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## Foreword

The Center for Global Development opened its doors in November 2001, just two months after the terrorist attacks of September 11. The terrorist network behind the attacks was based in Afghanistan, having been expelled from Sudan, and was associated with earlier fatal attacks against US targets in Kenya, Tanzania, and Yemen. These attacks constituted a wake-up call, in both the development and security communities, to a new, shared challenge. In the 21st century, a sensible national security strategy would have to tackle the risks to Americans of development failures in faraway places.

The Center's remit is to reduce global poverty and inequality, including and especially by finding ways to encourage better policy on the part of the United States and other industrialized nations. Following 9/11, the Center naturally began to think about the relevance of the new challenge of global terrorism for our mission of improving the lives of people in the developing world. The large number of weak and failed states emerged as a central challenge of both the fight against terrorism and the fight against global poverty. It is in weak and fragile states that the development project often fails, and it is in those settings too where militant and extremist ideologies too easily take root.

Therefore, in 2002 the Center initiated a series of discussions and case studies of the successes and shortcomings of past and current US policies toward weak and failed states. Those studies led us to the conviction that despite the clearheaded statement of the problem in the President's 2002 National Security Strategy, the US government was making little if any progress on this fundamentally important challenge.

Also in 2002, President Bush announced his intention to establish a “Millennium Challenge Account,” a new foreign aid initiative that would increase core development assistance by 50 percent and provide greater assistance to those low-income countries that rule justly, invest in their people, and encourage economic freedom. Research and analysis of the MCA became a flagship of the Center’s operations. Yet because the MCA was focused on the “good performers,” weak states were understandably left out of the conversation—and in this case, their absence underscored the dearth of strategic thinking on the challenges they pose.

So in the fall of 2003 I asked two respected and experienced American leaders, Stuart Eizenstat and John Edward Porter, to lead a bipartisan panel of 30 former US government officials and members of Congress, representatives of academia, civil society, the private sector, and Washington’s most prestigious think tanks and research centers, with the ambitious objective of proposing and defining a US government strategy for weak and failed states—one that would bring to bear both development and security considerations and expertise. The result is this report.

Among the report’s many recommendations, several have to do with strengthening civilian capacities for managing security risks. Most are a matter of political will and political capital more than of money. One recommendation that is bound to be controversial is a proposal to house the capabilities for prevention and rapid response within a single, Cabinet-level development agency. The Commissioners felt strongly that such an organizational change was needed to elevate the priority of prevention within the US government and properly fund, train, and equip our civilian officials for engaging in the complex environments found in most weak states. We hope that this recommendation will generate healthy debate about how the US government should organize itself to address the phenomenon of weak states. Such a debate itself might catalyze the larger conversation that the challenge of weak states desperately needs.

*On the Brink* represents a first cut at defining a strategy for what is, and will continue to be, a critical foreign policy challenge for the United States. This report is merely the beginning of a process—outside and inside the government—to start taking the issue of weak and failed states seriously. The Center and I look forward to participating in this discussion.

NANCY BIRDSALL  
President  
May 2004

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## Acknowledgments

The work of a successful Commission requires the energies, dedication, and partnership of many. Nancy Birdsall, president of the Center for Global Development, entrusted me with a project she envisioned from the earliest days of the Center's founding. Nancy empowered me to think big and challenge the status quo—a strategy that has served her well throughout her career. At the same time, her steady hand, words of encouragement, and optimistic spirit kept me, and the project, on the right path.

The Center's work on weak and failed states began long before my arrival. Two board members, M. Peter McPherson and Ernest Stern, by virtue of their sheer persistence and thoughtful interjections, helped to bring this Commission to life. From the mundane, yet critically important job of identifying co-chairs, to the consistent articulation of core messages they both felt belonged in the Commission's findings, Peter and Ernie never failed to deliver. The project, and the Center, benefit enormously from their continued interest and guidance.

One of the special opportunities that a Commission provides is the chance to learn from global leaders who have dedicated themselves, through work in the public and private sectors, to progressive leadership on foreign policy issues. Stuart E. Eizenstat and John Edward Porter, our co-chairs, were fearless leaders in this venture—never satisfied with simple answers, and always challenging the staff and the Commissioners to push harder, farther, and deeper into the complexities that make this topic so difficult and important. Their wisdom, patience, and commitment to this project are without parallel. I am indebted to both of them for their skillful management of our diverse Commissioners, their dedication to the project,

and their strong, shared belief in charting a new course for US policy in the developing world.

Milan Vaishnav, my research assistant, brought his considerable intellectual talents and valuable political savvy to this effort. He worked tirelessly on every aspect of the project—from shaping the structure of the arguments and crafting key parts of the recommendations, to keeping the entire machine well oiled and operating smoothly. Nancy and I continue to learn from his insights and perspectives. He has a promising career in front of him.

In an effort to make our findings more realistic and useful, the Center brought together a staff-level group of executive branch officials and legislative staffers. Although I cannot thank each of them by name, this group constantly reminded us how much valuable work is already being done in this area, and provided critical insight into the real-world challenges with which we must contend as we move forward in our efforts to broaden and deepen US engagement with the poorest countries.

A number of colleagues at the Center provided support and guidance as the project evolved. Michael Clemens, William Cline, Kim Elliott, Ruth Levine, Todd Moss, David Roodman, Steve Radelet, and Sonal Shah helped to provide the vibrant intellectual environment in which creative thinking could take place. Sheila Herrling, Sarah Lucas, Andrew Stober, and Christina Counselman—our communications and policy team—provided constant support and encouragement, offered their talent and experience to the project, and consistently underscored the timeliness of our effort and the significant demand in policy circles for substantive work on this topic. Heather Hurlburt brought her deep passion for development issues and her magical pen to the table, helping us produce a report that will be accessible and useful to policymakers and the public. The publications staff at the Institute for International Economics worked overtime to deliver a flawless report.

Smita Singh of the Hewlett Foundation—a colleague and intellectual confidant since graduate school—has been a strong supporter of this project and the Center. She has our sincere thanks.

Finally, I want to thank the members of the Commission on Weak States and US National Security. They began this process with a shared commitment to thinking seriously about the challenges that confront us in the developing world. Over the course of nine months, they engaged in serious and thoughtful debate, deliberating tirelessly to produce a series of recommendations that we believe will push the debate forward. All gave generously of their time and energy. I learned a great deal from working closely with each one of them.

Jeremy Weinstein  
Project Director

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# On the Brink: Weak States and US National Security

## Executive Summary

Terrorists training at bases in Afghanistan and Somalia. Transnational crime networks putting down roots in Myanmar/Burma and Central Asia. Poverty, disease, and humanitarian emergencies overwhelming governments in Haiti and Central Africa. A common thread runs through these disparate crises that form the fundamental foreign policy and security challenges of our time. These crises originate in, spread to, and disproportionately affect developing countries where governments lack the capacity, and sometimes the will, to respond.

In the most extreme cases, these states have completely failed, as in Afghanistan, Haiti, or Somalia. In many others, states are not failed but weak. Governments are unable to do the things that their own citizens and the international community expect from them: protecting people from internal and external threats, delivering basic health services and education, and providing institutions that respond to the legitimate demands and needs of the population.

*These weak and failed states matter to American security, American values, and the prospects for global economic growth upon which the American economy depends.*

Spillover effects—from conflict, disease, and economic collapse—put neighboring governments and peoples at risk. Illicit transnational networks, particularly terrorist and criminal groups, target weak and failed states for their activities. Regional insecurity is heightened when major powers

in the developing world, such as Nigeria or Indonesia, come under stress. Global economic effects come into play where significant energy-producing states, regional economic powers, and states key to trade negotiations are weak. Finally, the human costs of state failure—when governments cannot or will not meet the real needs of their citizens—challenge American values and moral leadership around the globe.

*For these reasons, weak and failed states pose a 21st century threat that requires institutions and engagement renewed for the 21st century.*

But, the security challenge they present cannot be met through security means alone. The roots of this challenge—and long-term hope for its resolution—lie in development, broadly understood as progress toward stable, accountable national institutions that can meet citizens' needs and take full part in the workings of the international community.

Weak and failed states are particularly prevalent among the 70-plus low-income countries. Clearly, many of these states may, at present, pose no threat to their own stability or ours. The low-income countries that must concern US policymakers most have capability gaps in one or more of three crucial areas: they are failing to control their territories, meet the most basic needs of their citizens, and provide legitimacy that flows from effective, transparent governance.

*Identifying and addressing these capability gaps is the fundamental strategy that will allow US foreign policy to help reverse state weakness, prevent state failure, and avoid the dangerous and costly consequences of both.*

The US foreign policy architecture was created for a world in which development policy was a low-level challenge, one in which development might have served diverse strategic purposes but was not in and of itself a strategic imperative for US security or economic interests. As a result, in this new environment the United States is ill-equipped for rapid action to recognize state weakness or failure, respond to its immediate consequences, and prioritize and finance the long-term interventions necessary to help prevent and mend it.

US foreign policy must break its habit of inertia toward weak states. US leaders must commit to using their political capital and channeling the nation's institutional power so that the development challenges of weak states can be effectively managed before they produce security crises. Learning the lessons of the past, and recognizing the challenges of the present, US policy must become committed enough to engage in critical countries for the long term, forward-looking enough to minimize the harm when short-term policy objectives conflict with longer-term state-building needs, comprehensive enough to offer both carrots and sticks to deal with the local elites who often hold the reins where strong insti-

tutions are lacking, and focused enough to recognize that money alone cannot buy stability.

## Recommendations

This report puts forward a set of policies that will enable the United States to meet these challenges. First, we must *invest in preventing* states from sliding further toward failure and away from successful, democratic governance and understand this as an investment in our own security. Second, we must give ourselves innovative tools such as emergency surge capacities so that the United States can rapidly *seize opportunities* to stop failure or block its consequences. Third, we must reform our institutions to *organize for success* in our approach to weak and failed states, by building a Cabinet-level agency that incorporates all aspects of development policy. Finally, we must *leverage globally* the burdens of such an approach, by forging a G-8 consensus and engaging regional organizations, major developing countries, and international institutions in support of our approach.

