

Civil Wars and Military Expenditures: A Note

By
Nadir A.L. Mohammed
MNSSED, World Bank, Washington DC

Prepared for presentation at the World Bank's Development Economic Research Group (DECRG) launch conference on "Civil Conflicts, Crime and Violence", World Bank, Washington, D.C., 22-23 February, 1999. The views expressed in this paper are the sole responsibility of the author.

“Civil Wars and Military Expenditures: A Note”

Nadir A. L. Mohammed, MNSED,

1. Introduction

1.1. Despite the end of the Cold War, decline in World’s military expenditure (Milex) and reduction in the number of international wars, the intensity and frequency of civil wars in developing countries have increased unabated throughout the 1990s. The prospects of maintaining peace in various countries and regions of the developing world are also not very promising, given the underlining causes of civil conflict.

1.2. This paper intends to briefly review the trends of civil wars and Milex in developing countries and to outline the various causes of armed conflicts as well as the economic effects of Milex in these countries. It then investigates the causal linkages between civil wars and Milex. More importantly, the paper aims to propose broad areas for the intervention of international development institutions, and the World Bank in particular, in conflict prevention, resolution and post-conflict reconstruction. Finally, the paper throws some light on areas that warrant further research in the conflict-development nexus.

2. Trends, Causes and Costs of Civil Wars

2.1. Trends of Civil Wars in the Developing Countries

2.1.1. Most of the armed conflicts in the Post-War era have been intra-state in nature (i.e., civil wars), and are fought with conventional weapons.¹ In each year of the 1980s and 1990s, there have been between 30 and 40 “major armed conflicts” in progress.² The majority of these conflicts have been waged and endured in the developing world. Fifteen of the twenty least-developed countries in the world have been involved in major civil conflicts; and more than half of all low-income countries have been involved in major civil conflicts during the past fifteen years.³

¹ Two types of insecurity are usually distinguished: microinsecurity and macroinsecurity. Microinsecurity, refers to the fear that the individual will be the victim of crime or violence and macroinsecurity refers to the fear that the state will be overthrown by insurrection [Collier (1994)]. While the two components of insecurity are important and interrelated, this note focuses only on one aspect of insecurity, that is macroinsecurity (armed conflicts).

² SIPRI’s (Stockholm International Peace Research Institute) definition of an armed conflict specifies that prolonged combat between the military forces of two or more governments (inter-state or regional war) or of one government and at least one organized armed group (civil war) involving the use of weapons and incurring battle related death of 1,000 persons constitutes an armed conflict. In this note the focus of the analysis is on the second type of armed conflicts (civil wars) although, it is extremely difficult to draw a line between civil wars and regional or international wars. Many civil wars have been connected with regional or inter-state conflicts. See Harris (1996; 269).

³ Holtzman (1998; 1).

2.1.2. A total of 94 armed conflicts occurred around the world in 64 different locations during 1989-1994. In 1994, 42 of these 94-armed conflicts were active in 32 locations. A total of 103 armed conflicts has been recorded for the years 1989-1997. Of these, 33 were active in 1997 and 97 were civil wars. The most common conflicts during this period have been internal conflicts over government (civil wars) and/or to a lesser degree, over territory (state formation).⁴ Although some regions of the developing world showed a decline in the number of armed conflicts per year during this period, other regions such as Africa showed systematic increase in the number of armed conflicts per year. In addition, most of the new conflicts in 1996 and 1997 took place in Africa.⁵

2.2. *Causes of Civil Wars*

2.2.1. Conflict theories attribute conflict and civil strife to complex interlinkages between economic, environmental, social, political, cultural and religious factors. The relative weight of those factors varies from one region to another, depending on the importance of that specific factor in initiating the conflict.

2.2.2 The most notable political factors behind armed conflict in developing countries are the lack of power sharing, centralization of political administration, *coup d'etats*, corruption of the ruling regimes, failure to promulgate permanent constitutions, and lack of respect for human rights and democratic rules.

2.2.3. Economic conditions have also been claimed to be among the most crucial factors behind armed conflicts in developing countries. Sluggish economic growth, increased poverty and skewed income distribution, lack of basic infrastructure and social services, wide regional differences, lack of access to agricultural land, and depletion of natural resources are the notable economic factors responsible for the emergence of civil wars. These economic factors result in increased despair, misery and frustration for people in marginalized communities and regions, and consequently, they initiate conflict in many parts of the developing world.⁶ For example,

“Africa is not intrinsically prone to civil war as a result of its ethnic diversity, but it has had lot of civil war, primarily because it is poor and poverty is a cause as well as a consequence of civil war” [Collier (1997 b)].

2.2.4. Environmental stress and competition over scarce natural resources as well as the interlinkages between environmental factors and economic conditions have been identified as factors behind the outbreak of civil wars in many parts of the developing world.⁷ Homer-Dixon (1990) argues that seven clusters of environmental problems (greenhouse warming, ozone depletion, deforestation, acid rain, degradation of land, overuse of water supplies, and depletion of fish stocks) will produce four categories of social effects (decrease in economic output, change in agricultural production, population

⁴ See Mohammed (1997 b), and Wallenstein & Sollenberg (1995; 346).

⁵ Wallenstein & Sollenberg (1998).

⁶ Mohammed (1997 b; 4), and Collier & Hoeffler (1997).

