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### **Reconstruction, the Long-Tail, and Decentralization**

Robert M. McNab and Edward Mason

In this paper, we examine the current state of knowledge in the economics literature on the conduct of reconstruction activities in Iraq and Afghanistan. As stabilization and reconstruction missions grow in importance for units deployed to these regions, it becomes more important to understand what activities can promote economic growth at the local level. While military operations focus on interdicting the insurgency, successful counter-insurgency campaigns have typically addressed the conditions conducive to the insurgency. Mitigating the incentives for individuals to participate in an insurgency is imperative. Well-crafted and timed reconstruction activities can, we argue, attenuate these incentives.

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## **Reconstruction, the Long-Tail, and Decentralization**

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October 2006

### **Abstract**

In this paper, we examine the current state of knowledge in the economics literature on the conduct of reconstruction activities in Iraq and Afghanistan. As stabilization and reconstruction missions grow in importance for units deployed to these regions, it becomes more important to understand what activities can promote economic growth at the local level. While military operations focus on interdicting the insurgency, successful counter-insurgency campaigns have typically addressed the conditions conducive to the insurgency. Mitigating the incentives for individuals to participate in an insurgency is imperative. Well-crafted and timed reconstruction activities can, we argue, attenuate these incentives.

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## Introduction

Given the continued engagement of United States Armed Forces in Afghanistan and Iraq, an ongoing question is what impact these forces can have on the reconstruction and economic development of these countries. Stabilization and reconstruction operations are imperative to increase employment, income, public revenues, and to attract investment in deteriorated and destroyed infrastructure. More importantly, from a security perspective, reconstruction and economic development mitigate the flow of personnel and resources to the ongoing insurgencies in these countries. It is important, therefore, to ask not only how reconstruction assistance promotes economic growth, but also **how** reconstruction should proceed in the post-conflict environment.

In this paper, we examine the current state of knowledge in the economics literature on the conduct of reconstruction activities in Iraq and Afghanistan. As stabilization and reconstruction missions grow in importance for units deployed to these regions, it becomes more important to understand what activities can promote economic growth at the local level. While military operations focus on interdicting the insurgency, successful counter-insurgency campaigns have typically addressed the conditions conducive to the insurgency.<sup>1</sup> Mitigating the incentives for individuals to participate in an insurgency is an important component of stabilization operations. Well-crafted and timed reconstruction activities can, we argue, attenuate these incentives.

The remainder of this paper is structured as follows. In the following section, we attempt to establish a common definition of stabilization and reconstruction operations. In the third section, we examine the timing and measurement of stabilization and

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<sup>1</sup> See, among others, Nagl, John. (2005). *Learning to Eat Soup with a Knife*. Chicago: University of Chicago Press and Deady, Timothy. (2005). "Lessons from a Successful Counterinsurgency: The Philippines: 1899-1902." *Parameters* 35 (Spring), 57.

reconstruction operations. We then present our theory of the long tail of stabilization and reconstruction operations. In the fifth section, we discuss the role of economics in counterinsurgency operations. The last section concludes and offers policy advice.

### **What Are Stabilization and Reconstruction Operations?**

How should stabilization and reconstruction operations proceed and how should we measure progress? US Army doctrine states that *stability operations* promote and protect US national interests by influencing the operational environment through a combination of peacetime developmental, cooperative activities and coercive actions in response to crisis.<sup>2</sup> Stability operations include peace operations, foreign internal defense, security assistance, humanitarian and civic assistance, combating terrorism, shows of force, and counter-insurgency operations. *Support operations* prevent or mitigate the effects of natural or man-made disasters and encompass improving human services, civil administration, communications and information, transportation and distribution, energy and commerce. *Stabilization and reconstruction operations* (SARO) are the complementary application of stability and support operations in support of US national interests in external states.

SAROs are broader in scope than peacekeeping or peace enforcement operations. The term ‘peacekeeping’ originated in the 1950s to describe operations limited to the separation of former combatants.<sup>3</sup> Peacekeeping operations grew in scope to include a swath of activities, ranging from electoral monitoring to monitoring and enforcing cease-fires. In the early 1990s, ‘peace enforcement’ entered usage to describe operations in

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<sup>2</sup> US Department of the Army. (2003). *Stability and Support Operations*, Field Manual 3-07. Washington: Department of the Army. Available at: [www.dtic.mil/doctrine/jel/service\\_pubs/fm3\\_07.pdf](http://www.dtic.mil/doctrine/jel/service_pubs/fm3_07.pdf).

<sup>3</sup> For a survey of peacekeeping operations, see Fetherston, A.B. (1994). *Towards a Theory of United Nations Peacekeeping*. (Peace Research Center, Australia National University. Canberra: Australia).

unstable environments with more robust Rules of Engagement (ROEs). Sovereign and non-state actors undertook peacekeeping and peace enforcement operations, often with vague and conflicting mandates. More recently, with the explicit displeasure voiced for peacekeeping and ‘nation-building’ operations in the United States, these activities are now encompassed by terms including ‘stability and support operations’ and ‘stabilization and reconstruction operations.’<sup>4</sup>

For the purposes of this paper we must clearly delineate between stability and support operations (SASO), stabilization and reconstruction operations (SARO), and peacekeeping and peace enforcement operations (PKO and PEO). PKOs typically occur when there is a negotiated agreement between former belligerents and focus on maintaining and fostering stability in a post-conflict environment.<sup>5</sup> PEOs, as with PKOs, also occur in the presence of a negotiated agreement, though force may be applied to separate combatants and enforce the terms of the agreement.<sup>6</sup> Actions may include the application of force upon one of the combatants to compel them to accept the provisions of a negotiated agreement, or in the case of Kosovo, to negotiate an agreement. SASO focuses on providing essential supplies to designated groups and applying military force to influence the political and civil environment and may encompass PKOs and PEOs.<sup>7</sup>

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<sup>4</sup> Congressional Research Service (2005). Peacekeeping and Related Stability Operations: Issues of U.S. Military Involvement. CRS Report IB 94040.

