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Industry Study**

**Industry Report
*Reconstruction***



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ABSTRACT: The Class of 2016 Reconstruction Industry Seminar analyzed the many government and non-government stakeholders that support reconstruction, both domestic and international. The seminar specifically looked at stakeholder participation and effectiveness, using the devastation of Tropical Cyclone Pam in Vanuatu as a case study. While our studies indicate an unwavering desire to provide support in the wake of a disaster, there are many challenges associated with coordination and timeliness across the spectrum of organizations involved. This paper addresses these issues and offers policy recommendations to US stakeholders on future efforts. The goal of assessing US reconstruction efforts is to ensure that global threats, whether man-made or natural, do not compromise US national security.

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Field Studies – Domestic: US Agency for International Development (USAID) (PPL, DCHA/OFDA, DCHA/OTI, Asia and EGAT), Washington, DC
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BSR Training, Summit Point, WV

Millennium Challenge Corporation, Washington, DC

Development Alternatives Incorporated, Washington, DC

Speakers Bureau, External Affairs, World Bank, Washington, DC

Chemonics International, Washington, DC

Mercy Corps, Washington, DC

National Democratic Institute, Washington, DC

US Global Leadership Coalition, Washington, DC

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World Bank, Port Vila, Vanuatu

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Save the Children, Port Vila, Vanuatu

Oxfam, Port Vila, Vanuatu

United Nations Development Program (UNDP), Port Vila, Vanuatu

Poppy's on the Lagoon, Port Vila, Vanuatu

Vanuatu Maritime Police Wing, Port Vila, Vanuatu

Opportunity International, Sydney, Australia



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INTRODUCTION

Both man-made and natural disasters drive the requirement for reconstruction capacity. Reconstruction involves numerous stakeholders in a complex relationship and has strong linkages to United States (US) national security interests. It has been and will continue to be widely practiced throughout the world with scales that are highly variable and linked to the health of the global economy and interests of the major donor countries. The purpose of this report is to provide policy recommendations for the US Government (USG) and other reconstruction stakeholders to maximize the impact of dedicated reconstruction resources (\$) on achieving desired national security objectives. This study will first define the term “reconstruction” and outline the Reconstruction Industry as a whole. Next, it will describe the current condition of the industry, as well as its short and long-term outlooks; explore several significant challenges facing the industry; and propose new paradigms to address future issues. Finally, it will examine current USG roles and responsibilities, and provide policy recommendations to increase the effectiveness of future efforts.

Since 2011, the outbreak of civil war in Syria has displaced over 11 million refugees from their homes. According to the United Nations (UN), over 4 million have fled the country to neighboring nations and the conflicts have caused internal displacement of another 7.5 million people within Syria.² The UN estimates the economic cost of recovery at over \$203 billion, over four times Syria’s gross domestic product (GDP) in 2010.³ The cost in blood and treasure of such a conflict is immense, and the funding required for the ongoing humanitarian response holds the record for the largest sum ever requested for a single emergency.⁴ The effort to reconstruct basic infrastructure, services, and governance systems will likely continue for decades.

However, man-made disasters are not the only cause for suffering and instability. Natural disasters also significantly contribute to worldwide suffering. The people of the tiny Pacific Islands nation of Vanuatu are still reeling from the March 2015 category 5 Tropical Cyclone Pam. The Office of the Prime Minister estimated that the destruction from the Level 5 cyclone displaced 70 percent of the nation’s population.⁵ Economically, the cyclone devastated the island nation, costing half a billion dollars or two thirds of its economic output, and dampening growth by 0.5 percent.⁶ Reconstruction efforts are underway to mitigate the effects of the natural disaster.

Vanuatu and Syria are just two examples of the overwhelming impacts of natural disasters and conflict on affected populations. Despite occurring far from US shores, the reconstruction efforts following disasters such as this provide key insights on how the US executes reconstruction both as part of the United Nations’ effort and independently. It also demonstrates reconstruction’s its subsequent impact on US national security.

Reconstruction efforts like those in Syria and Vanuatu directly link to US national interests and support each of the four pillars listed in the *2015 National Security Strategy (NSS)* – security, prosperity, values, and international order.⁷ Reconstruction efforts are front and



center, whether the USG is building capacity to prevent conflict; increasing global health security; supporting emerging economies by empowering civil societies; seeking stability in some of the world's most war-torn regions; or responding to or preventing mass atrocities. The USG can bolster US national security by engaging in more efficient and effective reconstruction efforts. Instability is on the rise, whether caused by conflict, natural disaster, or climate change. Coupled with this is a growing disparity between US national security interests in reconstruction efforts and the current fiscally constrained environment. To meet the needs of the 21st century, the USG requires new cultural, procedural, and funding solutions.

INDUSTRY DEFINED

Reconstruction definition. The term reconstruction has a variety of interpretations and meanings within the USG, commercial industry, and civil society. This lack of common lexicon has generally failed to provide a focusing framework for the USG to anticipate, prevent, mitigate, and respond to conflict or disaster-prone regions. For the purposes of this analysis:

Reconstruction is a concept that incorporates networks of government entities, civil-society organizations, and commercial industry firms that address the impacts of natural or man-made disasters enabling a transition from post-conflict or post-disaster relief operations through durable recovery, to subsequent long-term development.

The traditional view of reconstruction is the space immediately following a disaster response and prior to a return to long-term development. This study expands the concept to emphasize preventative reconstruction planning. It also includes reconstruction efforts following an event with a view towards building more robust systems. In this study, reconstruction involves not just the return to a status quo, but the provision for “building back better” with an eye towards future resilience. In other words, quality reconstruction provides both a firm foundation for recovery and development while incorporating increased resiliency.

Reconstruction Industry Definition.

The Reconstruction Industry is the ecosystem of relevant government entities, civil-society organizations, and for-profit commercial industry firms that operate across hard sector and soft sector services and respond to natural or man-made disasters enabling a transition from post-conflict or post-disaster relief operations through durable recovery, to subsequent long-term development.