⁷ For examples, see Mohammed (1994).

displacement, and disruption of institutions and patterns of social behavior) which in turn lead to three types of conflict: frustration, group identity and structural conflicts. Frustration conflict occurs when people become hostile because they perceive either absolute deprivation or a widening gap between the achieved and the expected levels of satisfaction. Group identity conflict involves ethnic, religious and nationalistic factors as individuals feel the need for a sense of belonging that can be satisfied in a group when it acts or discriminates against another group. Structural conflicts are argued by Homer-Dixon to arise from the rational calculation of actors in the face of external (social or material) constraints.⁸

2.2.5. The forthcoming research project of the DECRG could, therefore, devote some attention to the study of the causes of armed conflicts with the aim of establishing some early warning mechanisms. The knowledge of the causes of armed conflict, and the determinants of the duration of conflict, will also assist in the prevention of future conflicts and sustainability of peace. Quite often, temporary solutions that do not address the root causes of conflict do not last and armed conflict reemerges (e.g., the Sudanese civil war). As an illustration, Mohammed (1997 a) introduces a simple index of land *per capita* for African countries. The index was then able to explain a number of conflicts in Africa, and to forecast potential areas and regions that are likely to witness civil conflict. For example, conflicts in Rwanda and Burundi were attributed partially to the low land per capita in these countries. Land density in Rwanda is about 13 times higher than the average density for the whole of Africa and in Burundi nine times higher. Such indices could pinpoint some countries or regions in which armed conflicts are likely to take place. More sophisticated indices which can incorporate most of the potential factors and causes of armed conflicts can then serve as early warning mechanisms.⁹

2.3. *Costs of Civil Strife*

2.3.1. Although the impact of military spending on economic growth and development is one of the more thoroughly researched topics in the economics of peace and conflict (section 3.2. of this note), research on accounting the cost of war, and the aftermath of wars, is an area that is utterly under-represented in the extant literature. The reason might be that it is extremely difficult to collect “good” series of microeconomic data, suitable for conducting proper microeconomic analytic studies in war-torn areas.

2.3.2. The costs of the armed conflicts are extremely horrific, and in many cases wars wiped out the achievements of decades of economic and social development. Armed conflicts involve complete economic paralysis, immense social costs and trauma, as well

⁸ Recent case studies, corroborates Homer-Dixon's explanation of causes of armed conflicts. For example, Suliman (1998) concluded that scarcity, resulting from denying or limiting access to renewable natural resource and growing environmental degradation stand out as the most explanatory factors for the outbreak of civil wars in Africa, and the Sudan in particular. In the Nuba mountains, Suliman found that changes in land tenure and access to natural resources were the main factors behind the conflict in that region.

⁹ Collier and Hoeffler (1997) use five economic proxies: income *per capita*, natural resources endowment, population size, extent of ethno-linguistic fractionalization, and period of time since previous civil war to explain why wars occurred in terms of underlying economic variables.

as serious environmental damage. For instance, armed conflict is argued by Colletta, *et al.*, (1997) to be “surely one reason why at least 250 million people in sub-Saharan Africa- nearly half of the population- are living below the poverty line”

2.3.3. As wars affect the economy in a multitude of ways, some important conduits for these effects could be identified. First, and apart from ethical considerations, war is obviously an extreme waste of valuable human and material resources. Civil wars cause direct and indirect horrendous human casualties, the latter occurring as a result of reduced food supplies and access to health facilities. More than 4 million people lost their lives in violent conflicts in the 1990s only.¹⁰ Civilians are most likely to fall victims of civil wars as nine of ten casualties are non-combatants. For instance, the human cost of destabilization in southern Africa during 1980-1988 surpassed 1.5 million war deaths, and the number of wounded, maimed, mutilated and malnourished is larger and more difficult to quantify.¹¹ According to the World Bank’s Post-Conflict Unit, about 35 million people were displaced as refugees or within national borders at the beginning of 1997. Furthermore, wars exert a significant negative impact on the development of human resources through its impact on health and education services. This takes place both directly through the destruction of health and education services and/or indirectly through the crowding-out effect of war spending on government social spending.

2.3.4. Civil wars result in the reduction in the level, and composition, of economic activity. Collier (1997 a) found that during civil wars, GDP *per capita* declines at an annual rate of 2.2% relative to its counterfactual. War directly reduce production in areas of combat and may cause it to seize altogether. Economic establishments are often direct targets of military attacks, which aim to reduce the opponents economic capability and to paralyze its ability to finance the war. These attacks reach all economic sectors but its main effects are felt drastically in sectors with high transaction cost (e.g., construction) and also the industrial and agricultural sectors. The destruction of transportation networks render most of the industries ineffective for lack of input and the use of anti-personnel mines renders farmers’ agricultural land unusable.¹² In addition, civil wars also reduce labor supply in affected areas.

2.3.5. War also reduces economic output indirectly through the loss of the capital stock due to destruction, dissaving and the substitution of portfolios abroad. War is usually responsible for the loss of physical capital and infrastructure, partly as the direct result of the war and partly as a consequence of disruption or neglect of maintenance work. In

¹⁰ For examples of the studies on the economic and social cost of wars, see Harris (1996) for the cost of the Iran-Iraqi war and the civil war in Sri Lanka, and Mohammed (1996 b) for the cost of the civil war in the Sudan.

¹¹ For instance, Angola has more than 40,000 citizens handicapped through loss of limbs, predominantly of landmine explosions, the largest *per capita* of any country in the World [see Mohammed and Treeck (1996; 70)].

¹² The Post Conflict Unit (1998 b) of the World Bank estimates that over 100 million landmines are deployed worldwide and claiming 25,000 casualties each year.

addition, armed conflicts also cause an extensive and long-lasting environmental degradation.¹³

Box 1

The Direct Costs of the Civil War in the Sudan 1983-1993

1. Effects on Human Capital

1.1. Death Toll: Civilian deaths were estimated at 200,000 during 1983-1988 and military deaths at 34,921 during 1983-1989.

1.2. Effects on Education: 85% of primary schools, 74% of intermediate schools, 71% of secondary schools, 75% of technical schools, 66% of institutes, and the University of Juba were closed down by 1989.

1.3. Effects on Health: Only six out of 32 hospitals were operating in 1989 in the region; immunization, preventive medicine and malaria eradication services ceased completely in the South. Malnutrition affected most of the children in the region.

1.4. Displacement, Refugees: During 1983-1990, some 354,524 persons took refuge outside the Sudan, while about 3.0 millions were displaced internally. In 1989 only, about 10,000 children were recruited as soldiers.

2. Effects on Economic Activities and Production

2.1. Agriculture: Most of the traditional and rain-fed farming stopped. All the new 9 irrigated agricultural schemes were not operating. Until 1990, 6.6 million heads of cattle, 2 million sheep, and 1.5 million goats were lost.

2.2. Industry: All six major factories in the South were closed down.

2.3. Mining and Petroleum: Gold exploration activities stopped. Exploration and production of petroleum stopped (with estimated losses of US\$ 3 billion during 1983-1989).

