PART III

POLICIES FOR PEACE

PART I SHOWED THAT CIVIL WAR IS DEVELOPMENT in reverse for the countries directly affected and that it generates huge costs both for neighbors and internationally. Those who are not the combatants bear most of the costs of war. Modern civil war is not usually an investment in the future: it is not a catalyst for progress. On the contrary, even after the war ends its costs—social, political, and economic—continue to mount. If the international incidence of civil war could be reduced, the world would be a better place. The question is not whether curtailing civil war is desirable, but whether doing so is feasible. Part II investigated the background to effective policy formulation: what fuels war, both at the level of an individual country and at the level of the international system. At the country level we saw that various dimensions of economic development strongly influence the risk of war. At the international level we saw that two components of risk dominate the overall incidence of conflict: the risks coming from low-income, stagnant countries and the risks coming from countries in the conflict trap.

Chapter 5 organizes the discussion of policy interventions around each of the problems that contribute to the international incidence of conflict. Some policies are the responsibility of the governments of countries at risk of conflict, while others can only be achieved by international action. Chapter 6 brings together the most important of the policies that require an international response, and so presents an agenda for international action.

CHAPTER FIVE

What Works Where?

PART I DEMONSTRATED THAT THE BULK OF THE COSTS of civil war, both social and economic, do not accrue to the active participants. A distinct possibility is that the participants will do well out of war while inflicting massive damage. Nor are the victims of civil war confined to those living in the combat-affected country. Civil war is a regional public bad: it reduces incomes and raises mortality elsewhere in the region. It is also a global public bad: through hard drugs, disease, and terrorism it inflicts death, misery, and economic loss among people who know nothing of the conflict. Many of these costs are highly persistent and outlast the civil war by many years. Because of the radical divergence between the incentives facing participants and the interests of others, conflict cannot just be left to the participants to sort out among themselves. If it is, civil wars will be too frequent and last too long. A problem with the attitude "a plague on both your houses" is that other people's houses are also affected. But what can be done?

Some of the causes of civil war are idiosyncratic and beyond the control of policy; however, as chapter 3 suggested, some combinations of characteristics make countries radically more or less prone to violent conflict. Many of these characteristics are amenable to policy: well-chosen policies can reduce the risk of civil war. Chapter 4 demonstrated that four radically different risk groups affect the global incidence of civil war. The rich countries are virtually risk free. Those that are already middle-income countries or on track to becoming middle-income countries have low and declining risks. By contrast, those countries that are poor and in economic decline and those that are stuck in the conflict trap both have much higher risks and constitute the core of the future global risk of civil war. Between them these two groups of countries have

a population of around 1.1 billion people. Well-chosen policies can reduce the global incidence of civil war, but the policies that are appropriate are quite different for each group and need to take many country-specific characteristics into account. Nevertheless, focusing on the different groups facing significant risks is useful. Commonly, however, policy discussions tend either to be country specific or not to differentiate between countries based on their economic characteristics.

This chapter discusses policies that could reduce the global incidence of civil war. Some of these policies can be implemented by the government of the country at risk, some by neighbors in the region, and some by the international community. The chapter follows the country grouping developed in chapter 4.

Conflict Prevention in the Successful Developers

STATISTICALLY, THE SUCCESSFUL DEVELOPERS ARE NOT AT high risk of conflict, but neither have they reached a level of risk so low as to be able to forget about the problem. Such countries do sometimes collapse into conflict. When such conflicts do happen they are hugely costly: the country risks falling off its growth path into the conflict trap. Furthermore, in aggregate this is by far the largest group of countries, accounting for around 4 billion people. The question is not, therefore, whether to pay some attention to policies that reduce the risk of conflict for this group of countries, but rather what policies might be particularly appropriate for them.

Cushioning Adverse Shocks

Once a country is either middle-income or low-income but growing rapidly, it has relatively little scope for reducing risk by accelerating its economic performance. The exception is its greater exposure to shocks brought about by financial crashes, and so the priority is to avoid such shocks. The reduction in the risk of conflict is merely one further reason why a government should pay attention to the financial sector's health; however, to the extent that the international community is often involved in mitigating such crises, given its concern to prevent civil war because of its spillover effects, there is an enhanced reason to provide a financial cushion.

Undertaking Political Reform

The limited scope for enhancing economic performance suggests that a sensible approach would be to place greater emphasis on the reform of political institutions as a means of risk reduction. Evidence that democratic political institutions are differentially effective once a country has reached middle-income levels strengthens support for this option. Hence, as the level of income rises, economic policy becomes absolutely less important in conflict reduction, while political institutions become absolutely more important; however, as even moderate change in political institutions is a risk factor in itself, political institutions must be stable (Fearon and Laitin 2003; Hegre and others 2001).

Institutions that are internally consistent have the lowest risk of a breakdown because such institutions are self-reinforcing (Gates and others 2003; Gurr 1974). For democracies, this means a wide distribution of power and no permanent exclusions of actors from the political system. The powers of the elected executive branch of the government are balanced by a strong house of representatives, elections are open to the entire population, and multiparty competition is genuine. If one branch of government becomes too powerful, other branches will attempt to rein it in. In a consistent democracy they will succeed. In an inconsistent democracy such a contest may turn violent.

Related to this, democracy functions best as a conflict prevention mechanism when the stakes of the political contest are low (Przeworski 1991; Weingast 1997). Many of the economic policy recommendations suggested later in this chapter help to reduce the stakes by reducing the gains to narrow interests from obtaining or retaining political office. Legal and economic institutions that help achieve these aims are indispensable for a well-functioning democracy.

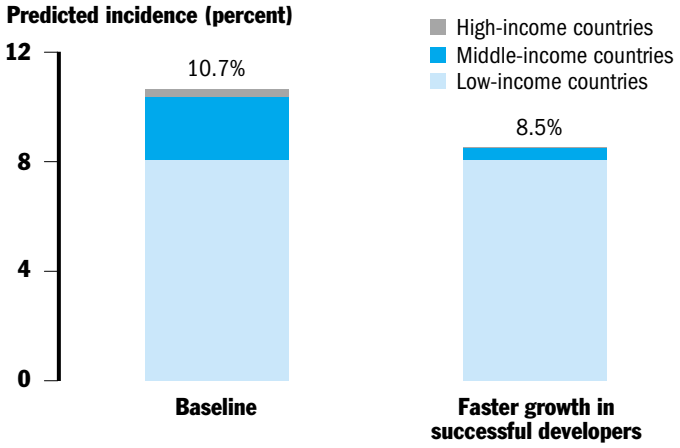
Most new democracies have adopted majoritarian or presidential political systems. These institutions have the advantage that they perform better in terms of accountability: placing responsibility for failed policies on a single-party government typical of these institutions is easier than placing responsibility on the minority or coalition governments that are typical of proportional systems. Moreover, governments in majoritarian or presidential political systems tend to have moderate policies, because two-party systems have a powerful incentive to adhere to the median voter's preferences and extreme parties will rarely be represented in the country's parliament. In divisive societies, however, such

institutions may not offer adequate protection to minorities. This is particularly relevant to countries emerging from ethnic or religious civil wars, and systems with proportional representation may be a way to provide minority representation (Lijphart 1984; Reynal-Querol 2002a,b). Alternative ways to protect minorities are federal systems combined with two-chamber parliaments. Some evidence also suggests that among democratic political systems some designs are more effective at preventing violence than others. Both proportional representation and multiple checks and balances tend to distribute power more widely across the political spectrum, and these features are associated with a lower risk of conflict (Reynal-Querol 2002b).

Considering Faster Growth

Finally, we consider the contribution of faster economic growth for the successful developers. We can simulate the effects of such faster growth using the model underlying figure 4.12. Figure 5.1 simulates the effect of raising the growth rate of the typical country in this group by 3 percent per year between now and 2020, with a corresponding reduction in primary commodity dependence. Such an increase in growth rates

Figure 5.1 The contribution to peace of faster growth in the successful developers



Note: The simulation is based on the model presented in figure 4.12. See appendix 1 for details.
Source: Based on a revised version of Collier and Hoeffler (2002c).

would be a massive improvement in development performance, and so is at the outer bound of what is possible. In effect, this amounts to the limits of implementing the current development strategy more successfully. As the figure shows, it offers only a modest contribution to global peace: the global incidence of civil war declines by around two percentage points. This is a relatively modest gain for a truly dramatic improvement in development.

Marginalized Countries at Peace

WE HAVE LIKENED THOSE MARGINALIZED COUNTRIES that have to date maintained peace to a group of Russian roulette players who have so far been lucky. To an extent this is unfair: poor countries that have managed to maintain peace have probably been making choices that have contributed to that peace. Nevertheless, as a class such countries are at much higher risk than the successful developers, and as chapter 4 pointed out, the risks for the two groups are not only widely different, they are also diverging: risks for the poor but peaceful have actually been rising. What can the international community do to reverse this disturbing trend?

Believing False Friends: The Military Lobby for Deterrence

Governments of poor but peaceful countries typically attempt to reduce the risk of rebellion by raising their military spending. Recall from chapter 3 that during peacetime, each additional 10 percentage points on the risk of rebellion raises military spending by around 1 percentage point of GDP. This might seem like a prudent action, and we can be sure that the military lobby will urge the government to take such action. Just like other groups, the military favors spending on itself. When the military is in political control of a country, military spending increases by two percentage points of GDP, controlling for all other influences on the military budget, such as risks and the ability to afford the expenditure.

We have also seen that military expenditure is ineffective in reducing the risk of conflict. Allowing for the potentially confusing effect of risk on spending, spending has no deterrence effect on rebellion. Hence even though governments have listened to the siren voices of their own

militaries, this is not an effective way for poor but peaceful countries to reduce the risk of rebellion. Of course, governments also spend on the military to reduce the risk of international conflict. Across a neighborhood, this is obviously futile: a region is no safer if all countries have high levels of military spending. The evidence on regional arms races given in chapter 2 suggests that there is scope for regionally coordinated reductions in military spending, brokered by regional political organizations, possibly with expenditure monitored by the international financial institutions.

If military spending is not an effective instrument for peace, what else can governments do that might work better?

Reducing the Risks from Primary Commodities

Many low-income countries depend on primary commodities for their export revenue. On average, such dependence is associated with an increased risk of rebellion, poor governance, and poor economic performance; however, the average conceals extremely wide variation. In 1970 Botswana and Sierra Leone were both low-income countries with substantial diamond resources. Over the next 30 years diamonds were central to the economic and social collapse of Sierra Leone: its per capita income is now much lower than in 1970 and it has sunk to bottom place on the Human Development Index. By contrast, diamond resources were critical to Botswana's success in becoming the fastest-growing economy in the world, and it is now a middle-income country (see box 5.1). Thus even though, on average, primary commodities have been detrimental to development, they clearly have the potential to be enormously useful. The challenge, at both the national and international levels, is to adopt policies that better harness this potential.

As discussed earlier, primary commodity exports can increase the risk of conflict by four routes: financing rebels, worsening corruption in governance, increasing the incentive for secession, and increasing exposure to shocks. Each of these is amenable to policies that can make living with natural resource endowments easier.

Curbing Finance for New Rebellions Building a rebel army is a costly undertaking; thus most small rebel groups are unable to escalate vio-

Box 5.1 A comparison of Botswana and Sierra Leone

IN 1961 DIAMOND-RICH BOTSWANA AND SIERRA Leone had approximately the same per capita income of about US$1,070; however, the countries experienced extremely different paths of economic development. Why did diamonds cause an economic miracle in Botswana and lead to a total state collapse in Sierra Leone?

In Botswana the extraction and export of diamonds came to be an engine of rapid economic growth. The country maintained a stable and well-functioning democracy since independence and enjoyed the steady leadership of three democratically elected presidents. A national development plan is the key to managing the economy, setting targets for public expenditures that are consistent with expected government revenues and the capacity of the economy.

Diamond extraction is concentrated in three large mines (kimberlite deposits). The government also encourages other industries besides diamond mining. This has allowed Botswana's economy to prosper: per capita income is currently about US$8,800 and income distribution is relatively equal. Botswana's human development record is also impressive; however, like many of its southern African neighbors, Botswana also suffers from a high HIV infection rate.

