

United States Institute of Peace  
Association for Diplomatic Studies and Training  
Iraq Experience Project

**DAVID NUMMY  
EXECUTIVE SUMMARY**

*Interviewed by: Larry Plotkin*  
*Initial interview date: October 14, 2004*  
Copyright 2004 ADST

David Nummy was the former Assistant secretary of the Treasury for Finance and Management. As a member of the team established to follow the military into Baghdad with the Office of Reconstruction and Humanitarian Assistance (ORHA), he assisted with the re-establishing of a viable Iraq.

Nummy's role was, in effect, acting Minister of Finance, but with the title of senior adviser. He had to figure out what part of the ministry was working, what officials were available to work, how to get the ministry operating again, and to transfer power to the Iraqis as quickly as possible. The Ministry of Finance created five pay levels into which they were able to fit the previous personnel classification system, eliminating bonus favor system. Moreover, Nummy and the team he worked with wanted to get money into the hands of Iraqis to start-up the economy without causing inflation. The people who worked in the ministries began coming forth with payroll and employee records.

Working most closely with the ministry's highest ranking civil servants, he successfully implemented payment procedures for both the civil service payroll and for Iraqi pensioners. U.S. currency was used to jumpstart spending with new Iraqi dinars being used soon after the first round of payments.

When the de-Baathification order was issued by the CPA once they replaced ORHA, Nummy argued against it and largely ignored the order. He also strongly opposed the decommissioning of the Iraqi military, as some sort of infrastructure of security was necessary. Also, as the poor class of society joined the military for subsistence, he believed it unfortunate that they were regarded as members of the old regime and thus career Baathists.

The main lesson that he said should be learned from the Iraq experience is that being able to bring a sense of security to a post-conflict country is the number one requirement. This security is necessary for a functioning government and economy. The willingness of the Iraqis in order to get their country operating again in a normal way greatly surprised Nummy, as it was an attempt to show support for the presence and purpose of what was being done in Iraq.

United States Institute of Peace  
Association for Diplomatic Studies and Training  
Iraq Experience Project

**DAVID NUMMY**

*Interviewed by: Larry Plotkin*  
*Initial interview date: October 14, 2004*  
Copyright 2004 ADST

*Q: Today is Thursday, October 14<sup>th</sup>. My name is Larry Plotkin and I am interviewing David Nummy for the Iraq Experience Project.*

*Mr. Nummy, first off, let us start with some basic information. Your name, area of specialization, what you worked in while you were in Iraq, age, education, employer, etc.*

NUMMY: My name is David Nummy. I've spent most of my career focused on government financial management. At the time of my experience with Iraq I was an employee of the U.S. Department of Treasury Office of Technical Assistance. That's a program that I had been at, at the time, for about eight years. I was responsible for managing all of the technical assistance programs to ministers of finance in transitioning and developing countries, focused specifically on the budget process. I had spent a number of years working with ministries of finance. That program had been called upon immediately after the Dayton Accords in Bosnia. Our program provided advisers to the new Bosnian government to help them build, with relative success, administrative finance functions. We were also called into Afghanistan and Kosovo. I was involved in the initial engagements in determining what those governments could utilize from my program and what kind of people they needed. We then identified people to be put into those countries. So I had experience in post-conflict countries, specifically in building the government's financial management capacity of those countries.

Prior to that, I had spent a year in the Ukraine working in a democracy project. I served as the assistant secretary for finance and management at the Department of Treasury, spent a part of my time working for the Senate Budget Committee in Washington before I went to the Ukraine. Prior to that (my first job out of college), I was an auditor with what was then Ernst & Whitney. I have a master's degree in accounting and I am a CPA.

*Q: When did you go to Iraq?*

NUMMY: I was approached by the officials at the Department of Treasury in mid-February asking if I would be willing to be part of a team that was being assembled to help reconstitute the Iraqi government if and when the conflict occurred and once the conflict was over and newly functioning government institutions were required. I agreed that I would be willing to do that for about a three month period, no more. That was in mid-February. In mid-March I was part of what I think was the original civilian group

that was put together and assigned to ORHA, the Office of Reconstruction and Humanitarian Assistance, headed up by Jay Garner. I don't remember how many people exactly were in that group, but let's say there were 90 people. I was flown to Kuwait City around mid-March, was in Kuwait when the conflict started, and I was part of the first group that went from Kuwait to Baghdad, I think approximately April 23<sup>rd</sup>.

*Q: And stayed for three months?*

NUMMY: I stayed there until the second week of June, came back to the U.S. for about ten days, and I went back and stayed there until about the second week of July.

*Q: Have you been back since?*

NUMMY: I have not been back since. I've been a resident in the States. My job requires me to travel all over the world but my home is here right now.

*Q: Walk me through the transition to Iraq. What did your group anticipate finding when you got into Iraq; what did you find when you got there?*

NUMMY: I think, first, I should outline the structure and the strategy of this original group, the ORHA group. The idea was to put together a group of people who would be acting officials of the Iraqi government. My role was to be, in effect, the acting minister of finance. There was—for public sensitivity reasons—a reluctance to call ourselves acting ministers; so we adopted the title of senior adviser to the ministry of whatever. When this group was being put together, my function was to be the senior adviser to the Ministry of Finance and the objective that was articulated to me was that we were to go to Baghdad. We had to first figure out what part of our institution was working and what officials were available to work with, and then to do whatever was necessary to get that particular unit of government functioning again. We were to try to identify who would be appropriate people to serve in key positions in those ministries, to support them in whatever way was important, and to transfer power to them as quickly as possible.

