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Reconstruction and Nation Building Industry



The Industrial College of the Armed Forces
National Defense University
Fort McNair, Washington, D.C. 20319-5062

RECONSTRUCTION AND NATION BUILDING 2010

ABSTRACT: The greatest challenge for the reconstruction and nation building (RNB) industry is the realization of value for resources invested in strengthening fragile states. The most significant factor that affects the realization of that value is the indigenous capacity for good governance. However, volatile market demand, competition for resources, complex local conditions, and poor coordination impede the U.S. government's ability to foster good governance and capacity in states that have succumbed or are vulnerable to collapse. This paper recommends doctrinal, institutional, and organizational measures the U.S. government can take to overcome these challenges.

Ms. Corena Alexander, National Geospatial Intelligence Agency
Lt Col Barbara Buls, U.S. Air Force
Ms. Doreen DeBenedictis, Department of the Army
Ms. Joan Divens, Department of the Navy
Lt Col Vanessa Dornhoefer, US Air Force Reserve
CDR Christine Dorr, United States Navy Medicine
COL Jerzy Gut, Polish Army
COL Victor Hagan, United States Army
Mr. Paul Houge, Department of State
LTC Mary Lowe Mayhugh, U.S. Army National Guard
Mrs. Valerie Muck, Department of the Air Force
COL Tony Pfaff, United States Army
Ms. Cynthia Schurr, Department of the Air Force
COL Frank Tate, United States Army
LtCol Curt Williamson, United States Marines
Ms. Barbara Wilson, The Boeing Company
CDR Polly Wolf, United States Navy
Ms. Josephine Wood, Defense Threat Reduction Agency

Dr. Andrew Leith, Faculty
Mr. John Terpinas, Federal Bureau of Investigation, Faculty
Mr. Damion Higbie, Department of Homeland Security, Faculty

PLACES VISITED

Domestic:

Louis Berger Group, Washington, DC
Office of the Coordinator for Reconstruction and Stability, Washington, DC
The International Peace Operations Association, Washington, DC
Adventist Development and Relief Agency, World Headquarters, Silver Springs, MD
U.S. Army Peace Keeping and Stability Operations Institute, Carlisle Barracks, PA
Rand Corporation, Washington, DC
US Agency for International Development, Washington, DC
World Bank Group, Washington, DC
U.S. Department of State, Washington, DC
Xe (formerly known as Blackwater), Moyock, NC
Joint Forces Command, Norfolk, VA
Peacebuilding Support Office, United Nations, New York City, NY
Council on Foreign Relations, New York City, NY
Center for International Cooperation, New York University, New York City, NY
Opportunity International, Washington, DC
InterAction, Washington, DC

International:

U.S. Embassy, Panama City, Panama
Miraflores Locks, Panama Canal Zone, Panama
Smithsonian Tropical Research Institute, Gatun, Panama
Manzanillo International Terminal, Panama
Panama Canal Administration, Panama City, Panama
Panama Canal Administration Dredging Division, Panama
Balboa Braswell Shipyard, Panama
Group Five, Johannesburg, South Africa
Aveng, Johannesburg, South Africa
Eskom Lethabo Power Station, Lethabo, South Africa
Institute for African Renaissance, University of South Africa, South Africa
U.S. Embassy, Maputo, Mozambique
Mozal Aluminum Facility, Maputo, Mozambique
Macarretane, Mozambique
Chockwe, Mozambique
Center for Public Integrity, Maputo, Mozambique
Maputo Port Development Company

INTRODUCTION

From Haiti and Somalia in the early 1990s to Iraq and Afghanistan today, the United States has struggled to cope with the perennial challenge of marshalling national assets, leveraging private sector capabilities, and enlisting international support to strengthen or rebuild countries that suffer from poverty and persistent social conflict. In a December 2009 address to the American public, President Obama opined that “Since the days of Franklin Roosevelt, and the service and sacrifice of our grandparents, our country has borne a special burden in global affairs. We have spilled American blood in many countries on multiple continents. We have spent our revenue to help others rebuild from rubble and develop their own economies....As a country, we are not as young—and perhaps not as innocent—as we were when Roosevelt was President. Yet we are still heirs to a noble struggle for freedom. Now we must summon all of our might and moral suasion to meet the challenges of a new age.”¹

Since the end of the Cold War, political scientists, development theorists, and foreign policy experts have outlined the contours of a multidisciplinary and somewhat ill-defined discipline now commonly known as reconstruction and stabilization—or to use a more controversial term, “nation building.” While most organizations and practitioners do not collectively view themselves as such, it is possible to group these actors and their activities into an “industry” as a unit of analysis. The purpose of this study is to evaluate the challenges and opportunities this industry faces in providing expertise, infrastructure, and services to foster good governance and capacity in states that have succumbed or are vulnerable to collapse.

This study concludes that the greatest threat to the industry—and thus the capability of the international community to strengthen fragile states and prevent them from failing—is the difficulty in realizing value for money, time, and other resources invested. Despite some successes, the clients and providers that fund and provide governance-related services have yet to significantly mitigate, much less reverse, a global decline in good governance. The complex reasons for this failure have as much to do with donor strategies as they do with local conditions. This complexity precludes off-the-shelf or overnight solutions.

Using Michael Porter’s “Five Forces” model², this paper outlines the market conditions that define the industry and uses country case studies on nation building efforts in Central America, Southern Africa, and Eastern Europe to highlight specific challenges to the industry that will inform an outlook for its short and long-term futures. It also recommends policies the United States and other donor states can implement to improve their ties with the reconstruction and nation building (RNB) industry.

THE INDUSTRY DEFINED

Reconstruction and Nation Building: The RNB industry refers to a group of buyers, sellers, producers, and consumers of goods or services related to the long-term development and stability of fragile, failing, or failed states. Though somewhat of a

misnomer, “nation building” has become the most commonly used term to describe what is more accurately termed as *state* building—i.e., developing a polity’s institutions in order to sustain its ability to provide security, basic services, and social order.

Good Governance and Capacity Building: Good governance and capacity building is a multidisciplinary sector of the RNB market that focuses on bringing stability and sustainable economic development in states that lack the leadership and human capital to function in today’s international system. “Good governance,” a normative concept generally associated with liberal democratic principles, rests on the idea that there is a social contract between those who govern and are governed that informs the administration of a sovereign territory. Capacity refers to the ability of a country to sustain the institutions, services, legitimacy, and socio-political order necessary to function in a system of states connected by a globalized economy and a pervasive but tenuous body of international law and norms.

Actors: This paper views the governments of failed and failing states as *clients*, whether or not they are funding the costs of governance projects. States that provide funds for governance projects are considered *donors*, and entities that provide governance-related services are referred to as *contractors*. These functions are performed by four types of actors: government, non-governmental organizations (NGOs), inter-governmental organizations (IGOs), and corporate entities. Corporate actors themselves fall into two categories: for-profit and non-profit.³ These entities are not limited to a single role; in fact, they can alternatively or even simultaneously act as both producer and consumer. That said, governments tend to be donors who contract with NGOs and corporate entities to implement certain projects. They can also provide funds to IGOs that administer programs of their own or subcontract work to NGOs and other IGOs.⁴

Buyers, sellers, producers and consumers have related but separate functions in the good governance and capacity building market. A failed state, for example, may “consume” governance services, but it may be a donor state or organization such as the United Nations Development Program (UNDP) that is the buyer.⁵ Similarly, the seller of governance-related services may not have produced that service. For example, governments often contract with firms that possess a particular expertise; however, most often, that expertise was not “produced” by the contractor. Often, those with the experience obtained it elsewhere, such as universities, think tanks, as well as government agencies. These organizations bore the costs of its “production.”