By contrast, Sierra Leone's recent history is a tragedy. Diamond wealth in combination with poor governance led to the state's collapse and created the incentive, as well as the opportunity, for a rebellion throughout the 1990s. Sierra Leone is now ranked among the poorest countries in the world, with a per capita income of about US$480. In contrast to Botswana, most diamond deposits in Sierra Leone are alluvial, that is, are found in riverbeds. Government control of extraction is difficult, because alluvial deposits are dispersed over more than one-third of the country and, unlike kimberlite deposits, can be mined using simple technology. Prospectors dig holes with shovels and sift through the dirt.

However, Sierra Leone's misfortune has been political as well as geological. Starting out as a multiparty state after independence in 1961, the country turned into a one-party state with a succession of autocratic leaders. Corruption and poor fiscal management destabilized the economy, and, from 1967 on, the government granted mining rights to individuals in return for their political support. Gradually, the government lost control over its assets, enabling private entrepreneurs and organized criminals to take charge of the diamond mining. Youths were marginalized in the economic and political collapse of the 1980s and turned increasingly to crime and drugs. For rebel leader Foday Sankoh to recruit young men for his civil war and to finance the warfare through diamond extraction was therefore relatively easy.

Sources: 1961 income figures: Heston, Summers, and Aten (2002); purchasing power parity adjusted GDI income figures for 2001: World Bank (2002a); mining information on Botswana: http://www.mbendi.co.za/indy/ming/dmnd/af/bo/p0005.htm; Davies and Fofana (2002); Harvey (1992); Hirsch (2001); Leith (2002).

lence to the level of a civil war, but the presence of primary commodities can make financing this stage of escalation easier for rebel groups. Expropriation of the commodity itself often requires a scale of violence that is beyond the capability of a rebel group in its early stages. We discuss this source of finance when we turn to policies that can shorten

wars. Here we focus on two ways in which small rebel groups use primary commodities to finance their military escalation.

Some small rebel groups have been able to raise substantial finance by selling the future rights to war booty (Ross 2002a). In the 1997 civil war in the Republic of Congo the private militia of the former president, Denis Sassou-Nguesso, was funded in part by the sale of future exploitation rights to oil reserves. On the eve of the conflict Sassou-Nguesso received substantial assistance from an oil company, Elf-Aquitaine, reportedly of the order of US$150 million, and these funds were critical in enabling the defeat of the incumbent president, Pascal Lissouba. Similar uses of war booty futures occurred in Angola, the Democratic Republic of Congo, Liberia, and Sierra Leone. The phenomenon is not entirely new. In 1960 a Belgian company, Union Minière du Haut Katanga, bankrolled the Katanga rebellion in the Congo in exchange for future mineral rights. Similarly, during the Algerian war of independence, the Italian oil company Ente Nazionale Idrocarburi reportedly supplied money and arms to the National Liberation Front in exchange for future "consideration." While not new, the approach seems to have become more common in Africa during the past decade. As the supply of finance in these cases is coming from OECD-based companies it is, in principle, controllable. Such financing of political organizations in conflict with recognized governments could be made a criminal offence, analogous to the new OECD-wide legislation banning companies from bribing government officials.

Another way in which small rebel groups finance their military escalation using natural resources is by extortion of natural resource companies. Both kidnapping and sabotage of infrastructure require only modest capabilities for violence, yet the ransom payments and protection money they currently yield can be substantial. The ELN received US$20 million in ransom payments from a German company at a time when it was a weak organization, and used these funds to equip itself militarily well beyond the standard of the government forces it opposes. Currently a major oil company in West Africa is reputedly paying around US$250 million to small-scale violence entrepreneurs. The policy issue here is to discourage such payments, both by legal means and by exposure. A possible point for legal intervention is to make kidnap insurance illegal and to make all extortion payments nondeductible for tax purposes. Group of Eight governments could usefully agree that they will not provide public money to pay ransoms to rebel movements

for their citizens. Currently practices differ markedly among Group of Eight governments, as revealed by their different reactions to the kidnapping of tourists and the demands for US$1 million per tourist by a small rebel group in the Philippines in 2000.

Reducing Corruption Rebel movements, particularly those seeking to secede that part of a country endowed with natural resources, are greatly aided if the revenues from resources are embezzled by a narrow elite rather than used in a transparent manner for the common good. Governments of natural resource–abundant countries therefore have a strong interest in demonstrating that revenues deriving from natural resources are well used.

The first step here is providing trustworthy information about what the revenues actually amount to. As potential rebel groups do not trust governments, the MNCs that undertake resource extraction could provide independent information about payments. British Petroleum recently took such action in its payments to the government of Angola, but none of the other 34 oil companies active in Angola have adopted this policy. This demonstrated that the oil industry is not sufficiently concentrated for the self-regulation model to work as it did in the case of diamonds. There is therefore a case for public action to facilitate coordination in the oil industry and other extractive industries. Various approaches have been suggested. One is to make all such payments a legal reporting requirement. An alternative, proposed by Global Witness and George Soros, is to make such reporting a requirement for listing on major stock exchanges. A further alternative is for the companies to report on a confidential basis to the international financial institutions, which would then collate the information and publish aggregate revenue figures. This has the advantage of preserving the confidentiality of firm-specific information while providing a global certification system for information.

All these approaches have the advantage that by making reporting an obligation, they clearly signal that the information provided is independent of the recipient government, and thus it is more likely to be trusted. To the extent that this reduces the risk of rebellion, the chief beneficiary of this is, of course, the government itself. The principle of legally independent reporting of revenues is somewhat analogous to the increasingly accepted principle of independent central banks. In addition,

obligatory revenue reporting by MNCs could be supplemented by complementary reporting on the part of recipient governments and national resource extraction companies to make the use of revenues transparent.

Finally, transparency in reporting is itself an input into scrutiny. The appropriate level for such scrutiny is within the society. Once numbers are properly provided, parliaments and the press provide the natural institutions for scrutiny, but a useful approach, especially where such institutions are recent, is to supplement this with purpose-designed scrutiny by civil society representatives. A useful model here is the Chad-Cameroon pipeline project, for which local civil society organizations, MNCs, the World Bank, and the government of Chad forged an alliance (see box 5.2). This could become a template for managing natural resources in other developing countries, a template that is needed both by the governments of low-income countries and by MNCs in the extractive sector. Many low-income developing countries are in the process of discovering natural resources and their governments keenly feel the lack of a template. For example, in 2002 the governments of both East Timor and São Tomé and Príncipe realized that they needed to learn how to manage prospective oil revenues. In the absence of a template, both chose to send a delegation to Angola, but while Angola has the advantage that communication can be in Portuguese, it is clearly not the best model for the governance of revenues. A template is also increasingly needed to encourage reputable MNCs to work in difficult environments. MNCs rate the risk that misgovernance will damage their reputations as the most important impediment to their involvement in low-income countries.

Reducing Secession Chapter 3 showed that natural resources, especially oil, increase the risk of violent secession. How can policy reduce these risks? Transparency about the magnitude of the revenues will help to reduce the risk, because it makes exaggeration of the gains more difficult. Recall that exaggeration occurs partly because of the sheer glamour of natural resource revenues—the local population is likely to conjure up images of Bahrain and Brunei—and partly because it is a deliberate strategy of secessionist politicians. Again, only information provided independent of the government can hope to be convincing. Thus scrutiny of the effective use of revenues is an important step in defusing pressures for secession.

Box 5.2 Transparency of oil revenues in Chad

CHAD IS ONE OF THE POOREST COUNTRIES IN THE world. Oil was found in the early 1950s, but it could not be exported without a pipeline. Furthermore, civil wars from the 1960s until 1990 made it impossible to undertake the necessary investments. When Exxon tried to mobilize private financing in the 1990s, it was told that the risks would be too high unless the World Bank participated. One of the Bank's conditions was that Chad must commit itself to completely transparent management of oil revenues and that the revenues must be used for poverty reduction. The project started in October 2000. Oil revenues are projected to be around US$150 million to US$300 million per year, compared with tax revenues of less than US$200 million in 2002.

A stringent supervision mechanism was put in place: the External Compliance Monitoring Group was charged with supervising the implementation of all legal covenants regarding environmental and socioeconomic management through quarterly visits. The International Advisory Group, which visits Chad every six months, was created to advise the presidents of Chad and the Bank about maximizing the development impact of the project. Its reports are publicly available on the web. A unique feature of the Chadian model is the Petroleum Revenue Management Law of 1999. This law stipulates that all direct oil revenues have to go first to an offshore escrow account. From there, 10 percent is transferred into an account for the Future Generations Fund and the remainder is transferred to a special oil revenue account in Chad. The law specifies that 80 percent of the oil revenues must be used for additional expenditures in the four priority sectors for poverty reduction: health and social affairs, education, infrastructure, and rural development. Five percent of the royalties are to benefit the local communities in the oil producing region. The remainder can be used for general expenditures of the administration. A powerful local watchdog institution, the College de Controle et Surveillance des Ressources Petroliers, was also created that has to authorize all commitments and disbursements from the special oil revenue account and to certify that the budget presented to parliament conforms with the Petroleum Revenue Management Law. It has nine members as follows: four from civil society, two members of parliament, one member of the Supreme Court, the national director of the central bank, and the director of the treasury.

The first oil will be pumped around July 2003, but there have already been some interesting experiences. The oil consortium was constituted in early 2000 and paid a signature bonus of US$25 million. The government treated this as off-budget income and used it without following the spirit of the Petroleum Revenue Management Law and without following its own procedures. According to the media, a large share was used to purchase weapons, because the Mouvement pour la démocratie et la justice au Tchad rebellion in the north of the country was creating many security problems. The World Bank protested, given the agreement that all oil income should be used for poverty reduction. The government agreed to freeze the remaining US$10 million and use it strictly according to the law and to have the Auditor General's Office undertake a complete audit of the money already spent. The latter was only created in 1999, and this was the first big audit it had to undertake. The full audit was published on its web site. As a result of the bonus debacle, the members of the College de Controle et Surveillance des Ressources Petroliers were nominated ahead of schedule in 2001.

There is another interesting feature about Chad: military and political power is currently held largely by people from the north of the country, while the oil fields and most agricultural land are in the south. Even though the current government is being contested, there is little talk about secession. Transparent management of oil revenues benefiting the poor majority of the population will be a key ingredient of maintaining national unity in Chad.

Source: prepared by Gregor Binkert, World Bank country manager for Chad.

A further possible strategy is to include political leaders from the locality of the discovery prominently in the government. This, fortuitously, happened in Botswana. At present, a common response is to give the locality a disproportionate share of the revenues. If this is the only strategy followed, it may even exacerbate the problem, because it appears to concede the principle that the resources belong to the locality. The government of Indonesia faced continued demands for secession from the province of Aceh even after it had conceded that 75 percent of revenues would accrue to the locality. Indeed, such generous offers may not be seen as credible in the long term. There is a good case for decentralizing some of the revenues from natural resources, but the principle of equitable division, combined with transparency, may be a more effective way of preventing secession.

Cushioning Adverse Shocks The prices of primary commodities are highly volatile, so that countries dependent on a narrow range of commodities for their exports periodically face severe negative shocks. Recent research finds that when these shocks are large, they severely damage medium-run growth: each dollar lost in export income generates a further two dollars of output contraction (Collier and Dehn 2001). Some evidence also suggests that much of this lost growth is never recovered. Hence episodes of price crashes may induce the growth collapses that increase the risk of rebellion, and over the longer term may lead to lower levels of income. For example, in Indonesia, the East Asian financial crisis of 1998 caused income to fall by around 10 percent in Aceh. This was shortly followed by the escalation of violent conflict.

Even the governments of industrial countries with sophisticated teams of experts at their disposal would find managing such large shocks extremely difficult, but the industrial countries have not experienced such large-scale shocks since the 1930s. The governments of developing countries usually lack the expertise, and often lack the political goodwill, to implement contractionary policies effectively. There is therefore a case for international action to cushion such shocks. Donor responses to severe shocks in developing countries are currently determined by the nature of the shock. Generally, if the shock is photogenic, such as an earthquake, hurricane, or drought, aid increases rapidly and substantially, sometimes more than covering the losses incurred. Unfortunately, even though natural resource price shocks are often much

larger than these calamities, they are not photogenic, and, historically, aid has shown no tendency to increase in response to such shocks: governments have been on their own.

