Appendix A
Capability Gaps

a. The Security Gap

Major war	Intermediate war	Minor war
Afghanistan	Burma	Central African Republic
Angola	Cambodia	Chad
Burundi	East Timor	Côte d'Ivoire
Congo (Brazzaville)	Indonesia	Guinea
Congo (Kinshasa)	Senegal	Lesotho
Eritrea	Somalia	Liberia
Ethiopia	Uganda	Tajikistan
Guinea-Bissau		Uzbekistan
India		
Nepal		
Pakistan		
Rwanda		
Serbia and Montenegro		
Sierra Leone		
Sri Lanka		
Sudan		

Note: The categories account for conflict in low-income countries during 1998–2003. *Major war* is defined as any conflict with at least 1,000 battle-related deaths in any given year over 1998–2003. *Intermediate war* is defined as any conflict with at least 25, but fewer than 1,000, battle-related deaths in any given year and an accumulated total of at least 1,000 deaths over 1998–2003. *Minor war* is defined as any conflict with at least 25 battle-related deaths in any given year and fewer than 1,000 battle-related deaths over 1998–2003. We use levels of conflict as a proxy for how effectively governments can preserve internal security. This measure can also be used as a proxy for the extent to which governments control the sovereign territory of the state.

Source: Data are drawn from the Uppsala Conflict Data Program, which has collected data on global armed conflicts from 1946 to the present. www.pcr.uu.se/research/UCDP/UCDP_toplevel.htm.

b. The Capacity Gap

Top 20 percent	60 to 80 percent	40 to 60 percent	20 to 40 percent	Bottom 20 percent
Albania	Bhutan	Bangladesh	Angola	Afghanistan
Armenia	Bolivia	Benin	Cambodia	Burkina Faso
Azerbaijan	Eritrea	Burma	Cameroon	Central African Republic
Bosnia and Herzegovina	Georgia	Burundi	Côte d’Ivoire	Chad
Gambia	Ghana	Cape Verde	Djibouti	Congo (Brazzaville)
Honduras	Guyana	Comoros	Ethiopia	Congo (Kinshasa)
Kyrgyzstan	Kiribati	Kenya	Haiti	Guinea
Mongolia	Lesotho	Liberia	India	Guinea-Bissau
Nicaragua	Malawi	Nepal	Indonesia	Laos
Serbia and Montenegro	Moldova	Sâo Tomé and Príncipe	Madagascar	Mali
Sri Lanka	Mozambique	Solomon Islands	Mauritania	Niger
Uzbekistan	Rwanda	Togo	Pakistan	Nigeria
Vanuatu	Tajikistan	Uganda	Papau New Guinea	Sierra Leone
Vietnam	Tanzania	Yemen	Senegal	Somalia
	Zambia	Zimbabwe	Sudan	

Note: We proxy the degree to which governments “meet basic needs” by their immunization rate. We then place them into quintiles based on their performance, from best (top 20 percent) to worst (bottom 20 percent). The immunization rate is one of the key indicators that will be used in assessing government performance in the Millennium Challenge Account. The measure is a combination of the United Nations measles immunization rate and the World Health Organization’s data on immunizations for DPT and measles. Immunization rates are a good indicator of broader health policies and strategies. In addition, the immunization rate has a strong relationship with lower infant mortality rates and increased literacy rates and has a reasonably positive association with economic growth.

Source: Steven Radelet (2003), *Challenging Foreign Aid: A Policymaker’s Guide to the Millennium Challenge Account*, Center for Global Development.

c. The Legitimacy Gap

Top 20 percent	60 to 80 percent	40 to 60 percent	20 to 40 percent	Bottom 20 percent
Benin	Albania	Armenia	Azerbaijan	Afghanistan
Bolivia	Bosnia and Herzegovina	Bangladesh	Burundi	Angola
Cape Verde	Burkina Faso	Cambodia	Cameroon	Bhutan
East Timor	Georgia	Central African Republic	Chad	Burma
Ghana	Honduras	Comoros	Congo (Kinshasa)	Congo (Brazzaville)
Guyana	Lesotho	Djibouti	Côte d’Ivoire	Eritrea
India	Madagascar	Guinea-Bissau	Gambia	Laos
Kiribati	Moldova	Indonesia	Guinea	Liberia
Mali	Mozambique	Kenya	Haiti	Rwanda
Mongolia	Niger	Malawi	Kyrgyzstan	Somalia
Nicaragua	Papua New Guinea	Mauritania	Pakistan	Sudan
Sâo Tomé and Príncipe	Serbia and Montenegro	Nepal	Tajikistan	Uzbekistan
Senegal	Tanzania	Nigeria	Togo	Vietnam
Solomon Islands	Zambia	Sierra Leone	Yemen	Zimbabwe
Vanuatu		Uganda		

Note: The index of political freedom—drawn from the work of Daniel Kaufmann, Aart Kraay, and Pablo Zoido-Lobatón at the World Bank—can be used as a proxy measurement for a government’s commitment to transparent, democratic government. The index is their measure of “voice and accountability,” which combines data from Freedom House, the Economist Intelligence Unit, and Political Risk Services. We then place countries into quintiles based on their performance, from best (top 20 percent) to worst (bottom 20 percent).

Source: Steven Radelet (2003), *Challenging Foreign Aid: A Policymaker’s Guide to the Millennium Challenge Account*, Center for Global Development.

Appendix B
Detailed Recommendations

I. Investing in Prevention

Creating Opportunities for Broad-Based Growth

- **Provide duty-free and quota-free access to all imports from a significantly broader range of poor countries making progress toward free markets and democracy.** In particular, the United States should extend an enhanced set of benefits to the three most prominent groupings of poor countries—heavily indebted poor countries (HIPC), least developed countries (LDCs), and sub-Saharan African countries.[1] This list comprises 64 countries with a combined population of 1 billion people, of whom more than 70 percent live in poverty. Importantly, extending an enhanced set of benefits to this grouping of countries impacts only 6.4 percent of total US imports from developing countries, meaning that the likely impact on the US domestic market will be small. National security concerns dictate extending this grouping only slightly to bring in other key low-income countries including Pakistan and the Central Asian states (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan).[2]

An enhanced special regime could be implemented through two concrete reform proposals: an effort to improve the African Growth and Opportunity Act (AGOA) and an enhancement of the Generalized System of Preferences (GSP) program. A reformed AGOA is the ideal vehicle for achieving complete duty-free and quota-free access for all products from sub-Saharan Africa.[3] The GSP program should also be revised so that non-African HIPC and LDCs can receive identical duty-free and quota-free treatment. Both steps are necessary to ensure that all low-income countries are eligible for the same market access benefits.

- **Make US aid programs more effective.** Even within the current budget constraints, US development assistance would be far more effective, and US leadership more meaningful, if programming were better integrated among US agencies and better coordinated with the efforts of other donors (now including more than 50 countries and official international agencies). New programs, such as the Millennium Challenge Account (MCA) and the AIDS initiative, should complement and leverage, rather than ignore or duplicate, existing multilateral efforts. It is no longer the case, as it was three decades ago, that the United States can be effective with assistance programs that are unilaterally designed and implemented. The United States should increase its engagement in and support for multilateral initiatives such as the Global Fund to Fight HIV/AIDS, TB, and Malaria and the Fast-Track Initiative on Basic Education.
- **Make more countries eligible for debt relief.** The United States should continue to push for an increase in the World Bank's use of its concessional resources for grants as opposed to loans, as a central strategy in ensuring that the poorest countries do not again end up with debt to official creditors they cannot sustain. It should also advocate expanding debt relief eligibility under HIPC to all low-income countries, including those now excluded even from the possibility of eligibility because in the past they were able to borrow on private capital markets.[4] Debt relief has the potential to contribute significantly to poverty reduction and free up resources for government investment in a number of struggling states. Such a strategy also makes sense geostrategically. Broadened eligibility for debt relief could yield dramatic returns in key areas of state weakness and instability, including Central and South Asia.

