

Development Research Group
Knowledge in Development Note 8
Security and Development
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Security is a paramount development issue—for two reasons. First, insecurity, whether due to crime, war, or the violation of economic and noneconomic rights, creates and perpetuates poverty traps: it is both a cause of and is caused by economic underdevelopment. And second, the poorest are most vulnerable to the hazards of insecurity. For example, civil war directly affects or threatens to affect 1.1 billion poor people. One of every five people in Sub-Saharan Africa is directly affected by civil wars. The devastation of war afflicts women, children and uneducated men most heavily, groups that even in non-conflict situations have the greatest incidence of persistent poverty.

Our understanding of insecurity has expanded and changed dramatically in the last five years, particularly for crime, terrorism, and civil war. For example, in contrast to the conventional wisdom, which had emphasized the role of social cleavages as a primary cause of conflict and crime, recent research has underlined the role of economic motivations. Research has also revealed that crime and civil war are persistent phenomena: one of the best predictors of future conflict is past conflict; one of the best predictors of future crime rates is past crime rates. Crime and conflict require sustained policy attention.

As our understanding of conflict increases with better data on political violence, crime and terrorism, questions on the intensity and type of conflict come to the fore. Development is surely related to other pressing and related security issues that accompany failed and fragile states: terrorism, drug and human trafficking. The security of personal, property and contract rights is well-known prerequisite of economic growth. Although this is clear, the policy prescriptions are often complex. For instance, does conflict resolution entail tradeoffs between current objectives (stopping the violence) and future objectives (sustaining peace and encouraging development)? Or regarding drug trafficking, does the policy of prohibition and criminalization lead to even worse problems for developing countries? We need a better understanding, however, of how governments provide security in all forms to their citizens.

What we know so far about civil wars

The risk of civil war is sensitive to the opportunity cost of peace, the means of potential rebels to strike at the resources of their government, and the coordination of groups with grievances

Two World Bank Research Projects on civil war have examined the role of “greed and grievance” in motivating civil conflict.¹ Results from the first research project found a significant economic incentive for conflict: in countries where the cost of rebellion is low, civil war is most likely, suggesting that stagnant growth and pervasive poverty reduce the reservation wages of potential soldiers and rebels.² Also, reliance on commodity exports, particularly oil, is significantly related to conflict. Presumably this is because commodity

exports can be a ready source of cash for combatant groups, *they* are less sensitive to the depredations of war, *and the* rights to them are often associated with control of the government. Diasporas can also be a potential source of finance for combatants, decreasing the cost of conflict.³ Delving deeper, recent research suggests that ethnic polarization and identity, when associated with large horizontal inequalities, can contribute to conflict.⁴

Regional factors and past experience contribute significantly to the likelihood of future civil conflict

Vulnerability to civil wars is persistent and often dependent upon neighbor fragility. Economic, social and political conditions that make civil war more likely in some countries are not generally resolved and may be exacerbated by conflict. Also, instability in neighboring states and international efforts to forcefully establish a political regime can actually be destabilizing.⁵ In fact, elections and democratic progress can actually reduce the likelihood of peace and stability, as they can serve as catalysts for civil conflict.⁶ Finally, evidence suggests that demobilization, reintegration, and security sector reform must be carefully managed and timed to avoid conflict relapse.⁷

Outside interventions can mitigate the risk of civil war

Ongoing research confirms our initial findings that countries benefit from external intervention and suggest how that intervention should be structured. The policy lessons from this research include:

- Aid flows must be sensitive to the absorptive capacity of post-conflict countries and require an integrated approach. The Bank has responded to this challenge in several ways. The Fragile States Unit (formerly Low Income Countries under Stress, LICUS) initiative has developed new tools for post-conflict financing including pre-arrears clearance grants, a post-conflict IDA window and multi-donor trust funds. The Conflict Prevention and Reconstruction Unit has taken a leading role in mainstreaming conflict analysis and designing aid programs for post-conflict countries.
- There is still room for progress in aid effectiveness in post-conflict. Aid often rushes in to post-conflict countries and then falls dramatically after only two or three years, creating volatility and vacuums in government budgeting when these governments are the most vulnerable. Aid guaranteed for longer periods and with less dramatic phase-outs can be more effective.⁸ Also, worries about “Dutch disease” and post-conflict inflation are often unfounded, suggesting that monetary controls on government spending of aid to avoid inflation are unwarranted. In fact, research suggests that aid can assist in monetary reconstruction and stability.⁹
- Post-conflict assistance must include institution-building efforts that improve government capacity to make credible commitments. This can be important for both the effective provision of public goods and social services and to guarantee that rebel demobilization and integration into new national armies is successful.¹⁰