The international community might consider three types of arrangements: risk pooling, credit facilities, and aid. The scope for risk pooling is considerable. For example, the World Bank lends to both oil exporters and oil importers. The former have an interest in repayments being low during periods of low oil prices, while the latter have an interest in repayments being low during periods of high oil prices. By structuring repayments contingent upon the oil price, the World Bank could effectively match these complementary risks and in the process reduce its own default risk. The use of derivatives markets also provides scope for risk pooling. Because these are highly technical, for developing country governments to enter directly into these markets is not usually appropriate, but the World Bank could enter into risk-bearing contracts with developing countries and then lay off these risks in derivatives markets. The Bank already manages foreign exchange positions for some developing countries, and no issue of principle would seem to be involved in the provision of such a service. The IMF has had credit facilities in the form of the Compensatory Financing Facility, but these were seldom used. In addition, for a developing country to borrow at commercial rates at the onset of a severe negative shock of uncertain duration is usually unwise. There may, however, be scope for concessional finance. Probably more important than loan finance is grant aid. Aid responses to shocks need to be set in a more rational framework, transferring resources at the margin from high-glamour natural disasters to low-profile, but more devastating, economic shocks.

Beyond cushioning price shocks, reducing them where possible also makes sense. Attempts to control commodity prices have been unsuccessful, and no basis for repeating them appears to exist; however, trade policies on the part of OECD economies can inadvertently have a sharp effect on world prices. For example, if OECD governments increase their subsidy to domestic producers when the world price of an agricultural commodity is low, then the effect will be to systematically amplify price shocks. The cushioning that such subsidies achieve for domestic producers comes at the cost of increasing the shock to producers in low-income countries. For example, the recent increase in the subsidy to American cotton producers has had the effect of further reducing the incomes of cotton farmers in the Central African Republic.

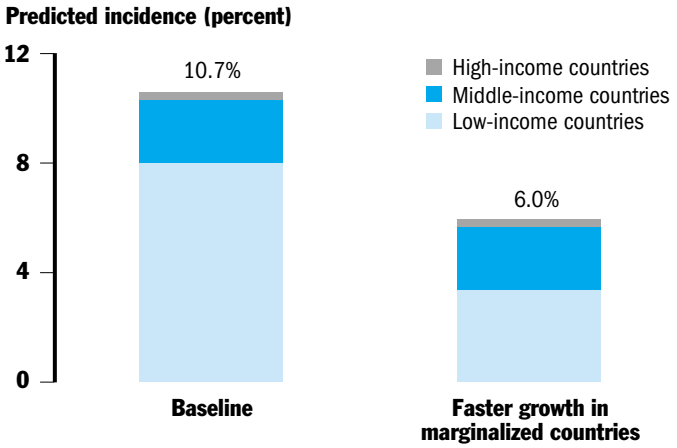
Diversifying On average, developing country exports are no longer predominantly primary commodities, but this average is made up of continued dependence on the part of the marginalized countries and astonishingly rapid diversification by the successful developers. The success of the latter group shows that for the marginalized countries to do the same is possible, but the emergence of China and India as major exporters of labor-intensive goods makes it more difficult. In addition, diversification is not always possible; for instance, Botswana is a landlocked desert with few options other than diamonds. For such countries the priority should be to make natural resource endowments work effectively, as Botswana has indeed done, but for many countries diversification is surely feasible. For example, a country such as Ghana that has a favorable coastal location near global markets seems to have no intrinsic reason why it cannot succeed in manufacturing.

A study of the determinants of primary commodity dependence finds three factors that significantly reduce it: growth, aid, and policy (Collier and Hoeffler 2002b). On average, growth diversifies an economy, and this reduces the risk of conflict in addition to the direct contribution of growth to risk reduction. This does not imply that any policies that promote growth promote diversification, but the inducement of growth will normally assist diversification. Aid significantly reduces primary commodity dependence. This may in part be a "Dutch disease" effect, whereby the provision of foreign exchange through aid reduces the incentive to export; however, aid may also improve the infrastructure for activities that do not rely upon high, location-specific rents for their profitability. Good economic policy also significantly promotes diversification. We measure the effectiveness of policy using the World Bank's CPIAs. On average, an improvement of one point in the CPIA—roughly equivalent to the difference between African and South Asian policies—would reduce dependence on primary commodities from 15.2 percent of GDP to 13.8 percent.

Raising Economic Growth

The poor but peaceful economies are characterized, on average, by slow growth. Faster growth would reduce the risk of conflict both directly in the short term and cumulatively in the longer term by raising the level of income, and indirectly by assisting diversification. We can simulate

Figure 5.2 The contribution to peace of faster growth in the marginalized countries



Note: The simulation is based on the model presented in figure 4.12, increasing growth by 30 percentage points. See appendix 1 for details.
Source: Based on a revised version of Collier and Hoeffler (2002c).

the effects of faster growth in the marginalized countries using the model underlying figure 4.12. Figure 5.2 simulates raising the growth of all the currently marginalized countries by 3 percent while keeping that of the successful developers unchanged. In terms of the increment to global growth this is actually much less demanding than the strategy of raising the growth rates of the successful developers: the marginalized countries are, in aggregate, a much smaller part of the world economy than the successful developers and have lower initial growth rates, yet this strategy offers a more substantial contribution to global peace. The steady-state incidence in this simulation is nearly halved, from almost 11 percent to 6 percent. Thus, the distribution of world growth is highly important in terms of the contribution of growth to peace.

This is the single biggest impact on the global incidence of conflict that we found. The primary issue is therefore how to raise growth and, following from this, whether the means of raising growth inadvertently have direct effects that worsen the risk of conflict, thereby offsetting their beneficial effects via the growth rate.

There is broad consensus that three instruments—domestic policies, international aid, and access to global markets—are all effective in raising growth. The precise way in which they interact is more controversial, but of little importance here. There is no significant disagreement

about the merits of market access. Some analysts argue that aid and policies complement each other, with aid becoming more effective as policies improve, and, conversely, with policy reform being more effective with larger aid inflows. Other analysts argue that the beneficial effects of aid and policy are independent. The common ground is that where policies are reasonable, aid is effective, and that where policies are unreasonable, policy improvement will enhance growth.

Economic Policy Controversy as to what constitutes "good" policy is considerable; for example, electorates have chosen significantly different policies in different OECD economies and periodically change their views as to what policies they want, yet all these policy environments sustain high incomes. What constitutes really bad policy is much less controversial. No reputable economist advocates high and variable inflation, high trade barriers, widespread public ownership of marketed activities other than "network industries," or use of public employment for patronage rather than for equitable service delivery. Yet this is the current reality in many of the poor but peaceful societies. A useful way of quantifying this is through the CPIA, the World Bank's policy rating system, which rates macroeconomic, structural, social, and public sector policies on a scale of 1 to 5, with a higher rating indicating more effective policy. The average rating for the marginalized countries is only 2.95, whereas that for the successful developers is 3.75. The reforms needed to effect such a change are thus considerably less controversial than policy reform in good environments. The broad technical consensus on these basic reforms reflects accumulated evidence on the consequences of bad policies. One illustrative measure is the relationship between the CPIA and growth: for the typical low-income, poor policy country, a one-point improvement in the CPIA is associated with a higher growth rate of 1.6 percentage points (Collier and Dollar 2002).

Although basic reforms are not technically particularly controversial, they can still arouse considerable opposition from within a society. Typically, bad policies are not in place by mistake, but because even though they are damaging to ordinary citizens, they favor some powerful group. Potentially, powerful groups will violently resist policy reform, therefore reform could increase the risk of conflict. In this case the favorable effects engendered by growth would be offset by this direct risk. One study investigates the effect of policy on conflict risk using the

CPIA as a measure (Collier and Hoeffler 2002b). While the CPIA has many limitations, a major advantage is that as it is constructed by World Bank operational economists working on each country, because it reflects their judgment it also proxies their advice. Thus if a country is judged to have improved its CPIA score, this is probably because changes have been broadly consistent with the advice that Bank staff have been giving. If, for example, we were to find that policy improvement increased the risk of conflict, this would indicate that Bank policy advice was exacerbating the risk of conflict.

Obviously policy deteriorates rapidly during a war; therefore to determine whether policy affects the risk of war we need to look at policies that are already in place prior to the risk period being considered. The study therefore looks at policy during the five years prior to the five-year period for which the risk of conflict is estimated. It finds no significant association between the level of economic policy, as measured by the CPIA, and the risk of subsequent conflict—that is, bad policies neither reduce the risk of conflict nor increase it, other than through their adverse effects on growth. Changes in policy do, however, have a significant effect. Improvements in the CPIA appear to reduce the risk of conflict in the subsequent period. This benign effect may well be spurious, however, reflecting nothing more than policy starting to deteriorate in the run-up to violent conflict. For example, as already noted, a higher risk of conflict induces governments to increase military expenditure.

The important point is, however, that no evidence suggests that policy improvement directly increases the risk of conflict. As long as it does not directly increase the risk of conflict, it will tend to reduce the risk indirectly through its effects on the growth rate. This does not mean that all growth-inducing policies reduce risk: there is no substitute for looking policy by policy, country by country, to see whether the potential for adverse effects exists. It simply means that there is no general presumption that where countries have implemented policy reforms as advocated by the World Bank they have systematically directly increased the risk of conflict (Collier and Hoeffler 2002b).

Aid Measuring aid entails less controversy than measuring policy. Here we use a conventional measure of aid as concessional development assistance, which excludes humanitarian assistance and military aid,

neither of which is intended to raise growth. Actually quantifying the effect of aid on growth is more controversial. Applying the results of a recent study, an additional percentage point of aid as a share of GDP for the marginalized countries would raise the average growth rate of these countries by only 0.1 percentage point (Collier and Dollar 2002). Some analysts argue that aid would become more effective if combined with policy reform, but the matter that concerns us here is whether aid inadvertently increases the risk of conflict. Some economists, notably Grossman (1992), have argued this on the grounds that aid increases the honey pot to be contested.

Researchers have also investigated the effect of aid on conflict risk following the same approach as for the effect of policy. Controlling for the effect on growth, aid has no significant direct effect on the risk of conflict. Again, this does not absolve donors from the need to scrutinize their aid programs carefully to see whether particular components might increase the risks of conflict. Several case studies argue precisely this: that particular types of aid have increased the risk of conflict (see, for example, Esman and Herring 2001). Learning from such bad experiences is important: projects need to be designed with proper awareness of their potential for creating division. However, we should also be wary of generalizations from such horror stories that imply that aid is normally part of the problem. Its effects on growth imply that it is normally part of the solution.

Access to Global Markets The poor but peaceful group of countries has largely not broken into global markets for nontraditional exports. There is a case for accelerating improvements in market access for these countries ahead of more general improvements negotiated under the development round of the World Trade Organization. Both the United States and the European Union (EU) have recently introduced such differentially favorable market access for some countries within the poor but peaceful group. The United States has introduced the Africa Growth and Opportunity Act, and early signs indicate that this is significantly facilitating African countries' entry into manufactured export markets. Similarly, for the least developed countries the EU has introduced the Anything but Arms initiative.

As with policies and aid, any favorable effects of improved market access on growth could, in principle, be offset by a direct effect on con-

flict risk. Indeed, we have found that exports can have a direct, adverse impact on the risk of conflict, namely, through the rents on primary commodities; however, major trade reforms are likely to diversify trade as well as to increase it.

Economic Revival: A Simulation Each conflict has its own peculiarities; thus country knowledge always needs to supplement the group-level analysis discussed here. Models of conflict risk are not well suited for country-specific questions and are more appropriate for the sort of policy simulations of global incidence conducted in chapter 4. However, changes in global incidence are outcomes of changes in real, country-specific situations, and for illustrative purposes we take an actual conflict in a typical marginalized country and ask whether any feasible economic recovery could have helped to avert it.

The conflict episode we consider is Zaire, as it was then known, in the late 1990s. Our simulation model predicts that as of 1995 Zaire was at severe risk of a conflict. Indeed, the model estimates an 80 percent risk of a conflict during the ensuing five years. The point of using a model is not, however, to predict such risks, but rather to simulate the effect of changing a few factors that were potentially within the control of the government and the international community. The challenge set to the model was to see whether any feasible change in characteristics could have reduced the risk of conflict from 80 percent to the arbitrary target of 30 percent. The model predicts that had a package of strong economic reforms and greatly expanded aid been implemented during the first half of the 1990s, then the risk of conflict would have fallen to this level. The scale of the required policy reform is an improvement in the CPIA of 1.2 points, approximately equal to what Uganda achieved between 1986 and 1988. In conjunction with this strong reform effort, aid would have had to be tripled. While these specific results are merely illustrative, had the government and the donor community actually known and believed these figures at the time, the reforms would have been implemented and the aid would have been found.

