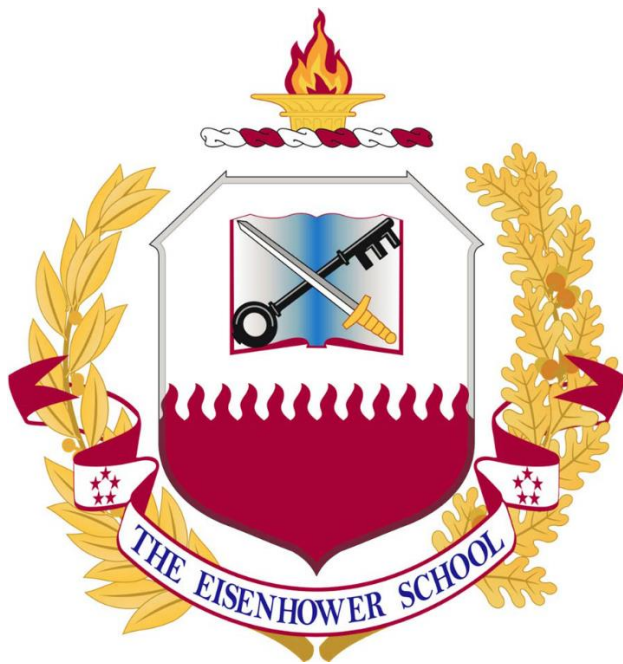


**Spring 2015  
Industry Study**

**Final Report  
*Reconstruction***



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## RECONSTRUCTION 2015

**ABSTRACT:** The Reconstruction Industry Seminar analyzed a variety of organizations that engage in reconstruction. The seminar defined reconstruction through a post-disaster continuum that commences immediately after the termination of humanitarian assistance/disaster relief, through a stabilization phase, until transitioning to long-term development. The industry itself is a network of providers that contribute goods and services to affected nations. The industry is healthy, but coordinating and unifying challenges remain. Implementation of the enclosed recommendations will lead to a greater unity of effort and the securing of US national interests.

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## **PLACES VISITED**

### **Domestic:**

Department of State, Office of US Foreign Assistance Resources, Washington, DC  
 Department of State, Bureau of Conflict and Stabilization Operations, Washington, DC  
 USAID/DCHA, Office of Civil-Military Cooperation, Washington, DC  
 USAID/DCHA, Office of Transition Initiatives, Washington, DC  
 USAID/DCHA, Bureau for Economic Growth, Education and Environment, Washington, DC  
 Department of Defense, Office of the Deputy Assistant Secretary of Defense for Partnership  
 Strategy and Stability Operation - Special Operations/Low Intensity Conflict, Washington, DC  
 Millennium Challenge Corporation, Washington, DC  
 Louis Berger Group, Incorporated, Washington, DC  
 Chemonics, Washington, DC  
 Management Systems International, Arlington, VA  
 International Relief & Development, Arlington, VA  
 Canadian Embassy, Washington, DC  
 Japanese Embassy, Washington, DC  
 World Bank, Washington, DC  
 Peace Corps, Washington, DC

### **International:**

Governor General of Australia, Canberra, Australia  
 Australian Civil-Military Centre, Queanbeyan, Australia  
 Australian Department of Foreign Affairs and Trade, Barton, Australia  
 Centre for Defence and Strategic Studies, Weston Creek, Australia  
 Strategic & Defence Studies Centre, Australian National University, Canberra, Australia  
 State, Society & Governance in Melanesia Program, Australian National University, Canberra, Australia  
 United States Consular Agent to Solomon Islands, Honiara, Solomon Islands  
 Regional Assistance Mission to the Solomon Islands – RAMSI, Honiara, Solomon Islands  
 World Vision Solomon Islands, Honiara, Solomon Islands  
 Royal Solomon Islands Police Force Explosive Ordnance Disposal Program, Hell's Point, Solomon Islands  
 BJS Agencies Ltd, Honiara, Solomon Islands  
 Pacific Islands Forum Fisheries Agency, Honiara, Solomon Islands  
 Rapid Employment Program, World Bank Mission to Solomon Islands, Honiara, Solomon Islands  
 Aspen Medical Detachment, Regional Assistance Mission Solomon Islands, Honiara, Solomon Islands  
 World Bank Mission to Solomon Islands, Honiara, Solomon Islands  
 Woodford International School, Honiara, Solomon Islands  
 Mercy Elementary School, Honiara, Solomon Islands  
 Solomon Breweries Ltd, Honiara, Solomon Islands  
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## INTRODUCTION

US government (USG) reconstruction efforts in the wake of disaster reflect a long standing tradition defined by the intersection between values and interests, or what Henry Kissinger called “the American debate that seeks to reconcile the contest between idealism and realism.”<sup>1</sup> Reconstruction, as defined herein, is one of the few realms where government policy can render equal treatment to moral aspirations articulated as values and national security objectives and expressed as interests. The tradition began with post-Civil War reconstruction, continued with the post-World War I American Relief Administration, and finds its zenith in the expression of American values and interests demonstrated during and after World War II that culminated with the Marshall Plan and the reconstruction of Japan.

As Kissinger notes in his latest volume on diplomacy, *World Order*, “...no other major power has brought to its strategic efforts such deeply felt aspirations for human betterment.”<sup>2</sup> Addressing the betterment of others is but one policy objective, as George C. Marshall pointed out in a speech at Harvard University on what would later become the Marshall Plan, “It is logical that the United States should do whatever it is able to do to assist in the return of the normal economic health in the world without which there can be no political stability and no assured peace.”<sup>3</sup> At a cost of nearly \$670 billion in 2015 dollars and with a vital, durable impact to regional stability, the Marshall Plan remains perhaps the most profound expression of reconciliation between American values and interests.<sup>4</sup> John Foster Dulles would later label it “enlightened self-interest” and what might be the most visible reminder of the exceptionalism underpinning the USG commitment to “global leadership that avoids global dominance.”<sup>5</sup>

More recently, the USG has responded to the needs of fragile and failing states emerging from conflict, or regions recovering from natural disasters. Annually since 2000, the USG has responded globally to 70 man-made and natural disasters.<sup>6</sup> More recently, our nation campaigned in two separate protracted wars – Iraq and Afghanistan - both of which sustained problematic reconstruction efforts. Reconstruction efforts in Iraq and Afghanistan were at the expense of American treasure (\$60 and \$104 billion respectively) both with dubious results.<sup>7</sup>

For the foreseeable future, indications are that the demand for US global reconstruction activities will increase in frequency, although not on the size seen in Iraq and Afghanistan. According to the *New England Journal of Medicine*, the scale of disasters in recent decades has increased significantly primarily as a result of climate-related events that are compounded by increased rates of coastal urbanization, deforestation, and environmental degradation.<sup>8</sup> With declining out-year discretionary spending, the USG will be challenged to integrate reconstruction efforts within its national priorities. In sum, the demand is quickly outpacing the supply.

