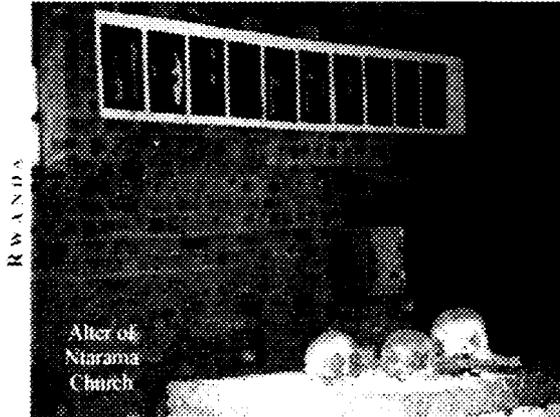


PN-ADD-485

# UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT S.E.N.S.E. TRAINING FOR POST-CONFLICT POLITICAL AND ECONOMIC TRANSITIONS



RWANDA

Altar of Ntarama Church

Photo by Tracy A. Longacre



BOSNIA-HERZEGOVINA

Photo by Reuters



KOSOVO

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EAST TIMOR

Photo by AP

## STRATEGIC ECONOMIC NEEDS & SECURITY SIMULATION EXERCISE

A training simulation tool modified for USAID for strategic, collaborative, multi-sectoral planning and economic reconstruction.



July 30 – August 2, 2001

At the Institute for Defense Analyses  
1801 North Beauregard Street  
Alexandria, VA 22311



This information packet contains:

Memorandum to Seminar Participants from USAID Administrator Andrew Natsios	Tab 1
Symposium Schedule	Tab 2
“Whither Akrona?” Summary	Tab 3
USAID S.E.N.S.E.: Symposium Background	Tab 4
The Three “Cohorts” The Role of the Government The Role of the Domestic Sector The Role of the International Sector	Tab 5
Akrona Background Brief	Tab 6
USAID/IDA/USIP Partnership	Tab 7
S.E.N.S.E. Background Brief	Tab 8
S.E.N.S.E. Project Points of Contact	Tab 9



United States Agency For International Development  
*Office of the Administrator*

(Dated) June 28, 2001

**MEMORANDUM FOR CONFLICT PREVENTION SEMINAR PARTICIPANTS**

**SUBJECT:** S.E.N.S.E. Training: "Setting Expectations"

In order to succeed in our goals of conflict prevention, USAID will need to become more innovative and willing to take risks. The SENSE Seminar you are preparing to participate in later this summer will help you develop these qualities and give you the tools you need to effectively contribute to the conflict prevention goals of the Agency.

Many of you know firsthand the tremendous challenges facing us in this turbulent world. In the last five years, over two-thirds of the countries in which USAID has missions have been involved in civil war or conflict. The number of unresolved and potential conflicts in the countries in which we operate demands that we take an integrated and holistic approach to conflict prevention. It is my hope that you will take advantage of this seminar to step back from the daily reality of managing your programs to examine how we can best help parties to conflict take responsibility for resolving their conflicts. You will be encouraged to consider how our programs can facilitate this goal-how we can best promote the de-escalation of tensions contributing to conflict.

I am excited about the SENSE training program because it attempts to apply research on the various methods of intervention in pre, post, and current conflict situations. You will be put into situations that require you to think through the decision-making processes that either lead parties closer to or further away from violent conflict. In so doing, you will gain a greater appreciation of the opportunities for and complexities of defusing conflict. This seminar will allow you to explore the multi-disciplinary tools, technologies, and experiences that will help you to develop strategies and programs to address real and potential conflict.

The methodology being used for this seminar is similar to a simulation exercise routinely performed in the military, but not often used by civilians. Yet we need practice in rapidly changing environments, also. The methodology will encourage you to see knowledge and technology are not just as esoteric tools, but as open opportunities for creative application limited only by our imaginations. You will be invited to evaluate this methodology and tell us what ideas it stimulates toward other approaches that might be developed, not necessarily limited to conflict prevention situations. I will be interested in feedback as to what extent this or other innovative methodologies might be applied to USAID's work.

It is my hope that you will not only leave this training with new ideas and abilities to apply yourself, but that you will share what you learn with your office and across the agency. I look forward to seeing you for one session at this seminar.

Andrew S. Natsios  
(signed)

# AGENDA

Monday	Tuesday	Wednesday	Thursday	Friday
8:00 - 8:15				8:00 - 8:15
8:15 - 8:30	Registration			8:15 - 8:30
8:30 - 8:45				8:30 - 8:45
8:45 - 9:00	USAID Objectives Conflict Prevention	Donor Conference (USIP)	Preparation for National Forum	8:45 - 9:00
9:00 - 9:15	Overview of the Week		Break	9:00 - 9:15
9:15 - 9:30	Introduction to Simulation	<b>Ethnic Cohort</b>		9:15 - 9:30
9:30 - 9:45	Break	Functional Planning		9:30 - 9:45
9:45 - 10:00	Functional Orientation		National Forum	9:45 - 10:00
10:00 - 10:15				10:00 - 10:15
10:15 - 10:30			Functional Planning	10:15 - 10:30
10:30 - 10:45				10:30 - 10:45
10:45 - 11:00				10:45 - 11:00
11:00 - 11:15				11:00 - 11:15
11:15 - 11:30				11:15 - 11:30
11:30 - 11:45				11:30 - 11:45
11:45 - 12:00	<b>Ethnic Orientation</b>			11:45 - 12:00
12:00 - 12:15	Luncheon: How to build local cooperation & institutions & team building	Lunch Speaker: Role of Diplomacy		12:00 - 12:15
12:15 - 12:30				12:15 - 12:30
12:30 - 12:45				12:30 - 12:45
12:45 - 13:00				12:45 - 13:00
13:00 - 13:15				13:00 - 13:15
13:15 - 13:30				13:15 - 13:30
13:30 - 13:45			Lunch Speaker: Capable States	13:30 - 13:45
13:45 - 14:00		<b>Ethnic Cohort</b> Functional Planning		13:45 - 14:00
14:00 - 14:15				14:00 - 14:15
14:15 - 14:30				14:15 - 14:30
14:30 - 14:45	Break			14:30 - 14:45
14:45 - 15:00				14:45 - 15:00
15:00 - 15:15				15:00 - 15:15
15:15 - 15:30				15:15 - 15:30
15:30 - 15:45				15:30 - 15:45
15:45 - 16:00		AAR (IDA)		15:45 - 16:00
16:00 - 16:15	<b>Ethnic Cohorts</b>			16:00 - 16:15
16:15 - 16:30		Reception	AAR (IDA)	16:15 - 16:30
16:30 - 16:45			Evaluation Forms Breakout	16:30 - 16:45
16:45 - 17:00	Wine & Cheese Mixer TBA		Discussions	16:45 - 17:00
17:00 - 17:15				17:00 - 17:15
17:15 - 17:30			Follow-Up Where from Here?	17:15 - 17:30
17:30 - 17:45				17:30 - 17:45
17:45 - 18:00		Plenary		17:45 - 18:00
18:00 - 18:15		Ethnic Cohorts		18:00 - 18:15
18:15 - 18:30		Functional Cohorts Simulation		18:15 - 18:30
18:30 - 18:45				18:30 - 18:45
18:45 - 19:00				18:45 - 19:00

# Whither Akrona?

## Summary and Roadmap

### **Akrona: A Snapshot**

The country of Akrona, long located at a geographical crossroad, has now arrived at an historical one. After a long period of destructive internal strife, the country has been given breathing space as the result of a peace – and a governing apparatus – imposed by the international community. The US and the EU were not willing to see Akrona remain in a state of chaos (and conceivably drag the region in as well) with all of the possible consequences for international destabilization and instability, as well as human peril.

But the situation is daunting. Among the country's three ethnicities – Akroni, Brezni, and Zebzedi – memories are long, grievances have proliferated, and positions have hardened. There is a widespread sense of insecurity in both the damaged urban centers and the uneasy countryside. The infrastructure of Akrona, never a wealthy country, has been gravely damaged by the conflict: many roads and highways are decaying or destroyed, the educational system is in disarray, and delivery of anything but the most rudimentary health care has largely ceased even as the incidence of HIV/AIDS has increased. Economic activity has spiraled downward and the economy is generally considered a "basket case." Critical natural resources are being depleted. Hundreds of thousands of citizens have been displaced or have gone into exile. Unemployment has reached the staggering rate of 40 percent. Corruption is a problem. The country is heavily dependent on the generosity of the international community and is mired in an unhealthy dependence on often costly imports.