2.4. Tourism: Annual loss of tourism revenues in the region were estimated at US\$ 700,000.

3. Effects on Infrastructure

3.1. Digging of Jonglie Canal ceased in 1983.

3.2. Work on 22 irrigation schemes stopped.

3.3. Railways transportation to the South stopped, 165 wagon cars were destroyed.

3.4. Destruction of two ferries, one steamer downed, and 25 barges locked-up.

3.5. 20 roads and 17 main bridges were either destroyed or rendered inoperative.

4. Environmental Effects

4.1. Poor health, inappropriate sanitation and over-crowding in urban areas in the South.

4.2. Displacement affected fragile land, cutting and eradication of entire forests increased while soil erosion increased in southern and western Sudan.

4.3. Majority of wildlife was depleted (some of the very rare species have vanished).

5. Psychological and Social Effects

5.1. Increase in tribal conflict within the South and between tribes in southern and western regions.

5.2. increase in the number of crimes and prisoners (75% from southern Sudan).

5.3. Number of patients in mental and psychiatric hospitals increased sharply (with significant increases in the number of patients with schizophrenia, depression and alcoholic addiction) . The majority of the patients were in the 20-30 years age bracket.

5.4. Reported use of hallucinogens to push children to battle fields.

Extracted from Mohammed (1996 b)

¹³ For concrete examples of physical destruction and environmental decay caused by wars, see Mohammed (1997 b).

2.3.6. Armed conflicts have some cultural impact as they bring about the development of a long-run "culture of violence". Whole generations have grown up in cultures of armed warfare and violence.¹⁴ Wars also result in the breakdown of governments, civil societies, and public institutions. Democratic institutions disappear gradually after prolonged civil wars while neglect to civil and social institutions, deteriorating in human rights and prevalence of corruption in public administration usually follow the outbreak of armed conflicts.

2.3.7. Consequently, the impact of civil wars should receive a high priority in the forthcoming research project of the DECRG. More studies are needed to quantify the economic, social, political, and environmental costs of civil wars immediately after the return to peace in countries suffering from civil strife. Such studies are crucial for post-conflict reconstruction and for determining the priorities of reconstruction.

3. Milex: Recent Trends and Economic Effects

3.1. Recent Trends of Milex

3.1.1. The pursuit of achieving security lead governments to devote a significant portion of total government spending to military expenditure (Milex) as well as other security-related expenditures (police, law and order, *etc.*). Milex, however, constitutes the bulk of security spending in most of the developing countries.¹⁵

3.1.2. In this paper, data on Milex is primarily drawn from sources of the United States Arms Control and Disarmament Agency (USACDA). USACDA issues the *World Military Expenditure and Arms Transfers* which covers about 150 countries and presents Milex figures in US dollars (at both constant and current prices). The most recent and published figure for World Milex is US\$ 864 billion in 1995, down 34% from its all times high of US\$ 1.36 trillion in 1987 (see Table 1 and Annex Table 1). It is interesting to note that in 1992, for instance, world Milex equaled the income of almost half of the world's population (UNDP, 1994).

3.1.3. From 1983 to 1993, world Milex fell over 40% in proportion to world GNP; from 5.7% to 3.3% of World output. Furthermore, world trade in military goods also declined by about 70% from its peak of US\$ 77 billion in 1984 (2.9% of total world trade) to about US\$ 22 billion in 1993 (0.6% of total world trade).¹⁶ However, world arms trade rose again in 1995 by US\$ 5.2 billion after 8 consecutive years of decline. The 1995 total of US\$ 32 billion represents two-fifths of the 1987's peak.

¹⁴ See Collier and Hoeffler (1997).

¹⁵ The definition of Milex and its components vary among individual counties and institutions. The differences are mainly attributed to the inclusion or exclusion of several expenditure items to the Ministry of Defense outlays. The IMF gives the most comprehensive and widely used definition for Milex (see Deger (1986)). A number of international organizations and institutions issue annual figures on world Milex and data for individual countries (SIRPI, USACDA, the IMF, the International Institute for Strategic Studies (IISS)). These figures are relatively more reliable than data provided by individual countries and provide longer consistent time series.

¹⁶ Bayoumi, *et al.* (1996; 494).

3.1.4. In most of the developing countries, Milex has become an important component of government expenditure. From 1965 to 1985, Milex in developing countries constituted about 15% of world total. The military burden was over 4% of GDP and more than 15% of total government spending. Between 1985 and 1990, Milex in developing countries constituted about 5% of their combined GDP and 17% of their combined government spending and made up about 20% of world Total.¹⁷ Again, although Milex of developing countries followed a decreasing trend since the late 1980s, the year 1995 witnessed a sizable increase to roughly US\$ 200 billion, after having posted consecutive reductions since 1990.¹⁸

Table 1: World Military Spending by Regions

Region	Population, 1995	GNP, 1995	Milex, 1995
Sub-Saharan Africa*	536	224	3.9
North Africa	72	122	5.0
South America	319	1,245	23.0
East Asia	1,907	9,294	165.1
Middle East	216	616	48.6
Oceania	27	409	9.3
Developing countries	4,520	7,010	196.7
World	5,672	30,960	864.5

* excluding South Africa.

Population is in millions, while GNP and Milex in are in billions of US\$.

Source: USACDA (1997).

3.1.5. The recent reductions in total world Milex were not universal across all regions of the World. East Europe, the Middle East, Central America and the Caribbean, Sub-Saharan Africa, North Africa, Western Europe and North America regions all witnessed reduction in Milex levels during 1991-1995. However, East Asia, South Asia, Central Asia, South America and Oceania maintained rising levels of Milex, though moderate, during the same period.

3.1.6. The Middle East region has been one of the most highly militarized regions in the World. The region outperformed most of the rest of the world in terms of military expenditures throughout the 1960-1991 period. The mean rate of the defense burden in the Middle East is over twice that of the whole world.¹⁹ However, in the post Gulf-war period, the region witnessed considerable reduction in Milex levels. Milex in the Middle East totaled US\$ 49 billion in 1995, a slight decrease from 1994 and about half of the 1991 peak during the Gulf war. Large reductions in Milex in the region were experienced in Iran (US\$ 4.2 billion in 1995), Saudi Arabia (US\$ 17.2 billion in 1995), UAE (US\$ 1.88 billion in 1995), and Syria (US\$ 3.56 billion in 1995). Most other countries

¹⁷ Mohammed and Thisen (1996).