CURRENT MARKET CONDITIONS

Market Structure: Michael Porter’s “Five Forces” model is a useful tool in analyzing the challenges facing the governance industry. Porter argues that five forces have strategic impact on industries and markets: bargaining power of suppliers, bargaining power of buyers, threat of new entrants, threat of substitute services, and rivalry among existing competitors.⁶ As indicated by Porter’s framework, rivalry among competitors is at the epicenter of forces that shape industry competition.⁷ In the RNB industry, contractors compete for limited donor funds based on their broadly differentiated expertise, regional

footprints, diversity of services, and track records of success. Donors provide those funds based on their perception that doing so is in their national interest and that those contractors will be able to provide value commensurate with money invested.

This point suggests that in this market, need is separate from demand. For example, the 2009 Political Instability Index (PII) identified 27 countries at “very high risk” and another 67 countries at “high risk” for state failure.⁸ The Fund for Peace’s Failed State Index lists more than 60 failed and failing states—the overwhelming majority of which are in Africa, followed by the Middle East and Asia as a distant second and third respectively.⁹ These state failures represent a significant cost to global order that cannot easily be ignored. As noted political scientist Francis Fukuyama notes, “weak or failing states commit human rights abuses, provoke humanitarian disasters, drive massive waves of immigration, and attack their neighbors.”¹⁰ Paul Collier, in fact, estimates that the cost of a single failed state to itself and its neighbors is in excess of \$100 billion over the lifetime of its failure.¹¹ This figure does not include costs for violent conflict, civil war, or the declines in health and life expectancy that may result from a state’s collapse.

In most markets, high demand serves as an incentive to suppliers to produce more goods or services. The high costs of state failure would suggest that demand for governance capacity building services would be high; however the greatest burden of failed states falls on its neighbors, often themselves failed or failing states. For example, the failed states of Chad, Sudan and Democratic Republic of the Congo not only all border one another, they are also all bordered by other states in danger of failing.¹² Thus, in the governance industry, entities with the greatest incentives to fund good governance often cannot bear the cost. Those who can afford it often are not the ones who bear the full cost of the failure, leaving them less incentive to fund the full cost of a solution.

In the RNB market, the price of services has only an indirect impact on demand, and financial profit has only an indirect impact on supply. Instead, donors realize value when those social goals enable the realization of their respective political goals. Contractors, especially NGOs and non-profit corporations, realize additional value in achieving the socioeconomic progress that good governance enables. Thus, while profit margins may often be lower than in many other industries, entrants into the industry are attracted by the possibility of creating tremendous social and political value from their activities.¹³

In fact, donor states with populations that have a strong sense of social responsibility often give a greater portion of their gross domestic national product (GDP) to assist failed states. For example, the top five donors to the UNDP are Norway, the Netherlands, Sweden, the United States, and Japan. The top contributor, Norway, allocates 50 percent more of its GDP in foreign assistance than the United States—a figure made more impressive given the large differences in GDP and Oslo’s relatively small political or economic stake in the fate of recipient nations.¹⁴

Regarding competition, the RNB industry is best described as an oligopoly. This point bears some explanation. There are thousands of organizations that provide some governance and capacity building services. In fact, in response to increasing donor state

reliance on NGOs and corporations for nation building, the number of such organizations involved in development work grew from around 1,000 in 1960 to more than 5,500 in 1996.¹⁵ This number continues to grow. While not all of these organizations directly provide governance-related services, many play a role in a larger effort to build good governance. Further, this large increase was in response to a shift in donor spending, which suggests that the market is sensitive to increases in funds available.

The bulk of funding goes to a few organizations that then sub-contract to numerous smaller organizations. The U.S. Agency for International Development (USAID), for example, spent almost \$1.9 billion on governance-related programs in Iraq from 2003 to 2009 through 23 contracts with just nine different organizations. A little more than \$1 billion went to just three organizations: Research Triangle International (RTI), the Consortium for Elections and Political Process Strengthening, and Management Systems International (MSI). Of that \$1 billion, \$750 million went to RTI.¹⁶

Furthermore, where oligopoly describes a market that has few sellers, the good governance and capacity building market also has few buyers. The reason for this is that the provision of governance is typically brokered by client and donor governments or inter-governmental organizations like the World Bank or the UNDP or via bilateral arrangements. Because contracting with donor governments is time consuming and costly and contract implementation is complex and risky, only larger organizations can typically afford the expertise to do so. This bargaining parity among buyers and sellers makes it difficult for one to gain a bargaining advantage over the other.

Governments: Whether playing the role of donor or client, governments provide funds for governance related services. They do this either out of a sense of social responsibility or a desire to avoid the costs of state failure. While neighboring states tend to bear the brunt of the cost of failed states, non-neighboring states experience costs as well. When terrorist and criminal groups exploit the permissive environments of failed states, they experience increased security costs and lose the economic opportunities afforded by stability. Additionally, many wealthy states experience significant emigration from failed states, which stresses their domestic institutions and social cohesion. For these reasons, it will always be in the interests of governments to bear at least some of the cost for assisting failed and failing states.

International governmental organizations: IGOs like the UNDP, World Bank or International Monetary Fund (IMF) are driven by their mandates to engage in nation building projects. To fulfill this mandate, they depend on the support of donor nations for their operating and program costs. It is in the interest of donor nations to provide these costs as these organizations often serve as a way to burden share and spread the political and economic risk associated with governance related projects.¹⁷ Many of these organizations, like the World Bank, are constrained by the requirement to work through sovereign governments, which in the case of failed states are often part of the problem.¹⁸

To survive, IGOs need to maintain sufficient legitimacy among their donor base to encourage continued donations; therefore, they can be less sensitive to project failure and

more sensitive to donor concerns. In fact, there has been major criticism of the World Bank and IMF that their policies have served the interests of the industrialized states they represent—at times to the detriment of the developing countries they are supposed to serve.¹⁹ Whether or not such criticism is true, the payoff for these organizations is connected to donor interests that are not always directly tied to on-the-ground success.

Non-governmental organizations: NGOs are often motivated by ideology or driven by the need to expand their donor base to maintain viability. Project results define their reputation, and by extension access to future contracts and donations. The use of short-term contracts by donor and client states further exacerbates the difficulties associated with seeking funding from government and IGO donors. To curtail costs and displace risks, donors and clients have entered into short-term contracts, often a year or less. This dynamic discourages candid discussion among donor, contractor, and client by shifting the focus from project success to contract renewal. Given that these contracts represent income not only to the NGO but to the client state as well, these entities have significant incentive to withhold information from donors.²⁰

Corporations: Corporations enter the governance market either because they see governance services as a lucrative source of income or because they provide complementary services for other corporations. For example, Lockheed-Martin contracted Development Alternatives, Inc. (DAI) to work on civilian-military relations with its defense clients.²¹ Unlike NGOs, their earnings must exceed costs as well as lead to future earnings. Short-term contracting has the same effect on corporate elements as on NGOs. The difference for corporations, especially for-profit ventures, is that they do not have a donor base to provide alternate funding.

CHALLENGES

The world's collective efforts to help the poorest “Bottom Billion” nations have largely focused on treating symptoms: famine, sickness, poor economic growth, and human rights abuses, rather than addressing their long term cure, that of establishing governance that meets community and citizen needs. The uncertain and volatile nature of the governance market, however, presents unique and varied challenges that mandate careful examination of indigenous needs, cultures, and economics. Some of the most significant challenges are specifically outlined below.

