

# DRMI Newsletter

Defense Resources Management Institute, Naval Postgraduate School, Monterey, California

Issue 3

[www.nps.navy.mil/drmi/](http://www.nps.navy.mil/drmi/)

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## DRMI Activities

DRMI has continued to add more participants to its more than 26,500 total. Three resident courses were completed since the last newsletter. The Senior International Defense Management Course had 51 officials from 40 countries. The two remaining Defense Resources Management Courses added another 62 Americans and 37 internationals from 16 countries. Then there were the mobile courses. DRMI ventured to the far away countries of Malaysia, South Africa, Kenya, and Argentina. The Malaysia course had 39 participants. The course, which was taught at the Malaysian Armed Forces Defense College (MAFDC) and is part of their 11-month curriculum, was modified to make it acceptable for a new Masters degree being offered by the school. The course in Pretoria, South Africa totaled 43 participants from four regional countries. The course in Nairobi added another 35 officials to the total. DRMI had 50 participants in its course in Argentina, which finished just last week. First quarter FY03 will see the DRMI teams visiting Slovakia, Argentina again, and Bosnia.

The IDMC class started on September 23 and has 49 participants from 41 countries. Three have brought spouses – the Japanese and Korean wives are enrolled full-time in English language classes, and the Colombian wife is tending her nine-month old baby. There are eight women in this class and many young folks (under 30). It appears that there are several singers in the group as well as many with good senses of humor. The beach party on Tuesday night, September 24, was attended by all but one in the class. Singing around the campfire went on well past the allotted time. We hope that the camaraderie continues to build through the upcoming picnics, parties, and tours. The Washington, DC trip is set for October 29 through November 3. Class participants will receive briefings at the Pentagon, State Department, Capitol, and Institute for Defense Analysis. Graduation is scheduled for December 6.

## Future Courses

Resident DRMI courses will be conducted during the following dates:

IDMC 02-2	23 Sep – 6 Dec
DRMC 03-1	06 Jan - 31 Jan
IDMC 03-1	03 Feb - 16 Apr
DRMC 03-2	21 Apr - 15 May
DRMC 03-2	19 May - 13 Jun
SIDMC 03	23 Jun - 18 Jul
DRMC 03-4	21 Jul - 14 Aug
DRMC 03-5	18 Aug - 12 Sep
IDMC 03-2	22 Sep - 05 Dec

Please contact Mary Andrews at (831) 656-2104 or [mandrews@nps.navy.mil](mailto:mandrews@nps.navy.mil) for quota and enrollment information.

Mobile International Defense Management Courses (MIDMCs) scheduled for the remainder of 2002 are:

Slovakia	7 – 18 Oct
Argentina	21 Oct – 1 Nov
Bosnia	11 – 22 Nov

## Pigeons Safe from Marines in Pretoria

During the DRMI mobile course in Pretoria, South Africa, the Navy/Marine Corps team of Bonsper, Dooley, Polley and Standrowicz was invited to the Pretoria Skeet Club to shoot clay pigeons. DRMI graduate Col. Johannes David Bauer extended the offer with the expectation that the deadeye faculty would demonstrate their shooting skills by destroying countless clay birds. But not so. The birds were safe. In spite of nearly perfect shooting conditions – except for

some wind – the faculty shot nothing but air and maybe a few leaves on the surrounding trees, thus earning the moniker "The Gang Who Couldn't Shoot Straight." Maybe it was the jet-lag!?

## IT Support Enhanced

During the past few months DRMI has undertaken a project to dramatically upgrade our information technology infrastructure. Computer support of the various programs offered by DRMI is an essential component of the teaching process. In many cases the concepts of economic analysis and analytical decision making are made much clearer through the use of interactive spreadsheet models that allow the participants to easily see the effect on the output that results from exploring a wide range of inputs. Specific improvements to our computer-assisted instructional tools include:

- New 1.2ghz computers in each discussion room
- Upgraded projectors in Ecker Lounge and the Participant Computer Lab
- A new, brighter projector in the Dawson Lecture Hall (Sp400)
- New, lightweight projectors for each members of a MIDMC Team

In the near future, we will also be replacing the aging common-use equipment in the Participant Computer Lab.

The DRMI web site, located at <http://www.nps.navy.mil/dirmi>, is also being redesigned. The site will continue to offer unrestricted access to general information about DRMI, the courses we offer, enrollment requirements, etc. A new, restricted access portion of the site will allow alumni to keep abreast of the latest information regarding issues in defense resource management. In addition, new participants will be able to provide enrollment information to our administrative staff prior to their arrival at DRMI.

