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# CONFLICT, POVERTY, INEQUALITY, AND ECONOMIC GROWTH

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# CONFLICT, POVERTY, INEQUALITY, AND ECONOMIC GROWTH

## **DISCLAIMER**

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## CHAPTER ONE INTRODUCTION

Violent crises and civil wars inflict serious human, social, and economic damage on the countries involved. Undeniably, the most damaging impact of war is death. War claimed more than five percent of the total populations of Angola, Mozambique, Afghanistan, and Liberia in the 1980s and 1990s. In the 1970s, Cambodia lost a staggering seventeen percent of its population to war. In economic terms, the loss of precious human capital is a major obstacle to development in crisis- and war-affected countries and the effect of this loss can last for years. Indeed, more than half of all low-income countries have experienced major violent conflict in the recent past (see Table 1). Another tragic humanitarian consequence of war is the creation of refugees and internally displaced populations. In 2002, the world's total refugee population was nearly 15 million; more than 22 million people became refugees or were internally displaced.

In recent years, crisis-affected and war-torn states have received massive assistance for both relief and reconstruction. Several international development organizations have established specialized units to address the specific concerns of development in crisis- and war-torn societies; examples include the United Nations Development Programme Bureau for Crisis Prevention and Recovery, the World Bank Conflict Prevention and Reconstruction Unit, and the USAID Office of Conflict Management and Mitigation. The growth in assistance to these countries has increased interest in studying the distinctive characteristics of modern conflict and the post-conflict environment as well as in developing strategies for the reconstruction and development of crisis-affected and post-conflict societies. As these trends in research yield findings, analysts and policy makers are coming to understand more about how modern conflict affects the economy and social fabric of these countries and, conversely, how economic policies and outcomes may increase tension and the risk of violent conflict.

There is a growing consensus that economic decline and poverty, as well as competition over scarce resources, are among the chief socioeconomic causes of war. Policy makers and planners must understand the relationships between poverty and violent conflict and must recognize that development assistance can cause harm as well as good. Properly designed poverty reduction programs can facilitate the transition from war to peace and accelerate the rebuilding of society. Poorly designed programs, in contrast, can destabilize fragile societies and exacerbate conditions among the poor.

What does recent research and practical experience in crisis-affected and post-conflict countries teach us about designing and implementing poverty reduction policies and programs? Are new principles required for these countries?

**Table 1: Conflict and the Least Developed Countries, 1989-2002**  
 (listed from least developed; countries that experienced major conflict in bold)

Human Development Index <sup>a</sup> (9 of 15; 60%)	Weighted Index of Social Progress <sup>b</sup> (12 of 15; 80%)
<b>Sierra Leone</b>	<b>Angola</b>
Niger	<b>Afghanistan</b>
<b>Burundi</b>	<b>Somalia</b>
<b>Mozambique</b>	<b>Sierra Leone</b>
Burkina Faso	<b>Liberia</b>
<b>Ethiopia</b>	<b>Mozambique</b>
<b>Guinea-Bissau</b>	<b>Chad</b>
<b>Chad</b>	<b>Ethiopia</b>
Central African Rep.	Niger
<b>Mali</b>	<b>Eritrea</b>
Malawi	Burkina Faso
<b>Rwanda</b>	<b>Guinea-Bissau</b>
<b>Angola</b>	<b>Uganda</b>
Gambia	<b>Rwanda</b>
Guinea	Guinea

Sources: a = (UNDP 2002); b = (Estes 1998)

## CHAPTER TWO

### CONFLICT AND SOCIOECONOMIC DATA FROM CRISIS-AFFECTED COUNTRIES—CAVEAT EMPTOR

Quantitative research into the causes and consequences of conflict has increased dramatically in recent years. Although researchers have made some progress, conflict data remain a major challenge. Historical data on conflict are notoriously inaccurate and for many conflicts simply unavailable. As a result, and despite consensus regarding definitions for war, characterizing conflict events is difficult, particularly for those that occurred many years ago. Inaccurate and incomplete conflict data and the range of research topics that drove construction methods for each set of data have led to disagreements among researchers over the coding of conflict events. For example, battle deaths are used to define conflicts but exact figures on such fatalities are very difficult to obtain. The result is difficulty in defining (1) whether or not an event is a “war” and (2) the dimensions of the conflict, in such aspects as mortality, geographic area, and number of combatants.

Andrew Mack (2002, p. 4), in his useful review of the practical challenges facing academic research on conflict, points out that the absence of official statistics on armed conflict means that “policy makers not only have no guidance as to what data source to use, they often have little idea of trends in armed conflict either.”

Empirical studies on the causes and consequences of conflict also face problems associated with national-level social and economic data from crisis- and conflict-affected countries. Incomplete and unreliable data and the degree of comparability of data across countries are major concerns. Another issue—of particular importance for conflict research—is exclusion: what and who is omitted from national accounts—for example, that of school enrollment?