¹⁸ See USACDA (1997).

¹⁹ Cohen and Ward (1996; 429).

increased their Milex in 1995. Egypt had the largest increase in 1995, up by US\$ 772 million (US\$ 2.65 billion in 1995).²⁰

3.2. *The Economic Effects of Milex during Peacetime*

3.2.1. Milex affects economic growth and development directly and indirectly. The direct effects are postulated to take place through increased capacity utilization. This effect, however, does not take place in countries with supply-side rigidities (shortages of production inputs, foreign exchanges, *etc.*). The indirect effects of Milex on economic growth are through its negative impact on investment, human resource development and the balance of payments.

3.2.2. Empirical studies on the economic effects of military spending in developing countries vary according to the questions asked, the methods used, the sample of countries, the time frame and in their theoretical underpinnings. Comparison of the empirical analysis of the economic effect of Milex on economic growth in developing countries is, thus, a difficult task although some generalizations and trends have emerged. In an extended review, Dunne (1996) summarized the findings of 54 studies, which investigates the relationship between Milex and economic growth for various samples of developing countries and for different time periods. All these studies were published during 1973-1996.

3.2.3. Out of the 54 studies, only six studies found evidence of a positive spin-off from Milex to economic growth, for smaller sections of developing (high-income) countries and those spin-offs were found to be weak and insignificant in many cases. The rest of the studies confirmed the existence of a negative relationship between Milex and economic growth in developing countries through various channels. The empirical studies, which investigated the economic impact of Milex on economic growth in Africa, the Middle East and other separate regions of the developing world, have produced, to a large extent, consistent and similar findings. Furthermore, the emerging empirical evidence suggests also that Milex has been resilient to budgetary cuts and that it did crowd-out other categories of government spending²¹

4. *The Casual Interlinkages between Civil Wars and Milex*

4.1. It is obvious that civil wars and armed conflicts directly lead to increases in military spending. Financing the cost of war involves increased spending on additional recruitment of soldiers and more importantly buying very expensive arms and munitions, to end the conflict in a shorter period of time by political or military means. At the national level, civil wars are the most pivotal determinants of LDC's militarization levels. Civil wars are likely to increase significantly the nation's commitment of resources to the defense sector.

²⁰ USACDA (1997).

²¹ See for example Mohammed (1993), Mohammed (1996 b) for extended reviews.

4.2. Studies on the determinants of Milex emphasize the importance of incorporating bureaucratic, political, economic and strategic factors (as well as regional and global dimensions) in the analysis of the determinants of Milex. The empirical evidence also corroborates and validates this postulate. For instance, Mohammed (1996 a) investigates the determinants of Milex in 40 African countries for data pertaining to the period 1960-1990, using both time series and cross sectional analysis. The results of the analysis confirm that the differences in the military burdens of African economies appear to reflect a complex of economic, political and strategic factors both at the national and regional levels. The need to maintain security and stability and to counteract threats (to the state or to the Government) is found to be the most important factor. The breakout of wars and internal conflicts was a key factor in the process of the escalation of Milex and military burdens.

4.3. In the Sudan, for instance, the share of Milex in central government expenditures was about 7.9% in 1955. The share grew gradually until it reached 19.7% in 1964 when the civil war in southern Sudan broke out in almost all of the region. A big jump in Milex then occurred in 1965 with the escalation of the civil war and the share of Milex in central government spending continued to be above 20% until 1972, when signing the Addis Ababa Accord ended the war. The share then dropped to 11.6% in 1975 and stayed slightly above 10% in the late 1970s and early 1980s. However, the renewal of the civil war in 1983 saw further increases, and in the 1989/90 budget 24.5% of government spending was allocated to the military.²²

Box 2

Determinants of Milex in 40 African Countries, 1960-1991

Time series analysis of the determinants of Milex in 40 African countries shows that:

- (i) The effect of the level of income on Milex was positive and statistically significant in 58% of the countries in the sample;
- (ii) The effect of the openness of the economy on Milex was positive and statistically significant in 23% of the countries in the sample;
- (iii) The effect of the size of the armed forces on Milex was positive and statistically significant in 25% of the countries in the sample;
- (iv) The effect of wars on Milex was positive and statistically significant in 71% of the countries in the sample; and
- (i) The effect of military governments on Milex was positive and statistically significant in 33% of the countries in the sample.

Cross-sectional analysis for the 40 African counties shows that the effect of the size of the armed forces, intensity of conflict and wars, presence of military governments (democratization index), level of income and geographical factors explain almost all of the variations in military allocations among African countries.

Mohammed (1996 a).

²² Mohammed (1996 b; 234-235).

4.4. In Sri Lanka, the military burden (Milex/GDP) has consistently been below 0.8% before the civil war which erupted in July 1983. In 1985, the military burden jumped to 2.8% and reached 3.1% in 1987, 1992, 1993 and further increased to 3.4% in 1994. Military expenditure as a proportion of central government expenditure, which was less than 3% before the war, has consistently been above 10% in the early 1990s.²³

4.5. Another example of conflict-driven Milex is in South Africa between 1960 and 1990. Expenditure on defense in percentage of total government expenditure increased from 7% in 1960 to 15.5% in 1966 and remained at these levels until the early 1990s when the percentage fell back to a range of 7% to 10%. Government expenditure on police services in percentage of total government expenditure reached 2% in 1982 and rose to above 3% in 1984, above 5% in 1991 and to nearly 7% in 1994. Total security spending²⁴ in South Africa stood at 22% in 1962, peaked at 24.3% in 1968 and dropped in the 1990s to below 18%.²⁵

4.6. While it is obvious that the breakout of civil wars inevitably leads to increases in Milex levels, emerging evidence suggests that the relationship between Milex and armed conflict is causal. Increases in the level of military spending are also believed to be a cause for civil wars and armed conflicts. Given the limited (if not fixed or shrinking) government budget (zero sum-game) increases in Milex will be met at the expense of other government services, particularly the social spending, rural development and maintenance work. Low spending on these crucial sectors creates feelings of frustration and can lead to conflict and mutinies. It also aggravates the microinsecurity (crime and violence) situation in the country and consequently lead to increases in security spending and further reductions in social spending.