The Commission's findings are wide-ranging and address the structure, institutions, and record of US foreign and development policy. Commissioners opted to focus primarily on civilian institutions, offering substantive proposals on how these institutions might better address challenges before and after they demand military responses, in order to lighten a burden that has in recent years increasingly fallen on the US armed forces.

**Investing in Prevention.** The long-term answer to the danger posed by weak and failed states is strategic US engagement to support building durable, legitimate, and transparent institutions of government. The United States must consolidate and reform its assistance programs, not simply to focus on the best performers but to achieve the following strategic goals:

- *promote opportunities for broad-based growth and poverty reduction* through increased market access for developing countries, more effective development assistance, wider and deeper debt relief, greater support for foreign direct investment, and new financial facilities to help insure developing economies against exogenous shocks;
- *support legitimate and democratic institutions* by better targeting existing flows of assistance for democracy, improving US sanctions policy, and—through US funding regulations and other avenues—addressing the links between extractive industries and corruption that have helped delegitimize so many developing-country governments; and
- *create effective US assistance to police and military forces* to help governments develop the ability to secure their territories and protect the

rights of their populations, by revisiting the excessively rigid regulatory framework for these assistance programs and improving their quality and coordination.

**Seizing Opportunities.** With the right tools at the right time, the United States can respond to governments on the brink of failure or in the wake of major change, support responsible local leaders, and even turn crises into opportunities. But the timeliness and robustness of our response will make all the difference between successful interventions and still more missed opportunities. A robust US response capability needs:

- *surge capacities*: expertise and resources that can flow immediately, unencumbered by bureaucratic constraints, including a \$1 billion country-in-transition fund and a civilian rapid response unit;
- *peace and democracy dividends*: the ability to make prompt, symbolic downpayments on longer-term goals such as debt relief and market access that help boost the legitimacy and prestige of struggling governments;
- dependable *regional peacekeeping capacities*; and
- *active and sustained US diplomacy*, backed by increased crisis capacity and a more strategic presence in the field, for orchestrating multidimensional political responses to crises.

**Organizing for Success.** Weak and failed states pose a 21st century threat to US security, interests, and values. But the US government institutions charged with meeting this threat are relics of the mid-20th century. US government institutions for gathering information, moving analysis to key decision makers, and developing comprehensive strategy must be revamped by:

- establishing an *integrated development strategy* and implementing it within a single, *Cabinet-level development agency*;
- creating a *National Security Council directorate* to reflect the high priority assigned to weak and failed states; and
- building an *effective information strategy* that devotes resources to monitor key weak and failed states and gets that analysis into the right hands.

**Leveraging Our Investment.** The United States cannot take on this challenge in a vacuum; others must share the burden. But the United States can lead this effort only if it is perceived as pulling its weight, which will require an increase in the level of attention and resources paid to the larger challenge of development. The effort to develop a coordinated

response must begin among the states that share the heaviest burden of response to weak and failed states but expand to those regional powers and organizations that are increasingly willing and able to do their part:

- *use the G-8 to mobilize attention, develop common strategies, and tackle the challenges that can be handled only multilaterally;*
- *engage major developing-country governments, through regional organizations and groupings such as the G-20, in designing and implementing new strategies; and*
- *offer common approaches to support and improve the capacities of international institutions, including the United Nations and the World Bank.*

The Commission has not attempted to place price tags on its recommendations. We recognize that there would be some additional costs attached to these recommendations and that, in a time of budget scarcity, they will not be easy to manage. But the potential cost-savings generated by investments in weak and failed states today, whether by preventing the next military intervention or by providing civilian institutions with tools that would allow the military to exit nation-building efforts faster, underline the financial value of what we propose. As difficult as resource issues are, though, the real challenge our recommendations pose for policymakers is that of overcoming a history of inattention and unwillingness to spend political capital on the long-term challenges posed by weak states. Changing that now ingrained habit is our most important task.

## Introduction

US military and civilian antiterrorism officials struggle to keep up as terrorists plot to attack the United States from bases in Afghanistan, Indonesia, and Somalia; steal weapons from ill-guarded caches in the Sahara Desert or buy them from Central Asian middlemen; raise money by dealing diamonds in West Africa or by shipping honey across the Persian Gulf; and finance the schooling in extremism of young boys from the poorest Pakistani households.

Antinarcotics law enforcement watches as drug dealers run cocaine and heroin with apparent impunity through national borders in South and Central America, the Caribbean, and Central Asia.

US trade officials struggle to promote growth based on open and competitive markets as rich-country policies and corporate payoffs to corrupt local officials discredit global trade and investment rules, derailing trade agreements and limiting investments, thus depriving millions of opportunities to escape poverty.

Donors suffer “compassion fatigue,” and global cynicism about America’s intentions rises, as famine and starvation raise their heads again and again in countries like Ethiopia and Zimbabwe.

The fundamental foreign policy challenges of our time—terrorism, transnational crime, global poverty, and humanitarian crises—are diffuse and complex, with wildly varying causes. Yet a common thread runs through all of them. They originate in, spread to, and disproportionately affect developing countries where governments lack the capacity, and sometimes the will, to respond.

In dozens of developing countries, the term “state” is simply a misnomer. Governments are unable to do the things that their own citizens and the international community expect from them: offer protection from internal and external threats, deliver basic health services and education, and provide institutions that respond to the legitimate demands and needs of the population.

These weak and failed states present a security challenge that cannot be met through security means alone. The roots of this challenge—and long-term hope for its resolution—lie in development, broadly understood as progress toward stable, accountable national institutions that can meet the needs of their citizens and take full part in the workings of the international community. In too many of the countries we refer to as “developing,” this kind of progress is simply not taking place.

The resulting state weakness—not just failure—matters to our security, our values, and the success of economic globalization. More broadly, international peace and security now depend in no small part on the capacities of governments in the developing world. Weak and failed governments generate instability, which harms their citizens, drags down their neighbors, and ultimately threatens US interests in building an effective international system, providing the foundation for continued

prosperity, and, not least, in protecting Americans from external threats to our security.

Weak and failed states are particularly prevalent among the 70-plus low-income countries. Clearly, many of these states may, at present, pose no threat to their own stability or ours; likewise, many key threats to US interests emanate from states well above the low-income threshold. But even a cursory glance at the headlines suggests that for every chronic failed state—Afghanistan, Haiti, or Somalia—there is a former star performer brought down, like Zimbabwe, or a struggling state like Indonesia, whose weakness has allowed terrorism, corruption, and civil conflict to take root in alarming ways.

As we complete this report, our topic cannot help but bring to mind images of violence and chaos in postwar Iraq—a near-vacuum of civilian authority and legitimacy with unpleasant consequences for Iraq’s citizens, its neighbors, US and coalition forces, as well as worldwide views of the United States and the global war on terror. By its relative wealth and its perceived strategic importance, Iraq does not belong in the set of underresourced and often-ignored countries we consider here, and we have not considered it in detail. But the difficulties of reestablishing competent civilian authority in Iraq do underline the problem—and the potential consequences. Our recommendations, as well, while not focused on Iraq’s unique circumstances, point the way to basic issues that ought to inform future planning for any postconflict US presence.

The long-term challenge, then, is not merely to predict which states will pose threats but to strengthen the institutions of governance in low-income countries more broadly; to offer every state the tools to improve its institutions, better the lives of its citizens, and partner with the United States in fighting instability and insecurity. As is the case with every other security challenge the United States faces, the hardest part is not meeting the crises we can foresee. It is preparing for those we cannot.

## **Looking Back, Looking Ahead**

The Bush administration’s 2002 National Security Strategy identified weak and failed states as the central threat to global security emanating from the developing world. It is now time to match that rhetoric with action. Empowering these states to better meet the legitimate needs of their citizens—and identifying and responding to the threats they pose—is a sound investment in US national security and merits high-priority attention.

Weak and failed states pose a 21st century threat that requires institutions and engagement renewed for the 21st century. The set of institutions we have today are the product of another time of great challenge, when Americans identified the ravages of war and spread of communism as key global threats to our security, economic, and moral interests.

The United States responded with a strategy breathtaking in scope, working to help governments meet the needs of their populations and leading in the creation of international institutions to manage the global economy and meet the threats posed by the Cold War. The immediate postwar period saw the formation of the National Security Council (NSC) and the US Agency for International Development (USAID) at home and the United Nations, World Bank, International Monetary Fund (IMF), and North Atlantic Treaty Organization (NATO) abroad. US engagement with the newly independent nations that now make up the developing world expanded dramatically.

This quick and far-sighted US response did what it was intended to do, knitting the industrialized democracies together and preventing the forces we feared from gaining a strong enough hold in the developing world to pose us a mortal threat. But too often, aid to corrupt and illegitimate governments bought only temporary security for the United States and its allies and had damaging consequences for the citizens of our partner nations. The fundamental task of helping governments build legitimate and effective institutions of government was deferred. With the threat to the United States now coming not from an established state power but from dispersed forces that flourish where authority is illegitimate or non-existent, the state-building challenge can no longer be ignored.

In today's strategic environment, the United States must again renew and update its engagement with the developing world. It must revamp existing institutions, develop new instruments, and prepare for a sustained commitment to meet these new threats and opportunities. Because it is best for the weak states themselves *and* for America to meet these challenges before they require a military response, we must reinvigorate our civilian policy-making structures to lead the way and lift the burden of crisis response from our overstretched military.

