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can a supply chain promote peace?

The military command in Iraq hopes that U.S. purchasing power can help rebuild Iraqi business and employment, thereby promoting peace. That may mean accepting a less-than-optimal supply chain, but military leaders insist it's worth the risk.

The Iraqi economy today, the workforce in Iraq, is experiencing an unemployment rate – an effective unemployment rate in excess of 50 percent. I don't know any population in the world, Virginia or anyplace else, where if you impose 50-percent unemployment, there aren't going to be militia roaming the streets and people blowing things up. I just accept, and most rational people accept, that economic distress creates sympathy for violent activity, for unrest, for social unrest, and that economic prosperity is a countermeasure against social unrest and violence.

—Paul Brinkley, Deputy Under Secretary of Defense, May 18, 2007

IN WORLD WAR II, THERE WAS AN ARMY SAYING, “IF IT MOVES, SALUTE IT; if it doesn't move, pick it up; if you can't pick it up, paint it.” The color has changed from Army green to desert tan, and today in Iraq there's still a lot of paint splashing around. Where does that paint come from? And what about reconstruction materials? And everything else the coalition uses in Iraq?

There is a whole lot of money being spent, and a whole lot of product moving around. It's more than paint. This raises an interesting question for supply chain professionals: What is the role of supply chain management in the security plan for Iraq? How can we think about supply chain management as a tool to stabilize Iraq?

Unemployment is a huge problem in Iraq. Even during the Great Depression in the United States, unemployment peaked at around 25 percent. Reliable statistics are hard to come by in Iraq, but estimates of 30 to 60 percent are generally accepted. It's even higher with the younger generation. Over half of Iraq's population is under the age of 25, and it's no coincidence that this same demographic provides the bulk of the membership in the militias.

According to a report by the Council on Foreign Relations, published in June 2007, “Iraq's lackluster economic development and rampant unemployment help contribute to its high levels of violence. With few jobs created since 2003, experts say Iraq's younger populations are easily recruited by militant groups to take up arms.”

Any young man without a job is a candidate for recruitment by the insurgents, and there are a lot of young men without jobs. Many join militias not out of a sense of ideology, but out of lack of choices. For some, there are few alternatives available to secure employment.

“When people find that they cannot support their family with food and other supplies, they search desperately for any kind of job. Insurgents use this weakness. They use these guys for terrorist activities in exchange for the promise of good money,” said one Iraqi, who iden-

tified himself as Youssef.

And reducing unemployment is where supply chain management is coming into play. Life or death analogies are rampant in American business, but when it comes to the supply chain in Iraq, it is real. Not only is effective alignment of the supply chain to the strategy a mission-critical activity, but effective execution of supply chain initiatives is an inherent part of the security plan. It will save lives.

Heady stuff.

The Iraqi First program

In a letter dated March 28, 2007, Gen. David Petraeus, commanding general of the multi-national force-Iraq, set forth clear guidance on leveraging the power of sourcing to support the mission. The United States is spending almost \$9 billion a month in Iraq, but only a tiny fraction is spent on economic development. Gen. Petraeus is intent on using this spending as a tool to bring economic growth to Iraq, and the program is called Iraqi First.

“It is my intent to leverage all of this command’s activities and resources, including contracting, to provide increased opportunities for economic expansion, entrepreneurship, and skill training for the people of Iraq. This Iraqi First program will directly support our campaign plan objectives and lead to a moderate, stable, and representative Iraq capable of controlling and governing its territory,” asserts Gen. Petraeus. “Procuring Iraqi supplies and services strengthens the Iraqi economy, enhances the security environment, and gives local workers a vested stake in the quality of the finished product, and increases local sources for the future.”

Consider the math. Conventional economic wisdom holds that every job created in turn creates something like four additional jobs as the money flows through the supply chain. In some industries it is less, and in some it is more, but for rough-cut planning, four is a reasonable number. In Iraq, a wage earner supports a household of eight to 10 (some reports put it as high as 13). By harnessing the Iraqi supply chain, flowing spend through it, Gen. Petraeus is looking to secure around a 50-to-one force multiplier. Every job created lets him reach 50 Iraqis.

The linkages of the supply chain are a potent weapon being used to help build a more secure and safe Iraq.