Beyond broadening eligibility, the administration should push for deeper debt relief, at least to a point where debt service represents no more than 2 percent of GNP, possibly less in countries where the new burden of the AIDS epidemic is high.[5] Under the 2 percent arrangement, enhanced benefits would flow to at least 11 additional countries, including pivotal states such as Azerbaijan, Nepal, Indonesia, and Pakistan (were they otherwise eligible).

If other donors are not supportive of broadening eligibility for HIPC, a second option would be to create a trust fund for debt relief for non-HIPC eligible low-income countries in both the World Bank and the IMF.

Donor countries could earmark funds specifically for debt relief in countries they prioritize for strategic and geopolitical purposes.

- **Reform the Overseas Private Investment Corporation (OPIC) to reinforce its original mandate of promoting development.** OPIC is the principal US government instrument that supports nonextractive foreign direct investment. But OPIC's authorizing legislation and internal policy practices prevent it from playing an active role in the industries most beneficial to the poorest countries—including labor-intensive manufacturing and assembly projects. The US government should push for changes to OPIC's legislation to make it a more effective development institution.

Reforms would need to focus first and foremost on broadening the range of sectors in which OPIC can support US investors. OPIC should be able to support investment in all sectors, including textiles, apparel, and agribusiness, in low-income countries for at least 10 years. This would expand substantially the universe of nonextractive sectors in which investors could seek OPIC assistance. In addition, extending eligibility for OPIC coverage to non-American companies with a large presence in the United States could generate an even greater range of new investments in the poorest countries.[6]

- **Support the creation of new mechanisms to help poor countries insure against and respond to a broad range of exogenous shocks.** The poorest countries are particularly susceptible to exogenous shocks (commodity prices, foreign exchange, interest rates, and weather), which have potentially dramatic implications for economic performance as well as the likelihood of conflict. The Treasury Department should work with the multilateral development institutions to reform existing contingency facilities and to develop new mechanisms that employ tools pioneered in the financial markets to help developing-country governments to hedge against these risks.[7]

One arrangement would involve the creation of an IMF-run contingency facility that could ameliorate the impact of these shocks by making additional debt relief available to governments, if shocks that are clearly exogenous result in a substantial erosion of debt sustainability. Such a facility need not be permanent but rather exist for a period sufficient (perhaps 10 years) to ensure that recipient governments are in a position to realize the gains of debt relief in terms of increased government revenues for social investment and economic diversification. This mechanism would be appropriate for heavily indebted countries and a natural extension of HIPC,[8] but a parallel mechanism would need to be put in place to assist other primary commodity-dependent exporters that are not HIPC eligible.

Looking forward, however, the United States should work with the multilaterals to develop new, flexible mechanisms including insurance products for developing country governments. The World Bank should consider broadening its product breadth by offering derivatives to help poor countries protect themselves from volatility. The concept is fairly standard in financial markets; the Treasury Department should take the lead in developing a proposal and working with the multilaterals to harness the profit motives of the private sector to improve the stability and prospects of the poorest countries.

Support Legitimate and Democratic Institutions

- **Develop a US strategy to target democracy promotion assistance.** The events of September 11 raised the priority of investing in political change in the Middle East. But greater attention to the dictatorships and one-party states of the Islamic world should not come at the expense of a comprehensive effort to make democracy promotion assistance more effective. The State Department and a new development agency should jointly develop a global strategy—linked to the budget process—that allocates funds on the basis of established priorities and needs.[9] To demonstrate its importance and create stronger incentives for strategic budgeting and allocation, the administration should create a separate line item in the budget for democracy assistance.

This strategy should reaffirm two key priorities of democracy assistance: support for ongoing democratic transitions and pressure for reform on recalcitrant governments. Where governments are eligible for MCA funding or have demonstrated significant political will, US democracy assistance should support long-term institution building by strengthening electoral processes, legislatures, the judiciary, and local governments. Where political elites stand in the way of fundamental reform, US foreign assistance should aggressively seek to build popular pressure and increase the costs of continued repression by supporting human rights groups, legal assistance mechanisms, independent media, and other civil society organizations. More broadly, the United States should redouble its efforts in support of civil society by providing strong incentives for governments to engage civil society actors in the design of programs, and by significantly easing the administrative hurdles and reporting requirements that unduly limit the US government's ability to finance local nongovernmental organizations (NGOs).

A global strategy also requires a resource base sufficient to meet these important objectives. US assistance for democracy is estimated at $800 million annually, although without a specific line item in the budget, it is difficult to know what the United States is spending. While substantial new resources have been pledged for Iraq, Afghanistan, and the Middle East, programs in Africa and Asia are chronically underfunded, especially given the enormity of the task at hand. The average size of a democracy program in Africa is less than one-third of those in Latin America and the former Soviet Union. A new strategy should outline the resources actually needed to meet the ambitious goals of spreading democracy and strengthening civil society.

Recognizing that democracy will not always be the foremost policy objective, annual country strategies should also evaluate more carefully the negative consequences of continued support to repressive governments. It should be clear what choices the US government is making, and some effort should be made to analyze the costs and benefits of working with nondemocratic allies.

- **Develop a more coherent, flexible, and targeted sanctions policy.** In the past, US policymakers have been inclined to use a one size fits all approach when enacting sanctions against countries and their leaders. As a result, current sanctions policy is excessively rigid and devoid of the flexibility to adapt to changing situations. The US government should reform its sanctions policy by improving executive-legislative coordination and aligning imposed penalties with the stated policy objectives, thereby increasing its leverage to promote multilateral sanctions.[10]

Democracy assistance monies make a difference when channeled to political reformers, either within or outside of government. But political elites stand in the path of substantial reform in many environments and their policy choices have contributed to the decline and deterioration of state institutions. In addition to "carrots" provided to governments committed to reform, the US government must be equally prepared to employ "sticks" such as imposing sanctions on autocratic governments or on individuals or entities engaged in illicit activities. Though it may be necessary to enact unilateral sanctions under certain circumstances, the US government should continue to strive to work with its allies and partners to promote multilateral sanctions, which can be applied comprehensively, thus improving their effectiveness.

The Commission encourages the administration to work with Congress to reform US sanctions policy. A useful policy framework would ensure that the executive and legislative branches clearly define the objective(s) of the sanctions, target the sanctions narrowly, and conduct a cost-benefit analysis of the proposed penalties. It would provide the president with the authority to modify or waive sanctions, if doing so is in the national interest, and establish a standing Interagency Sanctions Review Committee, which could coordinate US sanctions policy and make policy recommendations to the president. A more coherent US sanctions policy can provide US policymakers with the leverage to press for a multilateral sanctions regime, allowing them to more effectively work at the international level.[11]

- **Make US-supported financing for extractive industry projects conditional on assurances of transparency and accountability in use of government revenues.** Financing for extractive industry projects in the developing world comes from multiple public-sector sources including the multilateral and regional development banks, the Ex-Im Bank, and OPIC. The National Security Council (NSC) should broker an interagency agreement that outlines basic principles of transparency and accountability in the handling of natural resource revenues that must be met by governments before the US supports public-sector financing of extractive industry projects. The Treasury Department should have responsibility for monitoring implementation of the agreement.

A stronger crop of political reformers is not enough to overcome the substantial incentives that lead autocrats to maintain their firm grip on political power. Nondemocratic regimes abuse private markets, international banks, and other international public and private institutions to keep themselves in office. The US government should continue its leadership in seeking to counteract international factors that enable or support weak and failed governments.

