

**Spring 2017
Industry Study**

**Industry Report
*Reconstruction***



**The Dwight D. Eisenhower School for National Security and Resource Strategy
National Defense University
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Reconstruction 2017

ABSTRACT:

The Class of 2017 Reconstruction Industry Seminar analyzed the various components that encompass the industry, from government departments, non-governmental organizations, and private industry, to international partners and organizations. The analysis specifically included two country studies and visits: the post-conflict peace process in Colombia with the Fuerzas Armadas Revolucionarias de Colombia (FARC) and the post-disaster operations in Haiti connected to the 2010 earthquake and 2016 Hurricane Matthew. While both countries have made great strides in making sure both processes are planned, they are not absent numerous obstacles and challenges that threaten prevention of a lasting solution in both. This paper addresses these obstacles and challenges in greater detail and offers US policy recommendations that could help maximize finite resources and foster better, more lasting solutions to these countries. It is the seminar's expectation that, in the long run, these recommendations will make them better partners and allies of the United States.

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Industry Study Outreach and Field Studies

Eisenhower School Lectures and Presenters:

- United States Agency for International Development, Civilian/Military Cooperation
- United States Agency for International Development, Elections Case Study
- Center for Complex Operations
- William J. Perry Center for Hemispheric Defense Studies
- Disarmament, Demobilization and Reintegration Overview
- Reconstruction in Iraq--Post Conflict
- Lessons for Countries in Conflict: Building Communities and Government
- United States Agency for International Development/Joint Humanitarian Operations Course (2-days)
- DynCorp Corporation
- Poverty, Inc. - Documentary
- Department of State Policy and Planning Division
- Center for Applied Strategic Learning (CASL) - After Shock Exercise
- Catholic Relief Services
- InterAction
- Inter-American Foundation
- McChrystal Group
- Global Witness
- Federal Emergency Management Agency
- Research Triangle Institute International

Field Studies – Domestic:

- United States Department of State, Introduction to Colombia and Haiti, Washington, DC
- United States Institute for Peace, Washington, DC
- United States Agency for International Development Overview Ronald Reagan Building, Washington, DC
- Inter-American Development Bank, Washington, DC
- Millennium Challenge Corporation, Washington, DC
- Strategic Studies Institute, Carlisle, PA
- Peacekeeping and Stability Operations Institute, Carlisle, PA
- Senate Foreign Relations Committee, Dirksen Senate Building, Washington, DC
- Office of United States Foreign Assistance Resources, Washington, DC
- Louis Berger Group, Washington, DC
- World Bank, Washington, DC
- TetraTech/MSI, Arlington, VA
- Chemonics, Washington, DC
- American Chamber of Commerce, Washington, DC
- Development Alternatives International, Bethesda, MD
- Office of the Under Secretary of Defense for Policy/Special Operations and Low Intensity Conflict, Arlington, VA
- Fairfax County Fire and Rescue, Disaster Training Center, Fairfax, VA

- Organization of American States, Washington, DC
- Center for Strategic and International Studies, Washington, DC
- SOUTHCOM Overview and Country Briefings, Miami, FL

Field Studies – International:

- United States Embassy USAID, INL, ECON, POL/MIL, DCM Roundtable, Bogota, Colombia
- United States Embassy Intelligence Fusion Center, Bogota, Colombia
- Agencia Colombiana para la Integracion, Bogota, Colombia
- Comando Estrategico (Colombia's Department of Defense), Bogota, Colombia
- Club Colombia Non-Governmental Organization Roundtables
- Centro Internacional de Desminado (CIDES), Tolemaida Military Base, Colombia
- Military Post-Conflict Peace Operations Briefing, Melgar Military Base, Colombia
- Post-Conflict Ministry Briefing, Palacio de Nariño, Bogota, Colombia
- Agencia Presidencial de Cooperacion, Donor Coordination Ministry, Bogota, Colombia
- Ministerio de Justicia, site visit with US AID, Bogota, Colombia
- American Chamber of Commerce Briefing, US Embassy, Bogota, Colombia
- American Chamber of Commerce Briefing, Medellin, Colombia
- Joint Task Force for Monitoring and Verification Briefing, Commander, COET, 7th Division, Medellin, Colombia
- ProAntioquia Foundation Briefing, Medellin, Colombia
- Ruta-N Technology Briefing, Medellin, Colombia
- Metro Tour and Briefing, Medellin, Colombia
- Antioquia Museum Tour and Briefing, Medellin, Colombia
- Sancho Paisa Tour and Briefing, Medellin, Colombia
- Direction de la Protection Civile (National Emergency Operations Center), Port Au Prince, Haiti
- Killick Coast Guard Base Tour and Briefing, Port Au Prince, Haiti
- United States Embassy Chargé d' Affaires, POL/MIL, INL, USAID, OFTA, CDC, ECON, ICE Briefings
- UN Logistics Base, Port Au Prince, Haiti
- Camp Delta Briefing, MINUSTAH, Port Au Prince, Haiti
- Hôpital Universitaire de Mirebalais, Partners In Health, Mirebalais, Haiti
- Peligre Hydro-Electric Dam (w/ Inter-American Development Bank and Alston Hydro France)
- School of Hope of Peligre, Southern extremity of Peligre Dam, Haiti
- Lunch and Briefing by local city mayors, Lascahobas Province, Haiti
- US Ambassador's Residence Reception, Boudon/Petionville, Haiti
- Unite de Construction de Logements et de Batiments Publics (UCLBP) Canaan briefing with UN Habitat, Global Communities, and American Red Cross, Port Au Prince, Haiti
- UCLBP Government of Haiti Reconstruction Project Tour (Ministry of Finance), Port Au Prince, Center Ville, Haiti

“If you don’t fund the State Department fully, then I need to buy more ammunition”

Gen James Mattis¹

INTRODUCTION:

The advent of Pax Americana, the concept of relative global peace overseen by the United States, began in the 19th century and was further solidified after the United States’ decisive participation in both World Wars. Since then, American preeminence around the world has been felt in one way or another by other countries and their people. The United States government has accomplished this by implementing enduring American exceptionalism, as described in its *National Security Strategy 2015*.² Diplomatic, Information, Military and Economic (DIME) instruments of power are used as domestic and international mechanisms to exert security, prosperity, values, and international order throughout the world.³ Additionally, DIME instruments of power have both soft and hard elements that help advance this national security strategy. When these elements are combined, with a whole of government approach, they can be more effective towards achieving the United States government’s desired results. Two such whole of government approaches include post-conflict relief, as in the case of Colombia; and post-disaster assistance, as in the case of Haiti.

Post-conflict Colombia. After fighting insurgent groups for over 50 years, primarily the Fuerzas Armadas Revolucionarias de Colombia (FARC), the government of Colombia signed a peace agreement with the rebel group in 2016, effectively ending the protracted struggle. Many Colombian citizens do not fully support the agreement, which lacks key implementation details and will be expensive to execute. However, the accord is moving forward as organized and planned.

Post-disaster Haiti. As the poorest country in the Western Hemisphere, Haiti has experienced political instability for most of its 200-year history. The country has also been overwhelmed by natural disasters such as the 7.0 earthquake which struck its capital in 2010, and Hurricane Matthew which struck its southwestern region in 2016. These two devastating events occurring in such a short timeframe have completely exacerbated Haiti’s dire situation and untenable future.

For global post-conflict and post-disaster responses, the United States’ DIME whole of government approach is referred to as reconstruction. To ensure alignment with its National Security Strategy, the United States must implement four recommendations which include 1) Establishing the Department of International Development, Assistance, and Stability; 2) Increasing public-private partnerships; 3) Establishing anti-corruption criteria; and 4) The U.S. government should develop a more effective domestic communications strategy on foreign policy and aid.

By implementing new policies in these areas, the United States government can align reconstruction activities with its desired national security outcomes and ensure development is sustainable for the long term. While the reconstruction industry is healthy and continues to grow, its effectiveness and sustainability, specifically in Colombia and Haiti, remain questionable. Considering President Trump’s administration and its new foreign policy agenda, perhaps Ian Bremmer was correct when he stated, “Pax Americana is over, and that could mean a much more turbulent world.”³

INDUSTRY DEFINED:

The reconstruction industry is broad and complex but can be defined as a network of government entities, international organizations, civil-society groups, private companies, non-government organizations (NGOs), and for-profit and not-for-profit organizations that operate in the services sector and provide response to natural and man-made disasters. These sectors include construction, governance, emergency relief, information, security, and logistics. The activities conducted within reconstruction enable transition from post-conflict and post-disaster relief operations through sustainable development. Events such as famines, earthquakes, hurricanes, tsunamis, civil unrest, and war trigger the industry's initial response. Reconstruction activity occurs around the world and frequently takes place in poor, rural, and marginalized areas with complex social and political environments. Thousands of entities participate within the industry, and the sheer volume of participants from around the world makes the industry vulnerable to low levels of coordination and significant duplication of effort.