As in the past, we need not meet this challenge alone—and we will be less effective if we try to do so. Weak and failed states represent a challenge to progress not just for the United States but also across the international community. US leadership can leverage important resources and political commitment from others. First, however, US engagement must be sufficiently visible to convince others that our commitment is real. That means, above all, moving up from our current status as the last of 21 Organization for Economic Cooperation and Development (OECD) nations in development assistance as a percentage of national income. Whatever Americans think of this indicator, the nations that should be our partners take it as incontrovertible evidence that we are not committed to or a reliable ally in the struggle for development.

But just increasing cash flow is not the answer. Efforts must be made to improve coordination among our closest allies—the other nations called on to intervene when development fails and chaos threatens. The best, innovative ideas advanced by the international organizations should also

be supported and encouraged. Developing-country institutions themselves—from regional organizations, such as the Organization of American States (OAS), Association of Southeast Asian Nations (ASEAN), and African Union (AU), to more informal but potentially powerful groups such as the G-20 counterpart to the G-8—must be engaged in identifying dangerously weak states and in taking ownership of shared responses.

The first priority for the United States must be to get its own house in order, developing the capabilities needed to identify, respond to, and prevent these threats from taking root. This begins with a clearer understanding of how failures of development affect us.

## Understanding the Threat

The idea of state failure is not new. For nearly 50 years, since the end of the colonial period, governments in the developing world have struggled to set in place transparent and accountable institutions capable of securing economic progress, governing effectively, and protecting their citizens. Progress has been sporadic and concentrated in a few regions, most notably East Asia.

But the need to address this lack of capacity is now more pressing than ever. Five dynamics highlight the specific ways in which weak and failed states challenge US strategic interests: spillover effects, illicit transnational networks, regional insecurity, global economic effects, and implications for American values and moral leadership.

*Spillover effects* put neighboring governments and peoples at risk. At a time when ideologies and propaganda—but also drugs, guns, and germs—can travel at the speed of sound, national borders cannot contain internal instability. The collapse of governments often spawns wider regional conflicts; even governments lingering weakly in power can create massive refugee flows, uncontained violence, and uncontrolled epidemics that threaten regional stability and economic progress. Perhaps the best-known example of this is Liberia, where Charles Taylor took advantage of a power vacuum not merely to install an authoritarian regime, displacing hundreds of thousands of people and dismantling the economy in the process, but to incite a decade-long civil war in neighboring Sierra Leone, finance rebels in Côte d’Ivoire, and support opposition figures in Guinea. By the time the United States and the international community removed Taylor, three civil wars had been sparked, and the stability of West Africa as a whole had been severely compromised.

Less dramatic—thus far—is the situation in Bolivia, where a democratically elected president was driven from office in 2003. In late 2002, President Sanchez de Lozada came to Washington requesting \$150 million in emergency assistance to maintain social services and public investments. He dared ask, he said, because otherwise he would be back

a year later requesting asylum. Sanchez de Lozada did not get the money and did indeed return as a refugee just months afterward. Bolivia's instability sent shock waves through its Andean neighbors and raised questions about the entire region's commitment to opening to the global economy on the one hand and fighting coca cultivation on the other.

*Illicit transnational networks*, particularly terrorist and criminal groups, exploit weak states for the porous borders and minimal law enforcement that allow the easy movement of money, people, drugs, and weapons. Somalia, for example, suffered the near-total disappearance of centralized authority after the failed UN and US intervention in 1992–93. Al-Qaeda moved in, using the country as a safe haven through the 1990s and as a staging ground and escape route for attacks in Kenya as recently as 2002. Elsewhere, observers have drawn direct links between the countrywide rioting that saw the contents of Albania's armories looted and dispersed in 1997 and the appearance of armed groups in neighboring Kosovo, Macedonia, and southern Serbia in the years that followed.

The weak young states of Central Asia, with porous borders and under-trained law enforcement, have become central to the global market in illicit small arms and light weapons. The traffic has fueled regional conflicts in Central Asia and helped equip armed groups as far away as sub-Saharan Africa. Their neighbor Afghanistan, even with a strong US military presence, remains a sanctuary for al-Qaeda terrorists and a source of three-quarters of the world's heroin.

Where major regional powers, such as Nigeria, Pakistan, and the Democratic Republic of the Congo (DRC), are weak, instead of promoting *regional security* they may actually undermine it. The DRC, by far the largest state in Central Africa and a potential powerhouse, is instead a charnel house that has drawn in the armies of most of its neighbors. The stability of Pakistan has become dangerously entwined with that of Afghanistan.

Weak states, especially regional economic powers or those with significant natural resource holdings, also limit *global economic progress*. A significant proportion of the world's energy supplies is threatened by the weakness of governments in the Caucasus, Central Asia, and parts of Africa. State weakness prevents major emerging markets such as Nigeria and Indonesia from playing their rightful roles in stimulating the regional and global economy. Instability in Bolivia, West Africa, and elsewhere has also played a role in building broader opposition to trade liberalization among developing nations.

Finally, the inability or unwillingness of many governments to respond to the needs and hopes of their citizens has *moral implications* for the rest of the world. When left untended, weak and failed states cast a long shadow over American "soft" power—the notion that our values and aspirations have meaning in making the world a better place for all. When governments are weakened and fail, it is the local people who suffer the most—losing access to the most basic government services, such as roads,

clinics, and schools; at the mercy of armed groups, corrupt officials, and endemic disease; driven from their homes; and denied any opportunity to improve their communities or build better lives for their children.

In a globalizing world, their plight is passed on through the spillovers already mentioned. But their suffering also serves to undercut the global consensus that an interconnected world, allegedly joined around the common values so fundamental to Americans, can actually improve the lot of the poorest and weakest. In the world's weak and failed states, the United States has an important opportunity to act in accordance with its values—and show that those values, and American leadership, do have real potential for good.

### **Many Manifestations, One Root Cause**

The root cause of this challenge to our security, our values, and the success of economic globalization is clear. Development as broadly understood—progress toward stable, accountable national institutions that can meet the needs of their citizens—is not taking place in too many of the countries we refer to as “developing.”

It is vital to stress that a narrow definition of development does not explain the phenomenon or engender an adequate response to it. Weak and failed states have often, but not always, been unable to provide adequate economic development; just as often, however, they lack the institutions of governance and popular participation that convey legitimacy and ensure that whatever economic progress exists is broadly shared. The developed world often responds by trying to provide the goods and services—meeting basic human needs—but that can only be one part of the required response. Attention also must be paid to the challenges of state-building—creating or strengthening government institutions such as legislatures, judiciaries, health and education systems, police forces, and militaries.

Development stalls, and states fail, for many reasons. Some are long-term and structural—poverty, inequality, and undemocratic institutions weaken states and breed widespread frustration and dissatisfaction, heightening vulnerabilities to conflict. Other causes are more proximate: economic shocks, political transitions, regional conflicts, and changes in the relative position of social groups within society. Each acts as a trigger, providing powerful domestic elites with opportunities to undercut or undermine institutions, ensuring that it is their interests and ideologies that ultimately determine the fate of weak and failed states.

International factors also exacerbate the weakness of governments: Plentiful small arms flows, the collusion of some corporations with corrupt governments, and external support embolden and reinforce the power of incompetent and authoritarian regimes.

Just as no single path to state failure exists, no single preplanned response adequately covers the variety of trajectories, risk factors, and domestic political situations that may be confronted in prioritizing prevention and responding to crises.

The meaningful reform of US policy toward weak and failed states also demands careful consideration of how past US efforts, some well-intentioned and others simply unmindful of their implications for development and stability, have had the result of eroding the legitimacy and capacity of states and generating significant negative consequences. The United States, like other major powers, has at times empowered weak, autocratic, and corrupt states when it suits other purposes and at times locked itself into policies and prescriptions without carefully considering their full implications.

Today, there can be no clearer, less controversial example of this than the tragic recent history of Afghanistan. Geopolitical considerations led to the arming of domestic and foreign militant groups in the 1980s and the disregarding of their subsequent dismantling of the Afghan state. Sheer donor fatigue—and a failure to understand what was at stake—allowed that disregard to harden in the early 1990s. As the country descended into failure and chaos, the United States disengaged from peacekeeping and conflict management. In that chaos, the Taliban and their foreign backers looked like rescuers. Even after the military conquest of the Taliban and al-Qaeda, efforts at civilian reconstruction have been underfunded, security remains tenuous, and warlords who despoiled the country a decade ago continue to receive US and international support.

This is not a partisan or political issue—it is a profound dilemma of America's outsized role in the world. It has no simple answer. Although resolving these contradictions is far beyond the remit of this Commission, we propose four lessons, learned from the experience of the United States and other nations, which should guide us when tough policy choices have to be made:

- ***Money can't buy stability.*** Financial assistance alone, without plans for and commitment to resolving underlying political and structural problems, is insufficient and often wasted. Successful efforts to solve the challenges of weak and failed states must focus on building capacities and opening opportunities as much as or more than delivering cash.
- ***Local elites cannot be evaded or wished away.*** They, not we, are best positioned to respond to triggering events, and their actions serve to strengthen or undermine institutions. We know from decades of painful experience that benign neglect, indulgence, or isolation seldom loosen these groups' hold on power. US development policy needs tools to coopt and also to coerce, targeted packages of sanctions and incentives,

as well as sustained attention to broaden political bases and build public participation that limits elite abuses over the long term.

- ***Minimize the harm.*** The United States will not always be able to avoid actions and policies that have mixed or negative consequences abroad, resolving one crisis while contributing to another. What policymakers can do is tend to the consequences of a violent conflict, a sudden upheaval, or a major economic shift—with an eye to not plant the seeds of future instability and to avoid the creation of “repeat offenders” like Afghanistan and Haiti in a cycle of bust, aid, fatigue, and bust again.
- ***Acknowledge that we are in this for the long term.*** Few state-building efforts, beginning with our own 200 years ago, are short-term propositions. This creates a serious political challenge for US leaders. A serious response in public communication is required to break ourselves of the habit of promising that democracy can be built in a day and to gain support from Congress and the American people upfront for long-term engagement. This is not a naïve recommendation on our part but a practical one; in many cases, faced with the inability to sustain engagement over time, it might have been better to make no initial promises at all.