Reducing the Risks of Ethnic Dominance

Ethnic dominance characterizes approximately half of the poor but peaceful countries; that is, the largest ethnic group accounts for a ma-

jority of the population, but the countries also have significant numbers of ethnic minorities. Recall that this increases the risk of civil war. Managing the risks of ethnic dominance calls for political solutions.

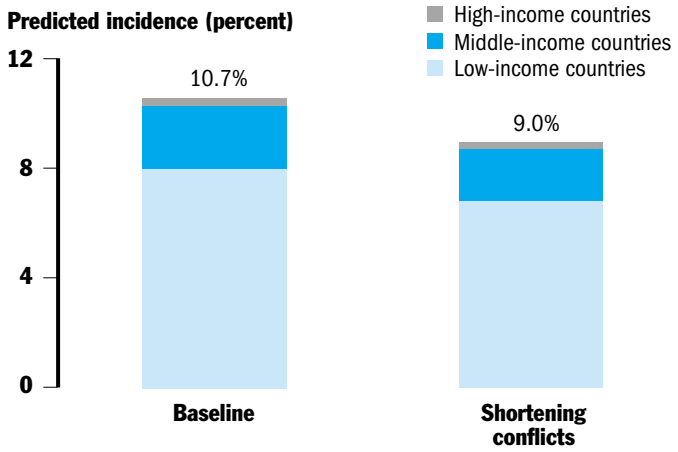
One approach is to guarantee rights to individuals so that they can challenge individual cases of ethnic discrimination. This is the approach predominantly followed in the industrial countries. A possible supplement to individual rights is to guarantee group rights to minorities. An obvious way of guaranteeing group rights is through quotas, notably on public employment. While this may sound like a radical and costly idea, the few industrial countries that are characterized by ethnic dominance have adopted it. For example, Switzerland is a classic example of ethnic dominance, with 75 percent of the population being German speaking and the rest consisting of French and Italian minorities. Switzerland guarantees minority rights by means of three devices: radical decentralization, multilingual education, and ethnic quotas. Public hiring is required to designate a certain proportion of jobs to the ethnic groups in accordance with their size. Acknowledging popular concerns about ethnic rights in this explicit fashion is often better than wishing them away.

Conversely, when the majority is significantly poorer than the minority, group rights may need to focus on the majority, but in a way that does not alarm the minority. A useful approach is to have an explicit long-term strategy for intergroup redistribution. An advantage of an explicit policy is that it contains the fears of the minority while reassuring the majority that its concerns are being addressed. The maximum pace of redistribution depends on the growth of the economy: the faster the growth, then the more that can be redistributed without threatening the absolute living standards of the minority. A good example is Malaysia, where over the course of 30 years a policy of gradual asset redistribution has helped the majority Malays to increase their share of GDP by about 15 percentage points. At the same time, GDP has grown so rapidly over the period that the redistribution has not prevented the incomes of the minority groups from rising.

Ending Conflicts

WE NOW TURN FROM THE MARGINALIZED COUNTRIES that are at peace to countries that have fallen into conflict and are stuck in it. Recall that decade-by-decade, such con-

Figure 5.3 The contribution to peace of shortening conflicts



Note: The simulation is based on the model presented in figure 4.12, reducing conflict duration by 20 percent. See appendix 1 for details.
Source: Estimated on the basis of a revised version of Collier and Hoeffler (2002c).

flicts appear to have been getting longer. As discussed in chapter 3, a major obstacle to reaching a settlement is that for rebel groups conflict may become a way of life, with the rebel elite doing well out of war. Furthermore, the parties to a civil war may lack the "commitment technology" that would enable them to trust an agreement. Thus shortening conflicts might seem to be the most effective way of building a more peaceful world; however, in isolation such an approach is less effective than it might appear. Unless postconflict risks are reduced, shortening the duration of conflicts is offset by a more rapid shuttle into and out of war. We can use the model underlying figure 4.12 to simulate the effects of shortening the duration of conflicts. Figure 5.3 simulates the effect of a 20 percent shortening of the duration of conflict on the global incidence and produces an overall reduction in risk of around 15 percent. This is, of course, worth achieving, but it should be seen as only part of a broader strategy for conflict reduction.

Cutting the Rebel Financial Jugular

The leadership of large rebel groups commonly does quite well out of war. Indeed, sometimes leaders amass spectacular fortunes: by the early 1990s Jonas Savimbi of UNITA was reputedly worth some US$4 bil-

lion, making him one of the world's wealthiest individuals. While fighting is so lucrative, rebels have little incentive to reach a settlement; for example, four years of negotiations with the FARC proved fruitless for the government of Colombia. Hence measures that reduce the flow of funds to rebel movements are likely to encourage them to come to the negotiating table.

Curbing Rebel Access to Commodity Markets In the case of some commodities, rebel groups are raising substantial finance by controlling the production of the commodity in their territory and selling the output. To date the Kimberley process is the most important example of international action to reduce rebel organizations' access to commodity markets (see box 5.3). It was triggered by the Fowler Report of the UN, which drew world attention to the way in which some rebel organizations were financing their activities through the sale of diamonds and provided explicit detail about the routes involved. The Kimberley process is a private sector initiative. It was able to overcome the usual collective action problems with private sector self-regulation because the industry is unusually highly concentrated, with de Beers in a dominant position. Although the agreement itself is recent, its antecedents included de Beers' decision to cease purchasing diamonds in the open market and intensive action by the Diamonds High Council, based in Antwerp, to reduce rebel access to the market. An analysis of the initiative by Klare (2000) speculated that it might well lead to the termination of some West African conflicts. This proved percipient: over the next two years both UNITA and the RUF were defeated militarily, although both had previously been highly durable organizations. Note that in both cases other important factors were also at work: in Angola the government used the opportunity of high oil prices to massively increase its military expenditure, and in Sierra Leone the British government sent in substantial military forces. The tightening of the financial jugular complemented these changes, and probably no single component was decisive.

Establishing whether the Kimberley process is going to be effective is important, and for this a monitoring and evaluation process is needed. If the Kimberley process is ineffective, public action will probably be necessary to strengthen self-regulation. Indeed, the very existence of the

Box 5.3 The rough diamond trade and the Kimberley process

DIAMONDS HAVE LONG BEEN RECOGNIZED AS A source of conflict finance. To restrict this channel of financing, the major diamond trading countries and companies took part in the Kimberley process, which formally began in November 2002. Its primary purpose is to establish an international certification scheme for rough diamonds based mainly on internationally agreed minimum standards for certificates of origin and national certification schemes.

The participants agreed to establish internal controls to eliminate the presence of conflict diamonds from shipments of rough diamonds imported and exported from their territories. This includes designating monitoring authorities to diamond shipments and ensuring that all diamonds are imported and exported in tamper-resistant containers accompanied by Kimberley process certificates. The participants are obliged to amend or enact appropriate laws or regulations to implement and enforce the certification scheme and to maintain penalties for transgressions. They are also to collect and maintain relevant official production, import, and export data and to collate and exchange this information when necessary.

Each participating country is to ensure that a duly validated certificate accompanies each shipment of rough diamonds on export and import. Importing authorities must also confirm receipt of a shipment expeditiously to the relevant exporting authority, specifying the details of the shipment. To facilitate the tracking of diamond flows, the original certificate must be readily accessible for a period of no less than three years. To further filter out conflict diamonds, the participants agreed to ensure that no shipment of rough diamonds is imported from or exported to a nonparticipant and that each shipment leaves its territory unopened and not tampered with. A degree of transparency and monitoring was integrated into the process as a result of opposition by nongovernmental organizations to proposals that the system be self-regulating.

In Ottawa in March 2002, Kimberley participants announced confidence in meeting their end of year deadline for implementing the regime, although several significant technical and operational issues remained. Success depends on whether these problems are properly resolved. One day after a resolution passed the UN Security Council in support of the Kimberley process, EU member states announced that they could not meet their obligations by the deadline of February 1, 2003.

Source: Crossin, Hayman, and Taylor (2003).

Kimberley process is an acknowledgment of the need to regulate access to the diamonds market. If the Kimberley process is effective, the question arises whether it should be replicated in a few other commodity markets, such as timber and Columbite-tantalite (usually known as coltan). Although the timber industry is much less concentrated than the diamond industry, the commodity itself is inherently easier to track while in transit.

As noted, timber is at the opposite end of the concentration spectrum from diamonds and involves many small companies. Here the most successful action to date has been at the regional level. For exam-

ple, the government of Thailand increased scrutiny of the border trade in illegal timber with Cambodia that was financing the Khmer Rouge. This was so successful that it substantially accounted for the collapse of the Khmer Rouge (see box 5.4).

Realistically, the effect of better regulation of commodity markets is not literally to shut rebel organizations out of markets, but to make their activities so difficult that they can only sell their illegal booty at a deep price discount. A recent study of the duration of conflict provides some insight into the possible effects of deepening such a discount (Collier, Hoeffler, and Söderbom 2003). The study controls for all the other factors that influence the duration of a conflict and investigates the effect of world commodity prices. It finds that for countries that are heavily dependent on commodity exports, the world price of these commodities significantly affects the duration of the conflict: when prices are high the conflict is less likely to end than when prices are low. For example, for a country for which primary commodity exports account for 30 percent of GDP, a 10 percent decline in the price of its export commodities tends to shorten the expected duration of conflict by around 12 percent. The effect of targeted policies should be considerably greater than this, because they detach the price rebels receive from the world price. Potentially, creating deep price discounts and monitoring them should be feasible. An analogy is the deep discounts that are already routine for counterfeit goods.

Another activity of enormous importance to rebel groups is the production of illegal drugs for sale in rich countries. Current OECD policy toward these drugs varies, but its main thrust is to encourage the governments of developing countries to discourage production. The problem with this production-focused approach is that it makes territory outside the control of a recognized government enormously valuable, and so inadvertently helps to sustain rebellion. An alternative approach that would radically reduce the funding for rebellion would be to focus penalties on illegal consumption so as to bring down the price of illegal drugs. For example, for many years the United Kingdom had a policy that while it severely penalized trade in heroin, once heroin users were registered as addicts they were provided with supplies from official sources. This radically reduced the commercial incentive to push heroin, and under this policy regime the United Kingdom had fewer than 1,000 registered addicts. It also enabled addicts to be supplied from legal sources of production.

Box 5.4 The Khmer Rouge and the logs of war

IN 1979 THE KHMER ROUGE WERE DRIVEN INTO the jungle and waged war against the Vietnamese-installed regime led by former Khmer Rouge commander Hun Sen. The war was funded by the timber trade. The timber logged during the civil war helped create more demand for Cambodian forest products, and the exploitation of timber quickly became a sustaining factor of the war and a cause of armed conflict in its own right.

In 1992 the Security Council asked the UN Transitional Authority in Cambodia to impose a log export ban to dampen the Khmer Rouge's efforts to undermine the peace process. The Transitional Authority sent military observers to monitor Cambodia's border, but without power of arrest. The Khmer Rouge refused such monitoring in its territories, and the Thai government denied access to UN observers on its side of the border. Although Thailand eventually prohibited log exports, the Cambodian government's lifting of the ban after nine months undermined its overall impact. In the end, Thai timber imports in 1993 were only 20 percent lower than in 1992, while the gems trade, which also benefited the Khmer Rouge, continued largely unabated. The sanctions were also weakened by a 10-week delay in implementation, which led to a logging frenzy, as well as an export quota on sawn timber, which led to the proliferation of sawmills within Cambodia but did not significantly affect commercial timber harvesting rates.

After elections in 1993, the destruction of Cambodia's forests continued. Numerous logging companies dealt directly with the Khmer Rouge in a monthly cross-border timber trade worth an estimated US$10 million to US$20 million. The Khmer Rouge's military decline did not end the misuse, and no revenue reached the Cambodian government. In response, the IMF froze the next US$20 million tranche of its Enhanced Structural Adjustment Facility and threatened to let its support lapse entirely if the Cambodian government failed to implement forestry reforms. In November 1996 the Enhanced Structural Adjustment Facility lapsed, and forestry went to the top of Cambodia's international agenda.

At least 1.3 million cubic meters of logs were taken between 1996 and 1997 to fuel a conflict that, in addition to lost revenues, placed additional demands on the revenues the treasury was able to raise from other sources. It effectively halted the growth of the Cambodian economy. In July 1997 a coup d'état was primarily funded by logging revenue. To pay for military backing and to reward military leaders, Hun Sen personally authorized various military regions to export logs, in contravention of Cambodian law.