Still, the horror of the conflict and the cost of the resulting dislocation have come together to foster a willingness – some would say a resignation – among many Akronans to try to work together to turn things around. The readiness of the US and EU, international financial institutions, and non-governmental organizations (NGOs) to support these efforts is a needed boost to Akronan morale. It is also a significant testament of the international community's commitment to invest materially, although not indefinitely, in Akrona's wellbeing and future progress.

The ability of Akrona, with its network of supporters, collaborators, and advice-givers, to fashion a basis for economic progress and political stability remains to be demonstrated. A key will be the capacity of the various actors to work effectively with each other – including in face-to-face negotiations – on the basis of both enlightened self-interest and a shared vision of the country's future. This will require wise and timely decisions that appropriately addresses not just immediate, but longer-term priorities.

More specifically:

- If you are a decision-maker in the private sector, you will be challenged to make hard choices about growing your business and creating wealth.
- If you are a leader in the public sector, you will be faced with tough and potentially divisive choices concerning the role of government in the economy, the rate and direction of economic change, and the allocation of scarce resources. You will grapple with the nature and scope of government's partnership with the private sector, and the overall transparency of governmental decisions to a skeptical and easily demoralized citizenry.
- If you represent donor countries, international financial institutions, or NGOs, you will confront similarly vexing issues of political economy and competing values. This will include how to ensure that there are synergies, or at least coherence, between the provision of your material support and the nature and timing of Akrona's own decisions on the economy.

## **The "Play"**

There is no "school solution" for this experience. You are presented at the outset with a baseline of information and data which describe the situation that you have inherited (i.e., the unemployment rate, the tax rates, resource depletion rates, level of imports and exports, HIV infection rate, etc.). But the outcome depends on the choices made from that point on by you and the other participants, individually and collectively. These decisions will emerge from the computer play and, importantly, from the essential personal interaction (negotiations, caucuses, conferences) among the participants.

Your decisions will be made on the basis of incomplete information and under the pressure of time. Each functional cohort will have differing decision timelines, e.g., annual budget and tax policy cycles for the government. The simulation is played over an established series of time periods, each of which represents one month. However, each of these "months" is actually played in a matter of a few minutes. Your decisions are recorded by the simulation, and at the end of each "month" the software processes this information and displays the consequences. Decisions must then be made on the basis of this new and ever-changing reality, which your own choices and those of the other players have created. The eventual outcome of the simulation is determined by the accretion of these many decisions, and their consequences, and will be represented by displays of economic, social, and political information.

# USAID S.E.N.S.E. Symposium Background

## WHAT IS S.E.N.S.E.?

The Strategic Economic Needs & Security Simulation Exercise, or S.E.N.S.E., is a virtual environment that may be used to provide policy makers with strategic insights and foster "out of the box" thinking. It offers a multi-disciplinary framework for crisis identification, avoidance, rehearsal, management, and remediation by offering a parallel economic/political/military/social dimension in which analysts and decision makers can take part in virtual exercises to identify potential crises, scope options, and test crisis action plans. S.E.N.S.E. affords the opportunity to move beyond collaborative discourse and information exchange into a milieu that allows users to develop constructs that may be collectively experienced.

The second generation S.E.N.S.E. simulation, also known as AKRONA (designed to address problems in Bosnia), was developed by the Institute for Defense Analysis (IDA) at the encouragement of Gen Wesley Clark. He expressed a desire to teach economics 101 without lecturing economics 101. The point of the exercise is to immerse participants in a simulated democratic free-market society and thus expose them to the inner workings of the capitalist economic system. The AKRONA simulation provides a realistic economic experience. Both a private sector and a public sector are modeled. The current version of the game supports 24 economic sectors. All sectors are connected to the international economy. While player interactions are tracked and facilitated via the computer network provided by the S.E.N.S.E. architecture, personal interactions are necessary as part of the course of play.

Any variable that potentially can influence policy outcomes can be incorporated into the gaming (or training exercise). For the purpose of making the July 30-August 2 training exercise more relevant for development and USAID needs, HIV/AIDS, ethnic and environment variables have been incorporated into the simulation.

While the simulation is not predictive or currently structured as an explicit conflict prevention tool, the multi-disciplinary nature of the roles played by the various participants does force a consideration of a broader, more integrated strategic framework for policy formulation, particularly in post-conflict transitions. Since short, medium and long-term stability is a major challenge facing post-conflict societies, there is a conflict prevention dimension to the simulation. In delineating the multiplicity and complexity of policy choices facing decision-makers, the simulation forces the creation of a framework incorporating factors that require attention if the goal of stability is to be realized. As such, it forges past the superficial, political conflict issues to address many of the root cause issues.

The participants in this training exercise should not approach the simulation through the prism of current country program activities or resource allocations. The purpose of the simulation is to stimulate a broader sensitivity to the multiplicity of problems that require a more synergistic use of tools and policies (both bilateral and multilateral) in ameliorating post-conflict crisis management.

## Why S.E.N.S.E. Now!

As part of the new Agency Pillars and approach to conflict prevention and globalization, we need to be repositioning USAID, other foreign affairs agencies and our partners to work better and smarter in the Post Cold-War era. Tools such as the SENSE technology and simulation training can be used to assist the Agency to:

- examine the behavioral changes required for the governments and populations of crisis and crisis-prone countries to move from authoritarian, centrally-planned economic and political structures and relationships to a free market democracy;
- break the stovepiping mentality in analysis, strategic planning and resource allocation decisions for our work in crisis management, political and economic transitions and sustainable development programs;
- build a work-ethic of collaboration among USAID, country teams and host country nationals and develop an integrated framework of analysis;
- demonstrate how this type of simulation training can be used to foster a change in the USAID's culture to work cross-sectorally and across all operating units in building a cadre of staff, networks, and partnerships that integrate resources and programs and position the Agency to be an effective foreign policy tool in support of U.S. needs and interests in the new post Cold-War global economy; and
- use a redesigned U.S. foreign assistance program to set an agenda of engagement with the American public, private foundations, voluntary and non-governmental partners and recipient partners and a more symmetric set of economic, political and security relationships.

# The Role of the Government

## Government Players

### The Executive:

President  
Minister of Foreign Affairs  
Minister of Defense  
Minister of Finance  
Minister of Resettlement  
Minister of Housing  
Minister of Health and Nutrition  
Minister of Education  
Minister of Transportation  
Minister of Commerce  
Ministry of the Interior  
Minister of Natural Resources and  
the Environment  
Minister of Arts and Tourism  
Minister of AIDS

### The Parliament:

NAM Party Leader  
BNU Party Leader  
ZUP Party Leader  
Parliamentarians

## Background

*The Executive Branch* of the government operates in conjunction with the Parliament in creating a shared vision of the future that is not imposed by the international community, and in formulating programs and enforcing policy for the country of Akrona. It has a chief executive who is supported by a cabinet of ministers, most of whom have portfolios tied to specific lines in the budget. The Executive Branch is a coalition government with eight Akroni, four Zebzedi, and two Brecni ministers. The ministers are responsible for addressing their respective portfolios of issues and for participating in the creation of a "national vision," or plan for Akrona. The Executive:

- Spends money across 19 different budgetary line items in the civil budget and determines the size, structure, and roles of the Akronan military forces.
- Controls the means of production in six sectors of the economy and how money is spent once the budget allocations for social and military spending have been determined by the Parliament.
- Develops and executes strategies for privatization in those sectors opened to private investment by the Parliament and for managing the terms of the timber contracts with MegaCorp.

**The Parliament** must share power with the Executive in the formulation of policy for Akrona. It retains functions that are distinct from those exercised by the Executive. As in other democracies, Akrona's Parliament controls the "purse strings." The direct powers of the Parliament are:

- Allocating the percentages of the budget that will be allocated to social and defense spending;
- Establishing tax and tariff rates for each sector of the economy;
- Setting government and military salaries; and,
- Opening or closing sectors of the economy to private investment.

The current composition of the Parliament is: Akroni, 81 seats; Brezni, 63 seats; and Zebzedi, 36 seats. The party leaders represent parochial party interests, but may attempt to work together to shape Akrona's future.

## **Actions**

**Strategic:** Despite their ethnic difference, the Parliament and the Executive of Akrona's government must establish a working arrangement in order to formulate a shared vision for the future of all Akronans, and must develop a coordinated strategy to achieve that vision. *The decision cycle for both branches of government is tied to an annual budget and tax/revenue policy.* The institutional arrangement of two distinct branches of government, distinct ethnic constituencies, and potentially divergent agendas *vis a vis* the international community, make such cooperation difficult.

