

Spring 2014
Industry Study
Final Report
Reconstruction Industry



The Eisenhower School
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RECONSTRUCTION 2014

ABSTRACT: The Eisenhower School’s Reconstruction Industry Study Seminar analyzed domestic and international companies and organizations that provide global reconstruction services and receive funding from varied sources, including US and foreign governments, non-governmental organizations, and private donors. The authors noted two distinct aspects of the reconstruction industry: the *mission* of reconstruction and the *industry* of reconstruction. As a result, it concluded that while some sectors suffered from the US withdrawal from Iraq and Afghanistan, the *industry* overall remains healthy. The focus of this analysis is on the failures of government efforts to effectively respond and execute reconstruction as a *mission*. Challenges to the *industry* include the timing and allocation of resources, the absence of an international framework to unify efforts, and the lack of tailored outcomes in the application of reconstruction services. The reconstruction industry is critical to the National Security Strategy’s goal of preventing the collapse of or repairing fragile nations. For the industry to succeed in this endeavor, the US government must formulate a unified framework, empower a lead agency, and coordinate resources, objectives, and efforts of stakeholders within the reconstruction industry.

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PLACES VISITED

Domestic:

Dept of State, Bureau of Conflict and Stabilization Operations (Washington, D.C.)
Dept of State, Office of United States Foreign Assistance Resources (Washington, D.C.)
Dept of State, Overseas Operations Center (Washington, D.C.)
DynCorp International (McLean, VA)
Louis Berger Group Incorporated (Washington, D.C.)
Management Systems International (Washington, D.C.)
Millennium Challenge Corporation (Washington, D.C.)
United States Agency for International Development, Office of Civil Military Cooperation (Washington, D.C.)
United States Army, Peace Keeping & Stabilization Operations Institute (Carlisle Barracks, PA)
World Bank (Washington, D.C.)

International:

Civil-Military Interaction Workshop (Manly, Australia)
U.S. Consular Agent Keithie Saunders (Honiara, Solomon Islands)
BJS Enterprises (Honiara, Solomon Islands)
Regional Assistance Mission to Solomon Islands (RAMSI) (Honiara, Solomon Islands)
World Bank Mission to Solomon Islands (Honiara, Solomon Islands)
Royal Solomon Islands Police Force Explosive Ordinance Disposal Program (Hell's Point, Solomon Islands)

Courses Attended:

Governance and Democratic Practices in War-to-Peace Transitions, U.S. Institute of Peace: Participants in this course examined the relationships between issues of corruption, accountability, rule of law, elections, political party development, public administration, and economic reconstruction in developing nations and learned how to develop an action plan for promoting good governance in a post-conflict environment. The industry study seminar also attended a weeklong Civil Military Interaction Workshop hosted by the Australian Civil Military Centre that provided critical insight into the complexities and challenges inherent in international reconstruction efforts.

INTRODUCTION

Regional instability has both direct and indirect consequences for United States (US) national security, as failed and failing states “foster instability, enable radicalization and extremism, and ultimately undermine the ability of governments to manage threats within their borders.”¹ The long-term stability of Iraq and Afghanistan is a significant focus of US policy in the Middle East and its global war on terror. Yet despite US efforts in the Middle East, including the considerable blood and treasure invested, successful reconstruction remains elusive. Defining and achieving success requires the study of both the reconstruction industry itself and the manner by which policy makers interact with the industry. This study concludes the government sector (mission), not the private sector (industry), is the source of failure in the reconstruction industry.

In order to study the reconstruction industry, the authors utilize the Australian-led reconstruction effort in the Solomon Islands as a case study. As a small nation that is the beneficiary of more than a decade of targeted, international intervention, the Solomon Islands are uniquely suited to serve as a model of international reconstruction efforts. The United States has had, at best, a peripheral role in the reconstruction effort, so the Solomons further provide a model to compare and contrast international methodologies in the same field.

The multi-national, Australian-led Regional Assistance Mission to the Solomon Islands (RAMSI) intervened in 2003 at the request of the Solomon Islands government to stop the violence that destabilized the country during the so-called “Tensions” of 1998-2003.² The 15-nation coalition was less likely to resemble an “occupation” than had Australia intervened alone. RAMSI began with a multi-faceted mandate “to lay the foundations for long-term stability, security and prosperity – through support for improved law, justice and security; for more effective, accountable and democratic government; for stronger, broad-based economic growth; and for enhanced service delivery.”³ Despite the emphasis on security, Australia’s Department of Foreign Affairs and Trade (DFAT), rather than the Australian Defense Force or police, led the mission. Considered a success in many circles, RAMSI is planning a transition to a Solomon Islands-led security force, with RAMSI reverting to a training and advisory role. Coalition nations will continue to provide other forms of development assistance bilaterally. Elements of Solomon Islands’ civil and political society warn that RAMSI’s departure may be premature.

This paper defines the reconstruction industry then analyzes the current state of the industry and identifies a number of challenges. The analysis forms the basis for assessing the future outlook of the industry and providing some key policy recommendations intended to both maximize the effect of US reconstruction investments and strengthen the reconstruction industry. Appended essays address some of the issues identified within this paper.

THE INDUSTRY DEFINED

Reconstruction is not a traditional industry defined by a group of economic entities that share similar means of production with common measures of success and profit. The reconstruction industry is diversified across several independent sectors and does not allow for a concentrated analysis of a single code in the North American Industry Classification System

(NAICS). This is a complex space in which myriad actors participate, ranging on a spectrum from direct government entities at one end to private for-profit corporations on the other. This paper defines the reconstruction industry as *public and private entities supporting governance, economic and essential services, in fragile, crisis-affected countries, after initial relief operations, to enable development.*

While each of these players are ostensibly working toward a common purpose, they typically have widely divergent objectives. This puts civilian government, military, police, non-profit humanitarian, and for-profit private industry all in the same space, each with their own motivations, desired outcomes, and measures of success. The authors' definition of success recognizes two elements: success of the *mission* versus success of the *industry*. Mission success may lead to lost opportunity for the industry, as a stable, self-sufficient country no longer requires industry involvement. Mission failure ensures profit for the industry, as industry services continue to be required. This study, however, indicates a new framework be considered, one that takes into consideration the complexity of the industry itself, the interconnectedness of the desired outcomes, and emphasizes mission success over industry profit.

