

# **Development and Conflict**

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## Introduction<sup>1</sup>

I am going to focus on one distinctive and destructive form of conflict – civil war – and relate it to failures in economic development. The relationship between civil war and failures in development is strong and goes in both directions: civil war powerfully retards development; and equally, failures in development substantially increase proneness to civil war. My message is in part a warning: unless the incidence of civil war is sharply reduced by international efforts a substantial group of the poorest countries are likely to be stuck in a ‘conflict trap’ – a cycle of war and economic decline. But it is also hopeful: international efforts can be successful. Civil war is not the inexorable result of historic grievances or ethnic hatreds, its incidence can be brought down by intelligent and vigorous deployment of economic, military and political assistance.

### Civil war as development in reverse

The dream of ‘armed struggle’ on behalf of a grateful population hovers in every student mind. Modern rebellions are usually very distant from this dream. Regardless of their motivation, they are usually ruinous: socially, economically, and politically. Of course there are exceptions – sometimes civil wars end well. But they are just that – exceptions. The political and social legacy of a civil war is usually miserable. Both political rights and health states not only deteriorate during civil war, but are usually persistently worse – even after a decade of peace they have not recovered to their pre-war levels. The most common legacy is, in fact, more war. Far from settling disputes, civil war typically doubles the risk of further war: about half of all post-conflict countries relapse into conflict within a decade.

The typical civil war in a low-income country lasts for nearly a decade. Overwhelmingly, the casualties from civil war are non-combatants: deaths from disease soar as a result of forced migration and the breakdown of health systems. War digs a deep hole in the economy from which it takes many years to recover. Indeed, many of the costs of civil war occur after it is over. Looking at this record, the rebel leader who claims to fight ‘for the interests of the people’ is generally deluding himself - or others.

Further, the damage spills over onto neighbours. In the typical civil war more than half of the total economic cost is borne by neighboring countries rather than by the country itself. Thus, *the costs of civil wars are very largely not borne by those responsible for them*: they are borne by non-combatants within the country, by future inhabitants, and by neighbours. Someone needs to represent the interests of all these people who lose from civil war.

I have attempted to ‘cost’ the typical civil war: I estimate that the typical cost is at least \$50 billion.<sup>2</sup> On average around two civil wars break out each year, - so, the phenomenon is a \$100 billion a year problem To put this in perspective, if we could bring the risk of

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<sup>1</sup> This paper is based primarily upon P. Collier et al. (2003).

<sup>2</sup> See Collier and Hoeffler (2004).

civil war in developing countries down to the negligible level of developed countries, the gains would be equivalent to tripling the global aid budget.

I should stress that this is simply the cost to developing countries: there are other, global, costs related to civil war: for example, 95% of the world's production of hard drugs is in civil war environments – drugs production thrives on territory outside the control of recognized governments. Both developing and developed countries thus have a strong interest in reducing the incidence of civil war. The question is what can be done about it.

### **Reducing the Incidence of Civil War**

Strategies for reducing the global incidence of civil war can be grouped into three objectives: prevention, shortening the duration of conflict, and improving the prospects of sustaining post-conflict peace. Each of these plays a part in the overall reduction in the incidence of conflict, but each has distinctive instruments that are likely to be effective.

#### ***Solutions based on Long Term Prevention***

Many factors contribute to conflict. After nearly a century historians are still not agreed on what 'caused' the First World War, and the list of contributing factors is a long one. Civil wars are usually more opaque than the First World War: there will always be an element from particular personalities, from chance, from triggering events, and from government error. The event will be 'interpreted' by those who want to read into it something that supports their own perspective on conflict and participants will produce 'explanations' of their conduct that are self-serving.

Because of these difficulties in interpreting 'causes', a more straightforward approach is to focus on factors that statistically make a country *prone* to conflict. I have come to think of the risk of civil war as analogous to the risk of sickness: some characteristics substantially raise the risk. I have tried to 'explain' in the statistical sense, all the civil wars in the world that broke out during 1965-99. The typical low-income developing country faces around a 14% risk of civil war in any five-year period. I have used measures of social, economic, political and historical conditions for each country in the world at five-year intervals, 1965, 1970, 1975...., to try to establish what characteristics raise or lower this risk.