Volatile Demand: While achieving some level of good governance is an absolute necessity for any successful and lasting nation building effort, the demand for good governance capacity building services is highly volatile, due in large part to the disconnect between need and demand. A number of variables affect the willingness of donors and investors to dedicate resources to a particular fragile or failing state. These factors, which are subject to rapid change, include national interests, media attention, public opinion, cultural and historic ties, security concerns, and humanitarian mandates. They can also undermine unity of effort among industry actors when determining the recipients and the duration of aid. Challenges arise when this volatility negatively affects

the resources available for a particular project. The longer the project, the more difficult it is to maintain interest and avoid “donor fatigue.”

Competition for Resources and Sustaining Demand: The ability of donors to sustain funding depends on their ability to translate commitment of funds to demonstrable success. As a result, donors increasingly seek to quantify the value gained for the money spent. However, measuring the delivery of governance services is imprecise and extremely difficult to quantify. It is easier to quantify reconstruction efforts such as the building of schools, hospitals, roads, and bridges, or the digging of wells and irrigation systems. As a result, funds are often committed to easily quantifiable projects, regardless of whether the host nation can sustain them in the long term.

Local Conditions Defy Standard Solutions: U.S. and European donors tend to forego analysis when undertaking reconstruction and development initiatives. This has led to simplistic approaches detached from the social fabric of the communities in which they are implemented. This failure to dovetail strategy with local customs and culture exacerbates the difficulty of solving problems and building client-state legitimacy.²² Local conditions defy a standard template for solutions. Structures and services must be tailored to reflect and respect established power structures, security needs, human capital capabilities, and community traditions. In addition, governance initiatives must balance the community’s ability to absorb reform initiatives with the impatience of donors, who seek rapid progress. While this may be regarded as inefficient, respect for the necessary pace of change is critical to long-term success. Cultivating governance practices sufficiently free of corruption and conflicts of interest is central to efforts to instill confidence in local institutions. Donors such as the World Bank and the Millennium Challenge Corporation (MCC) have been successful in reducing corruption by increasing transparency and accountability; however, absence or inadequacy of laws in fragile and failing states often allows government officials to abuse their power through conflicts of interest and nepotism.

Coordinating U.S. Government Response: The U.S. government maintains a prominent position as a buyer of governance-related services. To meet this growing demand, the U.S. government approach to nation building has increasingly relied on contracting.²³ Contracting offers significant advantages in responsiveness, agility, and flexibility; however, contracts are often written without clear deliverables or consequences for the contractor if stated goals are not met. Part of the problem is that U.S. government agencies have failed to hire and train a sufficient number of contracting officers with requisite expertise to structure and supervise the increasing number of governance-related contracts. Recent high-profile failures or abuses attributed to contractors in Iraq and Afghanistan, which have prompted a public backlash against contracting, were largely caused by government failures to properly design and adequately oversee contracts.

Contracts not only represent income for contractors, they also often benefit client-state officials. It is therefore in the interest of both client-state and contractor to portray progress, even when there is none. For example, contractors working on a 1997 governance-related program in Kyrgyzstan spent donor money flying Kyrgyz officials,

including judges, parliamentarians, and administrators to destinations such as New York, Paris, and Washington for “institutional instruction” at a cost of over \$100,000 per individual. One contractor admitted these trips were “*de facto* bribes” intended to encourage a positive report to donors.²⁴

To overcome the above challenges, the United States has attempted to employ a “whole of government” approach to integrate resources from multiple agencies. Unfortunately, this holistic approach to planning and expeditionary capability rests with the State Department’s newly formed and under-resourced Office of the Coordinator for Reconstruction and Stabilization (S/CRS) and a fledgling interagency Civilian Response Corps (CRC). The total budget for these programs in 2009 was a paltry \$140 million.²⁵ S/CRS has yet to plan a real world operation and does not possess the authority to task other federal departments and agencies.

The CRC, which was designed in part to help resolve resourcing issues, actually relies on borrowed manpower from eight federal departments and agencies. Currently, it has 81 full-time members with the goal of reaching 250 by the end of FY2010.²⁶ Their value is compromised by their limited training, experience, and resources for ongoing and planned operations around the world. The duration of the average UN Peacekeeping mission is between five and ten years.²⁷ The CRC, as currently envisioned, will not have the size, depth, training, and overall capacity to handle even one significant nation building operation of that duration.

OUTLOOK

The governance and capacity building market will likely expand in the short term as increasing need and the close relation between good governance and stability drive donor states to continue if not increase funding. This will encourage new entrants, while the current trend of industry consolidation will raise barriers. Over the long term, if donors do not realize sufficient value for resources invested, donor fatigue will result in less funding, thus contracting the market. As large defense contractors enter the market to make up losses from a perceived shrinking of defense acquisition budgets, the industry will continue to consolidate, creating a “soft-power industrial complex.”²⁸

Short Term: The rising number of fragile and failed states will continue to motivate donor states to fund governance-related projects, especially as an alternative to military intervention. In the short term, need and demand will be fairly closely connected. Complexities associated with obtaining large contracts as well as realizing donor and client requirements will accelerate the consolidation of the industry, especially as prime contractors such as Lockheed-Martin, Raytheon, and L3 enter the market to offset projected losses in defense acquisitions and take advantage of a new emphasis on “smart power” approaches to national security.²⁹ These players bring institutionalized knowledge on how to compete, budget, and report on U.S. government contracts. This diversified portfolio approach will allow them to ride out any burst-or-bust cycles; it will also ensure barriers will remain high for new entrants competing for available funds.

Long Term: In the long term, the need for governance services will outpace demand. Difficulties in realizing long-term governance goals in short-term political horizons will increase donor fatigue. Rising domestic fiscal obligations and other uncertainties—such as shifts in political will, economic downturns, and environmental catastrophes—will deepen this fatigue. It will be offset, however, by the collapse of states that impact vital national interests or attract wide media attention. As the need for governance services outpaces capability and interest, donor fatigue may further distance need from demand and lead to a market failure. The long-term health of this industry therefore depends on realizing sufficient value of donor funds and aligning donor expectations, market conditions, and firms’ ability to deliver durable solutions.

The resource-intensive nature of nation building will place increasing pressure on limited financial and human capital, increasing competition for these resources. This will encourage further market consolidation in order to capture economies of scale and optimize efficiencies. Even so, more NGOs and larger corporations will continue to enter the market in pursuit of financial gain or out of the belief they possess viable solutions. Contractors that lack the required start-up capital for complex operations in high-risk environments will mitigate risk by exploiting niches in long-term, low-risk projects with low-to-medium payoffs or short-term, high risk projects with a great deal of media attention in order to secure funding. As a result, capital-rich corporate actors will displace NGOs for long-term, high and medium-risk projects. NGOs, however, will be in a position to exploit alternate donor bases to maintain responsiveness—especially in the face of immediate crises, where they will maintain an advantage over corporate actors dependent on government contracts.³⁰

The United States is currently the preeminent provider of development funds and expertise worldwide. This is in part due to spending and experience gained in Iraq and Afghanistan. This sector will contract as the United States draws down in these regions. The degree of overall sector decline will depend on the proclivity of other nations, like China and Brazil, to assume greater development responsibilities. It will also depend on political will and donor fatigue. How long it will take for these trends to play out is difficult to predict. Nonetheless, major crises such as the earthquake in Haiti could accelerate the trends articulated above.