Having had experience in Bosnia, Kosovo and Afghanistan, this was not a scenario that was completely unfamiliar to me. Beyond that, I am not sure that there was a lot of policy. People on our team were supposedly chosen for their ability to take that broad mandate and then decide what that meant in detail. My experience in post-conflict situations was that there would be some elements of these government institutions that one could work with. Physical structures would be in place, the offices of the Ministry of Finance would exist, and we would at least be able to find some cadre of career employees that we could work with.

Again, focused on my specific area, we also assumed that records would exist as to how the government finances had been operating. There was an assumption that there would be at least some element of a functioning payment system to work with, and by payment system I mean literally how money moves around in an economy. In any government, the payment system is really the ability for government to collect revenues, to manage

them—to warehouse cash and disperse cash as appropriate in terms of payments for salaries and goods and services.

In Kuwait, where the group had been assembled, we spent about five weeks as a group thinking about how we were going to approach these requirements. I had many, many meetings with members of the coalition military who had asked to be informed about what role they could play in order for us to be able to perform our goals of getting government up and running again and get the economy operating again. One of the points we made to them and to everybody that we met with was that the most important thing was to make sure that the physical infrastructure was spared bombing and that when the coalition entered Baghdad, one of the priorities we thought extremely important was that the physical infrastructure of the government was protected.

We were asked on several occasions to create a list of the most important assets that needed to be protected; and I think on every one of those lists, at the top of the list, was the Central Bank. The military needed to make sure that the Central Bank was not bombed, if it could be avoided, and that when the coalition military took control of the city, the Central Bank was protected. The secondary objective was to try to make sure that all records that could be secured would be secured. Those were the major issues that we told them were extremely important to us.

As the conflict began to unfold as we sat in Kuwait, it was the case that none of the key physical structures that we had asked them not to bomb were bombed, but what became very clear as the coalition military entered into Baghdad was that for whatever reason the military was not able to physically secure the buildings. I think it was probably early in April that we began to get reports that the Central Bank and the Ministry of Finance were being looted and destroyed. When we eventually arrived in Baghdad, our first foray out of the palace that we were housed in was to go try to find the Central Bank and try to find the Ministry of Finance. We confirmed for ourselves that indeed the Central Bank was completely destroyed. The Ministry of Finance had been completely gutted and looted and burned. Our initial reaction was that we actually had nothing to work with.

*Q: Faced with that kind of situation, what do you do?*

NUMMY: It was very clear to me from the beginning that there were at most 100 of us and 22 million Iraqis, and there was no way that we were ever going to be running the country. We had to identify Iraqis who were qualified and willing to perform the functions that we were responsible for. My first priority was to try to identify what I would call the career civil servants in the Ministry of Finance and to begin to work with them; first to try to understand how the system had been functioning, what documents and records existed, and how we could most quickly get the Ministry of Finance function operating again.

My ultimate first priority was to try to get an ability to pay civil servants operating as quickly as possible under the belief that the only way we would get Iraqis to come back to government and to start performing work was the prospect of their getting paid. In this

instance, we had the advantage of the fact that the U.S. government had confiscated Iraqi assets in excess of over \$1 billion that had been frozen in the U.S. since the first Gulf War. These assets, under our procedure of confiscating such assets, had been brought into the U.S. government. That allowed a presidential directive to be signed making these funds available to help rebuild Iraq. They were clearly available to start paying government employees again. So the money was available, which is somewhat unusual in a post-conflict situation. But we had no ability to know who the employees were. We had no knowledge at that point in time of how we would pay them or how much we should pay them. So those were my major priorities.

One of the things that somewhat interestingly became a phenomenon was that although almost all government structures had been destroyed with the exception of the Ministry of Oil, which had been secured, people began to show up at these buildings. We started getting reports from the military that people would show up at the front gate of a particular ministry and would identify themselves as career employees. They wanted to know what they were supposed to do. I found that a little surprising, initially. Then I got a message passed to me from one of my colleagues in the group that they had been approached by somebody who said that he could arrange a meeting between myself and the core members of the Ministry of Finance if I was interested. I said that I was interested. We agreed upon a time that I would meet with them.

At that time, really, the only place we had to meet was at what had been the convention center in Baghdad. So I passed back the message that if people were willing to show up at a certain time at the convention center, I would be happy to meet with anybody from the Ministry of Finance. It was never really clear to me how this message had got to our group. It was never really clear to me who had delivered the message. But whatever the mechanism, it worked because I showed up at the appointed time and place and there was a group of probably 20 people who had been senior officials at the Ministry of Finance.

It was important to know that the standard structure in the Iraqi government was that each ministry was headed by the minister. Most of the ministries had deputy ministers. The next level below that were the directors general. Almost throughout all the Iraqi government you had this three-tiered structure—the minister, the deputy minister and the directors general. The group that showed up to meet with me was almost all directors general.

In the Ministry of Finance, at the director general level, there was probably something like 15-20 officials. Each headed up several different functions that were relatively standard in a Ministry of Finance. One was director general for the pension system, another for the treasury, responsible for budget execution, a third for accounting, a fourth for administration, and others for other activities of government. The Iraqi governmental structure was a little unique in that the Iraqi Ministry of Finance actually owned the major banks that functioned in Baghdad at the time. In Iraq there are two major state-owned banks that really performed, that were really the only viable banks in the country, the Rashid Bank and the Rafidain Bank.