<sup>5</sup> See Army Field Manual 100-5 *Operations* (Washington D.C.: Headquarters Department of the Army, June 1993; [http://www.dtic.mil/doctrine/jel/service\\_pubs/fm100\\_5.pdf](http://www.dtic.mil/doctrine/jel/service_pubs/fm100_5.pdf)); and Peace Keeping Best Practices Unit, *Handbook on United Nations Multidimensional Peacekeeping Operations* (New York: United Nations, December 2003; <http://pbpu.unlb.org/pbpu/library/Handbook%20on%20UN%20PKOs.pdf>).

<sup>6</sup> Demurenko, Andrei and Nikitin, Alexander. (1997). Basic Terminology and Concepts in International Peacekeeping Operations: An Analytical Review. Foreign Military Studies Office, Ft. Leavenworth, KS. Available at: <http://fmso.leavenworth.army.mil/documents/pkterms.htm>

<sup>7</sup> United States Army. 2001. U.S. Army Field Manual 3-0 *Operations*. Available at: [www.dtic.mil/doctrine/jel/service\\_pubs/fm3\\_0a.pdf](http://www.dtic.mil/doctrine/jel/service_pubs/fm3_0a.pdf).

Unlike PKOs, PEOs, and SASOs, SAROs (sometimes referred to as ‘nation building’ or ‘stability operations’) include activities conducted by military and other governmental institutions to establish and support a foreign government’s ability to assure the rule of law, internal security, basic public services, and border security.<sup>8</sup> Stabilization and reconstruction efforts are typically broader in scope, effort, duration, and cost. As opposed to the operations discussed above, SAROs focus on the development of institutional capacity to foster cooperation and legitimacy of the emerging government. In Afghanistan, for example, the Sector Security Reform employed five pillars: Afghan National Army (US), Counter-Narcotics (United Kingdom), Disarmament, Demobilization, and Reintegration (Japan), Judiciary (Italy), and Law Enforcement (Germany).<sup>9</sup> These actions mirror the four pillars of reconstruction: security, justice and reconciliation, social and economic development, and governance and participation.<sup>10</sup>

### **The Timing and Measurement of Stabilization and Reconstruction Operations**

*The Timing of Reconstruction:* Whether reconstruction should take place during military operations or only after the cessation of hostilities remains a matter of debate in the literature. The interdependency of the four pillars of reconstruction suggests to some

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<sup>8</sup> Kearly, Phil. (2004). Stability Operations Concepts and Capabilities Emerging From JFCOM/Joint Experimentation. Available at:

[www.act.nato.int/organization/transformation/cde04presentations/4novstabilityopsbo/kearly.pdf](http://www.act.nato.int/organization/transformation/cde04presentations/4novstabilityopsbo/kearly.pdf)

<sup>9</sup> Metz, Steven and Millen, Raymond., “Intervention, Stabilization, and Transformation Operations: The Role of Landpower in the New Strategic Environment.” Available at: <http://carlisle-www.army.mil/USAWC/Parameters/05spring/metz.pdf>.

<sup>10</sup> World Bank, *Post-Conflict Reconstruction: The Role of the World Bank* (Washington D.C.: World Bank, 1998); and, Bush, "National Strategy for Victory in Iraq." Also see Scott Feil, "Building Better Foundations: Security in Postconflict Reconstruction," *The Washington Quarterly* 25.4 (Washington D.C.: 2002); John J. Hamre and Gordon R. Sullivan, "Toward Postconflict Reconstruction," *The Washington Quarterly* 25.4 (Washington D.C.: 2002).

that reconstruction should address each area simultaneously.<sup>11</sup> If reconstruction fails to simultaneously address political and institutional instability, ensure internal security, and address economic and social conditions, then, as this argument goes, the likelihood of failure is significant.<sup>12</sup> Whether these strategies can be carried out simultaneously in an environment characterized by insecurity is of concern. Operationally, tasking military units primarily concerned with security to instill democratic institutions and rehabilitate infrastructure may result in a dilution of combat power. Financially, resource limitations may limit the breadth and depth of reconstruction, resulting in the appearance of operating institutions rather than the emergence of capable institutions.

If operational or financial conditions inhibit simultaneous action on the four pillars of reconstruction, what should come first? Again, experience and the literature fail to yield a consensus. Some argue that socio-economic reconstruction must be an integral part of immediate post-conflict operations.<sup>13</sup> Investment at the community level (rather than large, national scale reconstruction projects) may improve the likelihood of success and sustainability by fostering a sense of local ownership. Smaller, and consequently more numerous, projects at the local level may present tangible results to communities that would be otherwise ignored by more traditional, resource intensive reconstruction projects. Operational units may be ideally placed to deliver these smaller

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<sup>11</sup> See Feil, Hamre and Sullivan; Gareth Evans, "Rebuilding Societies in Crisis: Before and After War," *International Crisis Group* (8 October 2003; <http://www.crisisgroup.org/home/index.cfm?id=2314&l=1>); as well as Nat J. Colletta "Conflict Prevention and Post-Conflict Reconstruction: Perspectives and Prospects," *World Bank Post-Conflict Unit* (Paris, France: World Bank, August 1998; <http://www-unix.oit.umass.edu/%7Eeduc870/PostConflict/resources/Colleta-PostConflict-Rcnstrctn-98.pdf>). Also see Michael E. O'Hanlon and Nina Kamp, which note that the World Bank approved its first loan in Iraq in over thirty years in November 2005, more than two and a half years after combat operations began.