GOVERNMENT GOALS AND ROLE

Over the past 25 years, the U.S. has distributed substantial resources and funding for governance assistance and, as of 2009, devoted approximately \$2.5 billion annually.³¹ Although the U.S. government is only one part of a much larger pool of governance-related assistance from sovereign, multilateral, and private sources, it is in a position to empower these elements of the market. To improve the chances of long-term policy success, the U.S. government should develop a comprehensive good governance and capacity building strategy. This strategy must be adequately resourced, supported by enabling policies and authorities, and implemented with coordinated oversight and accountability.

Developing the Strategy: To address existing challenges and set conditions for desirable outcomes, the U.S. government must first address inefficiencies and problematic relationships within the interagency system by providing clear guidance that aligns a holistic strategy to our national security objectives. Secondly, the strategy must integrate all instruments of national power to include defense, diplomacy, development and economic capabilities. Finally, the strategy must leverage the competencies of allies, industry, NGOs, and local leaders in order to enable the U.S. government to optimize the benefits derived from resources and funding invested in good governance and capacity building. Aligning strategies and integrating resources will help supply meet demand and foster coordinated solutions to address the effects of market externalities and establish more effective distribution of available resources in an increasingly constrained market. As a major donor state, the U.S. government should also establish metrics and standards to promote innovation and enhance coordination and differentiation within the governance market, improving overall program efficiency.

The strategy must outline objectives and responsibilities among U.S. government organizations that will enable them to properly plan and allocate resources. Policies must encourage collaboration among donors, contractors, and clients by identifying shared values, facilitating communication and planning processes and initiating effective resource coordination. This will result in a sequencing platform that supports long term operational capacity and civilian surge capability. Furthermore, the U.S. government must foster a competitive environment and identify those functions and duties that need to remain within the government (such as oversight) and those tasks best supported by industry, allies or local leadership. The operating environment for industry must facilitate competition and innovation while eliminating burdensome bureaucratic regulations that hinder market entrants.

Resourcing the Strategy: Two U.S. government organizations serve as the main agencies through which governance and capacity building services are coordinated and delivered: USAID and the Department of State. Of the \$42.5 billion appropriated for programs classified as international affairs in Fiscal Year (FY) 2008, almost \$36.6 billion was appropriated to accounts administered by USAID or State.³² Several other government agencies also sponsor assistance programs that support governance institutions and practices abroad, including the Department of Defense, the MCC, and the Department of Justice.³³ All told, there are currently 27 agencies administering funding for international affairs, which includes foreign assistance.³⁴

USAID, the primary conduit of U.S. government support for governance assistance, currently operates in more than 80 countries. A small number of strategically important countries—such as Iraq, Pakistan, Afghanistan, Sudan, and Egypt—receive large amounts of assistance, while most other countries receive relatively modest sums. For example, Congress specifically allocated \$7.64 billion (approximately \$1.27 billion annually) to the Iraq governance sector from January 2004 through December 2009³⁵ and \$14.75 billion (approximately \$1.84 billion annually) to the Afghanistan governance sector from FY 2002 through December 2009.³⁶ In comparison, the average USAID

democracy and governance program outside of these priority countries is less than \$5 million a year.³⁷

The sheer number of organizations engaged in foreign assistance poses challenges to the U.S. government. Maximizing the efficiency and effectiveness of governance assistance will require: 1) ensuring the work is an established part of USAID's (or some other designated agency's) core agenda; and 2) finding ways to incorporate democracy and governance values, insights, and approaches into the traditional areas of development assistance. Achieving both will require leadership capable of creating and maintaining a clear interest in and commitment to democracy and governance work. Likewise, the resources available to support democracy and governance must be adequate to meet the demands for supplying technical expertise on issues coming from the field missions, taking part in interagency policy processes, training the several hundred new USAID officers authorized in the 2008 Development Leadership Initiative,³⁸ and broadening outreach to partner and like-minded organizations.

Enabling the Strategy: The sheer number of agencies involved in U.S. governance assistance has had a negative effect on internal capacity. Passing responsibility for an activity from one agency to another prohibits the institutionalization required for effective doctrine, training, and leadership development. Legislative action to resolve and set agency assigned roles and missions is necessary to ensure effective interagency coordination. Executive policy is insufficient: only Congress has the authority to force the necessary responsibility upon the agencies resulting in development of enduring U.S. government capacity for reconstruction and nation building. Governance assistance policies and procedures should be designed to:

- Customize programs tailored to the cultural, political, and socioeconomic environment of the recipient country;
- Allow agencies to respond rapidly to current events and revise contracts as situations on the ground evolve;
- Encourage involvement of local populations, avoiding “buy American” or other policies that supplant domestic capacity building;
- Eliminate excessive bureaucracy, which tends to discourage innovation;
- Avoid undue emphasis on short-term metrics, and strengthen measures of impact rather than inputs or outputs; and
- Establish policies and procedures to document, disseminate, and apply lessons learned.

Implementing the Strategy: Oversight entails holding individuals and groups at all levels of government, as well as contractors, accountable for their actions. The supply side of accountability links policy, planning, and budgeting through formal, internal oversight mechanisms. The demand side of accountability encompasses demand for public disclosure and transparency from donor organizations, independent organizations, civil society, and the media.

The governments of both Iraq and Afghanistan have internal oversight capabilities; however, their effectiveness is undermined by a lack of independence, capable personnel, and authority. To ensure public and donor funds are collected and spent appropriately, the U.S. needs to emplace a robust internal oversight system that includes internal controllers and auditors who reside within executive institutions or exist in the form of parliamentary commissions, civil society commissions, and external auditors.³⁹ The oversight system should be independent, fully staffed with competent personnel, and have authority to investigate and prosecute individuals engaging in criminal activity.

Given the magnitude of U.S. investment in reconstruction efforts and the relative lack of capacity in Iraq and Afghanistan, auditors, inspectors and investigators provide critical, independent assessments of policies, programs, and operations to create an accountable and transparent governance structure and ensure U.S. funds are appropriately expended. In FY 2010, 375 audits were conducted or planned within Southwest Asia and surrounding areas; of these, 41 were directly related to governance.⁴⁰ Although independent oversight is necessary to ensure transparency and fiscal responsibility, the U.S. government must ensure the amount of oversight is sufficient to preclude duplication of effort, maintain relevancy and balance oversight requirements with effective programming.