As time proved later on, they really were not functioning as banks in the Western sense. They weren't collecting deposits from individuals and serving a financial mediation role and vending that out to credit-worthy borrowers. Essentially what they were, were payment agents for the government and the only real substantial deposits they had were deposits of state-owned enterprises. But most importantly what they were doing is they were serving as the bill-payers for the government.

I'll expand upon that a little bit. The way the Iraqi budget system worked was that money was initially sent into Ministry of Finance accounts at the Central Bank. There was a budget process that allocated certain amounts of money on a monthly basis to all the different units of government and in the Iraqi system every unit of government was allowed to have its own bank account. The Ministry of Finance essentially made monthly deposits into the bank accounts of the different budget units. In terms of administrative finance functions, that's what we would call a payment system and while that is probably not a very good payment system, it was very important to understand how it worked so that we could try to recreate it as quickly as possible.

So I showed up at this meeting with about 20 officials who were primarily at the director's general level. I found them amazingly calm, very professional, and very open-minded. I started off the meeting by explaining who I was, that I was part of the civilian group representing the coalition whose job was to get the government functioning again. I said that while there was a long list of issues that were going to have to be addressed at the Ministry of Finance, on that particular day I only had one issue that I wanted to focus on and that was how we were going to reconstruct the civil service to get the government operating. I made it very clear that I didn't really want to discuss any other issues at that meeting.

I found the group completely respected that and immediately began to talk with me about how we might approach that. One of the big issues that I felt we were going to face was that we would have absolutely no records of who had been employed before. As it turns out, most of the records did exist, and I'll talk about that in a second. The second issue I had was our need to come up with a compensation scheme and to determine what was an appropriate amount of money to pay employees. The third issue was going to be how to decide on what currency we were going to use to pay employees. The fourth issue was going to be literally how were we going to get cash out to the appropriate people and have some sense that people ultimately got paid the money to get to work.

I asked for a list of all the people at the meeting, their names, and what role they played in the ministry. After the meeting, I was approached by a couple of people who said that the previous deputy minister of finance had chosen not to attend the meeting, but that he was available to meet with if I was interested. I said that I was very interested in meeting with the person. At this point it was very unclear to me whether the people in these positions in the Iraqi government were technocrats, whether they were primarily political people, or what role they had actually played. They were governing members of the political apparatus of the previous regime, but I believed very strongly that it was important to engage with all of them. At least officially, the only previous Ministry of

Finance official that the coalition had identified as a potential person of interest or a potential criminal was the minister himself. So I agreed to the meeting.

One of the other issues we discussed at this first meeting was where could a Ministry of Finance physically operate. The former Ministry building had been completely destroyed, gutted, and looted; but the military had finally taken control of the perimeter of the building. All of the people that were at this meeting said that it was very important for them to be able to get into the Ministry of Finance building, find out what existed, what records were left, what equipment was left, whether the building was usable at all. We agreed to meet there, either the next day or two days later. I asked them again to try to think about how we could identify the general governmental employees, what we should pay them and how much we would pay them. At that point I don't think I would have raised the currency issue.

I showed up at the appointed time two days later. A key element to point out here is that one thing I had not expected was the complete inability for the coalition to communicate with itself and our complete inability to communicate with Iraqis. The phone system didn't work and we had zero communications equipment to work with. One of the great challenges of operating in that environment was how to have a conversation with the Iraqi people. How could we communicate with key Iraqis that we wanted to see if we could work with them and literally how could we communicate among ourselves? When I made a commitment to meet the group of Iraqis at the Ministry of Finance, I had absolutely no way to communicate with the military that I was going to be there in two days, that I was going to have a group of Iraqis with me, and that I was credentialed and had a legitimate need to be there.

So I showed up at the Ministry of Finance where a group of soldiers were outside. I convinced them that I was part of ORHA, explained to them that I was going to have this meeting, that there was going to be a group of former Ministry of Finance officials there, and that I wanted them to have the ability to get into the building to take an inventory of what was there. The military people in charge of the scene were relatively low-ranking and it wasn't difficult to explain the situation to them and to get their cooperation. Most of the people who had been at the first meeting showed up at the second meeting plus the deputy minister of finance showed up. I got them into the building for a walk-through. It was very clear that there was nothing left. All of the records were gone, all of the furniture was gone, what remained had been destroyed by fire. There was really nothing to salvage.

After they did an inventory we met in one of the rooms in the ministry and started to talk again about how we were going to pay people. I asked for them to identify a person that they wanted to be their primary representative. They conferred with themselves and they said that the previous deputy minister was the appropriate person.

In addition, they presented me with a plan on how we would start to pay civil servants again. It was actually written out in English as well as in Arabic. The plan was actually extremely well thought-out. It had many appropriate safeguards in place and I was

extremely impressed with the thought they had put into it and how they had adapted to the situation.