Reconstruction efforts seek to fulfill emergency needs first, then transition into rebuilding better and safer areas, leaving them in good condition and making the environment normal again. Ideally, these activities re-establish order and reconstitute capacity within a region, thereby reducing risks associated with disasters in the future. At a security and justice level, reconstruction can involve peacekeeping, human rights, governance, and social inclusion. However, reconstruction is not isolated from other industries as its activities may also involve improving water quality and delivery, sanitation, agriculture, health, education, energy, economic growth, and micro-financing. An end goal is to build resilience and ensure economic integration for the affected country; however, the industry requires more than sufficient funding and comprehensive organizations. Reconstruction also requires strong government policies and institutions, good governance, and rule of law to be successful in the long-term.

Nations often invest in reconstruction efforts to further their national security objectives, and there is no shortage of participants willing to execute these strategies. From a business perspective, reconstruction has low barriers to entry, and future profitability is promising. Industry growth is due, in part, to an increasing number of global disasters and conflicts, as well as the nature of dependence that reconstruction seems to create within fragile host nations that lack the willingness, strategy, resources, or ability to become self-reliant in the near and long-term. While the industry will likely remain resilient, the continued level of investment made by the United States is in question, considering President Trump's "America First" agenda.

CURRENT CONDITION: The reconstruction industry represents a "loose assemblage" of humanitarian and development aid-program implementers, referred to as the development industrial complex. "Loose assemblage" describes the heterogeneous mix of for-profit firms, non-profit firms, non-governmental organizations (NGOs), and private voluntary organizations that vie for various sources of humanitarian and development dollars provided by domestic and foreign government aid agencies and wealthy private donors.⁵ This "loose assemblage" makes it difficult to assess the health of the reconstruction industry using traditional industry analytic tools.

Three other considerations further complicate an effective industry analysis. First, reconstruction efforts encompass disparate professional sectors that include, but are not limited to, construction, agriculture, environment, energy, healthcare, education, security, and government consulting services. As such, no single North American Industry Classification System (NAICS) code or

even grouped NAICS code adequately covers the number of industries which compete in the reconstruction industry. For example, a few major companies nest within professional consulting services, but those break down further into five separate NAICS codes.⁶ Secondly, several large firms dabble within the industry merely as a pretext for privileged access to certain foreign markets, whereas other firms live and die by the ebb and flow of foreign aid largesse. Third, the heterogeneous mix of competing firms, NGOs, and other agencies obscures a focused analysis because many of the organizations' financials remain unavailable to the public. More ominously perhaps, many of these organizations arrange themselves into complex corporate structures which blend for-profit and non-profit endeavors, further complicating a reasoned analysis of reconstruction industry health, as evidenced by the non-profit Blumont's (formerly International Relief and Development [IRD]) restructuring into two non-profit divisions and one for-profit division after suspension by USAID in 2015.⁷

The reconstruction industry realized exponential growth as the wars in Iraq and Afghanistan morphed into nation-building enterprises. Prior to 2003, USAID awarded less than \$3 billion annually in contracts and grants. By 2009, that amount was over \$14 billion.⁸ The growth in USAID contracts and grants slowed soon after, but USAID still awarded just under \$16 billion in contracts and grants in 2016.⁹ Additionally, the deep spending cuts initially proposed by the Trump administration failed to materialize in the Consolidated Appropriations Act of 2017.¹⁰ Even if implemented as proposed, the \$1.2 billion overall reduction to USAID's budget pales in comparison to the exponential growth USAID experienced in the past fifteen years.⁴ Therefore, the main revenue source for the reconstruction industry appears secure for the foreseeable future.

USAID grew so rapidly in the mid-2000s that contracting officers struggled to keep up with the number of program requirements for contracts or grants. To offset the increasing pressure to get programs implemented, contracting officers increasingly relied on Indefinite Delivery/Indefinite Quantity (IDIQ) contracts as the programs grew in cost, scope, and complexity. As a result, implementers obtained strategic competitive advantage by positioning their companies to maximize profitability through the acquisition of preferred contract vehicles, whether fixed price, cost-plus, or time and materials. For example, AECOM, as a vertically integrated engineering and construction company, prefers to bid for fixed price contracts, whereas Tetra Tech abandoned the fixed-price market in 2014 by jettisoning its construction portfolio in favor of expanding more into the time and materials market of consulting services.⁵ Both for-profit and non-profit entities employed a variety of successful business strategies over the past decade to take advantage of growing foreign aid outlays. These strategies included consolidations for procuring market access and for leveraging economies of scale to manage regulatory pitfalls more effectively to avoid suspension or disbarment, which could cripple an organization so highly dependent on government funds.

While hundreds of firms and NGOs register with USAID to compete for contracts, a privileged few dominate the market. Accordingly, the industry resembles an oligopoly, especially where vertically-integrated companies compete for large umbrella contracts. For example, the top forty USAID program implementers acquired \$9.9 billion worth of contracts or grants in 2014. Forty-five percent of that sum went to multilateral international agencies like the World Bank and UNICEF. Eleven for-profit firms and nineteen non-profit firms divided the remaining \$5.2 billion. Recall that "the difference between a for-profit and a non-profit in these cases is largely technical – in terms of the way these firms compete for work with the U.S. government the differences blur.

Mergers, spin-offs, and fairly complex intertwining directorships seem to be increasingly common.”⁶

Critics dubbed the reconstruction industry the “development industrial complex” because a large portion of USAID’s program implementers derived a majority of their revenues from USAID contracts or grants. For example, in 2012, 15.5% of CARE International’s \$585.5 million annual budget, 27% of Save the Children USA’s \$617.4 million annual budget, 53% of Catholic Relief Services \$732 million annual budget, and 83.5% of Management Science for Health’s \$292.3 million annual budget derived from the federal government.⁷ Similarly, two employee-owned, for-profit companies, Chemonics and Development Alternatives Incorporated (DAI) both receive the vast majority of their revenues through USAID contracts, although both recently pursued “diversification” strategies which meant securing contracts through Britain’s Department for International Development and Australia’s Department of Foreign Affairs and Trade. In other words, these organizations, regardless of profit motive, develop a clear interest in maintaining the foreign aid status quo.

Advocates of foreign aid testify annually to both Senate Foreign Relations and House Foreign Affairs Committees arguing vociferously that any proposed cuts to foreign aid represent a grave risk to U.S. national security interests. This annual pilgrimage of strange bedfellows safeguards foreign aid budgets allowing the vested interests to then compete against each other for Congress’ attention on how best to divide the foreign aid pie amongst the various types of program implementers. For example, from 1996 to 2005, NGOs apprehensively watched USAID’s five largest contractors’ revenue and market share explode from a combined \$57 million (33.1% market share) to \$1.25 billion (46.7%) primarily through IDIQ contracts.⁸ In response, the NGO’s lobbying arm, InterAction, successfully lobbied Congress to restrict both the scope and volume of USAID’s IDIQ contracts. As a result, IDIQ contracts plummeted from \$470 million in 2012 to \$64 million in 2014.⁹ In 2011, the for-profits formed their own lobbying firm, the Council of International Development Companies (CIDC), and mounted a vigorous defense of IDIQ contracts by arousing the ire of the chairman of the House Committee on Oversight and Government Reform.¹⁰ The CIDC’s efforts bore fruit when USAID awarded Tetra Tech a \$1 billion IDIQ contract in March 2015.¹¹ The program implementers’ competition now appears to be settling into an equilibrium where NGO’s and for-profits amicably split the fifty-five percent of the USAID foreign aid budget that is not already earmarked for international multilateral agencies.

Model of Porter’s Five Forces:

Recognizing the difficulty applying traditional industry analysis to the reconstruction industry, we nevertheless employ Porter’s Five Forces to approximate industry health by diagnosing the behavioral patterns of relevant industry players. The competitive forces and their triggering causes are important to understand and can reveal the root of an industry’s profitability. It also provides a framework for anticipating and guiding competition over time. Companies seeking to gain an advantage over others can use the Porter’s Five Forces framework to identify the competitive forces that shape strategic positioning within the industry, and give a company an edge over other rivals. Through this framework, the reconstruction industry can be evaluated based on competition, customers, power of suppliers, threat of new entrants, and the substitution of products and services.