The demand-side of accountability requires strong participation from donor organizations, independent agencies, civil society, and the media.⁴¹ Donors, like the U.S. government, play a vital role in promoting an environment conducive to disclosure and transparency within a client government. Donors can set conditions by which they will provide funding to the client government. For example, the U.S. Congress created the MCC in 2004 to partner with some of the world's poorest countries that are committed to good governance, economic freedom, and investment in their citizens. Before a country is eligible for MCC financial assistance, it must meet performance goals for 17 indicators. After approval to receive MCC funding, monitoring is rigorous and transparent, often through independent fiscal agents. Since its inception, the MCC has approved over \$7.4 billion in programs worldwide.⁴²

ESSAYS ON MAJOR ISSUES (Country Case Studies)

PANAMA: The United States and Panama have a long history of trade and commerce dating back to Panamanian independence from Columbia and the construction of the Panama Canal early in the 20th century. However, U.S.-Panama relations were strained in the 1980s over human rights issues, drug trafficking, money laundering, and the harassment of U.S. military personnel. General Manuel Noriega, commander of the Panama Defense Forces (PDF) and indicted criminal, embodied these frictions. Over the course of two years and two presidential administrations, the United States made numerous diplomatic and economic attempts to remove Noriega from power. These efforts culminated in December 1989 with Operation Just Cause, which used military force to depose Noriega and ensure the security of the Panama Canal, which even today remains a key U.S. interest and handles almost 15 percent of all U.S. ocean-borne cargo.⁴³

While Just Cause was quick and decisive, military planners incorrectly assumed the rapid restoration of a legitimate governing authority and a return to normalcy in Panamanian politics. Having failed to fully assess the political, social and cultural environment, the United States was ill-prepared for the void left by Noriega and the PDF, which was abolished in February 1990.⁴⁴ The need to funnel post-invasion assistance into administrative and governmental capacity building after decades of military control was not taken into account, and the U.S. Embassy in Panama was neither resourced nor organized to assume follow-on missions related to reconstruction and stabilization. An *ad hoc* Military Support Group (MSG) was eventually established to support a democratic system of government, a credible judiciary, and the delivery of basic services.⁴⁵ Unrealistically high public expectations in the wake of the invasion, as well as the demobilization and reintegration of the PDF, posed significant challenges to the United States and the new Panamanian government.

Since the U.S. intervention in 1989, Panama has made significant political and economic progress toward achieving its potential as a viable, self-sustaining nation. It has held presidential and legislative elections, although occasionally marred by corruption and scandal. With an average real GDP growth of approximately nine percent from 2006 to 2008, Panama's economy has been "among the fastest growing and best managed in Latin America."⁴⁶ Having largely avoided the dislocating effects of the recent global economic downturn, Panama's service-based economy, and in particular its construction industry, has grown considerably due to a Panama Canal expansion project that will double its capacity once completed in 2014.⁴⁷

Barriers: Despite political and economic progress, Panama continues to face challenges on several fronts that threaten to destabilize or inhibit future development. These issues include wealth and education disparity, transnational crime, and human rights abuses. While the World Bank categorizes the Panamanian economy as upper-middle-income based on an average per capita income level of \$5,510, a significant disparity remains between wealthy and impoverished citizens. Approximately one third of the population lives in poverty and 15 percent in extreme poverty, with indigenous tribes primarily comprising the latter group. According to the World Bank, while the Panama Canal is "the country's main engine for economic growth...it has done little to correct the persistent poverty."⁴⁸ This economic inequality is fueled, in part, by inadequate and uneven access to basic and secondary education, which the Panamanian government recognizes as "a significant obstacle to poverty reduction and sustainable economic growth."⁴⁹

Narco-trafficking and money laundering also pose significant challenges. According to the Congressional Research Service, "Panama is a major transit country for illicit drugs....because of its geographic location and its large maritime industry and containerized seaports. Moreover, the country's service-based economy, with a large banking sector and trading center, makes Panama vulnerable to money laundering."⁵⁰ Drug traffickers use vessels and aircraft to move drugs through Panama, including products intended for the U.S. market. The Panamanian government has cooperated with

U.S. law enforcement authorities in improving the country's interdiction, investigatory and prosecutorial capabilities as well as border security. Panama's cooperation also extends to countering money laundering and terrorist financing. As reported by U.S. Department of State, human rights problems persist in areas such as judicial system corruption, harsh prison conditions, violence against women, human trafficking and child labor. Two issues holding up the U.S. passage of the proposed bilateral Free Trade Agreement (FTA) with Panama are worker rights and bank secrecy laws.⁵¹

Enablers: Despite these challenges, Panama is on a positive trajectory for the future given its stability in the key areas of security, governance, democracy and macro-economics. Its strong central government, strong economy and free press enable future development success and maintain a higher degree of good governance as compared with many other countries. This is bolstered by careful management of the Panama Canal, renewed focus on human capital and an increase in mutually beneficial public and private sector partnerships that are investing in extensive community development and education initiatives. Along with the Colón Free Zone (one of the world's largest), the Panama Canal is a source of growth and development. Since assuming sovereign responsibility for the Canal from the United States in 1999, the Panama Canal Authority has managed the Canal safely and efficiently. In addition to good management of its most valuable resource, this agency reinvests revenues from the Canal in social projects and infrastructure for education, health and transportation.⁵²

Through the managed development of Panama Pacifico, the former 1,400 hectare site of Howard U.S. Air Force Base, Panama has created a special economic zone that promotes the viability and success of companies that build or relocate on this site. Special legal, customs, immigration and labor benefits are granted to all companies relocating to the area, which also offers financial incentives such as tax breaks for specific business activities. Caterpillar, Dell, and 3M have already invested in Panama Pacifico, which has shown promise in attracting foreign direct investment and creating new jobs. The zone's development plan envisions the eventual creation of up to 40,000 jobs, 20,000 new homes, clinics and one million square meters of commercial space. Panama Pacifico offers an excellent model integrating private and public sector efforts with renewed community emphasis on sustainable economic and human capital development.

Summary: Since Noriega's ouster in 1989, Panama has held multiple presidential and other government elections. Although all presidential candidates have since pledged to bring an end to government corruption, it remains a perennial challenge. The Panamanian government has managed, however, to maintain its most lucrative resource—the Panama Canal—as an engine for sustainable economic and human development. Despite state ownership, financial autonomy in operating the Canal as a profit-making venture has helped Panama avoid Paul Collier's "resource curse," which notes a persistent pattern whereby "resource rents make democracy malfunction."⁵³ To secure its course on the path of sustainable development, Panama needs "to broaden the base of potential beneficiaries, further increase private sector competitiveness, and improve access to education and health. In addition, greater focus on developing skills and stimulating innovation will be needed."⁵⁴ With the aid of organizations such as the World Bank, and

good stewardship over the Canal, and public and private partnerships like Panama Pacifico, the Panamanian government must continue to promote economic growth, reduce poverty and expand infrastructure. In the case of Panama, the U.S. government has exhibited the enduring commitment necessary to effect lasting change and has seen significant dividends from its investment of time and resources, particularly in the transition of the Canal to Panamanian control.

MOZAMBIQUE: Independent from Portugal since 1975 and emerging in 1992 from six years of civil war against a single party socialist state, Mozambique is still a democracy in its infancy. Billed as a multi-party republic, its political landscape is in fact dominated by Liberation Front of Mozambique (FRELIMO), formed primarily by the independence movement and against which the civil war was waged. While the end of the war brought a measure of stability, the growth of good governance has been modest at best. The current President's ability to draw development aid and foreign investment is highly successful; however, corruption severely limits the amount of money actually used to support the health and well-being of the populace.

The government lacks the resources necessary to effectively combat these challenges as well as the commitment to establish the investigative capability to identify and prosecute corruption. Specifically, the lack of legislation demanding freedom of information and preventing conflict of interest allows money to be diverted to corrupt politicians rather than benefiting the population. The fledgling media, while improving, do not have the skills to expose illicit activity and suffers from fears of retribution when they do expose politicians to public scrutiny. Finally, the people themselves, subjected to an educational system that produces a 40 percent literacy rate (expected to drop to 30 percent by 2012), lack a sound understanding of good governance.⁵⁵ These issues, among others, prevent Mozambique from reaching its true potential as a viable, self-sustaining republic. Plans for reform include measures to improve legislation supporting transparency, strengthening media reach and capability, and reinforcing education as the lynchpin for future leadership development.