Origins of Iraqi First

Iraqi First has its roots in 2006. In July of that year, Gen. George Casey, then the commanding general of multi-national force-Iraq, issued the initial “Iraqi First” memo. The language is remarkably similar to the March 2007 memo from Gen. Petraeus. Some might even say that the

language is identical. It seems that the military believes it has found a winner.

At a press conference earlier this year, Maj. Gen. Darryl Scott, commanding general for the joint contracting command for Iraq and Afghanistan, detailed some of the accomplishments of the Iraqi First Initiative:

“We work very closely with the coalition forces and with other government agencies to have 131 contracting officers located at 13 offices throughout Iraq, from Mosul down to Basra. Last fiscal year, we awarded over \$5.2 billion worth of contracts and over \$1 billion of that went to Iraqi firms. This year we are on target to spend over \$6.2 billion, and we hope to award over \$2 billion to Iraqi firms.

“We’re using the program to remove barriers that prevented Iraqi-owned businesses from competing on a level playing field with companies from outside Iraq, and to assist Iraq to transition to a

vibrant, self-sustaining free-market economy.


“We’re putting more Iraqis to work by procuring construction supplies, services, and other commodities from local Iraqi contractors. This helps strengthen the Iraqi economy, enhances the security environment, gives local workers a vested stake in the quality of finished products in their communities, and increases local sources for future use.

“This has been a true shift in thinking about reconstruction contracting in Iraq, and a movement toward developing capacity of Iraqi firms to provide for the needs of their own people. Where before, we contracted primarily with large international businesses, more and more we’re contracting with smaller Iraqi local firms.”


The nuts and bolts of Iraqi First

The objective of the Iraqi First program is to align coalition contracting activities with the overall goals of unity, security, and prosperity. This objective flows down to each contract awarded by the joint contracting command for Iraq (JCC-I), where Iraqi First language typically includes the following description of the award criteria: “Offers will be evaluated on the planned utilization and training of, and transfer of knowledge, skills, and abilities to the Iraqi workforce; as well as the proposed utilization of Iraqi companies and personnel in the performance of Statement of Work requirements.”

Maj. Gen. Scott has not been reticent in the more specific written guidance he has issued to his contracting command. “The coalition is engaged in countering an insurgency and ethno-sectarian violence. Success against these types of threats depends as much, if not more, upon economic operations to stimulate and mature the local Iraqi economy in support of economic campaign objectives. ... Best Value



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source selection procedures using Tradeoff processes will be used in lieu of Low-Price, Technically Acceptable techniques. Best Value solicitations shall include evaluation criteria that give high priority to socioeconomic factors.”

To illustrate how this actually flows into a procurement decision, consider language from a currently active solicitation. “Best Value solicitations include evaluation criteria that give high priority to socioeconomic factors. These socioeconomic factors, in turn, support Iraqi First objectives. Offers will be analyzed for the offerer’s efforts to employ Iraqi citizens, utilize materials of Iraqi manufacture, and subcontract with Iraqi firms. Offerers are encouraged to hire local Iraqi labor, use Iraqi firms, and procure materiel of Iraqi manufacture wherever possible and to the maximum reasonable extent. Offerers are required to identify in their proposal the total projected number of Iraqis, Iraqi companies and Iraqi-manufactured materiel that will be directly employed or procured in performance under the resultant contract. Offerers will be expected to certify achievement of these levels of Iraqi activity while performing under the resultant contract.”

This has led to a huge growth in the amount of money flowing to the Iraqi economy. Since 2006, JCC-I reports that over 40 percent of the awards it has made have gone to Iraqi enterprises.

Knitting together a supply chain

At the same time that the Iraqi First initiative got under way in Iraq, the Department of Defense launched a parallel effort to rehabilitate industrial capability in that country. The focus of the Task Force to Improve Business and Stability Operations in Iraq is to revitalize idle or underutilized public and private enterprises in Iraq. The 2007 Defense Supplemental Budget appropriated \$50 million to the task force to fund industrial revitalization.

This team includes a team of highly qualified manufacturing leaders and business analysts, on the ground in Iraq. The task force supports economic development activities by providing private-sector expertise in industrial operations and factory management, skills not previously found in the American presence in Iraq.

According to Paul Brinkley, deputy under secretary of defense for business transformation and the leader of the task force, “When you look around the country, what you find is just a variety of factories making everything from construction material, light and heavy industry, including, you know, buses, tractors, agriculture equipment, fertilizers, food processing—essentially anything an economy can consume.”