Most analysts and census practitioners accept that national statistics do not account adequately for informal sectors and activities. In Cambodia in the 1960s, for example, temple schools played an important role as centers for education in many rural areas. It is unlikely that youth attending these relatively informal schools were included as “enrolled” in national school enrollment data. When war broke out, and as it intensified, these temple schools probably continued to operate longer than official government schools. First, these schools were in the center of the village—a more protected location compared with the usual location of government schools at the periphery. Second, the Buddhist monk teachers—typically born in or near the villages in which they lived and worked—were more likely to stay in the villages than flee to the capital, as did government-employed educators. As a result, in countries where the informal sector plays an important role in education and health, national statistics will likely underestimate levels of social welfare, particularly in times of war.

Furthermore, it is also widely acknowledged that national data collection efforts typically miss important population segments, including the poor and ethnic minorities. Reasons for this may be intentional (for example, to downplay the size of the group for political or budgetary reasons) or unintentional (for example, because census-taking measures are poor and the budget

insufficient to reach isolated populations). In part because public social welfare systems tend to underserve the poor and ethnic minorities, the well-being of these populations is typically less than that of the general population. As a result, depending on the size of the excluded population, national statistics are likely to overestimate the actual level of social welfare. The degree of overestimation will probably be greater in war-affected countries, where divisions based on poverty or ethnicity are often root causes of conflict.

The large movements of population associated with conflict pose a special problem for data collection and national statistics in war-affected countries. By way of example, consider the case of Cambodia in the late 1960s and early 1970s. During this period, intense war in the countryside drove many educators and medical practitioners away from their villages of work and into the relative safety of the capital. According to national statistics, access to physicians and teacher-to-student ratios did not change. In terms of these indicators, the impact of war on Cambodia was neutral. In reality, however, access to the services of these professionals fell dramatically in the areas that they left behind. National statistics, in this case, underestimate the impact of war on Cambodia, particularly in areas directly affected by fighting.

In summary, empirical analyses of conflict face two problems. First, weaknesses associated with conflict data do not always allow accurate categorization of conflict events. Analysts can construct typologies but may encounter problems when slotting countries into various categories. Second, national-level data from crisis- and war-affected countries are often incomplete and inaccurate. We must therefore exercise caution when interpreting the results of empirical analyses that rely on national statistics and basing policy prescriptions on them. We must continually question whether our results truly reflect “reality.”

## CHAPTER THREE

### RELATIONSHIPS BETWEEN CONFLICT AND POVERTY, INEQUALITY, AND ECONOMIC GROWTH—WHAT CAN WE CONCLUDE?

There is a growing body of empirical research investigating links between violent conflict and poverty, inequality, and economic growth. While there is consensus among practitioners and researchers on the economic consequences of conflict, there is less agreement regarding economic causes of conflict.

#### ECONOMIC CONSEQUENCES OF CONFLICT

The high cost of war in terms of human suffering and socioeconomic decline is well known, and conflict is commonly cited as an important cause of poverty in the countries involved (UNCTAD 1997, 136; World Bank 2000, 50; Boutros-Ghali 1992). Less well understood is: (1) how and why the magnitude of these costs varies across states, and (2) the channels through which conflict affects poverty and economic growth. These are some of the key issues the economic literature examines. We turn to them now.

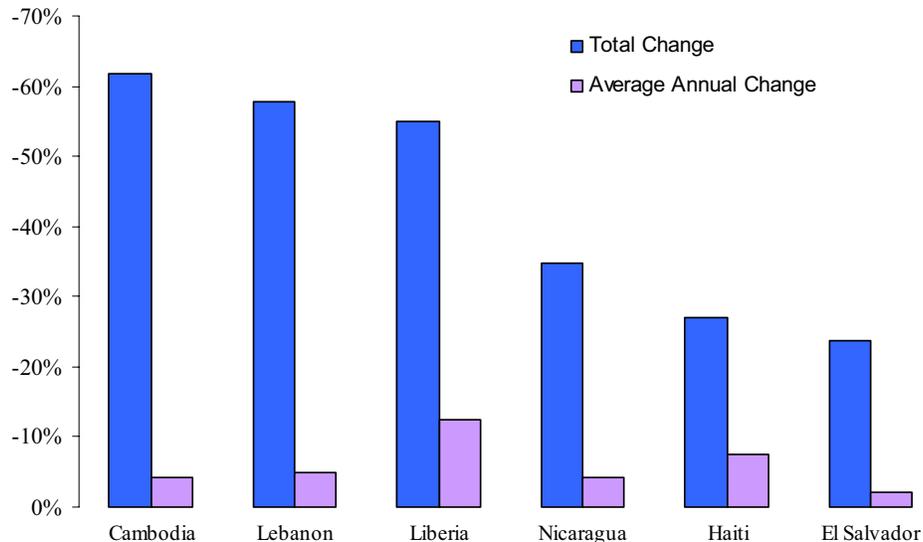
Many case studies describe the impact of conflict at a variety of levels in the countries involved (see for example Cranna 1994, Green and Ahmed 1999, Pottebaum 2002, and Utting 1994). An insightful analysis by Stewart (1993) pulls together the experience of several war-affected countries and describes the economic costs of war and factors that influence their magnitude. Stewart explains that the costs of war appear at three levels:

- *Macro*, including the destruction of infrastructure, disruption of markets, and reduced manpower;
- *Meso*, including influences on social sectors like the level of public resources for health and education facilities, or food subsidies; and
- *Micro* or household, which is the “recipient of all the negative effects arising at the macro and meso levels” and includes falling food entitlements, disintegration of the household, worsening health and education of individuals, and psychological shock as a result of the many traumatic events of war (p. 362).