Surprisingly, the most important risk factors were three economic characteristics: the level of per capita income, its rate of growth, and its structure. Doubling the level of income halves the risk of conflict. A percentage point on the growth rate reduces the risk by around a percentage point. Reducing dependence upon natural resource exports powerfully reduces the risk of conflict.<sup>3</sup> Other characteristics, such as ethnic and religious

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<sup>3</sup> See Collier and Hoeffler, 2004a. These results are similar to the separate and important analysis of James Fearon and David Laitin of Stanford. The central importance of economic growth as a risk factor has recently been established very rigorously for Africa by Edward Miguel of UCLA. Their papers are available on their websites.

fractionalization, political rights, and colonial history, do not show up as being important. Indeed, if anything, societies composed of many different ethnic groups are safer than homogenous societies. Evidently, where conflicts occur in ethnically differentiated societies they are likely to be organized along ethnic lines, and the rhetoric deployed may well be that of ethnic grievance. However, we should be careful not to conclude from this that ethnic differences are the *cause* of civil war. The same differences, the same grievances, and the same personalities, can generally be harmlessly contained in the context of a middle-income country with a growing and diversified economy, yet may be explosive in the context of poverty, stagnation, and valuable natural resources.

There are many reasons why economic conditions are so important for the risk of conflict. In the context of poverty and decline it is hard for governments to gain popular allegiance. Rebellion may be attractive not only for its leaders, with prospects of power, but for the boy fighters who get guns and drugs. And rebellion in such conditions can be easy: Laurent Kabilla was interviewed by a journalist during his march on Kinshasa. He is reported as saying 'In Zaire rebellion is easy: all you need is ten thousand dollars and a satellite phone'. He elaborated: with ten thousand dollars you could hire a small army, and with a satellite phone you could start making the deals with international resource extraction companies.

Countries with all three of the high-risk economic characteristics – low income, low growth, and dependence upon natural resources – are, in effect, playing Russian roulette. By skill or luck they may manage for many years to contain violence, only to see it explode, as in Cote d'Ivoire and Nepal. To date, world opinion has tended to blame the political elites of such countries for not managing the risk of violent conflict more successfully. People imagine that civil war reflects incompetence or malevolence on the part of their governments. I think that this is basically both unfair and misleading: governments with the same level of competence and intention will face much higher risks of conflict if the economic characteristics are adverse. Rather than demanding of such governments that they become the world champions of political and social compromise, we should assist them to transform their economies. By this I do not mean to condone whatever follies governments perpetrate. Obviously, governments in environments that are prone to conflict should do all they can to avoid conflagrations. But our global effort should be redirected from homilies about internal social inclusion to serious efforts to reverse the current trend of international economic marginalization of the poorest countries.

Until recently the critical global economic division was between the OECD with its billion rich, and the developing world with its five billion poor. The developing world is now itself dividing into a majority, led by China and India, that are either on track for middle-income status, or have already achieved it, and a minority of low-income countries that are becoming increasingly marginalized. The countries at the bottom of the international economic system are in relative and indeed in absolute decline. During the 1990s – in retrospect not a bad decade for global growth – per capita income in the

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poorest countries, the 'billion at the bottom', fell by ten percent. These countries are stuck with the economic characteristics that make them prone to civil war. As they succumb, which sooner or later, given the risks many of them are bound to do, they will get caught in the 'conflict trap': the vicious cycle of war and decline. The way out is a concerted global effort to reverse marginalization before a significant part of the world becomes a social wasteland.

The traditional instrument available to the international community for raising growth in developing countries has been aid. Aid alone can only do so much. Recently it has been recognized that a range of other instruments are also available to OECD governments to promote growth in low-income countries: to date they have not been used very effectively.