The timber trade and the Khmer Rouge benefited from the support of Thai officials who used logging revenues to finance their electoral campaigning. Donors used aid conditionality on the Thai government to end the trade and stop assistance to the Khmer Rouge. The U.S. Congress threatened to end military assistance in 1996 and then all assistance in 1997. The IMF pressured Cambodia to end its acquiescence to unauthorized exports by canceling part of its Enhanced Structural Adjustment Fund loan in late 1996. The outcome was an effective ban by Thailand on Cambodian timber. These pressures contributed significantly to the demise of the Khmer Rouge.

Source: Global Witness (2002).

Curbing Diaspora Finance of Rebel Groups Another important source of rebel finance is from diasporas in rich countries. This phenomenon is long-standing, but as the number of migrants from low-income developing countries has increased, so has the potential for dias-

pora finance. For instance, more Tamils live in OECD countries than live in the Jaffna peninsula of Sri Lanka, and estimates indicate that Tamil diaspora organizations raised around US$450 million per year during the 1990s, much of it used by the Tamil Tigers to buy arms. For example, a bank account opened by a Canadian of Sri Lankan origin was used to purchase the 60 tons of Eastern European explosive that killed and injured some 1,500 people in Sri Lanka in 1996. Similarly, the Kurdish Workers Party stated that it had raised around US$50 million from the Kurdish diaspora in 1992. One method of collecting money was to control the wholesale trade for Kurdish retailers and charge them inflated prices. This "tax" was then transferred to Kurdish rebels.

Only recently have the governments of industrial countries started to face up to their responsibilities to curtail the organized provision of finance from their territories. For example, the United Kingdom recently banned the activities of the Tamil Tigers. Even prior to September 11, diaspora funding for the Tamil Tigers was reportedly drying up, but the terrorist attacks brought home to North American diasporas that donating death was unacceptable (*The Economist* 2001). In 2002 the Tamil Tigers abandoned their long-standing demand for independence and entered into serious peace negotiations. At the same time the IRA, another violent organization that relied heavily on North American diaspora finance, abandoned its previous refusal to "decommission" any of its stock of armaments.

Employing International Interventions

In recent decades the international community has tried many interventions in particular civil wars with the intention of ending them. The interventions were sometimes on the side of governments and sometimes on the side of rebel organizations. Some interventions were military, and others were economic or diplomatic (see Regan (2002) for a comprehensive dataset on these interventions).

Recent studies use this dataset to investigate whether any of these types of interventions systematically shortened the duration of conflict (Collier, Hoeffler, and Söderbom 2003; Regan 2002). The results are disappointing, although such an analysis is intrinsically difficult and may have missed favorable effects. For example, one possibility is that the interventions were targeted on the most difficult conflicts, and thus

the mere fact that those conflicts with interventions did not last longer than average would be evidence of modest success. The nonmilitary interventions had no significant effect. The only military intervention that was systematically effective was support for rebels: apparently external military support can defeat a government more readily than a rebel organization. This may reflect the different styles of government and rebel campaigns. Rebel forces typically withdraw into forests or mountains, whereas government forces typically withdraw into major cities where they can be subject to total defeat, such as the forces of the Derg government of Ethiopia that holed up in Asmara in 1992. Note that the findings do not imply that no international interventions have been effective, but only that no one type of intervention appears to have been systematically effective.

Negotiating Peace

Prior to a rebellion, predicting which issues and which groups have the potential to turn opposition into large-scale violence may be hard. Once a rebellion has started, who the parties to a negotiation should be becomes clearer. Nevertheless, negotiating peace is difficult. Both parties lack the means to lock into an agreement. A rebel group cannot guarantee that if it accepts peace, its more extreme members will not establish a new violent organization; for example, once the IRA had accepted a peace settlement a new group calling itself the Real IRA continued the violence. A government also finds that making commitments that rebels can trust once they disarm is difficult. In addition to this commitment problem is the danger of setting a precedent of conceding to violence what has not been conceded to normal political opposition. One of the reasons for the conflict trap may be that rebellion can appear to pay off as a strategy.

Civil wars are far less likely to end in peace agreements than international wars (Licklider 1995). Between 1940 and 1990, combatants resolved 55 percent of interstate wars at the bargaining table, whereas fewer than 30 percent of post-1945 civil wars have terminated with the signing of a peace treaty (Doyle and Sambanis 2000; Walter 1997). Furthermore, many of the treaties that end civil wars are unstable and collapse into renewed fighting. As noted earlier, the difficulty of negotiating a lasting peace is due to the parties' inability to credibly commit

to the peace. In contrast to civil wars, international wars have been relatively easier to end through bargaining precisely because the parties have internationally recognized boundaries and standing armies to defend those boundaries after the war ends. Walter (1997, 2002) argues that what reduces the probability of reaching a negotiated settlement is the lack of credible guarantees offered by third parties committed to enforcing the terms of a peace treaty. In a study of modern civil wars she finds that lack of credible enforcement is the key factor explaining failures to reach a negotiated settlement.

Other authors have emphasized different causes of the long duration of civil wars. For example, secessionist conflicts tend to last longer than other civil wars because secession is perceived as a nondivisible good, and the new polity that emerges from civil war may incorporate terms of a settlement that exclude some of the parties, thereby creating incentives for new violence (Licklider 1993). Moreover, a large number of incoherent and unreconciled groups and coalitions makes negotiation harder, other things being equal, as does a rough military balance among the parties (Doyle and Sambanis 2003; Elbadawi and Sambanis 2000; Zartman 1995). Several other explanations are also possible, such as tunnel vision, organizational inertia, wishful thinking, and miscommunication. A study of 16 peace implementation episodes finds that the presence of valuable spoils of war, such as natural resources, reduces the likelihood of success, reinforcing the foregoing discussion of the need to manage natural resources effectively (Stedman 2001).

Despite the relevance of these explanations to many cases of civil war, the single most promising explanation is the lack of credible guarantees for a settlement. In effect, this argument shifts the analytical focus from the underlying causes of the long duration of civil wars to the mechanisms that explain the inability to commit to an agreement, even when the parties prefer an agreement to continued fighting.

According to Walter (1997, 2002), only parties with credible and well-established self-interest in preserving the peace, parties with sufficient military resources to engage in combat, and parties that provide costly signals of their commitment by actually deploying troops can provide credible guarantees. Without such an external commitment, the absence of a government seen as legitimate by the rebels and the history of war in the country will act as disincentives for the parties to disarm. As disarmament is typically a precondition for peace implementation, this creates a barrier to negotiation. The presence of armed

rebels further undermines the government's legitimacy and sovereignty. Under these conditions, what is needed is either an external solution such as the one Walter discusses or a solution that makes the peace self-enforcing. Integrating part of the rebel forces into the national army might be one such solution.

Once the rebels demobilize, they lose their bargaining power in relation to the government. In those cases where postwar peace is based on a self-enforcing agreement, the drastic change in the parties' relative capabilities makes the agreement time inconsistent, that is, the government, which retains its military, can renege on its promise after the rebels have disarmed. The government has both the power and the incentive to renegotiate the agreement or defect from it unilaterally. This is particularly true in cases where the war had no definitive outcome, but rather the violence ended in a cease-fire, truce, or negotiated compromise. One way in which parties have attempted to insure themselves against violations of the peace agreement has been integrating parts of the rebel forces into the government's military. Similarly, in the recent settlement in Côte d'Ivoire, a leader of the rebel organization was nominated to become the minister of defense. Such solutions provide employment for the rebels and reduce their private incentives for continuing their rebellion. It also makes coordinated action by the military against rebel sympathizers more difficult.

Integration of rebels into the government army occurs only rarely. As expected, such integration is more common if the war ends in a negotiated settlement as opposed to victory; however, integrating defeated rebel forces is possible, as demonstrated by the case of Biafra, where the rebel army was integrated into the national Nigerian army after the end of the war. Where the war ends in a negotiated settlement rebel-military integration occurs in about half the cases, whereas without a treaty integration occurs in only about one-seventh of cases. While no statistical analyses of the effects of military integration on the likelihood of war recurrence are available, in several cases military integration is associated with a lowered rate of war recurrence. Examples are Nigeria after the 1966–70 Biafran war; Chad, where successive bilateral agreements with rebel groups reduced the magnitude of the insurgency in the 1980s and 1990s; the Philippines, where the government's agreement with the Moro National Liberation Front left only a fringe group, the Moro Islamic Liberation Front, fighting after 1996; and Zimbabwe, where the peace after the war of the 1970s and early 1980s has held. At the same

time, integrating rebels into the government's military can threaten the interests of extreme nationalists and re-ignite civil war before the integration is completed. Examples are Rwanda, where the massacres of 1994 followed the failed Arusha Accords, and Angola, where the failure to demobilize and to reintegrate combatants within the framework of the Lusaka Accords of 1994 led to a resurgence of violence in 1996.

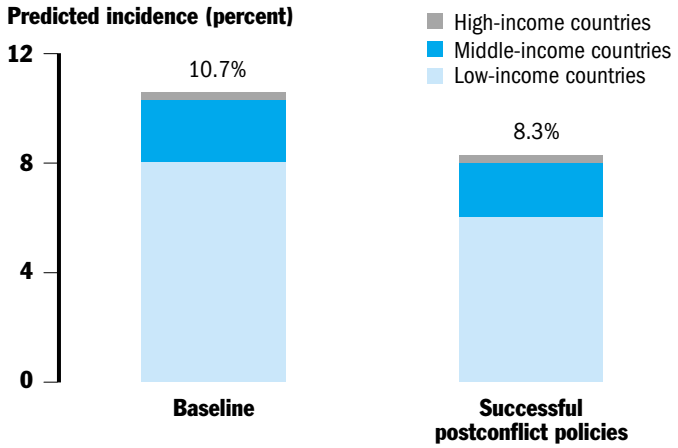
Reducing Postconflict Risks

AT ANY ONE TIME FEW COUNTRIES ARE IN THE FIRST DECADE of postconflict peace. For example, the global steady state depicted in figure 4.12 shows only 12 postconflict countries versus 64 successful developers currently at peace. Yet the postconflict countries have a highly disproportionate effect on the global incidence of conflict: they account for three times as many new conflicts as the entire group of successful developers. Hence in focusing development efforts on building a more peaceful world society, clearly the few postconflict countries warrant particular attention. We can use the model underlying figure 4.12 to simulate the effects of reducing postconflict risks. A wide range of policies could make the first postconflict decade safer. Furthermore, because these policies are highly focused on a few countries, they are relatively straightforward to implement. Figure 5.4 simulates how halving the risk of conflict repetition would reduce the global incidence of conflict. As the figure indicates, this would make a clear contribution to global peace, with a reduction of around a quarter in the incidence of war. Translated into the number of wars, the reduction is from 16.6 active conflicts at a time to 13, most of them in the marginalized group of countries.

Postconflict countries face two major challenges. First, as chapter 3 indicated, they have a high risk of further conflict, and so a key objective of policy must be to reduce this risk as rapidly as possible. Second, as chapter 1 noted, they inherit a severe economic and social decline from the period of conflict, and so the other key objective is to restore economic and social conditions.

The high risks of further conflict inherent to many postconflict situations reflect both risks inherited from prior to the conflict and risks caused by the conflict. The structure of the inherited risks will differ between societies, and not all risks are amenable to policy; for example, a

Figure 5.4 The contribution to peace of successful postconflict policies



Note: The simulation is based on the model presented in figure 4.12, reducing postconflict risk of war by 50 percent. See appendix 1 for details.
Source: Based on a revised version of Collier and Hoeffler (2002c).

country that is geographically prone to conflict can probably do little about it. Nevertheless, a reasonable presumption is that if a country faces an unusually high risk from a particular source, it should devote particular attention to reducing that risk.

Going Along with False Friends: How to Spend More and Make Things Worse

Recall that the governments of poor but peaceful countries commonly respond to a heightened risk of rebellion by opting for high levels of military spending. Recall also that this is ineffective: such military spending does not alter the risk of conflict. Once the risk of civil war becomes a reality, governments further increase their military spending, though at this stage they may have little choice. During the typical civil war, military spending is around two percentage points of GDP higher than during the prior peace. In the first postconflict decade the government inherits this high level of military spending and, even though it has achieved peace, it is aware that the risk of reverting to conflict is substantial. The argument for continuing with high military spending

therefore appears to be strong. This argument for deterrence will be reinforced by the special interest pleading of the military establishment, and quite possibly by rebel forces that might want to be integrated into the regular army. Thus the pressures for continued high military spending are powerful.