4.7. Empirical evidence shows that there is a momentum built into Milex as confirmed by the positive relationship between current and past values of Milex. The current Milex may be rigid in the downwards direction because it is likely that there will be some hangover from previous expenditure and commitments to military programs or simply a ratchet effect.²⁶ This resilience of Milex to budgetary cuts meant that increases in military allocations are usually met at the expense of other government services with negative effects on the quality and quantity of government services (particularly social and economic services). This factor, in turn, gives rise to social tensions and armed conflicts or fuels already existing tensions.

5. The World Bank and Conflict Prevention, Resolution and Post Conflict Reconstruction

5.1. The World Bank views violent conflict as a major constraint to development because the link between poverty and conflict has become very evident in the post Cold War era since half of all low-income countries have experienced a major conflict since

²³ Harris (1996; 281).

²⁴ Including Milex, police and correctional expenditures.

²⁵ De Wet *et al.*, (1996; 311).

²⁶ Dunne *et al.*, (1984).

1980s. In addition, the Bank's concern with conflict increases because its operations in countries emerging from conflict have become a significant proportion of its portfolio. Nearly a quarter of IDA commitments are going to countries which have undergone or are emerging from civil war.²⁷

5.2. The aim of this section is to outline possible areas for the intervention of the World Bank in situations of conflict prevention and resolution in addition to its new initiatives in post-conflict reconstruction. Since this area is new for the involvement of international financial institutions, it might be the appropriate time to consider bold, innovative and imaginative approaches for future interventions. The ideas contained in the subsequent sections are for discussion, dialogue and further research as not all of them might be feasible for implementation.

5.3. *Conflict Prevention*

5.3.1. It may be unrealistic to expect international development institutions, including the World Bank, to prevent conflicts from occurring. However, given the above-underlined causes of civil wars in developing countries, these institutions can integrate a sensitivity to conflict into their vision to development.²⁸ To prevent conflicts from eruption, the World Bank, and other development partners, should address more vigorously the following issues:

- (a) Increased focus on investments in good governance (including anti-corruption measures, accountability and transparency). The widening of the ruling elite through democratization will reduce pressure for secession, while the building of democratic institutions and civil societies, increases transparency and accountability. Ethnic broadening of the government may be more viable means of holding disparate states together and the process of democratization itself will also result in a significant reduction in macroinsecurity. For example, the full democratization of South Africa and the absence of any apparent medium-term threat to the integrity of the country have, since the end of the 1980s, resulted in a 50% decline in the volume of government resources allocated to the military sector.²⁹ Therefore, devoting more World Bank's efforts in areas of anti-corruption measures as well as for civil and judiciary service reform projects and more importantly the monitoring of good governance measures will ensure lesser social tensions and armed conflicts.
- (b) Promoting growth, poverty alleviation, environmental conservation, and control of population growth are among the most important policies that can be used to prevent future conflicts to develop. More efforts towards rapid economic growth and poverty reduction will have medium and long-terms effects on conflict prevention. Similarly, arresting rapid population growth rates in many developing countries will also have favorable medium- and long-term effects on conflict prevention.

²⁷ Post Conflict Unit (1998 a), excluding India and China.

²⁸ Post Conflict Unit (1998 a: 2).

²⁹ Roux (1996).

- (c) Equitable distribution of economic and natural resources and development assistance is crucial for preventing future conflicts. A number of conflicts erupt when mineral or oil deposits are discovered in one region. Therefore, it is important to invent practical distribution formulae by which regions where the windfall is located to benefit relatively more than other region (e.g., as the case in Nigeria). Furthermore, ensuring regional balance and equity in all World Bank's executed and financed projects will also contribute to conflict prevention. This could be enhanced by elaborate social assessments to identify fault lines of social tension and unequal patterns of distribution and by taking into consideration specific account of inter-ethnic and inter-group distributive consequences.
- (d) Public sector reforms and retrenchment including the military sector. Public sector reforms will ensure that the quality and quantity of public sector services are improved. The reforms should also reach the military establishment. In this regard, the World Bank can launch some projects for assisting national governments willing to rationalize military budgets in the same manner as civilian budgets. Empirical evidence suggests that there is considerable waste in military budgets in comparison with other government civilian services. The subsequent section will propose some measures for the reduction of the military budget itself.
- (e) The process of fiscal reforms should focus on fiscal decentralization. Most of the regional tensions start with the conviction that central transfers to regional governments are not enough or do not reflect the contribution of the region in federal financing or total national output.
- (f) More regional and rural development projects are needed with the importance of involving grass-root communities and NGOs in the design and implementation of such programs.

5.3.2. The World Bank accords the previously-mentioned factors proper consideration in the design and implementation of development interventions. Nonetheless, given their utmost importance they deserve further attention and to be part and parcel of the analysis of any development project. Also, the analysis of the causes of armed forces will definitely assist in the better understanding of these factors and their interlinkages to conflict. Furthermore, the forthcoming research project of the DECRG could also include in its design a study of a selected number of projects to assess the implication of their execution on social cohesion and/or tension and to come up with concrete lessons for future interventions.

5.4. *Reduction of Milex*

5.4.1. The reduction of Milex is one of the pivotal areas that can assist in conflict prevention. Its reduction will automatically release some resources for other civilian government services and in turn reduce both microinsecurity and macroinsecurity. In addition, the "reinvestment of some savings from military downsizing into the

development of a disciplined, high-quality defense force can itself produce a peace dividend by increasing security and reducing public fear” [Colletta, *et al.*, (1997 ;2)].

5.4.2. Empirical evidence also suggests that there are substantial long-term economic gains to developing countries from cutting Milex, as well as an immediate boost to civilian economic activity commensurate with the size of the cuts on Milex. An IMF’s study claims that cutting Milex by 20% world wide could produce a long-run increase in private consumption of 0.8% in developing countries and 2.1% in private investment. “These gains in turn produce a rise in economic welfare, which is estimated to be USD 1.45 trillion in 1992 prices or 46% of 1992 GDP” [Bayoumi *et al.*, (1996; 514)].