As I think I mentioned earlier, one of the things I thought was going to be one of our major problems was that there would be no records available about who had been paid in the past. What I came to discover was that in every ministry there was some sort of computer system. It usually reflected the technology of the early '90s because technology sort of stopped in Iraq after the first Gulf War. There were people in charge of these computer records and one of the things I learned was that, first of all, in the Iraqi culture, there is a tremendous respect for record-keeping. Where this comes from, I don't know, but I saw it over and over and over again. Iraqis love to keep records; they thought it was extremely important. They were kept properly. They kept records about everything. I think in every ministry the persons in charge of the records had taken the records to their personal homes to protect them right before the conflict started because they believed their duty was to protect these records. They all believed, having lived through the first Gulf War, that buildings would be destroyed, that it was unlikely that the Iraqi government was going to prevail in the conflict, and that their job was to protect these records.

The other thing I found out that day was that the director general for pensions had been able to download the records of every single pensioner in Iraq on to floppy disks and he had to be able to put it on a personal computer which he then took home with him.

*Q: Including military or just civil service?*

NUMMY: Including military. It included everybody entitled to a pension in the Iraqi system, basically anybody who had been an employee of the government was entitled to a pension. There was an attempt in the '90s to create some kind of a pension system for private sector employees but it hadn't really developed very well. But in the Iraqi economy, most people who were formally employed were employed either by government per se or by state-owned industries. And those people were all entitled to pensions.

When it became quite obvious that the Ministry of Finance building was not going to be at all suitable to work from, we talked about what the options might be for a physical structure to work from, and they proposed a building that had been owned by the Ministry of Finance and had housed that part of the ministry that oversaw free trade zones. It was still standing and could be a temporary place we could work from. So we got the address or the coordinates for the building and we agreed that our next meeting would be held there to evaluate whether the building was suitable. Another building which had some potential to serve our needs relatively quickly was the building that housed the tax administration. While it had been completely looted, it had some furniture left in it and it hadn't been physically destroyed. The walls were still standing, the electricity worked and it had a generator. In the Ministry of Finance, wires had been pulled out of the walls and there was no hope really that it could be functional in any reasonable period of time.



So our next meeting was at the free trade zone building. It was somewhat dysfunctional. It wasn't suitably located, but it proved to be the only location we had. We agreed for the time being that we would utilize those offices, but that only a handful of employees would show up to work there. Again, I was still focused solely on how we would pay people because that was really my number one priority. I believed at the time that we would never get people back to work if they didn't have a prospect of a paycheck and that we had to get money into the economy. We had to get something of value into the economy.

*Q: These meetings took place over how much time?*

NUMMY: I would say probably over three days, one meeting right after the other.

*Q: Two issues didn't come up in what you've said so far. One was that of working with Baathists at all, even if they were professional level rather than policy-makers at the top of the system. The other was what I might have anticipated to have been the reluctance of some of these people to identify themselves to you. Am I correct that neither of those was an issue, or did they become issues?*

NUMMY: I'll respond to that by explaining that—as I pointed out—I had spent the previous eight years working in transition countries and originally worked a Treasury Department program that was focused exclusively on Eastern Europe and the former Soviet Union. I learned early on, and I think everybody else who worked in that part of the world learned early on, that in those systems you could not ever expect to have a decent job without becoming a member of the dominant political party. So, as I also learned very early in this kind of work, being a Communist did not mean you believed in communism, it didn't mean you were a bad guy, it meant that it was the only way you were going to have an ability to self-actualize and have a job that had some meaning and substance and pay to it.

So I brought to Iraq a firm belief that Baathist did not equal bad guy because I had seen that over and over and over again in what had been totalitarian regimes. I think my attitude was the same as probably 99 percent of the original ORHA group. Everybody, certainly everybody that had had experience in the former Soviet Union, believed that absolutely. The people that didn't have earlier experience certainly heard us discuss this issue over and over in Kuwait. The people who had thought about this issue believed very strongly that it was completely false to operate from the assumption that being a Baathist necessarily meant being a bad guy. You obviously needed to be very skeptical; you needed to be extremely careful about who you worked with. You needed to try to utilize whatever way you could to try to evaluate whether the people you were dealing with had been professional civil servants just trying to do their job or whether they had been instruments of the regime.

What I essentially did was to identify four or five people that I thought were really key to what I wanted to get done who had been in senior positions in the ministry. I talked to them at length about how they ended up in their positions and I talked to them about what

they did on a daily basis. It was clear to me that all those people had started off as junior officials and had worked their way up through the system exactly the way almost any proper government would operate. I concluded that they were purely technocrats who had simply been promoted because they were able to get a job done. It also became very clear to me that in almost all of Saddam's ministries, while the minister was a member of the ruling regime, the number of people Saddam had in place in the ministries was much smaller than I had thought it would be. The minister was there to mostly impose the will of the regime when it was important, but he had basically nothing to do with the ordinary functions of his ministry. It was this group of career people with whom I was in contact that did the day-to-day activities of whatever ministry was involved. That was true to the Ministry of Finance and I think it was true in almost every ministry that existed.

As a sidebar, I'd add that one of the conclusions I came to was that if you took out the security forces, put those aside for a second, that in the government proper—of those people who were government officials—there were probably fewer than 50 people in the entire Iraqi government who were part of the Saddam Hussein inner circle.

*Q: Actually a smaller group than your Eastern European experience suggested.*

NUMMY: Much smaller. Although even in the former Soviet Union I discovered that except for a couple of senior people at the top, most people were in essence no different from the kind of people you'd find in any government in the world. They were there to do their ministerial functions, to execute the policies they were given, to make sure that the apparatus of government operated.