In order to offer viable policy recommendations for USG consideration, this analysis will first define the activity of reconstruction and then establish a definition of the industry that supports these reconstruction activities. The next phase will involve a detailed assessment of the current conditions and a view of the future outlook of the industry. USG objectives and roles are then outlined with a conclusion that first includes industry challenges, leading to actionable policy recommendation to enhance USG reconstruction initiatives.

## RECONSTRUCTION DEFINED

Reconstruction is a broad concept and lacks collective understanding across the USG. The term has been used loosely to describe many different types of government activities to include military actions, diplomatic engagements, and humanitarian assistance or disaster responses. To clarify, reconstruction efforts occur when host nations or local regions lack the capacity to responsively and appropriately recover from crises. This in turn is often seen as accentuating the likelihood for state collapse and subsequent regional instability. It is therefore determined that reconstruction is fundamentally characterized by three distinct characteristics: the interactions of various actors to accomplish specific outcomes; the magnitude of effort to achieve the outcomes over time; and the requirements that exist across various sectors. In order to conduct a thorough analysis, the following definition and supporting conceptual models have been developed:

***Reconstruction is a network of government bodies, civil-society organizations and commercial industry (for-profit companies) that respond to natural or man-made disasters, thereby enabling transition from post-disaster relief operations through durable recovery, to subsequent long-term development.***

Of note, “manmade disasters” include not only includes acts of human neglect that lead to consequential outcomes (the Soviet Union’s Chernobyl disaster of 1986, for example), but also take account of physical / institutional destruction caused at the hands-of-man due to direct conflict (the recent Iraq and Afghanistan campaigns and their subsequent reconstruction efforts serve as two clear examples).

The *Reconstruction Framework* shown in Figure 1 depicts the interactions between actors in the network that support a host nation’s ongoing reconstruction effort.

The primary actors include governments, civil-society organization (CSOs), and industry, all of which formulate critical supporting responses. The host nation is centered within the figure to reflect its central role as the supported entity, particularly for those reconstruction initiatives designed to bolster the effective and legitimate function of a host nation’s government. This framework portrays the dynamic and complex interaction that occurs during reconstruction activities. It also begins to hint at the challenging leadership and complex management exchanges that occur amongst diverse actors with divergent organizational agendas under the broader restoration effort.

Figure 2. *The Post-Disaster Continuum* serves to model the magnitude of effort expended over time to achieve the desired effect. Specifically, reconstruction takes place between the end of immediate post crisis response and the continuation of long-term development for durable recovery. As depicted in the figure, reconstruction occurs predominantly between the relief and development phases primarily encompassing the aspects of stabilization and transition.

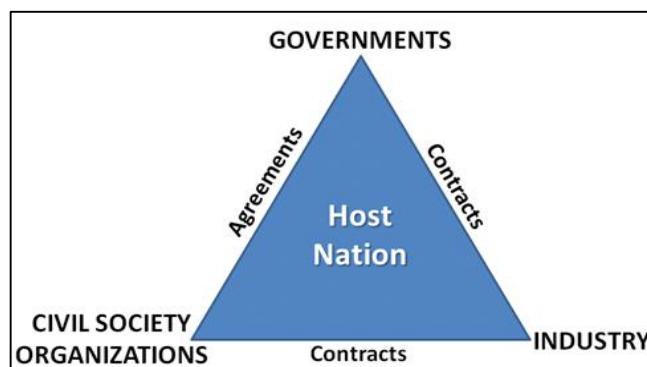


Figure 1: Reconstruction Framework

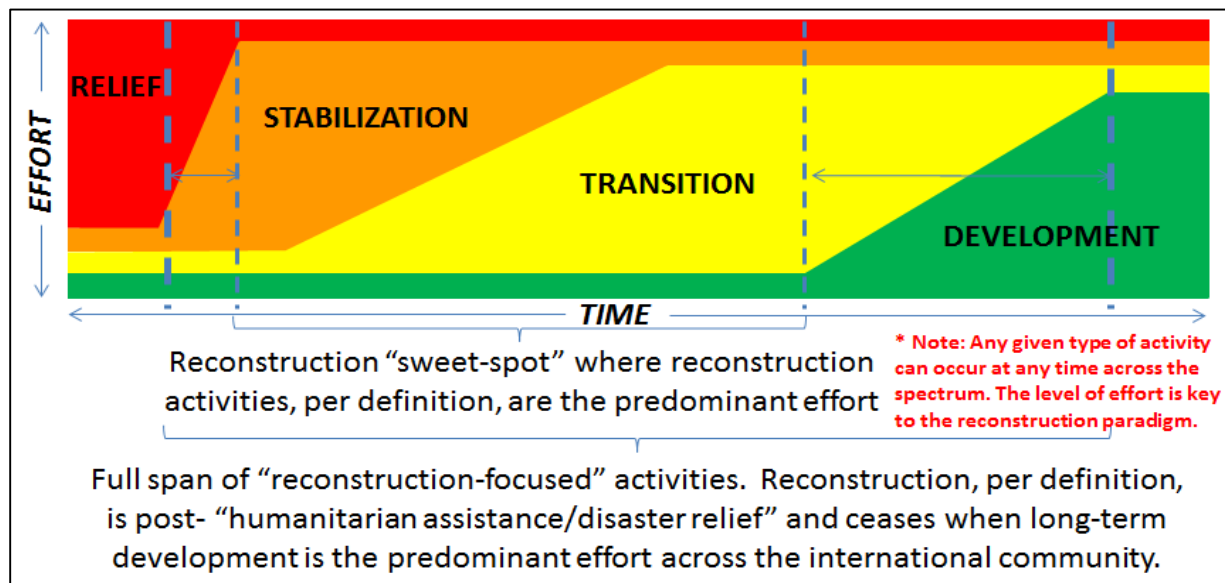


Figure 2: The Post-Disaster Continuum

As suggested by this model, local post-disaster relief, reconstruction, and development advancement will vary over time and space, dependent on security conditions and the efficacy of local reconstruction efforts. Further, efforts in distinct geographical space may proceed further and faster than others, rendering broader coordination efforts exceedingly complex.

Due to local circumstances and contingencies, no two reconstruction efforts are ever the same. While general principles or themes may apply, local reconstruction solutions must be uniquely tailored to fit each situation and circumstance. Generally speaking, it is useful to think of requirements in terms of service sectors. In that light, niche capability requirements to address unique reconstruction needs, the availability of material and fiscal resources, and also donor priorities and the duration of donor interest all shape the type and magnitude of sector-support provided to reconstruction initiatives. Based on the aforementioned dynamics, there are two broad categories that encompass the core reconstruction sectors: “Hard” sectors which generate physical infrastructure and/or directly contribute to environmental stability; and “Soft” sectors aimed at institutional capability development and/or capacity building. The following categories represent the core sectors that typically engage in reconstruction activities. Of note, these are not all-inclusive, as unique reconstruction environments may demand specific niche capabilities:

“Hard” sectors:

Global Engineering  
Heavy Construction  
Physical Security

“Soft” sectors:

Economics                      Rule of Law  
Governance                      Education  
Health

Requirements are fluid across the service sectors, with the governance sector being critical to support sustainable initiatives within each sector. As such, reconstruction efforts must recognize and apply concentrated resources against a focus of effort – a primary reconstruction sector that

will serve as the dominant lever to stabilize a particular area, state, or region. These conceptual models help define reconstruction in a very specific way. This definition is adopted for the purpose of assessing industry contributions to supporting reconstruction efforts.