5.4.3. Whether the World Bank can play a role in this sensitive area still requires more thinking, debate, and research. In this regard, could the reduction of Milex be added as an additional conditionality in Bank’s policy-based lending or policy dialogue with member countries? or within the HIPC’s Debt initiative? or the proposed HIPC Initiative for post-conflict countries?

5.4.4. The World Bank can, nonetheless, assist technically member countries that have the intention and programs for Milex reduction, since government consent in this regard will remove all political sensitivities. The following areas can be suggested for technical assistance: (a) reduction in the size of the armed forces while increasing the training of the remaining forces; (b) reduction of the size of the services than can be produced more efficiently and cost-effectively by the civilian sector (e.g., health and education services); (c) reducing arms levels and arms imports; (d) utilizing more efficiently military budgets; (e) involving military personnel in productive activities during peace times to generate income for the military establishment; and (f) adoption of Non-Offensive Defense (NOD) strategies which are economically attractive. NODs not only address the security problem, they would also induce disarmament and free resources for economic development purposes.³⁰

5.4.5. International organizations, including the World Bank, can also play a valuable role in providing technical assistance to those member countries involved in reducing defense spending and particularly those concerned with the conversion of military industries for civilian uses (e.g., South Africa). They can make available, to such countries, various methodologies to assess the economic effects of reduced defense establishments and to evaluate alternative policies to maximize the benefits and to mitigate the costs of conversion.

5.5. *Interventions During Conflict and Conflict Resolution*

5.5.1. *Interventions During Conflict*

5.5.1.1. Once conflict erupts, it is difficult to carryout measures for its resolution before enough damage is inflicted on the economy, population, the environment and natural resources of the war-torn country. The eruption of civil war forces the World

³⁰ See the NOD proposed for Argentina by Moller and Scheetz (1996; 31-49).

Bank, and other development partners, to close operations for the high risks of executing any development project and for the risks to their staff in following up implementation of projects. In addition to the various legal and operational obstacles which face development interventions during conflict, wars also result occasionally in the dissolution of civil administration or complete collapse of Government and its institutions. Operations usually resume after the cessation of hostilities, but development institutions return back with limited knowledge base and no sense of social developments or the impact of war.

5.5.1.2. The above factors call for a limited presence of development financial institutions, including the World Bank, during the period of conflict even if there is no active portfolio.³¹ The Post Conflict Unit of the World Bank, therefore, recommends that the Bank should maintain a continuous link with countries in conflict by preparing “Watching Briefs” and “Transitional Support Strategies” once resolution is in sight. Such monitoring of developments during conflict will assist the Bank to move swiftly when reentry occurs, and it will also better inform the international community about the particularities of conflict as well as in the proper understanding and diagnosis of the problems war-torn states.

5.5.1.3. Most conflicts in the developing world take the form of a civil war between the central government and rebel movement in one or more of the regions. Consequently, there will be areas of hostilities while some regions enjoy relatively some sort of peace. While it is obvious that the World Bank can not interfere in areas under the rebels control as this can not be approved by the central government, the question is whether or not the Bank can interfere in areas under the control of the Government in crucial sectors such as education and health services if they enjoy relative peace. If the Bank can continue its operations in such situations, then what are the specific modalities of interventions? what will be the risks involved? What will be the crucial sectors, boundaries and limits for its interventions? Can the Bank be involved in the provision of badly needed emergency relief or give special attention to the needs of the most vulnerable groups during conflict (elderly, women and children)? Given the importance of human resource capital in countries in conflict, and their long-term consequences, these question might be addressed in this workshop or in the forthcoming research project.

5.5.2. *Conflict Resolution*

5.5.2.1. While the economic analysis of effects of reduced Miley is optimistic, the outlook for security and development in many parts of the developing world is less so. Increased poverty in Africa and rapid growth in Asia, with the aftermath of the financial crisis, both have potentially negative effects on security.³² Therefore, it is crucial that conflict resolution mechanisms are devised, implemented and improved.

³¹ Holtzman (1998; 2).

³² Smith (1996; 357).

5.5.2.2. International organizations such as the UN and regional organizations (such as OAU, SADC, IGADD, Maghreb Union, Arab League, GCC, ASEAN, *etc.*) can have a more positive role in resolving conflicts. Indeed a number of these regional organizations have established some security protocols for conflict prevention and resolution as well as peacekeeping and peacemaking mechanisms (e.g., SADC). The role of IGADD in mediating an end to the civil war in Sudan and ECOWAS efforts to end the civil wars in Liberia and Sierra Leone are good examples of the role that such organization can play in enforcing regional security.

5.5.2.3. The World Bank, and other development financial institutions, can play a limited role in conflict resolution because of the immense political sensitivities which surround conflict resolution. The Bank is not in charge of peace-making, can not question the political character of member countries or interfere in their domestic policy affairs, can not operate in a territory of a member country without the consent of that country and it is not a relief agency. All of these factors curtail the involvement of the World Bank in conflict and conflict resolution. Nonetheless, the risks of losing control or development effectiveness in projects where conflict emerge are greater if no measures to resolve conflict are taken. Therefore, some limited interventions by the Bank such as stakeholders consultation or technical assistance and financing to the conflict resolution arms of regional and international organizations to assist them in mediation and resolution of ongoing conflicts could be explored. Financing of projects for conflict resolution where international and regional organizations could be the executing agencies, or using conflict resolution experts or facilitators, are worth exploring.

5.5.2.4. Specific studies for post-conflict reconstruction and settlement, prior to the cessation of hostilities and assessment exercises for the damage of civil conflict, can also assist in resolving ongoing hostilities if the outcome of these studies is widely disseminated and pledges for post-conflict reconstruction reach the combating parties.