The United States has been particularly active in the G-8 Financial Action Task Force, which is making significant progress in rooting out money laundering and terrorist financing, bringing greater accountability and transparency to the banking sector. OECD efforts to provide voluntary guidelines for the behavior of multinational enterprises also offer a starting point in combating the corrupt practices of private corporations.

But the US government needs to take stronger action to address the linkages between extractive-sector industries and corruption in the poorest countries. The natural resource sector is a dominant part of the economy in many poorly performing states. Serious concerns have been raised about the complicity of multinational corporations in the perpetuation of corrupt, autocratic regimes that feed on rents realized from resource extraction.[12]

US policy options to promote greater transparency in the extractive sector must address distinct challenges: how to lay the groundwork for transparent resource stewardship in countries with newly discovered resource wealth, and how to address the lack of transparency and pervasive corruption in countries where mechanisms for resource stewardship are already in place. A policy directive that conditions financing on transparency can provide strong incentives for transparent revenue management in countries where external financing is critical. Continued success in the design and operation of internationally monitored natural resource revenue management funds—including in Chad-Cameroon and Azerbaijan—provides solid models of governance for developing countries that want to commit to transparent accounting.

The United States will also need to work aggressively to create a new set of incentives and pressures on producer governments not dependent on public financing to publicly disclose their revenues. The Treasury Department should coordinate an interagency review of potential options for regulating the payments multinational corporations make to developing-country governments. One option worthy of serious consideration is the recommendation advanced by the "Publish What You Pay" campaign—that developed-country stock markets commit to making full disclosure a requirement for listing. The challenge will be to develop a proposal that extends new regulations to non G-8 countries and state-owned extractive industries as well.[13]

Create Effective US Assistance to Police and Military Forces

- **Make substantial new investments in counterterrorism capacity across the developing world.** The State Department coordinator for counterterrorism should lead an effort to identify the capacity gaps of a targeted set of vulnerable governments in the poorest countries and put forward a proposal for comprehensive country- and region-specific assistance packages.

The Bush administration's $100 million East African Counterterrorism Initiative is a start.[14] This aid will go toward enhancing air and seaport security, border patrols, terrorist tracking abilities, intelligence sharing, and efforts to clamp down on terrorist financing. But funds for an expanded, global initiative should not be cobbled together by raiding other accounts the way the East African initiative was organized. New money should be requested in the regular budgeting process to prevent draining much-needed resources from other countries and programs.

- **Provide targeted border control assistance that benefits the most vulnerable countries.**[15] Programs to strengthen border control are spread across the US government, and only limited assistance is provided to most low-income countries. This approach must be rationalized and streamlined with clear authorities and funding streams if assistance is to be effective. As a starting point, the president should order an interagency review of borders around the world to help identify those porous borders that merit priority attention from the US government.

Currently, foreign assistance on this front is too fragmented. Multiple actors play small but significant roles and most weak states are left out.

One actor is the State Department's Bureau of International Narcotics and Law Enforcement (INL), which funds programs to counter trafficking in drugs, persons, and other illicit goods, largely in Latin America.[16] The State Department–managed Export Control and Border Security (EXBS) program has stepped in to fill the void in other regions. A third actor, the Department of Justice's International Criminal Investigative Assistance Training Program (ICITAP), also provides critical border-security assistance by training indigenous actors to implement effective border-control regimes.

Importantly, the poorest countries are mostly ignored under the current structure. In 2004, $731 million of INL's budget for country programs was allocated for Latin America. Africa received $8 million and all of Asia and the Middle East (minus Pakistan and Afghanistan) only $6 million. Without a redirection of some monies away from counternarcotics efforts in Latin America, substantial new resources are required to meet emerging challenges of border control in the developing world.

- **Develop institutional "buy-in" and in-house security-sector expertise.** Traditionally, security-sector reform has not been well integrated with the US government's democracy and development agenda. Security-sector reform has been viewed primarily through the lens of military training rather than as a facet of democracy promotion. A first step in remedying this is to better coordinate security-sector reform efforts with the new development agency's democracy and governance programming.

Internal guidelines should be revamped to reflect the mainstreaming of security-sector reform into our foreign assistance programs and country analyses. However, new strategies will not be enough on their own. The US government, particularly on the development side, currently has little in-house security-sector expertise. The new development agency, the State Department, and the Department of Defense should be given adequate resources to recruit security-sector experts to help develop and manage an integrated programming agenda. The US government should embrace security-sector reform as a central part of its development assistance programming.

- **Establish an interagency coordinating mechanism to streamline security-sector assistance.** Currently, the Departments of Defense, Justice, and State, and USAID all play important, often overlapping roles in the provision on security-sector assistance. To engage more strategically on this front, the administration should develop a permanent interagency coordinating mechanism that brings together all of the relevant actors (Departments of Defense, Justice, and State and the new development agency) to determine programmatic and funding priorities and to ensure the development of coordinated strategies.

This interagency group would develop policy guidelines and implementation strategies for capacity building and training assistance to militaries and police forces; efforts to enhance control of vulnerable borders; and US initiatives to disarm, demobilize, and reintegrate armed forces.

- **Reconfigure statutory restrictions and internal precedents that constrain the provision of security-sector assistance.** The US government is constrained, both by statute and by internal policies, from fully engaging in security-sector reform. Many of these constraints, such as those that limit US engagement with police and militaries that engage in consistent patterns of gross human rights violations, are valuable and should be maintained. Yet current legislation too severely hinders US efforts to engage with military as well as police forces. If security-sector reform is to be a part of the US government's statebuilding agenda, these restrictions must be reconfigured.

The administration should push for the easing or elimination of statutory restrictions *and* the set of internal precedents that have taken hold within the US government as a consequence of narrow interpretations of legislation. On the military front, USAID's narrow reading of section 541 of the Foreign Assistance Act, which authorizes US education and training assistance to foreign militaries, essentially precludes USAID from training indigenous militaries.[17] Though legal opinion within the agency differs by bureau, on the whole USAID has interpreted this restriction too narrowly.

With regard to police forces, section 660 of the Foreign Assistance Act prohibits the use of security-assistance funds to train, advise, or offer financial support to foreign police forces, prisons, internal intelligence programs, other law enforcement forces, with exceptions for specific tasks and circumstances.[18] This restriction prevents the US government—particularly the State Department and USAID—from engaging with internal security forces in developing countries despite the fact that the reform of those institutions is vital to the overall development of the state. While a "postconflict" waiver on this restriction exists, it applies only to a limited set of countries and is rarely used because of the State Department's narrow interpretation of "postconflict."

II. Seizing Opportunities

Surge Capacities

- **Create a permanent, global country-in-transition fund of $1 billion to facilitate rapid response.** The annual budgeting process leaves little room for the United States to actively respond to unforeseen threats and opportunities, without raiding existing programmed money or returning to Congress with a supplemental funding request.[19] A country-in-transition fund would provide the US government with the resources to act quickly and responsively to mitigate an impending conflict or to support countries at key transitional moments. This account could be modeled on the Emergency Refugee and Migration Assistance (ERMA) account, which does not require preprogramming and has notwithstanding authority. The fund should be financed with a $1 billion appropriation, without fiscal year limitation, that would be replenished annually based on expenditures, with strict criteria governing its use. Money should be disbursed on the basis of a presidential determination and should require close consultation with Congress.[20]

This new account could be used to finance a range of activities including efforts to mitigate conflict, respond to instability that threatens regional or international security, support postconflict reconstruction and peace and humanitarian operations, and provide assistance to countries in transition away from authoritarian rule.