I had conversations about this in Kuwait with the most senior people in ORHA and I asked them point blank, "Is our policy that Baathist equals bad guy?" The answer was "No." We are going to approach all of them on their own merits and we needed to have the ability to sort the true government civil servants from those who were an instrument of the political elite.

I also would say, on this topic, that my experiences also taught me that if you don't work with the people that made it run before, if your goal is to get the government operating and to get an economy functioning, you are never going to get it to run and you may have to create certain checks and balances against those people. I repeated over and over and over again to my colleagues that there were 100 of us and there were 22 million of them. If there existed a group of people that made the country function at some level before, those people had to be utilized to the extent possible.

The second part of your question was, "Was that an issue or did it become an issue?" Clearly it did become an issue. I think it is probably general public knowledge that when Jerry Bremer and the group of the people around him came in, literally one of the first to-do items they had was to ban all members of the Baath Party at certain levels from being any part of government and any member of the Baath Party from holding a senior position in government. I was extremely vocal with the people who were coming in that that was a huge mistake; that it really did not reflect the experience of these kinds of

situations for the past 20 years. It was not the first totalitarian system we had engaged with, not the first one party state that we had worked with, and that there was absolutely no experience in any country that said that being a member of the dominant political party meant you were a bad guy.

*Q: Before Mr. Bremer arrived, how far had you proceeded in setting up the pay system?*

NUMMY: We had made tremendous progress by the time Jerry Bremer got there. I'll just try to hit the highlights without getting too much into details. While I was engaging with the Ministry of Finance officials, I had colleagues in every single ministry who were engaging with the civil servants they could find; and I would say that their experiences were remarkably similar to mine.

I think once word began to spread through the city that there was a group of coalition civilians who were trying to get the government operating again and that their goal was to pay civil servants, I would say that in almost every single ministry people at the director general level got themselves to my colleagues, the senior advisers for their ministries. We all had the same experience. They found that people at the director general level were professional and essentially apolitical. They really saw their job was to make their ministry work. They were qualified, relatively well-educated, and had spent their entire lives in government. And in almost every ministry, payroll and accounting records popped up. The story was almost the same in every ministry: the individuals whose job it had been to take care of those records saw it as their personal duty to protect their records, and they had in most cases taken them home.

In almost all cases they were available in some sort of computer medium. In a couple of cases they were only available on paper, but the records existed. With the Ministry of Finance people I was working with, we devised a system whereby every ministry would put together a list of who were appropriate employees. The senior adviser in each ministry would have the responsibility to certify the list.

The next issue was how much were we going to pay them? One of the things that had become clear to me in my very early conversations in Baghdad with Ministry of Finance officials was that since the first Gulf War, the entire pay system had become distorted and extremely inconsistent among different units of government. Essentially, the base pay of the average employee had become almost worthless. It was such a small amount that it really amounted to nothing. What really impacted the economic value of people's compensation were essentially bonuses that ministries conferred upon their employees. Ministries had been given the ability to generate and keep their own revenues and were given the freedom to use those revenues to pay bonuses to their employees.

Some ministries had great capacity to generate revenue. The Ministries of Industry, Trade, Construction, and Finance had all been able to create schemes to generate accounting revenues. They weren't really economic revenues, but on books they were revenues. And they had bonus systems that, for the most part, were somewhat reasonable. Bonuses were allocated openly and somewhat in accord with performance. However, in

some of the ministries, the most senior people got completely disproportional bonuses. But the Ministry of Education, on the other hand, had no ability to generate revenue, so teachers were paid very little.

The big problem was even though within a given ministry you might have had a system where the relative pay levels of people could be perceived as appropriate, when you compared people performing the same function from one ministry to another, you found that they had extremely disproportional salaries.

It was my Ministry of Finance colleagues who explained this whole process to me. We all agreed very early on that we couldn't perpetuate this system; that whatever we were going to pay people, we had to eliminate this bias between the ministries. To eliminate the bias, we had to eliminate the whole bonus system. We also agreed that we needed to come up with a way that people were paid on a relative basis fairly, a simple and easy to understand system that could be quickly executed.

There were a couple of key people working at the Ministry of Finance who devised a new plan that essentially created five pay levels into which they were able to fit the previous personnel classification system. We looked at it from a number of different angles and, essentially, everybody would be paid as much or more than they had in the past except for people at the highest levels. The most appealing thing about it was that teachers, a huge proportion of the civil service payroll, would be paid substantially more than they had been in the past.

That was obviously appropriate and, I think, a great PR opportunity for us. I took that pay scale with me to the leaders of ORHA, explained it to them, and told them this was our new proposed system. They agreed with it. I then explained it to all of my senior adviser colleagues for all the ministries. We issued operating instructions through the Iraqi officials I was working with to their counterparts in other ministries. At the same time, I issued instructions to my colleagues that essentially said they had to certify a legitimate list of employees of their ministries. They needed to then fit those employees into the five established pay levels. We said that once the Iraqi officials and the senior adviser had certified their lists, they were to be transmitted to the Ministry of Finance.