<sup>12</sup> Anthony H. Cordesman, *The War After the War* (Washington D.C.: Center for Strategic and International Studies, 2004).

<sup>13</sup> Johanna M. Forman, "Achieving Socioeconomic Well-Being in Postconflict Settings," *The Washington Quarterly* 25.4 (Washington D.C.: 2002);

scale projects that may also provide positive externalities in terms of developing local institutions and providing actionable intelligence. Yet, such delegation of responsibility would appear to run counter to the centralized nature of reconstruction efforts in Iraq and Afghanistan.

While immediate investment may be appealing in the post-conflict environment, it may not be the most efficient and effective means of facilitating reconstruction. Post-conflict states typically lack the ability to absorb reconstruction aid due to a lack of institutional capacity and endemic corruption. Only after three years, on average, does the ability to absorb aid increase.<sup>14</sup> The large influx of reconstruction aid in the immediate aftermath of conflict may also negatively impact the development of local markets. Financial and physical aid can complement or substitute for local institutions, thus commanders need to be aware of the need to coordinate their activities with the emergence of local institutions. Large inflows of international aid, however, can distort local labor markets in the post-conflict environment, leading to an outflow of already scarce labor from the public sector to international governmental (IGO) and non-governmental (NGO) organizations. The introduction of peacekeepers to the UN Transitional Authority in Cambodia (UNTAC), for example, led to an increase in the price of rice, fish, meat and housing and the devaluation of the local currency by 70 percent.<sup>15</sup> In Afghanistan, a key pillar of public sector reform is to provide central government departments with the ability to appoint key personnel at higher than normal

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<sup>14</sup> Paul Collier and Anke Hoeffler, "Aid, Policy, and Growth in Post-Conflict Societies," *The World Bank* (Washington D.C.: World Bank, October 2002). Also see Robert P. Beschel Jr., "Rebuilding the Civil Service in a Post-Conflict Setting: Key Issues and Lessons of Experience," *World Bank Conflict Prevention and Reconstruction Unit* (March 2002; <http://siteresources.worldbank.org/INTTIMORLESTE/Resources/Rebuilding%2BCivil%2BService.pdf>).

<sup>15</sup> Michael Bhatia (2005). *Postconflict Profit: The Political Economy of Intervention, Global Governance*, Vol. 11.

pay scales for a fixed term due to the distortions created by IGOs and NGOs.<sup>16</sup> These arguments suggest that in the aftermath of conflict, social rehabilitation may yield higher returns than economic reconstruction.

Given that conflict invariably creates myopia and distrust of public institutions, reconstruction efforts, in the short-term, should focus on improving local governance. From this argument, one could conclude that insecurity, per se, is the symptom and that reconstruction should focus on the root causes of violence.<sup>17</sup> Yet, even if military commanders are predisposed to engage rebuilding social capital and public institutions (a significant assumption), one must question whether such nebulous actions are sufficiently incentivized in current practice. Unlike reconstruction efforts that develop and rehabilitate existing physical capital, efforts to promote social capital are notoriously hard to measure.

*The Measurement of Stabilization and Reconstruction:* The development of performance metrics that identify the influence of stabilization and reconstruction efforts on outcomes would not necessarily guarantee the adoption of these metrics. As noted in the literature, organizations may take action to improve their performance in terms of familiar metrics, even when such actions may have been detrimental to those outcomes that are of interest to their stakeholders.<sup>18</sup> Agents may produce excessive quantities of goods and services whose characteristics are quantifiable and easily monitored to exploit principals who lack the knowledge on the true demand for public goods and services and

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<sup>16</sup> Asian Development Bank. (2005). Country Strategy and Program Update 2006-2008: Afghanistan. Available at: <http://www.adb.org/Documents/CSPs/AFG/2005/csp0100.asp>.

<sup>17</sup> Jan Oberg, "Conflict-Management as if Human Beings Mattered: Can We Learn To Do Better Than We Did In Kosovo," *Transnational Foundation for Peace and Future Research* (August 1999); <http://www.transnational.org/forum/meet/2000/janWorldBank.html>.

<sup>18</sup> Osborne, D. and T. Gaebler. 1992. Reinventing Government. Reading, Massachusetts: Addison Wesley.

the costs of producing them. These behaviors favor programs for which metrics are readily available over those whose outcomes are more difficult to quantify. The military and other agencies responsible for stabilization and reconstruction have, in fact, used metrics (insurgents killed/captured/wounded, electricity and oil production, number of children attending school) that are readily quantifiable.