CURRENT CONDITION OF THE INDUSTRY

In terms of analysis, the reconstruction industry presents a number of unique challenges. Given the multiplicity of products, services and players, traditional economic data on a universal "international reconstruction market" is unobtainable. However, using available information on the US domestic Natural Disasters and Emergency Relief Services Industry, one can extrapolate the state of the overall global reconstruction industry. Any study of the industry is further challenged by the potential complexity and variety of local conditions and environmental requirements. For example, a post-natural disaster reconstruction event has different challenges and requirements and attracts different industry players, than a post-conflict environment, such as in the Solomon Islands.

Further, an examination of reconstruction must take into account the industry is essentially providing a common good within an emotive paradigm, often making traditional public good cost-benefit analyses politically untenable.⁴ In other words, following a calamitous event; humanitarian, moral and ethical considerations tend to drive relief and reconstruction efforts rather than purely economic ones. Consequently, event unpredictability and emotionalism associated with humanitarian assistance and reconstruction decisions produce market failures both within the mission as well as for industry participants. Buyers, particularly government and non-profit, non-governmental organizations (NGO), tend to be more concerned with humanistic and social benefits of the mission, prioritizing them over any private or social costs (at least in the short term).⁵ Meanwhile, for-profit firms actually benefit from a certain amount of mission "failure" as extended mission duration ties directly to extended contract revenues and new opportunities. The policy and operational challenges this dichotomy presents are further detailed in Essay #3.

Collectively, these considerations make governmental expenditures on reconstruction, as well as donations to such causes, extremely unpredictable. In the aftermath of an event, governmental spending, corporate sponsorships and private donations typically flood in. Conversely, funding streams decrease with tightening governmental budgets, a sluggish

economy, and donor fatigue, resulting in subsequent reductions in industry capacity, capability, and research and development for both profit and non-profit firms.⁶

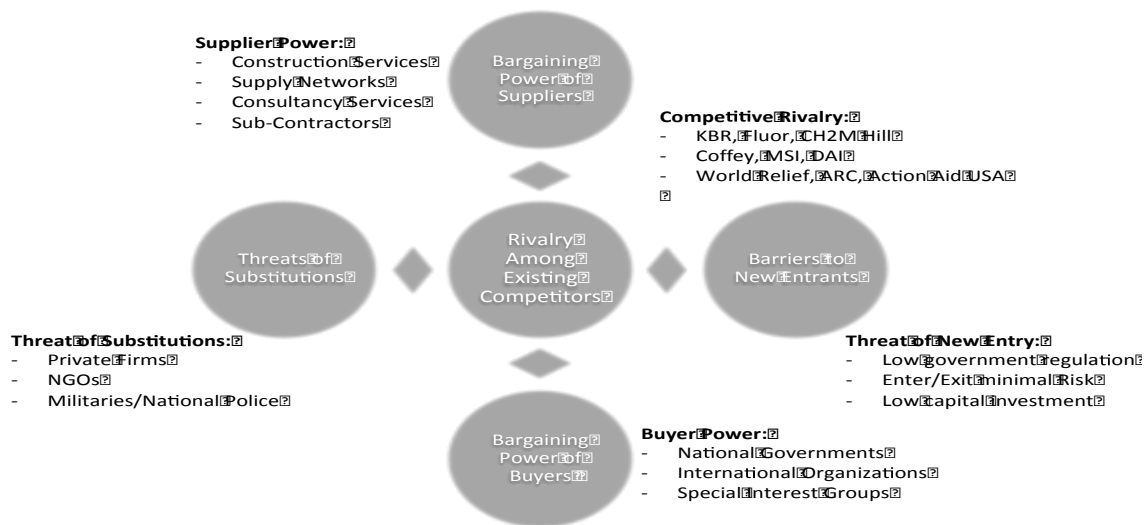
The reconstruction industry is big business; the Organization for Economic Cooperation and Development (OECD) reports that global Official Development Assistance (ODA) reached a record level of \$134.8 billion in 2013 and could rise again in 2014 before leveling off.⁷ See Essay #1 for more on donor budget trends. It is difficult to determine how much is dedicated to reconstruction, but the sectors in which reconstruction activities *could* take place (e.g., construction, education, governance) consume \$60 billion of the ODA.⁸ It is likely actual reconstruction activities absorb much less than \$60 billion.

Although the reconstruction industry is projected to grow at an estimated annual rate of 1.2 percent for the next five years, government funding and private donations are likely to exhibit the volatility of the previous five years due to the unpredictability of natural disasters and conflicts as well as national debt levels, governmental budget deficits, and the sluggish global economy.⁹ According to the United Nations' (UN) Intergovernmental Panel on Climate Change's March 2014 report, climate change has and will continue to increase the frequency of natural disasters and conflict resulting from drivers such as poverty and economic shock, so demand for industry services will likewise rise.^{10,11} Experts forecast corporate profits and disposable incomes will recover steadily, bolstering private charitable donations to the industry; however, government funding may not fulfill OECD expectations for the reasons previously mentioned.

Types of services in the reconstruction industry include, but are not limited to: general construction, economic development, security, public health, and governance. While competition among these services differs across sectors, there are generally two groups in the industry. The most recognized are global engineering and construction services with the capability to deliver services in austere environments, such as Fluor, KBR, Coffey, and Louis Berger and who pursue both government and commercially financed construction projects. These firms enjoy robust economies of scale and limited competition due to the high capital costs of equipment and extensive logistics chains that constitute high barriers to entry. Their strategy is to use profits from their commercial contracts to "subsidize" the low profit margins of their government-funded projects. Thus, they are not dependent on government intercession and remain readily available for national security application. The other group includes firms offering consultancy services in development and governance, such as Management Systems International (MSI) and Development Alternatives Incorporated (DAI). Competition within this group is steep as the barriers to the low capital, knowledge-based sector are low, and these companies often differentiate by price and method of delivery. Their strategy is to provide those niche services that are only relevant within the reconstruction industry, and pursue alternative funding sources, such as direct contracts with governments in transition.

To compensate for the lack of a NAICS code, the Porter's Five Competitive Forces Model assists in assessing the health of the industry.¹² Despite the diversity of organizations operating in the industry and the special circumstances requiring their participation, the following themes generally characterize the industry.

Porter's Five Forces



Supplier Power: Supplier pricing power is relatively weak. Sources of supply are construction, consultancy, or the actual delivery of goods and services. There are a host of global sub-contractors and supply networks offering these services, and the services offered are not unique or specialized. Technology does not influence the pricing in the industry, nor are large investments in research and development required. Projects executed in non-permissive environments and large-scale engineering projects present security and logistical challenges, narrowing the pool of suppliers giving select firms more price control. All things considered, the cost of switching from one supplier to another is relatively low.