## **THE INDUSTRY DEFINED**

Industry typically refers to a distinct group of productive or profit-making enterprises, however, the reconstruction industry cannot be considered typical.<sup>9</sup> Notably, as reconstruction activities span multiple diverse markets, reconstruction actors routinely operate as both providers and suppliers of reconstruction resources and services. Thus identifying that a pure reconstruction industry is untenable. In fact, no single industry supplies all the goods and services consumed during a reconstruction effort. The reconstruction industry is more appropriately described as a network of industries that collectively serves to satisfy reconstruction requirements over an array of diverse service sectors.

It is worth noting that firms operating within the reconstruction network may be tightly integrated, such that they collaborate to resource services, materials, or technical skills in support of reconstruction efforts, while other industries may operate more independently. The reconstruction industry is a diverse but informal network of suppliers, encompassing several interdependent technical specialties that provide both goods and services in response to an affected host nation. For the purpose of this study, the reconstruction industry is defined as:

***The network of for-profit companies that provide goods and services in response to natural or man-made disasters, thereby enabling transition from post-disaster relief operations to subsequent long-term development.***

This definition was crafted to facilitate the industry analysis and associated policy recommendations that emphasize the unique nature of reconstruction efforts. Specifically, CSO's are not considered part of the industry analysis, which further applies only to services and products required to support the reconstruction phase. In addition, the analysis was deliberately limited to a specific set of services and/or products. Of note, the majority of services within the industry fit into two categories:

- **Technical Consultancy Services** – A diverse set of companies that specialize in specific advisory activities linked primarily to soft sector functions such as economic development, public health, governance and education. The majority of the firms interviewed or assessed by the seminar as a part of this study fell into this category. They identify themselves as a specific niche service while assuming a particular identity as a reconstruction or development firm. Some of the more prominent consultancy firms include Development Alternative Incorporated (DAI), Chemonics, Management Systems International, and Palantir.
- **Global Engineering and Construction Services:** The majority of firms within this category are considered engineering, procurement or construction (EPC) firms. These are generally large, global firms that respond to extremely diverse tenders.

EPC firms are postured to support large reconstruction efforts. They possess, or have access to, significant inter-theater and intra-theater transport capabilities, forward-deployed footprints of equipment, capital and associated robust supply chains. The diversity of services offered by EPC firms promotes management of customer requirements from inception and design to completion (i.e., a cradle-to-grave approach). These firms are characterized by the sheer size of construction operations and massive infrastructure support required to effectively manage global operations. Some of the more familiar firms are Fluor, KBR (formally known as Kellogg, Brown, and Root), URS (previously known as United Research Services), and the Louis Berger Group.

Regardless of the goods or services required in reconstruction efforts, there is a plethora of firms available to address requirements. Collectively, these firms comprise a robust reconstruction industry network available to support the USG and affected host nations in implementing reconstruction efforts. The health of the reconstruction industry networks is examined below as defined by the current condition and future outlook.

### **THE CURRENT CONDITION**

Reconstruction efforts exist in two different forms: *surge and steady-state*. While surge efforts are seen as more episodic, steady-state reconstruction efforts are more protracted and consist of those restoration activities that meet sustained global requirements. United Nations reporting indicates that requirements have grown in frequency since the turn of the last century and are projected to maintain their upward trajectory for the foreseeable future<sup>10</sup> (Figure 3, as derived from the United Nations Office of Disaster Risk Reduction<sup>11</sup>). Enduring requirements are generally satisfied by a body of firms that perform reconstruction-oriented service as a core competency. These firms are generally smaller in nature, gain their competitive edge through service-differentiation (i.e. niche services), and implement soft skills such as technical consultancy services that span economic development, governance, rule of law, education, and health. They also are able to integrate a limited capacity of hard skills such as global engineering, heavy construction, and physical security services as a supporting effort.