While military operations to clear insurgent strongholds in Iraq provide tangible results in terms of individuals detained and arms caches interdicted, these operations may also undermine the development of a civil society by increasing animosity towards U.S. forces. Such a strategy of attrition may be counter-productive in that the killing of insurgents without destroying their infrastructure or their ability to coerce resources from the population is a waste of effort.<sup>19</sup> Military operations in the Malay counter-insurgency campaign were limited in scope and undertaken with specific, narrow objectives and not employed to intimidate insurgents or their potential supporters.<sup>20</sup> The shift in strategy from search and destroy to clear and hold operations in Vietnam under General Creighton Abrams is argued to have improved security by focusing on the logistical ‘nose’ of these forces and degrading their ability to sustain combat operations.<sup>21</sup> Unlike relatively symmetric conflict between sovereign (or quasi-sovereign) actors, asymmetric conflict may render the use of offensive action ineffective but, more importantly, counterproductive.<sup>22</sup>

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<sup>19</sup> Sir Robert Thompson, *Defeating Communist Insurgency" Experiences from Malaya and Vietnam* (London: Chatto and Windus, 1966), 116.

<sup>20</sup> Steven Metz (2003). Insurgency and Counterinsurgency in Iraq. *The Washington Quarterly* 27 (1), 25-36.

<sup>21</sup> Lewis Sorley, *A Better Way: The Unexamined Victories and Final Tragedy of America's Last Years in Vietnam* (New York: Harcourt Brace & Company).

<sup>22</sup> Andrew Mack, "Why Big Nations Lose Small Wars: The Politics of Asymmetric Conflict," *World Politics*, Vol. 27, No. 2 (January 1975), 175-200.

Even if metrics are focused on outcomes, we argue that capture may bias performance measurement. Capture occurs when interest groups seize the benefits of public goods and, in turn, ultimately control government policies. The likelihood of capture may increase as the scale of a reconstruction project increases. Capture creates a series of problems, including overstatement of the cost of provision of local public goods, corruption, and diversion of local public goods to non-intended groups. Capture may also have the reverse effect; interest groups may wish to understate the demand for public goods so as to lower revenue requirements and taxes. The literature is replete with examples from countries in Latin America, sub-Saharan Africa, and some Asian countries (the Philippines and Indonesia) where public consumption and transfers have often been misdirected, have not reduced income inequality, and have largely supported special interests.<sup>23</sup> Competition for control of national level investment projects, for example, appears to increase corruption and bureaucratic inefficiency as national elites attempt to capture the public sector. Competition among national elites may spur sectarian or ethnic violence, undermining security and increasing the likelihood of future conflict. Capture may thus misstate the actual demand for public services in an unknown direction, rendering performance management techniques unusable.

We argue that the attempt to use performance management techniques to gauge the success of reconstruction in Afghanistan and Iraq created (and continues to create) incentives to engage in actions that may have been detrimental to the objective of improving security. Using the metric, for example, of individuals detained to proxy for interdicting the insurgency created the perverse incentive to detain Iraqis, regardless of

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<sup>23</sup> Alesina, Alberto. (1999), 'Too Large and Too Small Governments', in Vito Tanzi, Ke-Young Chu, and S. Gupta (eds.), *Economic Policy and Equity*, Washington, DC: International Monetary Fund, pp. 216-234.

actual threat. Using the metric of resources committed to reconstruction projects, for example, created the incentive to obligate funds for larger scale projects, regardless of the capacity of the Iraqi government to sustain these projects over time.<sup>24</sup> We can only conclude that the focus on inputs (obligations, activities started and completed) instead of outputs (service provision) and, more importantly, outcomes (security and sustainability), continues to distort decision-making and inhibits the counter-insurgency campaign.

As counter-insurgency campaigns typically last years, it can be difficult to identify performance measures that provide information on annual progress towards achieving results. This effort is complicated by the presence of multiple parties with disparate goals (the U.S., Kurds, Shia, and Sunni in Iraq, for example). While performance management techniques may improve the efficiency of government operations (and a recent GAO report notes that this is an imperfect and incomplete process<sup>25</sup>), gauging progress in wartime is a much more difficult task. We note that the Special Inspector General for Iraq Reconstruction attempts to link inputs, outputs, and outcomes in his January 2006 report to Congress.<sup>26</sup> Whether these recommendations are incorporated in the day-to-day operations of the DoD, Multi-National Forces-Iraq, and Combined Forces Command (Afghanistan) remains to be seen.

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<sup>24</sup> Examples of the focus on obligations can be found at: <http://www.usaid.gov/iraq/contracts/>. As noted by the Special Inspector General for Iraq Reconstruction, "To date, the U.S. reconstruction effort has been managed primarily through the use of activity metrics, including the number of project starts and completions, and the total dollars obligated and expended." Available at: <http://www.sigir.mil/sectors/Default.aspx>.

<sup>25</sup> Government Accountability Office (2006), *Performance Budgeting: PART Focuses Attention on Program Performance but More Can Be Done to Engage Congress* (Washington DC: GAO), Available at: <http://www.gao.gov/new.items/d0628.pdf>.

<sup>26</sup> Special Inspector General for Iraq Reconstruction (2006). Iraq Reconstruction Progress Report, Section 2. (Washington DC: SIGIR). Available at: [http://www.sigir.mil/reports/QuarterlyReports/Jan06/pdf/sections/Jan06\\_Sect2\\_Complete.pdf](http://www.sigir.mil/reports/QuarterlyReports/Jan06/pdf/sections/Jan06_Sect2_Complete.pdf)

## The Long Tail of Stabilization and Reconstruction Operations

If reconstruction is to promote security and economic growth, an unsettled question is the scope and complexity of the reconstruction process. Should reconstruction focus on the rehabilitation of the national infrastructure or local infrastructure? Given the inherent weakness of public institutions in post-conflict countries, the inability to process investment in the immediate aftermath of conflict, and, in many cases, the prevalence of a culture of corruption, this is an important policy question. In this section, we develop a new theory on the long tail of stabilization and reconstruction operations. We then employ our theory of the long tail to examine efforts currently underway in Afghanistan and Iraq.