## **Defining Weakness: Three Capability Gaps**

Having laid out basic principles for thinking about US policy, how do we recognize a troubled state from among the more than 70 low-income countries whose shortcomings confront US policymakers? Terms such as “weak” and “failed” are imprecise; used too often, in conjunction with too many synonyms, they tell us little about why states are in trouble and what can and should be done about them.

The Commission focused on three functions that effective governments must be able to perform: ensuring security, meeting the basic needs of citizens, and maintaining legitimacy. When these functions are not fulfilled, the resulting gaps threaten the welfare of citizens, the security of neighbors, and the stability of the international system.

A certain number of states have comprehensively failed, which the Commission defines as losing the battle on all three dimensions, usually resulting in conflict with a significant number of civilian casualties and the loss of government control over substantial segments of territory. A list of states that have failed over the last decade demonstrates how diverse the paths to failure can be: Afghanistan, Angola, Burundi, the Democratic Republic of the Congo, Haiti, Liberia, Sierra Leone, Somalia, and Sudan.

Weak states may be deficient in only one or two areas but still pose significant threats to US interests, as in the insurgent forces that control large swathes of Indonesia's territory or the illegitimate government that faces political and military opposition, as well as large-scale smuggling and criminality, in Myanmar/Burma. More broadly, international peace and security—and progress toward development—now depend, in part, on the capacity of governments in the developing world to defend their citizens, meet their basic needs, and build legitimacy in their eyes and those of the international community.

A government's performance may be weak in one or more of these areas because it lacks capacity, owing to historical, geographical, or economic constraints; it may lack the intent to develop institutions that favor broad economic and social progress, rather than enriching a narrow elite; or it may be recovering from failure and face the constant threat of slippage. These gaps are widespread: The Commission estimates that about 50 countries fall into this category, excluding well-armed hostile states such as North Korea.

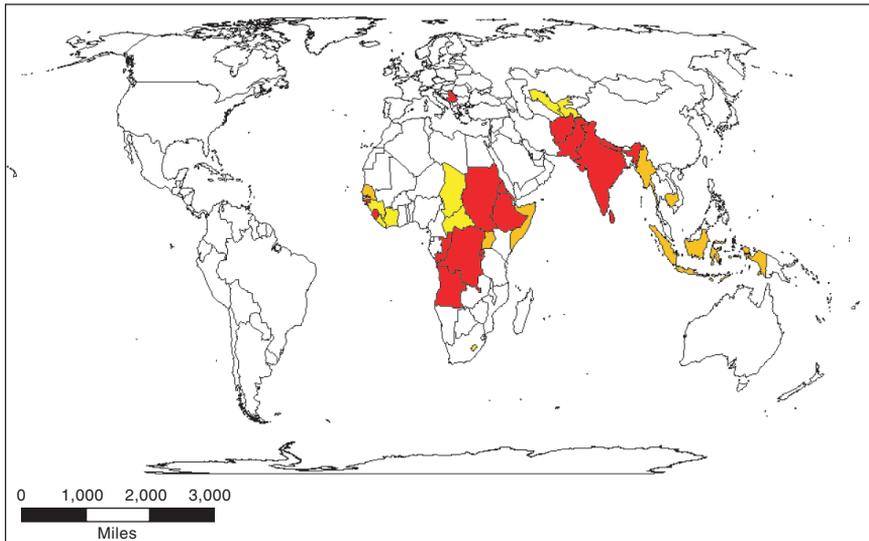
The maps in figures 1, 2, and 3 (and tables in appendix A) use proxy indicators for each broad capability (security, capacity, and legitimacy) to highlight the range of countries that are vulnerable—including some that are, by other measures, quite successful. This mapping is inexact, but it illustrates that threats to US interests may emerge not just from the poorest of the poor, such as Somalia and Haiti, but from countries that, a short time ago, seemed quite stable and prosperous, such as Côte d'Ivoire. For example, it may be surprising to see India highlighted under security gaps—but the number of casualties India has suffered in recent years from insurgencies, civil conflict, and terrorism underscores how spillovers from unstable neighbors can heighten challenges even for such a stable country.

**Security gap.** The state's most basic function is ensuring security—by maintaining a monopoly over the use of force, protecting against internal and external threats, and preserving effective sovereignty and order within its territory. When the state cannot fulfill this function, a gap emerges that other states, nonstate actors, and simple criminals may seek to fill with violent, hostile, or illicit acts.

Security gaps have been most evident in Africa. But recent and continuing instability in Haiti, Sri Lanka, Nepal, and Pakistan—and acts of terror in Indonesia and elsewhere in Asia—underline the fact that security gaps are not only an African problem.

**Capacity gap.** The state must play a central role in meeting the basic needs of its citizens, both by providing physical infrastructure such as roads, schools, and clinics and by investing in skills and structures that empower citizens and make progress possible. When governments are unwilling or unable to do this—or when their efforts reach only some

**Figure 1 The security gap**



Control of territory (*Proxy: Intensity of conflict*)

Major war       Intermediate war       Minor war

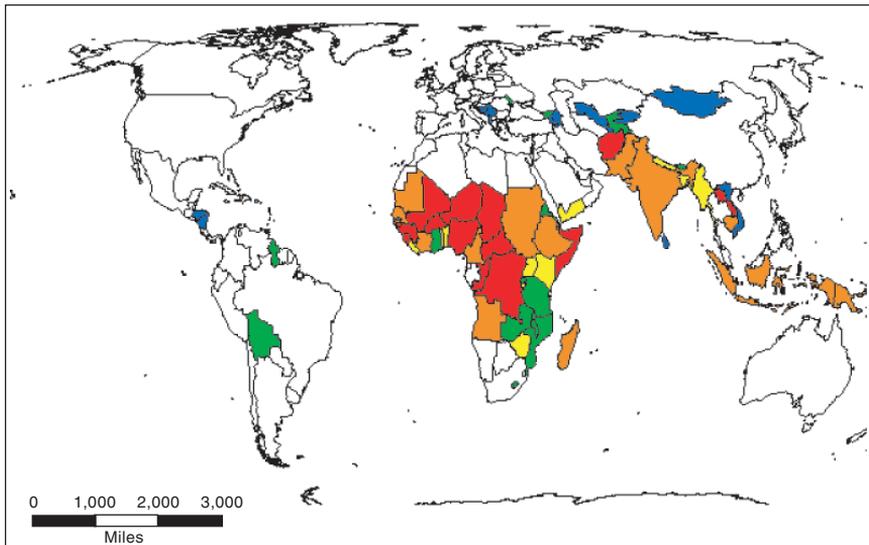
of their citizens—a gap in capacity results, creating the conditions for suffering, epidemics, humanitarian crisis, loss of public confidence, and potential political upheaval.

Meeting basic needs is difficult where conditions of security cannot be guaranteed. Many of the states facing security gaps also find themselves unable to provide education and health services. But capacity gaps may also follow from a shortage of resources, as in Cambodia and Mali, or from a government’s malfeasance in the face of overwhelming need, as in Angola, Haiti, and Laos.

**Legitimacy gap.** Finally, the state must foster legitimacy, maintaining institutions that protect basic rights and freedoms, hold individuals accountable for their actions, enforce laws and contracts equally, and enable broad-based citizen participation in the political process. US policy looks to the creation of democracy as the best guarantee of this legitimacy. But in democracies and nondemocracies alike, governments can lose their citizens’ confidence. This legitimacy gap provides an opening for political upheaval and crisis, as well as eases the conduct of corrupt policies that the public would oppose if given the opportunity to do so.

The legitimacy gap is perhaps the most controversial, as the notion of an international interest in clean and democratic governance continues to struggle against the primacy of national sovereignty; the pragmatic

**Figure 2 The capacity gap**



Delivery of basic services (*Proxy: Immunization rate*)



interest in not replacing a stable, autocratic government with an unstable or radical popular one; and the practical difficulty of influencing a Myanmar/Burma, Uzbekistan, or Zimbabwe. But the instability that is growing in and around these countries, and others like them, underlines why this challenge cannot be left aside.

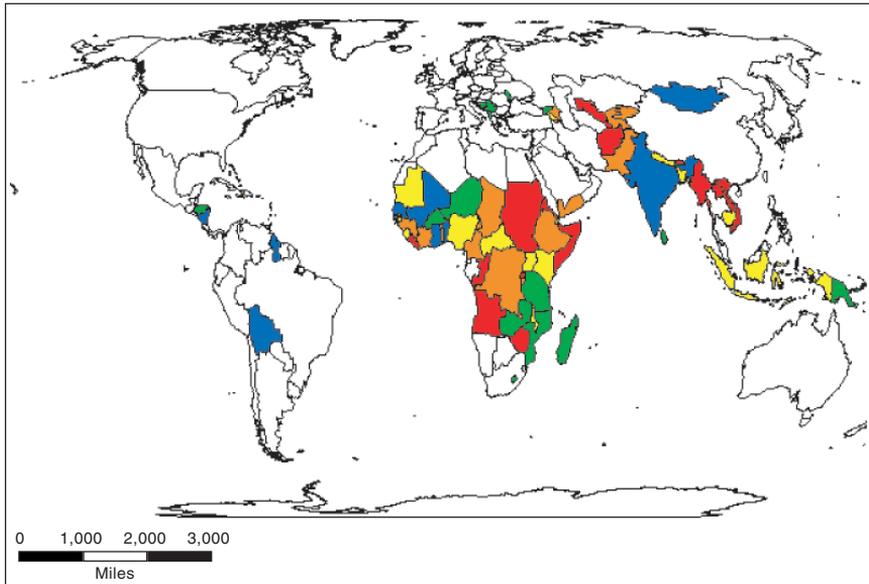
In some places, efforts to rectify these gaps have been launched, but reforms are not “sticking.” In other places, longstanding economic and historical factors have prevented progress. In still others, backsliding is taking place.