Buyer Power: Buying power is strong. Buyers in the industry include national governments, international organizations, and special interest donor groups. Each organization has the power to control price by using the contract award process, permitting the buyer to critique proposals and choose the most suitable firm and/or best value. The most common consideration when making this decision at the governmental level is price differentiation, but firm reputation is also important to private donors. Further, to reinforce control over pricing, a buyer's financing is subject to public and special interest group scrutiny.

Threat of Substitutions: The threat of substitutions is moderate. Buyers have the discretion to choose between a private firm, an NGO, or in some cases, a national military or police force to deliver services. Likewise, buyers' interests determine how reconstruction is achieved. For instance, a government may choose to build capacity in a country by substituting the building of new facilities with training and consultation of a nation's governmental workforce.

Competitive Rivalry: Rivalry is high. Rivals in the industry include a global network of firms within the groups of private contractors and NGOs. Firms tend to compete within their area of specialization where they have an established successful reputation but do not compete outside the specific focus of their competitive advantage. For example, Fluor competes with KBR but not with NGOs.

Threats of New Entry: Threats to new entry are relatively moderate. At the lower end of the scale, new entrants are not subjected to heavy government regulation and can enter and exit with relatively minimal financial risk. Most knowledge-based consultancy services are easily developed without large capital investment. On the other hand, large-scale global engineering and construction firms offer a unique capability to operate in austere environments requiring major capital investment and robust supply and logistics chains.

As the global economy recovers, aid levels have rebounded in 2013 and 2014, reflecting the international community's willingness to resolve issues related to failing states. See Essay #1 for more complete data. Concurrently, the increasing frequency (and scale) of natural disasters directly contribute to rising levels of private and public donations. Therefore, the industry remains healthy. Because of the industry's diversity, it shares characteristics ranging from an oligopoly within the global engineering and construction sector to a monopolistic competition among the many consultancy and development firms. Although some of the companies rely almost exclusively on government contracts for their revenue streams, much of the industry is not dependent on government aid, and will endure in the private sector. Dissipating services are easily regenerated if a lapse in service occurs. Accordingly, the health of the industry endures without government intervention.

INDUSTRY CHALLENGES

Because this study concludes government intervention is not required to sustain the reconstruction industry, it focuses upon reconstruction implementation challenges (specifically governmental) shaping donor actions. These challenges are grouped in three categories: resources, frameworks, and outcomes. Governments, firms and organizations participating in reconstruction missions must address these challenges to be effective in both the short- and long-term environment. Additional challenges specifically focused on USG execution of the reconstruction mission are discussed in Essay #3.

Resources: Policy changes, budgeting, and public sentiment all affect the amount of resources provided to reconstruction efforts, on which many firms rely heavily. As noted above, donor ODA rose in 2013 and may do so again in 2014, decreasing US strategic priorities in South Asia and the Middle East. Resultantly, this will reduce the supply of both Department of Defense (DoD) and United States Agency for International Development (USAID) contracts in those regions and may have a deleterious effect on designated reconstruction missions and the companies conducting them. As an example, DynCorp currently records 70 percent of its reconstruction projects are located the Middle East, absorbing 70 percent of the money USAID spends within the region.¹³ Similarly, RAMSI is facing decreased funding that, in turn, will affect reconstruction entities operating in the Solomon Islands. Somewhat unique to this industry is the requirement for long-term, internationally coordinated investment commitments, even in the face of seemingly little progress. Successful development programs require sustained resource commitments in order to build local capability to outlive donor programs. The industry reported universally the lack of donor stamina in reconstruction programs was an impediment to their success, and even with an overall increase in ODA, there may not be long-term resources available when needed.

Frameworks: Most major sponsors publish internal frameworks for applying reconstruction resources; however, coordination across the established frameworks is

challenging, as is coordination among the external frameworks of various sponsors. A unifying, international strategy for budgeting and implementation can provide clear direction to all stakeholders, including industry, and set favorable conditions for efficient and profitable reconstruction programs to benefit donor goals and local society in the conflict affected country.

The reconstruction mission is “culture sensitive” and requires donors to work with the host nations and industries to create a coordinated plan for development, despite the fact it is not uncommon for some of the players’ goals and mandates to be in conflict.¹⁴ Within the USG, in addition to National Security Presidential Directive 44, *Management of Interagency Efforts Concerning Stabilization and Reconstruction* (NSPD 44 from 2005), which puts Department of State (DoS) in charge of reconstruction, DoD has its DoD Directive 3000.05 (September 2009), and USAID has its Civil-Military Cooperation Policy (July 2008). The UN coordinates reconstruction programs through the Office for Coordination of Humanitarian Affairs using a “cluster approach” in which different UN agencies and multilateral organizations are responsible for different aspects of a humanitarian response. As stated, none of these frameworks are designed to coordinate efforts across all actors or account for overall mission outcomes.¹⁵ The follow-on effects of the lack of unified frameworks are discussed in more detail in Essay #2.

Tailored Outcomes: Unique situations in each crisis-affected area and failing state require specific responses to reconstruction problems. NGOs and the private sector face the challenge of adapting their products and services to diverse situations and cultures to create sustainable development. An inability to properly align resources, mission goals and collaborating capabilities to the local conditions thwarts success for the society, the donor nations, and the industry. With recipient nation participation, effective responses must be based on achieving specific outcomes versus meeting established deadlines. Few underlying causes of a true crisis can be resolved expeditiously, and the ethnic tensions in the Solomon Islands, grounded in a failed land tenure system and sparked by competition for jobs, was no exception. In fact, neither of these issues has been resolved, despite RAMSI’s intention to transition its security mission to host government control.

Transition from donor nations to host nation is a critical challenge for reconstruction. Recipient nations can easily become dependent on reconstruction programs, undermining their independence and resiliency, so there is a necessity to design programs to empower host-nation development that is attainable, sustainable, and accountable. This includes the private sector. In Afghanistan and Iraq, DoD established a Task Force for Business and Stability Operations to match US subject matter experts and investment with host nation businesses, with the intent of developing sustainable business projects. These projects are chosen after an assessment process and then staffed and run by local people to lower the donor footprint. By focusing on indigenous industries and limiting donor investments, the task force avoids the “donor traps” experienced through other processes.

The challenges listed above represent problems that must be confronted; however, none are impassable obstacles that will necessarily prevent reconstruction from taking place. The aforementioned challenges – resource, frameworks, and tailoring program designs – are discussed further in follow-on sections, and some are addressed in the recommendations section of this paper.