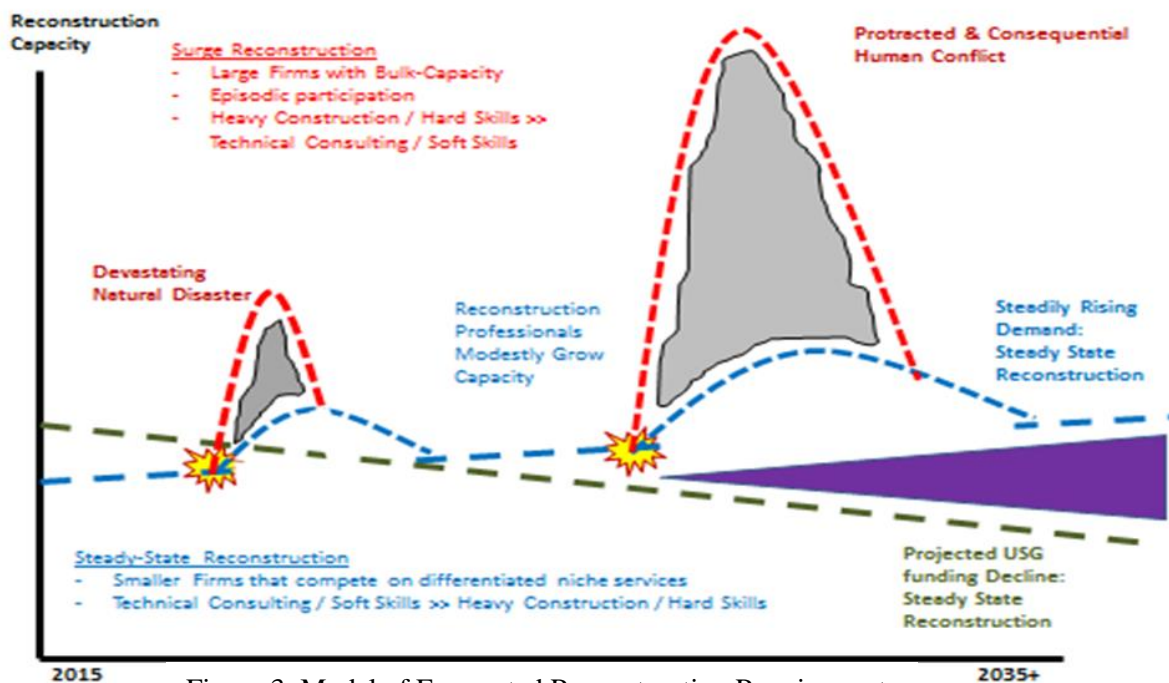


Figure 3: Model of Forecasted Reconstruction Requirements

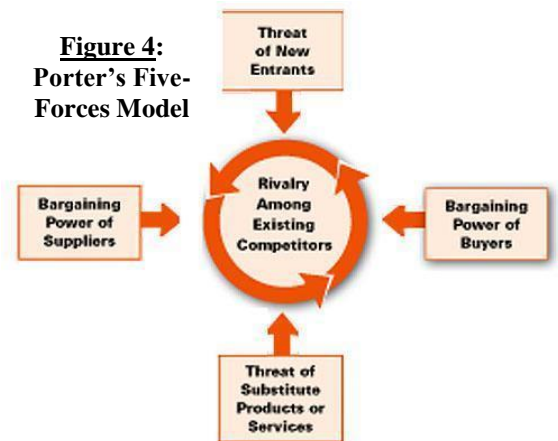
Sharp increases in reconstruction demand caused by devastating natural disasters or protracted, consequential human conflict episodically disrupt steady-state reconstruction. These spikes will generate surge reconstruction requirements that are, in part, satisfied by the expanded efforts of steady-state industries. Despite these efforts the unanticipated spikes in the reconstruction requirement cannot be entirely addressed by smaller niche companies alone. As such, larger firms that are able to provide for the heightened demands in hard skills while supporting needed requirements with soft skill competencies, acting upon the bulk of surge reconstruction activities. “Large companies are primarily interested in large projects, commensurate with their size, importance and long-term aspirations.”<sup>12</sup>

Linked to the two forms of reconstruction and the associated industry firm characterizations (i.e., small niche firms and larger capacity-bearing firms) are longer-term challenges. These are predominantly centered on the ability to secure consistent and reliable long-term funding to sustain the steady-state industry. As displayed in Figure 3, increased competition for national funding across all government departments is assessed to have a declining effect on steady state reconstruction funding. The growing demand (i.e. humanitarian funding requests have grown four-fold during the past 2 decades; the funding gap between the funding requested and monies provided has grown by 800 per cent<sup>13</sup>), combined with a reduction in the supply of projected funding,<sup>14</sup> creates an expanding delta (purple triangle) and places increased pressure on the industry. This pressure manifests itself in increased competition among the industry firms. In order to fully appreciate the condition of the Reconstruction Industry writ large, an assessment of the level of competition within the industry is warranted. Porter’s Five Forces is one method to conduct such an assessment and the methodology will be applied to both steady state and surge firms.

Porter's Five Forces provides a useful model through which competitors can assess their respective prospects for profitability and vulnerability to risk. To achieve this, the model not only considers the firms within the industry, but also four other competitive forces: customers; suppliers; potential entrants into the industry; and substitute products. The extended rivalry that results from all five forces defines its structure and shapes the nature of competitive interaction within an industry.<sup>15</sup>

Linked to the Porter's Five Forces assessment (refer to Figures 4 and 5), the forecasted downward trend in available government funding, combined with the increased demand in soft-skills, results in an environment that is highly competitive for the steady-state reconstruction industry firms. This dynamic will prompt a number of changes to occur within this section of the industry:

- In the short-term, increased competition will allow buyers to be more selective and demanding in their requirements, thereby improving the industry level of efficiency and effectiveness. Firms will be forced to find better and more cost effective ways to achieve results while still generating a profit. In the long-term if trends continue, this will have a very negative impact on the industry, as bidding on contracts will no longer be cost effective. Firms will likely look to other international buyers or move out of the industry altogether.



**Figure 5: Porter's Five Forces Analysis**

	Steady State Reconstruction	Surge Reconstruction
<b>Competitor Rivalry</b>	<b>High</b> - Despite relatively low number of firms and the specialized nature of the industry, there is steady increase in market growth, increasing industry competition.	<b>Low</b> - High risk and reward business between relatively low numbers of specialized companies.
<b>Substitutes</b>	<b>High</b> - Although a niche service, there are many different methods to provide the services of economic support, governance advice and technical assistance. A variety of different human resources are available worldwide.	<b>Low</b> - Expensive capital expenditures for design and construction assets results in a very specialized capability.
<b>Buyer Power</b>	<b>High</b> - Downward trend in available funding allows buyers to be more selective, increasing competition, raising standard of work and reducing potential profit margins.	<b>Medium</b> - Initially low but increasing with time to a medium level as post-crisis construction transitions to preparing for longer-term development
<b>Supplier Power</b>	<b>Low</b> - Large labor pool available with requisite skills to provide various soft power capacity	<b>Medium</b> - Raw building materials may be limited and specialized labor may be in high demand.
<b>New Entrants</b>	<b>Medium</b> - Minimal capital investments and low switching costs, but this competes with decreasing funds available and initial barriers of restrictive Government contracting policy	<b>Low</b> - Massive capital requirements and high risks result in strong barriers to new firms.

- Smaller, steady state companies may amalgamate or evolve to specialize in the soft-skill requirements of surge reconstruction demands essentially following the money in order to remain financially viable. This would increase the competition and shift the preponderance of firms out of reconstruction and into the longer term development market.

The larger firms involved in surge reconstruction are uniquely positioned to exploit opportunities stemming from reconstruction efforts. The major companies known for supporting USG reconstruction efforts typically compete within hard skill industries such as engineering, construction and architecture services. These all have low market share concentrations, with the top five industry leaders controlling less than 10% of the estimated annual industry revenue. However, the industry leaders have expanded their market presence to every major market segment, while also acquiring smaller operators to expand and diversify service offerings and client base. In addition, these firms have aggressively pursued a global presence and have developed extensive supply chain networks around the globe. The combination of global reach, diversified services, and the capacity to staff and manage large capital projects has enabled these firms to enjoy robust economies of scale and limited competition. This is due predominantly to the high capital costs of equipment and extensive logistics chains that constitute high barriers to entry. The large global firms will likely maintain their position for the following reasons:

- They are best suited to support the USG in overcoming the major challenges associated with conducting operations in an environment where reconstruction activities are required. Specifically, global reach and extensive supply chain provide a rapid response capability to nearly every place on the globe. In addition, the supply chain enables movement of resources in and out of an affected area. These capabilities facilitate a one-stop approach that enables design and construct, vehicle maintenance and repair to base operations and more.
- While these firms are committed to providing high quality support services to USG reconstruction efforts, the firms are not dependent upon this single stream of revenue. It is estimated that the federal government accounts for 24.7% of the annual heavy engineering and construction industry revenue.<sup>16</sup> While there is a lack of analysis specifically relating to reconstruction industry, it is safe to assume that less than half of the annual heavy engineering and construction industry is associated with reconstruction efforts.
- The capital requirement is massive to establish, manage and operate a global firm with such diverse offerings. In addition to the capital requirement, the larger firms have a proven track record with their relationships and their reputations remaining solid. In sum, the history of these firms effectively managing \$100M+ contracts demonstrates their ability to mitigate risks, thus making these firms more attractive.

Overall, the current industry condition is considered healthy. As federal funding diminishes, the number of companies may decrease and the remaining companies will likely assume a greater degree of the market share to meet reconstruction demands. Steady state

companies largely satisfy sustained requirements and surge companies operate in an array of diverse markets until the economic opportunity presents itself to enter into the reconstruction industry and profit from episodic, mass-reconstruction opportunities. The dynamic nature reconstruction requires the industry to adapt in a flexible manner with the forecasted environment of the future.