What are the effects of high military spending in postconflict situations? Are they simply the same as in preconflict situations, namely, ineffective? A recent study investigates this, using the same approach as for the deterrence effect of military spending in preconflict situations (Collier and Hoeffler 2003). It finds that the effect of military spending is indeed significantly different in postconflict situations. High levels of military spending postconflict significantly increase the risk of reversion to war. As with the more general study of the effect of military spending, the approach controls for the problem that a high level of military spending reflects an enhanced level of risk. Chapter 3 suggested that a possible reason why high military spending might increase the risk of reversion to conflict is that it inadvertently signals that the government lacks confidence in the persistence of peace. An important postconflict problem is that neither side trusts the other, thus the more the government spends on the military, the more the rebel organization may think that it too has to prepare for the renewal of conflict. Such mutual military escalation can easily trigger incidents that re-ignite the conflict.

Each postconflict situation is distinctive, and so any general principles are merely broad guidelines; however, one policy lesson for postconflict situations is that governments should be wary of the strong lobbying pressures for maintaining high military spending. In addition to the problems resulting from such spending, the government could forego the opportunity to realize a peace dividend from reduced spending.

Reviving Economic Growth

The level and growth of per capita income are important risk factors for conflict. Faster growth tends to reduce the risk of further conflict directly, and also cumulatively by raising the level of income. Are the effects of growth different in postconflict situations? A study that examines this finds that a given rate of growth is significantly more effective in reducing risk in postconflict situations (Bigombe, Collier, and

Sambanis 2000). Hence a sensible approach is for governments to pay considerable attention to reviving the economy.

Fortunately, on average, the first postconflict decade is a good period for growth: countries do tend to bounce back. Taking the first decade as a whole, annual per capita growth is around 1.1 percent faster than normal. This growth boom is not uniformly spread over the decade: growth is not more rapid than normal during the first two or three years, and by the end of the decade the growth spurt is fading. The growth spurt is concentrated into the middle four or five years of the decade. Some evidence suggests that the recovery is faster after longer wars, but our main concern is to understand what countries can do to accelerate the recovery (this discussion is based mainly on Collier and Hoeffler 2002a).

As with the poor but peaceful economies, the likely cocktail of interventions that might raise the growth rate combines policy reform, aid, and improved access to global markets. The issue is whether any of these should be tailored differently for a postconflict country than for an equally poor country that is not just emerging from conflict.

Economic Policy Priorities for Growth As noted earlier, policy matters in the poor but peaceful countries. A useful broad measure of economic policy, the CPIA, helps explain variations in the growth rate among developing countries. Is the relationship between policy and growth any different for postconflict situations than in peacetime? A recent study finds that it is (Collier and Hoeffler 2002a). As measured by the CPIA, growth is more sensitive to policy during the first decade postconflict than in normal situations. For the typical postconflict country, a one-point improvement in the CPIA would raise growth by 2.5 percentage points, whereas normally its contribution to growth would be around 1.6 percentage points. Thus not only is growth more effective in risk reduction in postconflict countries, but policy reform is more effective in raising growth. But which policies matter most?

That economic policies should be distinctive in postconflict situations is indeed likely. Policies at the start of peace are usually much worse than in equally poor countries without a recent history of conflict. Hence one difference is simply that postconflict countries are at an earlier stage of reform. Related to this, the politics of reform are

likely to be different: the balance between interest groups is distinctively different in postconflict situations.

Postconflict countries start with an average CPIA score of only 2.41, compared with a developing country average of 3.00, therefore much more is wrong with their policy. This is the case across the entire range of macroeconomic, structural, and social policies. The World Bank has recently developed a strategy for addressing the needs and problems of such environments known as the low-income countries under stress (LICUS) approach. The essence of the LICUS approach is that even though many policies are wrong, the capacity and appetite for reform are limited, and thus attempting reform across a broad front is not sensible. Rather, reform efforts should focus on two or three policies that are politically as easy as possible and yield rapid payoffs. The rationale for this approach is to build a constituency for reform in contexts in which the demand for reform is largely latent. Postconflict situations resemble other LICUS contexts in starting with poor policies and institutions; however, they differ in that reform may be more constrained by limited capacity than by limited appetite. The early postconflict period may politically be a relatively easy time for reform, because people expect change and old vested interests may have been weakened. This is borne out empirically by the rapid pace of reform during the first postconflict decade. By the end of the decade postconflict countries, on average, have a CPIA score of 3.05, slightly above the developing country average. Thus the greater political scope for reform may be constrained by the limited technical capacity to design and implement policies, but this is amenable to donor assistance.

In the normal LICUS environment, given that the agenda for reform has to be highly prioritized, the conventional sequence is that the top priority is to correct macroeconomic imbalances. Is there any reason to adopt a distinctive prioritization in postconflict environments? Two factors suggest that priorities should be broader in postconflict contexts than in other LICUS environments. First, the scope for rapid policy reform suggests less need to limit reform to two or three policies with rapid payoffs. Second, some evidence suggests that the relative importance of macroeconomic, social, and structural policies is distinctive in postconflict settings.

A recent study focuses on the determinants of growth in all the postconflict episodes of the 1990s (Collier and Hoeffler 2002a). For this pe-

riod the CPIA can be disaggregated into three broad areas of policy—macroeconomic, social, and structural—that encompass such matters as trade and privatization. The results suggest that social policy is relatively more important and macroeconomic policy is relatively less important in postconflict situations than in normal situations. The effect seems to be quite large: if opportunities exist for modest trade-offs that improve social policies at the expense of a small deterioration in macroeconomic balances, growth is, on average, significantly augmented. The results do not in any sense imply that macroeconomic balance is unimportant, nor do they imply that it is less important than social policies. They simply suggest that relative to the strategies normally adopted, social policy should be given somewhat more weight. As the correction of macroeconomic imbalances has been accorded top priority in the normal poor policy environments, it may well be that in an absolute sense it should also be the top priority even in postconflict situations. Nevertheless, the results are important, because both governments and the teams from the international financial institutions that advise them have lacked any systematic tendency to adopt such priorities.

Why should social policies—specifically policies for social inclusion—be differentially important for the growth process in postconflict countries? As the direct effects of education and health care on growth are likely to be long term, the relatively short-term growth effects that are detected are unlikely to be due to the direct impact of these services. A more likely route by which a government priority for social inclusion might enhance growth is through its effects as a signal of government intent. We have already come across a likely signaling effect: high levels of military expenditure increase the risk of renewed conflict, perhaps because the rebel organization interprets this as a lack of government commitment to the peace settlement. Conversely, if the government attaches a high priority to inclusive social policies, this may be interpreted, not just by the rebel organization but by the wider population, as the government actively honoring the spirit of the settlement. Because the risk of conflict renewal is so high in postconflict situations, the private sector has to take this risk into account in its economic behavior, and it will obviously influence the decision of whether to invest domestically in irreversible assets or to send wealth abroad, and this decision matters for growth. Thus, by prioritizing social inclusion, the government may indirectly reassure investors. This may account for the

differential contribution of socially inclusive policies to growth in postconflict settings.

So far we have suggested that economic policy priorities should differ in postconflict situations, because both the starting point of poor policies and the politics of reform are likely to be distinctive. We now turn to a second reason: the economic inheritance is distinctive, in that civil war leaves a legacy that determines priorities for action.

As discussed in chapter 1, civil war has various economic effects beyond the overall decline in income. The most obvious is the destruction of physical assets such as the transport system. Beyond this, economic activity is disrupted. Normal business often becomes more uncertain, and so time horizons shorten. An important consequence of this uncertainty is that economic behavior tends to become more opportunistic: people have fewer incentives to build a reputation for honest dealing. In addition to destruction and disruption, assets and skilled people are diverted abroad. Finally, a retreat into subsistence activities occurs as other activities decline in response to uncertainty and predation.

These distinctive effects of conflict determine some of the postconflict policy priorities. The returns to early rehabilitation of key infrastructure destroyed during the conflict can be extremely high. For example, estimates indicate that World Bank road projects in the early postconflict phase in Uganda had a rate of return of around 40 percent. The restoration of transport connections is also important for reintegrating the rural subsistence economy into the market.

The disruption and the high level of opportunism create both priorities and constraints. For example, property rights have become confused in some postconflict situations: owners have fled and people without good title have seized or occupied their property. In these circumstances opportunistic claims flourish. Until property rights have been clarified reviving investment is difficult, and without deliberate action, the process of settling disputed claims can take many years. A priority is for the government to set up a fast-track process for resolving claims that involves setting an early time limit by which all claims must be registered in order to be considered; however, high levels of opportunism constrain what the government can realistically do.

Often the conduct of the civil service and of such professionals as lawyers and judges will have been undermined, and this limits the gov-

ernment's ability to collect taxes and deliver public services. Under such conditions the best approach may be to keep the government sector atypically small until reasonable practices can be reestablished.

A major potential asset of the society is wealth held abroad. A priority is therefore to induce the repatriation of these funds. All capital flight is likely to have been illegal, but it reflects two very different processes. Some capital flight will be to hide the proceeds of large-scale corruption. Other capital flight will simply reflect the prudent movement of honestly acquired assets into a safer environment. During civil war both of these occur on a significant scale, but they require quite different postconflict policies. The former should be tracked down, and with the compliance of authorities in the industrial countries the funds should be forcibly repatriated. The latter, which probably accounts for the bulk of money abroad, should be induced to return voluntarily. One way to encourage repatriation is by keeping the exchange rate competitive: a wide gap between the official exchange rate and that on the parallel market is a powerful driver of capital flight. Other significant influences on the repatriation of capital are high indebtedness, poor economic policies as measured by the CPIA, and political instability (Collier, Hoeffler, and Pattillo 2002).

Aid in Postconflict Situations Donors typically curtail aid flows during a civil war. Various factors determine such flows, such as the economic policy of the recipient government, its per capita income, and its population. The decline in aid flows during conflict is partly a response to deteriorating policy: on average each one-point reduction in the CPIA reduces aid by around 0.3 percent of GDP. However, the deterioration in policy does not by itself account for the significant reduction in aid. In addition, the longer the war lasts, the more aid declines. By the end of a four-year war, aid will have declined by over half a percentage point of GDP simply due to this effect. How do donors respond to the restoration of peace?

In the first couple of years postconflict donors substantially increase aid; however, this is not sustained. By the third or fourth year postconflict some signs suggest that aid is below normal levels, and toward the end of the first decade it is more than one percentage point below normal levels. This overall pattern of aid allocation is readily intelligible. In

the immediate postconflict period international publicity and goodwill is considerable, and so donors are keen to be seen as involved. Sometimes donors provide funds out of resources dedicated to postconflict uses, which, as new postconflict situations arise, are gradually diverted to these new needs. For the aid programs to be sustained bureaucratically, the recipient country needs to become part of the donor's normal allocation mechanism, but during the conflict the original aid programs have eroded and the donor has allocated the funds to other countries. Most donors do not have an automatic process whereby a postconflict country becomes part of its core aid allocation. Furthermore, using aid effectively during the early postconflict years is extremely difficult, and donors can easily become disillusioned with the country. For whatever reason, the pattern is that taking the first postconflict decade as a whole, aid is lower than if the country were not postconflict. Within the decade the aid profile is an initial burst followed by a gradual decline.

The pattern of donor contributions is thus distinctive in postconflict situations. Is the contribution of aid to growth also distinctive in these situations? The evidence suggests that aid during the postconflict period is more effective than normal in raising growth. The effect is not uniform: during the first two or three years of the postconflict decade aid is no more effective than in normal situations, and by the end of the decade it is also no more effective than normal. The high-impact phase is during the middle four or five years of the decade, when it is much more effective than normal. One way of expressing this is in terms of absorptive capacity. Aid, like most other resources, is subject to diminishing returns: as more aid is put into a situation the additional contribution of each dollar becomes smaller, and eventually the point of saturation is reached beyond which further aid does not raise growth and may even be damaging. During the middle phase of the postconflict decade aid absorption capacity, that is, the amount of aid that a country can absorb productively, is approximately double normal.