- The ending of civil wars, especially ethnic wars, may require more explicit commitments by politically mandated international and regional bodies, including military presence for peace-keeping.¹¹
- Sustained economic growth can dramatically reduce the risk of conflict. To promote this growth, donors can assist countries at risk in diversifying away from dependence on primary commodities and toward labor-intensive, processed and manufactured goods. The international community can also contribute to this growth by promoting transparency in relations with fragile states with respect to mineral resources and the nature and composition of aid.¹²

What we know about terrorism

Terrorism is as old as war, but it was only with the attacks of September 2001 in New York and Washington, March 2004 in Madrid, and July 2005 in London that it became a central concern of many governments in the rich countries of the West. This concern prompted policy makers to focus on the potential links to development of both terrorism and the response to terrorism, quickly revealing important lacunae in the literature. To what extent is terrorism related to development? If development is a determinant of terrorism, what are the relative weights of the economic, political and social aspects of development? And what is the development impact of different responses to terrorism? The forthcoming book *Terrorism, Economic Development, and Political Openness*, a Bank research effort funded by the President's Contingency Fund, addresses these crucial questions, synthesizing what we know about the development links with terrorism – and pointing out what we do not.¹³ Four principal conclusions emerge from the volume.

The economic effects of terrorism on rich countries – even the most recent terrorist attacks – are relatively small and fleeting. However, they can be substantial in small, poor countries.

Among recent terrorist acts, the 9/11 attacks had the largest economic consequences. But even they were fleeting and leading to a small drop (in percentage terms) in national income (\$90 billion over a period in which the US economy generated \$10 trillion worth of goods and services). Growth dropped briefly but quickly returned to its pre-attack path. Poor countries are also frequent targets of terrorist activity. The available evidence indicates that the costs of terrorism are much greater in small, poor countries. Why the difference between large rich and small poor countries? The reasons are intuitive: large, diversified economies are better able to shift resources to less affected sectors. Moreover, rich countries tend to have well-functioning policy institutions that can respond to shocks adroitly and with ample information.

International terrorism is nurtured in poor, non-democratic countries with few economic links with the rest of the world.

It is analytically useful to separate source countries of international terrorism from target countries. The evidence indicates that source countries tend to be poor, politically oppressive, and weakly linked with the rest of the world. Target countries, on the other hand, tend to enjoy economic success and be more democratic and politically open.

Although these results are intuitive in view of recent terrorist attacks in rich countries, they emerge from estimates based on thousands of terrorist episodes recorded in the data.

It is also useful to separate aggregate (national or regional) characteristics from household and individual characteristics related to terrorist agents. The evidence indicates that terrorists are driven not by personal poverty, but by the political and economic climate of the countries from which they come. Why should the social environment be more important than individual income? Why are terrorist organizations more common in countries with difficult political climates? The answer may lay in the challenges of constructing a terrorist organization. Even though terrorism is not a purely ideological phenomenon, terrorist organizations depend on ideologically-motivated, educated recruits. Close monitoring by terrorist leaders of their “employees” is not possible. Ideological commitment and education helps solve part of this contracting problem.

Although the policy response to terrorism has been costly, expenditures have gone largely to security functions and not to development. This may not be wise in the long run.

The incremental increases in US government expenditures that can be traced to 9/11 amount to \$19-\$26 billion per year, most of which has gone to domestic security, or \$69-96 billion if the military operations in Afghanistan and Iraq are included. Of these expenditures, only \$2-4 billion represent incremental annual spending on development assistance. Moreover, the evidence does not suggest that wealthy countries have increased assistance to offset the costs of terrorism for the poor countries that have been victimized by terror. The structure and *modus operandi* of terrorist organizations vary considerably. They depend on the quality of government institutions, their degree of popular support, the sources and magnitude of funding they receive, and their degree of internal cohesion. This observation underscores the need for a specifically designed tactical response to fight terrorist organizations. This tactical approach --focused on the incentives of the marginal actor and the structural weaknesses of the terrorist organization-- is likely to be the most successful in the short run. In the long run, however, terrorist organizations would keep re-appearing and in different shapes unless their fundamental causes are removed. This is where a development response becomes relevant.

What we know about crime

With crime an endemic and growing feature of many developing countries and a significant hurdle to poverty reduction in middle-income and fast-growing poor countries, a large research project on crime uncovered important new insights.