### *Aid for growth*

There is some suggestion in the literature that aid can actually exacerbate conflict. However, statistically, there is no systematic effect of aid other than through growth, where its effect is favorable. *Aid does not increase the risk of conflict.* By raising the growth rate aid reduces the risk of conflict both directly, since growth directly effects the risk of conflict, and indirectly, since growth cumulates to higher levels of income and that also reduces the risk of conflict. The more problematic, and contentious point, is whether *additional* aid can substantially further raise the growth rate in these countries. Most recent analysis tends to find 'diminishing returns' to aid, so that increases become progressively less effective. My own recent analysis with Anke Hoeffler suggests that if aid is simply scaled up on past modes of delivery, the security benefits are fairly small relative to the costs. However, were additional aid restricted to those among the poorest countries with above-average policies and governance, the security benefits would rise to around 40% of the costs. At this level, while security considerations alone would not justify additional aid, they provide a substantial supplement to the core rationale of poverty reduction.

Aid to low-income countries can be increased either by increasing overall aid budgets or by retargeting existing budgets. Historically, aid has not been well targeted to low-income countries. Large amounts of aid, especially from the EU and USAID, have gone to middle-income countries. Reallocation of aid could substantially increase flows to the poorest countries. Of the large aid programs, the one best focused on low-income countries has been IDA. However, here is a further anomaly. The EU provides only grants, whereas until very recently IDA has provided only loans. The distinctive allocations of the EU and IDA have thus inadvertently had the consequence that the world's major grant program has been targeted on middle-income countries, whereas its major development loan program has been targeted on low-income countries. This is self-evidently anomalous.

### *Improving the governance of natural resource rents*

One reason why natural resource rents raise the risk of civil war is that they are usually not well managed. Internationally promulgated ‘templates’ – or ‘standards and codes’ – are public goods that are far from new: indeed they are the normal role of international cooperation. An example is the Basel standards on banking. However, there is considerable scope for initiatives which target the distinctive needs of low-income countries. An important example is the management of the rents generated by natural resource exports. To date, the possession of such rents has significantly worsened governance.<sup>4</sup> The new Extractive Industries Transparency Initiative (EITI) is an example of such a template. It is designed to improve governance in countries with large natural resource rents by establishing a norm as to how revenues from natural resources should be accounted for, both by companies making the payments and by governments receiving them. A template does not need to be mandatory for it to be effective. Some governments – notably Nigeria – are already choosing to adopt the EITI standard. Transparency in revenue is itself only an input to better management of the resources. There is scope for ‘templates’ in respect of the stabilization of expenditures through medium term smoothing arrangements, and the scrutiny of expenditures.

### *Extending trade opportunities*

The dramatic change in the nature of globalization since 1980 has been that developing countries have broken into the international market for manufactures.<sup>5</sup> Yet most of the poorest countries – notably in Africa – have not participated in this process of export diversification. The very success of China and India has made it harder for the remaining low-income countries to break in. I think that there is a need for a phase of preferential market access for non-traditional exports from the undiversified low-income countries. The Africa Growth and Opportunity Act, and Everything but Arms, are both moves in the right direction, but they are complicated and restrictive. What is needed is a comprehensive OECD-wide serious response – designed to be effective rather than just to create good public relations.

### *Solutions based on Ending Conflicts*

I now turn to strategies for ending or at least shortening conflicts. Since the costs of conflict are broadly proportionate to their duration, shortening them would have substantial pay-offs. Again, the problem is to find instruments that are effective. A recent study (Collier, Hoeffler and Soderbom, 2004) analyzes all the international interventions since 1960 classified according to whether they were economic or military, and on the side of the government or the rebel forces. None of these types of intervention appears to have had any systematic effect in shortening conflicts. This does not imply that particular

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<sup>4</sup> For example, measuring the latter by the World Bank’s Country Policy and Institutional Assessment (CPIA), controlling for the level of GDP, additional earnings from natural resources significantly reduce the CPIA. A country with export earnings equal to 30% of GDP has a CPIA which is around 0.3 points lower than a country with the same GDP but with a different structure of exports.