The phase of super-effective aid turns out to account fully for the growth spurt in postconflict economies. If a postconflict country did not receive aid during the first decade, the growth analysis suggests that it would completely miss out on the above normal growth phase. Note that the original impetus for aid was postconflict recovery. The World Bank's original name is the Bank for Reconstruction and Development, and its first task was to help restore the European economies after

World War II. Apparently this impetus was not misguided: aid has a crucial role in postconflict recovery.

Yet aid policy as it has evolved over the past half-century has evidently lost this original insight. Aid during the first postconflict decade is insufficient, and it is also mistimed, coming in when the institutional capacity to use it well is not yet in place and tapering out just as it should be surging in. The donor community can surely do better.

Postconflict aid also provides an opportunity for credible enforcement of peace agreements. Boyce (2002) argues that postconflict aid could use conditionality to encourage governments to adopt policies that secure the peace.

Reducing Risk Using Political and Military Strategies

Economic recovery helps to reduce the risk of renewed conflict, but other policies are also important.

Disarmament and Demobilization The pace at which military forces are demobilized varies widely, as does the attention paid to reintegrating soldiers into society. What do we now know that can guide these decisions?

Disarmament, demobilization, and reintegration (DDR) involves a chain of activities that normally begins with disarmament and ends with ex-combatants (both government soldiers and members of an armed opposition group) finding new, productive roles in civilian life. The importance of this process is increasingly being recognized. The 1998 report of the UN secretary-general on "The Causes of Conflict and the Promotion of Durable Peace and Sustainable Development in Africa" cites the reintegration of ex-combatants and others into productive society as one of the priorities of postconflict peace building. DDR would help reduce conflict risk both through the direct effects of decreased military expenditure and manpower and through the indirect effects on growth and poverty reduction of budget reallocation and the return of the labor force. A structured DDR process, which demobilizes combatants in stages and emphasizes their ability to reintegrate into society, may reduce the risk of ex-combatants turning to violent crime or rejoining rebel groups in order to survive.

The starting point for the whole process is political will among the key parties: experience shows that no DDR will succeed if that is missing. In some cases the demobilized include ex-soldiers from a national army as well as ex–rebel fighters with whom they have been at war, as in Angola and Sierra Leone, while in other cases the demobilized are soldiers from two warring national armies, as in the case of Eritrea and Ethiopia. In all cases the timing of the demobilization efforts is critical: the demobilization should start as soon as possible after the parties have agreed to end the war; the different armies should be demobilized in parallel; and the quartering of combatants waiting for discharge should be as short as possible, only allowing for registration, health checks, and so on.

While disarmament and demobilization are reasonably straightforward logistical operations, reintegration is a complex and long-term process of coalescing groups with different backgrounds, experiences, norms, expectations, and capacities. The process also has psychosocial aspects, as most ex-combatants go through a process of adjusting their attitudes and expectations, and many suffer from traumatic experiences related to the war. Experience shows that successful reintegration depends to a considerable extent on the support that ex-combatants receive from their families and communities. Strengthening the absorptive capacity of the receiving communities is therefore an important part of the reintegration process. In some cases, however, ex-combatants have committed atrocities in or near their own communities and are often unable to return to these communities, for example, in Mozambique (Kingma 2002). Except under such circumstances, ex-combatants should be allowed to freely choose the community in which they settle.

DDR is a sensitive process undertaken in an environment where the sources of conflict often remain unresolved despite peace agreements, and experience has given rise to lessons that may help avoid inadvertently fueling tension (Kingma 2002). The ongoing provision of information about the process to the armed forces as well as to society at large can counter rumors and unrealistic expectations, as can the use of transparent criteria for selecting and phasing the groups to be demobilized. Efficient support for reintegration requires targeted interventions based on socioeconomic data for the ex-combatants. Knowledge of their geographic origins, family situation, education, and past occupation greatly helps the planning of realistic reintegration support, which

normally includes access to training, employment opportunities, and productive assistance (for instance, micro-credit).

Support levels should, however, be in line with assistance provided to other reintegrating groups, such as the internally displaced or returning refugees, many of whom may be more vulnerable than the ex-combatants. In some conflict situations civilians view combatants as robbers and rapists rather than as fighters for a just cause, and the provision of a higher level of reintegration support for ex-combatants than for other groups is likely to provoke negative reactions. DDR activities therefore need to be designed as an integral part of the broader postwar recovery and peace-building process.

Maintaining a large army is expensive for the budget, denies the rest of the economy part of the labor force, and, as noted earlier, appears to increase the risks of further conflict. Nevertheless, governments are often hesitant to demobilize soldiers for fear that they will be disruptive. Of particular concern is the danger that demobilized soldiers will turn to violent crime. This fear has some basis, because soldiers may have lost their skills for other activities, or indeed, if they were recruited as child soldiers they may never have had any other skills. Their time in the military may have provided them with the skills and equipment for violence and desensitized them to its use. One study investigated the effects of demobilizing soldiers in Uganda during the early 1990s, a policy that the Ugandan public widely feared would lead to a crime wave (Collier 1994). Soldiers were returned to their home districts, but with large differences between districts in the number of soldiers returned, and so the study was able to determine whether any relationship existed between changes in district-level crime rates and the number of soldiers demobilized. Overall, despite the fears, the demobilization had no effect on crime; however, prior to the demobilization all soldiers had been surveyed to discover what access they had to income-earning possibilities. Around 12 percent claimed to have no access to land, and these soldiers were concentrated in a few districts. Demobilized soldiers with no access to land significantly and substantially increased local crime rates. Statistically, they were more than 100 times more likely to commit a crime than the average Ugandan. A possible implication of this is that efforts to help demobilized soldiers return to normal economic activity need to be highly targeted. Most soldiers probably do not need much assistance, but identifiable categories are likely to turn to crime.

Diasporas Recall that the existence of a large diaspora living in rich countries is an important risk factor in postconflict societies. This is both a statistical result and is supported by evidence of how particular diasporas have tended to support and finance violent political organizations. How can policymakers respond to this risk?

One useful response is for donor agencies and postconflict governments to recognize the diasporas' potential to play a productive role in economic reconstruction. Diasporas in rich countries possess skills that are in acutely short supply in postconflict situations. Furthermore, many members of diasporas are often running businesses that could provide useful trading opportunities. They are the part of the global business community that is most knowledgeable about the country and most prepared to undertake the risks of engagement. Business people living abroad often go back to visit during early postconflict situations, combining social and business opportunities. Governments are often ineffective in harnessing this potential, and formalizing the use of the diaspora may be helpful. For example, in postconflict Afghanistan the government used the Internet to create a directory of skilled Afghans living abroad, while postconflict Eritrea had a cabinet minister dedicated to diaspora concerns. Diaspora organizations can be brought formally into business recovery strategies by organizing visits home, and can even be formally involved in the peace process. There may also be scope for recruiting second-generation diasporas into service along the lines of the Peace Corps, as Israel has effectively done for many years. A diaspora can be a wasted asset unless its members maintain family contacts. The new communications technology is well suited to this purpose, yet some postconflict governments are hesitant to permit it on security grounds. Any direct security benefits from curtailing communications may come at a high cost in terms of slowing recovery.

The donor community may also be able to encourage diasporas to play a constructive economic role. Bilateral donors can make business links with the diasporas living in their countries part of a postconflict aid program. Multilateral agencies could arrange business forums, and even design projects with an explicit role for diaspora organizations. For example, a school enrollment program could seek diaspora assistance for books, and even for volunteer teachers.

In conjunction with these greater opportunities for diasporas to play a positive role in recovery, host governments in industrial countries must recognize their responsibilities to ensure that diaspora organiza-

tions do not finance violence. For example, *The Economist* (2001) reported that diaspora remittances to the Tamil Tigers were substantially curtailed as governments tightened controls, and this may have assisted in the substantial softening of the Tamil Tigers' demands, which has greatly facilitated the peace process in Sri Lanka. September 11 has brought home to North American diasporas what the financing of violence actually means.

Political Architecture Experience shows that democratic institutions are extremely unstable in low-income countries dependent on primary commodities. For this reason, empirical analyses fail to find any systematic risk-reducing effect of democracy in such countries. Democratic institutions are difficult to sustain unless all important actors accept that resorting to physical force is unacceptable. Where the underlying factors that predict a high risk of civil war are present, this is unlikely to be the case. In many low-income countries reducing the risk of civil war is thus a necessary precondition for democracy rather than the other way round. Outbreaks of violence often follow on the heels of reversals from democratic institutions. The external imposition of a set of unsustainable institutions without the commitment to defend them over the longer term may prove to be counterproductive; however, there may be scope for using aid conditionality to help stabilize new institutions over a longer period (Lipset 1959; Przeworski and others 2000; Ross 2000).

One attempted solution to conflict in polarized nations has been partition; however, multicultural nations are not inherently problematic. Recall from chapter 3 that highly diverse societies are much safer than polarized societies. Horowitz (1991) has proposed that instead of partition, there might be scope for regional political integration, to build larger, more complex multiethnic states (see also Sambanis 2000).

External Military Presence In many postconflict situations the UN, a concerned neighbor, or the former colonial power provides peacekeeping troops. Given the high risks of renewed conflict in the early postconflict years, some form of military solution seems necessary. As domestic military expenditure actually appears to increase the risks, such a military presence should be external. Among external interventions various options are possible: regional or extraregional, bilateral or

international. Whatever forces are deployed, however, should be seen as credible and should not be seen as a party in the conflict. Credibility depends, in part, upon rules of engagement and willingness to use force. For example, in Sierra Leone the RUF took a large UN force hostage, because the former correctly perceived that it would not meet resistance. By contrast, when a much smaller British force was deployed with clear instructions to be prepared to fight, the RUF rapidly dissolved.

In Georgia a few Russian peacekeepers have managed to bottle up the passions that fueled secessionist violence in South Ossetia and Abkhazia from 1991 to 1993, and North Atlantic Treaty Organization (NATO) military support was effective in helping the UN mission in eastern Slavonia to implement its transitional authority mandate. U.S. military intervention ended the war in Haiti, and U.S. monitors succeeded in providing legitimacy and technical assistance during the Nicaraguan elections of 1989, ending a 10-year-long war, much as international volunteers did in the case of the Cambodian elections in 1993, which installed the first publicly elected government in that country's history.

Yet every regional peacekeeping success story can be counterbalanced with a failure. Libyan intervention in Chad only exacerbated the fighting in the 1980s, Iranian intervention in Iraq only intensified Iraqi violence against the Kurds, and a multinational peace enforcement mission led by the United States in Somalia created new fault lines among previously cooperating warlords and escalated the violence in that country in the second half of the 1990s.

Regional, non-UN peacekeeping and peace building can be more effective than multilateral intervention. An important shortcoming of multilateral peacekeeping by the UN is that the participants are engaged in a coordination problem, and the possible defection from agreed action by any participants creates gaps in the collective effort. The economic costs of collective security arrangements are also substantial, and infighting occurs over the distribution of these costs and the consequences of intervention. By contrast, unilateral or regional intervention occurs only if security concerns justify the economic costs of intervention, and parties are likely to contribute to the degree to which their interests are threatened. Regional organizations can provide useful instruments for peace maintenance, and they can do so within the framework of the UN Charter. Chapter VIII of the Charter discusses the regional management of conflict. The idea behind this is that regional organizations are a better locus of activity because they are more familiar with the

region, they may have greater leverage with the parties, and they are less likely to be impeded by the politics of the UN Security Council.

Security Council politics were an especially relevant consideration during the Cold War. The rule of great power unanimity that governs Council voting often paralyzed the UN's ability to intervene. Between 1946 and 1990 the great powers exercised their veto rights 279 times: the former Soviet Union did so 124 times, the United States 82 times, the United Kingdom 33 times, China 22 times, and France 18 times. However, from 1991 to 1995 they used the veto only 3 times (Russia twice and the United States once) and recorded only 20 abstentions (which need not preclude a resolution on any matter before the council). Thus in the post–Cold War period multilateral operations face fewer operational and political constraints. Since 1989 the Security Council has authorized 31 peacekeeping operations and adopted 145 resolutions under Chapter VII of the UN Charter (enforcement, non-consent-based action). By contrast, the council had authorized only 15 peacekeeping operations and adopted 22 resolutions under Chapter VII during the Cold War. In an environment of greater major power cooperation, regional organizations may lose some of their advantages in relation to the UN as an instrument for exercising collective security arrangements.