**Tactical:** Each branch of government has its own constituencies. Ministers in the cabinet must seek to adjust their budget lines according to both ethnic and overall national goals, as well as leverage the international community to support civil budget spending that creates and sustains social capital and physical infrastructure. The Parliament, because of its "power of the purse," can be the catalyst that helps to set the conditions for the private investment necessary to produce economic growth, and should be much more attuned to the needs of firms in the private sector. The degree to which the two branches of government cooperate depends exclusively on the administration in power and its ability to overcome the deep ethnic tensions that underlie the fragile peace in Akrona. However, coordination across functional areas of government is necessary for the execution of many programs. The influence of each upon the others is determined by dynamics of individual branches, in addition to how the leaders of each branch approach the power-sharing relationship.

# The Role of the Domestic Sector

## Domestic Players

### Local Firms:

Faber, Ltd.  
Color Works, Inc  
Archer & Archer, Inc.  
Woodstock, Ltd.  
Maple Leaf PLC  
Rainbow, Ltd.

### Bank:

Bank of Akrona

### NGO:

Local Aims

## Background

*The Local Firms*, which are ethnically-based, have several roles: these include acting as providers of goods and services, as taxpayers, as employers, as entrepreneurs, and as engines of economic growth. Firms compete for market share, profit maximization, and maximization of capital assets. They lobby the legislature for a fiscal policy that is conducive to private investment. When merited, firms sometimes cooperate to create a comfortable business climate in Akrona. The firms begin with a specific portfolio of investments reflecting the current advantages in the economy, they then choose how to manage these investments to produce goods and services. They also look to the 24 sectors in the economy and make investments and divestitures and production decisions based upon their individual goals (which may or may not be profit-driven). Thus, the firms must develop strategies for simultaneously buying and selling shares, obtaining capital, and managing the pricing and production rate of their existing portfolio.

*The Bank of Akrona* operates as both a central bank and as a commercial bank and is attuned to the government's programs and budgets for achieving its vision for Akrona. The Bank's goal is to maximize its own profits while becoming the lender of choice for the private sector. Its primary functions are to ensure that capital is available for lending to private investors — to include capital from the international community — and to exercise its fiduciary responsibilities by evaluating the merits of loan applications for long-term consequences and to process them accordingly. The Bank works to serve as an engine for economic growth by promoting business efforts to leverage assets while, at the same time, promoting its own financial agenda.

*Local Aims* is the collective representation of a number of indigenous "grassroots" Akronan interests and voluntary agencies that support basic relief and economic development efforts. It is an honest broker and a political force in its own right and focuses its efforts on persuading both the government and firms of the need to make environmental protection, full employment, and social justice for all Akronans an integral part of their development strategies. Local Aims is very sensitive to social indicators and ethnicity indices and will lobby Global Aims for additional social funding, which will generally come at the expense of other programs. Local Aims has some of the attributes of Local Firms, e.g., it can make investments in the private sector and has the capability to make loans.

## **Actions**

**Strategic:** The firms and the Bank each strive to maximize profits and increase capital assets. This occurs through a variety of mechanisms, but is only possible in a positive business climate. While they may be in competition, the firms also look to leverage their power against that of the government's to ensure that they are given the capability to compete. Local Aims is the local voice which expresses concern over the negative impacts of globalization, to include damage to the environment, unemployment, and concerns with health and education.

**Tactical:** Constant negotiations take place between the firms, the Bank, the government, and even the international community. These negotiations can focus on such disparate topics as tax and tariff rates, the level of criminal activity and need for law enforcement, interest rates and loan conditions, and investments in labor-intensive sectors of the economy. Each entity must be aware of what they want and what they need to do to accomplish their goals. This may involve being the majority shareholder in a particular sector, or joining with other firms to lobby with the government for conditions more favorable to private investment.

# The Role of the International Sector

## International Players

### The European Union (EU):

The collection of all European donor governments. Support consists of both humanitarian and military aid to Akrona as well as contributions of forces to the NATO Stability Force.

### The United States (US):

The United States government cell represents a cross-section of the Executive Branch and the United States Congress and provides both humanitarian and military aid to Akrona, as well as military units to the NATO Stability Force.

### Global Goals:

A collection of International Financial Institutions such as the World Bank, IMF, and EBRD.

### Global Aims:

A coalition representing all international Non-Governmental Organizations and relief/development agencies.

### MegaCorp:

A composite of all international firms with investment capabilities

## Background

The international players pursue complex and sometimes conflicting political, economic, and humanitarian interests. The international community can mount direct cash assistance programs such as budgetary support, support specific programs in either the public or private sectors of the Akronan economy, loans or grants to the Bank of Akrona or Local Aims, loans to the firms, or direct investment in Akrona. The EU and the US provide military forces to the NATO Stability Force; in addition to accomplishing military tasks, the Stability Force creates a significant demand for goods and services that provides badly needed foreign exchange.

*The EU and the US* have political, social, and economic agendas and expectations that condition their investment and involvement in Akrona. Chief among these goals is a significant reduction in Akronan reliance on foreign aid, and growing donor fatigue fueled by domestic concerns regarding unending financial and military commitments in Akrona. The common agenda includes economic reform, privatization, resettlement of all refugees, improvement in social conditions, rehabilitation of the physical infrastructure, military reform, and the rule of law.

- The EU is confronted with the fact that Akrona is in its own backyard and must ultimately be integrated into the “clubs” of western Europe and the global economy. EU members reflect mostly left-of-center governments in their own countries.
- The United States is still confronting the aftermath of the 2000 elections, and the administration is both shaping its strategy for change in foreign and defense policy, and clearly intent on developing the economic, political, and social metrics which would define a clear exit strategy in situations such as Akrona. Consistency in policy is important for the United States.

The EU and the US provide block grants or specified aid directly to the Executive Branch of the Akronan government; it is applied to military aid and the civil budget. They also provide guidance and original funding to Global Goals and may direct Global Goals to fund Global Aims or Local Aims. The EU and the US can both provide direct funding to Global Aims and/or Local Aims.

**Global Goals** is a creature of and receives funding from the EU donor countries and the US. Global Goals reflects the views and internal operating procedures of the International Financial Institutions (especially the IMF and the World Bank). Donor nation funding support is generally tied to EU and US political and economic development objectives. However, Global Goals will have its own set of objectives and conditions for economic aid which reflect various institutional biases.

Global Goals provides loans or grants to the Bank and to the government, and on occasion to Global Aims, Local Aims, and Firms.

**Global Aims** is the “grass roots” representative of the international community and international voluntary agencies that provide basic relief and development support. Global Aims is a political force in its own right and derives its moral authority from major concerns about threats to the environment and social justice from a global economy. Global Aims can orchestrate political pressure on donor countries and the Akronan government to increase funding in specific sectors of the economy.

Global Aims provides directed grants to the government or Local Aims, makes investments in the private sector of the economy, and occasionally makes loans to the private sector.

**Megacorp** represents the global economy and is the surrogate for the international private sector, particularly transnational corporations. It controls large financial resources and is willing to make investments in Akrona if it can achieve an acceptable return (currently 18-20 percent). While increasingly aware of the need for a “corporate social conscience,” Megacorp seeks long-term gains for its stockholders through investments in the private sector and its partnership with the government in the harvest of timber.