In the short term, the United States would be well served by improving our ability to understand these gaps and the distinct threats they create. In the long term, the only way of responding to them—and protecting our own interests in global stability and human progress—is by helping a broad range of low-income countries to build legitimate and capable state institutions that can manage uncertain times for their own citizens and the broader world community.

### **What Is Missing: A Strategy for Filling the Gaps**

The Bush administration has recognized that development is key to the success of American foreign policy and elevated it to the status of a

**Figure 3 The legitimacy gap**



Protecting democratic freedoms (Proxy: Index of political freedom)



third pillar, along with diplomacy and defense, of US national security. The administration has also committed to new and innovative programming methods for development funding through the Millennium Challenge Account (MCA) and the President's Emergency Plan for AIDS Relief (EPAR). If fully funded at the announced level, the MCA alone would represent a 50 percent increase in the US development assistance budget.

The MCA sets rigorous selection criteria for US development assistance, evaluating governments on their capacity for development and the legitimacy and functionality of their national institutions. Investment in the best performers, it is believed, will put US funds to use most effectively in the service of economic growth and political freedom—as well as encourage poorer performers to make the needed reforms in order to qualify for aid.

As sound as this strategy may be, the MCA ignores those weak and failed states which, by definition, lack the security, capacity, and legitimacy that these new programs demand. Yet they are the most prominent sources of poverty, disease, and disaster—and a key source of threats to US interests.

At the same time, a renewed global focus on development has coalesced around the Millennium Development Goals—a framework of eight

targets for measuring progress on development issues. The international community's approach to meeting these goals has focused very strongly on basic needs—provision of clean water, immunization, and so on. While these needs *are* crucial to development, they cannot be met and sustained over time without twinned investment in national institutions that allow countries to meet their own security, capacity, and legitimacy gaps. As that kind of investment falls out of priority in global and American thinking about development, the gaps the Commission has identified—and the resulting threat posed by weak and failed states—are likely to grow before they diminish.

If the traditional aid strategy offered money in hopes of improved performance, and the Bush administration's new MCA requires improved performance as a condition of aid, then the United States also needs a national security strategy that identifies dangerously poor performance as a priority and makes available the tools that can improve performance or blunt its negative effects.

The US foreign policy architecture was created for a world in which development policy was a long-term, low-level challenge, one in which development might serve diverse strategic purposes but was not in and of itself a strategic imperative for US security or economic interests. As a result, in this new environment the United States is ill-equipped for rapid action to recognize state weakness or failure, respond to its immediate consequences, and prioritize and finance the long-term interventions necessary to help prevent and mend it.

## Four Priorities

The Commission proposes four strategic priorities—and one critical caution—to guide progress.

- First, the United States must *invest in prevention*, by creating opportunities for broad-based growth, supporting effective government institutions and investing in police and military reform efforts in *both* good performers and weak states—with the long-term goal of supporting weak governments and their citizens as they close the capability gaps that threaten them and the world around them.
- Second, where US interests are threatened in the shorter term, the United States must build the capacity to *seize opportunities* for response to the triggers that signal imminent state failure, such as political transitions, postconflict situations, and economic or political crises. The United States and its international partners need rapid and flexible mechanisms to deliver meaningful short-term support in volatile environments.
- Third, the United States must above all get its own house in order by *organizing for success*. Tools and investments will be useless without government institutions renewed to meet the challenges of today and prepared to formulate comprehensive strategies, provide high-quality analysis, and build political will at the highest levels.
- Fourth, the United States should *leverage our investment* by ensuring that the burden of responding to weak and failed states is shared internationally, just as the consequences are shared. The United States cannot shoulder this project alone but should act to catalyze new investment and new priorities among our partners whose stake in avoiding state failure is at least as large as our own.

All of the investments and institutional changes we propose, though, must grow out of two fundamental commitments: first, the dedication of *political capital* to the development challenges of weak states, rather than waiting to face the security and other crises of failed states; and second, the establishment of *institutional power* and *coherence* that has eluded the development aspects of foreign policy for too long. Without these commitments, the policy reforms we propose will have disappointing results.

In short, what we need is a fresh US foreign policy for coping with weak and failed states. The need for a more coherent development policy is just one part of that foreign policy challenge. But it is the one that—because it is not pressing in the short run—is often short-changed in the long run. To ensure attention to the development challenges posed by weak states, this report includes a proposal for a single Cabinet-level voice for development—an agency that brings together all aspects of de-

velopment policy, reinvigorates civilian leadership, and focuses policy debates for maximal effectiveness and minimal waste at this crucial time. We highlight this recommendation here and discuss its advantages and problems later, because it is so difficult yet so central in spirit to the overall success of this strategy for US foreign policy in the developing world.

The remainder of this report puts forward the broad outlines of a set of policies that will best position the United States to develop a comprehensive strategy to strengthen weak states; implement that strategy rapidly, effectively, and coherently; and share its costs with other nations. (A detailed version of these recommendations, including technical specifications and discussion of relevant efforts already underway, can be found in appendix B.)

Finally, from our decades of collective experience in policymaking, implementation, and analysis, the Commission believes it is important to acknowledge the challenges inherent in such a policy. Weak and failed states represent the ultimate challenge for us and for their own citizens; if easy, clear solutions were available, they would already have been implemented. Instruments and approaches for engaging weak governments and achieving results will differ dramatically from case to case. Strategies will require new thinking and flexibility, a willingness to experiment, and that rare commodity, a willingness to fail. But innovative, faster-moving mechanisms for informing ourselves, responding, and preventing do exist—we must make it a priority to implement them.

## **The Way Forward: Investing in Prevention**

The long-term answer to the danger posed by weak and failed states is strategic US engagement to support reformers in building durable, legitimate, and transparent institutions of government. The United States must reform and reprioritize its foreign assistance programs, not just to focus on the best performers but also to address the capability gaps that plague too many countries in the developing world—nonperforming economies, weak and undemocratic governance, and poorly performing and illegitimate police forces and militaries.

*Task One: Promote opportunities for broad-based growth and poverty reduction through increased market access, more effective development assistance, wider and deeper debt relief, support for foreign direct investment, and new financial facilities to help developing-country governments protect themselves from external shocks.*

Low-income countries face a risk of internal conflict around 15 times that of OECD countries; helping them stabilize and diversify their economies,

so that they can empower themselves to fight poverty and meet popular expectations, must be an important facet of US efforts to reduce the risk of state failure.

The most important step the United States can take is to show leadership in expanding world trade to lift the economies of poor countries, beginning with leadership to revitalize the World Trade Organization's Doha Development Round of trade negotiations and establish a new framework for agricultural trade. Recognizing that the policies of the developed world have resulted in substantial distortions of production, consumption, and trade in agriculture, the new framework should establish a timetable for the total elimination of tariff barriers on agricultural products and the reduction and eventual elimination of export subsidies and other forms of trade-distorting domestic support.

On its own, the United States can demonstrate its commitment to making trade work for poor countries by extending duty-free and quota-free access to all imports from a broad range of countries, including heavily indebted poor countries (HIPC), least developed countries, sub-Saharan Africa, and, potentially, the national security priority states of Pakistan and Central Asia. With its support of the African Growth and Opportunity Act (AGOA), the administration has already demonstrated its willingness to keep the US market open to some of the poorest economies; the upcoming legislative effort to extend AGOA offers an opportunity to ease the requirements for these benefits and extend them to a broader range of countries.

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 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 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. 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 strategic concern, including Central and South Asia. The United States should also lead efforts to deepen debt relief, to ensure its effects are lasting, not just palliative.

The United States can encourage private investment and spark economic growth by reforming the Overseas Private Investment Corporation (OPIC) to reinforce OPIC's original mandate of promoting economic development. OPIC is the principal US government instrument that supports nonextractive foreign direct investment. But its authorizing legislation and internal practices prevent it from playing an active role in the industries most beneficial to the poorest countries—including labor-intensive manufacturing and assembly projects. Reforms would need to focus first and foremost on broadening the range of sectors in which OPIC can support US investors. Such reform efforts have previously met intense domestic opposition; they require a degree of political will commensurate with the benefits to our security of providing better futures for the unemployed young people of Pakistan, Indonesia, or Kenya.

The poorest countries are also particularly susceptible to exogenous shocks (commodity prices, foreign exchange, interest rates, and weather), which have potentially dramatic implications for the functioning of their governments and the potential for instability. The Treasury Department should make it a high priority to 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. Options range from reforming the traditional IMF-run contingency facility to creating new, flexible mechanisms including insurance products and World Bank-backed derivatives for developing-country governments.

*Task Two: Support legitimate and democratic institutions of government by prioritizing and targeting existing flows of democracy assistance, improving US sanctions policy, and addressing the debilitating links between extractive industries and corruption.*

The quality and transparency of national institutions is critical not only to closing capability gaps and fighting poverty but also to a government's legitimacy. The transition away from autocratic, repressive governance can itself be a trigger of instability. In the long run, though, societies that democratize successfully do better at maintaining legitimacy and providing basic services to their citizens—and even very poor societies are democratizing successfully.

The United States needs a comprehensive strategy for democracy promotion to make our efforts more effective globally, beyond the high-priority attention already given to the dictatorships and one-party states of the Islamic world. While substantial new resources have been pledged for Iraq, Afghanistan, and the Middle East, programs in Africa and Asia

are chronically underfunded. The size of the average democracy program in Africa is less than one-third the size of a comparable program in Latin America or the former Soviet Union. Currently, it is difficult to know even what the United States spends on democracy promotion—the administration should create a separate line item in the budget for it.

Democracy promotion is not an easy task, but the creation of legitimate and accountable institutions of government across the developing world is a fundamental antidote to the challenges that confront us. The United States should continue to develop and refine its expertise in helping countries build the machinery of government—executive, legislative, and judicial institutions that provide checks and balances on corruption and the accumulation of power.