I also had to provide guidelines on how they had to pay them. That was obviously a huge challenge. First of all, most people weren't showing up for work because there was no place to show up at. Their offices had been destroyed. Most of the banks had been destroyed. So I began to talk with my colleagues about how payrolls were met in the past and about how much money they needed to pay to meet monthly payroll. The plan was for the Finance Ministry to do a cash transfer to a bank account of each other ministry. Those funds would then be transferred to accounts in all the governmental offices in the provinces of Iraq. A committee of three people from each ministry would show up at the bank and that committee of three would have the responsibility to pay in cash a certain subunit of that ministry. Representatives of each subunit would show up; all three would sign a receipt for the cash and then they would literally pay each person individually. The employee and all three members of the committee had to sign for each payment. Since

that was a system that all Iraqis understood and were used to, we decided to adopt it. In Baghdad, we began to designate specific days when the payrolls could be picked up by a specific ministry once it had certified its employee lists and once we got the numbers correct. Each ministry had to designate a master committee of three that would come in and pick up the cash. Those people would, in turn, pass the money to a subcommittee of three down to a point where you would have a committee of three that would be responsible for paying 30 people.

The next issue was what currency to pay in. This was a huge economic issue because one of the worst things that can happen in a post-conflict country is to have people lose faith in their currency. A currency collapse has catastrophic results and we didn't want that to happen. On the other hand, one of other worst things you can do in a post-conflict situation is to inflate the economy. We didn't want to start printing Iraqi dinars or paying people in Iraqi dinars that they would perceive as worthless. Finally, we needed to send a signal to the population that the Iraqi dinars they had were still good.

An important element here, which was a difference between what I expected and what turned out to be the case, was that in almost every post-conflict country you have some ability to communicate with the population. In most countries, in Bosnia, in Kosovo, you still had electronic media. You could transmit through radio, you could transmit over television. In almost every country you can at least communicate through newspapers. We had zero ability to communicate with the population. So we had to be extremely careful that everything we did in that kind of a void was a communication in and of itself.

We talked at great length about what kind of a signal our actions would send. One, the fact that we were paying people was an important signal, saying to Iraqis that because you worked for the government before doesn't mean we think you're a bad guy. Two, we wanted to signal that we wanted Iraqis to come back and make their country work again. Three, we signaled that we wanted to pay everybody fairly and we wanted people who were doing the same work, regardless of where they worked, to be paid the same.

On the currency issue we thought carefully about what kind of a signal we would send. We came up with basic salary compensation levels and decided we would pay in Iraqi dinars. We were now about three weeks into our time we were in Baghdad. We had determined at that point that there was enough currency in bank vaults—existing Iraqi dinars in bank vaults—to meet one complete payroll for all of the employees that we calculated existed on the territory of Iraq.

We had to come up with an exchange rate. We came up with what at best we could tell had been more or less an average historical exchange rate, 2,000 dinars to the dollar. We felt it was extremely important to pay people in dinars because it was a signal that we weren't going to banish this currency or punish people who held dinars; that it was still a legitimate currency. On the other hand, we knew that we weren't going to continue to print dinars, or certainly not dinars that had Saddam Hussein's face on them. The only alternative we had, simply because you couldn't print new dinars fast enough, was to use U.S. currency.

We came up with the idea that every employee would get an emergency payment of \$20 to be paid in U.S. currency. We calculated what that added up to in U.S. dollars. We worked with Treasury Department officials who did an incredible job of getting the cash together at the New York Fed. We wanted to receive the money in small bills because we knew that one of the big issues in Iraq was that even though there was currency in the system, there was not enough small currency to make change. We didn't want to pay people in \$20 bills because then there wouldn't be any currency for small transactions. The Treasury Department literally flew a cargo plane with U.S. currency, primarily ones, fives, tens, and a few \$20s, to Kuwait. The money was then flown to Baghdad.

Then we didn't know what to do with it. Initially we wanted to see if we could find some Central Bank vaults. There was an old Central Bank vault that appeared to be, at least in the beginning, a good candidate, but it was literally in the middle of downtown. It was extremely difficult to get in and out of that area because the streets were too narrow and it was also too exposed. If people began to know that there was currency moving in and out of that area, it would be easy to hijack it. So we identified what had been four local branches, two Rafidain and two Rashid, which were spread throughout the city, and we decided to split the money up in those four branches. We then had each committee of three show up at one of those four branches.

In fact, we were paying people within four weeks of our arrival in Baghdad. So that's a quick overview of how we solved the payroll problem.

*Q: The next major event was the changeover from ORHA to the CPA (Coalition Provisional Authority). How did that go?*

NUMMY: Well, from my perspective, it wasn't dramatic. I and other people from the Treasury Department who were working Ministry of Finance functions were always perceived as Treasury people, never as ORHA people. I would say that the people who came in with Jerry Bremer didn't really see us as affiliated with anything other than the Department of Treasury. They saw that we were actually getting things done and I think they also saw that what we were doing was pretty uncontroversial. So when the group came in which was subsequently labeled the Coalition Provision Authority, or the core of that group, I had meetings with Bremer and people around him and explained what I was doing and why I was doing it. They were actually extremely accepting and supporting.

The two big issues that affected me were, one, the de-Baathification order, which I thought was incredibly self-destructive and inappropriate, and two, the disbanding of the Iraqi military, to which I had strongly objected. Again, because I had had experience in post-conflict countries, I believed that soldiers were just soldiers. They weren't politicians. They weren't pursuing a political agenda. They weren't out persecuting people. They were generally the poorest and least educated of the country and were in the military because they needed a job and income. It was really inappropriate to treat them differently than career employees of the Ministry of Culture. They were both just kind of doing their jobs.

Secondly, it was very clear to me that if our goal was to get the country stabilized and functioning and operational, you didn't need a group of hostile people facing you. I believed then that it was a huge mistake to alienate these people by being so aggressive, telling them that they were fired, they weren't going to have a job again, and that retired military personnel were never going to get a pension.