The costs can be—and often are—immediate and dramatic. They can continue to accrue long after the fighting has stopped. The sum effect of this on the countries involved is development in reverse (World Bank 2003). Consider the impact of war on economic production. There is damage or destruction to critical physical infrastructure—power distribution systems, transport networks, and so on. War disrupts input and output markets. Because levels of investment characteristically decline in periods of war, the opportunity for economic expansion diminishes, leaving infrastructure in disrepair. Industrial and agricultural outputs tend to decline. Gross domestic product follows suit (Stewart et al. 1997). In a survey of 78 conflicts between 1950 and

2000, Pottebaum (2002) found that real GDP per capita at the end of conflict in Cambodia, Liberia, and Lebanon was more than 50 percent less than at the beginning. Real GDP per capita declined annually by about 13 percent during the conflict in Rwanda, and by more than 5 percent in Sierra Leone and Haiti (see Figure 1).

**Figure 1: Change in Real GDP Per Capita From Beginning to End of Conflict**



As these figures indicate, the magnitude of the costs of conflict will vary from country to country depending upon a number of factors, including:

- Initial conditions of vulnerability, trading relations, and economic and social structure;
- Government and quasi-government strength and actions during war;
- The magnitude, geographic spread, and duration of the war; and
- International reaction to the conflict (Stewart 1993; Stewart, Humphreys, and Lea 1997).

As mentioned earlier, Stewart states that initial vulnerability and socioeconomic structure influence the effects of war. She also seems to suggest that the effects might be less in wealthier countries, particularly if the government has designed policies and actions to mitigate them. In contrast, an analysis of cross-national data from 102 countries by Pottebaum and Kanbur (2001) finds evidence that, although civil war affects adversely the performance of economic and social indicators in general, poorer countries lose less, in absolute and relative terms, than richer countries. They argue that the explanation may lie in the extent to which richer countries have better social (and economic) indicators because of more public goods, and greater adaptation of economic and social mechanisms to the greater abundance of public goods, such as physical infrastructure. Civil war destroys public goods and therefore damages disproportionately the countries most dependent on them (Kanbur and Pottebaum 2002). Pottebaum and Kanbur caution that their results should not be read as implying that poorer countries need less support to

avoid civil war and to cope with its aftermath. Although their losses are less, they start from a lower base; so even small declines affect human well-being severely (Pottebaum and Kanbur 2001).

Pottebaum and Kanbur's (2001) framework sees social and economic wealth as intricately bound to the supply and maintenance of public goods. This in turn makes wealthier countries more vulnerable to their destruction, inevitable in civil war. This framework has an immediate implication: when civil war ends, social and economic indicators rebound faster in poorer countries, which are less dependent upon public goods. Wealthier countries will stay mired at disproportionately low standards of living, given a common rate of reconstruction of public goods, since their production and distribution structures had adjusted to a (high) pre-civil war level of public goods. Their econometric analysis bears this out: at least in the short run, the burden of a history of war will lie heavier on richer than on poorer countries (pp. 7, 11).

The World Bank's Economics of Civil War, Crime, and Violence program, lead by Paul Collier, has been the source of some innovative research on the economic consequences of civil wars. Like other researchers, Collier (1999a) argues that war damages an economy through the destruction of resources, the disruption of social and economic order, and the diversion of public expenditure from production-enhancing activities. In addition, war affects an economy adversely through reduced saving, which Collier relates to the destruction of the capital stock, and through portfolio substitution as people shift assets (human, as well as physical and capital) out of the country (p. 169). Collier investigates the interplay between war and portfolio substitution, and describes the effect of war on growth in gross domestic product in war-affected countries. His analysis of cross-national data shows that during civil war annual gross domestic product growth is 2.2 percent less than would have been the case in the absence of conflict. This implies that a 15-year civil war would reduce per capita gross domestic product by approximately 30 percent (pp. 175-176).

Collier also investigates the effects of civil war on the composition of gross domestic product. He notes that sectors intensive in capital and transactions, and those which supply capital and transactions, contract more rapidly during war than does gross domestic product as a whole. On the other hand, sectors such as subsistence agriculture expand relative to gross domestic product during war. Empirical evidence suggests that war-vulnerable activities (such as construction and transport) experience rapid growth after a sufficiently long war. Finally, Collier concludes that peace does not necessarily produce a dividend: a civil war lasting only one year was found during the first five years of peace to cause a loss of growth of 2.1 percent per year. This decline, Collier points out, is not significantly different from losses from continued fighting (p. 181).<sup>1</sup> He argues that this is a result of "war overhang": following short wars capital continues to flee the country because of a perceived risk of return to war, since short wars might be seen as inconclusive. The end of long wars (which might end more decisively) can, however, boost economic growth—that is, produce a peace dividend.

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<sup>1</sup> This finding does not imply that there is no economic benefit to stopping a short war. On the contrary and in general, the longer the war, the greater are the cumulative economic costs. An economic boom might follow a longer war but will begin from a lower base.