5.6. *Post-Conflict Reconstruction*

5.6.1. The Bank created the Post conflict Unit because of the conviction that reconstruction activities will ease transition to sustainable peace after hostilities have ceased and supports socio-economic development. Conflict can also present an opportunity to develop new social, political and economic systems that can sustain peace and economic development more than pre-conflict systems. What the Bank can do, according to the Post Conflict Unit, includes the following: (a) respond rapidly to emergency needs; (b) jump start the economy through investment in key sectors; (c) strengthening of government institutions; (d) supporting land mine action programs; (e) demobilization and reintegration of ex-combatants; (f) rehabilitation of infrastructure and social sector; (g) reintegration of displaced population; (h) support land mine action programs; and (i) normalize financial borrowing.

5.6.2. The Post Conflict Fund, established in August 1997, finances analysis and prevention measures, watching briefs and related studies and acts as a catalytic funding to address emergency needs in countries on the precipice of conflict and emerging from

conflict. The Bank provided a social safety net for conflict-affected populations in the republics of the former Soviet Union, coordinated international aid in Bosnia, the Democratic Republic of Congo, and in the West Bank and Gaza. It also supported demobilization and reintegration of displaced ex-combatants in Angola, Colombia, Chad, Djibouti, Mozambique and Rwanda. It carried out post-conflict community programs in Angola, Columbia, Eritrea and Rwanda. Furthermore, demining programs are underway in Azerbaijan, Croatia and Bosnia. The Bank also made contributions to the peace processes in Bosnia and Guatemala and rehabilitated critical infrastructure in Haiti, Azerbaijan and Tajikistan.

5.6.3. In addition to the activities to be undertaken by the Post Conflict Unit, some more additional measures can also be suggested for inclusion in the list of proposed activities given their importance:

- (a) Demobilization of ex-combatants is an integral part of the process of transition from war to peace. Demobilization significantly reduces the crime rate (microinsecurity) as demobilization processes in both Uganda and Ethiopia have shown.³³ In addition to demobilization of ex-combatants, post-conflict settlement should emphasize strongly the importance of collecting arms from ex-combatants to reduce both macroinsecurity and microinsecurity in post-conflict societies. The cross-border transfers of ex-soldiers skills and the surplus of arms for use in other conflict situations in neighboring countries have serious implications on regional security. Studies conducted by UNIDIR on post conflict societies show that the existence of vast amounts of weapons widely distributed among combatant and non-combatant elements in societies which were merging from long periods of internal conflicts added to the microinsecurity situation in these societies (e.g., Mozambique and Somalia).
- (b) Due attention to political reforms and democratization to reduce macroinsecurity in post-conflict era. In addition, special projects for the reduction of opportunism through the creation of professional elite should be explored.³⁴
- (c) In addition to the above proposals, Collier and Gunning (1995) proposed the implementation of the following five policy prescriptions for post –conflict societies: (i) reassurances through sequenced reforms. Particularly those which impact directly upon the capital value of prospective investment (e.g., property rights); (ii) subsidizing early commitment such as subsidizing investment through the exchange rate (iii) low taxation and tax base should be resorted gradually; (iv) price level targeting, particularly the CPI must be undertaken; and (v) selling of assets rather than debt because government liabilities (such as bonds) have the wrong risk properties whereas the large stock of real assets (e.g., residential property) might be purchased by private agents without being so heavily discounted.

³³ Collier (1994).

³⁴ Paul Collier made the proposal for post-conflict reforms.

5.6.4. It is obvious that economic and sectoral policies for post-conflict reconstruction should be tailored to take into consideration the specific characteristics of these countries. More focus on the heavily damaged social capital should be the highest priority of post-conflict reforms. Secondly, clarification and reestablishment of property rights can play a major role in political reconciliation and post-conflict economic development. Third, projects for cultural rehabilitation should be encouraged. Fourth, the severely distorted economic conditions in post-conflict countries warrants the implementation of different set of policy reforms . For instance, post-conflict reforms should focus on lowering taxation rather than raising them as well subsidizing investment through the exchange rate and enforcement of lower conditionalities .

5.6.5. A special program for debt relief for post-conflict countries could be implemented. “Seven of nine countries currently in non-accrual status are countries involved in conflict. The amounts in two countries currently emerging from conflict, Bosnia and Liberia, are so high that conventional methods of arrears clearance seem unworkable” [Holtzman (1998; 3)]. In addition, the Bank can also establish a special grant-making facility, based on donors contributions and the Bank’s surplus to finance activities such as rapid start-up or rehabilitation planning, seed money for demining and financing of emergency imports.

5.6.6. The above-stated proposals could be studied within the framework of the forthcoming research project with the aim of drawing specific modalities, policy guidelines and programs if they prove to be crucial and viable.

6. Bibliography

Bayoumi, T.; Hewitt, D.; and Symansky, S. (1996) "Global Disarmament and Developing Countries: A MULTIMOD Simulation" Chapter 25; pp. 491-520, in Gleditsch, *et al.*, [Eds.] (1996)

Brauer, Jurgen and Gissy, William (1996) **Economics of Conflict and Peace**. Avebury: Brookfield.

Cohen, J. and Ward, M. (1996) "Towards A Peace Dividend in the Middle East: The New Dynamics of Military Spending" Chapter 22; pp. 425-437 in Gleditsch, *et al.*, [eds.] (1996).

Colletta, N.; Kostner, M. ; and Wiederhofer, I (1997) "Transition from War to Peace in Sub-Saharan Africa" *Findings*, Africa Region, the World Bank; Number 81; February 1997.

Collier, Paul (1997 a) "On Economic Consequences of Civil War" Working Paper No. 97:18, Centre for the Study of African Economies, Oxford University. June 1997.

Collier, Paul (1997 b) "The Role of the State in Economic Development: Cross Regional Experience" Plenary paper presented at the AERC Research Workshop, 6-11 December 1997; Harare, Zimbabwe.

Collier, Paul and Hoeffler, Anke (1997) "On Economic Causes of Civil War" Working Paper No. 97:17, Centre for the Study of African Economies, University of Oxford, June 1997.

De Wet, G.; Jonkergouw, E.; Kockemoer, R.; Schoeman, N.; Steyn, F. and Truu, M. (1996) "The Peace Dividend in South Africa" Chapter 16, pp. 305-322, in Gleditsch *et al.*, [eds.] (1996).