FUTURE OUTLOOK FOR THE INDUSTRY

The reconstruction industry's ability to weather challenges in the near and far term varies depending on the size of the particular firms and sectors in which they compete. As mentioned, most large, prime contractors do not rely on USG reconstruction programs as their sole source of revenue. If the reconstruction market falters due to declining government budgets or waning donor interest, these firms apply their skills and capabilities in the private market, to continue to profit. Consequently, larger firms are unlikely to experience substantial changes to their business portfolios or bottom line dollar figures. However, small- and mid-sized firms providing reconstruction-specific services, such as governance consultancy, are likely substantially affected by declining short-term revenues from the USG, as it provides the largest global source of revenue for the industry. Some consolidation may occur, particularly in smaller firms, and some will undoubtedly fail to remain viable. Therefore, a contraction in the total number of small and mid-sized reconstruction firms is likely, as is an overall decline in the total number of firms within the reconstruction industry.

The numerous international humanitarian assistance organizations providing reconstruction activities work within a different business model, one which incorporates both government funds and private donations to generate working capital for their activities. Even declining government expenditures should not have a significant impact on these organizations, and the reduction in government revenues may motivate an offsetting increase in private donations from entities such as the Bill and Melinda Gates Foundation and the Khan Foundation.

Due to previously discussed low barriers to entry of the knowledge-based services sector of the industry, even a modest decline in the current size of the market does not pose a significant threat to US national security, as future demand is met expeditiously once a demand signal is increased. Retired diplomats, military personnel, and international humanitarian assistance personnel typically have the skills and experience required to rapidly regenerate successful business ventures in the industry.

Given the diversification of the largest firms, the relatively low barriers to entry for start-up firms, and the alternative funding streams of the humanitarian assistance organizations, the ability of the reconstruction industry to meet demand in the mid- and long-term is reasonably well assured. While protracted declines in overall government spending pose a challenge, it is unlikely declining defense budgets will result in global withdrawal. Indeed, many argue a decline in defense budgets should logically be offset by increased USG investment in reconstruction and development in order to stabilize areas of potential conflict, build resilience, and preclude the need for military involvement. The authors are not persuaded current political forces support such increased reconstruction during times of fiscal austerity, although it is likely funding will continue roughly commensurate with current spending levels.

The significant market share enjoyed by American firms such as KBR and Dyncorp, after 13 years of involvement in US reconstruction efforts in Iraq and Afghanistan, will decrease unless they garner additional reconstruction contracts elsewhere to compensate for the eventual end of reconstruction operations. Nevertheless, it is unlikely the USG needs to take specific measures to strengthen the industry because security, construction and engineering firms continue to possess and maintain necessary capabilities in the commercial sector and can rapidly generate capacity for reconstruction efforts if needed.

The future global environment is almost sure to generate increased demand for reconstruction efforts. The predicted increase in severe weather due to climate change, increasing resource competition to support growing worldwide populations, and the resulting increase in regional conflicts will produce events requiring more reconstruction efforts in the mid- to long-term. Developing, yet resource-rich countries such as those involved in the “Arab Spring,” have the capital to seek technical assistance directly from companies which provide reconstruction services, such as infrastructure construction and governance programs. The direct investment of these countries will mitigate potential reduced expenditures by the donor nations of the west.

The United States continues to employ the reconstruction industry in efforts to avoid conflict and, when unsuccessful, provide reconstruction services after conflict. As stated above, reconstruction is the vital link between the enormous investments made in humanitarian assistance and long-term development efforts of donors and international monetary bodies. Focused investment in reconstruction is warranted, particularly in institutional development. Long-term success of reconstruction remains subject to numerous independent variables (neighbor actions, natural disasters, corruption, coups, etc.) The effectiveness of US reconstruction efforts now and in the future, remains questionable.

As the reconstruction industry is primarily dependent on the official development aid of OECD countries, the future health of the industry is, at least in some part, dependent on those countries’ ability to engage in successful reconstruction efforts. Maintaining adequate and long-term investments, developing frameworks taking into account individual recipient countries’ specific needs and cultures, and focusing on tailored outcomes rather than outputs will result in more successful reconstruction endeavors. Consequently, increased interest and demand for reconstruction services will ensure the continued health of the industry.

GOVERNMENT GOALS AND ROLE

The 2010 National Security Strategy (NSS) lays out the nation’s interest in relationships with strong and capable partners and in “pursuing stabilization in conflict and post-conflict environments...building the capacity necessary for security, economic growth, and good governance.”¹⁶ This requires active military “emphasis on building partnership capacity especially in fragile states” and diplomatic abilities to “address the crises and conflicts associated with state weakness, instability, and disasters, and to support stability and reconstruction.”^{17,18} There is an active role for the USG in reconstruction and, by extension, the industry in coordinating, prioritizing and resourcing reconstruction efforts.

Coordinating: A coherent reconstruction effort necessitates the alignment of police, military and civilian activities, a point emphasized in the Civil Military Interaction Workshop (CMIW) in Australia. It also requires discussion, coordination, and where possible synchronization with partner nations, multilateral organizations, NGOs and the private sector. Coordination is often lacking (due to the absence of an overarching framework) but is crucial to establishing common goals for aiding the recipient nation and avoiding duplicative effort and missed opportunities. Most importantly, the USG must work closely with the recipient nation to address its specific needs, respect its sovereignty, and preserve its legitimacy.

There are challenges, however, in balancing the interests of defense, diplomacy, and development.¹⁹ To achieve national security goals, DoS, USAID, and the Defense Department must work jointly to align their complementary reconstruction activities. Although National Security Presidential Directive 44 (NSPD 44) empowers the Secretary of State to lead and coordinate interagency reconstruction efforts, participating agencies often disregard this guidance and pursue their own agendas.²⁰ In one case, twelve different USG agencies sent representatives to Haiti as part of earthquake-related recovery actions. According to USAID, this disjointed effort created problems in establishing clear lines of authority, reporting structures, and delineating functions between agencies.²¹ Similarly, more recent efforts including the 2010 Presidential Policy Directive (PPD) 6 on Global Development and the complementary 2010 Quadrennial Diplomacy and Development Review (QDDR), fail to align US efforts.

Properly coordinated reconstruction efforts increase the industry's ability to succeed in this arena, enhance the standing of the United States on the global stage, and avoid embarrassing project failures. Transparency and a focus on delivering capabilities that address recipient nation needs can also allay concerns about American imperiousness. At the international level, an organization such as the United Nations can provide coordination of reconstruction efforts, while the OECD's Development Assistance Committee (DAC) can provide transparency and information sharing on member nations' development contributions.