Competitive Rivalry:

Rivalry in the reconstruction industry is intensely competitive. Most industry observers describe competition among the larger for-profit and non-profit firms as concentrated within the global market, while smaller companies compete for niche local sub-contracts. Firms strive to individualize themselves to their customers based upon two key differentiators: performance and quality. Consequently, the fierce battle to maintain market share places downward pressure on industry profit margins. Larger companies like Tetra Tech, Chemonics, DAI, and AECOM stand out in the industry as they offer a variety of services; and as they begin to acquire smaller companies who offer a low level of product differentiation.

Buyer Power:

Buying power is strong due to many NGOs and competing firms, as well as federal agencies, such as the Department of Defense aiding in counterterrorism, the Department of Justice aiding in counter-narcotics, the Department of Health and Human Services providing assistance with HIV/AIDS and the Department of State/USAID. In addition, due to the competitive bidding process, budget constraints, and a possible decrease in foreign aid, the federal government, who is the primary buyer in this industry, can drive costs down, encourage competition, and ensure low profitability. If the buyer believes they can find an equivalent product, they can play one vendor against another. This power stays high as long as companies continue to offer similar services. However; the buyer's power decreases for those companies who offer a niche service which stands out amongst the others such as design and consulting.

Supplier Power:

Supplier power for the reconstruction industry is mixed. For-profit firms like Chemonics and DAI bank on USAID for the majority of their revenues. In fact, "if the for-profit contractor Chemonics were a country, it would have been the third-largest recipient of USAID funding in the world in 2011, behind only Afghanistan and Haiti."¹⁹ Chemonics' expansive reach as a prime contractor on a myriad of USAID's five-year Country Development Cooperation Strategies exposes these programs to significant risk should the company face sanction or disbarment. In 2012, USAID cited Chemonics for numerous mistakes in Haiti and Afghanistan, yet continued to award new contracts to the firm, thus giving credence to the notion that some firms in the development industry secured "too big to fail" status.²⁰ Another example which reinforces the mixed power of suppliers is the demise of the Academy for Education Development (AED) as an independent agency. This occurred in 2010 when regulators suspended the non-profit from competing for any further U.S. government contracts. AED's sixty-five outstanding contracts and grants with USAID totaled \$650 million. FHI360 acquired AED the following year.²¹ USAID suspended or disbarred forty-three entities in 2011 which represented a major increase over the annual average of six sanctions in fiscal years 2003-2005.²²

Threats of New Entry:

Threats to new entry are moderate to steady depending on the services that a company provides. Those who offer professional services do not require large upfront capital expenditures and allow them to enter and exit the market with minimal financial risks. This provides limited barriers against new competitors. Competitors offering specialized assets and more technical and concentrated services, such as engineering, construction, or transportation need greater financial

resources due to equipment and technical expertise/qualifications. These threats force larger investments and larger risks to enter and exit.

Threat of Substitutions:

The threat of substitutions in the reconstruction industry is moderate since buyers have several choices amongst for-profit and non-profit firms. In addition, the buyer has discretion on whom to choose, which is based on how they define reconstruction, and how it is ultimately achieved. Buyers have the ability to substitute hard construction and the building of critical infrastructure with soft reconstruction which offers the training of military and police personnel, assisting in responsible governance, and food, education, or health relief programs.

CHALLENGES:

Although the reconstruction industry is financially healthy and stable, U.S. government officials should address various challenges within the industry. These challenges revolve around a lack of collaboration, poor communication, conflicting short-term and long-term goals, and the effective spending of government funds. These challenges are outlined in this section.

Coordination Among Agencies:

The U.S. government provides over 100 countries foreign assistance through more than 20 different agencies.²³ Each of these agencies has their own objectives and goals and rarely coordinates with the other agencies in the industry. Therefore, these agencies are competing for the same government resources, mainly funding, to implement similar foreign assistance programs. Additionally, every new administration makes small tweaks to manipulate the bureaucracy to their agenda, only creating more organizations and layers of uncoordinated efforts.

Each agency has its own set of criteria for providing foreign assistance; some are more focused on immediate life-saving aid, while others concentrate more on long-term sustainable development. While each agency serves a purpose, with objectives, the lack of communication often results in disjointed and redundant plans and an inefficient use of funds. Moreover, this lack of coordination can undermine overall U.S. national interests.

Coordination is also critical for linking short-term and long-term development in countries. There does not appear to be a good U.S. strategy for making the transition from emergent aid to stability development. Short-term aid lingers into a cycle of aid dependency. Recipient countries do not work to build resiliency because they rely on grants from donor countries and/or they do not effectively manage the resources provided to them. Though humanitarian assistance is usually focused on urgent and emergent short-term needs, there is little long-term outlook on how to wean a host country from continual 'donor' dependency. Once the U.S. government presence is established in a country, officials may fail to develop a departure plan. Officials need to consider more strategic priorities and long-term planning needs when providing foreign assistance.

Corruption:

Corruption and the misappropriation of money or goods within the host nation is a challenge throughout the industry. While some form of corruption is present in most governments and countries throughout the world, this type of behavior is debilitating for emerging countries who need support. While aid organizations have the best of intentions, frequently their actions or goods

do not reach the individuals who are in need. In Haiti, corruption and misappropriation of money and goods intended for reconstruction efforts has been common. For example, the area of food aid has experienced corruption and misappropriation in Haiti. While billions of dollars of food aid have entered Haiti, inspectors have identified systemic problems which indicate that the intended people are not receiving any aid.²⁴ Corruption creates a cycle of dependency.

Effective Spending and Communication:

With the projected reduction of foreign aid funds and the current administration's focus on "America First," government officials must explore creative ways to stretch and leverage limited resources. Additionally, in many countries where the U.S. provides assistance, there are opportunities for U.S. companies to invest. This could be a win-win-win scenario for the host nation, private company, and U.S. national interests. Moreover, the U.S. government needs to take a harder look at where to invest its resources. There needs to be a more definite prioritization of where the funding should be spent for greatest effectiveness and national interests.

Congress holds the power of the purse and is greatly influenced by their respective constituents. Ineffective communication with Congress and the American public is a factor that may negatively impact the industry in the long term. Furthermore, the American public has several fundamental misunderstandings about foreign aid and reconstruction. For instance, the average American thinks that aid is 31% of the U.S. budget when it is only 1%.²⁵ If this misunderstanding persists, the public may become less likely to support spending taxpayer dollars on foreign assistance.

Impact on the Host Nation's Economy:

Foreign aid and assistance often undermines local economies. Although the U.S. government cannot completely control the actions of the NGOs, it has a great influence over them since many NGOs rely on government funding to fund their efforts. The U.S. should not contribute to efforts that inhibit the resilience of the host nations. For example, continuing to provide free rice to a nation that has the capability to grow and sell rice destroys the rice market, and creates further unemployment and social inequality issues. The U.S. government needs to invest in more sustainable ventures to build stability and independence in each of the nations.

Leadership within the US Aid Community:

There is no primary person or organization responsible for the oversight of U.S. reconstruction, development, and foreign assistance initiatives. USAID, which has a significant role in reconstruction, falls under the State Department. This creates a situation where the USAID Director's messages and priorities may be muffled and distorted as they are routed to the President. Furthermore, when discussing reconstruction initiatives with leaders in the international community, the Director of USAID may not have the appropriate status to sway opinion. It is difficult to track the progress and status of numerous reconstruction initiatives since various agencies across the federal government may lead them. There needs to be better oversight of the initiatives and programs at a heightened level of influence, both within and outside the United States.

Appropriate oversight is also needed to ensure accountability for initiatives and programs. Measuring the effectiveness of reconstruction initiatives is a challenge. Government officials must understand what programs are working and where changes must be made. The volume of programs in a country, the lack of oversight, and inefficiencies make it difficult to measure success.

In many instances, it is difficult for officials to even gain an accurate count of the number of NGOs in a country.²⁶ Along with measuring effectiveness, officials also face the challenge of ensuring accountability.²⁷ There are so many reconstruction related activities taking place in some countries, it is difficult to accurately show progression and validate accountability.

Overall, these challenges impact various aspects of the reconstruction industry. Government and industry leaders, along with host nation leaders, must work together to address these challenges.

RECONSTRUCTION INDUSTRY OUTLOOK:

The long-term outlook for the reconstruction industry is strong, but the short-term outlook is weaker due to potentially significant budgetary pressure from the Trump Administration. A major source of funds for the reconstruction industry comes from the State Department and the U.S. Agency for International Development (USAID). The President and Secretary of State have both advocated for a reduced State Department budget and may further incorporate USAID into the State Department.²⁸ Depending on how budget negotiations proceed, the cuts could be considerable, and would have an immediate negative impact on the number of contracts and grants awarded by State and USAID. While it is still unclear how these cuts would be applied across the Department, it would appear unavoidable that foreign assistance will have to be reduced, and this is likely to include reconstruction activities. If this happens, which is likely, though not a certainty, U.S. policy makers will be faced with difficult choices. They will either have to reduce the number of countries that the U.S. provides aid to or reduce the amount of aid given to the same number of countries. In either case, the reconstruction industry will be negatively impacted in the short term.