There are significant precedents for the creation of fast, flexible funding authorities. In 2001, the United Kingdom established the "Global Conflict Prevention Pool"—a mechanism that pools the conflict prevention resources of the Ministry of Defence, Department for International Development, and the Foreign and Commonwealth Office and disburses funds based on a common interagency strategy. Additionally, the Government of Norway recently established a gap allocation fund—jointly administered by the Ministries for Foreign Affairs and International Development—that attempts to bridge the gap between emergency funding and long-term development assistance.

- **Establish a rapid response unit staffed with a cadre of technical experts for engagement in transitional and postconflict environments.**[21] US government civilian agencies are often caught flat-footed when faced with rapidly unfolding events. In order to assist new governments in posttransition and postconflict environments, the US government should invest in the development of an interagency cadre of civilian technical experts trained, resourced, and equipped to engage in difficult transitional environments. This rapid response unit should be located in the new development agency and headed by an assistant secretary–level official.

In addition to delivering swift transitional assistance, this rapid response unit should act as a repository for information and lessons learned from engagement in transitional environments, offer an institutional home to the store of US government expertise developed in this area, and ensure that those responsible for delivering transitional assistance are given a voice in key interagency policy decisions.

This new unit could be modeled on USAID's successful Office of Transition Initiatives but would need to be broader in scope. The unit should bring together experts in diplomacy, the rule of law, governance, security, and economic and financial reform under one roof to train and deploy as a team, if necessary.[22] The rapid response unit should also develop a "bullpen" of on-call specialists that can be deployed with short notice to provide additional technical expertise. Armed with standby resources, sufficient contracting flexibility, and a supplementary cadre of experts, this new unit could address the substantial gaps in the US government's inability to rapidly mobilize for postconflict and posttransition engagement.

The creation of this unit is in line with at least two existing proposals to bolster US and international capacity in this area. In February 2004, US Senators Richard Lugar and Joseph Biden introduced legislation that would authorize the creation of a "Rapid Response Corps," consisting of up to 250 US government officials who could "provide assistance in support of stabilization and reconstruction activities."[23] In addition, the UK's Department for International Development has begun initial preparations for the establishment of a 60-person rapid response unit that could provide a broad range of technical expertise, ranging from security-sector reform to macroeconomic policy, to countries in transition.

- **Develop a "return of talent" program for those countries at critical moments of transition.** In order to ensure the legal transfer of talent from the United States to those countries in transition, the United States should initiate a return of talent program that allows permanent residents of the United States to return to their country of origin to participate in the development process. Currently, immigration restrictions preclude US permanent residents from returning home for an extended period because of time-in-class requirements for US citizenship.

In November 2003, Senator Joseph Biden introduced the "Return of Talent" Act (S. 1949), which would allow legal immigrants in the United States to return home (for up to 24 months, with the possibility of an extension) to help with postconflict reconstruction activities.[24] Under the provisions of this act, these immigrants would not be penalized for returning home. Rather, the time spent in their home countries would go toward their five-year US residency requirement. The program would apply to countries where US armed forces have engaged or where the United Nations has authorized peacekeeping operations during the last 10 years. The administration should support the Biden initiative *and* push to expand it to those states undergoing transitions away from dictatorship and authoritarian rule.

Peace and Democracy Dividends

- **Market access.** For countries emerging from postconflict and postregime transitions, the US government could use unilateral trade preferences to encourage democratic reform and progress. The administration should propose creating a new Presidential authority that allows, on a case-by-case basis, the granting of duty-free access to the US market for a specially tailored range of eligible products from countries in transition.
- **Debt relief.** Under the HIPC program, substantial debt relief is delayed until governments demonstrate a stable macroeconomic policy framework. Yet, reformers in postconflict and posttransition environments could benefit from a signal that would halt the further accumulation of arrears. The United States should be prepared to support reformers not only with new grants but also in the form of quick, bilateral debt relief where it would be relevant. The United States should also support setting in place a formal mechanism to grant a temporary moratorium on the accumulation of interest and penalties, at the Paris Club and in the multilateral institutions, for countries in transition to democratic rule or emerging from conflict.
- **Private investment.** OPIC should establish a special window that provides political risk insurance and financing (through direct loans and loan guarantees) at concessional, rather than commercial terms.[25] The Ex-Im Bank should also establish a capacity to cover the country risk of exports to transitional environments. This could be done through a separate window, under existing authorities, to support exports under a different set of guidelines, where there is sufficient likelihood of repayment, but where usual creditworthiness standards that are employed for most of the developing world may not be met.

Dependable Regional Peacekeeping Capacities

- **Enhance regional peacekeeping capacity in countries in Central Asia, South Asia, and Africa.** Though the United States finances 27 percent of all UN peacekeeping operations, it is less generous when it comes to peacekeeping activities that are not UN-mandated or funded via UN assessments. The United States should dedicate greater resources to improving regional peacekeeping capacity through substantial increases in the voluntary peacekeeping account.

The administration has already recognized the need for improved capacity on this front at least in Africa, yet its commitments have been inadequate to meet the challenges at hand. The $15 million requested in fiscal 2005 for the African Contingency Training and Assistance (ACOTA) program is far short of what is required to effectively invest in the capacity of key US regional partners including Nigeria, Kenya, and South Africa, although the recent proposal of a Global Peace Operations Initiative envisioned at $660 million over five years has the potential to substantially increase US spending on African capacity in particular.

Importantly, no similar program exists for other militaries actively involved in peacekeeping. Three South Asian countries (India, Pakistan, and Bangladesh) are among the top four troop contributors to UN peace operations, yet the United States currently does not intensively collaborate with these militaries to improve their peacekeeping capacity. These regional capacities should be encouraged and supported through the transfer of resources, training, and equipment. NATO's Partnership for Peace program provides a highly effective model of how this can be done.

Greater regional peace enforcement and peacekeeping capacity must be complemented with a greater US willingness to provide strong political and logistical support for regional interventions. If and when the United States is not prepared to intervene, it should be prepared to actively support providing a UN (or other regional) mandate to intervention and peacekeeping forces led by US allies. Nigeria, for example, should not be pushed into leading peace enforcement operations in West Africa without full and public international backing for their efforts.

Active and Sustained US Crisis Diplomacy

- **Ensure that the United States has an adequate diplomatic presence on the ground in key regions.** The State Department should undertake a strategic review of its diplomatic presence in the poorest countries, assigning high priority to regions of instability in which the United States needs a greater capacity to anticipate and respond to potential crisis situations. The presence of US diplomats is strikingly absent in key areas where instability is increasing, including northern Nigeria, eastern DRC, eastern Kenya, parts of Central Asia where Islamic fundamentalists are organizing, and key regions of the Southeast Asian archipelagos in which separatism has taken hold. New US outposts need not replicate the heavy footprint of traditional posts. The State Department should explore more flexible arrangements such as those proposed by the Overseas Presence Advisory Panel in 1998.[26]

- **Invest in a permanent crisis diplomacy capacity with expertise in mediation, negotiation, and conflict resolution.** A standing, core staff, centralized in a functional bureau or deployed to each regional bureau, would provide the human capital and expertise necessary to support active peacemaking.[27] A permanent staff could also be called upon to support regional peacemaking efforts, joint diplomatic work with US allies, and teams established by special envoys. The crisis diplomacy staff could also liaise on a regular basis with embassies to monitor and analyze potential crisis situations and recommend actions to the State Department to prevent impending crises. Crisis diplomacy teams could be complemented with a roster of outside regional experts (including former diplomats and policymakers) ready for rapid engagement as crises escalate.

- **Create powerful incentives for US diplomats to work in weak and failed states.** The State Department must make it a priority to attract the best foreign service personnel to work in the most difficult environments. Internal incentives must be aligned to reward officers who accept hardship postings and develop capacity in preventive development, crisis diplomacy, and postconflict reconstruction. Existing training programs, especially at the National Foreign Affairs Training Center, should be adjusted to include specific courses that help US diplomats develop greater capacity in understanding issues of state formation and development, mechanisms for anticipating conflict, tools of crisis diplomacy, and programs of postconflict response.