## FY03 DRMI Course Catalog and Brochure

DRMI's FY03 course catalog and the Defense Resources Management Course brochure have been updated and are available. If you would like copies, please contact the Admin Office (Mary Andrews) at 831-656-2104 (DSN 756) or send e-mail to Mary at [mandrews@nps.navy.mil](mailto:mandrews@nps.navy.mil).

## Curriculum Developments, Teaching News, and Faculty/Staff Service

Diana Angelis is now (and for a long time, we hope) the Academic Associate. She is responsible for all curriculum and scheduling issues related to all DRMI courses. Good luck, Diana!

Diana Angelis developed and taught a course for the Master of Science in Systems Engineering program at NPS this Spring. The MSSE program is designed to help NAVSEA Port Hueneme meet its principal objective to become more responsive to the changing nature of Engineering tasking received from its NAVSEA and PEO customers. Diana taught SI3011, Engineering Economics and Cost Estimation. The course was an introduction to the cost aspects of systems engineering. It explored cost from a decision making perspective, examining how cost is used to select alternatives and how the cost of systems can be measured. Concepts covered included economic analysis, cost behavior, cost allocation, system cost, life-cycle costs, cost over time, cost estimating techniques, cost uncertainty, and risk management. The use of cost concepts in defense problems was emphasized. The course was presented using a combination of on-line materials, video-teleconferencing lectures and on-site lectures.

Jerry Groshek, former DRMI professor and now a professor at Redlands University in Redlands, CA, will join the faculty for two weeks of discussion in November. Welcome, Jerry!

A faculty budgeting group was formed in July to review and update our budgeting lectures and to discuss budgeting issues. The group includes

C.J. LaCivita, Jim Blandin, Natalie Webb, Peter Frederiksen, Diana Angelis, Bob McNab, Don Bonsper, Al Polley and Eric Gerencser. Currently they are reviewing and organizing the material developed by the late John Dawson (a well known expert in budgeting theory) and using it to develop a guide to our budgeting lectures, case studies and exercises. The group is also compiling a budgeting reference list which will eventually be added to the DRMI web site.

Lt. Gen. Robert Ord (ret.) has accepted the position of Dean of the School of International Graduate Studies, the school under which DRMI operates. He begins his position October 15, and relieves C.J. LaCivita, the Executive Director of DRMI, who has also been in the position of Acting Dean.

Wanda Pan-Christiansen is the Outreach Program Coordinator for SIGS. In this capacity, she is responsible for marketing various SIGS programs, including DRMI courses. She also develops marketing material for SIGS programs.

## Faculty and Staff News

Lt Col Don Duckro has moved on to the Air Superiority Division within Air Force Studies and Analyses Agency to work on Base Operating Support and Working Capital Fund studies. He values the lessons from DRMI as he attempts to maintain a little discipline in the conduct of Air Force program analysis.

DRMI's Administrative Assistant, Gloria Moreno, was married on August 10 to Mr. David Brewer. Gloria has worked in the Admin Office since 1998. The new couple currently live in Marina but have plans to move to Washington state next year. Best wishes to them both.

Ricardo Mosqueda, assistant in the DRMI Academic Materials Office, retired in August. Rick worked for DRMI since 1995. His retirement plans include taking art & music classes and spending time with his family. We wish him all the best. multiple job offers and is interested in obtaining a job with a biotech-related company.

## Faculty Research and Conference Presentations

Professor Peter Frederiksen gave two invited lectures in Bangkok, Thailand. The first, "Recent Research on Defense Economics," was presented on May 31 at the Supreme Headquarters, and hosted by ADM Suchard, Deputy Joint Chief of Staff. The second, "Developing a Program Budget System," was presented at the Office of the Defense Budget, Ministry of Defence, hosted by RADM Prasarn Prasarnpanich on August 5.

McNab, R (Ed.). (2002). Budgeting and Fiscal Management Symposium. In Press. Public Finance and Management.

McNab, R. and Melese, F. (2002). Implementing GPRA: Examining the Prospects for Performance Budgeting in the Federal Government. In Press. Public Budgeting and Finance.

McNab, R. and F. Melese. (2002). Public Corruption, and Governance. In Press. In S. Rashid (Ed.). (2002). Rotting from the Head: Donors and LDC Corruption. Dhakar, Bangladesh: University Press Bangladesh.