For the purposes of this paper, the Reconstruction Industry includes all major players operating in both “hard” sector services and soft sector services throughout multiple overarching themes. Hard sector services include global engineering and construction, security, and logistics support. Soft sector services include education, health, economics, rule of law, and governance. While there may be a fine line distinguishing hard and soft services, such as building a school and providing maintenance capacity for a power generator, for the purposes of this paper this seminar uses the definitions above in our analysis. Several themes emerged across the sectors including inclusion, cultural considerations, and sustainability. Furthermore, this study looked at



a wide scope of responses covering not only post-conflict and natural disasters, but also emerging sources of disruption including widespread disease and climate change.

CURRENT CONDITIONS

The Reconstruction Industry is multi-faceted and analysis is challenging due to the widespread factors impacting the industry. Reconstruction projects may be either domestic or international with funding provided by both public and private institutions, and often span multiple markets. Projects may consist of “hard” services such as road construction or “soft” services such as establishing good governance procedures or the inclusion of women in society. The industry provides services or products either in response to a defining event or to prevent a defining event. Finally, reconstruction firms may be diverse and support many functions or may narrowly support an issue that is single scope in nature. Overall, the Reconstruction Industry is currently healthy and in position to support the NSS.

To facilitate analysis, this paper divides the industry into two sub-industries: “International Construction” and “International Services.” The North American Industry Classification System Identifier 54133 provides an initial point to start a comparison for International Construction. However, the scope of Services is broad and the metrics used to measure performance are diverse. Thus, analysis of reconstruction services requires a more subjective approach.

Porter’s Five Forces evaluation tool (see Figure 1) allows for thorough assessment of the International Construction market. These Forces determine the competition and profitability of an industry. Industries where these forces are intense have high competition and very low profits. Conversely, an industry maintaining low forces has low competition and high profits.⁸

Five Forces	International Construction	<div style="border: 1px solid black; padding: 10px; text-align: center;"> <p style="color: orange; font-weight: bold;">The Five Forces That Shape Industry Competition</p> </div>
Competitors	High rivalry	
Buyer Power	High – Companies provide similar products, buyers choose different firms for each project, buyers can play one company off of another	
Supplier Power	Low – Supply market concentration, low cost of changing suppliers, and suppliers offer similar products	
Potential Entrants	High – Capital required to enter the market is the only barrier	
Substitute Products	High – Remodeling old structure or purchase/lease an existing structure	

Figure 1 – Porter’s Five Forces

International Construction generally operates in a monopolistic competitive market that borders on an oligopoly as the scope and complexity of the project increases. During the period



of economic recovery since 2010, industries are spending more on engineering services and construction related projects. The increased demand has led more companies to enter the International Construction market. In the next five years, economists estimate the number of engineering services companies to increase 2.8% each year for a total of 692,000 companies.⁹ Even with more firms entering the market, there has been a trend towards consolidation, particularly among the leading consulting firms.¹⁰ The market maintains high forces in competition, buyer power, potential entrants, and substitute products. Consequently, prices and profitability will decline. Competition and concentration in the market is high. While there are thousands of construction companies, the top five firms maintain 30 percent of the market.¹¹ Within that 30 percent share, the top firm has 28.7 percent, the middle three firms are almost 20 percent each, and the fifth firm maintains 13.1 percent.¹² This equitable distribution illuminates the competition in the market, ensuring narrow profit margins.

Buyer power in International Construction is also high, holding prices and profitability low. Buyer power stays high as long as the firms offer similar or equivalent products. Buyers can choose different firms for subsequent products and allow competitive bidding to hold costs down. Buyer power would decrease slightly if a firm offered a differential characteristic, perhaps a unique design, or if the firm was willing to work in a more remote or dangerous location. Further, the buyer would forego some power if it preferred to work with a particular construction firm.

Supplier power is low, which will reduce costs incurred by the firm during construction. Virtually all suppliers of construction material offer similar products, thereby reducing their leverage over the purchasing firms. Additionally, the supplier has limited markets in which to sell their products. The cost of changing suppliers is very low as their products are nearly identical. Each of these factors reduces supplier power and holds down the costs incurred by the construction firms. This in turn increases the potential profitability of the construction firms.

The potential for new entrants into the market is quite high. Six of the seven potential barriers to entry are low. The barriers of supply-side economies of scale, demand-side benefits of scale, customer-switching costs, incumbency advantages independent of size, unequal access to distribution channels, and restrictive government policy are all insignificant with respect to an established firm versus a new entrant. The seventh potential barrier, capital requirements, is only significant when entering the highest end of the construction market. The low barriers to entry will further ensure that profitability remains low.

To some degree, viable substitute products exist and further limit profitability in the international construction market. Buyers dissatisfied with the price of constructing a new building could choose to remodel their existing structure. Additionally, the potential buyer of new construction could choose to lease or purchase an existing structure, likely at a lower cost. These alternatives to new construction drive down the profitability of the construction market.

Though supplier power is low, which alone would increase profitability, the other four of Porter's Forces remain high. The lower supplier power will not overcome the high competition, buyer power, potential entrants, and substitute products, each of which lowers profits.



Top firms generate approximately 20 percent of their revenue from government contracts.¹³ Most, if not all, firms near the top of the market can diversify across multiple industries and are able to weather the storm of fluctuating government funding. Kellogg, Brown and Root (KBR) identified the risk associated with government contracts as they expect rigorous competition and pricing pressures for any additional contract awards from the USG and it may be more difficult for the firm to win future contracts.¹⁴ KBR assessed innovation as key to growth, but admitted its own was somewhat stagnant. Fluor Corporation states that they face rigorous competition and significant pricing pressures to win task orders. If they are not successful in reducing costs or able to respond to government requests in a timely manner, they may not win additional awards. Moreover, even if they are qualified to work on a government contract, the USG may choose not to award them the contract because of existing government policies designed to protect small businesses and under-represented minority contractors. Inability to win or renew government contracts during the procurement processes could harm operations and reduce profits and revenues.¹⁵ Increasing security concerns in many current operating environments is another concern for many firms. Employees need to incur greater physical safety risks in countries like Iraq and Afghanistan. Field visit research indicates that these security concerns are a strong deterrent for many reconstruction firms.