<sup>5</sup> See Paul Collier and David Dollar (2002).

interventions have not been effective, but rather that no type of intervention has proved to be systematically effective. Against this discouraging background it is therefore necessary to experiment with new forms of intervention to find what might work.

Political scientists suggest that a major reason why internal conflicts last so long is that there is no means of either party to the conflict binding itself to a proposed settlement. Rebels cannot prevent dissident rebel groups continuing combat; a government cannot show that once rebels have disbanded it will not succumb to the temptation of renegeing on whatever terms it has agreed. Neither side trusts the other and cannot be expected to do so. There is a role here for international guarantees. It is striking that international wars are usually settled much more quickly than civil wars – civil wars last over ten times as long. This is partly because the international community has learnt both how to deploy pressure to end conflicts and how to create confidence in the terms of a settlement. Recently, these techniques have been applied to internal conflicts and success is already considerable. There is, however, a tension between the neutrality needed for successful mediation and the adverse effect such neutrality has in elevating a rebel movement to the same status as a recognized government.

An alternative, or supplement to political guarantees is to provide rewards to those rebel leaders who accept a settlement. Sometimes these rewards are financial: for example, the Italian government provided relatively limited one-off financing for the leadership of RENAMO which was probably critical in ending the long Mozambique civil war. Sometimes the rewards are in the form of status, appointing rebel leaders to ministerial positions.

Complementary to such ‘carrots’ are international actions which squeeze the finances of the rebel movement while it remains at war. The model for this is the Kimberley Process in diamonds, a novel partnership between the UN, governments of diamond exporting countries, NGOs and the private sector. The basic idea is to create a two-tier market between legitimate and illegitimately sourced diamonds. As with all such attempts, the key principle is the presumption of guilt. That is, a supply is presumed to be illegitimate unless both its source is properly certified, and the process of certification meets certain standards that are themselves verified. The Kimberley process may now be imitated in the case of timber, and there is the possibility of extension to other commodities. There is sufficient evidence that various rebel forces have generated large revenues from extortion rackets in respect of commodity exports that this approach is likely to be effective in curtailing conflict. Collier, Hoeffler and Soderbom (2004) find that for those countries with large natural resource exports, a decline in the price of the export commodity has been associated with an increased chance of peace. The effect is quite substantial – a ten percent decline in price is associated with a 12% shortening of conflict. One interpretation of this result is that it supports efforts such as the Kimberley process which are design to lower the price received *by rebel groups*. In principle, lowering the price only to rebel groups but not the government might be even more effective in shortening conflict than lowering the price to both parties.

The process of certifying the origin of valuable natural resources liable to be looted by rebels started with diamonds but can be extended to some other commodities. As shown by the NGO Global Witness in its study *The Logs of War*, timber is also a significant source of finance for rebel groups (Global Witness, 2002). In the case of timber there is a natural alliance between environmentalists and those concerned to reduce the inadvertent finance of civil war, in establishing a system for tracking legitimate supplies from their source. A similar approach may be necessary for oil. Currently, around \$1 billion of oil is looted from pipelines in the Delta region of Nigeria, part of the money being used to arm criminal gangs that could potentially resurrect the SE Nigerian violent secessionist movement of the late 1960s. Trace materials could be put into legitimate oil shipments. As with diamonds, certification of timber and oil could be judged successful as long as it deepened the price discount for illegitimate supplies.

Commodity markets are by no means the only source of rebel revenues. Another important source has been donations from diaspora organizations in OECD countries. Again, recently there has been a recognition of this problem and some steps have been taken to curtail the activities of diaspora organizations. The organized financing of violence against a recognized foreign government should clearly be classified as a criminal activity, and diaspora organizations should be duly scrutinized to ensure that this does not happen. Again, there has been recent progress here. For example, the classification of the Tamil Tigers as a rebel organization, and the greater awareness of the consequences of terrorism due to the September 11<sup>th</sup> attacks, decreased diaspora financing, and this helped to bring the organization to the negotiating table.