Legislative/Institutional Reform: Even though the FRELIMO government passed a general anti-corruption law in 2004 to meet donor standards, it still ranked 130 out of 180 countries on Transparency International's 2009 Corruption Perception Index.⁵⁶ Mozambique's poor performance on corruption indicates that more comprehensive legislation is necessary to address ethical issues such as conflict of interest between private and public sectors, influence peddling, and illicit enrichment. Abdul Carimo, Director of Mozambique government's Legal Reform Technical Unit, believes that along with political will and rule of law, Mozambique requires "a network of public institutions, each playing their role in dissuasion, denunciation, investigation and punishment of corrupt practices."⁵⁷ Carimo argues that "the battle can only be won if public and private institutions act together and with a single purpose of guaranteeing that corruption does not subvert governance."⁵⁸ It is the growth of these institutions that foster transparency that will pressure the government to better address the rapid rise in corruption over the past ten years. In fact, the 403 corruption cases both reported and investigated in 2009 represent a 300 percent increase over the previous year.⁵⁹ Although

the judiciary is exceptionally weak, there have been recent wins in prosecuting senior government officials for blatant corrupt practices. For the first time in ten years a government minister was charged and sentenced for embezzling large sums of U.S. funds destined for public projects.

Free Press: In a country where conflicts of interest between the public and private sector prevail, another institution that plays a pivotal role in fighting corruption is the media. Considered “partly free” by Freedom House, the free press in Mozambique is a fairly new phenomenon.⁶⁰ Comparatively, Mozambique’s laws governing the free press are some of the most progressive on the continent.⁶¹ However, several challenges remain with the media’s ability to play its important role in combating corruption. These challenges include the lack of trained general and investigative journalists, the fear of persecution, access to government information and access to the free media by the people themselves. Most of the population receives news and information from radio, which is predominantly state-owned and controlled. Private media sources are on the rise in Maputo, but since 80 percent of Mozambicans live in rural areas they lack access to the majority of print media,⁶² and only one percent have access to the Internet.⁶³ This paucity of access stands as an obstacle to creating an informed public. There is also a natural marriage of interests between emerging civil society organizations fighting corruption and the media. The ability of these organizations to work together in fighting corruption rely most often on the sheer determination and dedication of the staffs and their willingness to accept personal risk in addressing the sensitive nature of corrupt practices.

Education: There is a renewed focus on education as a source of building future capacity for Mozambique. One issue for primary and secondary education is teacher qualifications. The limited time and lack of rigor in the training program makes this one of the easiest entries for a profession. However, the pay is minimal, the number of applicants exceeds the number of jobs available, and the education program tends to be rote memorized and presented in exactly the same way, year after year.⁶⁴ This approach is leading to a downtrend in educational efficacy and has drawn the attention of USAID to work with the government to design and implement programs to improve the training not only of teachers but of their trainers as well.

This new direction has significant government support, but the primary barrier to success is the time and resources necessary to attain targeted proficiency. At the same time, NGOs are working with adult populations in the community to educate them on the principles of democracy and the importance of holding the government responsible for its proposed budgets and agendas. This process is time consuming but is proving itself as the best way to raise awareness and force politicians to recognize that transparency is crucial to proper support of the municipalities they are responsible for governing. These educational initiatives are the best hope Mozambique has for developing its future leadership.

Outlook: Considered a “donor darling” by the international community, Mozambique’s economic growth rate of 10 percent over the last decade made it the model for post-conflict African development. However, the *Economist* reports that “having adopted the

outward trappings of pluralism and democratic governance, FRELIMO has progressively undermined them in practice as its confidence has grown, driven by the rapid economic gains of the post-war period.”⁶⁵ This approach is leading to donor fatigue. The basic conditions for change must be met with political will by the government, a judiciary strong enough to enforce anti-corruption laws and a clear overarching strategy particularly addressing the conflicts of interest between the private and public sector. In the absence of strong government support for eliminating corruption, the onus falls upon the population and the media. Donors must continue to support programs to improve education and grassroots democratic movements. The coupling of pressure from the international donor community and growing public awareness of corruption practices will lay the groundwork for future progress.

SOUTH AFRICA: Historically fractured by centuries of conquest, strife, and colonial powers fighting over its resources, South Africa began its latest chapter in 1994 with one of the most fabled breaks from colonial bondage in contemporary times. Though the country is a functioning constitutional democracy, the Apartheid experience left decades of work to correct the imbalances between minority white and majority black South Africans. Using the “Gini coefficient,” a barometer of inequality of incomes, South Africa ranks among the top tier of the world’s imbalanced. No less than several decades of capacity development lie ahead within an atmosphere of lingering and palpable racial tensions and violence as well as white distrust of black governance. Nonetheless, South Africa continues to grow economically and politically as a regional power.

Corruption: Some argue that progress in South Africa since Apartheid has served only to fill the pockets of an influential elite. Corruption is prevalent in the ranks of the African National Congress, and bribery has been nearly institutionalized in law enforcement and the judiciary. The policy of “black economic empowerment” (BEE) has drawn criticism as the basis for “nepotism, political favoritism and crony capitalism, which have proved so damaging to a range of African nationalist governments.”⁶⁶ Editorials reveal a growing resentment by black South Africans that their government has replaced Apartheid rule with a class of black leaders who occupy the same offices, homes, and positions to exploit their powers in the same manner of their white predecessors.

Crime: Crime is such a prominent issue in South Africa that it has earned the title of “murder capital of the world.” Each year 18,000 people (37 per 100,000) are murdered, along with another 18,000 attempted murders. Although the murder rate is still unacceptably high, there has been a steady decline since 1995, when the country’s annual average was over 21,000.⁶⁷ The government has adopted a number of strong anti-crime initiatives. Despite increased expenditures on police, justice and correctional services from 13.8 billion to 54.3 billion Rand (\$1.97 billion to \$7.75 billion), violent crimes such as armed robbery, carjacking, mugging, and “smash-and-grab” attacks on vehicles are still common. As a result, private security has often replaced the police in local communities.⁶⁸ Police Minister Nathi Mthethwa is considering ways to partner with the private security sector by providing training on how to secure a crime scene and preserve evidence for future prosecutions.⁶⁹

Service Delivery: Apartheid left a wake of deprivation across the spectrum of basic services: housing, clean water, electricity, health services, education, and tradecraft training. Capacity to deliver services depends upon the government's ability to put qualified citizens into the ranks of its service sector. South Africa's constitution delegates significant responsibility to the provinces to provide services, but the country suffers from a shortage of competent personnel. Affirmative action policies produced the effect of an "exodus from the public sector of skilled and experienced white personnel," resulting in departments unable to spend their annual budgets and the embarrassing fact that there are now fewer lower-income homes than during the twilight years of Apartheid.⁷⁰ In the worst cases, young educated whites with skills are reluctantly leaving the country.⁷¹ Whites regard many blacks as unqualified for the positions they hold—a dynamic that instills resentment and a sense of inferiority among the black population.

Post-Apartheid South Africa has yet to collectively accept the issue of race as one of mutual interdependence. The economically viable white elite fill the role of executors of the growing South African economy, yet they need the black government to produce a state of political stability suitable to lure further foreign direct investment. The government, in turn, needs the revenue base of a thriving economy to develop capacity of services. The country's future will hinge on its ability to blend the public and private sectors in achieving better governance, continued economic growth, and the empowerment of the 20 million South Africans living below the poverty line. Widespread dissatisfaction followed the election of President Jacob Zuma, who must confront the need to change the culture of government with respect to service delivery.⁷² Within the private sector, businessmen too harbor a belief that well beyond that of his predecessor, President Zuma grasps the primacy of good governance in relation to sustaining South Africa's impressive economic growth. Though prosperous in comparison to other Sub-Saharan nations, South Africa must remain guarded to prevent a slide into the traps plaguing its neighbors.