Analyzing the hard sector services is possible through the analysis of the many for-profit international construction firms. However, the introduction of government agencies, not-for-profit firms, and non-governmental organizations makes the assessment of the soft sector services more complicated. Each of these groups maintains programs that influence the soft sector and lack easily trackable costs and impacts. For example, it is easier to ascertain the effect of a new government building than to quantify the impact of a capacity building partnership with a developing country's Ministry of Foreign Affairs.

Influencing the soft sector are over 72,000 development organizations and over 40,000 international non-governmental organizations.¹⁶ While it is difficult to ascertain the profitability of these firms and value of these organizations, it is clear that the demand for reconstruction services outpaces the industry's supply. While the demand for services is high, US funding only partially addresses the global need. For example, the President's budget programmed \$50.3 billion for the Department of State (DOS) and US Agency for International Development (USAID) in foreign assistance for FY2016.¹⁷ USAID supports critical development activities and the experts who are carrying them out every day. In total, funding for accounts from which USAID administers assistance is \$22.7 billion, of which \$11.0 billion is in core USAID-managed accounts. The President and Congress have earmarked much of the US foreign assistance budget for specific programs. This complicates the ability of US embassies to properly address ongoing issues as the specified programs are not always in line with the needs of the allocated nations.¹⁸

In his 2015 NSS, President Obama states, "Our first line of action is principled and clear-eyed diplomacy, combined with the central role of development in the forward defense and promotion of America's interests."¹⁹ He goes on to mention "development" within the context of reconstruction no less than ten times as he links this industry to US national security and values.



CHALLENGES

There are a number of challenges associated with conducting effective reconstruction. Reconstruction efforts generally depend on the nature of the situation, be it in post-conflict, after a natural disaster, or rendering development assistance to lift a nation out of poverty. There are challenges however, that are common to most reconstruction situations. This section highlights some of these challenges and sets the stage for policy recommendations.

Embracing the “New Normal” in Reconstruction. There is an inconsistency between the increasing risks of instability caused by conflict; the effects of climate change and natural disaster (the “new normal”); US national security interests; and a contemporary environment of federal fiscal constraint. There is a need for a change in the reconstruction culture and funding to move away from separation of short-term humanitarian approaches from long-term reconstruction, and also from a centralized top down approach. The “new normal” demands a cost effective model that includes a localized, tailored approach based on pre-emptive assessments that identify potential need, priorities, and risk reduction.

Reactive/Timeline to Respond. This challenge within the Reconstruction Industry is two-fold. The first requires better use of US resources and leadership to affect change prior to the onset of a devastating need. The second involves ensuring a prompt response to events like natural disasters and other humanitarian crises. The USG typically ties response to political factors. For instance, if a host country does not want to accept official USG assistance for political reasons, there may be nothing that the USG can do to address the needs. However, host countries may receive NGOs more positively if the USG does not provide the funding, particularly in non-allied nations. Another complicating factor for the reactive nature of reconstruction efforts is the sheer volume of need. In times of declining budgets, and hard-fought battles over funding allocations, it is difficult to establish a foothold for reconstruction in every nation with a need. Resource constraints make it a real challenge for USG justification to spend limited resources unless directly linked to US national security. Mitigating this challenge should be part of any new universal paradigm of the Reconstruction Industry addressing the growing needs of the 21st century.

Low Support for Prevention Programming. While it is impossible for even the best reconstruction projects to be completely resilient in the face of subsequent disasters, there are ways to minimize the damage caused by future events through thoughtful attention to prevention throughout the process. Disaster risk reduction studies assess natural disaster probabilities and impact and provide recommendations for actions to mitigate the damage and speed recovery. USG and NGO support for these efforts can reduce the requirements for international response by accelerating local capacity for recovery and mitigating the impact of the disaster once it strikes. Similarly, understanding the probability of future disasters can allow advanced preparations so that reconstruction efforts are more timely and proactive to the real need. Establishing relationships and presence in threat-prone areas in advance, through donor funding and technical assistance programs centered on prevention, may provide a cost effective, proactive approach to reducing the need for USG and other international response to natural and man-made disasters.



No Lead Agency. The Reconstruction Industry is comprised of a network of companies, NGOs, and USG agencies. As a result of the large number of USG agencies, international organizations, and NGOs providing support, cross coordination and collaboration is a challenge and results in inefficiencies. The network of providers has different sources of funding from the USG, foreign governments, and private donors which creates execution problems for agencies on the ground. It also results in inefficiencies attributed to conflicting priorities among donors and limitations on funding execution based on differing government procurement laws

President G.W. Bush issued National Security Policy Directive 44 that established DOS as the lead agency to coordinate and integrate all USG efforts regarding stabilization and reconstruction activities. As a result of a broad range of issues including resource and budget limitations, increased workload, and emergent demands, the USG has not implemented this directive. Over time, DOS, DOD, and USAID assumed roles based on events, locations, and available resources. Recent collaboration among DOS, DOD, and USAID have resulted in the issuance of policies, guidelines, and directed organizational responsibilities improving coordination. Continued efforts to formalize roles and responsibilities in a manner that maximizes limited USG resources optimizes the US contribution to reconstruction.

Integration among Hard and Soft Service Efforts. There is significant difficulty in integrating hard and soft reconstruction efforts. “Hard” projects, such as infrastructure, are typically quicker with readily apparent results, whereas “soft” efforts, such as improved governance and rule of law are much more difficult to monitor and evaluate. Soft efforts also have fewer short-term signs of impact success. Issues that address the humanitarian and social needs inclusive of everyone require attention during reconstruction. For example, women raise different issues and concerns that others fail to consider and prioritize. Soft efforts are essential for long-term improvement and success of the reconstruction effort. Because there is no lead agency with unifying goals and objectives, firms operate in their niche sectors without regard for second-order effects. Occasionally large firms may receive contracts for both hard and soft efforts in which case integration is easier. However, most reconstruction efforts include many specialized firms and agencies working loosely together.