Recent analysis of country experience by Goodhand (2003) sheds some light on the linkages between war and chronic poverty. He argues that a long-term conflict, particularly where the state disintegrates and warlords systematically and deliberately violate individual and group rights, is likely to be a “driver” and “maintainer” of chronic poverty (p. 631). Goodhand notes that conflict can lead to an unrecoverable collapse in livelihood as poor families consume their assets and retreat to subsistence production. Disruptions of markets, state services, and community cooperation are particularly harmful to families on the margins of the economy (p. 632). He cautions that the “processes which keep households in chronic poverty are unlikely to suddenly change in the event of a peace settlement” (p. 633). Prominent examples of countries that have experienced particularly widespread and violent conflict resulting in significant increases in chronic poverty include Sierra Leone in the 1990s—now the world’s poorest country by almost any measure—and Cambodia in the late 1970s, where perhaps for the first time in more than 1,000 years rice disappeared from the diet of the people in much of the countryside (Chandler 2000, p. 221).

Certain groups are particularly vulnerable to becoming chronically poor as a result of violent conflict. The elderly and disabled, for example, are less mobile and more reliant on family networks and government services that are commonly broken by conflicts. Sexual violence and rape, common weapons of terror in modern conflicts, have severe implications on the health and economic situation of women. Female-headed households, common in conflict-affected societies, are vulnerable—particularly in rural areas—to becoming chronically poor. Displaced persons are vulnerable to health problems and they lack legal protection. Their presence can also lower labor wage rates, threatening the livelihoods of settled populations in the same locale (Goodhand 2003).

### **ECONOMIC CAUSES OF CONFLICT**

No one contests that war can cause and deepen poverty. The reverse relationship—that poverty or inequality cause conflict—is more contentious. Researchers and practitioners agree that a number of factors must converge to cause violent conflicts. Interactions among poverty, inequality, and economic stagnation are important, as are other variables such as ethnic composition, political decay, and resource base (see, for example, Humphreys 2002 and Collier 2000 for a discussion of these factors).

Increasingly, researchers see poverty as a factor that can fuel grievances and help ignite conflict. The poor and marginalized form a pool of recruits for rebel movements, as seen in places like Sierra Leone, Sri Lanka, and Cambodia. Goodhand argues that many current conflicts originated from and are fought out in regions whose communities have limited voice and persistent poverty (2003, p. 637).

That poverty is a determinant of conflict is among the findings of Collier and Hoeffler (2002a). They use data from 161 countries and 78 civil wars over the period 1960-99 to investigate two alternative hypotheses: (1) that “grievances”—inequality, political oppression, and ethnic and religious divisions—cause civil wars, and (2) that “greed” or sources of finance for conflict—income from natural exploitation, diaspora, and hostile governments—largely cause conflicts. There is little statistical evidence to support the grievance model; their greed model provides

more explanatory power. The authors conclude that a combination of the two models is most useful in determining the risk of conflict, and argue that:

- The level and growth of income are significant factors, with low income (interpreted as the opportunity cost of rebellion) and slow growth increasing the risk of conflict;
- Ethnic dominance (where the majority group constitutes 45-90 percent of the population) moderately increases conflict risk (conversely, greater fractionalization reduces risk);
- An abundance of natural resources increases conflict risk but this relationship is non-linear—countries heavily dependent on income from natural resources face relatively lower risk;
- Large diasporas abroad increases conflict risk;
- A history of recent conflict increases the likelihood of recurrent conflict; and finally
- Mountainous terrain and a widely dispersed population are moderately significant risk factors.

Importantly, Collier and Hoeffler find that political rights and exclusion have no effect on conflict risk. Although open democratic societies tend on average to be less affected by conflict, the level of political freedom (as proxied by the Polity III measure of autocracy and the Freedom House measure of political openness) does not appear to affect conflict risk.

That conflict causes poverty and that poverty increases the risk of conflict suggests that countries can fall into a “poverty-conflict trap.” Blomberg, Hess, and Thacker (2000) investigate the existence of such a trap in their analysis of data from 150 countries from 1950-1988. Their analysis suggests no evidence of a general poverty-conflict trap. While conflicts have dire economic consequences and foster an environment conducive to conflict, only countries “with initial low levels of broad capital formation (indicative of a poorer environment for promoting capital formation) are likely to be stuck in this cycle” (p. 26).

A growing number of practitioners and researchers argue that inequality is among the most important causes of violent conflict.<sup>2</sup> Alesina and Perotti (1996) performed cross-sectional regressions using a sample of 71 countries for the period 1960-1985 to explore the link between socioeconomic inequality and violent conflict. They find that inequality, entered into their regressions using income shares of the five quintiles of population, leads to an unstable sociopolitical environment—and fuels social discontent—which is conducive to violent conflict. Boswell and Dixon (1990) also examine the relationship between income inequality and violent conflict. Performing cross-sectional analysis of data from 63 countries, they find that low growth rates and high levels of income inequality are central causes of violent conflict and that income inequality affects violent conflict risk directly.