However, the story is not all bad as the U.S. continues to play a prominent role in numerous countries, and leads the world in foreign assistance in absolute terms.^{29,30} Even if the foreign assistance budget is significantly reduced, the U.S. will still play a prominent role in many places by providing foreign aid for the reconstruction industry. It is also possible that some of the reduction in the State Department capacity due to budget reduction will be alleviated by the Department of Defense doing more in terms of reconstruction activities. Ultimately, the overall need for humanitarian assistance is ever-present in many areas of the world, which translates into high demand. This high-demand environment for humanitarian assistance bodes well for the reconstruction industry in the long term, as man-made and natural disasters are likely to recur in the future.

Capacity and Capability:

Perhaps more importantly, the reconstruction industry enjoys a number of fundamental strengths that ensure that it will be able to thrive in the long term. Using Porter's 5 Forces as a framework for analysis, numerous subcomponents of the reconstruction industry, such as water and sewer line construction, for example, show considerable strength.³¹ Buyer and supplier power are both moderate, and barriers to entry are low in many cases. While academically engaging with the reconstruction industry, it became clear that there are a large number of companies and non-governmental agencies able to provide a wide range of services. These groups provide significantly different kinds of services with private companies focusing more on technical elements such as physical construction, while the over 1.5 million non-governmental organizations tend to focus more on social services, and coordinating contractor activities.³² But there is overlap, and these groups are able to provide a sufficient breadth of services required to meet the needs of the

reconstruction industry. The capacity of the industry is strong and these providers have considerable expertise in providing the kinds of services required by funding agencies such as USAID and the Department of State.

In terms of capability, the reconstruction industry also appears strong. The seminar observed numerous private companies and NGOs that are staffed with highly trained and highly capable professionals who are able to operate globally. The U.S. has been conducting humanitarian assistance and providing foreign aid in many countries for a considerable amount of time, and a by-product of that is a broad, professional workforce. Skills important in this industry include planning, engineering, construction, language skills, and an ability to work at an interagency and international level. The workforce in this industry has these skills in abundance. Some employees will change companies as contracts or grants change from one company to another, but this is a good thing inasmuch as it provides a mechanism for expertise to remain engaged in a specific area or location. For these reasons the long-term outlook of the reconstruction industry is strong. The industry will be able to weather short-term budget contraction and still be able to provide services as needed.

Political Will:

Humanitarian assistance efforts support U.S. national security interests as articulated in the National Security Strategy (NSS). The current NSS was published in 2015 during the Obama administration and current humanitarian and international development efforts are in line with this strategy.³³ However, the current administration has yet to publish an updated NSS. The Department of State and USAID are left to determine what path to plan for by reviewing statements from administration officials and President Trump's budget blueprint, or "skinny budget" published in 2017, which proposes a 28 percent reduction in funding for the Department of State and USAID in Fiscal Year 2018.³⁴ In a fiscally restrained environment, it is appropriate to ask the question as to whether or not U.S. possesses the political will to continue world-wide, large scale humanitarian assistance efforts if it reduces funding for the agencies responsible for these efforts.

This pending fundamental re-examination of the national posture on foreign and humanitarian aid introduces some uncertainty into the reconstruction industry, and calls into question the political will to continue with this work. In fact, many of the private contractors and NGO's that the seminar engaged with during our studies expressed concern over this matter. Any reduction in political will in this area may result in a need to reduce or realign staff and alter the kinds of work they engage in and the places where they do their work. These are certainly legitimate concerns that will impact their bottom line, but it is still the consensus that these actors possess the capacity and capability to realign successfully.

There remains, however, one major factor that impacts American political will in a very positive way and ensures that some level of political will endure regardless of turnover in the administration or budget cuts. That factor is American values. There are three primary drivers of U.S. National Security policy: security, prosperity, and values. American foreign policy is undertaken to increase security, prosperity, or to demonstrate and spread our national values. Humanitarian assistance, and foreign aid generally to a lesser but still significant extent, is a method in which the United States demonstrates good will to foreign nations while contributing to its own security and prosperity. Therefore, it will always be in the U.S. national interest to aid others in need, and there

will always be some level of political will to support humanitarian assistance and foreign aid work. So, while the reconstruction industry may suffer ebbs and flows of political cycles, the American ideals of helping those less fortunate almost assure that this aid based industry will it will never go away.

POLICY RECOMMENDATIONS:

As previously discussed, foreign assistance funding for reconstruction efforts supports the US national security interests as articulated in the 2015 NSS. Although the Trump Administration has signaled a significant departure from the Obama strategy, it has yet to release an updated NSS. This seminar recommends that the Trump administration immediately publish a National Security Strategy as an overarching policy recommendation, which will enable policy makers at the DoS and USAID to align and prioritize resources within a fiscally constrained environment. Without a clear strategy, policy makers will simply be using guesswork with any application of resources.

1) Establish the Department of International Development, Assistance, and Stability (DIDAS):

The current U.S. foreign assistance structure suffers from unity of effort, lack of alignment, and marginalized influence both domestically and internationally. U.S. foreign assistance has countless departments, agencies, and organizations conducting development and humanitarian activities and programs. There is no central authority to synchronize these activities and programs, leading to duplicate efforts which may not target the “real” developmental needs. All too often legislative and executive branch pet projects and ear marks complicate the situation.

A U.S. cabinet level department for development and humanitarian assistance will not only increase the effectiveness of U.S. soft power, but it will facilitate a balanced, comprehensive approach to the employment of the 3D (development, diplomacy, and defense) instruments of national power in support of the national security strategy. The creation of DIDAS will elevate development and humanitarian assistance at the U.S. policy level, increase influence with international leaders and development forums, create unity of effort by synchronizing and coordinating development activities across departments, agencies, and organizations, and more effectively link development programs to strategic objectives.

2) Increase Public-Private Partnerships (PPPs):

If President Trumps “skinny budget” is a signal, the administration’s appetite for providing foreign assistance is on the decline. Therefore, there needs to be a sustainable revenue stream for development projects to continue without direct aid support. For this reason, public-private partnerships (PPPs) seem to be a natural fit for long-term economic development projects. Additionally, the PPP model is applicable for rule-of-law, governance, health, education, or short-term humanitarian projects if policy makers design them creatively. Regardless, the use of PPPs in some projects will free up more funding for other developmental assistance and therefore use USAID’s limited resources more efficiently.

The Trump Administration must reshape U.S. foreign assistance to leverage the power and expertise of the U.S. private sector to make the whole instrument of national power more efficient, effective, and sustainable. By mandating that private U.S. companies match at least 25% of

USAID funds through public-private partnerships overseas, it will increase the leverage of U.S. Government aid, boost U.S. companies abroad in ways that do not cost domestic jobs, help the world's poorest people get long-term income opportunities, and improve the investment climates of host countries. This would result in a "quadruple win."

3) Implement Anticorruption Recommendations:

It is common for corruption to be present in fragile states that suffer from poor governance. Corruption can promote instability by fueling social and political grievances, providing incentives for violent conflict due to rent seeking opportunities, and undermining the capacity and legitimacy of the state. Corruption deprives the state of resources and thus weakens the state's ability to provide key public services, including security. Corruption is only one factor that contributes to poor governance and countries must also focus on improving rule of law, regulatory quality, and oversight.

The Special Inspector General for Afghanistan Reconstruction (SIGAR) proposed eight recommendations for the executive branch. Each of these recommendations, if implemented, would help ensure the U.S. is in a position to effectively combat corruption and ensure accountability of U.S. expenditures. However, we recommend the executive branch expand the scope of these recommendations beyond contingency operations to all U.S. operations, to include development work without a military presence.

4) More Effective Communication on Foreign Policy and aid:

As previously shown, most Americans do not have an accurate understanding of how the Department of State and USAID apply foreign assistance and development aid. Additionally, the funding for foreign aid and development projects become political targets during fiscally constrained times. The Smith-Mundt Act, passed in 1948 and modified in 2012, prevented the State Department from exposing the American public to propaganda.^{35,36} But this Act has helped to form a culture within the State Department that inhibits domestic strategic messaging. This is a significant problem because if the American public does not have an adequate understanding of foreign policy and how aid fits into a broader strategic framework, then public support is likely to wane in the era of smaller aid budgets. There is also an important tax-payer accountability issue here. If the American taxpayers do not understand how their tax dollars are being spent in this important policy area, then it is more likely that taxpayers will insist that resources are spent in other areas where they perceive accountability to be higher; the military for example. Additionally, resourcing smaller aid projects now can result in a reduced need for military spending later.