I haven't really addressed the whole pension issue; but at the time we were paying civil servants we also had devised a system to pay all the pensioners as well. Pension payment is a somewhat different story, but with some similarities to the payroll issue. We found that the pension records existed. We found the people who had run the system had been completely apolitical, very professional, and had an extreme sense of duty to the old and vulnerable people in their society. It was important to them personally that they were able to continue to get some sort of economic resources in their hands, but all of the traditional payment locations had been destroyed.

They devised a plan to pay everybody in Baghdad out of what had previously been the administrative offices of the pension administration. The number of people that had to be paid in a 30-day period was staggering, so they literally calculated how many people they would have to pay in a day. Before the war, they had devised a system to split the records up and pay a part of the people each day. Everybody's pension card identified what day of the month they typically would get their pension payment so there was a staggered system in place that people understood. If you got paid on the 12<sup>th</sup> of every month; that was the day you got paid. In theory, one-thirtieth of the pension population was paid every day with adjustments for weekends. But before the war, the pensioners had all gone to a local branch of either the Rashid or Rafidain bank to get paid.

*Q: Both in Baghdad and outside of Baghdad?*

NUMMY: Both inside Baghdad and outside of Baghdad. Now, the bank payment system wasn't available to us so we decided literally to bust the ground floor windows out of the pension administrative building and turn them into teller windows. We would paint letters of the alphabet above every window. If your name was the equivalent of A-B, you went to one window; if it was C-D, you went to another. Then we began to spread the word that if you had been paid on the 12<sup>th</sup> of the month in the prior system you were going to get paid on the 12<sup>th</sup> of the month in the new system, but that everybody had to come to the central location to be paid.

We had to determine how much to pay people. The pension system was another area where inflation had completely eroded payments. I think the average pensioner was getting paid the equivalent of about \$1.20 a month. We devised a system, in the beginning, of paying all the pensioners only in U.S. dollars. I think we made two pension payments at once. The first payment they were going to get covered two months so everybody got a \$40 payment. That started happening within about three or four weeks of our arrival. So both salary and pension payments were already underway by the time the CPA group arrived.

*Q: What was the impact of de-Baathification on the ability to keep the system going?*

NUMMY: Well, the de-Baathification order said that if you had been a member of the upper levels of the Baath Party you could not hold any position in government; and if you had been a member of the Baath Party at any level you could not hold a position equivalent to director general or above.

I talked with all of the people that I had put into what were essentially the directors general positions. In individual conversations I asked every one of them, "Were you a member of the Baath Party, when did you join the Baath Party, why did you join the Baath Party?" With the exception of about three officials, every one of them told me that they were a member of the Baath Party at the lowest level, that most of them had never been members of the party, but had joined about two years prior when they had been approached and told if they didn't join the party they could no longer hold a position in government. So they had joined, but they weren't active in the party. And there were two of the director generals who had never joined. One was the treasurer, who was a very important person in the process of re-establishing the ministry. I can't remember the function of the second.

I also talked to the previous deputy minister who basically had the same story and had only joined the party about two years prior. I decided that I wanted the previous deputy to become the acting minister and had a very frank discussion with him. I told him I was prepared to go public naming him, essentially, the acting minister of finance but that he needed to understand that if I did this that his entire background was going to be completely open to scrutiny and people were going to want to know everything he had done politically. He was going to be the subject of all kinds of accusations that were going to be unfounded. He was going to have to defend himself. I asked him if he was prepared to accept that and he said that he was.

Of the senior people at the Finance Ministry, five or six people had been very senior level members of the Baath Party. Three of those people just never showed up at our meetings. I had never seen them. Two of them had shown up. I talked to them and to people around them to try to make my own conclusion about whether they had been active, committed members of the party or were just members in order to keep their jobs. My initial conclusion was that in the most basic sense they had not been the bad guys; they had not committed bad acts. While they might have been active in the party in the senior level, they hadn't committed crimes against humanity.

When the de-Baathification order came out I was, as I said, extremely vocal in opposing it. From the beginning, I had only committed to be in Iraq for three months. By the time CPA came in I was probably halfway through that. I came to the conclusion that if I had executed the de-Baathification order it would completely unravel everything that had been accomplished. So I essentially ignored the order and didn't implement it. It was not clear to me that there was really a high degree of importance being placed on implementing the order; it was really more important to announce the order.



*Q: Was that also the case for your colleagues at the other ministries?*

NUMMY: It was a huge, huge agonizing event. Every one of my colleagues had confronted the same issues I had, and all of my colleagues came to their own decisions. I would say that some of them tried to implement the order, and essentially told people that had been members of the Baath Party that they had to leave, couldn't come back to work.

But they failed to identify non-Baath Party people who could fill the gaps created by these dismissals. It was a major problem because many of the people that they fired had been incredibly supportive of what we were trying to accomplish and there was really nobody that could step into their roles and fulfill the requirements of their positions.

With regard to the Ministry of Finance, I concluded that one of the people, essentially the administrative director general, while he probably had not been a bad guy, had been the enforcer of party doctrine. If somebody fell into disfavor he made sure that person got fired; if somebody was in good favor he made sure that person got extra pay or got promoted, etc. That person I did fire. But all of the other officials I left in place and when I left in mid-July they were all still in place.