Local Ownership. Another challenge is integration of the needs of the receiving nation with the desires of the benefactor. This challenge is an integral part of the paradigm to approach the “new normal” within the industry. The notion of local ownership in project selection is crucial to its long-term success. Additionally, ensuring women have a role in local decisions contributes to gender inclusion and empowerment. For example, in Iraq, the most successful and long-lasting reconstruction efforts were those that went through a local council for approval.²⁰ Rather than the US Army unilaterally deciding what was best for a community, they spent time with a local council, which included women, to better understand their needs and implement local solutions. However, some government agencies may be hard-pressed to allow village elders to direct a project, especially if that project does not comport with a donor view of what is most important. In some cases, conflicting regulations place reconstruction firms in the middle between two conflicting government authorities.

OUTLOOK

Short-Term Outlook. Research shows the Reconstruction Industry to be relatively healthy with sufficient capacity to support existing national security resource requirements. The largest companies compete globally in sectors that span multiple industries including those unrelated to construction. Given the market fluctuations of particular sectors and the economic conditions in some geographic regions (including the US), it is important that they maintain a diverse portfolio in a broad range of sectors. Maintaining adequate and long-term investments, developing frameworks that take into account individual recipient country's specific needs and cultures, and focusing on tailored outcomes rather than outputs should enable continued success.

There are factors that could impact short-term surge and mobilization potential. The first is the growth of global GDP. Growth in developing countries reached a post-financial crisis low of 4.3 percent in 2015, and economists expect modest increase in growth during the next 5 years.²¹ As the health of the global economy continues to improve, the Reconstruction Industry should as well. A second factor is compliance with environmental laws. The necessity for careful environmental compliance has been escalating since the 1970s, and nearly all segments of the industry are affected by strict regulations and permitting requirements designed to protect human health and the natural environment.²² Failure to comply with environmental regulations can result in project delay or termination, disqualification from future work opportunities, fines, and civil actions. It is critical to manage these challenges successfully.

Industry analysis forecasts that overall industry revenues will grow at 2.9 percent annually over the next five years.²³ Part of this growth will come from "expanding industry's geographic and downstream markets" and an expansion of environmentally focused projects. As more companies in the industry diversify their portfolio of services and goods, the more likely the industry is to remain stable in the short term. Information sharing between the public and private sectors is essential to this process.²⁴ A recent example was response to the Ebola crisis in Africa where companies in the Reconstruction Industry provided significant support. Given similar requirements, markets within the industry should see significant opportunities over the next five years.

Long-Term Outlook. There are a host of factors that will continue to impact the Reconstruction Industry's long-term outlook. However, there are no indications that there will be any decrease in the events that require response by world governments and the Reconstruction Industry that supports government initiatives (the "New Normal" environment). To assess the long-term outlook of the Reconstruction Industry, it is first necessary to understand the primary drivers of the industry. Events that require significant reconstruction efforts normally take two forms: man-made and natural.

A quick scan of the evening news shows that there is no shortage of man-made crises that demand a response. No fewer than 30 wars or serious conflicts exist in the world today, and some note "war is development in reverse."²⁵ The number of armed conflicts is rising and 2014 marked the first year since the end of the Cold War where there were over 100,000 battle deaths.²⁶ Most of these have at least some impact on US national security. The Council on Foreign Relations currently lists seven ongoing conflicts that have a critical impact on the US



and another 17 of significant or limited impact.²⁷ All of these conflicts present opportunities and needs for reconstruction once the security situation allows.

Similarly, there is no indication that the number and severity of natural disasters will abate in the foreseeable future. In 2015, there were some 150 major natural disasters worldwide, affecting millions of people and requiring extensive reconstruction projects. These disasters include the massive earthquake in Nepal, which damaged or destroyed almost 900,000 buildings; floods in India, Malawi and Mozambique, destroying roads, bridges, water systems and crops; and typhoons impacting Burma, Bangladesh and India, causing similar damage.²⁸ Recently, the Solomon Islands lost five islands due to rising sea levels.

If recent domestic memory of hurricanes Katrina or Sandy were not enough to demonstrate the damage these storms can do and the massive need for reconstruction they leave in their path, our visit to Vanuatu, ravaged by Tropical Cyclone Pam in 2015, served as an additional reminder. Vanuatu's neighbor to the west, Australia, fully recognizes this reality. In 2016, the Australian Minister of Defense addressed the impact of climate change as a primary challenge in the region. Rising temperatures and increased sea levels result in more frequent extreme weather events and land degradation. Resource scarcity will contribute to food shortages and stunt economic growth.²⁹ While there might be some disagreement as to the cause of this change, there is little doubt as to the effects and their impact on the Reconstruction Industry. A New England Journal of Medicine Report echoed these climate change concerns. This report states:

The effects of armed conflict and natural disasters on global public health are widespread. Much progress has been made in the technical quality, normative coherence, and efficiency of the health care response. But action after the fact remains insufficient. In the years ahead, the international community must address the root causes of these crises. Natural disasters, particularly floods and storms, will become more frequent and severe because of climate change... These events affect the mortality, morbidity, and well-being of large populations. Humanitarian relief will always be required, and there is a demonstrable need, as in other areas of global health, to place greater emphasis on prevention and mitigation.³⁰

While the certainty of available work for members of the Reconstruction Industry does not seem in doubt, the availability of funding to undertake the necessary work is less certain (the "New Normal" environment). The foreign affairs budget for the US (under which foreign assistance falls) has typically been about one percent of the total federal budget, and the President's proposed 2017 Budget for the federal government contains a \$400 million decrease in this line item from current spending levels. Also a cause for some concern is the role that Overseas Contingency Operations (OCO) funding has played in the overall funding of foreign assistance. The OCO portion of the US foreign affairs budget has nearly tripled in the last six years. Additionally, the USG is now using OCO funds for programs traditionally paid for out of the base budget. Assuming that the OCO spending will eventually end, the return to a declining base budget will exacerbate the already stiff competition for dollars and place even greater pressure on US foreign assistance spending.