This seminar recommends that the U.S. government enhances its strategic messaging domestically, to include more outreach to educational institutes and civic groups at all levels. This should include a summary of how embassies work, what kinds of aid projects are going on in different regions, and what the expected outcomes of those projects are. Further, those agencies overseeing aid projects should conduct more project evaluations and communicate the results of those evaluations in more user-friendly terms. Evaluations like this should continue to be made available online but also pushed to media outlets. Through effective and honest communication, the U.S. government can inform the American public about both the strategic importance and fiscal realities of foreign policy and assistance initiatives.

SUPPORTING ESSAYS:

ESSAY 1 – ESTABLISHMENT OF A CABINET LEVEL POSITION TO OVERSEE AID:

“The United States cannot win the hearts and minds of the world’s people with only an anemic USAID presence in the developing world. The situation will not improve without sensible presidential leadership to support an independent, vigorous, and restructured USAID or a new federal department devoted to development.”³⁷

Foreign Affairs

The purpose of this paper is to analyze a major issue facing the reconstruction industry and outline a policy to inform senior-level decision makers on the allocation of public sector resources in support of national security. The creation of the Department of International Development, Assistance, and Stability (DIDAS) will enhance the effectiveness, integration, and stature of soft power among the United States Government’s (USG) instruments of national power.

To persuade the reader to support this thesis and provide supporting evidence, this paper is broken into five sections. First, the paper will outline the objectives of foreign assistance and review it from an historical perspective. In the second section, the paper draws on research and site visits of the private and public sectors of the reconstruction industry to where issues were identified that challenge the effective employment of and integration of soft power in support of U.S. national security objectives. The third section lays out a policy recommendation, namely the creation of DIDAS, that is critical to enhancing the balanced fusion of development, diplomacy, and defense. In the fourth section, the paper outlines a common grievance to the creation of a DIDAS-like organization and provides a rebuttal. The final section provides conclusions which summarize the findings and reviews the policy recommendation and its benefits to U.S. national security.

Foreign Assistance Objectives and Historical Perspective:

U.S. foreign assistance has a long history and can be traced back to, nearly, the birth of the nation. However, development specialists, academics, and foreign policy technicians typically trace the beginning of modern day U.S. foreign assistance to the Marshall Plan. World War II ended with the U.S. enjoying a strong, growing economy. Europe was largely destroyed, and the threat of communism was spreading.³⁸ On April 3, 1948, President Harry Truman signed the Foreign Assistance Act (FAA) which was the policy groundwork that established the Marshall Plan.³⁹ The rationale was based on three pillars: The first pillar was national security which encompassed preventing the spread of communism and securing basing rights.⁴⁰ The second was commercial interests.⁴¹ As stated above, the U.S. had a strong, growing economy and the justification was that foreign assistance would facilitate promoting U.S. exports by creating new markets and stable environments for business to flourish. The last pillar was humanitarian concerns. There was broad support in the U.S. to reduce human suffering to include poverty, hunger, and health epidemics.⁴² These foundations, with the addition of combating violent extremism, developed the three pillars used to tie foreign assistance to national security, are as true today as they were in 1948.

In 1961, President John F. Kennedy made the most dramatic overhaul of U.S. foreign assistance by establishing the United States Agency for International Development (USAID) and the Peace Corps.⁴³ The creation of USAID combined numerous aid programs under one agency. Over 40 years passed with no major changes until the concept of a 3D – development, diplomacy, and defense - national security strategy was introduced in 2002 by the administration of President George Bush. Under this approach, development was introduced as an equal instrument of national power. Development budgets were increased and some initial political capital was spent on increasing its importance. However, in the end diplomacy and defense continued to dominate. In fact, USAID, the primary agency responsible for development, was moved closer under the control of the Department of State (DOS) with the establishment of the “F” process by the Secretary Condoleezza Rice in 2006. The “F” process was designed to consolidate planning in budgeting across both DOS and USAID.⁴⁴

Challenges of USG’s Foreign Assistance:

The current U.S. foreign assistance structure suffers from unity of effort, lack of alignment, and marginalized influence both domestically and internationally. U.S. foreign assistance has countless departments, agencies, and organizations conducting development and humanitarian activities and programs. “Many recent studies have demonstrated, U.S. development tasks lacks coherent policy guidance and are spread across myriad agencies with little coordination among them.”⁴⁵ Often these activities and programs are not synchronized, do not target the “real” developmental needs, and are sometimes duplicated. This situation was created by both the legislative branch and the executive branch’s pet projects, ear marks, and efforts to reform a broken system.

U.S. foreign assistance lacks alignment of policy, budget, operations, and authorities. Often policy is developed and determined by DOS officials and then implementation is passed on to USAID or other departments, agencies, and organizations. “For example, the assistance programs under the Support for Eastern European Democracy Act and the Freedom Support Act are implemented by more than a dozen U.S. agencies and coordinated by a DOS official whose authority is confined to his own department and USAID.”⁴⁶

The current organizational structure of U.S. foreign assistance dilutes the influence and effectiveness of development. This happened domestically because development does not have a single representative at cabinet level meetings, and is often an afterthought and not an integral part of policy making. It occurs internationally due to the lack of a single representative for development, thereby minimizing the U.S. influence with international leaders and at development forums.

Policy Recommendation:

A U.S. cabinet level department for development would increase the effectiveness of U.S. soft power and facilitate a balanced, comprehensive approach to the employment of the 3D instruments of national power in support of the national security strategy. The creation of DIDAS will elevate development and humanitarian assistance at the U.S. policy level, increase influence with international leaders and development forums, create unity of effort by synchronizing and

coordinating activities across departments, agencies, and organizations, and link development and humanitarian assistance programs to strategic objectives. “Ultimately, a new, empowered department of global development is likely to be the model that holds the greatest promise of transforming the U.S. foreign assistance enterprise into a leader in addressing the challenges of the twenty-first century.”⁴⁷

To support this point, one only needs to look to one of the United States’ closest allies, the United Kingdom. In the 1990s the United Kingdom created the Department for International Development (DFID) which has not only shaped internal domestic policy, but also international development policy.⁴⁸ “As a result, DFID has become the most prominent government aid agency in the world, even though London spends far less on aid than Washington does.”⁴⁹

DIDAS will be a cabinet level department that is the primary federal agency responsible for policy formation, budgeting, programming, and operational activities related to non-security U.S. foreign assistance. DIDAS will be comprised of four functional bureaus. The proposed bureaus are Development, Conflict and Stabilization, Humanitarian Assistance and Disaster Response, and Inter-agency and Private Sector Engagement. The bureaus would be formed from existing U.S. federal agencies, offices, bureaus, and institutions. Therefore, the increase to the federal workforce and federal governmental structure would be minimal. The organizations include, but are not limited to, USAID, Millennium Challenge Corporation (MCC), President’s Emergency Plan for AIDS Relief (PEPFAR), Bureau of Conflict and Stabilization Operations (CSO), and Bureau of Population, Refugees, and Migration (PRM). Enclosure number one has an overview of the four bureaus and the organizations of which they are comprised.

The Bureau of Development would encompass MCC, the Peace Corps, and most of USAID. These will be independent organizations under DIDAS. This approach allows each organization to exploit its niche in the development/humanitarian assistance community, while at the same time creating synchronization and complimentary efforts as part of DIDAS. The Bureau will focus on long-term development with a time horizon of five or more years. PEPFAR would be absorbed into USAID.

The Bureau of Conflict and Stabilization will be comprised of the Bureau of Conflict and Stabilization Operations (CSO), Office of Transition Initiatives (OTI), Bureau of International Narcotics and Law Enforcement Affairs (INL), Office of Conflict Management and Mitigation (CMM), and U.S. Institute for Peace (USIP). CSO and CMM may be combined under this construct as well. The Bureau will focus on fragile states, conflict zones, and countering violent extremism with a time horizon of three to five years.

The nature of the potential environments, threats, and problems sets that the Bureau of Conflict and Stabilization would face requires a whole of government approach. Therefore, OTI will establish standing teams modeled after the Provisional Reconstruction Teams (PRTs) that were successfully employed in Afghanistan and Iraq. The PRTs will consist of permanently assigned representatives from OTI, Department of Agriculture, Department of Justice, DOS, and Department of Defense (DOD) (note: DOD will utilize Civil Affairs Officers to fill this role). Six PRTs will be established and regionally organized to mirror each one of DOS’s geographic bureaus. The PRTs will provide not only specialty developmental expertise, but they would also

provide the cultural and linguistic expertise that is critical to operating in fragile states and conflict zones.