III. Organizing for Success

Establish an Integrated Development Strategy

- **Establish a Cabinet-level development agency.** Modeled on the United Kingdom's Department for International Development (DFID),[28] a Cabinet-level development agency would merge existing foreign assistance and development policy initiatives from USAID, the Millennium Challenge Corporation (MCC), Departments of State, Agriculture, and Treasury, and a number of other agencies.

- **Develop a national development strategy.** As a complement to the National Security Strategy, each administration should prepare a national development strategy that spells out the main objectives and priorities of its assistance efforts, the programs it will use to meet those objectives, and the strategies it will use to coordinate efforts across agencies. A national development strategy would generate substantial interagency and public attention to the questions of how best to utilize and target US development resources in line with US national interests.

Focused exclusively on promoting international development, the new Cabinet department would oversee all US government development assistance programs and their corresponding funding accounts. The new Cabinet department would not entail an expansion in bureaucracy but incorporate USAID, MCC, and some foreign assistance programs run by the Departments of State, Defense, Health and Human Services, and Agriculture.

Of course, the United States will always deploy some economic assistance purely in support of diplomatic goals; resources for that purpose should remain in the State Department. In addition, although Treasury has been consistently effective in working with Congress to ensure appropriate US leadership in the multilateral development banks, those activities too should move from Treasury to the new development agency, if it is to meet the challenges we have outlined. Treasury should retain its strength on core economic issues and continue to be responsible for the IMF, giving it a leading role in guiding US policy toward the international financial institutions.

Under a revised mandate, the agency would grant assistance solely for development, ensuring that those in greatest need would benefit from funds provided through the US government's development arm. All foreign and technical assistance provided by the department would be for the purpose of reducing poverty, furthering sustainable development, and humanitarian relief. These objectives would need to be outlined in a new legislative mandate, replacing the outdated Foreign Assistance Act of 1961.

Creating a new agency would allow for the design of a rational organizational structure—one that reflects the diverse circumstances on the ground in recipient countries and the different objectives the United States has for foreign assistance. Current efforts too often reflect a one size fits all approach. A new agency could sharply define the distinct categories of countries for which it would be responsible in terms of a development trajectory, rather than a regional focus. The President's Commission on the Management of A.I.D. Programs advocated this type of organizational approach explicitly in 1992, and its outlines have begun to emerge incrementally in practice.[29]

Engagement with different categories of countries requires distinct instruments and types of programming, and perhaps highly varied forms of engagement and on-the-ground US government exposure. In particular, measurements of performance must vary to reflect the level of difficulty of delivering development assistance in different environments. By explicitly recognizing this development continuum, the US government can better organize its resources and expertise to respond to these distinct environments.

The creation of a Cabinet-level agency would also provide US development efforts with the strong political leadership they require, relieving the Secretary of State of his dual mandate to oversee diplomacy and development. A Cabinet-level agency would also enhance policy coordination and coherence, set in place strong incentives for the creation of a unified budget, and implement and monitor performance measures for development.

Update National Security Council Structures

- **Assign responsibility for early warning and rapid response to a new NSC directorate.**[30] In order to ensure that early warning and rapid response functions are adequately resourced and staffed, the national security advisor should establish a new directorate with responsibility for tracking weak and failed states and monitoring US responses in transitional environments.[31] This new directorate would play an especially crucial role at the early stages of rapid response, ensuring that crises and opportunities on the horizon are addressed by a new Policy Coordination Committee (PCC). While the appropriate regional NSC directorate would take the reins in crafting particular country strategies, this new directorate should be charged with monitoring implementation of the strategy.
- **Establish a Policy Coordination Committee (PCC) on Weak and Failed States.** A formal PCC should have responsibility for conducting early warning efforts and for developing and coordinating comprehensive strategies for country-level engagement when opportunities arise. It would provide a regularized mechanism for analyzing potential crises and coordinating governmental response when they emerge. The NSC should chair the PCC, with representation from the Departments of State, Defense, Treasury, Commerce, and Justice, the new development agency, US Trade Representative, Office of Management and Budget, and the intelligence community. When it focuses on developing a particular country strategy, the PCC should be co-chaired by the regional assistant secretary from the State Department. The PCC should also present a bimonthly report to the Deputies Committee, keeping potential crises on the radar screen of senior policymakers and ensuring that crisis response strategies have senior-level buy-in.

Create an Effective Information Strategy

- **Direct the intelligence community to develop a strategy for monitoring developments in weak and failed states.** The intelligence community should be tasked to report back to the NSC, outlining how it will determine its priority states, the assets it requires, and the resources that will be necessary to fund this improved capacity.[32] The director of central intelligence should lead an interagency process to further refine and consolidate existing early warning mechanisms spread across USAID, Departments of State and Defense, and the intelligence community and to develop agreed-upon metrics for measuring the threats posed by deterioration in the capacity of states. At the same time, the intelligence agencies should develop a strategy for increasing collection on-the-ground in targeted weak and failed states, reflective of their priority and the set of transnational concerns motivating expanded US engagement. This should include an effort to improve internal incentives for developing expertise and gathering relevant local-level information about developments in the poorest countries.

- **Develop a formal mechanism for channeling perspectives from other US government professionals, outside experts, and open sources into the analysis of the US government.** While the intelligence community should coordinate a process for monitoring weak and failed states, sources of information used to develop warning lists and track country-level developments should be diverse. For example, development professionals within USAID are uniquely positioned to identify the economic and social stresses that can contribute to state failure. The USAID administrator should require local missions to report back to USAID, State Department, and NSC on the economic and social developments that have potential implications for security. The intelligence community should also more systematically engage outside experts from conflict-monitoring organizations and the academic community in testing its analysis and insights. The National Intelligence Council, as part of its early warning mandate, should convene formal outside advisory groups to monitor developments in states that appear on US government watch lists.

- **Broaden access to intelligence products to include likely first responders in the US government.** The government's need to communicate internally on a classified basis must be protected. But many of the key actors that engage on the ground in weak and failed states are excluded from classified information channels and networks. USAID, through the Disaster Assistance Response Teams (DART) and the Office of Transition Initiatives (OTI), is often the first US actor in a crisis country, yet it has only limited access to products produced by the intelligence community or by the State Department.[33] Greater access and information sharing, particularly in these difficult environments, could improve analysis, provide an additional check on validity, and strengthen US response capacities.

- **Commit to greater intelligence sharing with US allies.** The United States will often call on its allies to play a leadership role in engaging deteriorating states in different parts of the world. Burden-sharing is an effective solution for all parties, leveraging commitments of US resources and expertise with those provided by other nations to address today's greatest challenges. Successful early warning and rapid response at the international level, however, will also depend critically on the sharing of intelligence. The British intelligence community already is in the process of organizing a quarterly "horizon-scanning" process to produce regular watch lists of weak and failed states for discussion at the highest levels of government. The US intelligence community should share its findings on a regular basis with those of the British agencies and other G-8 members.

IV. Leveraging US Investment

Use the G-8 to Mobilize Attention

At the 2004 G-8 meeting, the Commission encourages the United States to:

- **Issue a G-8 declaration highlighting the security threats posed by weak and failing states.** As a first step, the United States and its allies must demonstrate their enthusiasm for working through the G-8 to develop new initiatives to meet the challenge posed by state building in the developing world.
- **Commit G-8 countries to inventory their capacities in crisis prevention and response.** Calls for leading nations to develop a comparative advantage in one of the many areas of crisis prevention and response have been widespread. Yet, to achieve an efficient division of labor, G-8 countries must be prepared to highlight their capacities, share their priorities, and indicate the regions of the world in which they are willing (and committed to) engaging. G-8 foreign ministers should be charged with the task of preparing an inventory of national capacities and priorities in preparation for the 2005 G-8 meeting.