Research by Nafziger and Auvinen (2002) also concludes that inequality is an important factor. Using Gini coefficients, they find that income inequality contributes to humanitarian

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<sup>2</sup> See Lichbach (1989) for a comprehensive review of early studies of this issue.

emergencies. They argue that high income concentration increases the perception of relative deprivation by affected segments of society and thereby increases the risk of political disintegration. Policies that lead to inequality—for example, land distribution, taxation, public expenditures—can “exacerbate ethnic and regional competition and conflict” (2002, p. 156). Nafziger and Auvinen also argue that high inequality is particularly volatile when the “less advantaged can identify the perpetrators of their poverty and suffering,” as was the case in Nigeria, South Africa, and Chiapas, Mexico (p. 56).

In contrast, recent World Bank research argues that inequality is not an important risk factor for conflict. Collier and Hoeffler (2002a), in the study discussed earlier in this section, entered data on income inequality (Gini coefficient and income shares of top and bottom quintiles) and asset inequality (land Gini) into their regressions and found neither measure to be significant. Alternative models produced similar results. Collier concludes that unequal societies “are not more prone to conflict” (2000, p. 7).

What drives this difference of opinion on the importance of inequality? Both Collier and Hoeffler (2002a) and Nafziger and Auvinen (2002) report using data on Gini coefficients from Deininger and Squire (1996, 1998). It is not clear whether these studies entered the Gini coefficient into the regressions in the same way. One difference in data, and possibly the source of differences in results, is that Nafziger and Auvinen include deaths from state violence as a part of humanitarian emergencies, thereby providing a broader focus than Collier and Hoeffler. Lack of data from affected countries is another potential reason for different results.

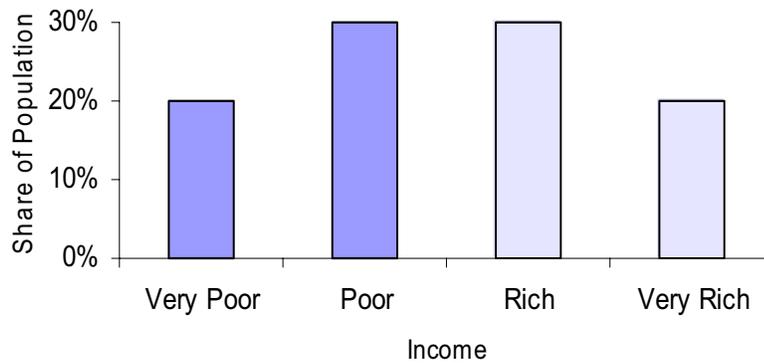
While this debate continues, other researchers and practitioners argue that it is not individual inequality, as measured by the Gini coefficient, that matters. These analysts argue that what is important is horizontal inequality between geographic regions or ethnic or religious groups (Stewart 2000, Gurr 1993). In an analysis of the sources of conflict, Stewart (2000) argues that civil wars occur when groups mobilize against each other and that such mobilization is most effective when groups are economically and politically differentiated—that is, where horizontal inequality exists (see Figure 2).

**Figure 2. Income and Horizontal Inequality**  
(adapted from Humphreys 2002, p. 3)

**Figure 2a.**

Incomes in a country with a poor north (solid) and rich south (hatch).

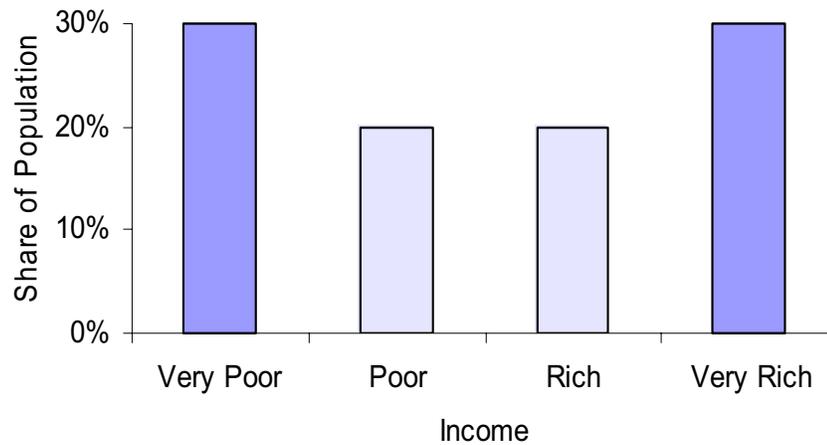
Low overall income inequality but high horizontal inequality.



**Figure 2b.**

Country with equal average incomes in north (solid) and south (hatch).

High overall income inequality but low horizontal inequality.



Despite some disagreement about whether inequality causes conflict, there is growing consensus that the risk of violent conflict increases considerably when inequality and poverty co-exist with stagnant or declining economies (Nafziger and Auvinen 2002; Murdoch and Sandler 2001). Collier and Hoeffler (2002a) estimate that, for a given country, every one percent drop in annual growth increases the risk of conflict by one percent.<sup>3</sup> The relationship between stagnant and declining economies and conflict is clear: economic decline limits income-generating opportunities and drives more people into poverty. It implies reduced government revenue and less ability to provide services to the public. Economic collapse that exacerbates unequal distribution of wealth and assets among groups can fuel grievances and increase tensions among these groups. Economic decline can also provide an incentive for the unemployed and marginalized—particularly youths—to join rebel forces for financial gain.