Brinkley continues, “So we believe, by restoring these factory operations, which we now have under way—we’re turning on factories almost weekly now—we can uplift

Iraqi livelihoods and restore intra-Iraqi commercial linkages. It’s part of the fabric that held this society together. ... I’d ask you to consider the United States in the absence of those commercial ties—you know, among states; how long would we hold together as a union if we didn’t have commercial interplay?”

By pursuing industrial development, by providing a catalyst to local industry in parallel with the emphasis on flowing market demand to local sources, the Department of Defense is working to pull together the threads in the complex tapestry we call the supply chain.

The other side of the coin

For decades, Iraq labored under international sanctions, making maintenance of equipment a challenge and the procurement of new equipment just about impossible. So, while manufacturing capability advanced in the rest of the world, it decayed in Iraq. It is a rare facility that has advanced beyond mid-’80s technology.

Schedule performance can be unreliable, as well. The security situation means that, on occasion, employees cannot get to work. Or power is intermittent. Or shipments, either inbound raw materials or outbound finished goods, are delayed.

Plus many Iraqi companies are saddled with the legacy

mindset of a planned economy. Before 2003, all power resided in Iraq with Saddam Hussein and his power elite. To this day, administrative processes can be slow, decision making power is often centralized, and managers tend to be risk averse. This means that doing business with an Iraqi firm can be frustrating, particularly against the backdrop of today’s hyper-charged, Internet-driven, customer-centric economy.

Roll these factors together, and there are those who argue Iraqi goods and services just don’t cut it against the holy trinity of price, schedule, and delivery. And, against this limited set of factors, there is merit to this viewpoint. But the point of Iraqi First is to avoid the suboptimal solution that results by using price, schedule, and delivery as the yardstick. The primary objective isn’t the myopic execution of a single contract. The primary objective is to drive employment in Iraq.

In other words, the heart of the value proposition in Iraqi First lies not in the individual procurement being executed, but rather in the economic prosperity it can generate. It’s not just about providing a new tractor to a farmer; it’s about using the money being spent to obtain that new tractor in Iraq, employing Iraqis, so that Iraqis can be brought into the mainstream and become part of the New Iraq.

In the long run, the coalition can only prevail by bringing

economic opportunity to the Iraqi people. To bring stabilization and to generate employment, a tradeoff is required. Price, schedule, and delivery must be tempered against the imperative of driving employment. Some truths are universal: It's the economy, stupid!

Historical precedent and implications for Iraq

In a June 14, 2007, *Times of London* opinion piece, the author explored the issue of economic reconstruction in Iraq. "Have you forgotten?" a South Korean soldier recently asked an American I know

in Baghdad, 'what you did for us?' The US spent more than a billion in 1950s dollars to rebuild South Korea after the Korean War. It kick-started an economy that is now one of the most dynamic in the world. On that a democracy was built."

And let's not forget Japan. The Japanese economy struggled until the onset of the Korean War. Japan then became an important logistical support base for the Korean conflict, with significant economic activity flowing into the local economy. Through the power of the supply chain, the Japanese economy got into gear.

Western Europe benefited from the Marshall Plan. The plan was in operation for four years beginning in July 1947. During that period some \$13 billion in economic and technical assistance was given to help the recovery of the European countries that had joined in the Organization for European Economic Co-operation. By the time the plan had come to completion, the economy of every participant state, with the exception of Germany, had grown well past pre-war levels.

Paul Brinkley elaborates on the lessons of the Marshall Plan and their implications for Iraq. "In the absence of reindustrialization and re-employment of the people of Europe after World War II, we would have fought a war there again. And that's what happened to Weimar Germany: The economic distress that took place there after World War I led to the rise of a dictatorship ..."

Brinkley continues, "This [Iraq] is a human population that is suffering economic distress. And if you alleviate the suffering, I believe the job our forces have and the Iraqi defense forces have gets much easier. Will there still be zealots and, you know, will there still be hard-core, violent resources here in this country? Absolutely. But if you take away the portion that is simply frustrated and fed up after four years of seeking any income, then I think the job of our forces and the ability to stabilize this country gets much, much easier."

Iraqi First may not be as catchy as the Marshall Plan, but it makes just as much sense. And the cornerstone to Iraqi First is supply chain management. As we said before, supply chain management can be pretty heady stuff. □