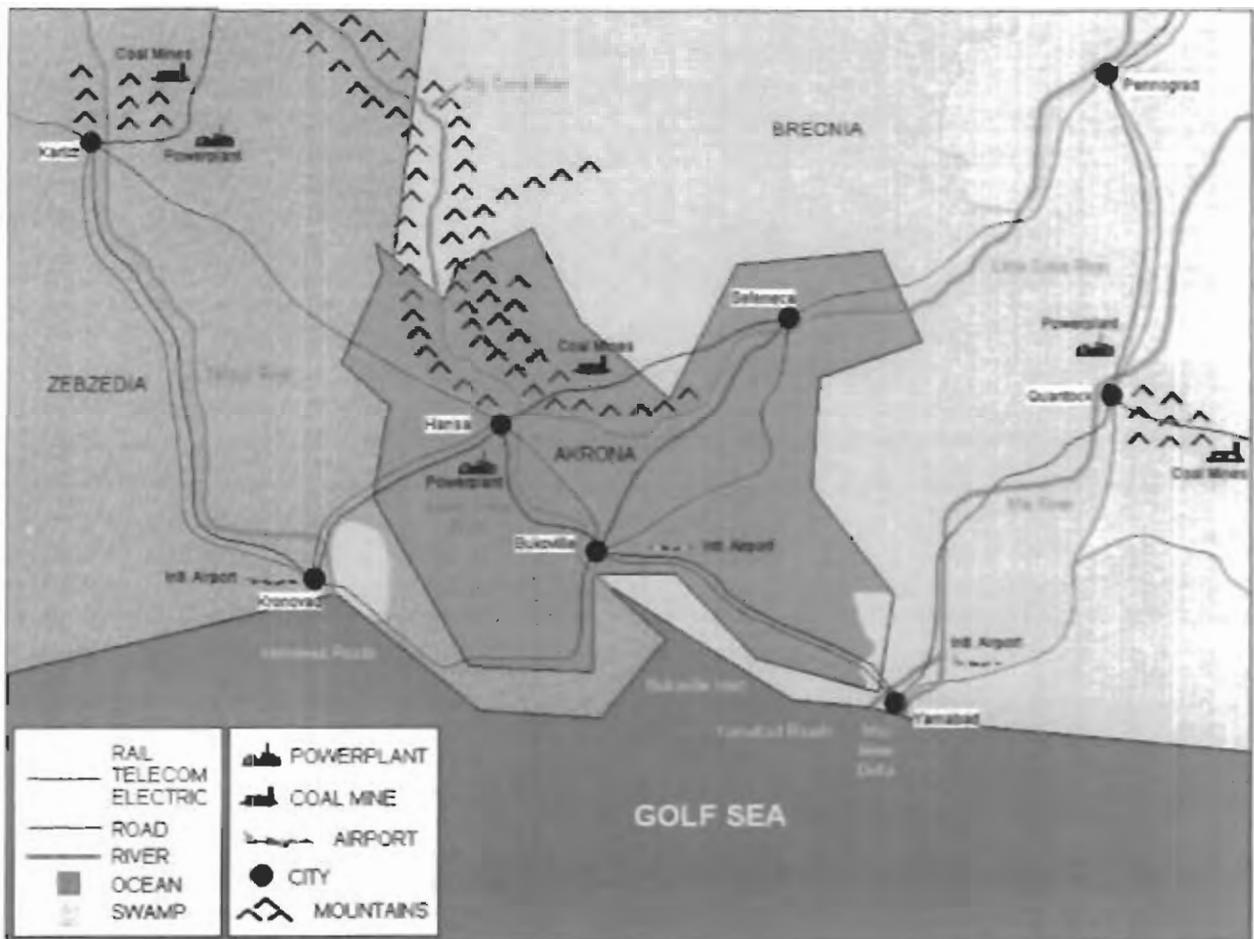
MegaCorp can provide direct investment in the private sector, loans to the Bank of Akrona and private firms, and grants to Global Aims and Local Aims.

## **Actions**

**Strategic:** The EU, US, and Global Goals have large sources of funding that they condition on certain expectations of measurable success in an attempt to influence the overall direction of economic growth and development. The International Players can act singly or in concert; the EU and the US generally lead in the formulation of policy direction

**Tactical:** Global Aims and MegaCorp represent the on-the-ground activities of the international community. Global Aims seeks to implement the strategy of the EU, the US, and Global Goals in consonance with its own objectives regarding social well-being and the environment. MegaCorp is the embodiment of the global economy as it affects the local economy and government decisions with regard to the development and extraction of natural resources.

# Akrona Background Briefing



## Table of Contents

<u>I. OVERVIEW</u> .....	3
<u>II. LOCATION/GEOGRAPHY/CLIMATE</u> .....	3
<u>III. HISTORY and CONTEXT</u> .....	3
<u>IV. PEOPLE</u> .....	4
<u>V. GOVERNMENT</u> .....	5
<u>A. The Constitution</u> .....	5
<u>B. The Parliament</u> .....	5
<u>C. The Executive Branch</u> .....	5
<u>VI. BANKING, FINANCE, AND FISCAL POLICY</u> .....	5
<u>A. The Banking System and Central Bank</u> .....	5
<u>B. Currency and Exchange Rate</u> .....	6
<u>C. Fiscal Policy</u> .....	6
<u>VII. FOREIGN AID</u> .....	7
<u>A. Donor Governments</u> .....	7
<u>B. International Financial Institutions (IFIs)</u> .....	7
<u>C. Non-Governmental Organizations (NGO)</u> .....	7
<u>D. Donor Coordination</u> .....	7
<u>VIII. THE ECONOMY</u> .....	8
<u>A. Economic Background</u> .....	8
<u>B. Current Economic Situation</u> .....	8
<u>C. Infrastructure</u> .....	9
<u>IX. NATURAL RESOURCES AND ENVIRONMENT</u> .....	10
<u>A. Resource Base</u> .....	10
<u>B. Environmental/Natural Resource Management Issues</u> .....	10
<u>X. HEALTH AND SOCIAL WELFARE</u> .....	11
<u>A. Health/Nutrition</u> .....	11
<u>B. Education</u> .....	11
<u>C. Shelter</u> .....	11
<u>D. Arts and Culture</u> .....	11
<u>XI. FOREIGN POLICY</u> .....	12
<u>A. The Akrona Accord</u> .....	12
<u>B. US and the EU</u> .....	12
<u>C. Relations with Border States</u> .....	12
<u>XI. DEFENSE</u> .....	12
<u>A. Policy/Strategy</u> .....	12
<u>B. Defense Forces</u> .....	13

24

## I. OVERVIEW

Beset by civil war, ethnic strife, and aggressive neighbors, the state of Akrona became a humanitarian tragedy and an economic disaster. The international community perceived an emerging threat to regional stability. Strong concerted action by the EU and the US dissuaded external aggression against Akrona and helped arrange a somewhat shaky internal *modus vivendi*. Equally important, the US, the EU, other donors, and their instrumentalities (the international financial institutions) provided advice and material support to assist with Akrona's reconstruction. Akrona must use this assistance, together with its own meager resources, to create a modern market economy within which three competing ethnic groups will join together to accomplish common goals. Akrona must reconstruct its civic, social, and economic infrastructures, evolve quickly into a market-based system, and overcome historic animosities. This will require leadership, democratic process, ethnic tolerance, sound economics, attention to public health, and sustainable natural resource management.

## II. LOCATION/GEOGRAPHY/CLIMATE

Akrona is a mountainous territory of just over 60,000 square miles — roughly the size of West Virginia. It shares borders with the republics of Brechnia and Zebzedia. To the southeast, Akrona has 40 kilometers of shoreline on the Golf Sea.

Much of the country is mountainous with uneven terrain. The borders are difficult to police. A sizable portion of the land area is unsuitable for farming. However, there are a number of fertile valleys that are capable of meeting a significant portion of the domestic food needs. The interior has a continental climate with cold, snowy winters, a rainy spring, and warm dry summers. Its small coastal enclave has a Mediterranean climate. Three powerful rivers, which cross its territory, are a useful source of hydroelectric power.

## III. HISTORY and CONTEXT

Wandering tribes of Vandals, Asians, and Goths moved in and out of the territory presently known as Akrona in the first several centuries of the Common Era. This small land area benefited greatly from its proximity to the Golf Sea, with its ancient seaport of Caracalla competing with the other great city-states of the time, such as Alexandria, Antioch, Carthage, Athens, and Ragusa. First mentioned in the Chronicles in 537, it is not clear as to how this land acquired its name. Over time, though, its people came to refer to themselves as Akroni, Brechni, and Zebzedi.

The Eastern Empire, the Muslim Realm, and the Western Empire successfully ruled Akrona. Its geographic position and the contact of its population with different peoples clearly influenced the land in terms of religion. The majority of Akroni follow the Islamic faith. Following the Great Schism, the Brechni began to refer to themselves as Orthodox Christian and the Zebzedi as Roman Catholic. At times during its long history, communities received preferential treatment when their religion was similar to the religion of their land's overlord.

Following the First World War, and as a result of thinking with respect to self-determination, a "Federation of All Brezni and Zebzedi" was founded. Akrona was a territorial unit within this Brezni-dominated Federation. After the Second World War, Akrona, Breznia, and Zebzedia were established as sovereign states. Whereas the latter were constituted of majority Brezni and Zebzedi peoples, Akrona was multi-ethnic—all three communities resided within its borders. The state had modest initial success. Ethnic, class, and economic fault lines were bridged by a strong central state with a transcendent—Communist—ideological orientation.

By the 1980s, though, it had become apparent that serious difficulties lay ahead. The Communist Party's influence on state and society was waning. Politicians utilized ethno-nationalist rhetoric as a means to gain constituents in all three countries during the early and mid-1990s. Those residing in Breznia and Zebzedia began looking to their fellow communities in Akrona and speaking about uniting in one land and redrawing borders. Akrona, beset by economic problems and escalating ethnic tensions, could not withstand this pressure. Civil war broke out in 1997.

Under strong pressure from the international community, peace was re-established in 1999 by the Akrona Accord. The Akronan Government is currently working hard to rebuild the state, restore order fully, rekindle the economy, and return the country to a state of normalcy. To this end, they are receiving help and advice from Europe, the U.S., and certain other actors of the international community.