Prioritizing: Success in reconstruction requires equal attention to governance, infrastructure, education, health, and the economy. Indeed, progress in one area without progress in others, while laudable, is rarely a recipe for long-term success. Aligning these efforts requires weighing the needs of fragile states against national security interests in stability. As former Secretary of Defense Gates said, "We cannot do everything ... we must make choices."²² In the Solomon Islands, there was virtually no consensus on what elements of reconstruction should be prioritized, and every entity in the field was focusing on a different aspect, e.g., the World Bank focuses on justice at the village level, and RAMSI focuses on policing.

Government can use military capabilities to address security, stability, and a wide range of infrastructure needs. It can use diplomatic levers to address governance and rule of law concerns and provide financial support through direct foreign investment, loans and aid programs. It can also provide indirect support through the purchase of goods and services from third party vendors, contractors and external organizations. Multi-national organizations and NGOs provide most of these services as well. In many post-conflict/crisis situations, scarce resources prevent donors from addressing all the sectors needing assistance. The challenge for all players is to determine where to marshal efforts in an era of declining budgets and how to cooperatively prioritize in order to get the most beneficial effect from their combined resources.

Resourcing: Governments play a central role in providing global humanitarian outreach and post-crisis recovery and must adequately structure and resource civilian-led post-conflict reconstruction efforts in order to realize success. DoS and USAID do not currently possess sufficient numbers of civilian personnel or resources to do anything more than contract out for services, so initial recovery and reconstruction efforts often fall on DoD. Because the ultimate aim of reconstruction is more political than military, it is natural for diplomatic efforts to take the lead; however, DoS must be adequately resourced for this role. DFAT's lead role in RAMSI provides an excellent example of this.

As previously noted, governments should transition reconstruction efforts to the recipient-nation government as soon as possible to enable future development and minimize dependency. Although it is difficult to determine where humanitarian assistance ends and reconstruction begins, recipient nation and supporting governments must work together to establish realistic timelines and plans for development initiatives.²³

In 2005, the Bush Administration saw a need for a whole-of-government civilian response capability and called for the establishment of an interagency Civilian Response Corps (CRC) in the NSPD 44. Congress saw the functions as redundant to other agencies and did not appropriate sufficient funding to make it effective, so the CRC remains minimally staffed. Furthermore, agencies were reluctant to loan scarce staff resources to another agency (DoS) and the NSPD contained no enforcement mechanism. Congress should readdress the need for the CRC, as it provides civilian expertise with specific technical skills, bridges DoS and DoD efforts, and aids in the transition of reconstruction activities to the recipient nation. For a more comprehensive review of US efforts via directives and documents, refer to Essay #3.

CONCLUSION

Despite budgetary pressures, national interests compel the United States to engage in reconstruction activities to varying degrees for the foreseeable future. The US leadership role in the world often prevents Washington from turning a blind eye to humanitarian and post-conflict/crisis situations where US interests may not be clearly evident, even as experts continue to debate aid effectiveness. In some cases, US foreign policy merely averts a country's regression to a failed state and sanctuary from whence the homeland is threatened by terrorism, organized crime, human and drug trafficking, and immigration influxes. In such cases, the United States has and likely will continue to invest in imperfect reconstruction solutions. Given this, the USG must empower a lead agency, formulate a unified framework, and coordinate resources, objectives, and efforts of stakeholders within the reconstruction industry.

The USG requires an internationally-aligned reconstruction framework for interagency coordination. As noted above, effective reconstruction efforts are multipronged endeavors addressing effective governance, security, rule of law, infrastructure, economic opportunity, education, and health simultaneously. The multiple lines of operation require close coordination between civilian, military, and law enforcement agencies, as well as NGOs and the private sector; however, current coordination efforts amount to deconfliction at best. An overarching, internationally aligned USG framework and policy on reconstruction, replacing NSPD 44 and outlining agency responsibilities in reconstruction efforts, would be a force multiplier for scarce resources. The framework must streamline and rationalize reconstruction strands to align them with agency expertise. Alignments allow for discrete budget allocation, defined execution authority, and greater ability to measure effectiveness via outcomes. Alignment also helps industry define its customer base more clearly, which aids in building appropriate working relationships.

The USG must redefine and empower a lead agency to establish these overarching frameworks and take active rather than reactive measures in reconstruction. The 2005 NSPD 44 established the Civilian Response Corps, an interagency team led by DoS to promote stabilization in vulnerable nations; however, insufficient support from other agencies resulted in the dissolution of the Corps and transformation to the Conflict and Stabilization Operations

(CSO) Bureau. The CSO mandate is to avert conflict in fragile nations, but its ability to build resilience and prevent conflict with its current insignificant budget is highly dubious. With just a fraction of what the USG has invested in rebuilding war-torn countries, CSO could run programs in every fragile country. Without a clear USG lead for reconstruction and an accompanying budget capability, the USG cannot actively support the industry other than during post-conflict or post-disaster missions. CSO should be recapitalized and take the lead for conflict prevention and post-conflict recovery in the USG, leaving poverty reduction and humanitarian assistance to USAID.

Finally, the USG requires clearly defined coordination measures with global reconstruction partners. Comprehensive coordination is more likely to achieve agreed upon objectives and a better understanding of a country's culture and traditions to determine which lines of operation are most likely to achieve long-term success. Careful analysis will be able to identify the root causes of the crisis, as opposed to secondary or tertiary problems, as well as potential resources to address the pertinent issues. The United States should coordinate with other donors through the OECD's Development Assistance Committee to provide developing nations (and consequently the reconstruction and development industry) insight into donor nations' forward spending plans for recipient nations' planning purposes. The USG is amongst the least forthcoming with this information. By participating more fully, the government can influence other donors to align their resources in ways complementary to Washington's priorities, and still provide the industry predictability about future donor priorities. Beyond information sharing, the USG should coordinate implementation of its mission with other actors in the space, such as the UN, in line with the principles agreed upon at various development fora, such as Busan and Accra.

Overall, the reconstruction *industry* is healthy, but the *mission* continues to suffer the consequences of a typical bureaucratic USG effort to rebuild and sustain. Until deliberate and resourced steps are taken to develop a framework, establish a lead agency, and coordinate stakeholders, US national security is compromised.