GOVERNMENT GOALS & ROLES

The USG plays a significant role in the Reconstruction Industry - with over 20 different USG agencies administering foreign affairs funding. The three biggest USG agencies for reconstruction, however, are DOS, USAID, and the Department of Defense (DOD). Each of these agencies has a different role and goal in the administration of reconstruction programs.

Department of State. While capabilities and authorities can be a complex mix, the US policy for reconstruction has evolved, leaving DOS and USAID in the lead. DOS's first Quadrennial Diplomacy and Development Review in 2010 (QDDR) focused on establishing planning and response capabilities, while laying the foundation for conflict prevention and mitigation. Five years later, with the threat of violent extremism taking center stage, the 2015 QDDR focuses "more on prevention and tackling the drivers of violent extremism," relegating the response function to "a planning process that will be triggered when crises emerge."³¹

Within DOS, a web of geographic and functional offices focuses on particular subsets of reconstruction efforts. The Bureau for Conflict and Stabilization Operations (CSO), established in November 2011 as a result of the 2010 QDDR, is the lead on violent conflict. CSO applies conflict analysis and strategic planning, combined with assistance to locally driven initiatives, aiding conflict prevention and mitigation efforts.

Three other functional bureaus provide supplemental support to reconstruction efforts: International Narcotics and Law Enforcement (INL); Population Refugees & Migration (PRM); and Democracy Human Rights and Labor (DRL). INL's mission is "to combat crime, corruption, and narcotics trafficking abroad and to develop trustworthy justice systems."³² INL accomplishes this by drawing on the experience of U.S. law enforcement and justice personnel from 25 different states. The next is PRM, which serves "to provide protection, ease suffering, and resolve the plight of persecuted and uprooted people around the world on behalf of the American people by providing life-sustaining assistance."³³ Finally, DRL plays a leading role internationally in establishing universal principles of basic human rights and supporting international efforts to enforce them.

USAID. USAID's capabilities range from crisis response to long-term development. In the reconstruction sphere, USAID provides humanitarian relief, political transition programs, institutional and physical reconstruction, as well as long-term development assistance. As the designated lead on U.S. government disaster assistance and humanitarian relief, USAID is often the first agency on the ground at the onset of a crisis. Regional bureaus and country missions manage the majority of USAID reconstruction activities.

Specialized offices under USAID that work on related reconstruction activities include: the Office of Foreign Disaster Assistance (OFDA); Office of Transition Initiatives; Office of Conflict Management & Mitigation (CMM); and the Office of Civilian-Military Cooperation (CMC). Each of these offices carries a unique role.

OFDA is an international leader in humanitarian response that provides vital immediate humanitarian support in response to natural and man-made disasters. OTI is a unique program that combines flexible funding with creative programming to provide short term assistance



targeted at high priority political transition and stabilization needs. CMM advances applied research to the nexus of conflict, security, and development to improve the quality of development programming and policy as well as contribute to diplomatic, intelligence, and security policy and practice. CMC's goal is to "align development and defense and leverage the unique capabilities of both partners to achieve better development outcomes in pursuit of U.S. national security goals."³⁴ With resident staff at each of the Combatant Commands (COCOMs) and the Pentagon and Military liaisons from each of the military services, CMC maintains an effective and active network of consultation and coordination.

Department of Defense (DOD). The liaison efforts established through USAID's CMC are a critical step towards better aligning DOS, USAID and DOD efforts. USAID has developed specific guidance on working with DOD in a collaborative effort to ensure the most synergy during contingency and follow on development operations. DOD relies on overarching documents that emphasize communication and coordination with the Department of State, USAID, NGOs, and host government agencies to guide their collaborative efforts. While USAID is the designated lead federal agency for U.S. Foreign Disaster Relief (FDR), DOD can play a critical role as a supporting agency. Capabilities that DOD brings to FDR operations include airlift, sealift, medical services, expeditionary engineering, water purification, and logistics support.

In addition to FDR, DOD has specific directives for defining roles and responsibilities during stability operations. DOD defines stability operations as "various military missions, tasks, and activities conducted outside the U.S. in coordination with other instruments of national power to maintain or reestablish a safe and secure environment, provide essential governmental services, emergency infrastructure reconstruction, and humanitarian relief."³⁵ During these types of missions, DOD is responsible for establishing civil security, restoring essential services, repairing critical infrastructure, and providing humanitarian assistance. By directive, DOD considers stability operations as a core DOD mission and the. Individual services have the responsibility to train and equip forces for stability operations. The geographic combatant commands (COCOMs) will prioritize missions and ensure effective coordination with DOS, USAID, and other government agencies.

ESSAYS ON MAJOR ISSUES

ESSAY #1 - How Do Women Build Systemic Stability to Reconstruction?

The global cost of Iraq reconstruction has topped over \$200 billion; of this, the US has contributed over \$61 billion.³⁶ Congressional Research Service (CRS) reports have described reconstruction funding for hard sector reconstruction in the billions and soft sector reconstruction in millions. It is not possible to determine if more investment in the soft sector of reconstruction could have had any impact on the current challenges in Iraq. However, the Office of the Special Inspector General for Iraq Reconstruction (SIGIR) published in their *Hard Lessons* report that, "The failure to pursue capacity-building efforts alongside infrastructure construction led to a crisis in sustainability that continues to this day."³⁷ There is also increasing evidence that investing in effective gender inclusive soft sector reconstruction increases stability and economic



productivity. The benefits of the inclusion of women are measurable in the prevention of conflict, conflict resolution, and post-conflict reconstruction.

Prevention of Conflict. When communities hear all voices, creative solutions emerge. In a study of national leaders, it has been determined, that ethnically diverse nations led by women enjoy on average a 6.8 percent increase in GDP.³⁸ Additionally, nations that face crisis are five times less likely to resort to violence with each 5 percent increase in participation of women in parliamentary positions.³⁹ In addition to the benefits that women provide to the economic and diplomatic arenas of a country, they also offer the ability to contribute to indicators and warnings within a society. Women as human intelligence collectors have a perspective in their communities that can identify threats and changes in atmosphere ahead of conflicts.