Economic equality and growth tend to reduce violent crime

Even controlling for illicit drug activity, and cultural and demographic characteristics of countries, economic factors appear to drive homicides and especially robberies. Income inequality and slow economic growth significantly increase the rates of violent crime. In contrast, controlling for these other features of countries, education has no significant impact on violent crime.¹⁴

Crime is persistent and a source of poverty traps

We know that crime discourages economic activity—firm expenditures on security exceed 15 percent of their variable costs in some countries.¹⁵ Research has also shown that crime is persistent, even in countries that mitigate its economic causes.¹⁶

Trust in the community reduces violent crime

Research has tested the arguments that social capital of various kinds can reduce crime. One kind of social capital—individuals’ trust of others in their community—was found to reduce crime, controlling for the natural possibility that crime itself should reduce social capital.¹⁷

Civil war and terrorism engender common crime

Research has shown that the incidence of homicides and robberies is the highest and has grown the fastest in countries affected by civil war or terrorism. Common violent crime is often a legacy of these large-scale social ills. The interdependence of all manifestations of conflict is an important issue to be studied in the future.

The illegality and criminalization of drug production and trafficking may carry unintended but large costs, particularly for developing countries

The effectiveness of prohibition and drug criminalization in actually reducing consumption and production of drugs is limited. Although the benefits of prohibition are apparently low across countries, the unintended costs of prohibition seem to be borne disproportionately by developing countries that traditionally grow crops associated with the production of drugs. These costs range from the loss of wealth of poor farmers involved in the cultivation of these crops to the increased institutional instability caused by criminal organizations that distribute drugs.¹⁸

Economic policies are key to fighting crime

The recent research on crime does not undercut the importance of effective law enforcement in fighting crime. It emphasizes, however, the key role of social and economic factors. Where public policy allows inequality and low growth to persist, or where it encourages the breakdown of trust in communities, crime will proliferate and crime-fighting policies that rely on law enforcement will be both more expensive and less likely to succeed.

Future Research on Peace and Development

Fragile and post-conflict states have special needs in poverty reduction, because they must balance sustainable development while avoiding conflict. As the Bank redoubles efforts to keep these countries on target for the Millennium Development Goals ongoing research will shed light on these important questions.

While all developing countries, by definition, face the challenge of poverty reduction, fragile and post-conflict states face the dual challenges of poverty reduction

while avoiding relapses or downward spirals into the conflict trap. Ongoing research in this area focuses on the dual challenge faced by fragile and post-conflict states: How to balance poverty reduction while mitigating risks of civil conflict and violence in three important areas: Political governance and democratization, peacebuilding through peace agreements and powersharing, and effective macro-economic policy for fragile and post-conflict states.

Following on successes with a recent conference in Khartoum on "Management of Post-Conflict Transition: The Challenges of Institutional Reform in Sudan," this project will bring together policymakers from developing countries and distinguished researchers in the areas described above. By bringing researchers and country policymakers together we have found that the resulting research papers are better informed by the needs of practitioners and that the policymakers benefit from the buy-in associated with early involvement in the research process. Case studies exploring the results of the research papers in the context of policymakers' specific country experiences will further increase participation and ownership for countries involved.

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Endnotes

Most Bank documents cited in this summary are available through the documents and reports portal of the World Bank <http://www-wds.worldbank.org/>. The word "processed" describes informally reproduced works that may not be commonly available through library systems.

¹ "The Economics of Civil War, Crime and Violence" Research project and "Political Institutions, Development and a Domestic Civil Peace" Research Project. Papers from the most recent project were presented at a dissemination conference on Post-Conflict Transitions hosted by the World Bank, April 30 and May 1, 2007. Most have been published as World Bank Working Papers and are available at the project's permanent Bank URL: <http://go.worldbank.org/84GRAQ0KY0>

² P. Collier, A. Hoeffler and D. Roehner. 2007. "Beyond Greed and Grievance: Feasibility and Civil War. Policy Research Working Paper (Forthcoming). World Bank, Washington D.C.

³ World Bank. 2003. *Breaking the Conflict Trap: Civil War and Development Policy*, Policy Research Report. Washington D.C.: World Bank and Oxford University Press; I. Elbadawi and N. Sambanis. 2000. "[External Intervention and the Duration of Civil Wars](#)." Policy Research Working Paper 2433, World Bank, Washington, DC.

⁴ J. G. Montalvo and M. Reynal-Querol. 2007. "[Ethnic Polarization and the Duration of Civil Wars](#)." Policy Research Working Paper 4192, World Bank, Washington, DC; G. Østby. 2007. "[Horizontal inequalities, political environment, and civil conflict : evidence from 55 developing countries](#)." Policy Research Working Paper 4193, World Bank, Washington, DC.