ESSAYS

#1 - Budget Trends in the Reconstruction Industry

By Pamela Tremont, Dept of State

The Aspiration. Many companies involved in the reconstruction industry are largely dependent on foreign assistance budgets for their reconstruction work. Despite the 1970 United Nations (UN) General Assembly Resolution 2626, “International Development Strategy for the Second United Nations Development Decade,” calling for donors to increase their official development assistance (ODA) to 0.7 percent of gross national product (GNP) by 1975, most donors have not met this goal. Since 1970, ODA budgets have averaged roughly 0.3 percent of donor countries’ gross national income (GNI), see Figure 1.^{24,25} For clarification, in 2000, Organization for Economic Cooperation and Development (OECD) replaced GNP with Gross National Income (GNI) which includes a terms of trade adjustment.

ODA stayed relatively strong through the remainder of the Cold War, as the superpowers and their allies used it to solidify support from friendly regimes, but the peace dividend reaped from the end of the Cold War was not invested into ODA, as some hoped. Rather, developing countries found themselves competing with countries in transition for aid dollars. After 2001, ODA rose precipitously as part of the overall counterterrorism effort, despite criticism that the increase furthered donors’ more than recipients’ interests.²⁶

In September 2000, world leaders adopted the Millennium Development Goals, committing their nations to a new global partnership to reduce extreme poverty and setting out a series of time-bound targets, with a deadline of 2015. The goals were outcome-based and obligated leaders to commit more of their budgets to development.²⁷ G8 leaders followed this in 2005 with the Gleneagles commitment to increase ODA by \$50 billion a year by 2010.²⁸

In 2009, the OECD, which tracks ODA closely through its Development Assistance Committee (DAC), urged donors to make ODA “countercyclical,” i.e., maintain or increase ODA budgets during economic downturns, when it was needed most. Donors generally complied until 2011, when non-debt relief ODA budgets declined for the first time since the early 1990s.²⁹

The Reality. According to the OECD, development aid rose by 6.1 percent in 2013 to reach the highest level ever recorded, despite continued budget pressure on OECD countries. Donors provided a total of \$134.8 billion in ODA, rebounding after two years of decreases, as a number of governments raised their level of ambition.³⁰

Seventeen of the DAC’s 28 member countries increased their ODA in 2013, with Iceland, Italy, Japan, Norway and the United Kingdom (UK) leading, while 11 reported a decrease, with Canada, France and Portugal recording the largest drops. Net ODA from DAC countries averaged 0.3 percent of GNI. Five countries (Denmark, Luxembourg, Norway, Sweden, and for the first time, the UK) met the UN target of 0.7 percent of GNI. The United Arab Emirates

(which is not a member but reports its flows to the DAC) posted the highest GNI ratio, 1.25 percent, after providing exceptional support to Egypt.³¹

The largest donors by volume continued to be US, UK, Germany, Japan and France. United States' ODA amounted to \$31.5 billion, an increase of 1.3 percent over 2012. United States' ODA as a share of GNI remained flat at 0.19 percent. Unfortunately for the reconstruction industry, most of the US increase was for humanitarian aid and fighting HIV/AIDS. United States' bilateral aid to least developed countries fell by 11.7 percent, mostly due to reduced disbursements to Afghanistan. United States' ODA disbursements to sub-Saharan Africa fell by 2.9 percent.³²

Within all countries' bilateral net ODA, non-grant disbursements (including equity acquisitions) rose by about 33 percent from 2012. Total grants rose 7.7 percent in real terms; excluding debt forgiveness grants, they rose 3.5 percent. Net aid for core bilateral projects (excluding debt relief grants and humanitarian aid) rose by nearly 2.3 percent in real terms and core contributions to multilateral institutions by 6.9 percent.³³

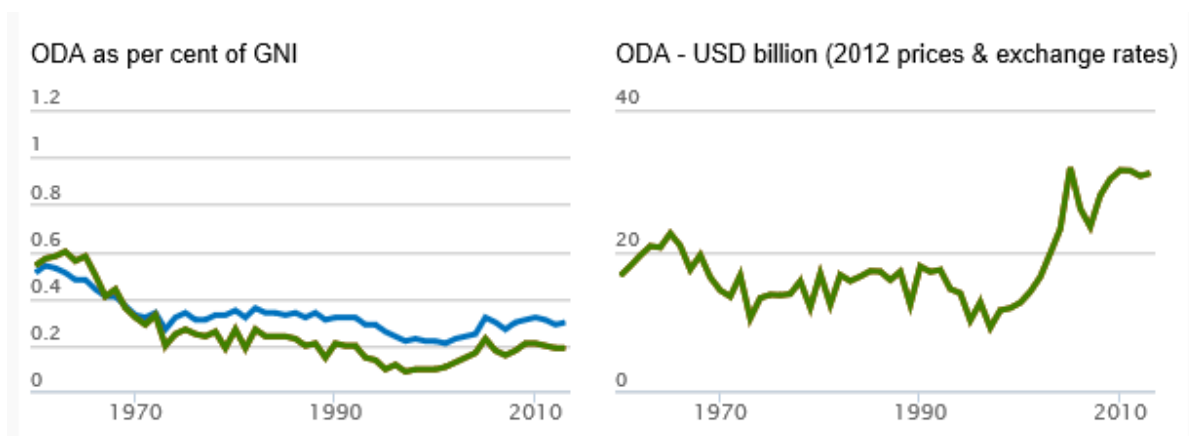
Non-ODA Flows. Although ODA is a main funding stream for the reconstruction industry, when taking into account remittances, private capital flows and private philanthropy, ODA constitutes only 11 percent of US foreign economic engagement. While remittances and foreign direct investment are unlikely to play a large role in actual reconstruction, private philanthropy is a major source for the NGOs in the reconstruction industry and constituted another 14 percent of US economic engagement with developing countries in 2010-2011. (See Figure 2) In countries such as the "BRIICS" (Brazil, India, Indonesia, China, and South Africa), private donations constitute 95 percent of their countries' economic engagement with other developing countries, primarily due to their low levels of ODA. The Hudson Institute estimates that 80 percent of DAC countries' foreign economic engagement in 2011 was private financial flows (investment, remittances, and philanthropy).³⁴

Reconstruction as an Element of ODA. There is no accurate data on what proportion of total ODA is committed to reconstruction, but based on an OECD breakdown of ODA sectors, one can conclude that less than half, no more than \$58 billion, of ODA is intended for reconstruction.³⁵

Budget Outlook. Overall, aid to developing countries grew steadily from 1997, peaking in 2010 before falling in 2011 and 2012 as many governments took austerity measures and trimmed aid budgets. The rebound in aid budgets in 2013 means that, even excluding the five countries that joined the DAC in 2013, ODA from that year was at an all-time high. Non-DAC ODA remains strong and growing as well. The DAC's annual survey of donor spending plans indicate that aid levels will likely increase 2.4 percent in 2014 and stabilize thereafter. However, a trend of a falling share of aid going to the neediest sub-Saharan African countries may continue, with those levels expected to drop another 5 percent. The survey expects increases above 5 percent for middle-income countries – many with large populations in extreme poverty – up to 2017. Aid to these countries likely will be in the form of soft loans.³⁶

Although rebounding aid budgets send positive signals for those in the reconstruction industry that rely on donor expenditures as their main source of revenue, the trend of focusing on middle income countries may have a deleterious effect on the industry, as post-crisis countries in need of reconstruction often fall in the “least developed country” category. Many however, have skill sets that translate well beyond reconstruction into general development.