At the same time, 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 support local nongovernmental organizations (NGOs).

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 global priorities and needs. A useful strategy will also acknowledge that democracy promotion is not always the foremost policy objective, and it will require more careful evaluation of the costs and benefits of continued support for repressive partners and allies.

In addition to “carrots” for reformers, the US government should be prepared to employ “sticks”—through a coherent and effective sanctions policy. Sanctions have been deployed to constrain autocratic leaders, as in Zimbabwe and Liberia; to send signals to the international community about the support particular governments provide to terrorists, as in Libya and Sudan; and to punish the repressive practices of regimes, including apartheid-era South Africa and Myanmar/Burma. But, too often, 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. Although political considerations will often limit the US government's willingness to put sanctions in place, substantial reforms could make our “sticks” more effective when they are deployed—by improving executive-legislative coordination, aligning imposed penalties with the stated policy objectives, and increasing our leverage to promote the imposition of multilateral sanctions.

Finally, US policy needs to address the powerful incentives and public-private linkages that allow illegitimate and corrupt authorities to retain power. One of these is the frequent misuse of revenues from extractive industries in the poorest countries, where corporate and government

authorities siphon funding meant for national budgets, decrease legitimacy, and provide the foundation for growing instability. Financing for extractive industry projects in the developing world comes from multiple public-sector sources including the multilateral and regional development banks, the Export-Import Bank (Ex-Im Bank), and OPIC. The NSC should broker an interagency agreement that outlines the basic principles of transparency and accountability in handling natural resource revenues that must be met by governments before the United States supports public-sector financing of extractive industry projects. The Treasury Department should have responsibility for monitoring implementation of the agreement.

The United States should also join the United Kingdom in leading efforts to push producer governments and multinational corporations to disclose their revenues from extractive projects in developing countries. The United States has been, up to this point, too reticent a player in the United Kingdom's Extractive Industry Transparency Initiative (EITI). The Treasury Department should move quickly to coordinate an interagency review of policy options, including a recommendation advanced by the "Publish What You Pay" campaign—that developed-country stock markets make full disclosure a requirement for listing.

*Task Three: Create effective US assistance programs to police and military forces to help governments develop the ability to secure their territories and protect their populations, by revisiting the excessively rigid regulatory framework for these assistance programs and improving their quality and coordination.*

The inability of many poor countries to effectively control and manage their territories makes them particularly susceptible to incursions by terrorist groups, illicit trafficking, crime, and the spread of disease. In the short term, the US agenda should be to help build infrastructure to fight terrorism and other illicit networks, in exchange for progress toward genuine accountability and civilian oversight of security forces. In the long term, the United States must revisit its own capabilities and regulatory framework in order to facilitate investments in security-sector reform that build the overall capacity of militaries and security services, while taking care to increase their legitimacy and accountability to the citizens they serve.

The United States should make substantial new investments in counterterrorism capacity across the developing world. The State Department coordinator for counterterrorism should lead an effort to identify the capability 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 \$100 million East African Counter-

terrorism Initiative, announced in 2003, is a start, but funds for an expanded global effort should not be cobbled together by raiding other accounts the way this initiative was organized.

The United States should also offer more targeted border control assistance that benefits the most vulnerable countries. Programs to strengthen border control are spread across the US government and only limited, fragmented assistance is provided to most low-income countries. The poorest—and weakest—countries are largely ignored, with the lion's share of funds focused on counternarcotics efforts in Latin America. 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 that merit priority attention from the US government.

These short-term approaches can help meet some American security concerns. But for the longer-term goal of building the security and capacity of weak states, the United States needs to improve its security-sector expertise and incorporate security-sector issues more fully into the 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 coordinate security-sector reform efforts with US democracy and governance programming, making work in this area a real partnership between the Department of Defense and US development professionals.

A permanent interagency coordinating mechanism should bring together all of the relevant actors (Departments of Defense, Justice, and State and a new development agency) to set programmatic and funding priorities and establish coordinated strategies on all facets of security assistance: military and police assistance, border security, and postconflict initiatives to disarm, demobilize and reintegrate armed forces.

Along with the development of in-house capacity and support for security-sector projects, the US government must work to reconfigure the set of statutory restrictions and internal precedents that constrain the provision of security-sector assistance. Many of these restrictions remain valuable, although they were initially developed in response to US engagement with corrupt police and military forces during the Cold War. In particular, the Commission fully supports language that severely limits US engagement with police and militaries that engage in consistent patterns of gross human rights violations.

But it is essential to recognize the ways in which these restrictions hinder our efforts to engage with military as well as police forces in situations of transition and reform. For example, USAID's narrow interpretation of authorizing legislation has essentially precluded it from any participation in the training of indigenous militaries. At the State Department, a narrow interpretation of the circumstances that would fit a

“postconflict” waiver has prevented both the State Department and USAID from engaging with internal security forces. The situation is so severe that the US government often finds itself unable to support disarmament, demobilization, and reintegration programs if any US funds will be used to meet the basic needs of ex-combatants. If security-sector reform is to be a part of the US government’s state-building agenda, these restrictions must be reconfigured.

## **The Way Forward: Seizing Opportunities**

Prevention should be an overriding goal of US policy but by itself does not guarantee our ability to respond rapidly and effectively in times of crisis, particularly where local leaders and citizens are trying to lead the way and can do so with timely help. Numerous transition moments provide opportunities to help weak states grow stronger or opportunities to arrest a slide toward failure. A promising but unstable transition from authoritarian rule, for example, may need immediate support to ensure that it continues in the right direction. A conflict on the horizon likewise ought to elicit immediate response, and when a conflict is ending, another set of quick actions is needed to steer toward a stable aftermath.

The Commission has identified the development of “surge capacities” in funding and technical assistance, the ability to promptly offer “peace and democracy dividends,” support for regional and UN peacekeeping, and reinvigorated US diplomacy as a means by which the United States can improve its rapid response capacity. In singling out these areas, the Commission had the following basic principles in mind: In times of crisis, a speedy response is of the essence; high-level buy-in within the US government is critical to give our responses staying power and effectiveness; flexibility is essential and much undervalued; and wherever possible, inducements should be timed and structured to correspond with progress and progressive thinking by reformist partners.

*Task One: Because time is of the essence, the US government needs surge capacities—expertise and resources that can flow immediately, unencumbered by bureaucratic inertia.*

The cornerstone should be a permanent country-in-transition fund of \$1 billion, with strict criteria for emergency use, which would be created without fiscal-year limitation and replenished annually based on expenditure. This fund could be modeled on the Emergency Refugee and Migration Assistance (ERMA) account, which does not require preprogramming, has notwithstanding authority, and is disbursed on the basis of a presidential determination. Due to the uncertain nature of contingency expenditures, the administration and Congress should agree to revisit

after two years the overall size of the appropriation and criteria for the fund's use in order to determine whether the fund needs to be modified based on its experience with allocations.

It 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. It has significant precedents in interagency funds recently established for this purpose by the governments of Norway and the United Kingdom, two of our major partners in responding to the needs of weak and failed states.

New resources by themselves are a necessary but not sufficient response to failed states; showing faster progress on the ground and harnessing diasporas with critical skills and resources for rebuilding their own societies will produce equally large gains.

The US government needs a rapid response unit staffed with technical experts trained to operate together and ready to deploy at short notice. It should bring together experts in diplomacy, the rule of law, governance, security-sector issues, and economic and financial reform. 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, should offer an institutional home to the store of US government expertise developed in this area, and should ensure that those responsible for delivering such assistance have a voice in interagency policy decisions. The administration should support the Stabilization and Reconstruction Civilian Management Act of 2004, which authorizes the creation of just such a rapid response corps, and ensure that these new capacities operate in sync with existing efforts across agencies in this area.

An additional way to ensure a surge of resources and expertise where needed is to make it easier for members of diaspora communities who have become US permanent residents to go home for an extended period. Currently, immigration restrictions preclude US permanent residents from returning home for an extended period because of time-in-class requirements for US citizenship. The administration should support Senator Joseph Biden's proposal, introduced in 2003, to allow legal immigrants to return home for up to 24 months without penalty and expand the eligible circumstances from postconflict only to include states transitioning away from dictatorship and authoritarian rule.

*Task Two: Because legitimacy gaps are a problem, US policymakers need the flexibility to offer immediate peace and democracy dividends—prompt, symbolic downpayments on longer-term goals, such as debt relief and market access, that help boost the legitimacy and prestige of struggling governments.*

Many of these instruments are unlikely to provide a short-term economic boost. Yet a government's ability to win these victories at the international level can go a long way in fostering legitimacy and building domestic support.

In addition to substantial pledges of new money, when appropriate, the Commission suggests three areas of focus:

**Market access.** For countries emerging from postconflict and postregime transitions, the US government can 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. 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 the usual creditworthiness standards that are employed for most of the developing world may not be met.

*Task Three: The United States has a strong interest in supporting the development of dependable regional peacekeeping capacities and providing political backing for regional operations when they are launched.*

Although the steps outlined in this report should make it less likely, some weak and failed states will still require armed outside intervention. US policy should explicitly plan for strong political and operational support for regional leadership in preventively deploying military forces, conducting peace enforcement operations, and directing peacekeeping

operations. This is the only alternative to the assumption that US forces are the peace enforcers of last resort.

The AU and ASEAN have indicated interest in establishing permanent rapid reaction forces, and the administration has recognized its stake in supporting improved peacekeeping capacity at least in Africa. Yet US commitments, up until now, have been wholly inadequate to the scale of the challenge. The \$15 million requested in fiscal 2005 for the African Contingency Training and Assistance (ACOTA) program is far short of what is required, although the recent proposal of a Global Peace Operations Initiative has the potential to substantially increase US spending on African capacity in particular. Combined with the European Union's recent pledge to support a new AU standing force, the administration's proposal is potentially an important step forward.