Conflict Resolution. Donor investment in support of refugees and internally displaced people (IDPs) is one potential soft sector area for concentration. Humanitarian support (i.e. food and shelter) is a regular component of US assistance. Governance support within refugee camps, however, is also critical for the documentation of newly born children. If men are not present at the time of the child's birth, the child is likely to be born stateless. This, combined with limited or nonexistent education, suggests children are likely to feed into a continued cycle of violence. Family law in countries that identify males as head of household contributes to the challenges of reintegration of women, children, and widows.

Post-Conflict Resolution. The political inclusion of women during reconciliation and peace negotiations increases the potential for long-term stability. The women of Northern Ireland and Liberia provide exceptional case studies in the diversity of perspective and solutions that women bring to the table. The involvement of women in the 1998 Good Friday negotiations resulted in the inclusion of "...reconciliation, mixed housing, integrated education, the rights of young people..."⁴⁰ Both Northern Ireland and Liberia contribute to the statistics that increased participation of women in peace agreements results in a 35% increase in the likelihood a peace agreement will last 15 years or more.⁴¹ Most peace agreements fail within the first three years and countries revert back to conflict without the participation of women.

As part of the disarmament, demobilization, and reintegration (DDR) process it is important to incorporate a gender perspective. During conflicts women are commonly combatants and need to participate in DDR operations in separate quarters and processes from men. DDR also requires a need for Security Sector Reform (SSR), with a particular focus on incorporation of women. The inclusion of women in the police force contributes to a reduced perception of threat by the population.

Statistics show that the inclusion of women in all phases of reconstruction results in positive outcomes. The World Economic Forum, Global Gender Gap Report 2015, indicates that Iraq's political inclusion of women over the last 10 years has ranged from 2-3% participation of women. The countries identified as most fragile states share similar women's participation rates as Iraq. Conversely, the most stable countries in the world have political participation rates between 40 - 50%. Women are also more likely to use the participative – democratic style of leadership. There are many other examples of reduced tensions resulting from women's inclusion.



ESSAY #2 – Changing Culture: The “New Normal” in Reconstruction

Reconstruction is an industry on the rise. The increasing risk of instability caused by the effects of a natural disaster, climate change, the proliferation of intra state conflict and the potential of global pandemic (e.g. Ebola and Zika) have contributed to a consistently growing need for more foreign assistance (the “new normal”). As the reconstruction and foreign assistance need grows, the associated cost and burden on donors becomes more apparent as those states, organizations, and companies face the challenges of domestic fiscal constraint and over tasking. This has created a dilemma for the US government. A destabilized world directly influences US national interests and the US must continue to respond. But a changing world demands requisite changes in problem solving and solutions. The “new normal” paradigm presents such a change.

The Pattern in the Reconstruction Environment. The reconstruction environment occurs in three phases: pre, during, and post crisis. For fragile states, the pre-crisis environment focuses on building resilience, but invariably does not reach the tipping point that precludes the influx of substantial amounts of emergency foreign assistance during crisis. Typically, a strong dependence on the assistance generated during the initial post crisis phase characterizes the post crisis phase. This dependency leads to a slow generation of longer-term reconstruction both in terms of donor support and the host nation’s ability to generate capacity. This environment presents a non-cost effective model for all stakeholders. The sine waves shown in the International Development Association (IDA) model in the figure 1 below are conducive of the current suboptimal approach to reconstruction.⁴² To alleviate this, the magnitude of the emergency foreign assistance wave must be flattened and the amplitude of the assistance (reconstruction) waves brought closer together. More pre crisis risk reduction will decrease the amount of foreign assistance necessary and the time period in which it is required. This would allow the allocation of more resources and time to longer-term reconstruction and risk reduction for the next crisis (the “build back better” concept).

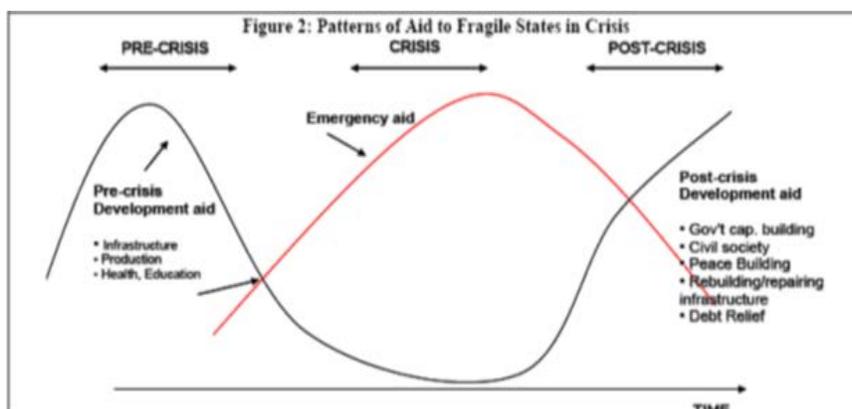


Figure 2: Patterns of Aid to Fragile States in a Crisis

There is a strong argument that the world is facing a new normal of unprecedented challenges and that the current global doctrine and systems in reconstruction are not optimal. As such, there is a need to adopt a new paradigm for the 21st century – one that helps mitigate the timeline challenges in the crisis response, prevention programming (risk reduction), and local (host nation) ownership.



A Model for the “New Normal.” NGOs argue that the current reconstruction model separates short-term humanitarian approaches from long-term development, is too centralized, and is top down in its approach.⁴³ This results in a system that is inflexible, disjointed, and not cost effective. The system is not optimal for the “new normal.” Given this premise, NGOs advocate change in a way that includes a host nation driven tailored approach based on pre-emptive assessments that identify potential need, priorities, and preventative crisis risk reduction.

This report has already used the current situation in Syria as an illustrative example as a fragile state where this paradigm has been adopted. For example, Mercy Corps has already espoused this approach in their country strategy through the generation of Humanitarian Access Teams that are using the power of technologies such as social media platforms to build databases capable of providing more flexible and focused responses to crisis (adaptive management). In the United Kingdom, the Department for International Development (DFID) utilizes Inception Phase Program Models to immediately evaluate programs in building capacity (pre and post crisis) in fragile states.⁴⁴ This enables a fast failure program mentality. That is, an inherent culture that says if it isn’t working, move on to something that does. An acceptance of the “new normal” paradigm and the requirement for a complementary model is gaining universal acceptance among reconstruction NGOs. The Oxfam 2020 strategic change path personifies the Mercy Corps and DFID approach.