## **FUTURE OUTLOOK**

As stated earlier, the future demand for reconstruction efforts in developing nations is expected to grow. The anticipated demand increase contributes to a somewhat optimistic outlook for the reconstruction industry. Even so, tenuous donor dynamics, diminishing discretionary spending, and divergent political views may divert some sources of funding away from the industry. For instance, aid to developing countries did drop in 2011-2012 based on austerity programs of various governments<sup>17</sup>; however, aid budgets rebounded in 2013 and were forecasted to continue to steadily increase in 2014 and beyond.<sup>18</sup> This increase in aid and development expenditures is less attributable to compassion or values but is instead driven by what Dulles, posited and later was expounded upon by Paul Collier, referred to as “enlightened self-interest” (i.e., the impetus of developed countries to contribute to global reconstruction efforts to fulfill security and economic levers of their national interests).<sup>19</sup> Donor development and reconstruction funding will continue to be influenced by perceptions of aid effectiveness as a shadow instrument of power for developed country efforts to bolster national interests and direct foreign investment.<sup>20</sup> This suggests that greater unity of effort and effectiveness among public and private donors could improve overall confidence and thus generate more confidence in participating in the industry as a whole.

### ***What advantage does Private Industry offer Reconstruction?***

There are three areas where private industry provides unsurpassed value to reconstruction. First, the private sector provides the US and other donor countries with staying power and long-term continuity to adequately fulfill steady-state reconstruction requirements. This constancy improves awareness and effectiveness among stakeholders by providing a stable intermediary to facilitate interpersonal and inter-organizational relationships among industry, donor and host nations. Secondly, the private industry significantly contributes to institution-building. They do this by creating capacity across sectors through tested methodologies and well-informed skill sets that are expanded and improved with each new venture. Lastly, private industry plays a vital role as a bridge in overall post-conflict/post-disaster transition strategy by giving donor countries elasticity to meet demand without having to maintain large standing bodies of expert government employees and military personnel. This allows for a flexible, high quality capability, without the long-term human resource and payroll commitments.<sup>21</sup>

The key to the generation and sustainment of a viable private industry, designed and incentivized to fulfill post-crisis surge reconstruction requirements, hinges upon a transparent dialogue between donor, host nation, and private industry. These players must continually improve their body of knowledge, lessons learned, and ethical practices of reconstruction efforts worldwide in order to enhance the efficiency of reconstruction, execution, and synchronization.

Therefore, the question remains as to whether there are sufficient incentives to entice private industry to continue to meet the demand. This is particularly true in the critical sectors of education, rule of law, and security. Given the inherent risks and growing bureaucracy surrounding the contracting and execution of reconstruction and development aid, the disparity within the sector is widening with larger private corporations holding more of the market and pricing smaller firms out.<sup>22</sup> One way to entice foreign direct investment (FDI) is for donor countries to work closely with a host nation to effectively and efficiently cultivate a partnership that creates a better business environment. This in turn will promote businesses that are not merely in pursuit of isolated, short-term gains but who instead seek sustained fair practice structures that enhance governance and subsequent reconstruction activities. The risk to FDI is greater in post-conflict countries, so any initiatives that achieve a higher return on investment (i.e., the ability to simultaneously influence multiple reconstruction sectors), can render the partnership more stable. This will in turn increase the likelihood that these investments will achieve greater sustainability and profitability to incentivize sustained private industry participation in reconstruction efforts.<sup>23</sup>

Looking at reconstruction holistically, there are donor countries that are reducing or discontinuing development aid. A clear example of this was identified by the seminar during field studies to Solomon Islands. Both Australia and New Zealand, the largest resource providers to the Regional Assistance Mission to Solomon Islands (RAMSI), have elected to significantly reduce their monetary contributions to RAMSI reconstruction efforts at the conclusion of 2017. Globally, the bulk of donor country assistance is generated from 22 members of the Organization for Economic Cooperation and Development (OECD), known as the Development Assistance Committee (DAC). The U.S. remained the largest donor by volume with net Official Development Assistance (ODA) flows of USD 31.5 billion, an increase of 1.3% in real terms from 2012. US ODA as a share of GNI was 0.19%.<sup>24</sup> Private non-state donors still make up the largest form of development aid donations. Despite changes in direct donor country foreign aid dollars for development, private industry participation in the arena of reconstruction, remains linked to national public policies, which can provide significant additional incentives for engagement.

## **US GOVERNMENT OBJECTIVES AND ROLES**

US national interests are predominantly centered upon the cornerstones of security, prosperity, international order, and values. For many generations, American presidents have identified and embraced a multitude of objectives which are built upon this foundation, recognizing the importance of leadership, both at home and abroad. Notwithstanding the increasing geopolitical complexity throughout the globe today, the US remains committed to the roles and responsibilities of global leadership while also contending with associated scrutiny from the international community. As a policy statement, President Obama's National Security Strategy underscores the link between interests, values and American global leadership that continues to be an enduring theme in US foreign policy today:

*Any successful strategy to ensure the safety of the American people and advance our national security interests must begin with an undeniable truth—America must lead. Strong and sustained American leadership is essential to a rules-based international order that promotes global security and prosperity as well as the*

*dignity and human rights of all peoples. The question is never whether America should lead, but how we lead.*<sup>25</sup>

While presidential policy from President Obama's National Security Strategy and Presidential Policy Directive-6 emphasize the unbreakable bond between values and interests, it links the conceptual to the concrete, describing policy actions in diplomacy and development that the nation undertakes to serve both values and interests by:

- Helping prevent conflict,
- Spurring economic growth,
- Strengthening weak and failing states,
- Lifting people out of poverty,
- Combating climate change and epidemic disease, and
- Strengthening institutions of democratic governance.<sup>26</sup>

Additionally, the 2015 National Security Strategy as well as Presidential Policy Directive 6 identify development - and, by implication, reconstruction - as "a strategic, economic, and moral imperative" that enables the US to more effectively address "key global challenges."<sup>27</sup> While national policy identifies the broader objectives behind government reconstruction efforts, political and strategic objectives articulated in policy, inform the actual conduct of reconstruction. In particular, they define the interaction of our instruments of power to further inform what ultimately becomes doctrine and practice. This applies equally to both the development community and Department of Defense (DoD).

For DoD, policy statements from the White House translate to defense policy and ultimately doctrine for the conduct of reconstruction. Military policy that anchors doctrine and practice, is contained in DoD Directive 3000.05 which defines stability operations as a "core US military mission" with a priority on par with other warfighting tasks. The instruction goes on to define military tasks in stability operations. These short term reconstruction related tasks enable long term development of indigenous government institutions and capacity, with the ultimate objective to "advance US interests and values." Moreover, DoD Instruction 3000.05 specifically codifies in policy, the aspect of civil-military integration. It states the military's responsibility to support, assist, and collaborate with interagency partners, non-governmental organizations, international organizations, and—perhaps most notable for the purposes of this study - the private sector.<sup>28</sup>

While US policy towards reconstruction and development has remained largely consistent since World War II, the way in which the US government implements reconstruction policy in practice, and the direct role of government itself, have evolved significantly. For much of the post-war period, reconstruction and aid programs were largely the work of civilian development experts employed directly by the USAID or other government entities. At the height of the Vietnam War, USAID employed over 2000 personnel throughout the country. The relatively large and professional corps of development experts in USAID became one of many casualties of post war budget cuts.