Unfortunately, no similar program exists for any other region. 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.

The United States finances 27 percent of all UN peacekeeping operations but has done too little to invest in developing new peacekeeping forces or activities that are not UN-mandated or funded via UN assessments. The Global Peace Operations Initiative has significant promise in this respect and is the first step in solidifying a US commitment to improving regional peacekeeping capacity. The challenge is to link our efforts to those launched by the Europeans and by developing countries themselves. NATO's Partnership for Peace program provides a highly effective model of how this can be done. Increased regional peace enforcement and peacekeeping capacity also must be complemented with a greater US willingness to provide strong political and logistical support for regional interventions. Nigeria, for example, should not be pushed into leading peace enforcement operations in West Africa without full and public international backing for its efforts.

*Task Four: At every stage of crisis response, the United States needs active and sustained diplomacy in key regions of instability, backed by increased crisis capacity at home.*

Active diplomacy has an important role to play in addressing the severe risks and consequences of state failure. Sometimes, as in Sudan, this means determined and focused multilateral efforts to mediate settlements and guarantee their implementation. In other cases, official and nonofficial initiatives can work together, linking the resources and knowledge of diverse programs in the interest of effective conflict management. Although every case of state weakness or failure is unique, they share a need for coordinated, purposeful external help in meeting the awesome challenges of political modernization and development.

Whether the challenge is easing a regime transition or supporting a peacekeeping operation, the United States needs stronger staffing in key regions and better crisis diplomacy capacity in each State Department regional bureau. US diplomats are strikingly absent from areas such as eastern DRC, northern Nigeria, and eastern Kenya where instability is increasing; from parts of Central Asia where Islamic fundamentalists are organizing; and from key regions of the Southeast Asian archipelagos in which separatism has taken hold. New US outposts could be smaller and more flexible than the heavy footprint of a traditional presence, but they are much needed.

Increased presence on the ground should be backed by a permanent crisis diplomacy capacity in the State Department. The United States should invest in developing its problem-solving and crisis resolution capacity by establishing a standing, core staff dedicated to mediation, negotiation, and crisis management. This staff could be centralized in a functional bureau or be deployed for time-delimited assignments to each regional bureau. By organizing State Department capacity in this area, this staff could provide the human capital and knowledge necessary to support active peacemaking and ensure regular check-in with embassies, complemented by outside experts when needed.

Finally, the State Department should create powerful internal incentives to attract the best personnel to work in these challenging environments and improve training for personnel in state-building, development, capacity building, and crisis response. The United States needs its most skilled diplomats on the frontlines to meet the political challenges in weak and failed states.

## **The Way Forward: Organizing for Success**

Weak and failed states pose a 21st century threat, born of globalization and the fluidity of borders, guns, money, drugs, weapons, people, and technology that it has brought. Yet the US government institutions charged with meeting this threat are relics of the mid-20th century, built around ideas of hierarchy and separation and a set of stable, unchanging threats that simply no longer apply. US government institutions for developing comprehensive strategies, monitoring and responding to crises, and tracking emerging threats must be revamped.

*Task One: Establish an integrated development strategy and implement it within a single, Cabinet-level development agency.*

The United States needs an institutional architecture supportive of the renewed, focused investment in prevention that is at the core of this strategy.

The influence of US development programming, both on the ground and in shaping the priorities of the larger donor community, has waned in recent years for two reasons. First, though the United States remains one of the single largest donors in absolute terms, it is among the least generous of all donors in its public spending on development assistance as a proportion of the economy. Increasingly, it is Europe that dominates the policy agenda.

Second, development programs are now widely dispersed among more than a dozen federal agencies, and our principal development agency, USAID, is the unintended victim of a long list of implicit and explicit Congressional mandates and earmarks that keep money from flowing where it is most needed. The Hart-Rudman Commission on US National Security in the 21st Century put the weakness of the existing architecture into sharp relief: “Responsibility today for crisis prevention and response is dispersed in multiple USAID and State bureaus, and among State’s Under Secretaries and the AID Administrator. In practice, therefore, *no one is in charge.*” The result: US aid programs are more expensive, less effective, and less influential than they ought to be.

A new architecture must give development issues a single, strong voice at the Cabinet level; better coordinate the multiple agencies and entities that deliver foreign assistance; play a role in development *and* trade policy; establish a single, unified budget for development; and integrate strategies for countries and regions. Development policy is an increasingly important tool—it is more than just writing a check—and the United States needs to invest in developing the expertise and capacity to wield it effectively.

For all these reasons, the Commission proposes that the administration establish an integrated development strategy and implement it within a single, Cabinet-level development agency.

The new Cabinet department would not entail an expansion in bureaucracy but incorporate USAID, the Millennium Challenge Corporation, 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 ultimately should move from Treasury to the new development agency as well, 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. These significant changes would need to be codified in a new Foreign Assistance Act written to replace the outdated authorizing legislation that currently governs US development activities.

Foreign assistance is only one of the many policy tools that the United States can use to build legitimate and capable states in the developing world. For a strategy rooted in prevention to be effective, all of these tools must be used strategically. Moving toward a new agency with a clear mandate and an integrated budget is the best strategy for managing US foreign assistance, giving it the high-level political mandate it requires, and integrating development concerns into debates about trade policy, security, and diplomacy. But a new development agency, on its own, cannot reverse decades of neglect of US civilian capacity nor overcome the significant challenges to an integrated foreign policy that exist. Attention must be paid to the reinvigoration of the State Department as well.

The Commission recognizes that this recommendation may be met with skepticism. We considered a series of alternative proposals that could have been more easily and quickly implemented. But none would effectively address the fundamental deficits of political capital, institutional power, and coherence that plague the development aspects of US foreign policy toward weak and failed states. A majority of Commissioners agreed that it is time to put this recommendation on the agenda.<sup>1</sup> At the least, this shifts the burden to those who would resist of recommending reasonable alternatives that would generate the high-level attention, expertise, and resources needed to ensure that development challenges do not continue to undermine our security.

*Task Two: Create an NSC directorate to reflect the high priority assigned to weak and failed states.*

A new Cabinet agency will need a set of allies at the White House—attuned to the security challenges of the developing world, supportive of the need for preventive action, and able to monitor and mobilize action in response to the short-term crises that will inevitably emerge. Two changes to US foreign policy structures should be implemented to make sure that the threats and opportunities posed by weak and failed states are adequately considered in high-level policymaking.

The National Security Advisor should create a NSC directorate with responsibility for tracking weak and failed states and monitoring US responses. This new directorate would play an especially crucial role at the early stages of rapid response and in monitoring implementation of the US response, while the appropriate regional NSC directorate would hold the reins in crafting country strategy.

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1. Several members of the Commission demurred, expressing concern that this recommendation would detract from the substance of the overall argument of the report and would lead to endless debates about bureaucratic politics, organization charts, and the functions, not currently in USAID, that should be moved to a new development agency. Concerns were raised, in particular, about possible reduced State and Treasury roles.

A formal Policy Coordination Committee (PCC) on Weak and Failed States—bringing together key players in the interagency process—should also be established and given 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.

*Task Three: Build an effective information strategy, anchored in the intelligence community, which devotes resources to identifying and monitoring key weak and failed states and gets that analysis into the right hands.*

After a decade in which intelligence coverage in the developing world has been allowed to atrophy, there is now an enormous gap between what the intelligence community knows about developments in weak and failed states and what is known by experts in other government agencies, conflict-monitoring organizations, and the academic community. Bridging this divide, and better integrating multiple sources of information, must be at the heart of an effective information strategy.

This strategy will need to mobilize the resources and energies of the intelligence community to a threat that has received too little attention; to create more formal avenues of consultation with key outside experts whose open-source, on-the-ground information offers valuable insights into the dynamics in these environments; and to make US analysis available to key players inside and outside of the US government tasked with preventing and responding to crises.

An interagency process overseen by the NSC should consolidate early warning mechanisms across agencies; present a plan for prioritizing targets and funding improved capacity; and develop a strategy for improving on-the-ground collection in targeted states, including increased human intelligence as well as electronic surveillance capacities.

But much important information on the risks and pace of state failure is also available from development professionals at USAID and elsewhere, as well as outside experts who are active in key countries and focus on the threats of governmental crisis and conflict. The US government should develop a formal mechanism for channeling these open-source perspectives into its analyses and for using outside experts to test its conclusions. 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.

Similarly, first responders inside the US government—those first on the ground in crisis environments—should gain access to intelligence products. When development professionals—often working through Disaster Assistance Response Teams (DART) and the Office of Transition Initiatives (OTI)—are first responders, they should not be excluded from the

classified information channels that are shaping policy at home. Increased intelligence sharing with US allies, taking advantage of new processes such as the British quarterly “horizon-scanning” process that will produce regular watch lists of weak and failed states for discussion at the highest levels, should be helpful not just in improving our analyses but also in forming the basis for shared actions.

## **The Way Forward: Leveraging Our Investment**

The United States cannot take on this challenge in a vacuum. The collapse of states in the developing world poses critical challenges, for developing nations themselves, who bear primary responsibility for taking the initiative to strengthen their institutions of governance; for their neighbors and regional powers, who bear the immediate consequences most heavily; and for the major global powers, who carry the largest global responsibility for promoting both security and economic growth.

The United States is not alone in preferring the control and recognition of its own national programs; there is absolutely no dispute, however, that integrated approaches are more effective for the recipients and more efficient for recipients and donors alike. US efforts to involve others in elaborating and implementing a new strategy for weak and failed states, then, can make more resources available—and make our own resources more effective.

Globally, differing resource levels, concerns about state sovereignty, and some reluctance to see the viability of particular authoritarian states threatened will slow efforts to produce broad action on the agenda we have outlined. For that reason, as the United States seeks partners to join in providing the resources, leverage, analysis, and expertise necessary to move this agenda forward, it will do well to start with the major industrialized countries—and we propose that the best venue for that is the Group of Eight (G-8) leading industrial nations.