Figure 3: Oxfam 2020 Evolution to Change⁴⁵

The second theme of the “new normal” paradigm is that of local ownership. That is, the integration of the needs of the host nation with the desires of the benefactor in a manner that focuses on a partnership-based response. Such an approach will not completely remove the requirement to provide crisis foreign assistance. However, the prioritization of local capacity in the pre- and post-crisis phases will reduce the amount and duration of assistance required, and reduce the need to return repeatedly after subsequent crisis (“build back better”). In this sense, the notion of ensuring local ownership of reconstruction efforts and priorities is crucial to the long-term success of lifting the burden from donor nations.

Implementing the “New Normal” Model. Whilst this model has a practical elegance, it does not resonate with all donors and stakeholders, particularly those spending public money in times of fiscal constraint. Any initiative that saves money in the long term is welcome but it would be difficult to envision Congress being supportive of an accompanying culture of failure and experimentation. The degree of congressional oversight would surely reach new heights, or the money may not be forthcoming at all. That said, the annual appropriation of Congressional funding for foreign assistance although not ideal for long-term reconstruction surety, does provide the scope for a fast failure culture by not indefinitely tying up funds in unsuccessful initiatives.

That said, there is already internationally recognized legislation in place that provides the leverage for US government cultural change and subsequent action. The United Nations Sendai Framework of 2015 places emphasis on the “build back better” philosophy in an effort to reduce the overall reconstruction burden on donors. Though the Sendai Framework focuses on post natural disaster reconstruction, the same philosophy can be applied post conflict.⁴⁶ The US has expressed concerns about the framework, particularly as it pertains to the protection of US intellectual property.⁴⁷ However, the adoption of the framework and similar agreements can have a direct and desired effect on the crisis sine wave model described above. That is, a change in focus from “managing disasters to managing risks”⁴⁸

Therefore, the onus is to present Congress and other industry stakeholders with a logical argument to accept the new paradigm based on prioritization and return on investment. The 21st century is a time of doing more with less. US policy such as sequestration is testament to this. Similarly, the reconstruction industry, although relatively healthy, is also responding to the “new normal” and to fiscal constraint by diversifying portfolios, responding to host nation requirements, and focusing on tailored outcomes rather than outputs.

It is logical to infer that the universal acceptance of the “new normal” model can only be beneficial to both US national security interests and the supporting reconstruction industry. Given the long-term outlook, there is little risk of the industry working itself out of a job. The scope to “build back better” and focus on risk management is a long-term opportunity for both the hard and soft sectors of the industry. The key to success will be a congressional cultural shift in accordance with NGO thinking and international agreements such as the Sendai Framework.

ESSAY #3 – Vanuatu Case Study

The Reconstruction Industry Seminar used the South Pacific island country of Vanuatu as a case study to apply the tools, resources and lessons learned in the course studies and evaluation of government and NGO entities involved in reconstruction. The team combined country and industry research, field visits and interviews of government officials and NGOs to inform the paper’s policy recommendations and lessons learned with a current real life example of a reconstruction context.

To fully understand the policy recommendations and lessons learned from the Vanuatu case study, the context of Vanuatu’s socioeconomic and political circumstances must be understood and in particular, the impact that geography and climate have on the vulnerability of the country. In March 2015, Tropical Cyclone (TC) Pam hit Vanuatu, causing widespread destruction of infrastructure, housing, and agricultural crops, estimated at 65% of GDP.⁴⁹ The industry team examined local and international efforts at recovery over a 10-day field trip to Vanuatu. Based on this and preparatory research the following profile of Vanuatu is provided with select conclusions on disaster recovery and preparedness.

As a mountainous, volcanic archipelago located on the “ring of fire”, Vanuatu is subject to a plethora of natural disasters with five active volcanoes, regular earthquakes, tsunamis and frequent typhoons that constantly threaten the islands. The archipelago, which runs north to



south, covers a total area about the size of Connecticut, and a land area, consisting of 82 islands, about the size of Delaware. With a population of 270,000, spread out on small islands extending 800 miles from end to end, communication and transportation are major challenges, complicating the delivery of public services and disaster relief and recovery.⁵⁰

Vanuatu's political system consists of a constitutional parliamentary republic with universal suffrage from the age of 18. The Municipal Councils of the two main cities reserve a number of elected positions for women, though otherwise there is little female participation in elected office. Recent political scandals indicate both Vanuatu's vulnerability to political disruption and its resilience in dealing with political scandal. The Vanuatu justice sector convicted 14 members of Vanuatu's national parliament, including the Prime Minister of bribery in November of 2015. True to its democratic tradition, the President immediately called for elections to replace the parliament and the elections held in January of 2016 installed a newly elected parliament on the basis of the largest electoral turnout in the nation's history. Freedom House ranks Vanuatu high on political rights, civil liberties and freedom.⁵¹ A multiparty system, however, based largely on tribal loyalties has had an adverse effect on effective governance. No confidence votes have resulted in changes in government several times in the past five years. Though the changes were peaceful and the elections fair, these changes compromised sound government planning. A \$35 million AUD donation from Australia for cyclone recovery sits unused in government accounts for more than a year, while a multimillion-dollar convention center, a gift from the government of China of questionable utility according to local sources, is nearing completion. Additionally, major airlines have suspended service to Port Vila due to its airport's inadequate runway maintenance, leaving the island serviced primarily by Air Vanuatu.⁵² Local businesspersons report a significant downturn in tourist trade as a result.

An independent judiciary, patterned on English, French and customary law, adjudicates civil and criminal cases. Limited resources and little capacity challenge the Justice system by leaving many disputes to be resolved through traditional means. Further compounding rule of law issues the police department is small and under resourced with no presence at all on most of the islands. Early marriage and domestic violence is high with 27% of girls under 18 married and 78% of families having reported a domestic incident.