BOSNIA-HERZEGOVINA: Before 1991, Bosnia-Herzegovina (BiH) was one of Yugoslavia's six constituent republics. Its multiethnic population included a plurality of Muslims (Bosniacs) as well as smaller populations including Serbs, Croats, and Slovenes. Long standing racial tensions, previously held in check by President Josip Tito, erupted into a four-year civil war along ethnic lines when Slovenia and Croatia declared independence in June 1991. The war ended in 1995 when international pressure forced a cease-fire, and a peace agreement known as the Dayton Peace Accords (DPA) was signed by the conflicting parties. The conflict left BiH with approximately two million internally displaced persons (half the population), over 100,000 deaths, profound and still unresolved ethnic tensions, and a government, infrastructure, and economy in tatters. The current relative security in BiH is testament to the effectiveness of the DPA in establishing security through 14 years of international intervention. The DPA's basic goals have been met: to end the war and reconstruct and consolidate BiH as a viable and functional state. Nevertheless, significant challenges remain for its citizens, who continue to harbor deep-seated emotions from the war and centuries of inter-ethnic rivalry.⁷³

Government Institutions: The DPA formed two administratively separate and semi-autonomous entities along ethnic lines: the Federation of Bosnia-Herzegovina and the Republika Srpska. Each has its own parliament and government with significant power and broad autonomy as well as its own constitution and territorial divisions. In addition, the DPA established a three-member Presidency consisting of one Bosniac, one Croat, and one Serb. The DPA also established the Office of the High Representative (OHR) with the authority to impose decisions in cases where government authorities are unable to reach agreement or where vital political and economic interests are considered to be at stake. These government sectors operate in relative isolation and are not designed to produce strong or effective government; in fact, it is designed to prevent a majority from making decisions that adversely affect minorities. This complicated structure inhibits unified government action and has unwittingly promoted independent action as an alternative to the DPA structures. In addition, there is a general reluctance to transition from reliance on international intervention and aid to the more uncertain stage of relying on indigenous capabilities and domestic cooperation in governing the country. The active and continuing involvement of the international community, which seeks to guarantee the viability of its investment and avert the re-emergence of civil strife, contributes to this dynamic of dependency. Critics of the DPA contend the current arrangement has fueled separatism and nationalism at the expense of integration and economic growth.⁷⁴

Refugees and Property Rights: The government has not adequately addressed private property rights resulting from wartime displaced persons. The nationalist elites of all three sides of the government have obstructed refugee returns in hope of building and maintaining “ethnically clean” republics in the future. Returnees are still discriminated against in housing, employment, access to health care, education, and pension rights. Families still live in collective centers, and requests for restoration of housing units continue to be submitted to government authorities.⁷⁵

Economics: Economic development has been hindered by the DPA’s byzantine and expensive governance structure, black market activity, and organized crime networks that deter foreign direct investment. Government institutions account for 50 percent of the country’s GDP, and unemployment is estimated at 23 to 29 percent. Moreover, state funds are sometimes used to support ethnically-based agendas rather than financing public goods and services. Transparency International has ranked BiH as the most corrupt country in Europe, and the World Bank cites unclear laws and a dysfunctional bureaucracy as barriers to business development and foreign investment. The global economic crisis compounded these problems by prompting price declines in key BiH export commodities such as steel and aluminum.⁷⁶

Good Governance: The civil war’s legacy poses many challenges in establishing a functioning multi-party democratic system that maintains ethnic balance in BiH. Promoting good governance will require visionary, transparent, ethical, and synchronized efforts at the local, national, and international levels. In particular, countering pervasive corruption and avoiding conflicts of interest are the most pressing and profound priorities. Government officials have a record of arbitrary decision-making based on biased and self-serving interpretations of the DPA. An additional challenge is that of

sustaining indigenous governance capacity, for the international community has long assumed many of the management functions necessary to maintaining stability. These circumstances have eroded the domestic political will and initiative necessary to cultivate good governance in BiH. This dynamic will continue until the DPA is reviewed to address ambiguities, strengthen enforcement mechanisms, establish judicial accountability, and convey legitimacy.⁷⁷

CONCLUDING RECOMMENDATIONS

To mitigate volatile demand...

...Decrease market volatility by guarantee funding streams. Congress should pass legislative measures that establish funding streams and organizational structures that guarantee baseline resourcing for reconstruction and nation building to insulate it from pendulum swings of political will and economic trends. Doing so will stabilize the market, ensuring a robust industrial base when surges are required. Congress should then appropriate and authorize multiyear funding by establishing trusts similar to those set aside for Social Security and Medicare. Congress would then serve its oversight role by assuming a position analogous to that of a Board of Directors and the Program Manager assuming the role of CEO as is done in any major corporation. In each case, both are charged with insuring profitability (desired results) is delivered to its shareholders (taxpayers) and corporate/organizational viability is sustained.

To better manage competition for resources and sustain demand...

...Build response capacity. In accordance with National Security Presidential Directive-44 (NSPD-44), Management of Interagency Efforts Concerning Reconstruction and Stabilization, the U.S. should develop a strong civilian response capability. This development should include direct funding authorization to DoS for reconstruction and stabilization assistance. DoD should also formalize a system for leveraging civilian skills within the Reserve and National Guard to support expeditionary nation building efforts, much like it did with Agricultural Development Teams in Afghanistan. Additionally, DoD should expand the role of civil affairs capabilities in all its services.

...Create an “acquisitions process” for RNB. The Executive Branch should employ a life-cycle programming and management process that would allow for a 15-year program of record with set milestones and the identification of a presidentially appointed and Senate confirmed “program manager” as the government’s single point of contact for oversight, whose job it would be to collate interagency efforts.

...Encourage differentiation. Where corporate actors effectively apply for and implement contracts, NGOs will remain one of the best quick-response entities in the governance industry. Thus, where guaranteeing funding streams will preserve corporate capabilities, the U.S. government should identify capable NGOs and partner with them to focus their capabilities and efforts to setting up operations rapidly and then direct those efforts to set conditions for governmental and corporate efforts aimed at long term success.

To mitigate the complexity of local conditions...

...Integrate responses across levels. Fund and implement development (good governance) programs that place greater emphasis on integration of international, national, sub-national and grassroots development projects and multilateral approaches to funding. Programs such as the National Solidarity Program in Afghanistan and the Millennium Challenge Account Compact in Mozambique are demonstrating an ability to bridge these gaps in integration that often exist in reconstruction and nation-building.

...Emphasize and resource coherent approaches to governance. Governance projects often aim at solving one problem at a time, but successful and sustainable governance requires that all these functions work simultaneously and transparently. To facilitate this effect, the U.S. government should develop the capacity to coordinate and multiple projects in a client state along these functional lines. One model for such improvements would be the "horizontal integration" of infrastructure suppliers employed by South Africa, which expands contractor responsibilities to provide education and training programs designed to support sustainability and effective management of completed infrastructure projects.

To better coordinate the U.S. government response...

...Create interagency doctrine; specify roles; unify planning and execution. The U.S. government needs to clearly designate specific roles and responsibilities for reconstruction and nation building within its agencies as well as update training and doctrine for such operations. Further, it should develop doctrine for employing a "whole of government" approach to nation building. The U.S. government should also develop a centralized planning process for reconstruction and nation building operations that provides unity of effort and accounts for local governance structures in a way that avoids challenging local customs and traditions.