Deger, Saadet (1986) **Military Expenditure in the Third World Countries: The Economic Effects**. London: Routledge and Kegan Paul.

Dunne, P.; Pashardes, P.; and Smith, R. (1984) "Needs, Costs and Bureaucracy: The Allocation of Public Consumption in the UK" *Economic Journal*, Vol. 94; March 1984; pp. 1-15.

Gleditsch, Nils P.; Bjerkholt, O.; Cappelen, A.; Smith, R. and Dunne, P. (1996) **The Peace Dividend**. Elsevier Sciences.

Gleditsch, Nils P. [Ed.] (1997) **Conflict and the Environment**. Kluwer, Dordrecht.

Homer-Dixon, Thomas (1990) "Environmental Change and Violent Conflict" Occasional Paper No. 4; International Security Program; American Academy for Arts and Sciences; June 1990; Cambridge, MA.

Mohammed, Nadir (1993) "Economic Growth and Defence Spending in Sub-Saharan Africa: Benoit and Joerding Revisited" *Journal of African Economies*, Vol. 2, No. 2, pp. 145-156.

Mohammed, Nadir (1994) "The Development Trap: Militarization, Environmental Degradation and Poverty and Prospects of Military Conversion" OSSREA Occasional Paper No. 5; June 1996; Addis Ababa: Ethiopia.

Mohammed, Nadir (1996 a) "What Determines Military Allocations in Africa: Theoretical and Empirical Investigation" *Defence and Peace Economics*, Vol. 7, No. 3, pp. 203-231.

Mohammed, Nadir (1996 b) "The Sudan: The Cost of the Second Civil War (1983-1993)", Chapter 10,; pp. 229-247, in Brauer and Gissy (1996) [eds.].

Mohammed, Nadir and Thisen, Jean (1996) "The Economics of Disarmament in Africa" chapter 19, in Gleditsch, N., *et al.*, [eds.] (1996)

Mohammed, Nadir and Treeck, Dominick (1996) "The Role of Regional Integration, Security and Development in Southern Africa" *African Development Review*, Vol. 8, No. 1; June 1996; pp. 1-43.

Mohammed, Nadir (1997 a) "Environmental Conflicts in Africa" Chapter 9; pp. 137-156, in Gleditsch, N. [Ed.] (1997).

Mohammed, Nadir (1997 b) "Economic Implications of Civil Wars in SSA and Economic Policies for Successful Transition to Peace" paper prepared for presentation at the AERC Research Workshop, 6-11 December 1997; Harare, Zimbabwe.

Moller, Bjorn and Scheetz, Thomas (1996) "More With Less: Economics of Non-Offensive Defense, With Special Reference to Argentina" chapter 2, pp. 31-53., in Brauer and Gissy (1996).

Roux, Andre (1996) "From Apartheid to Democracy: The Economic Dimensions of Demilitarizing South African Society" Chapter 8; pp. 179-200, in Brauer and Gissy (1996) [eds.].

Smith, Ron (1996) "The International Peace Dividend" Chapter 18; pp. 351-357 in Gleditsch *et. al.*, (1996).

Suliman, Mohamed (1998) “Resource Access as a major Cause of Armed Conflict in the Sudan: The Case of the Nuba Mountains” paper presented at the International Workshop on Community-Based natural Resource management, Washington DC, May 10-14 1998.

UNDP (1994) “Capturing the Peace Divided” Chapter 3, in UNDP (1994) Human Development Report. New York, United Nations.

USACDA (Various issues) United States Arms Control and Disarmament Agency World Military Expenditures and Arms Transfers. Washington DC.

Wallensteen, Peter and Sollenberg, Margaerta (1995) “After the Cold War: Emerging Pattern of Armed Conflict 1989-1994” *Journal of Peace Research*, Vol. 32, No. 3, August 1995; pp. 345-360.

Wallensteen, Peter and Sollenberg, Margaerta (1998) “Armed Conflict and Regional Conflict Complexes, 1989-1997” *Journal of Peace Research*, Vol. 35, Issue 05 September 1998.

World Bank Sources:

(1) Post Conflict Unit (1998 a) “ A Framework for World Bank Involvement in Post Conflict Reconstruction).

(2) Post Conflict Unit (1998 b) “Post-Conflict Reconstruction”

(3) Holtzman, Steven (1998) “Post Conflict Reconstruction: Executive Summary”; The ESSD Network Post Conflict Unit Home Page.

(4) Muscat, Robert (1998) Conflict and Reconstruction: Roles of the World Bank” The ESSD Network Post Conflict Unit Home Page.

Annex Table 1: World Militarization Indicators by Regions

	Milex, 1995	GNP, 1995	Arms Exports, 1995	Arms Imports, 1995	Armed Forces (thousands) 1995	Armed Forces per 1000 People
World	864.5	30960	31.940	31.940	22790	4.0
Developed	667.8	23950	30.120	10.550	7667	6.7
Developing	196.7	7010	1.875	21.340	15120	3.3
Africa, all	11.8	476	0.100	0.840	1538	2.4
North Africa	5.0	122	--	0.320	426	5.9
Sub-Saharan Africa*	3.9	224	--	0.270	1012	1.9
Central America & Caribbean	1.2	92	0.040	0.045	209	3.4
North America (NAFTA)	289.2	8025	15.900	1.230	1865	4.8
South America	23.0	1245	0.080	1.295	915	2.9
Central Asia & Caucasus	3.5	152	0.050	0.350	243	3.4
East Asia	165.1	9294	0.835	6.524	7188	3.8
Middle East	48.6	616	1.115	13.800	2319	10.7
South Asia	13.2	446	0.025	1.130	2142	1.7
Europe, all	299.6	10200	13.790	4.845	6291	8.0
Eastern Europe	99.4	1479	4.095	0.835	3110	9.1
Western Europe	200.2	8726	9.700	4.010	3181	7.1
Oceania	9.3	409	0.055	0.960	77	2.9

-- Zero.

* Excluding South Africa

Milex figures are in billions of current US dollars.

GNP figures are in billions of current US dollars.

Arms trade figures are in billions of current US dollars.

Source: USACDA (1997).