A third source of rebel financing has in the past been from hostile neighbouring governments. In effect, the support of rebel forces was a clandestine means of limited international warfare. Again, the international community can clearly judge such activities to be illegitimate. Just as countries engaged in international war are normally debarred aid for the duration of the conflict, so countries proved to be financing rebel movements might be subject to similar penalties.

A final approach to shortening internal conflicts is to make it more difficult for rebel groups to acquire armaments. This requires tightening control of the arms trade. In principle, this is not difficult. Intelligence can be gathered on the trade and at some point OECD facilities, whether of transportation or banking are liable to be needed. This gives the potential for effective sanctions.

### ***Post-Conflict Interventions***

Around half of all civil wars are due to post-conflict relapses. This provides an opportunity for the international system radically to reduce conflict by highly targeted interventions. It is likely that the combined efforts of the international community can make a major difference. The risks of conflict relapse are very high during the first post-conflict decade – typically around 50%. This is partly because the countries that have had a conflict have underlying and persistent characteristics such as low income and natural

resource dependence that make them prone to conflict, and also because of the legacy of the conflict itself. The high level of risk is due approximately equally to the pre-conflict characteristics and the legacy of the conflict. The three instruments that can be deployed to reduce post-conflict risks are: political design, economic recovery, and military provision.

### *Political design*

In post-conflict settings there is a strong moral case for political institutions that are democratic and inclusive. However, such institutions cannot normally be relied upon in the short or medium term themselves to secure the peace. First, in low-income countries – which is where civil war is most prevalent – democracy tends, if anything, to *increase* the risk of civil war. On average, it is only in countries with per capita income above around \$700 that democracy is stabilizing. Further, post-conflict situations have to contend with ‘spoilers’ – groups that benefit financially from an environment of violence and disorder. Such spoilers find it relatively easy to challenge any new political design. Finally, elections, although potentially a method of rapidly conferring legitimacy on new arrangements, have a tendency in post-conflict situations to polarize the political discourse and to encourage a winner-take-all mentality among the majority. The implication is that even intelligent and sensitive political design is unlikely itself to be the main source of security during the first post-conflict decade.

### *Economic recovery*

Conflicts wreck economies and the post-conflict decade provides an opportunity for rapid recovery. Further, rapid growth is even more effective in reducing post-conflict risks than it is in conflict prevention (Bigombe et al, 2001). As with conflict prevention, post-conflict growth can be promoted both through aid and policy. However, the effects of aid and policy are distinctive in post-conflict situations and so need to be tailored accordingly.

Historically, aid has not been significantly higher during post-conflict decades than if there were no conflict, although it is significantly higher in the first two or three years. Recent analysis of the effect of aid on growth in post-conflict situations (Collier and Hoeffler, 2004b) finds that aid is super-effective in raising growth in post-conflict situations – about twice as effective as normal. However, this only applies during the middle of the decade. Hence, from the perspective of growth, aid should taper in during the first few years post-conflict, whereas actually it tapers out. During its present peak in the early post-conflict years, it is not particularly effective. Probably this is because although needs are great, capacities to spend aid effectively are very limited. Hence, the aid opportunity post-conflict is for bigger aid budgets overall, but better timed. Since politically the moment for committing to post-conflict aid is clearly around the time of the peace settlement, the right approach is probably to allow much greater flexibility in the timing of aid disbursements. Long lags between commitment and disbursement should become normal in post-conflict situations. In their cost-benefit analysis of increased post-conflict aid, Collier and Hoeffler (2004) find that the security benefits

alone are around four times the cost of the aid, and still substantially exceed the costs even at the adverse bounds of the confidence intervals of their estimates.

The enhanced growth effect of aid is particularly dependent upon the quality of policy, governance and institutions. That is, aid effectiveness is much more sensitive to these characteristics in post-conflict situations. The quality of policies, governance and institutions is initially very low in post-conflict situations. However, normally it improves quite rapidly during the decade. This reinforces the effect that aid should taper in rather than tapering out. It also provides a rationale for focusing international attention heavily upon improving these characteristics. Typically, considerable attention has been paid to political design in post-conflict situations to the neglect of economic design. Greater attention probably needs to be paid to economic policies and institutions.