Figure 1



Blue: DAC Total

Green: US ODA

Figure 2

U.S. Total Net Economic Engagement with Developing Countries, 2010-2011		
	Billions of \$	%
U.S. Official Development Assistance	\$30.9	11%
U.S. Private Philanthropy	\$39.0	14%
Foundations	\$4.6	12%
Corporations	\$7.6	19%
Private and Voluntary Organizations	\$14.0	36%
Volunteerism	\$3.7	9%
Universities and Colleges	\$1.9	5%
Religious Organizations*	\$7.2	18%
U.S. Remittances	\$100.2	36%
U.S. Private Capital Flows	\$108.4	39%
U.S. Total Economic Engagement	\$278.5	100%*

*Data from last available year: 2010; *Variation due to rounding
Sources: OECD; Hudson Institute's remittances calculations from DAC donors to DAC recipients based on data from the World Bank's Migration and Remittance Team's *Bilateral Remittance Matrix*, 2011; Hudson Institute, 2013.

#2 - International Cooperation in Reconstruction Efforts: A Model

By Lt Col George "Dutch" Dietrich, US Air Force

Most observers of US-sponsored reconstruction efforts and foreign aid donations recognize the need for improved coordination among federal agencies, non-governmental organizations (NGO), and private industry. Although improved coordination among US agencies is a worthy and necessary goal, the United States is not the only actor with the objectives of providing reconstruction in post-conflict/crisis-affected states and increasing international stability. As noted previously, most developed countries are engaged in reconstruction efforts, either directly or through donations, as well as many NGOs, private companies, and international organizations, foremost being the United Nations.

Even an internally-coordinated US approach to reconstruction efforts would be less than fully optimized if it was not coordinated with the reconstruction efforts of every other country or agency operating in that region. The reconstruction industry requires a model for international coordination and cooperation that creates synergies among international actors' efforts, better supports recipient nations, and increases everyone's return on their investments.

The Challenge. Coordinating the actions of every country and organization involved in reconstruction efforts is certainly easier said than done. There are many factors that significantly complicate coordination efforts, including the number of players involved, the competing national interests and objectives of those players, the lack of agreed upon frameworks or models for applying reconstruction efforts, and the lack of an overall coordinating authority to tie all the various efforts together.

Coordination across multiple nations and organizations requires agreed upon frameworks for how reconstruction efforts would be applied in particular situations. Unfortunately, what frameworks do exist are based on often-competing national objectives and therefore are not internationally adopted. Additionally, a long-term commitment is required to ensure the long-term stabilization and development of post-conflict, crisis-affected, and underdeveloped nations. Most reconstruction efforts today, however, are applied with short-term objectives and funding. Without an international coordinating authority that has adequate resources and is isolated from the shifting foreign interests of individual countries, necessary long-term commitments will be difficult to maintain.

Perhaps the biggest obstacle will be convincing individual donor nations that the best way to overcome these challenges and achieve their specific interests in any particular reconstruction or stabilization effort will be through international coordination.

The Model. To avoid the pitfalls of national interests, the lead authority for the execution of reconstruction efforts needs to be a non-nation affiliated international organization, such as one of the UN organizations responsible for crisis response, reconstruction and development. Additionally, the Organization for Economic Coordination and Development's (OECD) Development Assistance Committee (DAC) would support by providing information sharing and transparency on member nations' development contributions.

Authority to coordinate reconstruction efforts would not need to supersede the national interests of the donor nations. They would still use their internal processes to determine where they needed or wanted to be involved and could specify that their donations only be applied to those countries. Additionally, through their involvement in the UN, they would have a say in the long-term objectives in those countries. The authority they would be granting the UN would be the authority to determine how the donations were applied towards reaching those long-term objectives.

A significant amount of trust would obviously be required in order for nations to bestow that level of authority on the UN. A method towards achieving that trust would be the establishment and adoption of internationally agreed upon frameworks for how reconstruction aid should be applied in various circumstances. Donor nations could then be confident that UN Development Programme is applying reconstruction resources in the most proven and effective manner.

The success of this model will depend on the level to which it is applied; in other words, the level of collaboration that can be achieved in building frameworks and the level of authority donor nations are willing to grant the UN.

Results. Full implementation of the proposed model has the potential to produce significant and widespread improvements in reconstruction efforts. An international organization, such as the UN, with the authority and resources to coordinate all reconstruction actions, and the frameworks to guide those actions, would be in a position to apply them in a building-block approach, where the first effort applied is the one most needed, and each additional effort leverages and supports the previous ones. This synergistic approach would be an immeasurable improvement over the current state of uncoordinated actions by separate actors, which not only lack the intent to support each other but, in some cases, may actually work against each other.

The greatest benefit of consolidated application of reconstruction efforts would be the ability to maintain long-term commitments to developing countries. With realistic goals and timelines measured in decades rather than years, and the fortitude to continue efforts in the face of setbacks, the developed world could finally begin applying the necessary long-term methods to reconstruction while remaining immune to the political interests of individual nations.

As a final benefit, full implementation of the model would likely drive internal reforms in the donor nations' reconstruction organizations in order to support the new international cooperation paradigm, thereby improving a nations' internal coordination.

Conclusion. The move towards increased international cooperation in reconstruction efforts needs to start with an update to the 1970 UN charter establishing an ODA goal of 0.7 percent of each contributing nations' GDP. The target amount is still reasonable, but very few nations have met that goal since its inception. In order to incentivize nations to meet their goals, the new charter needs to include a consequence for failure, such as reduced influence in UN decision-making processes. Additionally, the charter needs to establish a process and timeline for developing internationally agreed-upon frameworks. Once there are universally accepted

frameworks for applying reconstruction efforts, another charter can be proposed, granting the UN the authority to apply the frameworks and coordinate all reconstruction efforts in a synergistic approach, with long-term commitments.