...Improve contract oversight capabilities. Agencies with governance and capacity building responsibilities (DoD, State, and USAID) must dramatically increase their structural capacity for contract administration and oversight. The U.S. government should look to enter into long-term, condition-based contracts with capable corporate entities to exploit and sustain the efforts of governments and NGOs in resolving immediate crises and setting security conditions. Doing so will mitigate the inefficiencies created by an over-reliance on short-term contracts.

GLOSSARY OF ACRONYMS

BEE	black economic empowerment (South Africa)
BiH	Bosnia-Herzegovina
CEO	Corporate Executive Officer
CRC	Civilian Response Corps (S/CRS)
DAI	Development Alternatives, Inc.
DoD	United States Department of Defense
DPA	Dayton Peace Accords
EITI	Extractive Industries Transparency Initiative
FRELIMO	Liberation Front of Mozambique
FTA	free trade agreement
FY	fiscal year
GDP	gross domestic product
IGO	international governmental organization
IMF	International Monetary Fund
IPOA	International Peace Operations Association
MCC	Millennium Challenge Corporation
MSG	Military Support Group
MSI	Management Systems International
NGO	non-governmental organization
NSPD	National Security Presidential Directive
OHR	Office of the High Representative
PDF	Panama Defense Forces
PII	Political Instability Index (<i>The Economist</i>)
RNB	reconstruction and nation building
RTI	Research Triangle International
S/CRS	Office of the Coordinator for Reconstruction and Stabilization (State)
UN	United Nations
UNDP	United Nations Development Program
USAID	United States Agency for International Development

Endnotes

¹ Barack Obama, “Remarks by the President in Address to the Nation on the Way Forward in Afghanistan and Pakistan,” Eisenhower Hall Theatre, United States Military Academy at West Point, West Point, New York, 1 December 2009.

<http://www.whitehouse.gov/the-press-office/remarks-president-address-nation-way-forward-afghanistan-and-pakistan>

² Michael E. Porter, “The Five Forces that Shape Strategy,” *Harvard Business Review*, Jan 2008, Vol. 86, Issue 1.

³ For the purposes of efficiency, the authors have grouped otherwise disparate organizations like Research Triangle Institute (RTI), which is a non-profit organization with for-profits like DAI. The reason for doing so is that both organizations play the same role regarding the governance industry. They are not NGOs and depend on government and IGO contracts for funding. The only difference is that the non-profit organizations can draw on donors for alternate sources of income.

⁴ These roles are not static. For example, the United States government performs the function of donor when it provides funds to IGOs like the World Bank that either contract with a third party or runs their own programs directly with client governments. The U.S. government also provides the function of contractor when its agencies such as USAID implement programs in failed states. To complicate the matters, these agencies also contract for services to NGOs and corporations. When operating efficiently, these entities synchronize capacity development and service delivery to build institutions capable of allocating, stabilizing, transfer, and distributing the country’s resources to create the other public goods necessary for economic opportunity.

⁵ United Nations Development Program website, www.undp.org/partners/index.shtml accessed 14 February 2010. Donors include the United States, Canada, Japan, Republic of Korea, the European Union (and EU members states such as Spain, Netherlands, and France).

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⁷ Porter, 80.

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¹³ E-mail from Betsy Marcotte, Senior Vice President for Operations, Development Alternatives Inc., sent March 10, 2010.

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- ¹⁴ United Nations Development Program 2009 Annual Report. <http://www.undp.org/publications/annualreport2009/report.shtml>, accessed 21 May 2010. See also Organization for Economic Cooperation and Development., <http://webnet.oecd.org/oda2009/>. According to this analysis, the United States gives substantially less as a percentage of gross national income (.2%) than Norway, which gives 1.2%,
- ¹⁵ Alexander Cooley and James Ron, “The NGO Scramble: Organizational Insecurity and the Political Economy of Transnational Action,” *International Security*, Vol. 27. No1 (Summer 2002), 10.
- ¹⁶ This trend may force the governance industry sector’s own version of the “last supper” as when the prime contractors that supply hardware to the U.S. military went from 20 to six companies. Along with the consolidation companies started buying smaller niche players so as to compete across a broad set of engineering specialties.
- ¹⁷ James Dobbins, *The Beginner’s Guide to Nation-Building* (Santa Monica, CA: Rand Corporation, 2007), 258.
- ¹⁸ Jock Covey, Michael J. Dziedzic and Leonard Hawley, *The Quest for A Viable Peace*. (Washington, D.C.: The United States Institute for Peace Press, 2005), 94-95.
- ¹⁹ Christopher Gilbert, Andrew Powell, David Vines, “Positioning the World Bank” *The Economic Journal*, Vol. 109, No. 459, Features (November 1999), F598-F633 Published by: Blackwell Publishing for the Royal Economic Society, <http://www.jstor.org/stable/2566065> 599. See also the Bretton Woods Project web site, <http://brettonwoodsproject.org/item.shtml?x=320869>
- ²⁰ Cooley and Ron, 23-24.
- ²¹ Anita M. McGahan, “How Industries Evolve,” *Business Strategy Review*, 2000, Volume 11, Issue 3, 7. DAI, for example, is attempting also serve corporate customers like Marathon Oil, which operates in developing nations by helping them develop in a way that complements good governance. In the case of Marathon Oil, which is operating in Equatorial Guinea, DAI is managing social investment of resources generated by their operations. See www.dai.com/work/corporate_sector.php. Accessed 13 March 2010.
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- ²⁴ Cooley and Ron, 16, 21.
- ²⁵ Coordinator for Reconstruction & Stabilization, “Civilian Response Corps Today”. January 2010., <http://www.civilianresponsecorps.gov> .
- ²⁶ Ibid.
- ²⁷ Dobbins, et al. xvii.
- ²⁸ August Cole, “Defense Industry Pursues Gold in ‘Smart Power’ Deals,” *Wall Street Journal*, 23 March 2010. <http://online.wsj.com/article/SB200014240527487704182004575055883325754258.html> (accessed 21 May 2010)
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- ³² United States Government Accountability Office, *Report to Congressional Requesters, Foreign Aid Reform: Comprehensive Strategy, Interagency Coordination, and Operational Improvements Would Bolster Current Efforts* (Washington, D.C.: Government Printing Office, April 2009), 9.
- ³³ Carothers, 4.
- ³⁴ United States Government Accountability Office, *Report to Congressional Requesters, Foreign Aid Reform: Comprehensive Strategy, Interagency Coordination, and Operational Improvements Would Bolster Current Efforts* (Washington, D.C.: Government Printing Office, April 2009), 45.
- ³⁵ *Quarterly Report and Semiannual Report to the United States Congress*, Special Inspector General for Iraq Reconstruction, 30 January 2010, 38.
- ³⁶ *Quarterly Report to the United States Congress*, Special Inspector General for Afghanistan Reconstruction, 30 January, 2010, 43.
- ³⁷ Carothers, 14.
- ³⁸ USAID from the American People, “President’s FY 2009 Budget Request Includes Increase for USAID Staffing Capacity,” <http://www.usaid.gov/press/releases/2008/pr080205.html>, 19 April 2010.
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- ⁴⁰ Department of Defense Office of the Inspector General, *Comprehensive Oversight Plan for Southwest Asia and Surrounding Areas*, February 2010, 99.
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