A sharply reduced USAID once again fell victim to the budget axe in the 1990s, this time due to President Clinton's Reinventing Government initiative that sought to employ private firms

in place of government agencies to perform development and reconstruction work on behalf of the US Government.<sup>29</sup> By the time the US committed to rebuilding Iraq with the largest foreign aid program since the Marshall Plan, the work would be done almost exclusively by private firms. Indeed, by 2003 the US government had become dependent on private industry - the reconstruction industry - to perform the heavy lifting of post conflict reconstruction. The government has thus created a thriving market for private development companies, many of which are closely tied to government agencies, and staffed with individuals who move with regularity among government and private development entities.

ODA has increased over the past decade, with much of the investment going to private industry of CSOs. In 2014, the US spent nearly \$17 billion in ODA.<sup>30</sup> USAID, which accounts for nearly three-quarters of US ODA expenditures, increased program funding by 92% and reduced its workforce by 2.7% between 2004 and 2009.<sup>31</sup> The combined factors of decreasing government staff and increased focus on development assistance create a substantial opportunity for industry and CSOs to participate in development/reconstruction activities. In 2014, USAID obligated more than \$10 billion to just its top 40 vendors.<sup>32</sup> Increases in spending, however, are not an accurate performance measure. Spending more money does not necessarily indicate a commensurate increase in effectiveness and therefore certain changes to policy will be required in order to ensure the effectiveness of reconstruction in advancing USG goals and objectives.

## INDUSTRY CHALLENGES

As the landscape of donor aid and ODA fluctuates, the reconstruction industry faces a variety of challenges that restrict its ability to optimize support to the USG. As previously noted, the ability to achieve greater unity of effort for both USG and private industry partners across the post-conflict continuum, will fundamentally improve effectiveness. The challenges can be grouped into four broad categories: Organization; Lexicon; Contracting and Acquisition; and Coordination.

**Organization:** The reconstruction industry is a network of industries providing both soft and hard skills, yet no single government entity has been able to effectively coordinate and synchronize reconstruction requirements for a given operation. Multiple USG organizations have overlapping missions crossing multiple reconstruction sectors, resulting in competition across USG agencies for long-term execution funding to sustain the steady-state industry. Today, the type of funding disbursed across multiple agencies is a combination of either (1) *core funding* allotted to agencies that primarily oversee development efforts across the reconstruction spectrum, or (2) *contingency funding* that is in direct response to international crises arising from natural disasters or manmade conflict. Without a centralizing function or authority to oversee funding of core and contingency reconstruction-related missions, funding allocations have been predominantly decentralized by activity. Given the diversity in expertise, practices, and regulations governing USG agencies with reconstruction missions, gaining a holistic view of reconstruction requirements and associated funding for a given area of operation is often a confusing and costly affair for the industrial base. The direct result of this lack of USG unity of effort is the inability of industry to project funding profiles to manage budget pressures. Their efforts become fragmented and this negatively impacts the ability of industry to effectively posture

for an efficient and cost-effective response. In sum, the industry response to a reconstruction demand becomes more costly and less efficient.

**Lexicon:** A common theme that was identified through numerous visits and meetings with organizations within the Reconstruction Industry is the challenge associated with common language. The fact that the seminar felt compelled to create a definition of reconstruction prior to defining the reconstruction industry highlights that a universally understood lexicon does not exist. The complexity associated with a globalized network of key reconstruction actors is incredible but compounding these challenges is the fact that words mean different things to different people. Even more astounding is the fact that a common lexicon does not exist within the USG or the US environment writ large. There is no good reason why this situation cannot be overcome. The lack of a common language is a significant challenge facing the personnel working within the Reconstruction Framework and it needs to be addressed in a holistic and expedient manner.

**Contracting and Acquisition:** The organizations within the Reconstruction Framework are continually seeking opportunities that align with their expertise, executing hard and/or soft skills, in order to sustain their market share and competitive advantage. Until such time as contracting and acquisition efforts are synchronized across the USG, challenges in this area will remain for the industry. In addition, the complexity of the various processes combined with the sense of urgency normally associated with the nature of reconstruction, result in often duplicative and unnecessarily costly efforts, processes, and reporting. Specifically, USG agencies including DOD, State, and USAID, implement similar but not identical acquisition and contract processes that align with agency-unique operating procedures. Some of these requirements, though similar in nature, include differing solicitation procedures, contract forms, training requirements, facility access requirements, performance requirements, and reporting requirements. These tend to complicate the execution, administration, and oversight required by industry and government, and negates the ability to optimize performance. Additionally, in times of crises that necessitate urgent execution of contracts, firms that do not already possess a contract with capacity to respond for a given USG agency, are not considered viable competitors for award. Despite their expertise, they often have to resort to teaming arrangements with current contract holders - some of which are competitors - to satisfy customer requirements. These incoherent processes drive inefficiencies and increase costs that can be mitigated with more deliberate and strategic requirements planning, acquisition, and execution by the USG across multilateral lines.

**Coordination:** A challenge of institutionalized coordination and collaboration across USG agencies with respect to contracting and acquisition is evident; however, the challenge of coordination is much more far-reaching than that. At the very highest levels of the USG it is difficult to understand how the Department of State (USAID) is given authority to coordinate a specific US effort while DOD holds many of the resources. How can the ends be effectively and efficiently realized when the ways are coordinated by one agency and the means by another? It remains a perpetual challenge in the development of USG reconstruction strategy when there is no single identifiable coordination plan. The apparent lack of coordination negatively impacts other key actors within the Reconstruction Framework as they are often confused as to which organization is responsible for which part of the reconstruction effort. A variety of doctrines, standards, operating procedures and communication serve to further exacerbate what is already a



complex environment. The overall lack of coordination is evident throughout the USG and the only uniform agreement amongst the key personnel is that it continues to remain a significant challenge which must be addressed through bold and well-informed policy recommendations.

## **POLICY RECOMMENDATIONS**

In view of the previously identified challenges and informed by the government roles and responsibilities, nine different policy recommendations are offered for USG consideration. They are presented in four categories as follows: Organization; Lexicon; Contracting and Acquisition; and Coordination:

### **Organization:**

1. *A Lead Federal Agency (LFA) should be established to coordinate government-wide reconstruction operations.* Congress should pass a law specifying a Federal department or agency (or sub-component therein) as the LFA. This should be similar to the declaration of USAID as the LFA for international humanitarian assistance and disaster response operations, with the USAID Office of Foreign Disaster Assistance (OFDA) as the responsible office. This approach would ensure unity of effort across the government. The LFA should be an operational office with a level of autonomy and must have convening power with dedicated funding to direct operations. Of note, previous attempts to develop an effective LFA for reconstruction have included the Office of the Coordinator for Reconstruction and Stabilization (S/CRS) and later the US Office for Contingency Operations. Also, the Special Inspector General for Iraq (SIGIR) highlighted as the number one lesson from Iraq is to, “to create an integrated civilian-military office to plan, execute, and be accountable for contingency rebuilding activities during stabilization and reconstruction operations”<sup>33</sup>. These examples demonstrate both the overwhelming requirement and also the extreme complexity related to the challenges of establishing such a LFA within the USG. As was evidenced in the shortcomings of earlier lead agency attempts, this success of this LFA policy would require distinct, robust appropriations, a matured, interagency collaboration process and increased support from the nation’s senior decision makers.