Substantive action to meet these challenges will also require the active engagement of governments in the major emerging markets and developing countries more broadly. The G-8 must find ways to engage the major regional powers in Latin America, Africa, and Asia, through the Group of 20 (G-20) and regional organizations, in responding to the threat posed by weak and failed states. International institutions will also be critical players, and many are already leading the charge in prioritizing prevention and increasing readiness for the challenges of quick and sustained action in the aftermath of transition and conflict. Common approaches must be fashioned to support and improve the capacities of these key international actors.

*Task One: Use the G-8 to mobilize attention, develop common strategies, and tackle the challenges that can be handled only multilaterally.*

The G-8 has a recent history of coordinating policies on relevant global issues from debt relief to conflict resolution in Kosovo. Its members have found themselves to be the leaders in responding to state failure and instability, from Haiti and Afghanistan (the United States), to Côte d'Ivoire and the Democratic Republic of the Congo (France), to Sierra Leone (the United Kingdom), Albania (Italy), and Cambodia (Japan). In recent years, G-8 sessions have delved into many issues related to conflict, poverty, and development.

As host of the 2004 meeting, the United States should ensure passage of a G-8 declaration highlighting the security threats posed by weak and failed states, obtain the commitment of all G-8 members to inventory their capacities in crisis prevention and response, and commit to working through the G-8 to meet the challenge. The G-8 can thus take the lead in responding to global calls for leading nations to develop comparative advantage in one of the many areas of crisis prevention and response.

The United Kingdom, as host of the 2005 meeting, should follow up this progress by creating a permanent G-8 mechanism to focus on early warning and rapid response, monitor situations in priority countries, and provide a forum for its members to allocate responsibilities and devise shared strategies for response.

The G-8 countries should make it a high priority to give developing countries real tools to build capacity and prevent conflict themselves, by seeing that the WTO Doha Round is completed successfully and meeting prior commitments on market access, higher aid flows, and deeper debt relief. This political commitment should also carry over to concerted efforts at democracy promotion and security-sector reform.

The G-8 should lead in addressing international factors that exacerbate the weakness of governments, such as the illicit flow of small arms that fuels internal conflict in Africa, Central Asia, and elsewhere. With US leadership, the G-8 could make the difference in efforts to develop a new international regime governing small arms transfers to prevent further destabilization of already weak states. G-8 leadership could also be critical to bringing to life a number of recommendations made elsewhere in this document—from lifting trade restrictions, combating the corruption wrought by extractive industries, to helping governments insure against commodity price shocks—increasing exponentially the impact of better-organized, targeted, and timed US policies.

*Task Two: Engage major developing-country governments, through the G-20 and regional organizations, in designing and carrying out new strategies.*

The lessons of past efforts to encourage reform in much of the developing world are clear. Where regional leaders take ownership and drive the reform agenda, the response from the international community is substantial. Without local buy-in, however, grandiose reform efforts are

doomed at the start. The contrasting international response to the locally owned New Partnership for Africa's Development (NEPAD)—which elicited a significant G-8 response—and the Bush administration's new Greater Middle East Initiative, which has been unable to secure support from the Arab League and is likely to encounter opposition at the G-8 as well, is instructive in this respect.

Key developing-country governments are showing new leadership in international policy debates. 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. Under its current configuration, however, the G-20 brings together only finance ministers, rather than heads of state, which seriously limits the scope of its activities. 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 the world's weak and failed states.

The immediate burden of conflict and instability tends to fall more heavily on smaller regional powers than it does on the industrialized countries of the global North and the key emerging markets. Leading states in regions of instability, including Colombia, Malaysia, Nigeria, and Pakistan, must also be active players in global efforts to prioritize prevention and coordinate quick and sustained responses to state failure. The G-20 plus, which announced its existence at the Cancún meeting of the Doha Round, and regional organizations, which have begun to play a role in political as well as economic issues, must also be included in this process of dialogue and consultation.

*Task Three: Offer common approaches to support and improve the capacities of international institutions, including the United Nations and the World Bank, to meet these challenges.*

With its G-8 partners, the United States must commit to supporting the efforts of UN agencies and the World Bank which already are taking the lead in addressing the threats posed by weak and failed states.

The United States should support the efforts of the United Nations 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 postconflict situations. UNDP has expressed strong interest in developing a permanent crisis response capacity; the United States could support it in developing a standing cadre of experts to provide expedited technical assistance to countries in transition on legal, constitutional, and security-sector reform issues, among others. They would complement and expand bilateral efforts such as what the United Kingdom

is already doing and what this Commission has proposed that the United States undertake. These experts would form the civilian counterpart to international military forces deployed to crisis situations, which are currently forced to assume civilian tasks for which they are neither equipped nor trained.

The United States should also endorse the World Bank's efforts to develop tailored strategies for "low-income countries under stress"—those most at risk for conflict. The World Bank has already made great strides in providing rapid financial assistance to countries in transition through its innovative Post-Conflict Fund (PCF) and now through its new Trust Fund for Low-Income Countries Under Stress (LICUS). The United States should support actively efforts to make the LICUS Trust Fund a significant instrument for engaging states with significant capability gaps by increasing the resources available to it and by using its influence to leverage contributions from others. The United States should also commit to actively participating in the OECD's working group of donor countries focused on how best to engage "difficult" partners, including weak and failed states.

In addition, because the multilateral institutions are already engaged in a multiyear campaign to help the poorest countries meet the Millennium Development Goals, the United States should challenge the international financial institutions and the United Nations to engage more directly in the issue of weak and nonexistent state capacity in their high-profile efforts to reduce global poverty and meet basic human needs.

## **Conclusion**

Globalization has raised the stakes for poor countries in their efforts to join the economic mainstream, provide acceptable levels of security, and institute effective forms of governance. But it has also raised the stakes for us when they fail. When capability gaps undermine or destroy the ability of states to provide security, meet basic needs, and govern legitimately, the consequences spill beyond their borders to affect our security, limit the global prospects for economic growth, and affront the basic moral commitments we share.

Terrorist groups with global reach exploit weaknesses in the international system as they seek out new bases for their operations. Drug traffickers, arms dealers, and others who trade in illicit goods take advantage of the porous borders that weak governments are unable to patrol. Civil conflict emerges as armed challengers exploit the grievances of the population and the weaknesses of the government to carve out new political arrangements that often impede, rather than promote, the advance of democracy and freedom. Famine and disease spread unchecked where governments have collapsed or withdrawn.

Because of our national interests and global stature, the United States will be called to lead in responding to weak and failed states. But we can choose how we respond—and improve our prospects for success. We can choose to recognize the threat of weak and failed states, reorganize now and act strategically to head off crises, lay the long-term foundations for states to effectively govern themselves, and enlist others in bearing the costs and the risks. Or we can wait, continuing to pay the costs in chaos, poverty, and human lives—ultimately putting our own security at greater risk.

The Commission's strategy is designed to improve US government capacities, and strengthen international resolve, to act early and preventively. It does not offer a silver bullet. The challenges of promoting economic growth, building legitimate government institutions, and developing effective police and military institutions are far too complex for a simple response.

The United States need not acquiesce in a future where our own security is threatened by the weakness of others. Instead, by setting in place a greater capacity to anticipate and respond to future crises in the developing world, and embracing a deeper commitment to address the underlying causes of state deterioration, the US government can move to shape, with our partners in the developed and developing world, a future of stronger, legitimate governance.

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## Commission Members

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# Appendix A

## Capability Gaps

### a. The Security Gap

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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		

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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](http://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
Honduras	Guyana	Comoros	Ethiopia	(Brazzaville)
Kyrgyzstan	Kiribati	Kenya	Haiti	Congo
Mongolia	Lesotho	Liberia	India	(Kinshasa)
Nicaragua	Malawi	Nepal	Indonesia	Guinea
Serbia and Montenegro	Moldova	São Tomé and Príncipe	Madagascar	Guinea-Bissau
Sri Lanka	Mozambique	Solomon Islands	Mauritania	Laos
Uzbekistan	Rwanda	Togo	Pakistan	Mali
Vanuatu	Tajikistan	Uganda	Papau New Guinea	Niger
Vietnam	Tanzania	Yemen	Senegal	Nigeria
	Zambia	Zimbabwe	Sudan	Sierra Leone
				Somalia

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
São 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-Lobaton 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.

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## 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.<sup>1</sup> 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).<sup>2</sup>

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.<sup>3</sup> 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.<sup>4</sup> 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.<sup>5</sup> 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.<sup>6</sup>

- **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.<sup>7</sup>

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,<sup>8</sup> 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.<sup>9</sup> 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.<sup>10</sup>

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.<sup>11</sup>

- **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.<sup>12</sup>

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 rev-

enue 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.<sup>13</sup>

## **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.<sup>14</sup> 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.**<sup>15</sup> 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.<sup>16</sup> 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 state-building 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.<sup>17</sup> 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.<sup>18</sup> 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.<sup>19</sup> 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.<sup>20</sup>

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.**<sup>21</sup> 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.<sup>22</sup> 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."<sup>23</sup> 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.<sup>24</sup> 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.<sup>25</sup> 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.<sup>26</sup>
- **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.<sup>27</sup> 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),<sup>28</sup> 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.<sup>29</sup>

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.**<sup>30</sup> 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.<sup>31</sup> 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.<sup>32</sup> 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.<sup>33</sup> 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.<sup>34</sup>

### **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.<sup>35</sup> 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.<sup>36</sup> 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.<sup>37</sup>

## 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). “[I]f 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](http://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](http://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](http://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 21<sup>st</sup> 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](http://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](http://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 counterterrorism 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](http://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/www3603.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](http://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=fs1949is.txt.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108_cong_bills&docid=fs1949is.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](http://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 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](http://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/cfm/CCP/view/en/index.cfm?articleid=83929&](http://www.news.gc.ca/cfm/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.