While regional organizations do have advantages and can help support the UN by constructing a network of institutions to implement the Charter, they also have shortcomings. Establishing which regional organization should intervene is often difficult because of ambiguity regarding the concept of region, that is, is geography or politics the determining factor (see Weiss 1998). An example is the public debate about NATO's involvement in the former Yugoslavia's wars. A second advantage of regional organizations may be that they can possess greater institutional resources and technical knowledge than the UN's peacekeepers; however, this is not true for all regional organizations, and the fact that their resources come directly from one or more hegemonic states may create doubts about their impartiality during peacekeeping operations. A related concern is that regional hegemons who could provide the bulk of support in a regional organization may be directly involved in the conflict. Furthermore, regional organizations' interests may be limited to regional—not global—stability, so that both their strategies and goals may be different from the global interest. Thus, while the use of regional organizations for conflict resolution has advantages, it also entails considerable limitations that perhaps account

for the limited success of major regional organizations in maintaining international peace and security.

Examining Trade-Offs between Growth and Peace

The government's objectives in a postconflict situation need to be quite different from those appropriate for a peaceful situation. In particular, in view of the high risk of repeat conflict, policies for maintaining peace should receive a much higher priority in postconflict situations than in normal situations. This creates the potential for trade-offs between policies that promote growth and those that promote peace.

Policies that promote economic recovery will, on the whole, reduce risk. Recall that policy improvement, as defined by the World Bank, has no overall tendency to create risks of conflict; however, there will clearly be exceptions: some policies may raise growth but enhance either grievances or opportunities for rebellion. Growth-promoting policies will therefore need to be screened for such effects. Where a significant trade-off exists, the government may need to give priority to policies for peace building.

The most probable locations for the early stages of economic recovery are the capital city of the country and the most developed region. The most difficult regions to revive are likely to be those that the rebel organization controlled. Market forces will therefore probably agglomerate activity in a way that is disadvantageous to the rebels. The return to public economic expenditure is likely to be highest in those areas where private activity is reviving most rapidly, and so is most constrained by a lack of publicly provided goods and services. Hence there is likely to be a trade-off between the growth-maximizing geographic distribution of public expenditure and a distribution that might be regarded as fair.

The economy will need the foreign exchange from reviving export activities, but by far the easiest exports to encourage are likely to be those obtained by natural resource extraction. These activities have location-specific rents and are not as highly dependent on inputs as manufacturing. Yet an expanded resource extraction sector risks generating all the problems previously discussed: financial opportunities for rebel groups, corruption in government, and exposure to macroeconomic shocks. Indeed, the initial conflict may have been induced in part because the country was

heavily dependent on primary commodities; thus a long-term strategy for diversification is desirable for peace building. A trade-off between the sector strategy that maximizes short-term growth and that which most reduces the risks of renewed conflict is therefore likely. A possible way out of this trade-off is to give priority to transparent governance of the revenues from natural resources and to establish institutions of scrutiny that are sufficiently inclusive to be credible with opposition groups.

Sequencing Postconflict Policies

We have considered two groups of policies for restoring postconflict societies: measures to revive the economy, notably aid and policy reform; and military interventions, notably demobilization and external peacekeeping. Can we say anything about the appropriate sequencing of these interventions?

The typical postconflict society begins peace with high risks of further conflict and with a weak economy. Although much can be done to revive the economy, recovery will inevitably take time. Indeed, the pace of growth tends to quicken after being modest in the first three postconflict years. Aid is not especially effective during this early period, at least in reviving growth, and any policy improvement is from a low base. Hence neither aid, nor policy reform, nor any combination of the two can reasonably be expected to deliver peace with any reliability during these early years. Of course, some situations will be inherently hopeful. Especially in middle-income countries, the risks of further conflict may sometimes be quite limited, but for low-income countries this postconflict phase will typically need a temporary intervention that goes beyond effective strategies for economic development. This is the phase during which external military intervention has a critical role to play. Currently the UN typically sees postconflict interventions as two-year operations. This may well be too short, as the economy will normally not have responded much by the end of two years.

The earliest that economic recovery can realistically hope to take over the burden of maintaining the peace is by the middle of the first postconflict decade. During this period growth rates are atypically high and, even more important, could be raised substantially more if aid were targeted to this phase. At present aid is inadequate and mistimed. The global response to postconflict situations should therefore evolve from

military peacekeeping to aid during the first decade. Countries can and must graduate from postconflict status.

We can simulate the effects of a well-used first decade on the risk of conflict. Suppose that under the protection of military peacekeeping a large and well-timed aid program, combined with rapid and well-selected policy reforms, succeeds in raising the annual growth rate of the economy by two percentage points and that this is sustained over the decade. Suppose also that this enables the economy to diversify by a relatively modest two percentage points of GDP out of primary commodity dependence. By the end of the decade the risk of conflict has been halved from a 44 percent risk of conflict in the ensuing five years to a 22 percent risk, that is, the country has more or less returned to the level of risk faced by the group of marginalized countries that have enjoyed sustained peace.

Beyond the first decade the challenge of risk reduction passes to the country's government. An external military presence cannot be continued indefinitely, nor can countries that have at some prior stage had a conflict permanently preempt aid. The risks during the second decade will be substantially lower if the country has put reasonable policies, both economic and political, in place during the first decade.

Governments already tend to improve policies during the first decade. As noted earlier, policies start the decade with a CPIA rating of 2.41 and end it with a rating of 3.05, slightly above the developing country average, but this is not enough. Policy is a continuum, so no critical threshold exists that must be attained; however, recall that the dividing line between the marginalized countries and the successful developers was a sustained rating of 3.5; thus the typical postconflict country is still short of reasonable policies after a decade of reform. Some low-income postconflict countries have managed to implement much more rapid policy reform, achieving policy scores of 4.0 by the end of the first decade. A high policy score is associated with both faster growth and a more diversified economy, both of which tend to reduce risks. Suppose that by the end of the first decade the country had a policy score of 4.0. How would risks typically have evolved by the end of a second decade of peace during which the country had maintained this level of policy? The good policy environment raises the growth rate, which results in a higher income level. Both the better policy and the higher level of income in turn facilitate export diversification. Faster growth, higher income, and greater diversification all contribute to

peace, reinforcing the pure effect of the passage of time, which itself lowers the risk. Twenty years after the end of the conflict the risk of renewed conflict has fallen to 12 percent over the ensuing five years: the society has effectively escaped the conflict trap.

Coping with the Health Crisis

As chapter 1 showed, civil war leaves a terrible legacy of health problems, and these require focused attention. The war destroys infrastructure, leaving the population in conditions that increase the risk of disease; squeezes the budget for the health system; and displaces people, which again increases the risk of infectious diseases. Policies to address this issue should take a long-term perspective, because refugees and IDPs may stay away from their homes for long periods after the war ends, yet current responses to humanitarian emergencies improve health conditions only in the very short term.

International assistance usually invests money in bringing doctors to devastated areas and refugees camps; however, the level of absenteeism of doctors in areas difficult to access is around 45 percent (Chadhury and Hammer 2002), and doctors stay in devastated areas only for short periods. Therefore even though the emergency actions for devastated areas are effective in the short term, the health problems remain in the long term. International assistance agencies should rethink their policies to achieve sustainable improvements in health.

Doctors need to be given an incentive to do their job, and their pay should reflect the difficulty of the job. The main problem of absenteeism has to do with incentives. Another approach could be to go outside the public sector and let nongovernmental organizations (NGOs) do this job. Doctors working for NGOs typically do not show such high levels of absenteeism; moreover, patients are more motivated and happy with NGO doctors (Reinikka and Svensson 2002). Beyond this building an infrastructure to avoid the spread of infectious diseases such as malaria and HIV is necessary that includes safe water, sanitation, and paved roads. This should occur before public medical personnel are brought into the region for long periods. Infrastructure is crucial to facilitate mobility and to ensure that professional staff will stay in the area.

IDPs should receive the same attention from the international community as refugees in asylum countries. IDPs suffer similar problems to

refugees in asylum camps, but their situation is worse because they do not receive much humanitarian help. This increases mortality rates and the spread of infectious diseases. The location of camps is crucial: many have been set up far away from hospitals and safe water, which increases the risk of infectious diseases. Moreover, camps are sometimes located in areas extremely difficult to access. Before setting up any camp it should be recognized that people may stay there for long periods after the war has ended, and thus its location should be suitable for habitation in the long run; however, many camps already exist and relocating the millions of people involved is impossible. For these camps providing the basic infrastructure is important.

Another general recommendation is to have the community, whether refugees or the internally displaced, participate in the construction of public services. Services work better when the community contributes to their cost.

HIV and Other Sexually Transmitted Diseases As discussed in chapter 1, civil wars create an environment for the spread of HIV/AIDS. Military personnel tend to have high rates of STDs, including HIV. When stationed away from home, social controls to engage in sexual relationships are lower and the risk of HIV infection is likely to be higher. Prostitution around army bases also increases the spread of infection. In addition, the incidence of rape often increases dramatically during war, with refugees and displaced women and girls being particularly vulnerable. The destruction of the social and physical infrastructure during wartime contributes to the spread of the disease. War also weakens the education system, which makes the teaching of prevention more difficult.

The basic approach used to address this problem is to combine the provision of information and support. Refugees can be provided with appropriate education programs on transmission and prevention and on the consequences of becoming infected to change their behavior. This is the strategy the UNHCR has adopted in its plan for 2002–04, and the Centre for Research on the Epidemiology of Disasters also emphasizes this approach. The refugee community can itself be used as a support group, in that associations and groups in the camp can serve as the vehicle to implement measures.

Soldiers also need targeted education programs. According to Elbe (2002, p. 176): "The armed forces themselves should be involved in

combating the HIV/AIDS pandemic. In Africa these forces should be encouraged to implement education programs that discuss the illness in an open and serious manner, as well as work to reduce the stigma attached to the illness. . . . Military leaders should reevaluate military practices that expose soldiers to HIV transmission, making changes where possible."

Malaria Civil wars increase the incidence of malaria. The existence of many migrants infected by the malaria parasite in the asylum country also increases malaria transmission to citizens of the asylum country and the contagion effect among refugees themselves.

Introducing protection measures and education programs in refugee camps is possible. "Policies to control malaria will have to include many activities that involve improving public awareness and modifying personal behavior" (Hammer 1993, p. 15). Associations and community groups can be used as vehicles to implement these measures. Simply giving bed nets directly to households is ineffective. A more effective strategy is to give them to community organizations and let them encourage households to use them. In some cases camps can be located in nonendemic areas. Sometimes discouraging people from crossing the borders of endemic areas to avoid the spread of malaria in the asylum country may also be possible.

Landmines Chapter 1 noted the legacy of landmines and how deaths and injuries from them have recently been substantially curtailed. This is an example of successful international public action. The decrease in the number of landmine victims is due to the international ban of antipersonnel mines in 1997, which resulted in the destruction of stockpiles and a drastic decrease in the production of landmines and trade in them. In addition, minesweeping operations have been extremely successful in detecting and destroying mines in many countries.

Conclusion

FOR 40 YEARS THE GLOBAL COMMUNITY HAS LARGELY IGNORED civil war. Two attitudes underlie this neglect: "it's not our problem" and "nothing can be done."

It's Not Our Problem

Civil war does not just affect the participants. Through displacement and disruption it affects the entire society; through spillovers such as refugees and arms races it affects the entire region; and through drugs, disease, and terrorism it affects rich countries. Behind the it's-not-our-problem response is a sense that both parties to a war are probably to blame, and that they might as well come to their senses by fighting it out among themselves. Such a view is seriously misguided, in that sometimes the active participants in a civil war do well out of it. This is one reason why civil wars last so long: the people whose decisions determine events are not the ones who are hurting. Furthermore, while in retrospect governments could always have done more to avert conflict, in poor, stagnant, and natural resource–abundant economies even democratic and egalitarian governments face a high risk of rebellion. Civil war *is* our problem.

Nothing Can Be Done

Civil war may be our problem, but if we can't do anything about it, so what? Underlying the nothing can be done view is an interpretation of the causes of conflict that is both patronizing and misleading, that is, that civil wars are caused by ancestral ethnic and religious hatreds. As we have seen, whether a country is prone to civil war is related to more mundane factors, such as the level of income, its structure, and its rate of growth. A country's ethnic and religious composition plays a part, but its effect is ambiguous: highly diverse societies actually have a lower risk of conflict than homogenous societies. While no single magic bullet policy will drastically reduce the global incidence of civil war, many relatively simple policies would have significant effects and together would have a major impact. The instruments of economic development, properly combined and targeted, are an important part of the quest for a more peaceful world.