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<sup>3</sup> For example, the average country in Collier and Hoeffler's data set—that is, a country all of whose characteristics were at the mean of their sample—had a risk of conflict of about 11.5 percent in any given period. If economic growth increased to 2.63 percent from the mean of 1.62 percent, then the risk of conflict would fall to 10.4 percent. The risk of conflict is greater, on the other hand, for a society whose economy is in decline: if the average country's economy is declining by 2 percent annually, then its risk of conflict increases to 15 percent—more than 30 percent above the risk facing the average country.

## CHAPTER FOUR

### ECONOMIC GROWTH POLICIES AND REDUCING TENSION IN CRISIS-PRONE COUNTRIES<sup>4</sup>

The relationship of poverty, inequality, and economic growth with violent conflict has direct implications for policy. Poor economic performance increases poverty and reduces government legitimacy and ability to provide services. Inequality among groups also tends to worsen in poor economic environments and during violent conflict. Stagnant growth and increasing poverty and inequality can increase the risk of violent conflict. In countries prone to violence, policies must promote equitable growth and address inequalities among groups. While there are no express paths to reducing poverty, the experiences of countries like Korea and Taiwan show that incomes can rise dramatically within a generation. In the context of crisis-prone countries, Uganda provides evidence that appropriate policies and quick government (and international community) action can lead to rapid improvement in human welfare even in environments characterized by tension and mistrust (Collier 1999b).

While seemingly an obvious goal, governments in the countries involved typically will not see poverty-reducing economic growth as desirable or in their best interests. Building peace and lowering the risk of conflict are rarely first priorities of leaders in these countries (nor, in some cases, of the international community). The interests and policies of governing elites are powerful forces against change and often a cause of violence. Introducing policy change in these environments is not an easy or straightforward task.

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*Evidence suggests that major civil wars are associated with markedly worse performance in economic growth, food production per capita and human indicators ... Hence any comprehensive strategy to tackle poverty must give the prevention of conflict a central place.*

*(Stewart 2000, p. 2)*

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To ensure that interventions reduce the risk of violence, several key principles must guide economic policy making in crisis-prone countries. First, policy makers must recognize that conflict is complex and can come about when causes at a variety of levels meet and reinforce one another (see Box 1). Interventions, therefore, cannot focus on a single cause or level. Policy makers must seek solutions for each underlying cause at each particular level. They must encourage broad and innovative approaches.

Second, economic policy must concomitantly promote poverty-reducing growth and address group inequalities (relative and absolute deprivation and poverty among ethnic or religious groups) and incentives to violence (Stewart 2000). Raising incomes and expanding economic opportunities will, for example, make it increasingly difficult for rebel leaders to recruit foot soldiers for their cause. Focusing education and adult training on skills required for available

<sup>4</sup> A note on terminology: Crisis-prone as used in this paper refers to countries that face a high risk of—but have not yet experienced—violent conflict. Post-conflict, or countries emerging from conflict, discussed in the next section, implies countries that have just experienced war.

jobs builds a foundation for growth and builds the constructive—rather than destructive—potential of a population.

Policies like these may be effective in promoting growth and reducing group inequality but will likely fall short of reducing incentives for leaders to mobilize recruits and resort to violence. To achieve this, government leaders might offer conflict entrepreneurs opportunities to participate directly in government by offering them government positions. Governments might also initiate works schemes that directly employ and offer social status to local leaders and their followers.

Third, policies should be formulated and implemented with the close participation of marginalized groups and provide quick and measurable results. In tension-laden societies, it is particularly important for the government to foster an environment of trust, cooperation, and mutual respect between it and various groups in society. Quick action and measurable impact send potential rebels a strong signal of the sincerity of the government.

More generally, governments should formulate policies that restructure their economies in a way that increases the participation and productivity of the poor and of disenfranchised groups. At the same time, they should improve their capacity to deliver quality services, including, most importantly, education and health services, to remote areas where marginalized groups tend to reside.

Governments should also strengthen their legal systems—particularly mechanisms that protect important assets of the poor, like land and housing—and ensure that they do not deny justice to the poor or certain groups in society. Researchers have not gathered empirical evidence to test the efficacy of such programs in crisis-prone countries, but field experience suggests that providing credible legal guarantees to marginalized groups can reduce the risk of conflict substantially (Collier 2000). At the same time, governments should also ensure accountability of the state security apparatus—the military and the police. These actions will increase the legitimacy of the state and address many sources of underlying tension.

**Box 1. Consequences and Causes—  
Growing Consensus**

- Poverty makes civil wars more likely; civil wars in turn worsen poverty. The relationships are stronger for very poor countries than for developing countries generally.
- Countries that rely heavily on primary commodities are more vulnerable to conflict.
- Countries with severe inequality between ethnic or regional groups are more vulnerable.
- Domestic investment collapses during conflicts; it does not recover until long after they end.
- Health infrastructure is especially hard hit; the damages endure well after conflicts end.
- Economic sectors that depend on capital and high levels of internal trade (for example, construction, finance, manufacturing) are likely to be hit hardest.
- Wars last longer if rebels finance themselves using illegal commodities.
- Wars last longer in poorer countries.
- Aid is especially effective in post-conflict situations.