The lack of security in fragile states and conflict zones demands the capacity to train, build, and professionalize local police and security forces. The USG currently lacks this required internal capability. As Lael Brainard points out in *Organizing Foreign Assistance to Meet 21st Century Challenges*, “the U.S. government needs to build its capabilities in a few core areas that include police and judicial training and local governance as well as rural development and infrastructure.”⁵⁰ Therefore, INL will form six interagency rule of law training and advise teams. These teams would be regionally organized to each one of DOS’s geographic bureaus. They will be formed by permanently assigned representatives from U.S. federal law enforcement and augmented by U.S. city police. The federal law enforcement agencies would include a wide variety of agencies to include the Federal Bureau of Investigation, U.S. Customs and Border Protection, and the Bureau of Alcohol, Tobacco, Firearms, and Explosives. U.S. city police would augment the INL training and advise teams based on requirements. This augmentation will model USAID’s search and rescue contracts with Fairfax County and Los Angeles search and rescue units. The mixture of federal and U.S. city police would provide the capability to train and advise foreign police on community policing, criminal investigations, border protection, inspections, drug enforcement, and correction and detention operations.

The Bureau of Humanitarian Assistance and Disaster Response will be formed from the Office of Foreign Disaster Assistance (OFDA) and the Bureau of Population, Refugees, and Migration (PRM). The bureau will focus on leading USG’s overseas disaster response efforts and providing assistance to refugees and migrants. The time horizon for the bureaus would be one day to thirty-six months.

The Bureau of Interagency and Private Sector Engagement will include the Overseas Private Investment Corporation (OPIC) and the U.S. Trade and Development Agency (USTDA). The bureau will have the responsibility for private sector engagement and interagency coordination for USG organizations providing foreign assistance that are external to DIDAS. These external organizations include, but are not limited to, the African Development Foundation (ADF), the Inter-American Foundation (IAF), Center for Disease Control and Prevention (CDC), DOS, and the DOD.

Counter Argument:

Development experts, politicians from both the left and the right, academics, and recipients of U.S. foreign assistance almost all unanimously agree that the system is broken. However, the solution to fix the system often depends upon where your allegiances lie. The three schools of thought for reform are to make USAID a strong independent agency, merge USAID fully under DOS, and create a DIDAS.⁵¹ “The chief argument against a cabinet-level development department (i.e. DIDAS) in the U.S. is that the Secretary of State needs to have some policy involvement and oversight when it comes to foreign aid.”⁵² The value of this argument is overinflated and the concerns raised can be easily mitigated at both the policy level (i.e. Washington D.C.) and the operational level (i.e. Country Team).

The creation of DIDAS will not only provide unity of effort in development and humanitarian assistance, it will also enhance the linkage to strategic national security and diplomatic objectives. The Secretary of State will maintain influence of foreign assistance policy via the National Security Council and various interagency forums. At the operational level, a DIDAS representative will be assigned to each U.S. Embassy where the USG is providing foreign assistance, and to U.S. Embassies located in major development assistance donor countries (i.e. United Kingdom). The primary function of the DIDAS Country Team representative is to ensure that all DIDAS and other USG departments/agencies' developmental activities and programs are synchronized and support the Country Team's Integrated Strategy.

Additionally, due to their unique requirements and capabilities to operate outside the U.S., DOD and DOS will maintain small Foreign Assistance programs. DOD requires this line of operation to shape security environments and support USG civilian organizations in response to humanitarian disasters. DOS will utilize these limited funds to support short-term political objectives and provide relief during humanitarian disasters. These projects will be limited in cost (no more than \$50,000), must support the Country Team's Integrated Country Strategy, and must pass through the Country Team's DIDAS representative for coordination. If projects exceed \$50,000, the projects must receive concurrence from the Country Team's DIDAS representative and the undersecretary for the Bureau of Interagency and Private Sector Engagement.

Conclusion:

In conclusion, the current USG foreign assistance structure lacks influence, accountability, synchronization, and alignment. The bandages and work arounds that leaders have adopted since President Harry Truman signed the first FAA in 1948 are not working. Holistic reform is long overdue. The creation of DIDAS is critical to enhancing the USG's soft power instrument of national power as part of a balanced, holistic 3D national security strategy. The article, *Revamping U.S. Foreign Assistance*, provided the best justification when it declared, "in summary, without the status and stature of a cabinet-level department, the critical reforms and, especially, the necessary consolidation of the fifty separate agencies which now 'do' foreign assistance into just a half dozen will be impossible, as these fifty agencies continue their turf fights, persist with the inefficiencies, and struggle for relevancy. Also, for development to ever truly be one of the 'three Ds', it has to be Cabinet-level, as are defense and diplomacy."⁵³

ESSAY 2 - CATALYZING INTERNATIONAL DEVELOPMENT THROUGH PUBLIC-PRIVATE PARTNERSHIPS:

As the U.S. Government budget for foreign aid is looking increasingly slim, there is one under-utilized mechanism that could spread our limited funds out much farther – public-private partnerships (PPPs) with U.S. companies abroad.⁵⁴ PPPs are an excellent solution to increase the leverage of U.S. Government aid, boost U.S. companies abroad in ways that don't cost domestic jobs, help the world's poorest people get long-term income opportunities, and improve the investment climates of host countries – a "quadruple win." The Trump Administration should mandate that USAID match 25% of its funds with U.S. companies in public-private partnerships overseas, instead of the current rate of 1-2%.

The PPP Knowledge Lab defines a PPP as, "a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance."⁵⁵ For a PPP to be successful all parties need to have a stake in a positive outcome.⁵⁶ There also needs to be a sustainable revenue stream over time for the project to continue without further support. For this reason, PPPs seem to be a natural fit for longer-term economic development projects, but they would also be possible for rule-of-law, governance, health, education, or short-term humanitarian projects if they were creatively designed. The use of PPPs in some projects will free up more funding for other developmental assistance and therefore use USAID's limited resources more efficiently. USAID has developed one PPP program that has been particularly successful at matching U.S. Government funds and expertise with those of U.S. companies abroad for an even bigger impact – the Global Development Alliance (GDA).⁵⁷

USAID's Global Development Alliance:

Through the Global Development Alliance (GDA), USAID is looking specifically for partnerships, "where there is a strong alignment between business interests and [its] development objectives."⁵⁸ In fact, USAID notes that "[r]apid globalization has created a world where over 90 percent of financial flows from the United States to the developing world are from private sources - and less than 10 percent from government aid."⁵⁹ Therefore, USAID strives to, "work collaboratively with companies and investors to draw on their expertise, assets, resources and innovations to design and promote market-led development."⁶⁰

The GDA program has achieved 1600 partnerships across 119 countries since its inception in 2001.⁶¹ USAID requires each of its dollars to be matched by a ratio of at least 1:1 from other partners, but the overall average from 2001-2014 was 1:2.45, meaning USAID is leveraging bigger programs with less of its own money at risk.⁶² Despite this success, GDA projects only represent 1-2% of USAID's total managed funds in dollar terms, indicating significant room for expansion within the agency's portfolio.⁶³ The following two examples in Colombia and Haiti demonstrate the incredible benefits of using a PPP model for development, and why The United States should consider growing the program to at least 25% of USAID's programming.

Colombian Coffee Yield Improvement Project:

USAID and Starbucks entered into a PPP in 2013 to increase coffee yields and improve livelihoods for 25,000 disadvantaged Colombian farmers. Each side contributed \$1.5 million over three years, "to provide technical support, technology, and market opportunities to small-scale coffee farmers in the rural regions."⁶⁴ Through the program, farmers worked with soil scientists on soil composition to boost their yields by up to 50% and save costs.⁶⁵ Since then, 7,500 farmers have been able to sell their coffee long-term directly to Starbucks for a premium price. Through the multiplier effect, this new income will lead to better economic opportunities for all of those surrounding villages and impact many lives. This successful program could be repeated in coffee-growing countries around the world and help American coffee companies at the same time.

Haitian Hope Mango Project:

Haiti Hope was a \$9.5 million PPP between USAID, the Coca-Cola Company, the Inter-American Development Bank, and other groups to increase revenues for 25,000 vulnerable Haitian mango

farmers from 2010-2015.⁶⁶ The Haiti Hope project gave them agricultural knowledge, commercial skills, and access to financial services.⁶⁷ Then, Coca-Cola opened a sustainable mango juice factory to use some of the fruit from these farmers to make a new beverage called “Odwalla Haiti Hope Mango Lime-Aid” that was sold in the United States. Beyond its initial capital investment of \$3.5 million, Coca-Cola reinvested up to \$500,000 of the profits from this drink back into the project for each year of the program.⁶⁸ The PPP is over now, but the farmers are still able to sell their mangos to Coca-Cola to go into the “Mango Tango” flavored Odwalla beverage. This kind of sustainable project has given the farmers a long-term livelihood that they would not have had otherwise. The project also helped others outside the mango industry as well. Coca-Cola’s local bottler in Haiti is the largest private employer in the country.⁶⁹

The “Quadruple-Win” of PPP Development Projects:

Well-crafted PPPs are successful because they are a long-term, sustainable, “hand-up,” rather than a short-term, *ad hoc*, “hand-out.” PPPs are particularly suited to economic development projects overseas because, if designed well, they are a “quadruple-win” for everyone involved – the U.S. Government, U.S. companies, project-beneficiaries, and host countries.