#### **IV. PEOPLE**

The current population is some 3.5 million, down from nearly 5 million in the pre-civil war period. The population density is roughly 55 per square kilometers overall, but it is actually much higher if one excludes the sparsely populated mountainous regions. No single ethnic group is in the majority. Akronis comprise 45 percent of the population; Breznis, 35 percent; and Zebzedis, 20 percent. Religious affiliation parallels ethnicity. Most Akronis are Sunni Muslim; the Breznis, Orthodox; and the Zebzedis, Catholic. The principal language is Breznio-Zebzedian.

Ethnicity in Akrona is an important racial identifier. Individuals generally see their first loyalty to their ethnic community. Although of common stock, the three major ethnic groups divide sharply on cultural and religious grounds. Half a millennium of perceived historical injustice now divides the ethnic communities. Individuals tend to live in ethnically concentrated regions. Inter-marriage is discouraged. Employment tends to be ethnically biased. The groups share the limited supply of central government and government enterprise jobs. In the private sector, Zebzedis traditionally dominate industrial construction and are active in agro industry. The Brezni predominate in light manufacturing — furniture, household goods, etc. — and in commercial and business services. Akronis tend to be found in labor-intensive sectors of the economy such as farming, clothing manufacturing, and raw material production.

The Akroni faction comprises most of the population of Hansa, the capitol city. There are three other towns with populations greater than 100,000: Blad and Seleneca in the Brezni dominated regions of the country, and Bukoville in the Zebzedi influenced area near the sea

## **V. GOVERNMENT**

### **A. The Constitution**

This accord, signed by all parties in 2000, affirms the continuation of the nation on a multi-ethnic basis. Human rights for all are guaranteed. The central government of Akrona is responsible for foreign policy, overall economic and financial policy, immigration and refugee issues, international and inter-entity law enforcement, common and international communications, and transportation and air traffic control. Social policy (education, health, housing, etc.) is formulated and enforced by the central government but cost-shared with local authorities. The judiciary is scarcely mentioned in the constitutional document.

### **B. The Parliament**

The current composition of the Parliament is Akroni, 81 seats; Brezni, 63 seats; and Zebzedi, 36 seats. The current government represents a coalition between the largest and the smallest ethnic groups, the Akronis and the Zebzedis. However, the coalition is subject to collapse over economic and social policy issues. Parliament controls tax and tariff rates, the relative proportions of the civil and military budget, and the openness of economic sectors to privatization and/or foreign investment.

### **C. The Executive Branch**

The President is both Chief of State and head of the government. The Cabinet of Ministers, under the President, directs the daily running of the government. The ministers exercise the usual executive prerogatives. In consultation with the political parties, the Ministers construct the annual government budget. In this context, the government also negotiates resource concessions (the timber harvest) and sells state assets (privatizes) in sectors authorized by the Parliament.

## **VI. BANKING, FINANCE, AND FISCAL POLICY**

### **A. The Banking System and Central Bank**

The Bank of Akrona was established in 1995. It is both the central bank and a surrogate for the commercial banking system. In its role as the "central bank" under the Akrona Accord, it is only authorized to act as a currency board and relies upon its power to change the market rate of interest (called the discount rate in Akrona) to maintain one-to-one currency parity with the US dollar. In its role as the primary commercial lender in Akrona, the Bank is currently characterized by the international financial community as a "largely inept sole-

source lender.” The latter is primitive, poorly developed, and lacks the necessary laws and regulations to stimulate development. Little savings or capital are generated locally. The Bank of Akrona attempts to serve as a capital intermediary that facilitates the lending of money to a very limited pool of proven clients and cronies. It also is prepared to engage in lending of International Financial Institution (IFI) and donor funds under such conditions as the latter require.

## **B. Currency and Exchange Rate**

During the civil war, the different ethnic factions each issued their own scrip. Without foreign exchange backing, what became known generically as “Akronan scrip” was of little value during the war period, and the US dollar became the principal medium of exchange. This arrangement (in a more sophisticated form — a currency board) was continued when the Central Bank was established. At the present time, the Akronan currency, the New Luna, is pegged to the US dollar at the rate of 1:1. Consequently, the full burden of monetary adjustment is on the interest rate. The Bank of Akrona has no discretion as to exchange rates and its IMF-supervised currency board arm is closely monitored to make sure that it complies with the currency parity arrangements agreed to in the Akrona Accord.

Imports increase pressure on the discount rate and exports decrease it, the pressure manifesting itself in rising or falling interest rates. Until the export sector revives, donor foreign aid and associated expenditures in Akrona will be critical to maintaining adequate foreign exchange reserves, import availability, and tolerable interest rates. All parties support the 1:1 peg. Failure to maintain the peg would provoke a flight to foreign currencies and a political-economic crisis of profound magnitude.

## **C. Fiscal Policy**

The current Minister of Finance and the government in power are on record as being committed to taking the financial steps necessary to build a market economy with a sound financial structure. Privately, they take the position that the country is politically incapable of handling the necessary adjustment without considerable outside assistance.

The budget authorities construct the budget utilizing tax and tariff revenues, unrestricted foreign aid, natural resource concession proceeds, and privatization revenues. They must follow Parliamentary guidance on the proportion of the budget that can be spent on defense. The fixed exchange rate imposes discipline on the budget policy process. Deficit spending is possible, but it will immediately and strongly influence interest rates, which must then rise sufficiently to free up the required resources for the government to borrow.

## **VII. FOREIGN AID**

### **A. Donor Governments**

The donor governments are concerned over the potential for renewed conflict to spark broader regional instability. All are aware of Balkan history, where conflicts have proven difficult to contain. Moreover, humanitarian elements within the international community are exerting serious political pressure on their home governments to "do something" to avert further bloodshed and solve the AIDS problem. Donors see economic and social progress as the means to avert a renewal of hostilities. Towards this end, they are prepared to provide economic and technical resources, and to direct international financial institutions to engage. However, donors' resources and forbearance are not unbounded, and donors will want to condition assistance on performance. There are two principal bilateral donor entities — the US and the EU. Each contributes technical and financial economic assistance, humanitarian assistance, military assistance, and peacekeeping forces.

### **B. International Financial Institutions (IFIs)**

Akrona works closely with the World Bank, the International Monetary Fund (IMF), and a variety of other international financial organizations — all represented by Global Goals. It relies heavily on their help and advice.

### **C. Non-Governmental Organizations (NGO)**

Numerous international NGOs are active in Akrona. These are subsumed within the composite entity, Global Aims. Global Aims provides humanitarian relief and supports the development of small-scale enterprise. Global Aims has modest self-generated funding, but prefers to mount large programs with funding from the US, EU, and other bilateral donors. Donor entities find NGOs a convenient and efficient instrumentality through which to direct assistance. International NGOs tend to form partnerships with local NGOs (Local Aims) to help build local capacity for social advocacy and grassroots action.

### **D. Donor Coordination**

Donor coordination is often poor, but always courteous. The donors tend to have their own agendas and differing styles. However, given the common political imperative of stabilizing this volatile region and the political demands of humanitarian constituencies within their home countries, the bilateral donors will act collectively on critical items. They have, for example, collectively pressured the IFIs to provide additional funding to Akrona, and will continue to do so to the extent they see this as essential to progress. The Europeans are particularly worried about potential refugee outflows, and the US is worried about regional instability and the potential involvement of outside powers. Both are mindful of humanitarian needs. Each wants a leadership role but would prefer the other do more, so it could do less. The United States, in particular, faces domestic pressure to reduce their contributions (in troops and financial assistance) to what is perceived at home as a "European problem." The IFIs, within the limits of their usual institutional biases, are prepared to be responsive to the

US and the EU. Global Aims lobbies for donor funds to mount programs of its own, and to call attention to the social indicators.

## VIII. THE ECONOMY

### A. Economic Background

Under the Communist regime, Akrona's development was driven by state-directed investment in heavy industry. By 1990, more than 50 percent of Akrona's GDP came from industry, mining, and forestry. Abundant hydroelectric power facilitated the development of energy-intensive industries, with a modest energy surplus for export. Wide availability of iron ore, aluminum oxide, and bauxite permitted development of broad based, if inefficient, metal industries.

Despite all of this, per capital GDP remained well under that of neighboring countries. Moreover, development was unbalanced. Agriculture and fisheries dropped to only 15 percent of the Akrona's GDP despite being the major source of employment. The Republic needed to import much of its basic food supply (agriculture in Akrona has never been collectivized, but agro industry was dominated by state enterprises). Service industries, other than those related to health and social services, were largely private and a source of growth, even under the old regime. Tourism in particular showed great promise.