2. *Congressionally-appropriated funding for the LFA should be structured in the same manner in which OFDA is supported for its performance of international humanitarian assistance and disaster response operations.* This funding must include core funding to facilitate steady state reconstruction requirements while relying upon contingency operations funding (or other supplemental requests) for episodic, large-scale surge reconstruction initiatives. The core funding would allow the LFA to tailor its staff with the wide variety of skill sets required for coherent and effective responses to specific reconstruction environments. Further, a system of surge reconstruction contingency funding ensures that case-by-case Congressional deliberations occur when making USG government reconstruction decisions that must balance national security imperatives with limited discretionary funds.

3. *Liaison Officers should be assigned to the LFA from other departments and agencies supporting reconstruction efforts.* These personnel should be senior liaison officers at the GS 14/15, 05/06 level to ensure coherence of approach in USG responses. Additionally, funding for these liaison

positions will be transitioned from supporting departments and agencies to the LFA to safeguard these monies. Further, the sourcing of these liaison billets will be underscored as critical fills, ensuring that quality performers serve a minimum of two-to-three year assignments.

**Lexicon:**

4. *The LFA should develop a singular, USG-wide lexicon for reconstruction.* The LFA should lead an inter-governmental and extra-governmental collection and subsequent adjudication of all reconstruction-related terminology with the intent of establishing this lexicon. This effort would establish the responsibility of the LFA for terminology beyond the strict boundaries of reconstruction to include the entire post-disaster continuum to include relief and development efforts. This common lexicon would then be disseminated and ultimately serve as the established vernacular for all USG reconstruction efforts.

**Contracting and Acquisition:**

5. *Federal acquisition regulations must be updated to allow for a faster, more transparent contracting process related to reconstruction.* This would include the ability of all departments and agencies supporting reconstruction to transfer funds into an account centrally managed by the LFA. This approach would allow traditional State, USAID and Defense contractors, including NGOs and CSOs, access to government-provided funds in a timely manner, thereby increasing the responsiveness, flexibility and access for all US government partners in reconstruction operations.

**Coordination:**

6. *The LFA should be designated as the primary USG interlocutor with all international partners (governmental and non-governmental) participating in international reconstruction operations.* As applicable, and as directed by USG, the global responsibilities of the LFA should extend beyond a communication and liaison role and will potentially support a greater coordinating responsibility to sharpen international reconstruction cooperation.

7. *The LFA, should be responsible for training all other Federal departments and agencies who contribute personnel to reconstruction operations.* The LFA would leverage core funding as authorized and appropriated by Congress to accomplish this training. This approach will bolster interoperability amongst disparate USG agencies and support and enhance unity of effort.

8. *The LFA should develop government-wide doctrine for reconstruction operations, considering existing departmental or agency doctrine.* Doctrine that is developed should recognize that steady-state reconstruction efforts and surge-reconstruction activities may share similar reconstruction tenets but likely will require very different institutional methodologies to fund, form, deploy, employ, sustain, and assess the varied reconstruction efforts.

9. *The LFA should develop an accessible repository for government-wide lessons learned related to reconstruction efforts.* This repository should be an online and unclassified body-of-knowledge

for the community of practice in reconstruction. It should be developed and available for government employees as well as those in international organizations, NGOs, and CSOs with whom the USG engages during reconstruction.

## CONCLUSION

As a global leader, the US will continue to provide reconstruction assistance to conflict and disaster-affected nations. These efforts remain extremely important to the US as they directly underpin a variety of national security values and interests. The global landscape is continuing to evolve with increased population growth and migration to coastal areas. Combined with climate change and an increase in natural disasters, it is apparent that the demand for US engagement in reconstruction efforts will continue to grow. That does not necessarily mean a commensurate increase in funding to meet this steady evolution of demand. Rather, this report suggests that by implementing the recommendations offered herein, the USG will be positioned to better address the rising global concerns in the anticipated environment of reduced USG budgets. Successful execution of these new policies will enhance efforts, reduce wasteful spending, and promote synchronization, leading to more efficient and effective uses of resources.

The recommendations in this report call for a unity of effort through a whole-of-government approach. The key is for the USG to identify a lead Federal agency to assume the authority and responsibility to coordinate reconstruction efforts. Whether born out of existing agencies or created as an entirely new organization, the LFA must be functionally organized to provide centralized coordination and decentralized execution across the interagency. If implemented properly, this approach should provide increased coordination, cooperation and synergy for future reconstruction efforts, while simultaneously minimizing redundancy. Furthermore, the LFA should be graded based on performance measures that show positive returns on US investments.

Implementing these recommendations is the first step toward revolutionizing reconstruction efforts and determined by this seminar as the best way to ensure the most effective use of tax-payer dollars. If these policy recommendation were to be combined with a commitment of 20-40% of the core foreign assistance budget (less than \$12 billion), this seminar believes that the US would be positioned to lead globally in what is becoming an expanding reconstruction arena. As Pericles, the most prominent and influential Greek statesman, orator and general of Athens once said, "It's not predicting the future that matters, but being prepared for it."

## ESSAYS

### #1 - The Solomon Islands Case Study

The Reconstruction Industry Study engaged in a case study of activities in the Solomon Islands as a complimentary activity to the evaluation of various governmental, commercial, and non-profit entities engaged in reconstruction. Together, these activities supported an integrated approach to developing this paper and the associated policy recommendations. From this case study, the seminar identified lessons learned that should be considered as the United States engages in future reconstruction efforts.

To set the stage for the lessons learned, it is important that the context for reconstruction efforts in the Solomon Islands be provided. Of critical note is that reconstruction efforts followed conflict between the people of Guadalcanal and the island of Malaita. This conflict, otherwise known as *The Tensions*, covered a five-year period from 1998 to 2003 and was essentially the outgrowth of economic inequality between the islanders. Over time, the people of Malaita moved to the capital city of Honiara on Guadalcanal. In doing so, the Malaitans sought jobs and economic opportunity that they did not have on. Consequently, resentment built between the indigenous population on Guadalcanal (Guals) and Malaitans as jobs were encumbered by the Malaitans. What was a desire for a better life for the Malaitans was an affront to the Guals and ultimately was the underlying spark that triggered an armed conflict between the two sides.