At the 2005 meeting, the Commission encourages the United Kingdom to:

- **Launch a G-8 action plan for the developing world.** A G-8 action plan should outline a series of agreed-upon steps toward a comprehensive state-building strategy in the developing world. This effort would need to proceed on at least four fronts: first, developing a permanent mechanism to help G-8 members identify and respond to weak and failed states; second, articulating commitments on trade, aid, debt relief, and democracy assistance that are required to prevent the next generation of failed states; third, identifying the international factors that exacerbate state deterioration including money laundering, corruption, and small arms trafficking that necessitate a coordinated response;

and fourth, crafting a shared vision of the role of key international institutions in preventing and responding to state collapse.

As a first step, the G-8 can establish a permanent forum for the discussion of how to identify and respond to weak and failed states:

- **Create a formal ministerial-level task force focused on early warning and rapid response in the G-8.** To facilitate greater information sharing and the coordination of efforts to engage in precrisis and crisis response, the G-8 should consider developing a permanent mechanism for monitoring situations in priority countries at the international level. The task force could also play an important role in helping G-8 members coordinate their response to incipient conflicts and postconflict and posttransitional state-building efforts. The question of whether to create a formal, regional division of labor among G-8 members could also be addressed in this forum.

Longer-term strategies of prevention will require substantive commitments to promote economic stability and diversification in the poorest countries, provide the resources and technical assistance needed to establish and support democratic institutions, and make valuable investments in helping countries reform and reinforce their security-sector institutions. The G-8 should:

- **Enumerate a set of policy commitments to increase the capacity and legitimacy of states in the developing world.** A G-8 action plan should channel the diverse, multifaceted efforts of the leading nations into a comprehensive plan for reversing state deterioration. On the trade front, successful completion of the WTO Doha Round should be a high priority of the G-8 countries. Living up to previous commitments on improved market access, higher aid flows, and deeper debt relief should be reiterated in the context of new challenges to international security. The G-8 should also serve as a key forum for coordinating democracy promotion efforts. Explicit commitments on the financing for democracy promotion should be enunciated in a G-8 context. Finally, the G-8 should develop a strategy for making concerted investments in the capacity of police and military institutions throughout the developing world. The OECD has already completed substantial work on the operational aspects of security-sector reform. What is needed is a high-level political mandate to engage in this sector that is critical to state building and to global security.

Successfully addressing the factors that make weak states prone to failure requires concerted action on a number of transnational issues as well. The G-8 has already made substantial progress in tackling international money laundering, through its Financial Action Task Force, and transparency and corruption, through the Extractive Industries Transparency Initiative. Other significant issues, however, remain to be addressed. The G-8 should:

- **Commit to addressing international factors that exacerbate state weakness, beginning with the illicit flow of small arms.** Previous G-8 meetings have elevated attention to the challenge posed by small arms, but little serious action has been forthcoming. Following the successful effort to ban land mines, activists have increasingly concentrated their efforts on stopping the flow of small arms to the developing world and draining the existing supply of illicit weapons that fuel internal conflict in much of Africa and beyond. With new US leadership, the G-8 should take concerted action on this issue and consider developing a new international regime governing small arms transfers to prevent further destabilization of already weak states.

Engage Major Developing-Country Governments

- **Engage major developing-country governments, through the G-20 and regional organizations, in designing and carrying out new strategies.** Key developing-country governments are showing new leadership in international policy debates to complement the global leadership role traditionally handled by the G-8. In particular, the G-20—which includes major emerging markets such as Argentina, Brazil, India, Indonesia, Saudi Arabia, and South Africa in addition to the G-8 member states—has quickly established itself as a key voice in managing globalization and economic policy. As the G-20 seeks to come to consensus on an ambitious reform agenda, through an ongoing consultative process, the Commission encourages it to convene a heads of state summit, expand its discussions to include political and security issues, and take seriously the challenges posed by weak and failed states.[34]

Improve the Capacities of Key International Institutions

New policy initiatives in the G-8 should be developed in parallel with ongoing efforts to clarify the role of key international players, including the United Nations and the World Bank, in preventing conflict and responding in situations of postconflict reconstruction.

- **Develop a common vision of the role of the United Nations and the World Bank in the new G-8 Partnership Initiative.** G-8 countries should support the efforts of the United Nation Development Program's (UNDP) Bureau of Crisis Response and Prevention to develop a greater in-house capacity and financing flexibility to respond to crisis and post-conflict situations. On the prevention front, the G-8 should endorse the World Bank's efforts to develop tailored strategies for "low-income countries under stress"—those most at risk for conflict. In addition, because the multilateral institutions are already engaged in a multiyear campaign to help the poorest countries meet the Millennium Development Goals (MDGs), the G-8 should challenge the international financial institutions and the United Nations to more directly engage the issues of conflict prevention and engagement with the most difficult governments. Progress toward the global MDGs cannot be limited to the best performing states. A shared strategy for working with states in stagnation and decline is critical.

As a first step toward deeper thinking about the role of the multilateral organizations, the mobilizing power of the G-8 could help to bring resources and attention to two specific initiatives as well:

- **The need to invest in a multilateral capacity that can provide expedited technical assistance to countries in transition.** There is a recognized need for a standing group of individuals, convened at the international level, who have expertise in delivering transitional assistance across a broad range of sectors.[35] This capability would complement, not replace, bilateral efforts (such as the new DFID rapid response unit as well as the proposed US mechanism). Capitalizing on UNDP's strong interest in developing greater crisis response capacity, a cadre of technical experts could be housed at the United Nations and act as the civilian counterpart to military forces that are deployed to crisis situations and forced to assume civilian tasks that they are neither trained nor equipped to perform.
- **The need for a multilateral mechanism that provides for the rapid disbursement of new grant monies in transitional environments.** Through its innovative Post-Conflict Fund (PCF) and now through its new Trust Fund for Low-Income Countries Under Stress (LICUS), the World Bank has made great strides in setting up mechanisms to provide rapid assistance to transitional countries. The LICUS fund, in particular, should serve as a multilateral model for delivering financial assistance to weak and failing states. Though small in monetary terms, the LICUS fund is broader in scope than the PCF (which is restricted to those countries emerging from conflict) and will be used to support capacity building and social service delivery efforts in some of the most difficult environments.[36] The G-8 should actively support efforts to increase the funding level of the LICUS fund so that it is capable of

making a sustained contribution in weak states that have limited access to other sources of financial assistance.[37]

Notes

1. William R. Cline has recommended that the industrialized nations grant immediate free access for imports from least developed countries (LDCs), sub-Saharan African (SSA) countries, and the heavily indebted poor countries (HIPC). "[If] industrial countries are to use the trade instrument in a more focused way to reduce global poverty, granting special market access to these low-income country groupings is a relatively efficient way of doing so." See William R. Cline, "Trading Up: Trade Policy and Global Poverty," *CGD Policy Brief*, vol. 2, no. 3 (September 2003), www.cgdev.org/briefs/cgdbrief007.pdf.

2. While Pakistan and the Central Asian states are low-income countries, they do not fall conveniently into the three categories enumerated in Cline's study (i.e. HIPC, LDCs, and SSA countries), which do encompass almost all other low-income countries. Yet because Pakistan and the Central Asian states are classified as "low-income" countries, the Commission argues that they should be made eligible for duty-free and quota-free access, assuming they satisfy the qualifying criteria.