### B. Current Economic Situation

Currently the economy is thought to be operating at less than 50 percent of its prewar level. Inflation, a serious problem in the war years, is now below three percent. Large numbers of workers are unemployed and many more are under-employed. There has been modest improvement since the war period. The fighting from 1997 to 2000 wreaked havoc on Akrona — 60 percent of the population was displaced during this period, and nearly 200,000 were killed. The GDP declined dramatically by 2000, with 80 percent of the population dependent on external aid. Fifty percent of all industrial plants were destroyed, and industrial capacity was only 10 percent of the 1995 figure.

***Fragmentation and Compartmentalization:*** Destruction of the transport infrastructure, impediments to border trade, and demographic (sectarian) division reinforced the effect of the country's natural geographic barriers. Under the Federation, the economy's prior development had been structured to foster integration and interregional dependency. With the breakup of the Federation, loss of transport infrastructure, and the breakdown of internal order, massive economic dislocations were experienced. Industries were separated geographically from their raw material sources and critical intermediate goods, agricultural production was separated from its markets, and workers were separated from the plants where their skills could best be used. Recovery depends on resolving economic dislocations, and creating a mobile and integrated skilled work force.

**Employment:** Currently, the public sector dominates employment, with an estimated 80 percent of the total formal sector employment. Productivity in the public sector is only a quarter of that in the private sector, and state enterprises require substantial budget subsidies. Unemployment is a central concern. Over 75 percent of the labor force is currently unemployed or employed in the informal sector. The informal sector in Akrona is very inefficient, and those in it have been marginalized. They readily move to the formal sector, as jobs are available.

**Foreign Exchange Reserves and External Deficit:** Akrona has very limited net reserves and a large balance of trade deficit. Apart from timber, it has few exports and depends on imports for much of its consumption and raw material needs. Investment from abroad is still low. Without continuing high levels of foreign assistance and loans from the international financial institutions, there would be little foreign exchange for imports and the current low standard of living would fall precipitously.

### **C. Infrastructure**

**Transportation Infrastructure,** or what remains of it, is in poor shape. Forty percent of the roads and bridges are unusable by heavy vehicles, and the rail system is non-functional.

**Roads:** Akrona has a road network of 25,000 kilometers. Only half is paved and much of the remaining could be classified as mountain track. Nearly 50 percent of the paved roads are barely useable due to war damage and neglect. Forty percent of bridges are damaged, or unsafe. Costs to domestic firms requiring road transportation are roughly twice the regional norm, creating yet another barrier to profitable domestic economic activity.

**Railroads:** Before the civil war, rail services connected the four major cities and provided links with Pennograd and Karizz, the capitals of neighboring countries. Today the rails are basically inoperable. International consultants believe their reconstruction is an economically attractive proposition.

**Vehicle Stock:** Trucks and automobiles provide much of the current transport. Most are old and are kept operating only through ingenuity and cannibalization. Poor roads compound the maintenance problems, and at times erratic supplies of fuel add to the difficulties.

**Airports:** There is an airport near Bukoville that is capable of handling international travel on a limited scale. However, security considerations and lack of passenger interest continue to leave such travel in a dormant state.

**Electricity and Public Utilities:** Nearly 80 percent of the electric generating capacity has been lost. Similar damage afflicts water and sewage systems. Solid waste disposal has been haphazard. The telephone system functions erratically at best, and international circuits are overloaded. Postal service is again functioning, though its reliability is questionable.

## IX. NATURAL RESOURCES AND ENVIRONMENT

### A. Resource Base

**Timber:** Timber is Akrona's greatest and most immediately exploitable natural resource. Forests and woodland comprise 3.6 million hectares (14,000 square miles, or some 23 percent of Akrona's land area.) These are mainly in the Akroni-dominated regions of the country.

**Minerals:** Akrona has significant mineral wealth. Coal production once played a major role in the regional economy. Iron, chromium, and other minerals are available in commercially exploitable quantities. The raw materials for cement production are readily available and production facilities could quickly be rebuilt to meet reconstruction demand. Mineral potential is found in all areas of the country.

**Water:** The three major rivers traversing the country offer an ample supply of water for all uses, including a capability for large-scale hydroelectric power production. Akrona's watershed was slightly damaged by continual harvesting of forests for timber profits during the war. The impacts of the timber harvesting are only now being felt.

**Agricultural Resources:** Agriculture benefits from year-round access to plentiful ground water, rich top soil, and an abundance of forest dwelling pollination agents. Prior to the war period, a major part of the work force (nearly 40 percent) was engaged in agriculture. Fewer are so occupied today. The primary crops are wheat, potatoes, cabbage, almonds, and apples. Livestock production includes poultry, sheep, cattle, and pigs. Both livestock and crops were severely degraded by the war.

**Gas and Oil:** Akrona has no reserves of either, but it profits from the reprocessing and transport of other countries' petroleum.

### B. Environmental/Natural Resource Management Issues

Environmental NGOs and foreign advisors are concerned about the potential loss of forests from government timber concessions, illegal cutting, and conversion to agriculture, and industrial and residential construction. They argue that forests in Akrona, given the terrain, soil conditions, species composition, and economic reality, are not in practice renewable. Forests regulate freshwater quality by slowing soil erosion and filtering pollutants, at the same time regulating the timing and quality of water discharge. To the extent that forest ecosystem integrity is lost, there a permanent loss of productivity and an increase in economic costs in many sectors of the economy. Watershed integrity relates directly to forest ecosystem integrity. As watershed integrity is lost, expensive water treatment will be needed. Increased hydroelectric power plant maintenance is required due to increased siltation, and housing stock is threatened by flooding and landslides. Loss and fragmentation of habitat for pollinators critical to agriculture, in addition to increased soil erosion, is another serious potential problem.

## **X. HEALTH AND SOCIAL WELFARE**

Social indicators suggest that Akrona is not, at present, a desirable place to live and work.

### **A. Health/Nutrition**

Years of civil strife have played havoc with the public health system. The health infrastructure — hospitals, clinics, equipment, etc. — was largely destroyed, along with the systems that sustained them. There appear to be adequate numbers of medical personnel, but many are ill trained and all are seriously underpaid. There is little in the way of publicly funded medical care and medicines. Health and mortality statistics are among the worst in Europe. Infant mortality figures suggest a serious need for medical funding and for nutrition-centered child-maternal health programs.

More ominous, HIV-AIDS has become endemic in the country. This has been exacerbated by the social turmoil of the past decade, and will require the immediate attention of the public health authorities. Already AIDS patients are displacing patients with other ailments within the medical system. Worker health is not an immediate constraint to economic growth, but only because of the large unemployment problem. The inability of government to adequately address public health issues is a growing source of public discontent.

### **B. Education**

Akronans place great emphasis on education. The inability of government to address primary and secondary education needs is a source of public discontent. Moreover, unless the government is able to restore the educational infrastructure and its support systems, adequate skilled labor may not be available for economic expansion in the more distant future.

### **C. Shelter**

Much of the population remains under-housed, ill-housed, or in refugee camps. There is currently a serious shortage of housing stock. Raw materials for construction are available internally.

### **D. Arts and Culture**

The government has provided little funding or subsidies to art and culture since before the war. Private patrons are similarly unable or unwilling to provide support to this sector. This cultural loss, it is feared, will have an effect on the national character, as well as undercut tourism potential.

## **XI. FOREIGN POLICY**

### **A. The Akrona Accord**

The Akrona Accord of 2000 governs the country's internal and external relations and is central to its foreign policy. All domestic factions within Akrona; neighboring countries including Brechnia and Zebzedia; and key international actors — the EU, the US, and Russia — signed the agreement. The Accord affirms the integrity of current borders, guarantees human rights, defines the political process for sharing of power within Akrona, and encourages commerce between Akrona and its neighbors.

### **B. The US and the EU**

The US and the EU are the principal outside powers. They supply the economic assistance and peacekeeping forces central to sustaining the Akrona Accord. The Akronan government tries to maintain close relations with both. The government sees US economic, diplomatic, and military power as indispensable to near-term stability. At the same time, it sees its long-term future as dependant upon economic integration with the EU. Akrona also has relations with Russia and Greece. Turkey and other Muslim countries are seen as supportive, but with the potential to alienate principal donors.

### **C. Relations with Border States**

Relations with Zebzedia and Brechnia are uneven at best. Zebzedia is often cooperative on trade, but difficult on territorial issues. Relations with Brechnia tend to be difficult in all areas, but manageable with the help of the US and the EU. Both Zebzedia and Brechnia have a strong concern for their ethnic brethren within Akrona's boundaries.