The theory of the long tail argues that as the costs of production and distribution fall, especially on the Internet, there is less need to lump products and consumers into “one-size fits all” categories.<sup>27</sup> Globalization promotes the *democratization* of production techniques through the distribution of human capital. Industries that were once the province of the richest nations are now the foundation of the emerging economies of China, India, and others. Global markets also produce strong incentives for the *minimization* of transactions costs. Retailers that can secure and transport goods to market more efficiently than others enjoy a significant advantage. Wal-mart’s success, for example, is widely attributed to its supply chain management techniques.<sup>28</sup> Finally, the ease of global communications has resulted in the *amplification* of the ‘word of mouth’ effect. We observe this phenomenon when a heavily trafficked website links to a

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<sup>27</sup> Anderson, Chris. (2006). *The Long Tail. Why the Future of Business is Selling Less of More.* Hyperion Publishers.

<sup>28</sup> See, for example, Gil, Penny and Abend, Jules. (1997). *Wal-mart: The Supply Chain Heavyweight Champ.* *Supply Chain Management Review* (12).

little known website (often referred to as the ‘slashdot’ effect after a popular technology website), resulting in a several magnitude increase in traffic to the relatively unknown site for several days. As technological change lowers the cost of production, information, and acquisition of goods, services, and knowledge, we observe the development of customized products. The depth of songs available through online music services, for example, dwarfs that available through traditional retailers.

While the theory of the long tail describes the development and distribution of niche consumer products, we argue that the underlying concepts of democratization, minimization, and amplification can be applied to stabilization and reconstruction operations. Reconstruction spans a spectrum from highly complex (and relatively high cost per unit) national level projects (rehabilitation of an electrical grid, for example) to relatively simple and lower cost per unit subnational level projects (the development of a trunk road serving a village). Correspondingly, while national level projects result in a significant level of publicity and performance measurement (electricity and oil production, hospitals and schools rehabilitated), lower level projects are less visible and often provide results that do not lend themselves to quantification. On the other hand, operational units may be better suited to facilitate smaller projects that yield positive externalities in terms of building relationships that yield actionable intelligence. Smaller projects may also reduce the transactions costs associated with reconstruction operations, a counterintuitive argument that we discuss below.

Given these concerns, we argue that the principles of democratization, minimization, and amplification can be applied to current reconstruction efforts. As illustrated in Figure 1, our theory of the long tail of stabilization and reconstruction

operations suggests a relationship exists between the complexity of a project and the government level at which the project should be implemented. Democratizing reconstruction would entail smaller (and thus more numerous) reconstruction projects that employ local businesses. Infrastructure rehabilitation would entail the hiring and oversight of a greater number of local contractors to avoid the potential of rent seeking when only a small number of large contracts are let. Operational units could thus contract with local firms to provide reconstruction services, increasing employment of the local populace and attenuating the economic incentives for insurgent employment. This would, of course, entail a significant shift in current doctrine that has tended to centralize and micro-manage reconstruction efforts since 2003.

While it would appear that letting a large number of smaller contracts would exacerbate transaction costs, we argue that the anecdotal evidence from current efforts suggests that we could no worse. Large contracts have multiple layers of sub-contractors with multiple levels of markups. Audits of reconstruction efforts in Iraq and the U.S. (after Hurricane Katrina) illustrate markups approaching 1700% of the actual cost of service provision.<sup>29</sup> Larger contracts are likely to be the subject of intense competition for the capture of rents, suggesting that malfeasance may become an issue. Whether or not national level reconstruction projects are sustainable, given the weak revenue capacity of the public sector in post-conflict countries, is also of concern. Smaller (and more local projects) are more likely to have stronger connections with the local populace,

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<sup>29</sup> See, for example, Washington Post (March 20, 2006), “Multiple Layers Of Contractors Drive Up Cost of Katrina Cleanup,” Available at: <http://www.washingtonpost.com/wp-dyn/content/article/2006/03/19/AR2006031901078.html>; Government Accountability Office (2006), “Agency Management of Contractors Responding to Hurricanes Katrina and Rita”, Available at: <http://www.gao.gov/new.items/d06461r.pdf>, and the Special Inspector General for Iraq Reconstruction (2006).

increasing the likelihood that they will pay for the provision of these services. We suggest that, at a minimum, a more decentralized approach to reconstruction will result in the same, if not lower transactions costs.

Finally, our theory suggests that a larger number of smaller reconstruction projects may amplify the impact of reconstruction. If the goal of reconstruction is to ‘win hearts and minds,’ then increasing the breadth of reconstruction may facilitate efforts to achieve this goal. In the Philippines from 1899 to 1902, for example, the U.S Army employed over 500 small garrisons to live with local communities, enforce law and order, and to fight the insurgency.<sup>30</sup> In South Vietnam, unified civil-military teams were deployed in each of the 250 districts and 44 provinces.<sup>31</sup> In Afghanistan, it is widely acknowledged that reconstruction assistance is primarily concentrated around Kabul.<sup>32</sup> Historical experience would suggest an expansion of the relatively small existing Provincial Reconstruction Team (PRT) program.<sup>33</sup> Operationally, decentralized reconstruction projects may allow unit-level commanders to reap positive externalities in terms of awareness and intelligence. The above arguments, of course, open a debate on whether stabilization and reconstruction efforts should occur in a centralized or decentralized manner.