3. In November 2003, complementary bills to enhance benefits provided under AGOA were introduced in both houses of Congress. These bills—S. 1900 and H.R. 3572—are collectively referred to as "AGOA III." Key provisions of AGOA III include an overall extension of AGOA to 2015 (it is currently set to expire in 2008) and an extension of the special rule for apparel, which applies to the LDCs, by an additional four years to 2008. The Commission encourages the administration to work proactively to secure passage of these important enhancements. For more information on AGOA III, see www.agoa.info/index.php?view=about&story=agoa_three.

4. Nancy Birdsall and John Williamson argue for expanding HIPC eligibility to a number of poor countries, including Indonesia, Nigeria, and Pakistan, with substantial debt to official creditors. These countries are not currently eligible for the HIPC program because they have had access to private capital markets and so are not eligible for loans from the World Bank's concessional window nor for the deeper debt relief offered by bilateral creditors, which is a necessary prelude to HIPC relief. See Nancy Birdsall and John Williamson, *Delivering on Debt Relief: From IMF Gold to a New Aid Architecture* (Center for Global Development, 2002). See also Nancy Birdsall and Brian Deese, "Delivering on Debt Relief," *CGD Policy Brief*, vol. 1, no. 1 (April 2002), www.cgdev.org/briefs/cgdbrief001.pdf.

5. Birdsall and Williamson (2002) explain the logic of the 2 percent threshold. The current structure of the program focuses on reducing the net present value of debt to exports to 150 percent. One criticism of the current initiative is that this target is the wrong target; if one is concerned about freeing up government resources to invest in social expenditures, the target should reflect the need to protect some proportion of the resources available for government expenditure from being diverted to debt service. In March 2003, Representative Christopher Smith (along with 13 other cosponsors) introduced a bill to improve the Enhanced HIPC Initiative (H.R. 1376). The bill, among other things, directs the secretary of the Treasury to study: (1) options and costs associated with expanding debt relief to include poor countries not eligible for the Enhanced HIPC Initiative; (2) options for greater burden-sharing among donor countries and multilateral institutions of costs associated with expanding debt relief; and (3) options to ensure debt sustainability in poor countries, particularly in cases when the poor country has suffered an external economic shock or a natural disaster.

6. This finding echoes the recommendations of Theodore H. Moran in his work on OPIC reform. See Theodore H. Moran, *Reforming OPIC for the 21st Century*, Policy Analyses in International Economics 69 (Institute for International Economics, 2003).

7. Research by the World Bank and others makes a strong case that developing countries face "substantially higher risks of violent conflict and poor governance if they are highly dependent on primary commodities." Innovative proposals to mitigate the risks of commodity price volatility and to reduce countries' reliance on primary commodities are being considered and should be encouraged. See Ian Bannon and Paul Collier (eds.), *Natural Resources and Violent Conflict* (World Bank, 2003).

8. This arrangement is proposed and explained in detail in Birdsall and Williamson (2002), 91–93.

9. This finding emphasizes a recommendation made by Jennifer Windsor, who has argued that "the State Department and USAID must have an overall strategic vision—and a budget allocation process—that ensures that funding for democracy assistance are allocated according to global democracy needs and priorities, and are not driven primarily by the preferences of particular regional bureau officials." See Jennifer L. Windsor, "Promoting Democratization Can Combat Terrorism," *The Washington Quarterly*, vol. 26, no.3: 43–58.

10. Many of these findings are echoed in Meghan L. O'Sullivan, *Shrewd Sanctions: Statecraft and State Sponsors of Terrorism* (Brookings Institution Press, 2003). O'Sullivan argues persuasively that the shrewd use of sanctions depends on two factors. First, the structure of the sanctions regime must correspond to specific country circumstances and the desired objectives. Second, the use of sanctions must be accompanied by other policy instruments if those objectives are to be met.

11. In November 2003, Senator Richard Lugar introduced the "Sanctions Policy Reform Act" (S. 1861), which embraces many of the principles endorsed here. While the Commission agrees with the spirit behind the legislation—to rationalize US sanctions policy—it believes that additional steps must be taken to ensure executive branch flexibility to enact, modify, or terminate sanctions.

12. A great deal of research and analysis has been done on the so-called natural resource curse. While all of the notable work in this literature cannot be acknowledged here, there are a few studies worth particular mention: Global Witness, *A Crude Awakening: The Role of Oil and Banking Industries in Angola's Conflict*, December 1999, www.globalwitness.org/reports/show.php/en.00016.html; Ian Gary and Terry Lynn Karl, *Bottom of the Barrel: Africa's Oil Boom and the Poor*, Catholic Relief Services, June 2003, www.catholicrelief.org/get_involved/advocacy/policy_and_strategic_issues/oil_report.cfm; Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States* (University of California Press, 1997); and Michael L. Ross, *Timber Booms and Institutional Breakdown in Southeast Asia* (Cambridge University Press, 2001).

13. New thinking is also being done on establishing a mechanism by which banks and other financial institutions that lend to or engage in forward purchases with governments would be required to publish and report such transactions to the IMF. Dubbed "Publish What You Lend," this practice would ensure that corrupt governments do not excessively borrow money against a country's expected future revenues. Thomas I. Palley, "Lifting the Natural Resource Curse," *Foreign Service Journal* vol. 80 (December 2003): 54–61.

14. In remarks to the Corporate Council on Africa, President Bush announced that "the United States will devote a $100 million over the next 15 months to help countries in the region increase their own counterterror efforts. We will work with Kenya and Ethiopia and Djibouti and Uganda and Tanzania to improve capabilities, such as air and seaport

security, coastal and border patrols, computer databases to track terrorists, intelligence sharing, and the means necessary to cut off terrorist financing. Many African governments have the will to fight the war on terror, and we are thankful for that will. We will give them the tool and the resources to win the war on terror." Remarks by President George W. Bush to the Corporate Council on Africa's US-Africa Business Summit, June 26, 2003, www.whitehouse.gov/news/releases/2003/06/20030626-2.html. National Security Advisor Condoleezza Rice has called this new initiative "very important" and also expressed a desire to see this initiative expanded, "I just wish it could be larger and expanded beyond East Africa. Although, East Africa is clearly a hot spot, it is not the only hot spot on the continent." See http://usembassy.state.gov/ethiopia/wwwh3603.html.

15. For the purposes of enhancing vulnerable borders, port security should also be considered a high priority. In December 2002, 163 member nations of the International Maritime Organization agreed to adopt stringent new maritime security regulations. This new security regime is set to enter into force in July 2004, yet "only a handful [of countries] have achieved the new standards. . .the slow pace of implementation has become evident as concern grows among intelligence agencies that the al-Qaeda terrorist network and some of its affiliates" have realized how vulnerable the world's seaports are. Mark Huband, "Terrorist Threat to Shipping Still High as Authorities Slow to Implement Security Code," *Financial Times*, November 13, 2003.

16. In fiscal 2004, the State Department's Bureau of International Narcotics and Law Enforcement (INL) requested $731 million for the Andean Counterdrug Initiative. This accounted for nearly 72 percent of INL's total budget request. See the US Department of State's International Affairs Function 150: Fiscal Year 2004 Request, www.state.gov/documents/organization/17223.pdf.

17. 22 USC. 2347.

18. 22 USC. 2420. Section 660 was added by sec. 30(a) of the Foreign Assistance Act of 1974.