Vanuatu's economy centers largely on subsistence and commercial agriculture and fishing, which occupies over 60 percent of the labor force, but generating only about a third of the GDP. Notably seasonal employment in Australian and New Zealand farms account for a significant part of local income. Tourism and related activities, a local service sector as well as a small offshore finance industry concentrated in the capital of Port Vila, account for the balance of employment. Vanuatu has a small manufacturing sector that revolves around food processing and basic construction materials catering to the local market.

The UN University World Risk Index ranked Vanuatu No. 1. The World Risk Index examines the risk of becoming the victim of a disaster resulting from an extreme natural event. "Risk comprises exposure to natural hazards and the vulnerability of a society."⁵³ The frequency of natural disasters confirms this vulnerability. In the last 15 years, Vanuatu has experienced 26 earthquakes at the magnitude of 6.5 or greater. In 2016 alone, they've had four. Since 2000, 14



cyclones have hit Vanuatu with varying degrees of intensity. Isolation and limited infrastructure on the outer islands where the majority of the population lives, complicated recovery.

Over the past several years the government of Vanuatu, with assistance from the Australian and Japanese governments, has established a National Disaster Management Office. Equipped with a meteorological and seismic monitoring system, it will allow the government to provide more effective early warnings for cyclones and respond more quickly to seismic events. As reported to the industry study team, however, full use of these capabilities is challenged by inadequate staff capacity and limited communications with the many island communities. Though, as evidenced by field trips of the industry study team, the islanders have a natural resilience to these events. Traditional housing can be more resistant to winds and earthquakes and easily repaired or rebuilt with locally available materials. The Reconstruction Industry partially attributes the low death toll of TC Pam to this fact.⁵⁴ Nonetheless significant damage to agriculture, primarily coconut and kava farming, will take years to recover from and require substantial aid.

Assessment. As Vanuatu begins recovery from TC Pam, economic and physical recovery will strain the country's finances. Significant aid will be required to rebuild destroyed infrastructure and private property, but it has shown resilience, both in terms of its stability and social cohesion that bodes well for a strong recovery. In spite of its risk profile, the long-term prospects for Vanuatu are positive. Although subject to both physical and political shocks the resilience of its people, and the economic potential of a resource rich pacific island, suggest Vanuatu will continue to develop in a constant, if interrupted, trajectory forward.

The lack of a stable government is a significant constraint to the economic growth needed to finance disaster preparedness and response as well as strengthening infrastructure and housing against further shocks. Strengthening civil society could provide the impetus for improving governance by increasing pressure of citizen groups. The stability and fairness of Vanuatu's political system suggest there is ample opportunity for the development of effective civil society groups.

With substantial help from international donors, the Vanuatu government has put in place much of the physical infrastructure for economic growth, disaster preparedness, and response. Effective use of these resources, however, is constrained by low human capacity and government ineffectiveness. Increased attention to building Vanuatu's government capacity can allow Vanuatu to take full advantage of the sophisticated meteorological and seismic systems recently acquired through a donation by Japan. Foreign assistance organizations can assist Vanuatu to take advantage of other sources of financing through International Financial Institutions, issuing bonds, soliciting direct foreign investment, reliance on remittances, etc.

RECOMMENDATIONS

The Reconstruction Industry continues to support US national security goals and has made significant advancements throughout history. Academic, field research, and an in-depth analysis of the industry, have led this seminar to make the following recommendations:



Prioritize Prevention and Resilience. Fiscal constraints are increasing in the US and other donor governments while at the same time there is a prevalent need for reconstruction activities in the wake of natural and man-made disasters, which are increasing in number and severity. This disparity creates the “new normal” reconstruction environment (See Essays on Major Issues #2.) In the face of these twin challenges, Congress and USG agencies involved in reconstruction must culturally and legislatively shift away from the current paradigm regarding the separation of short-term humanitarian approaches from long-term reconstruction, and from a centralized top down approach. DOS, DOD, and USAID have all made great strides towards addressing these challenges, but the USG has not yet realized this whole of government approach. The “new normal” demands the universal acceptance of an industry-wide cost effective model that includes a localized tailored approach based on pre-emptive assessments that identify potential need, priorities and risk reduction.

Lead Oversight Agency. The USG should continue to further define roles and responsibilities and create an oversight role within the federal government for all international reconstruction initiatives. Currently, a variety of USG organizations are funding and/or performing reconstruction activities. NSPD 44 details that DOS be the lead coordinator. DOS needs not only an oversight role, but must also be empowered to direct reconstruction activities to further US national security. DOS will collect and assess data to measure the return on investment of USG resources allocated to support reconstruction, as it relates to national security.

Women’s Inclusion. A growing body of research demonstrates that increased inclusion/participation of women in reconstruction and development programs leads to more stable societies that are better able to respond to and recover from disasters. (See Major Issues Essay #1.) All USG agencies conducting reconstruction projects should mirror USAID’s method of including gender assessments as part of project design to more explicitly address gender issues and women’s inclusion. USG agencies should also provide data to the lead government agency for the response as part of the monitoring and evaluation plan.

CONCLUSION

The term “build back better” is a phrase that resonates worldwide, and implies that the spectrum of prevention, response, reconstruction, and long-term development efforts should poise a country to persevere over any future contingency and preserve its vitality. “Build back better” presents many roadblocks as each country has a different definition and related requirements. Improved coordination and a more robust investment in prevention are key to this concept’s success. Unfortunately, allocation of resources towards prevention activities conflicts with the US’s current culture; we tend to take a more reactive, versus proactive response in terms of planning and preparing for future contingencies. This, in conjunction with the US’s austere budget climate, precludes the US from investing scarce resources towards preparing for unforeseen events. The annual appropriation cycle also challenges the US in long-term investing or planning, such as disaster planning (with minor exceptions). Until the climate changes from reactive to proactive, and the USG recognizes and prioritizes investments that prepare us for contingencies, the US will continue to respond reactively now and into the future.



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