U.S. Government:

First, the U.S. Government wins because PPPs help stretch our donor-dollars much farther.⁷⁰ After only a small U.S. outlay to catalyze a project, the initiative will ideally achieve financial independence and can continue indefinitely with no further support. For successful projects, the U.S. Government will get accolades of thanks from the host government, and leave a long-lasting positive image in the beneficiary-communities. To the extent that the U.S. Government can start capturing more tax from U.S. companies operating overseas, it will earn revenue from these companies’ long-term profits from PPPs. At very least, if the companies import goods back to the United States from these supply chains, the U.S. Government will earn tax revenue on the customs duty and profits made in the United States. With careful project design, USAID could limit funding to only PPPs that clearly do not take jobs away from American workers.

U.S. Companies:

Second, U.S. companies win from PPPs because they are often looking to fund corporate social responsibility (CSR) projects. At times, a few U.S. companies have fallen into traps where local politicians pressure them to open a school or orphanage in a particular village in order to get approval to work in country. That kind of situation could turn genuine CSR into borderline corruption. Public-private partnerships with the U.S. Government provide our companies perfect cover to execute their CSR activities in a U.S. Government-vetted, developmentally appropriate, and transparent way. Moreover, a U.S. Ambassador may be able to use his/her convening authority to encourage multiple U.S. companies to work together on their CSR projects to magnify their collective impact. A PPP will generally create a much bigger positive media splash for a company than a small independent project by itself.

Project Beneficiaries:

Third, project-beneficiaries win from PPPs because they often get real job skills in a real U.S. supply chain that continues on indefinitely. Alongside that real work, comes the respect and dignity of earning one’s own livelihood in a sustainable manner, instead of just receiving handouts.

Furthermore, each worker has a family who benefits directly from higher household income. This could make the difference about whether children get to attend school or whether a family can afford medical treatment in case of an urgent need. The whole community benefits because of the ongoing economic multiplier effects of these projects. If a PPP development project was thought out and well designed, a small inject of seed money from the U.S. Government has the potential to enrich the lives of thousands of people for decades.

Host Countries:

Finally, the recipient host countries also win from PPPs because a long-term presence of a U.S. company operating within its borders is a very important signaling tool to other companies about the country's investment climate.

The fact that GDAs are currently only 1-2% of USAID's development dollars is a missed opportunity. Admittedly, PPPs with many stakeholders can be harder to manage and require a lot more negotiation than traditional directly-funded projects. Yet, few direct USAID projects achieve financial independence after a single tranche of funding because they were never designed to be sustainable. Carefully designed PPP development projects could be modelled to ensure a "quadruple win" for everyone involved and steer clear of displacing American workers. While supporting U.S. companies with PPPs is preferable for our own economic benefits, at a minimum the projects should ensure that our commercial advocacy and development policy at least do not run at odds with one another (e.g., USAID supports a non-U.S. company competitor in a market that hurts a U.S. company). Over time, success will be measured by how many new partnerships USAID was able to create to lower our assistance costs, while still achieving the same overall development goal metrics. A goal of 25% PPPs for USAID by the end of the Trump Administration is realistic and would have long-lasting results.

ESSAY 3 – CORRUPTION:

One of the common themes throughout the seminar visits was the destructive nature of corruption towards development and economic growth. Several studies have found that corruption reduces investment; reduces expenditures for education, health care, and maintenance; leads to the misallocation of resources; increases public investment; reduces tax revenue; and reduces foreign direct investment.⁷¹ Transparency International notes that, "cross-country data indicate that corruption is consistently correlated with lower growth rates, GDP per capita, economic equality, as well as lower levels of human development. Three key stressors within developing countries include conflict, a poor economy, and poor governance."⁷² These stressors are interconnected and thus form a vicious cycle that fragile countries find impossible to escape.

Fragile states suffering from poor governance are often plagued by corruption. "Corruption undermines the proper functioning of governments by eroding their credibility, legitimacy, and accountability."⁷³ Furthermore, Transparency International notes that "corruption increases the risk of conflict and conflict increases the risk of corruption. The two have a symbiotic relationship that threatens peace and stability in states already besieged by violence."⁷⁴ Corruption can promote instability by fueling social and political grievances, providing incentives for violent conflict due to rent seeking opportunities, and undermining the capacity and legitimacy of the state. Corruption deprives the state of resources and thus weakens the state's ability to provide key public services,

including security.⁷⁵ While corruption affects both the public and private sectors, this essay focuses on corruption within the government institutions of developing countries. It is acknowledged that corruption is only one factor that contributes to poor governance and countries must also focus on improving rule of law, regulatory quality, and oversight as well.

Corruption is a complex problem that has been well-researched, but few solutions exist to combat the behavior. Because of the high rate of failed development and reform efforts, the U.S. must conduct an in-depth qualitative and quantitative analysis of the corruption profile of a country prior to committing U.S. resources. This essay provides a brief overview of corruption followed by a review of recommendations from Special Inspector General for Afghanistan Reconstruction (SIGAR) and of a design-reality gap model proposed by Heeks and Mathisen, both of which should be tailored for implementation by the U.S. government for future development efforts.

Corruption Defined:

In order to combat corrupt practices that threaten development work within a nation, policymakers must understand corruption and why it exists. Transparency International defines corruption as “the abuse of entrusted power for private gain.”⁷⁶ This definition highlights the principal-agent problem that is at the root of corruption. “A principal-agent problem exists when one party to a relationship (the principal) requires a service of another party (the agent) but the principal lacks the necessary information to monitor the agent’s performance in an effective way.”⁷⁷ The definition also reflects the fact that corruption may not only be for personal gain, but to benefit family members, friends, or a community.⁷⁸ There are many different types of corruption although the various behaviors are often difficult to observe directly. Corruption can include bribery, extortion, exchanges of favor, nepotism, cronyism, judicial fraud, accounting fraud, electoral fraud, public service fraud, embezzlement, influence peddling, and conflicts of interests.⁷⁹

Conditions for Corruption:

Understanding the conditions that facilitate corruption is the first step towards combating corruption. According to the principal-agent theory, “conflict exists between principals (who are typically assumed to embody the public interest) and agents (who are assumed to have a preference for corrupt transactions insofar as the benefits of such transactions outweigh the costs). Corruption thus occurs when a principal is unable to monitor an agent effectively and the agent betrays the principal’s interest in the pursuit of his or her own self-interest.”⁸⁰ Thus, the principal-agent theory views corruption as an agent problem, with the principal unable to perform oversight. Most anti-corruption programs are based on the principal-agent model, viewing the agent as the problem, and do not consider the lack of “principled principals.”⁸¹

The collective action theory argues that “the rewards and costs of corruption depend on how many other individuals in the same society are expected to be corrupt. If corruption is the expected behavior, individuals will opt to behave in corrupt ways because the costs of acting in a more principled manner far outweigh the benefits, at least at the individual level.”⁸² The view of corruption as normal, highlights the challenges of implementing sanctions, reforms, or anticorruption efforts. The collective action theory does not refute the principal-agent theory of corruption, as corrupt acts still involve the receipt of something for private gain.

There are many conditions within the public sector that have been found to promote corruption within various environments. These include items such as compensation and wage levels, methods of selection for civil servants, weak governance, and a lack of internal discipline and monitoring mechanisms. Additionally, developing countries with an abundance of natural resources are often caught in the resource trap, leading to poor governance and corruption.⁸³ Finally, developing countries are at risk of corruption due to the redistribution of fiscal resources, the creation of new classes of property, and the requirement to raise off-budget resources.⁸⁴

Recommendations:

Proposing recommendations to combat corruption within developing countries is almost impossible to do as each country is unique and no two reform efforts will look the same. However, most of the literature on corruption still attempts to provide generic recommendations based on successes and failures of the past. While research exists to support these recommendations, most anti-corruption initiatives in developing countries fail, and it's the one-size-fits-all approach that leads the reforms to failure.⁸⁵ The below recommendations are made for the U.S. to consider prior to providing aid to a developing country. Recommendations from SIGAR's research in Afghanistan, along with recommendations from Heeks and Mathisen's research, are reviewed below and modified as appropriate.