## **XII. DEFENSE**

### **A. Policy/Strategy**

**Objective:** To preserve the integrity of the state of Akrona and provide security for national reconciliation.

**Strategy:** Attain internal and external security through international support and cooperation with international bodies – NATO, the EU, and the UN in particular. Over time, build a defense force capable of providing a significant deterrent to any military threat from its immediate neighbors, and capable of ensuring internal order come what may. (Akrona is acutely aware of the vulnerability inherent in its current dependence on outside help for its security. However, it also understands that defense expenditures, to the extent not offset by international military assistance, trade off directly against the resource needs of reconstruction. Delayed reconstruction would entail even greater vulnerability.)

**Threats:** Different ethnic groups, if not willing to enter into national cooperation or not properly motivated to do so by the government, have the potential to foment significant unrest, and/or the resumption of civil war. Reversal of policy by one or more of its neighbors could incite local conflict and, unless countered by international peacekeeping forces, could pose the risk of Akrona's borders being overrun. Akrona could become involved unwillingly in a broader regional confrontation unrelated to its national situation. Premature loss of interest by countries supplying peacekeeping forces could put current political arrangements, both internal and external, in jeopardy.

## **B. Defense Forces**

**The Defense Budget:** Akrona's military budget requires increased financial support to meet its needs. Reductions/increases in that budget imply proportionate change in military resources. The increasing demands on the budget and the changing nature of the military strongly suggest the need for military reform in Akrona.

**Loyalty:** Care has been taken to purge the armed forces leadership of the more partisan senior staff. As long as a coherent national government remains in place and governs with at least the tacit acceptance of the three ethnic constituencies, the army will obey duly constituted civil authorities. To the extent that any ethnic group becomes alienated from the governance process, the corresponding ethnic element within the military becomes unreliable.

**Size:** Total strengths overall:

NNA (New National Army): 254,400, formed in late 2000 from remnants of the 1997 forces, which were composed of:

(AF) Akronan Government Forces: 180,000

(AFC) Akronan/Zebzedi Combined Forces: 28,200

(SF) Brezni independent Forces: 46,000

**Organization:** The current national force is organized in a manner designed to include all elements of Akrona. The greatest progress has been made in the Akronan and Zebzedi units of the pre-unity force. During internal fighting in the 1997-2000 period, local military leadership played a key role, particularly in the early phases. By 2000, however, brigades had been incorporated into corps, and a joint high command was established.

**Equipment:** The military is quipped with primarily low and medium technology equipment. The equipment is adequate but out-dated and expensive to maintain.

## **The S.E.N.S.E. Partnership: A Work in Progress**

S.E.N.S.E. was conceived and developed at the Institute for Defense Analyses (IDA) to support General Wesley Clark in his role as Supreme Allied Commander in Bosnia in the implementation of the Dayton Peace Accords. Drawing on years of experience with military simulations in environments ranging from tactical battlefield to global strategic scenarios, IDA adapted what had been learned about the use of technology, particularly computer-based simulation, to strengthen military decision-making capabilities. They then integrated an economic database and a sophisticated grasp of fundamental economic concepts and present-day economic challenges to create the early version of the S.E.N.S.E. simulation, and the core of the S.E.N.S.E. "experience" as it currently exists.

Collaboration between IDA and the United States Institute of Peace (USIP) has strengthened the realism and richness of the simulation by building in increased opportunities for different varieties of human interaction. Thus, S.E.N.S.E. has evolved into a more broadly focused enterprise that brings together face-to-face negotiation and transaction that informs and drives decisions, e.g., bringing the Croats, Bosniaks, and Serbs together in Bosnia. These decisions are then entered in the computer and recorded by the software, which visually feeds back to the participants in real-time the consequences of those decisions. The contribution of USIP, with its expertise in the areas of conflict resolution and negotiation, has resulted in more robust "political" content, particularly in the USG inter-Agency arena. This has deepened and broadened the simulation's capability to foster greater understanding of how complex resource-allocation decisions are really made (and might be improved), and how their consequences are dealt with. It was also out of this cooperative effort that the dimension of ethnicity has been added to the simulation.

USAID has been collaborating with IDA and USIP since 1998 to bring to bear a developmental and strategic planning perspective to the computer and human aspects of the simulation to support a more integrated approach for the pre- and post conflict economic and political transitions. First, USAID views the S.E.N.S.E. technology and training as a tool that can be used to help develop a more integrated and cross-disciplinary approach for its own staff. Second, S.E.N.S.E. can be used to bring key parts of the U.S. government together in developing a common analytic and strategic framework for crisis response and working more effectively in post-conflict transitions. Third, in forging this partnership, IDA, USIP and the United States Agency for International Development (USAID) have created the opportunity for the ambitious July 30-August 2 simulation, and with it S.E.N.S.E. may enter a new and potentially even more productive stage for work overseas with our development partners.

USAID Administrator Andrew Natsios has seen the utility of S.E.N.S.E. in strengthening the capabilities of the Agency and its staff. USAID has worked with IDA to enrich S.E.N.S.E. by bringing to it concerns that had been outside the virtual reality offered by the simulation. The S.E.N.S.E. team, working closely with experts from USAID, has integrated into the simulation additional dimensions on HIV/AIDS and natural resources and the environment as both developmental and strategic issues affecting political

stability. George Mason University's Program on Peacekeeping Policy (GMU-POPP) also has contributed its valuable expertise and facilities to the further evolution of the S.E.N.S.E. enterprise and the preparation of the July 30-August 2 training.

This collaborative process has broadened the relevance of S.E.N.S.E. to deepen our understanding of the potential "upstream" conflict prevention role that foreign assistance may play as an integrated tool of a robust foreign policy apparatus. This partnership, by helping to expand our capability to design and carry out programs that assist in setting the foundation for stable democracy and economic growth, particularly in countries emerging from conflict, is a work in progress. The importance of creating a more effective conflict-prevention paradigm and integrated prevention and response capacity to the emerging threats of instability in the post Cold-War era was outlined in the National Intelligence Council's report, "Global Trends 2015." The further evolution of the S.E.N.S.E. simulation tool is but one example of the type of new partnerships and alliances required to equip ourselves for the challenges proposed for effective governance within the global economy.



**Security, Stability, Prosperity**

Institute for Defense Analyses



# National Security in the 21st Century

Strategic Economic Needs & Security Simulation Exercise, or S.E.N.S.E., began as an IDA centrally funded research project in 1996. Originally it was intended as a proof-of-concept to demonstrate how to address national security issues beyond the military domain, with a focus on economic security. How can we better understand the spread of economic globalization and its impact on traditional notions of security for nation states?

Since that time, S.E.N.S.E. has evolved into a generalizable architecture for desktop distributed interactive simulation capable of simultaneously addressing the interrelationships and interdependencies of economic, social, political, military, infrastructure, and other issues.



# Instruments of National Power

Traditional tools are available to address issues affecting economic prosperity, foster democratic governance, and promote human rights abroad . . .

- ✓ Political
- ✓ Economic
- ✓ Social
- ✓ Infrastructure
- ✓ Security

but what about their integration?



## A Brief History of S.E.N.S.E.

In the fall of 1997, the United States European Command (EUCOM) requested that IDA employ its S.E.N.S.E. architecture to develop a simulation for use with leaders of east European nations transitioning from centrally planned authoritarian regimes to market-based democracies. The result was “Akrona,” a simulation based upon an imaginary nation endowed with characteristics closely resembling those of the host nations.

To date, the following symposia have been successfully conducted with both foreign and U.S. participants:

- Georgia II (Republic of Georgia, October-November 2000)
- Bosnia and Herzegovina II (Sarajevo, BiH, September 2000)
- U.S. Institute of Peace II (Washington, D.C., July 2000)
- Montenegro II (Washington, D.C., April 2000)
- Georgia I (Washington, D.C., March 2000)
- Bosnia and Herzegovina I (Sarajevo, BiH, January 2000)
- U.S. Institute of Peace I (Washington, D.C., July 1999)
- East European Health Care (Washington, D.C., March 1999)
- Montenegro I (The Hague, February 1999)
- USAID Demonstration (Washington, D.C., October 1998)





# A Brief History of S.E.N.S.E.

Bosnia-Herzegovina



Montenegro



Republic of Georgia



USIP and USAID





## Akrona: A Collective Experience

Early on it was recognized that simply running a simulation without providing a substantive or pedagogical context would not meet EUCOM's goals. As such, seminars and "after action reviews" are part of each symposium. This can include mock donor conferences, national forums, and press conferences, as well as special commissions to address particularly challenging national issues. These "live" simulations are conducted using the Socratic method in the host nation language, engaging participants in productive dialog, and allowing them to set the context in which the simulation is carried out. No two simulations are the same. The S.E.N.S.E. software enforces the rules of engagement among participants so that true "free play" is achieved.