### **Applying the Theory of the Long Tail to Reconstruction**

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<sup>30</sup> Timothy K. Deady, “Lessons from a Successful Counterinsurgency: The Philippines, 1899-1902,” *Parameters*, 35 (Spring 2005), 57.

<sup>31</sup> R. W. Komer, *Bureaucracy Does Its Thing: Institutional Constraints on U.S.-GVN Performance in Vietnam*, Report R-967-ARPA (Santa Monica, Calif.: RAND Corporation, 1972), pp. vi, 114-17.

<sup>32</sup> Asian Development Bank. (2005).

<sup>33</sup> There are currently 22 PRTs in Afghanistan, 16 of which are from the United States. Source: [http://www.usaid.gov/locations/asia\\_near\\_east/afghanistan/prt.html](http://www.usaid.gov/locations/asia_near_east/afghanistan/prt.html)

A potential counterinsurgency strategy is to convince the population that the government is both capable and is winning against the insurgents. One method to accomplish this task is to provide the population with services to improve the standard of living; there are, however, two potential approaches to accomplish this task. Centralized coordination and provision may be necessary to address problems of weak institutional capacity at the subnational level. On the other hand, decentralized provision may better suit the preferences and needs of heterogeneous subnational jurisdictions. As noted above, decentralized provision may address the long-tail of reconstruction, yielding positive externalities in terms of improved security and sustainability. Yet, there is a distinct lack of discussion in the decentralization literature as to its application to post-conflict environments.

To discuss whether decentralization should be applied to reconstruction operations in Afghanistan and Iraq, we must first explicitly define the difference between the deconcentration, delegation, and decentralization of public expenditures. What some governments call fiscal decentralization is actually nothing more than the geographical deconcentration of central government bureaucracy and service delivery. Deconcentration can be described as a process geared to increasing the effectiveness and flexibility of the provision of government services by providing previously centralized services through regional and local offices but, other than geographic similarities, deconcentration has little to do with fiscal decentralization. Although there are several ways to describe the process of fiscal decentralization, its essence is captured by the two related processes of either delegation or devolution of fiscal authority. In either case,

decision-making power on the composition of expenditures and often on the composition and level of revenues is shifted to separately elected subnational governments.<sup>34</sup>

When done well, decentralized governments can be more efficient, more sensitive to local needs, provide services to a larger number of people, and increase political representation. At the macroeconomic level, decentralization may promote allocative efficiency, macroeconomic stability, and economic development.<sup>35</sup> Decentralization may be particularly important in post-conflict countries in that it may strengthen democratic governance at the subnational level and provides a political mechanism for curbing the powers of the central government.<sup>36</sup> Appropriately structured decentralization not only improves governance by improving incentives but also may enhance and preserve markets, crucial for post-conflict development.<sup>37</sup> Decentralization, especially when conducted through unit-level commanders and organizations, suggests that reconstruction may be relatively more responsive and nimble to local conditions than centralized provision. This would encourage innovation in reconstruction policies, reinforcing

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<sup>34</sup> See Richard Bird (1993). Threading the fiscal labyrinth: Some issues in fiscal decentralization. National Tax Journal 46, 207-227; Richard Bird and Francois Vaillancourt (1997). Fiscal decentralization in developing countries: An overview and perspective. Paper presented at the International Seminar in Public Economics, Tokyo; Robert Ebel and Silmar Yilmaz. (2001). Fiscal decentralization: Is it happening? How do we know? (Public Finance in Developing and Transition Countries: A Conference in Honor of Richard Bird Conference Paper). Atlanta: Andrew Young School of Policy Studies, Georgia State University. for a discussion of the difference between delegation, devolution, and deconcentration of fiscal authority.

<sup>35</sup> For a discussion of the possible linkages between fiscal decentralization and economic growth see And Robert M. McNab and Jorge Martinez-Vasquez, "Fiscal Decentralization and Economic Growth," *World Development* Vol. 31, Issue 9, September 2003, p. 1597-1616.

<sup>36</sup> Jorge Martinez-Vasquez and Robert M. McNab (1998), 'Fiscal Decentralization, Economic Growth, and Democratic Governance', International Studies Program Working Paper 01, Atlanta: Andrew Young School of Policy Studies, Georgia State University.

<sup>37</sup> See, for example, Barry Weingast (1995). The economic role of political institutions: Market-preserving federalism and economic development. Journal of Law and Economic Organization 11 (1), 1-31; Montinola, G., Qian, Y., & Weingast, B. (1995). Federalism, Chinese style. *World Politics* 48 (1), 50-81. Barry Weingast (2000). The comparative theory of federalism. (Working Paper, Hoover Institute, Stanford University). Palo Alto: Stanford University, among others.

successful policies and discouraging policies that fail.<sup>38</sup> Moreover, decentralization can increase political stability and national unity by allowing citizens to better control public programs at the local level.<sup>39</sup> For countries that are ethnically and geographically diverse, decentralized reconstruction may improve security by damping ethnic and regional tensions.