*Q: Any sense of what happened after your departure?*

NUMMY: I think all of those people stayed in place until the Interim Council was appointed. In the case of the Ministry of Finance, the member of the Interim Council who was serving in the Ministry of Finance function indeed fired a lot of the people that I had put in place. But I am not sure every single person who should have been let go under the de-Baathification order was let go. It was somewhat selective and I am not sure I ever had enough information to know how those decisions were made.

*Q: In terms of your work in Iraq, were there significant security issues that you faced in the time you were there?*

NUMMY: There was a complete lack of security from the beginning. I think if there's a lesson from the entire Iraq experience it is that being able to bring a sense of security to a post-conflict country is the number one requirement. Without security you can't have a functioning economy, you can't have a functioning government, you can't have any sense of stability and the country is never going to get out of the shambles that every post-conflict country is in. There was never security.

In the beginning the biggest issue was not for us, the foreign civilians. The biggest issue was for Iraqis. The way the lack of security initially manifested itself was that common criminals began to run free. I had many, many conversations with Iraqi colleagues who told me all kinds of stories about having neighbors whose houses were burglarized and I was told—I don't have evidence—that there was a huge outbreak of rape against women. They weren't allowed on the streets.

There very quickly began to be mutilation threats against women who were in public and who didn't wear appropriate covering. I was told by the Iraqis I dealt with that this was starting to happen on a frequent basis and that the biggest issue they had to face was that they literally had to acquire a gun if they didn't have one so that someone could be on guard 24 hours a day, prepared to defend their home. People were afraid to let their kids go to school or even to leave the house.

So in the beginning, the most insidious effects of a lack of security were all being borne by Iraqis. My own personal experience was that when I left the palace, left the so-called Green Zone, I got incredibly positive reception from people on the street. Kids were excited; they smiled and screamed and jumped up and down when they saw me. Most Iraqis look at me either with curiosity or at least most of the time in a very positive way. But that began to change as their lives got worse and I began to sense that I was not getting positive feedback from the average people. It went from a kind of very enthusiastic positive sense, to kind of neutral, to sort of hostile by the time I left in mid-July. But I never felt like I was in personal danger.

We did have security procedures. You weren't supposed to leave the Green Zone unless you were part of a convoy that had a military vehicle in front and a military vehicle in back. But there were never enough military vehicles to go around, so many of my colleagues and I began to ignore that and we just drove into the city completely unprotected. Some people chose to wear body armor. I always felt like it separated me from the Iraqis so I never wore body armor or a helmet. Again, I never felt in danger and, at the time I left there had never been a single incident against any member of ORHA or the CPA. Obviously that has all changed.

*Q: You mentioned the immediate emergence of the criminal element, but you also mentioned the attitude expressed towards women. Was that coming from the criminals or from radical Islamists? Could you identify the difference?*

NUMMY: It was clearly not coming from a criminal element but rather some religious element. It was unclear to me at the time whether this kind of fundamental radical Islamic element had always been in Iraq and had been suppressed, whether the conflict itself catalyzed a group of people who acted upon that belief, or whether these were people from outside. But I believe what I was told; it was happening.

*Q: One or two more questions before I let you escape. First, my impression from what I've heard from you so far is that within the context of the Ministry of Finance and the people with whom you were working with there, corruption wasn't an issue. Certainly we've heard from other people involved in the Iraq experience that what we would regard as corruption was built into society as a way to grease the wheels, to get things done. In terms of your experience, was that an issue at all?*

NUMMY: My conclusion about the Iraqi political and governmental system was that there was a very small number of people who were part of the Saddam Hussein regime who were extremely corrupt and had wealth beyond imagination. They abused their

positions and had access to money or directed where money went. But in the context of a society of 22 million people it was a very small number of people. These people, my conclusion was, had no interest in working, had no interest in holding a job. They wanted only to enjoy the spoils of the system that they were a part of. Essentially every government minister was a member of that elite group and they executed directives that came out of the ruling structure as appropriate. But most of the time they took no interest in the operations of government

That was really turned over to what we would consider a professional, career civil service. I saw no evidence of significant corruption among that professional group of people. I got to know some of them relatively well. They did not live extravagant lives. They did not have access to wealth. They did not have access to goods that other people didn't have.

Whether there was petty corruption—my suspicion was that there was—it wasn't massive and it wasn't particularly abusive. I have to say again that I came to this assignment from having worked 10 years in transition countries and it's a rare country where petty corruption is not part of the basic fabric of life. In judging how corrupt a country is, it's a matter of degree. If the corruption is on a consistent and relatively small scale it's not as corrosive as if it's on a massively abusive scale. That's what I found.

*Q: Any last words that you want to get on the record this evening?*

NUMMY: What I would want to make sure is on the record is that during my time in Iraq, especially during the first days there, I was surprised and incredibly inspired by the motivation of most Iraqis to get their country operating again. While I made a lot of sacrifices and the American military made a lot of sacrifices and my civilian colleagues made sacrifices, it was nothing compared to what the Iraqis were willing to sacrifice and what they were willing to expose themselves to in order to get their country functioning again. I am completely and totally of the opinion that their primary motivation was to get the Saddam era behind them, to get their country operating again in a normal way, and to try to lead what they thought were normal lives.

That was my experience. I did not experience hostility. I did not experience an attempt to undermine our presence there and I didn't see any presence of that when I was there.

*Q: Thank you very, very much.*