However, as with political design, economic recovery takes time. It is unrealistic to expect economic recovery to bring the risk of renewed conflict down to acceptable levels during the post-conflict decade. The most that can reasonably be expected is that this can be achieved by the end of the decade.

### *Military provision*

Even with the best economic and political design, risks will remain high during the first post-conflict decade. The legacy effects of conflict cannot be removed overnight. Obviously, one of the legacy effects is hatred. But there are several other legacy effects that may be more important in raising the risk of conflict. During the conflict skills, organizations and investments build up that are only of use through violence. Peace is costly for these interests and so they will look for opportunities to revert to conflict. In practical terms, these interests have to be opposed by military force. Typically, post-conflict governments do exactly this by maintaining very high levels of military spending. However, this is found to be counter-productive (Collier and Hoeffler, 2004c). Controlling for the obvious fact that in the presence of higher risk military spending is increased, *in post-conflict situations high levels of military spending actually increase the risk of further conflict*. Note that this perverse effect of military spending is unique to post-conflict situations. It may reflect the lack of trust and inability of the government to bind itself to the terms of a settlement.

Given that some military force is needed in post-conflict situations, but that force provided by the post-conflict government is counter-productive, there is often an inescapable need for external military force. However, UN forces operating under Chapter VI rules have not proved very successful. While countries are willing to supply forces under these terms, they are often not willing to see their troops exposed to significant levels of risk, and Chapter VI does not permit an adequate level of force to be deployed to discourage rebel groups. A spectacular demonstration of this problem was the capture by the RUF of 500 UN troops in Sierra Leone. The more recent deployment of troops, under Chapter VII rules has, by contrast, been remarkably successful. The cost of the operation, over a four-year period, has been only a few hundred million dollars, and the pay-off has already been four years of secure peace in what was surely a very

high-risk situation. If the costs of the typical civil war are taken to be of the order of \$50bn, the pay-off to this respite from risk, even if only temporary, is enormously greater than its costs. The Sierra Leone model is therefore worth taking seriously. Its basic elements are the participation of a power with sufficient interest in the situation to risk taking casualties, - in this case the UK, - an invitation from the government, and authorization under the UN to use sufficient force to secure the peace, not merely for the immediate self-defense of troops. External military force, under the terms recently developed, is thus enormously beneficial.

A UN-sanctioned military presence generates a unique opportunity for a degree of governance conditionality. However, it is evident that such governance conditionality carries with it the opportunity for abuse. A way out of this difficulty is to make governance conditionality non-arbitrary and to replace *ad hoc, ex post* conditions with systematic *ex ante* requirements to be applied, under the auspices of the UN, in all post-conflict settings. This is closely related to the previously discussed idea of governance templates, such as the transparency of natural resource revenues, and the accountability of public expenditures.

## **Conclusion**

Currently, discussions of security are dominated by terrorism and Iraq. Important as these are, they are not the security issues that are most pressing for the populations of developing countries. Civil war has blighted the lives of many millions of people: its cost to developing countries has been running at around \$100bn per year. Its threat hangs over the populations of most low-income countries.

Where civil war has broken out, world opinion has generally been swift to blame the government of the country concerned. While wise government behaviour can help to reduce risks of violence, the reality is that in the context of poverty, decline and dependence upon valuable natural resources, rebellion is likely. Recent economic globalization has benefited much of the developing world, but it has missed many of the poorest countries. Unless their growing marginalization is reversed, a substantial group of them will be caught in the 'conflict trap' of war and accelerated decline. Economic development is the *sine qua non* of achieving a major reduction in the global incidence of civil war: such as halving the incidence by 2015.

To date our approaches have not been very effective in the countries that are now in most need of economic development. A different approach is needed, with a wider range of instruments, - including governance templates, trade preferences, strategies which squeeze the finances of rebel groups, and military interventions, besides increased aid. These instruments need to be better targeted on the countries most at risk. The marginalized countries cannot be left to fend for themselves in economic competition with China and India. And post-conflict situations cannot be left to relapse into violence as has so often happened in the past.

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