When done poorly, decentralization can exacerbate macroeconomic instability and degrade service provision. Decentralization can increase horizontal disparities, especially if revenues are apportioned on a derivation basis.<sup>40</sup> In the case of Iraq, for example, the question of whether oil revenues should accrue to the central or subnational governments is cause of political and sectarian tension. If oil revenues accrue to the Kurdish and Shia autonomous regions, the central, predominately Sunni, of Iraq may lack sufficient revenue capacity to provide public goods and services. Decentralization may also limit the ability of the central government to capture externalities associated with the provision of national public goods. Subnational governments may engage in policies counter to that of the central government, wreaking havoc with economic and monetary policies. Furthermore, the case for decentralization rests upon a series of assumptions that may be exceedingly stringent for developing countries, let alone countries emerging

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<sup>38</sup> For a discussion of decentralization and subnational experimentation, see Wasylenko, M. (1987). Fiscal decentralization and economic development. *Public Budgeting and Finance* 7 (4), 57-71 and E. Gramlich, "Subnational Fiscal Policy." In J. Quigley, Ed., *Perspectives on Local Public Finance and Public Policy* (Greenwich, CT: JAI Press, 1987), 3-27.

<sup>39</sup> See for example W. Oates, *Fiscal Federalism* (New York: Harcourt Brace Jovanovich, 1972); W. Oates, "Fiscal Federalism: Overview," In R. Prud'homme Ed., *Public finance with several levels of government: Proceedings of the 46th congress of the Interantional Institute of Public Finance* (The Hague: Foundation Journal Public Finance, 1991), 1-18.; R. Broadway and D. Wildasin, *Public Sector Economics 2nd Ed.* (Boston: Little Brown, 1984); and, "Decentralization and Subnational Regional Economics," *The World Bank Group* (February 23, 2005; [http://www1.worldbank.org/publicsector/decentralization/ what.htm](http://www1.worldbank.org/publicsector/decentralization/what.htm)).

<sup>40</sup> Robert M. McNab and Jorge Martinez-Vasquez, "Fiscal Decentralization and Economic Growth," *World Development* Vol. 31, Issue 9, September 2003, p. 1597-1616.

(or grappling with) armed conflict.<sup>41</sup> Democratic governance, a necessary condition for the gains of decentralization to be fully realized, may require a minimum level of literacy, basic institutional capabilities, and a measure of gender equality.<sup>42</sup> The potential virtues of fiscal decentralization may also be, in part, dependent upon political accountability. But even political accountability alone may be insufficient for benefits of decentralization to occur. Local officials must also have the authority to determine and implement revenue and expenditure policies.<sup>43</sup> Given the absence of democratic institutions, the culture of corruption, and the lack of subnational capacity, one might conclude that centralized reconstruction is more appropriate.

Yet, we must recognize that the choice in Iraq and Afghanistan is not whether fiscal decentralization should take place; it is a fact on the ground. In Afghanistan, the central government's authority is centered on Kabul and is weak due to the legacy of the Soviet invasion and years of succeeding civil war. In Iraq, the lack of an effective post-conflict plan and actions by the occupying authority essentially decentralized the country, regardless of actual intent. Some degree of centralization of public authority must occur, as most scholars would argue that weak central governments (without correspondingly strong subnational governments) invariably produce weak states.

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<sup>41</sup> Bahl, R. and S. Nath, (1986), 'Public Expenditure Decentralization in Developing Economies', *Government and Policy* 4, 405-18; Prud'homme, Remy (1991), *Public Finance with Several Levels of Government: Proceedings of the 46th Congress of the International Institute of Public Finance, The Hague: Foundation Journal Public Finance*; Prud'homme, R. (1995), 'On the Dangers of Decentralization', *World Bank Economic Review* 10 (2), 201-220; and Tanzi, V. (1996), 'Fiscal Federalism and Decentralization: A Review of Some Efficiency and Macroeconomic Aspects', in Michael Bruno and Boris Pleskovic (eds.) *Annual World Bank Conference on Development Economics*. Washington DC: World Bank, pp. 295-316, among others.

<sup>42</sup> Dethier, J. (1999b), 'Governance, Decentralization, and Public Goods: Evidence from China, India, and Russia', Paper presented at the Global Development Network (GDN) Conference, Bonn, Germany, December 5-8, 1999.

<sup>43</sup> Burki, S., Perry, G., & W. Dillinger (1999), 'Beyond the Center: Decentralizing the State', Latin American and Caribbean Studies Series Working Paper, Washington, DC: World Bank.

The question that remains is whether reconstruction should be decentralized or centralized in nature. We argue that, given the security objectives of U.S. forces in Iraq and Afghanistan, reconstruction should be decentralized and extend beyond a “Baghdad-first” or “Kabul-first” strategy. Although subnational governments are quite weak, decentralized reconstruction can assist them in building capacity. Soliciting citizen inputs on when and what projects should occur is likely to promote the development of a civil society. Large-scale, national level reconstruction projects fail to address this long-tail and may actually foster a culture of dependence.

One method of implementing decentralization reconstruction is Community-Driven Reconstruction (CDR). CDR has two main objectives: fast and cost-effective reconstruction assistance with an emphasis on local choice and accountability.<sup>44</sup> CDR can assist unit level commanders in security and reconstruction activities by building linkages between nascent local governments and commanders through the conduit of reconstruction assistance. First, commanders support the democratic selection of local councils, thus enhancing the stature and long-term viability of these councils. Second, commanders can provide local councils block grants that are tied to measurable outcomes. The provision of block grants allows the councils and other institutions of local governments to develop capacity under the auspices of the local commander, without the local commander being the primary point of contact for the conduct of the work. Third, commanders should emphasize that use of grant funds will be audited and that further assistance is dependent upon appropriate, transparent, and equitable use of funds. The mechanism for this approach exists and has been vetted by experience, the

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<sup>44</sup> Cliffe, Sarah; Guggenheim, Scott, and Markus Kostner. (2003). “Community-Driven Reconstruction as an Instrument in War-to-Peace Transitions.” Conflict Prevention and Reconstruction (CPT) Unit Paper 7, World Bank

question is whether decision-makers can ‘loosen the reigns’ to reap the potential benefits of decentralized reconstruction.