*Source: Humphreys (2002, p. 19)*

## CHAPTER FIVE

### BUILDING PEACE, REDUCING POVERTY, AND PROMOTING GROWTH POST-CONFLICT COUNTRIES<sup>5</sup>

Country-level experience and World Bank research indicates that countries emerging from violent conflict face considerable risk of falling back into conflict (Collier 2000). Hence, policies and interventions appropriate for crisis-affected countries are also useful in countries emerging from conflict. However, the implications of conflict situations—particularly prolonged and intense conflict—indicate that policy packages appropriate for crisis-prone countries will not be sufficient for countries emerging from conflict. The consequences of conflict and the increased risk of recurrent violence imply the need for somewhat different policy prescriptions and actions. Perhaps most important, countries must rebuild trust, confidence, and cooperation between the state and the public, and among various groups in society; these are the pillars upon which to formulate and implement government policies and programs.

Violent conflict can wipe out roads and bridges, and school and clinics virtually overnight. After war, it takes time and a great deal of money to reconstruct destroyed infrastructure. It takes longer still to restore the levels of confidence, cooperation, and trust that facilitated the development and accumulation of these public goods in the first place. A particularly serious problem facing war-torn societies is the deterioration of public confidence in national government. After war, people typically look upon the state with suspicion and mistrust. The state must repair this negative image for it to resume responsibility for such things as securing the rule of law and protecting common rebuilding and development objectives. Rebuilding after war, therefore, implies a focus on mending torn relations between the state and the public.

In the poorest countries the public typically is less reliant on government programs and interventions in daily life. In these countries loss of public confidence and faith in government during war is a less important issue. As a result, in the poorest countries reconstruction at the national level implies building faith and trust between the government and the people.

Whether mending or building relations between the people and government, it is important to recognize that the state plays a crucial role in post-war rebuilding and reconciliation. Only the state can take on certain roles. These include restoring security, regulating economic activity, and establishing development priorities and strategies that harmonize local regional and national interests. In fulfilling its responsibilities, the government can facilitate the rebuilding process and enhance the prospects for future economic and social development.

Diminished trust and confidence among individuals and groups—additional casualties of war—are also difficult to mend. Particularly in poorer countries, rebuilding relations at the community

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<sup>5</sup> Except where indicated otherwise, this section draws heavily from Pottebaum (2002). In his study of the social and economic impact of civil war, Pottebaum conducted an empirical analysis of data from 45 civil wars that occurred between 1960 and 1999. He also conducted a case study of changes in social and economic welfare in Cambodia between 1954 and 2000, comparing Cambodia's experience with that of war-torn societies in Africa and Latin America and relatively stable societies in S.E. Asia during the same period.

level is perhaps the most important aspect of the peace-building process. Trust and cooperation among individuals and groups at the local level facilitated the development of important social and economic structures before the war. These structures provided stability and guidance to local people in their everyday lives. It is crucial that trust be restored and cooperation encouraged among individuals and groups so that community economic and social structures can once again become operational. Because community support is necessary for survival in poor regions, it is imperative that reconciliation at the local level be given high priority in the aftermath of war.

Keeping in mind the need to mend torn relations and build trust and confidence between the government and the public, and among various groups in society, what policy priorities are particularly important during the post-war period?

Analysis of data from 27 countries emerging from conflict in the 1990s by Collier and Hoeffler (2002b) suggests that, given the objective of promoting growth, policies for social inclusion (poverty monitoring and analysis, pro-poor targeting and programs, and safety nets) are more important than structural policies. In turn, structural policies are more important than macro policies in post-conflict situations as compared with other contexts (they find governance to be approximately as important in post-conflict as in other societies; p. 10, 12).<sup>6</sup> The authors caution that their results do not imply that macroeconomic policies do not matter; the evidence simply suggests that it is more desirable for social policies to improve quickly.

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*Programs commonly dedicate too few resources to monitoring quality in war and conflict situations and base their assessments on hope and assumption rather than reality.*

*Monitoring and evaluation must answer questions regarding not only who is receiving and how they are using program resources, but, more important, whether program activities are increasing or decreasing the risk of renewed conflict.*

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The experience of countries emerging from conflict confirms the importance of policies that promote social inclusion. As Uganda emerged from conflict in 1986, it faced a number of significant challenges. The most important of these was to lower the risk of continued conflict and reduce poverty, particularly among marginalized groups of society that resided in the border regions of the country. The government was largely successful in reducing the risk of conflict and promoting equitable growth for several reasons, including the quick initiation of poverty reduction programs which attempted to targeted the conflict-prone north (nonetheless, poverty was reduced less in the north than in other areas of the country), and transitional financial and material assistance provided to demobilized soldiers. At the same time, the government increased educational attainment; built strong democratic institutions, including a free press; increased local decision-making authority; and improved investor confidence. The result has been a substantial reduction in poverty; a growing economy; and, most important of all, a broadly

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<sup>6</sup> Structural policies include trade policy, foreign exchange regime, financial stability and depth, banking sector efficiency and resource mobilization, property rights and rule-based governance, competitive environment for the private sector, factor and produce markets, and environmental policies and regulations. Macroeconomic policies include general macroeconomic performance, fiscal policy, management of external debt, macroeconomic management capacity, and sustainability of structural reforms.

maintained peace—indeed, the risk of conflict was an estimated 40 percent less in 1998 as compared with 1965 (Collier 1999b).