McNab, R. and S. Everhart. (2002). Aid, Corruption, and Governance. In Press. In S. Rashid (Ed.). (2002). Rotting from the Head: Donors and LDC Corruption. Dhakar, Bangladesh: University Press Bangladesh.

Bob McNab served on the dissertation committees of Steven Everhart and Wasseem Mina from the Andrew Young School of Policy Studies, Georgia State University who completed their Ph.D. in Economics dissertations this summer. Professor McNab was also the co-advisor on the Master's thesis of Tamas Rozsas, Naval Postgraduate School, who won the award of the best international student thesis, Summer 2002 graduation.

## Developments in Resources Management

One of the conceptual models that we teach at DRMI is the relationship between national

values and interests; the threats to our values and interests; and the development of a national security strategy and its link to building our force structure and budgets. In this regard, we suggest reading the most recent US national security strategy at: <http://www.whitehouse.gov/nsc/nssall.html>

## **The Impact of International Aid on Corruption and the Quality of Governance**

In two forthcoming papers, Professors McNab and Melese of DRMI and Dr. Steven Everhart of the Overseas Private Investment Corporation investigate the impact of international aid on corruption and the quality of governance. The first paper by Professors McNab and Melese examines the differences between public and private corruption and investigates whether international aid gives rise to corruption. The second paper by Professor McNab and Dr. Everhart empirically examines whether there is a relationship between international aid, the quality of governance, and economic growth.

Professors McNab and Melese examine the differences between public and private corruption in their forthcoming chapter "Corruption, International Donors, and Governance." They note the existence of strong financial and reputational incentives for cooperation with the international donor organizations in the disbursement of resources and technical assistance. Emerging democracies may be particularly susceptible to these pressures as resources are typically quite scarce in those countries, and those who align themselves with the donor organizations have control over donor flows. Targeting donor resources to reward political support (and withholding them as punishment when necessary) creates another layer of incentives for cooperation with donor organizations. If corruption is a significant problem, then the direct rewards for cooperation are quite clear, that is, the ability to siphon resources for personal and political gain from projects supported by international organizations.

Professors McNab and Melese argue that these incentives can be attenuated. One question is whether international assistance is truly

necessary. Curiously, those countries that received lower levels of international assistance relative to GDP over time, grew faster than countries with higher levels of assistance. Perhaps what is needed instead of direct financial aid which can be siphoned or taxed, is technical assistance and training to improve accountability, transparency, and reduce transaction costs. Corruption also acts like an invisible tax, increasing costs and reducing output. Reducing the corruption tax may also free up domestic resources, enhancing the provision of public services and infrastructure. Lowering the corruption tax may also enhance foreign direct investment, spurring economic development.

Encouraging transparency and accountability in the public sector lowers returns to corrupt activities, and can renew the public's faith in government. Instead of subsidizing large, expensive, centralized projects, domestic and international organizations might better serve target populations by encouraging good governance, decentralization, and work to reduce particularly burdensome trade barriers in developed countries. Starting with the premise that good governance and decentralization can lead to market-driven growth through international trade and investment, it can eventually be determined to what extent international aid is truly necessary and to what extent it merely meets the needs of donor organizations.

Professor McNab and Dr. Everhart empirically examine the relationship between international aid, the quality of governance, and economic growth in their chapter "Aid, Governance, and Growth." International aid appears to directly increase corrupt activities and retard the rate of economic growth. They also found evidence to support the hypothesis international aid, thought increased levels of corruption, lowers the quality of governance. Coupled with the empirical finding that the quality of governance and economic growth are positively related, this result provides evidence of an indirect channel from international aid and corruption through governance to economic growth. These findings not only support the previous findings in the literature but provide some of the first evidence on the detrimental impact of international aid on corruption, governance and growth.

The policy implications of Professor McNab's and Dr. Everhart's results are significant. For countries with poor governance and high levels of corruption, investments in physical and human capital will not produce the same rate of return as investments in governance and anti-corruption efforts. Only when these institutions are firmly established and operating effectively should resources be allocated to large physical and human capital projects. Furthermore, the empirical evidence suggests that international aid has, over the past thirty years, failed to improve the rate of economic growth, reduce corruption, or improve the quality of governance in the sample countries. While there are many projects that are funded in whole or part by international aid that are considered successful, the results suggest that, in the aggregate, international aid does not achieve its macroeconomic objectives. International aid may not, as the World Bank suggests, be a necessary component of sustainable development.