## **Conclusions and Recommendations**

Most unit-level commanders do not operate in the capital or regional capitals. The 3<sup>rd</sup> and 4<sup>th</sup> Brigade Combat Teams of the 10<sup>th</sup> Mountain Division, each comprised of approximately 3,000 soldiers, are responsible for 14 of the 21 provinces of Afghanistan in 2006.<sup>45</sup> In some instances, a company-level commander and their senior non-commissioned officer (NCO) may be the senior representatives of the United States in a province (Afghanistan) or town (Iraq). While there are Provincial Reconstruction Teams (PRTs) engaged in reconstruction activities in Afghanistan, these are relatively small in number (50-100 soldiers and civilians in regional capitals) compared to the operational units. Technical assistance remains concentrated in the capital, and regional and local governments have yet to receive substantial attention from NGOs and IGOs, especially in the case of Afghanistan.

Further complicating the role of the operational commander is the lack of integration between military operations and the financial resources to facilitate reconstruction and economic development in their Area of Responsibility. Initially, in Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF), commanders had significant flexibility and resources in the form of Commanders Emergency

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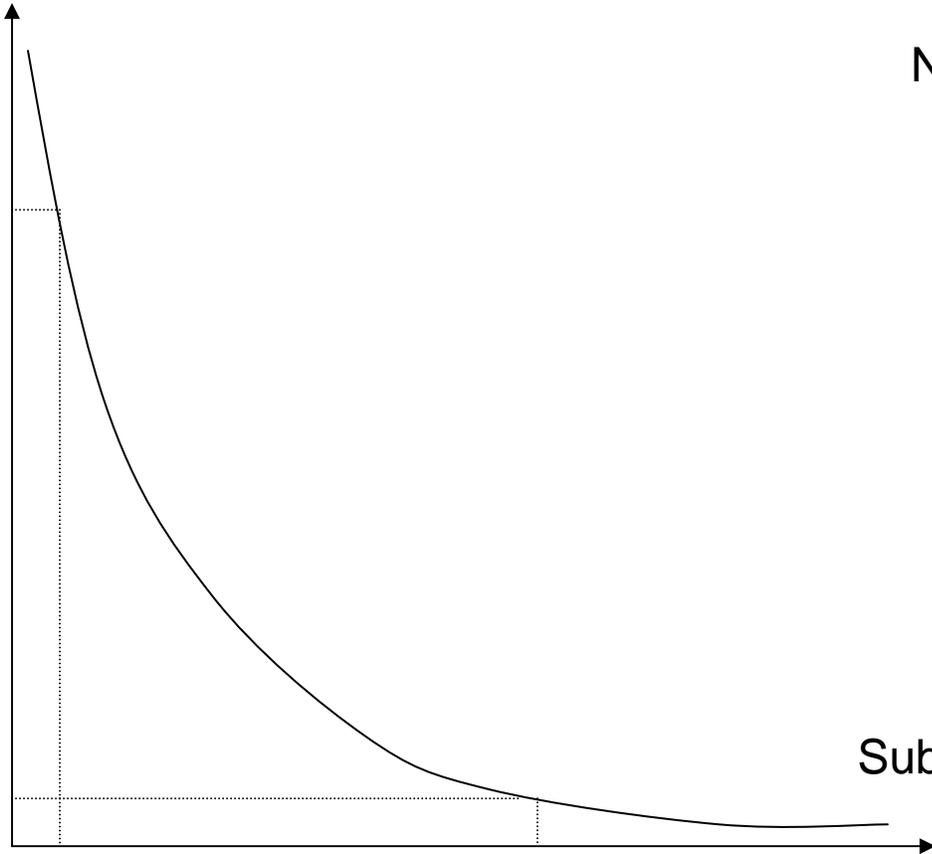
<sup>45</sup> Along with these units are the division headquarters elements of the 10<sup>th</sup> Mountain Division and the headquarters of the 53<sup>rd</sup> Infantry Brigade, Florida National Guard (DoD, 2005). United States Department of Defense. (2004). News Release 1289-04. Washington, DC: Office of the Assistant Secretary of Defense (Public Affairs). Available at: <http://www.defenselink.mil/releases/2004/nr20041214-1823.html>

Response Funds (CERF). Over time, however, CERF resources have dwindled, become bureaucratized, and micromanaged.

Operationally, these arguments suggest that commanders are invariably torn between disparate missions. Commanders must provide security but are also tasked with training local security organizations, promoting local governance, and economic reconstruction. Invariably, these roles come into conflict and may also create a culture of dependency. Commanders, responding to incentives, may focus on readily quantifiable actions, even though such actions may degrade long-term stability.

To assist these commanders, we argue that reconstruction assistance should be decentralized to, at a minimum, the battalion level. If possible, platoon and company-level commanders should have some discretion in the employment of reconstruction assistance. We note that this would entail a substantial modification of the existing reconstruction system but question why centralization is necessary, especially when those making decisions are removed from the battlefield. The operational-unit commander, by interacting with local governments, can solicit preferences and audit results. While this is a shift away from traditional military operations, post-conflict operations are not traditional military operations.

Complexity/  
Unit Cost



National

Subnational

Number of Projects