Safety net and development programs that target demobilized soldiers have proven critical in a number of post-conflict settings. It is particularly important to focus assistance on demobilized soldiers, as they constitute a destabilizing force in the areas in which they reside. Collier (1999b) estimates that in Uganda, “soldiers were one hundred times more likely than the average Ugandan to commit crimes once demobilized” (p. 10). Colletta et al. (1996) investigate demobilization programs in war-to-peace transitions in Namibia, Ethiopia, and Uganda, and they argue that successful programs hinge on such things as provision of a “transitory safety net” to assist soldiers and their families to “bridge the gap between demobilization and reintegration” (p. 22). They also note the importance of linking training approaches and content with employment opportunities and placement programs, and of equal distribution of benefits to all demobilized soldiers.

Assistance should also facilitate the return and reintegration of refugees and internally displaced persons (IDPs). Displacement during conflict typically implies depletion of household assets and worsening health for persons involved. Lack of legal protection makes these groups vulnerable to exploitation and violence. Without assistance, the risk grows that refugees and IDPs will fall into chronic poverty. This, in turn, increases the risk of recurrent conflict. Programs that restore livelihoods and help convert war economies back to peacetime profiles provide critical assistance to these groups and also lower the risk of future conflict. Cash for work and agriculture programs have proven especially effective in several countries. In Cambodia, for example, rural infrastructure programs at their peak employed more than 13,000 persons each day. These cash-for-work programs ran for more than one year after the signing of the peace accords and facilitated cooperative work among IDPs, returned refugees, and receiving communities to build roads and repair irrigation canals. Programs like these can have a very high rate of return. Collier and Pradhan (1998) estimate the rate of return of transport projects in post-conflict Uganda at 40 percent. The programs also fostered a sense of community cooperation and helped initiate a process of mending relations and building trust among previously warring groups.

Field evidence also points to the important role that aid agencies can play in post-conflict situations. Their efforts can help as well as hinder reconstruction efforts. Timely and effectively-targeted aid can provide valuable returns in conflict-prone environments. At the same time, donors must recognize that returns to post-conflict reconstruction assistance are far less certain than to those in more stable environments and they must therefore be prepared to take on more risk and to monitor programs constantly to minimize negative consequences. Uncertainty and the enormity of needs in countries emerging from war imply that donors should streamline aid programs and coordinate efforts. It also implies that they should encourage governments actively to tackle difficult political problems—corruption, weak regulatory regimes, exclusive policies, and the like. Donors need to engage and develop skills of people and groups working to promote peace, and of those that are prone to violence, at both local and national levels.

As they become more engaged in post-conflict developmental relief, donors must develop a deep, location-specific understanding of what drives conflict. Strategies must be tailored to local environments. Program design methods should use conflict “lenses” and continually ask whether

activities are increasing or decreasing the risk of renewed conflict. Monitoring and evaluation should seek answers to questions not only about who is receiving and how they are using program resources, but, more important, whether activities are exacerbating community divisions or legitimizing corrupt and violent power structures.

Unfortunately, instances where donor actions have caused more harm than good are numerous. For example, in most conflict situations aid agencies hire armed guards to protect their supplies and staff, thereby sending an implicit message that it is legitimate to use weapons to determine who gains access to, for example, food and housing materials. Mary Anderson, in her important book *Do No Harm: How Aid Can Support Peace—or War* recounts the experience of one donor in Tajikistan:

When an aid agency initiated a program of post-war housing reconstruction in Tajikistan, it targeted its program toward those who had suffered the most damage. This group, the Garmi, had also lost the war. (This is often the case—i.e., that aid assistance focused on those who suffered the most often reach those who lost the conflict.) The Kulyabi who had won resented the fact that the international aid community was restrengthening the “enemy” whom they had defeated. They saw this as a political rather than humanitarian act (Anderson 1999, 46).

## CHAPTER SIX CONCLUSION

The development community has learned a great deal recently about the consequences and causes of modern conflict. Still more will become known as analysts mine country experiences for lessons learned and as empirical investigations overcome challenges associated with conflict data. At the same time, it is becoming clear that analysts will have difficulty finding definitive answers—particularly regarding questions on the causes of conflict—because of the inherent complexities of conflict. Nonetheless, because conflict exacts such horrible consequences on the people involved, it is important that policy makers take action based on what is currently known.

Clearly, development programs and poverty reduction interventions in crisis-prone and war-affected societies must adhere to the principles and best practices discerned from experiences in stable countries. It is also clear that such programs can reduce the risk of conflict substantially, particularly interventions that promote inclusion and reduce differentiation among groups in political participation and economic and social well-being. To achieve this, policy makers and planners must design and implement programs with an understanding of the local causes and consequences of violent conflict. They must also act with an understanding of the complex and fragile environment of conflict-laden societies and of the urgent need to build trust and cooperation among divided individuals and communities. Formulated with this knowledge, development and poverty reduction programs will not only deal with the economic requirement of the poor but also help build a foundation for lasting peace and sustainable development.



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