There is no doubt nations will be hesitant to outsource their national interests, as they apply to developing nation reconstruction, to an international organization. However, if there is a national interest that can and should be relegated to the international community, it is reconstruction. Increased stability is an international common good, not a national common good nor an existential threat to any one developed country. All countries are made better by the reduction of conflict and increased stability in the developing world.

#3 - Relooking the U.S. National Aid Program: A Realpolitik Approach for Reconstruction

By Michael R. Tuttle, General Services Administration

When one dispassionately considers the subject of US foreign aid, it would appear in practice the current system for executing US government (USG) efforts is not directly serving the nation's interests as well as it could or should. Instead of being a thoughtful and considered tool to apply soft national power in a deliberate manner, aid instead represents a collection of unprioritized and unsynchronized individual departmental efforts. Simply put, the US aid program *writ large* is grounded in well meaning, but ineffectual, idealism instead of a realpolitik approach that would better serve the nation and maximize returns on resource expenditures.

This paper's thesis focuses on the idea that the US is in need of a paradigm shift in its strategic outlook regarding its aid and development programs. In short, aid should be used in a deliberate, clear-eyed manner, ruthlessly focused on real national interests instead of the quasi-utopian versions promulgated by documents such as the NSS and the Quadrennial Diplomacy and Development Review (QDDR). Three specific weaknesses in the current US aid and development programs are examined: a lack of integrated strategy, idealism or the "headless heart", and the insistence for revolutionary vice evolutionary change.

In term of aid development, the two foundational national level strategic and policy documents are the 2010 NSS and the 2010 PPD number 6. Prior to the aforementioned documents, and presently in spite of them, US developmental aid efforts reflected a largely uncoordinated hodge-podge of "successive executive and branch priorities...accumulated over decades" with an end result of USG branches, departments and agencies pursuing nearly 500 separate development objectives worldwide.³⁷ Therefore, the 2010 NSS and PPD-6 represent departures from the traditional aid paradigm inasmuch as they elevate development on a par with diplomacy, designate it "a central pillar of our national security policy", and change execution policy with the enjoinder to the administration to "identify distinct policy objectives, prioritize among them, and then align resources and attention accordingly."³⁸

The first weaknesses in US aid efforts is the lack of an integrated national strategy. Tellingly, not only is there no published US national strategy for aid, but the DoS itself, the organization specifically charged with ensuring "development and diplomacy are effectively coordinated and mutually reinforcing in the operation of our foreign policy," has not had a development strategy since 2007 under the Bush administration.^{39,40}

Prima facie, this shortcoming was addressed by PPD-6 which directed the formulation of a US Global Development Strategy (GDS) every four years, the QDDR to be conducted every four years, and the establishment of an Interagency Policy Committee (IPC) on Global Development "to set priorities, facilitate decision-making where agency positions diverge, and coordinate development policy."⁴¹ However, of these directed efforts, only the QDDR has been accomplished thus far, and it is an insufficient vehicle to address the myriad shortcomings of the US aid effort, as it provides no priorities of effort, does not speak to levels of acceptable risk, does not align resources and, as a DoS document, has no enforcement or directive coordination mechanisms for the larger developmental community.

The second weakness of US developmental efforts is the concept of the “headless heart” wherein the desire to do something good clouds the judgment of whether a given effort is worth the cost and exertion. In other words, as author Paul Collier suggests, in the developmental conversation there appears to be a desperate wish to avoid the harsh sounding implication that certain countries are simply unimportant to US national interests, cannot be helped in their current state, or those with the worst problems should get the least (if any) money.⁴²

For example, today there are some 36 active conflicts worldwide with many being incidents of recurring violence and instability (of the 39 conflicts in the last decade, 31 were repeat events).⁴³ As it is unlikely each of these 36 conflict nations are integral to US national interests, PPD 6 states “development policy and practice will be driven by the disciplined assessment of impact...programs and policies that might make us feel good, but do not deliver results, will be phased out; programs and policies that yield tangible and sustainable outcomes will be scaled up. We will be big-hearted, but also hard-headed.”⁴⁴ Yet despite this realpolitik sound of PPD 6, the supporting QDDR adheres to traditional US idealism wherein “certain values are universal – that they are cherished by people in every nation – and that they are intrinsic to stable, peaceful, free, and prosperous countries. We will support democratic institutions within fragile societies, raise human rights issues in our dialogues with all countries, and provide assistance to human rights defenders and champions. We will ensure our efforts are advancing freedom, equality, and human rights for all vulnerable and marginalized peoples.”⁴⁵

The final weakness is a failure of programmatic approach. In discussions and readings regarding aid, there are oft expressed concerns of a given country’s “capacity to absorb” proposed aid monies and programs. However, rarely does the conversation turn to a country’s current “capacity to absorb” political thought, concepts, and advanced democratic institutions.

Both the NSS and QDDR make multiple references linking US developmental aid to establishing and promoting “accountable and democratic institutions that serve basic human needs...through an aggressive and affirmative development agenda and commensurate resources...advance democracy and human rights.”⁴⁶ While it is perfectly understandable, and even desirable, for the world’s most powerful democracy to have a vested interest in the active promotion of democratic principles. It is nonetheless prudent to ask the question of how practical it is to insist upon focusing in this direction particularly in the early formation and or recovery of fragile state governments. For example, not only do democracies tend to underinvest and are primarily concerned with the next election, but the elections themselves only determine who is in power and not how that power is utilized. In short, fragile countries, particularly those with various “development traps” tend to be particularly unsuited to electoral competition and the process may in fact actually retard development.⁴⁷

Perhaps somewhat anti-climactic, this paper’s primary recommendation is to rigorously implement the guidance contained in the well-crafted PPD-6. First, the DoS should be immediately held to task to develop and publish the GDS to provide an integrating touchstone for all US developmental efforts regardless of the originating department or agency. Secondly, the IPC on Development should be required to immediately convene and begin meeting regularly to fulfill its prescribed mandate. Finally, continued failure to produce a well-articulated national strategy for aid, makes it highly unlikely the myriad departments, agencies and country teams will forgo their current predilections to utilize the vague interests outlined in the NSS and QDDR as justification for the pursuit of their particular parochial interests, objectives, and goals.

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