As this conflict unfolded, it became evident to regional actors that an intervention was necessary to return the Solomon Islands to stability and the rule of law. Consequently, the Australian government, with support from New Zealand, Fiji, Papua New Guinea, and Tonga and at the direct request of the Governor General of the Solomon Islands, established the Regional Assistance Mission to Solomon Islands (RAMSI) to re-establish law and order and begin the reconstruction of the Solomon Islands. The intent here is not to detail the mission and activities of RAMSI per se; rather, it is to recognize the important role that RAMSI played as a key stabilizing force in the conflict and in serving as a catalyst for follow-on reconstruction efforts once the conflict was quelled. There is ample documentation on the mission of RAMSI including a RAMSI website ([www.RAMSI.org](http://www.RAMSI.org)) that provides additional information on the mission of RAMSI, current and past activities, and a timeline of key events in the Solomon Islands that can be reviewed for further information.

With the establishment of RAMSI, Solomon Islanders were positioned with support from external actors to begin the healing process and engage in reconstruction recovery efforts within their nation. With this background, critical lessons learned from this case study are identified:

- It is important that the host nation request assistance and have a role in directing the activities of reconstruction within their borders. This is critical because the host nation needs to maintain its sovereignty as a nation and it must have a sense of control of events and direction from the government for legitimacy with its people, with engaging organizations and donors, and with nations that seek to support the host nation.
- Stability and respite from civil unrest must be established to restore law and order and provide a framework for peace, restorative justice, and a return to good (or

better) governance. In the case of the Solomon Islands, RAMSI provided the catalyst for stability through military intervention. RAMSI removed weapons held by the people and arrested criminals to restore law and order. These actions in the first year of the RAMSI mission paved the way for follow-on reconstruction efforts by greatly lowering tensions.

- The host nation government and its people must take the lead to prioritize reconstruction efforts and allocate funding to various requirements. This is critical to ensure that the interests of the affected nation are at the forefront of reconstruction efforts, not simply the interests of the donor nations and those of aid organizations. With the host nation government and people taking the lead, they play a critical role in owning the reconstruction process and efforts within their country.
- Accountability must be imbedded in reconstruction efforts on the part of the host government as well as on the part of donor governments and aid organizations. Accountability and transparency with respect to financing of projects and activities and accomplishment of project goals is key to building and maintaining credibility and trust which undergird good governance and the rule of law and act as a deterrent to corruption.
- Throughout the reconstruction phase, input is required from all sectors of society including government officials, industry advocates, non-government organizations, women and other minorities of the affected nation. Inclusion of people and civil-society writ large in the reconstruction effort is crucial for engagement and effective sustainment of reconstruction efforts and follow-on development aid efforts.
- The affected nation should develop sources of industry to produce economic growth. A concerted effort at identifying new opportunities is critical to expand sources of employment and income and to hedge against risk of the nation falling into an income trap and worse, failed state status.
- Donor nations need to understand their interests and engagement strategy. Simply supplying aid is not a strategy for reconstruction. These nations must understand the objectives (ends) of national reconstruction and be positioned to explain to their citizens why expenditures of their treasury is warranted and consistent with their national interests and policies.

## **#2 - Intersection of Reconstruction and National Interests**

In post conflict situations or when natural disaster strikes a country, destruction and devastation often serve as a catalyst for the international community to rally to the aid of the stricken nation. As with most international endeavors, politics and economics play a determinate role as to which countries engage to provide support. Understandably, countries engage when they have the means and the will to do so. Moreover, they will provide aid, relief and support to help stabilize an affected nation pursuant to their own interests and national goals.

In the transition from immediate relief and aid to reconstruction, several points are worth highlighting. First, it is important that the host country that suffers a conflict or natural disaster request assistance from the international community. This helps the host country manage the reconstruction effort and maintain sovereignty within their borders. The ability to maintain their status of sovereignty throughout the reconstruction engagement is important especially for public support at the local level. Additionally, it is critical for the host nation to establish priorities for reconstruction efforts. This helps with the allocation of resources and minimizes duplication of effort. Clearly the nature and severity of the conflict or natural disaster will drive requests for assistance, but it is critical for countries supporting reconstruction to understand host country priorities as a means to determine where they can engage most effectively. With an understanding of host country priorities, the international community is better positioned to marshal resources to meet the needs, coordinate fund allocation with the host nation, and execute the varying reconstruction efforts.

Once engaged, countries provide support in a myriad of ways including most immediately the provision of food, water, and clothing, temporary shelter for displaced populations, and medical assessment and treatment. Some countries may engage with the host nation to strengthen the rule of law and enhance or provide for the security of the people. Support of security needs and addressing governance and rule-of-law requirements is often critical for the execution of reconstruction efforts. Once established, these provide the opportunity to engage in reconstruction efforts including the relocation of displaced persons, the development of shelter and longer-term housing, addressing transportation and infrastructure requirements like the rebuilding of bridges and roads, and furthering efforts at economic stabilization. Additionally with security restored, schools can be rebuilt and the host country can reengage in the education of children. Likewise, clinics can be rebuilt in an effort to help the host nation focus on the delivery of health services to local populations. Important health services in reconstruction efforts include the improvement of health resiliency, sanitation education, and the prevention and treatment of communicable diseases and infection.

Over time, additional efforts and aid may take the form of financing and loans to help stabilize the host nation economy and prevent a breakdown in the financial systems of the country. Once the affected nation is stabilized, efforts can shift to reconstruction to build back country capacity to a point where it was prior to the conflict or natural disaster event.

An example of US engagement in reconstruction intersecting with national interests is found in the US response to Honduras after Hurricane Mitch struck that nation. The Clinton administration was prepared to provide US reconstruction assistance to Honduras as an opportunity for the US to act on its interests. As stated in his National Security Strategy,

*Never has American leadership been more essential - to navigate the shoals of the world's new dangers and to capitalize on its opportunities. American assets are unique: our military strength, our dynamic economy, our powerful ideals and, above all our people. We can and must make the difference through our engagement; but our involvement must be carefully tailored to serve our interests and priorities.*<sup>34</sup>

US assistance to Honduras was consistent with a US commitment to the enduring value of human dignity which included support for reconstruction and development. In essence, the values of the American people compelled the nation to act in support of Honduras after Hurricane Mitch.

Additionally, at the time of Hurricane Mitch, US policy towards Central American was targeted to "encourage the emergence of stable democracies in the region; promote sustainable economic development; promote free trade and greater opportunity for US business for exports and investment; and stem the flow of illegal narcotics to the US as well as other forms of crime."<sup>35</sup> Consequently, US policy also established a compelling rationale for immediate engagement in the aftermath of Hurricane Mitch.

The United States supported Honduras in its war against Nicaragua and its transition to a democratic government was consistent with US values. Also, the US cultivated economic ties to Honduras as an exporter of agricultural products to the United States and the US recognized that economic growth was key to a stable Honduras as a growing democracy. As John Leonard, Deputy Assistant Secretary at the Department of State noted in testimony before Congress, "our humanitarian instincts and our own self-interests coincide. They both demand that we continue a prompt and effective response."<sup>36</sup> So US interests and regional policy flowing from those interests were clear drivers for US engagement in reconstruction in Honduras.

## Endnotes

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