19. Existing flexible funding such as the International Disaster and Famine Assistance (IDFA), Emergency Migration and Refugee Assistance (ERMA), Peacekeeping Operations (PKO), and Transition Initiatives (TI) accounts do not provide the US government with sufficient authorities or resources to respond adequately to threats and opportunities in weak and failing states. The IDFA account is primarily used to respond to natural disasters. Despite being authorized for responding to man-made disasters as well, US officials are reluctant to spend IDFA money for this purpose for fear they will have insufficient funding to address unforeseen natural disasters such as earthquakes or hurricanes. The ERMA account is restricted for urgent and unexpected refugee and migration crises. Funds appropriated to the PKO account are primarily used for conflict resolution and security needs, especially support for non-UN peacekeeping operations. While the TI account—which provides for a flexible response capacity to address political transitions or critical threats to stability and democratic reform—best fits the description of what the proposed "country-in-transition" fund would be used for, it is fairly small ($62.8 million in requested fiscal 2005 funds) and is restricted to one office within a single agency (USAID).

20. For logistical purposes, in the absence of a new development agency, this account would need to be part of the State Department budget request. However, the PCC should have responsibility for making recommendations to the president (via the Deputies/Principals Committees) regarding when and how to allocate the money. Upon a presidential determination that furnishing assistance is in the national interest, funds would then be transferred to specific government agencies for implementation. Before exercising this funding authority, the president should consult with, and provide a written policy justification to, the appropriate Congressional committees.

21. The idea of investing in a US government technical capacity to rapidly respond to transitional environments is not a new one. For example, the CSIS-AUSA Commission

on Post-Conflict Reconstruction recommended creating a "FEMA-like International Emergency Management Office (IEMO) within USAID." See CSIS-AUSA Commission on Post-Conflict Reconstruction, *Play to Win* (Center for Strategic and International Studies and the Association of the US Army, January 2003).

22. The United States Institute of Peace (USIP) has advanced an innovative proposal to establish a single federal Office for Rule of Law Operations that would have the authority to rapidly recruit, deploy, and manage rule of law professionals—such as civilian police, judges, attorneys, and corrections officers—in postconflict environments. Such a capacity would be backed up by a Rule of Law Reserves that would provide standby "surge capacity." See US Institute of Peace, "Building Civilian Capacity for US Stability Operations: The Rule of Law Component," *USIP Special Report 118,* April 2004. While the Commission supports the spirit of this proposal, it believes that the US government would be wise to adopt a more holistic, multidisciplinary approach as laid out in the text.

23. See "Stabilization and Reconstruction Civilian Management Act of 2004" (S. 2127).

24 "Return of Talent" Act, S. 1949 (November 2003), http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108_cong_bills&docid=f:s1949is.txt.pdf.

25. A similar recommendation was made in a monograph on US emergency economic intervention by former senior Commerce Department official David J. Rothkopf. See David J. Rothkopf, *The Price of Peace: Emergency Economic Intervention and US Foreign Policy* (Carnegie Endowment for International Peace, 1998).

26. See *America's Overseas Presence in the 21st Century* (Overseas Presence Advisory Panel, 1999).

27. The Africa Policy Advisory Panel (APAP) led by of the Center for Strategic and International Studies advanced this proposal in a review of Africa Policy conducted on behalf of the State Department. The APAP team identified significant gaps in the staffing of crisis diplomacy efforts in the African context.

28. The Organization for Economic Cooperation and Development's (OECD) Development Assistance Committee published a useful review of the United Kingdom's Department for International Development (DFID), www.oecd.org/document/33/0,2340,en_2649_33721_2460513_1_1_1_1,00.htm. In addition, it is important to recognize the two most commonly cited explanations for DFID's initial success. First, British Prime Minister Tony Blair was personally committed to a new Cabinet-level development agency, and the political mandate for this new department originated directly from him. Second, DFID's first secretary, Clare Short, was a visible leader whose access to the prime minister and influence within the Cabinet were crucial factors in getting DFID off the ground.

29. In September 1991, facing growing concern over the management of US foreign assistance, Congress established a presidential commission to review the management of USAID programs. The President's Commission on the Management of A.I.D. Programs was chaired by George M. Ferris and is often referred to as the Ferris Commission. See the President's Commission on the Management of A.I.D. Programs, Critical Underlying Issues—Further Analysis, December 22, 1992.

30. The CSIS-AUSA Commission on Post-Conflict Reconstruction recommended that the national security advisor "designate and appropriately resource a directorate at the NSC to be in charge of interagency strategy development and planning for post-conflict reconstruction operations." See CSIS-AUSA Commission on Post-Conflict Reconstruction, *Play to Win* (Center for Strategic and International Studies and the Association of the US Army, January 2003). The finding in this report is slightly different, though advanced in the same spirit. The new NSC directorate outlined here would have explicit responsibility for conducting early warning efforts and coordinating the US government's rapid response in a whole range of transitional environments, including (though not restricted to) postconflict situations.

31. In the absence of creating a new directorate at the NSC, the existing entity best suited to take on this new set of responsibilities is the Democracy, Human Rights & International Operations directorate. However, there are several problems with assigning responsibility for early warning and rapid response to this directorate. Not only is it is seriously underresourced (with a staff of only four) but also extremely overburdened. Due to its broad scope, this directorate is forced to cover a wide range of issues, which constrains its capacity to take on new tasks. In establishing a new directorate for early warning and rapid response, recent experience provides sufficient precedent. During the early years of the first Clinton administration, there was a single directorate for Global Issues and Multilateral Operations, which consisted of seven staff members. In the latter years of the Clinton administration—in order to respond to a transformed policy environment—this broadly defined directorate was divided into two, standalone directorates (Multilateral & Humanitarian Issues and Transnational Threats). These two directorates had staffs of 7 and 14 members, respectively.

32. Changing priorities should be reflected in a new presidential directive for the intelligence community. This would effectively amend PDD-35 that relegated much of the developing world to the bottom tier of priorities for intelligence collection. For a brief description of the classified PDD-35, see www.fas.org/irp/offdocs/pdd35.htm.

33. USAID's overreliance on personal service contractors (PSCs) and short-term contracts precludes many members of the Office of Foreign Disaster Assistance (OFDA) and Office of Transition Initiatives (OTI) teams in the field from viewing classified information. This constraint must be addressed to ensure that those rapidly deployed to crisis situations can access intelligence in a timely manner.

34. Canadian Prime Minister Paul Martin has advocated creating a "Leaders' G-20" that would comprise heads of state. According to Martin, such a group could be tasked with crafting common strategies on issues as diverse as transnational terrorism, HIV/AIDS and other global health issues, and international trade. See address by Prime Minister Paul Martin at the Woodrow Wilson Center, Washington, DC, April 29, 2004, www.news.gc.ca/cfmx/CCP/view/en/index.cfm?articleid=83929&.

35. These include, but are not restricted to, constitutional and political reform, rule of law, economic policy management, decentralization and local government reform, and security-sector reform.

36. The new LICUS Trust Fund will be funded at an initial level of $25 million. According to World Bank documents, this new fund will be financed by transferring funds from the Bank's net income for fiscal 2003 and will operate until the end of 2007. It will be administered by the International Development Association (IDA), drawing on the approval system, documentation, and procedures of the World Bank's Post-Conflict Fund. See "World Bank Establishes Trust Fund for World's Poorest Countries," January 15, 2004, http://web.worldbank.org/WBSITE/EXTERNAL/NEWS 0,,contentMDK:20152023~menuPK:34463~pagePK:64003015~piPK:64003012~theSitePK:4607,00.html.

37. An enhanced LICUS Trust Fund would, of course, require the dedication of new resources. One possible source of financing is the new revenue that would be created if the World Bank were to introduce differential pricing. In 2001, the Volcker-Gurria Commission recommended that the Bank price its services according to its borrowers' per capita income. Under such a plan, higher-income countries would pay higher rates, and a portion of the new income that is generated every year could be used to finance a new trust fund mechanism. However, because of the uncertainty of net income flows from year-to-year, this fund may need to be supplemented with additional contributions from bilateral and multilateral donors, including the United States.