The virtual computer environment in which the participants are immersed allows them to test their hypotheses, policies, and ideas for governance and economic growth. While player economic interactions are tracked and facilitated via the computer network provided by the S.E.N.S.E. architecture, personal interactions are encouraged as part of the course of play. Participants are provided with instant information about changes in social welfare and economic conditions, including: health, education, public order, culture, environment, housing and resettlement, the national economy, unemployment, and government finance.

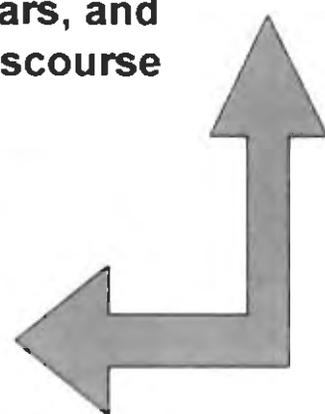
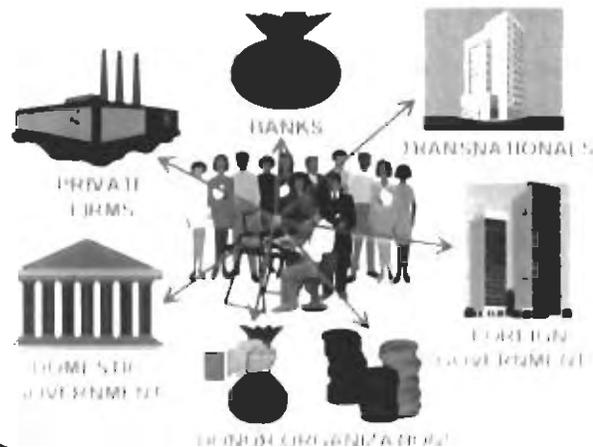
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# Akrona: A Collective Experience



**After Action Reviews, Seminars, and Collaborative-Competitive Discourse**





# Broad Themes

**Effective Governance** - collectively engage senior leadership and change agents of target nations to expose them to public sector challenges in market democracies

**Prosperity and Growth** - identify necessary policies to encourage investment and further economic opportunities

**Global Economic Integration** - investigate harmonization with international standards and norms

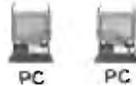
**Security and Stability** - balance force structure and modernization requirements with needs and resources -- "guns and butter tradeoffs"

**Informed Dialog** - create a common language among different groups across ethnic, cultural, political, economic, religious and social boundaries



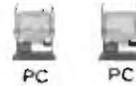
# S.E.N.S.E.: A Proven Technology

## BANK BANK OF AKRONA



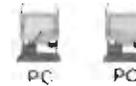
## NATIONAL GOVERNMENT

### EXECUTIVE



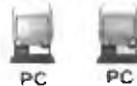
CIV

### LEGISLATURE



## FIRMS

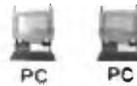
### FABER LTD



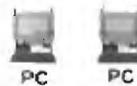
### WOODSTOCK LTD



### COLOR WORKS INC



### ARCHER & ARCHER INC



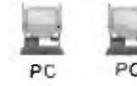
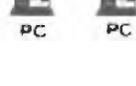
### MAPLE LEAF PLC



### RAINBOW LTD



### MOD



## MEGACORP



## EUROPEAN UNION



## UNITED STATES



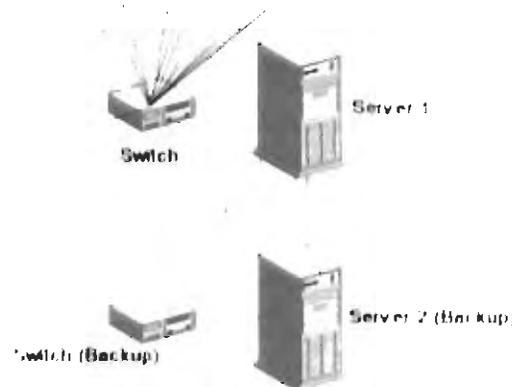
## GLOBAL GOALS (IFI)



## GLOBAL AIMS (NGO)



## LOCAL AIMS (NGO)





# Akrona's Challenges

## Economy and Public Finance

- GDP ~ \$1.4 billion
- Foreign Aid ~ \$1.2 billion per year
  - economic/humanitarian ~ \$960 million per year
  - military ~ \$240 million per year
- Heavy dependence upon imports
  - exports ~ \$0.0
  - imports ~ \$1.7 billion
- Excessive personal and corporate tax rates
  - 50% official rate on private enterprise
  - 20% effective rate on private enterprise
- Significant government involvement in marketplace
  - private sector capital assets \$762 million
  - government-owned capital assets \$676 million
- Infrastructure severely damaged / decayed
  - transportation costs twice pre-conflict period
  - housing stock reduced to 10 meters per capita

## Demographics

- Population ~ 3 000 000 growing at 1% per year
- Unemployment ~ 40%
- Displaced Population ~ 300 000

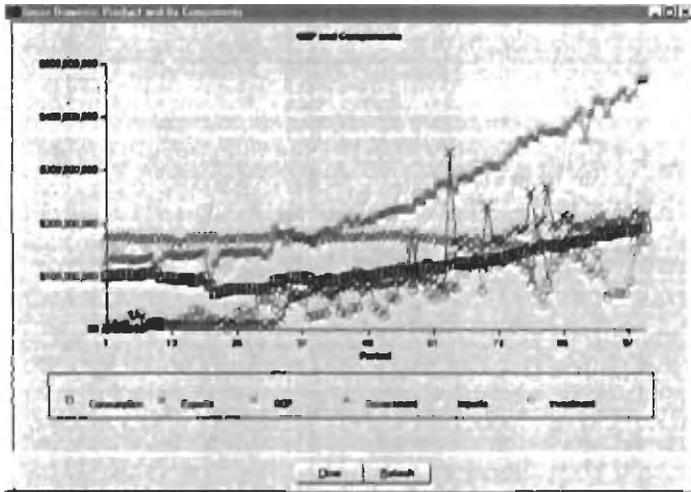
## Security and Stability

- 35% domestic government revenues allocated to defense
- Large standing military
  - active ~ 25 500 combat & 51 000 support troops
  - reserve ~ 59 300 combat & 118 600 support troops
- Stabilization force ~ 30 000 troops in country
- Potential for significant and destabilizing criminal impacts / corruption

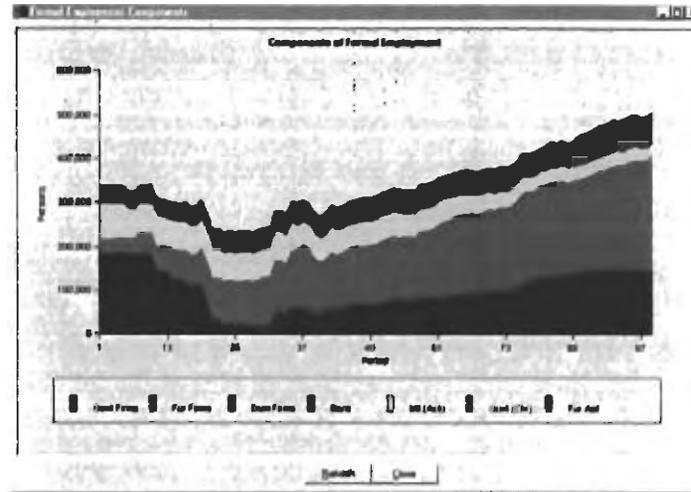


# BiH II Simulation Results

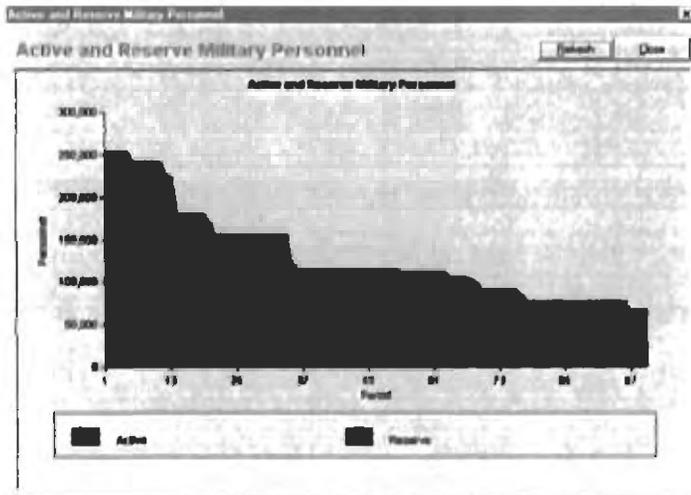
### National Accounts (GDP Dark Blue Line)



### Employment (Private Sector is Dark Blue)



### Military Reform (Active Red, Reserve Green)



### Government Revenues (Corporate Taxes Red)

