are at the forefront of our outreach to the Iraqi people. And as such, they are a critical element in the counterinsurgency.

Who are these people? First, they are all volunteers and their numbers have reached nearly 800, ranging in age from mid-twenties to the other side of 60. Some are like me – career diplomats. Some come from other parts of the U.S. government, some from the military, some from the private sector. So if I put them together, in this room, you might meet a farmer from Ohio, a banking expert from Washington, a veterinarian from Tennessee, a city

planner from Illinois. If you want to see a real interagency process that works, come spend some time with one of our PRTs.

And because this was a fast-moving situation, we gave them resources.

Again, our goal was to use our money as leverage: to partner with Iraqis to consolidate the political and economic gains from the surge. We established Quick Response Funds for the PRTs, giving the teams the flexibility they needed to get projects moving rapidly. We were asking the PRTs to identify ways to help local officials invest in their communities, and put in a stake to get it going.

And they are. Our PRT in Muthanna transformed a primary school serving a poor, rural community into a modern, four-classroom school building. They installed roof-top solar panels to power small, heat and dust-resistant laptops with innovative educational software in Arabic. The Education Ministry takes it from there, providing teachers, books and an operating budget for the school.

The Muthanna team is expanding the “One Laptop per Child” concept to a series of model schools, including an orphanage and an all-girls school,

throughout the province. Each school will have 10 to 20 computers and will be paired with a counterpart U.S. elementary school to encourage interaction and relationships between Iraqi and American children.

Since 2005, Iraq's central government has transferred some budget resources directly to the provinces; it amounted to over \$2 billion in 2007. PRTs have worked with provincial authorities, identifying needs, accelerating their spending, and making contracting more professional and work plans more rigorous. USAID programs have provided critical technical assistance, building the skills and capacity of local government.

How? USAID sent 37 experts to assist local government officials in the provinces on strengthening governance, public finance, city planning and engineering. The Local Governance Program teaches officials how to develop projects, budget and contract for projects that address local needs. That means they are able to spend the money now allocated by the national government in Baghdad. Through its Community Action Program, USAID works at the grass-roots level to enable local Iraqi citizens to have a voice in their government.

Our goal is to build ability. And the better the ability of government – whether local or national – to respond to the needs of its citizens, the more credible, the more responsive, Iraq’s democratic system becomes.

... while building Ministerial Capacity through advisors and training

We have the PRTs and USAID programs building capacity at the local level.

What are we doing on the national level?

As we surged our PRTs, we also decided to dedicate an additional 75 experts to building capacity in key ministries. 18 are working solely on energy issues. Others are working with the Ministry of Agriculture, the Ministry of Health, the Deputy Prime Minister’s Office. As of the day I left, we had 70 of the 75 on the ground. We are assessing their initial impact now. But in some areas – like health – they have already brought a substantial improvement in the Ministry’s effectiveness and engagement.

It is hard to overemphasize the difficulty of doing this. Many of the ministries are in areas that are hard for us to visit due to security threats.

Last week, I went with one of our health advisors to visit a Primary Health Care Clinic – one of the first to open out of 140 that we have built. The men

and women doctors on staff faced tough odds: lack of electricity and water, mechanical difficulties, shortages. But they did not face a lack of patients; security in the neighborhood has improved. And they did not lack enthusiasm.

The expertise our ministerial capacity advisors offer complements USAID's technical assistance program on public management. That program, called "Tatweer" ("development" in Arabic) focuses on key areas: budgeting, procurement, human resources, strategic planning. Scheduled to run through July 09, it has already trained over 7,000 civil servants, and plans to train 14,000 more over the next 18 months.

What's next?

Our assistance is in transition. But what's next?

We need to build on our investment. We put significant resources into the "bricks and mortar" phase. Now we have both increased security and an Iraqi government ready to budget its own resources for construction. The

best assistance we can give is expertise, making the Iraqi government and economy more effective, more flexible, more dynamic.

That is why we will be proposing the reprogramming of some bricks and mortar resources to support anti-corruption initiatives, farmers cooperatives, small enterprise development, local governance, banking reform and technical assistance for the Ministry of Finance and Central Bank. These days, we're less about reconstructing plant and equipment, and more about constructing a skilled workforce, a responsive government, an economy that is self-sustaining and attractive to investors. That is **our** challenge, as we re-define our partnership with Iraq and re-evaluate how we can best assist in the future.

Conclusion

We've redirected our assistance, and surged our civilian advisors in the PRTs and in Baghdad. We've done it rapidly, to take advantage of security gains that remain recent and fragile. But make no mistake: it is tough for our experts to visit ministries and local officials; they face security threats and restrictions. Iraqi officials themselves are targets for those who would

prefer an unstable, dangerous, economically uncompetitive Iraq to the Iraq that we and our Iraqi partners are striving to form: democratic, secure and economically sound. The improvements we have made are reversible.

The good news is that Iraq has significant energy resources and growing income that it is ready to spend. And its people have a solid appreciation of how valuable its resources can be, used correctly. That is why Iraq also has our commitment to the technical assistance it needs now, to succeed. And it has the commitment of the international community as well. The UN is increasing its presence in Iraq, as are our European partners. Donors are coordinating their assistance with each other and with the Iraqi Government's development priorities through the International Compact with Iraq.

Economic transition is, of course, just one part of our effort in Iraq. But as we have seen over the last few months, it is essential to Iraq's broader transition to democratic governance and political reconciliation. Iraq has held national elections, and at the national level its government is facing the tough compromises necessary to pass legislation, execute a budget, provide services to all Iraqis regardless of background or political affiliation, fight

corruption. This year, Iraq is expected to hold provincial elections, a key step – though the Provincial Powers law recently passed by the Council of Representatives will be reconsidered due to constitutional issues raised by the Presidency Council. But that debate, too, shows a constitutional process that is working – in a way unimaginable under the previous regime.

Every day brings new challenges and often disappointments. The scale of the economic challenges in Iraq is immense. But the Iraqis themselves are now spending much more on their own development than we are and the economy is starting to recover. Inshallah we can complete the transition.

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