⁵ C. Raleigh. 2007. "Civil War Risk in Democratic and Non-Democratic Neighborhoods." Policy Research Paper (forthcoming); H. Hegre, L. Siljeholm and N.P. Gleditsch. 2007. "[Democratic Jihad: Military Intervention and Democracy](#)." Policy Research Working Paper 4242, World Bank, Washington, DC.

⁶ P. Collier and A. Hoeffler. 2007. "Post-Conflict Risks." Policy Research Paper (Forthcoming); G. Milante. 2007. "[A Kleptocrats' Survival Guide: Autocratic Longevity in the Face of Civil Conflict](#)." Policy Research Working Paper 4186, World Bank, Washington, DC.

⁷ K. Glasmyer and N. Sambanis. 2007. "Rebel Military Integration and Civil War Termination." Policy Research Working Paper (Forthcoming); I. De Soysa and E. Neumayer. 2007. "[Disarming Fears of Diversity: Ethnic Heterogeneity and State Militarization: 1988 to 2002](#)." Policy Research Working Paper 4221, World Bank, Washington, DC.

⁸ I. Elbadawi, L. Kaltani and K. Schmidt-Hebbel. 2007. "[Post-Conflict Aid, Real Exchange Rate Adjustment and Catch-up Growth](#)." Policy Research Working Paper 4187, World Bank, Washington, DC.

⁹ C. Adam, P. Collier and V. Davies. 2007. "Post-Conflict Monetary Reconstruction." Policy Research Working Paper (forthcoming); I. Elbadawi and K. Schmidt-Hebbel. 2007. "The Demand for Money around the End of Civil Wars." Policy Research Working Paper (forthcoming).

¹⁰ P. Keefer. 2007. "[Insurgency and Credible Commitments in Autocracies and Democracies](#)." Policy Research Working Paper 4185, World Bank, Washington, DC.

¹¹ M.W. Doyle and N. Sambanis. 2000. "International Peace Building: A Theoretical Quantitative Analysis." *American Political Science Review* 94(4): 779-901; N. Sambanis, 2007. "[Short Term and Long Term Effects of United Nations Peacekeeping](#)." Policy Research Working Paper 4207, World Bank, Washington, DC.

¹² World Bank, 2003. [Breaking the Conflict Trap: Civil War and Development Policy](#). Policy Research Report. Washington D.C.: World Bank and Oxford University Press.

¹³ P. Keefer and N. Loayza, eds. 2007. *Terrorism, Economic Development, and Political Openness*. Cambridge University Press. Forthcoming.

¹⁴ P. Fajnzylber, D. Lederman, and N. Loayza. 2002. "Inequality and Violent Crime." *Journal of Law and Economics* 45(1): 1–40; P. Fajnzylber, D. Lederman, and N. Loayza. 2002. "What Causes Violent Crime." *European Economic Review* 46(7): 1323–57. For within-country evidence, see G. Demombynes and B. Özler. 2005. "Crime and Local Inequality in South Africa." *Journal of Development Economics* 76(2): 265–92.

¹⁵ Results from 2003 or 2004 Investment Climate Surveys in Cambodia, Lithuania, and Ecuador. [Investment Climate Website](#).

¹⁶ P. Fajnzylber, D. Lederman, and N. Loayza. 2002. "What Causes Violent Crime." *European Economic Review* 46(7): 1323–57.

¹⁷ D. Lederman, N. Loayza, and A. M. Menéndez. 2002. "Violent Crime: Does Social Capital Matter?" *Economic Development and Cultural Change* 50(3): 509–39.

¹⁸ This and other issues are discussed in the project "Drug Trafficking and Development," managed by P. Keefer and N. Loayza. The project includes the following papers, currently under final revision for a book: P. Reuter, "Can Production and Trafficking of Illicit Drugs Can Be Reduced or Merely Shifted?"; J. Buxton, "The Historical Foundations of Narcotic Drug Control Regime"; P. Keefer, N. Loayza, and R. Soares, "The Development Impact of the Illegality of Drug Trade"; F. E. Thoumi, "Competitive Advantages in the Production and Trafficking of Coca-Cocaine and Opium-Heroin in Afghanistan and the Andean Countries"; R. Chumacero, "General Equilibrium Analysis of Illegal Drugs Market"; and D. Mejía and C. Esteban Posada, "Cocaine Production and Trafficking: What do we know?"