SIGAR Recommendations:

In September 2016, the SIGAR published its first lessons learned report titled *Corruption in Conflict: Lessons from the U.S. Experience in Afghanistan*. In this report, SIGAR proposes several recommendations for both the legislative and executive branches of the U.S. government to institutionalize the lessons learned from Afghanistan. This paper focuses on those recommendations that may require further development. First, SIGAR recommended that Congress enact legislation that “makes clear that anticorruption is a national security priority in a contingency operation and requires an interagency anticorruption strategy, benchmarks, and annual reporting on implementation.”⁸⁶ This recommendation is appropriate for contingency operations as the U.S. has a strategic reason, other than development, for being in the location; yet recognizes the fact that the U.S. must be able to combat corruption to ensure mission success. However, for pure development missions, the U.S. should conduct an analysis of the corruption environment prior to developing an interagency anti-corruption strategy as it may not be cost-beneficial to undertake development efforts if corruption will prohibit any real reforms. The Department of State (DOS) or the U.S. Agency for International Development (USAID) should be the lead agency for the corruption environment analysis.

SIGAR proposed eight recommendations for the executive branch. Each of these recommendations, if implemented, would help ensure the U.S. is in a position to effectively combat corruption and ensure accountability of U.S. expenditures. However, it is recommended that the scope of these recommendations be expanded from a focus on contingency operations to all U.S. operations, to include development work without a military presence. For instance, the first recommendation is for the National Security Council to “establish an interagency task force to formulate policy and lead strategy on anticorruption in contingency operations.”⁸⁷ Subtasks of this recommendation include tasks such as creating a standard assessment tool for use in the initial phases of contingency operations, establishing a framework for assessing spending levels and

ensure the local economy is not overwhelmed, and ensuring oversight and control mechanisms are in place from the onset. These recommendations are just as vital to non-contingency operations. Furthermore, the senior anticorruption officials and offices that are recommended by SIGAR should become permanent assets as opposed to temporarily supporting a contingency operation.

The Design-Reality Gap Model:

Heeks's and Mathisen's article *Understanding Success and Failure of Anti-Corruption Initiatives*, states that a large number of anti-corruption initiatives fail well before implementation; they fail during the design phase because, too often, a cookie-cutter set of reform models is proposed for the initiative.

Such standardized transfers are problematic because – through their designs – they carry with them parts of the world from which they came. All anti-corruption designs contain within them an inscribed “world-in-miniature” which we may call requirements or assumptions or expectations about the context into which the initiative is going to be deployed. This includes inscriptions about the technology that will be available; about the values that people will have; about organizational culture; about work processes and structures; and so forth...Gaps therefore arise between the design expectations built into anti-corruption initiatives, and the reality of the context of deployment.⁸⁸

To help measure the nature of the local fit, Heeks and Mathisen developed a checklist of seven dimensions found to cover the key features of anti-corruption initiatives: information, technology, processes, objectives and values, staffing and skills, management systems and structures, and other resources like time and money (ITPOSMO).⁸⁹ While each of these dimensions is important, objectives and values are probably the most important as it encompasses both politics and culture. Each of these dimensions should be analyzed from the perspective of the reality relating to that dimension within the deployment context and the assumptions and requirements that were built into the design for that dimension. Differences between the two can be discussed qualitatively, but can also be converted into a numerical rating. Heeks and Mathisen propose a zero to ten scale for each dimension but also an estimate of the likelihood of either total or partial failure based on the sum of the total ratings and experience from past projects.⁹⁰

The U.S. government should adopt a model such as the ITPOSMO dimension model to effectively assess the corruption environment within a country and design a successful reform initiative. It is vital for the U.S. to assess the corruption environment and potential success or failure rate prior to providing aid and initiating reforms. Heeks's and Mathisen's model should be expanded to include additional dimensions and appropriate sub-dimensions if deemed necessary to allow for a more thorough analysis. The assessment should be grounded in experience and research, and include both qualitative and quantitative measurements as corruption itself is difficult to measure. Not only will this assessment provide a picture of the current state on the ground, it will also provide an estimated success rate and allow the designer to go back to the drawing board.

Conclusion:

Anti-corruption efforts create losers, and the corrupt tend to fight back. “Few if anyone in a position of power and benefiting from corruption would like to see the opportunities for extraction reduced.”⁹¹ Implementing anti-corruption initiatives is difficult and most end up failing as they are

not designed appropriately from the beginning. Successful anti-corruption initiatives will require the agency to pay attention to the “who” and “how” of the design process.⁹² There is no one-size-fits-all approach to combating corruption. An in-depth analysis must be performed prior to a reform effort to evaluate the reality of the environment on the ground, compared to the assumptions built into the design. Extra attention should be given to the political and social environments, as corruption is a political and social issue, and not a technical problem. Additionally, the U.S. government must recognize that corruption reform, especially in the area of prevention, takes time and reporting meaningful metrics or successes in the short term may not be possible. John Sopko, Special Inspector General for Afghanistan, stated that fighting corruption within failed states will require “whole of government and a whole of governments solutions” going forward.⁹³ It is recommended that the Legislative and Executive branches implement the recommendations presented by SIGAR in their report titled *Corruption in Conflict: Lessons from the U.S. Experience in Afghanistan*, not just from a contingency perspective, but on a permanent basis for all developmental efforts in which the U.S. engages.

CONCLUSIONS OF INDUSTRY STUDY FINDINGS:

The reconstruction industry, while fractured, lacking a unity of effort, and at the whim of policy changes, remains fairly robust.

The industry remains a mix of for-profit firms, non-profit firms, non-governmental organizations (NGOs), and private voluntary organizations. This makes it difficult to assess the health of the reconstruction industry using traditional industry analytic tools. In spite of this, the industry has strengths in certain areas that ensure that it will be able to thrive in the long term. Water and sewer line construction and humanitarian aid are two of these areas.

Although reconstruction remains strong, it is not without its challenges, most notably, corruption. Corruption is a complex problem that has been well-researched, but few solutions exist to combat the behavior. Because of the high rate of failed development and reform efforts, the U.S. must conduct an in-depth qualitative and quantitative analysis of the corruption profile of a country prior to committing U.S. resources. Other challenges include, but are not limited to, the host nation’s economic status, and the lack of coordination among agencies.

Trump administration needs to publish a National Security Strategy to enable policy makers at the DoS and USAID to align and prioritize resources for a fiscally constrained environment. Without a clear strategy, policy makers will simply be using guesswork with any application of resources. Immediate guidance is required for a focused mission to be developed.

To help quell the impact of these challenges, the seminar outlined four policy recommendations:

1. The creation of a Department of International Development, Assistance, and Stability (DIDAS) will enhance the effectiveness, integration, and stature of soft power among the United States Government’s (USG) instruments of national power. A U.S. cabinet level department for development would not only increase the effectiveness of U.S. soft power, but it will also facilitate a balanced, comprehensive approach to the employment of the 3D (development, diplomacy, and defense) instruments of national power in support of the national security strategy.

2. One of the common themes throughout the studies of the reconstruction industry was the destructive nature of corruption towards development and economic growth. There is no one-size-fits-all approach to combating corruption. In-depth analysis must be performed prior to a reform effort to evaluate the viability of aid truly getting to where it is needed, rather than lining the pockets of corrupt officials. Strict attention should be given to the political and social environments, as corruption is a political and social issue, and not a technical problem. Additionally, the U.S. government must recognize that corruption reform, especially in the area of prevention, takes time and reporting meaningful metrics or successes in the short term may not be possible.

3. One under-utilized mechanism that could spread our limited aid funds out much farther – public-private partnerships (PPPs) with U.S. companies abroad. PPPs are an excellent solution to increase the leverage of U.S. Government aid, boost U.S. companies abroad in ways that don't cost domestic jobs, help the world's poorest people get long-term income opportunities, and improve the investment climates of host countries. The Trump Administration should mandate that USAID match 25% of its funds with U.S. companies in public-private partnerships overseas, instead of the current rate of 1-2%.

4. The seminar recommends that the U.S. government enhance its strategic messaging within the United States regarding our foreign policy and aid. These enhancements would include outreach to educational and community groups. Included in this messaging would be a summary of how embassies work, what kinds of aid projects are going on in different regions, and what the expected outcomes of those projects would be. Agencies controlling aid projects should conduct enhanced project evaluations and communicate the results of those evaluations in user friendly terms rather than technical language. Such evaluations should be made available to the public, and pushed to media outlets. Through effective and honest communication, the U.S. government can inform the American public about both the strategic importance and fiscal realities of foreign policy and assistance initiatives.

The seminar believes that the implementation of these recommendations, while not sufficient to solve all the problems related to reconstruction, would go a long way to help make the industry more efficient, accountable, and effective.

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