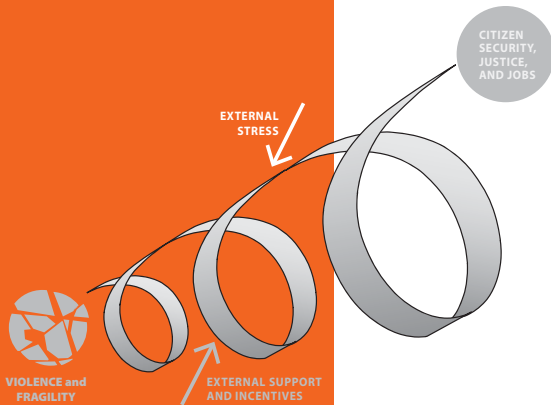


Chapter 7 extends the analysis of this Report to international efforts to deal with the regional and global stresses associated with the risks of violence. Here we encounter a different lacuna: agencies dealing with country-level support have neglected global stresses, and international agencies tackling global stresses have paid modest attention to the special characteristics of countries affected by violence. Rectifying this requires a two-pronged approach: take more decisive steps to tackle global stresses in their own right, and build into those efforts a conscious effort to reinforce the capacity of states with weak institutions to build up buffers against global shocks. This approach may often need to be initiated at the regional level, where states can pool capacities and share efforts to manage the impacts of global systems. No state or society is impermeable, and most states' economies are deeply interwoven with regional and global economic systems.





## International action to mitigate external stresses

**E**conomic globalization exposes states to external economic stresses ranging from international corruption to resource shortages. States with weak political institutions are also routinely exposed to a variety of forms of external interference in their internal negotiations. Social groups within states often have links to external populations that can be an important source of support—but also of both political and security interference. Increasingly, transnational groups with ideological motivations are forging relationships with internal groups to pressure the state or introduce violence into state-society relations.

As with internal stresses, external security and economic stresses are interlinked. Consider trafficking. Arms traffickers often move drugs and commodities as well,<sup>1</sup> using similar techniques of fraud, corruption, and money laundering.<sup>2</sup> Trafficking has deeply damaging effects on national security and economic systems.

Where buffering institutions are weak, external stresses can overwhelm internal governance. Even states with resilient institutions are exposed to international pressures—think of the impact of drug trafficking on cities in Europe and the United States. These pressures, though serious, have not undermined the legitimacy or resilience of domestic institutions or triggered large-scale violence. But for states with weaker institu-

tions, large changes in the price of oil or food can increase social tensions, which internal mechanisms are ill-equipped to deal with.

Because many fragile states have small populations and small economies, their impact on global markets and systems is slight. International mechanisms that focus on global or transnational issues like drug trafficking have tended to neglect impacts on fragile states. Aid and peacekeeping responses to fragile states are normally country-specific, overlooking both the regional dimension of countries' economic and security arrangements and the impact of transnational or global forces. Where transnational or global mechanisms do interact with fragile states, the policies often are suitable only for the larger, more capable states that contribute the greater part of the global gross domestic product (GDP), in the process overlooking the capacity constraints of fragile states.

Furthermore, international systems designed to address transnational issues are often fragmented and overlapping. For states with substantial administrative capacities, fragmentation in international systems is a nuisance; for states with weak administrative capacities, responding to demands from a fragmented international system can absorb all available capacity in dealing with a single issue area.

Regional cooperation can help national actors navigate internal pressures and build buf-

fers against external ones. For most states, on most issues, the region rather than the world bears the greatest brunt of spillovers from violence. Regional cooperation thus offers large potential rewards on issues like the illegal transit of commodities and the expansion of legal, productive opportunities for trade.

### External security stresses

Cross-border insecurity and trafficking, particularly in small arms and drugs, can have highly corrosive impacts on governance and the development of stable, legitimate institutions. Nor are the more fragile states and regions able to counter these challenges without significant amounts of international help: the resources and manpower available to them can be simply overwhelmed by these nonstate actors.

#### *Cross-border insecurity*

For many fragile states, the regional dimension of insecurity is central. Chapter 2 shows how external security stresses can amplify internal tensions and undermine initial settlements to end conflict. Invasion, the presence of foreign troops, or occupation can overwhelm the state. Such cases—which include Afghanistan, Iraq, and the West Bank and Gaza in recent years—consume much of the debate around fragile states, though their number today is small.

More commonly, as chapter 1 illustrates, violence in fragile states now involves nonstate organizations that operate across borders. Porous borders can provide rebels or organized criminal gangs with escape routes from national armed forces. In many parts of the world—South Asia, Southeast Asia, West Africa, Central Africa, the Horn of Africa, the Middle East, Central America, the Andean region—states face cross-border attacks by nonstate groups, neighboring state support for internal rebels, or traffickers and transnational terrorists.<sup>3</sup> Many zones of in-

security and violence are concentrated in border areas. With many borders drawn in the colonial era for reasons that had little to do with settlement patterns, populations on either side of an insecure border may share ethnic identities, common cultural norms, and family and trading links.

Chapter 1 describes how many internal conflicts are generated or fueled by cross-border or global dynamics. Where the actors are responsive to a neighboring government, steps by those neighbors may be vital to a successful transition. Relative stability returned to eastern Democratic Republic of Congo (DRC) only after a Rwanda–DRC agreement was concluded in 2007.<sup>4</sup> The Central American “Esquipulas Process,” which ended the Nicaraguan war in 1987, involved an accord signed by five Central American presidents and a change in U.S. policy toward the Sandinista regime.<sup>5</sup> Groups of Friends and similar mechanisms have managed to bring together neighbors seeking stable internal pacts that tackle cross-border stresses.<sup>6</sup>

Even so, international security responses are typically organized on a national rather than a subregional level. As chapter 6 points out, international peacekeeping operations are rarely organized to deal with transborder security threats, even when the major source of insecurity is a group that operates subregionally. For example, the United Nations (UN) has three separate peacekeeping operations deployed in areas of Africa infiltrated by the Lord’s Resistance Army—but each is mandated and managed at a national level, and none can share resources or move across another’s area of operation. The logic that drives this is that Security Council and UN member states are sensitive to national sovereignty; the irony is that the policy hands a tactical advantage to groups that ignore sovereign borders. This vulnerability makes clear the need for enhanced regional roles and capabilities, a point discussed further in chapter 9. The Multi-Country Demobilization and Reintegration Program in central Africa is an exception (box 7.1).

Development programs are also typically organized at a national level, even though borders often divide regions with close socioeconomic ties. As one example, development programming in Pashtun tribal areas that straddle the Afghanistan-Pakistan border requires the two governments to address similar issues of insecurity, weak local administrations, and strong ethnic and social identities—but there is relatively little exchange between national institutions to discuss lessons learned.<sup>7</sup> Of course, international security and development operations are—correctly—designed to reinforce, not abrogate, national sovereignty. Where neighbors have tense relations, orchestrating cross-border programs can be politically complicated.

Some innovative cross-border programs do exist. Recognizing that insecure borders have been recurrent hosts to conflict, the African Union (AU) established the African Union Border Program in 2007 to demarcate sensitive border areas and promote cross-border cooperation and trade as a conflict prevention tool. The program has four components. First, it pursues both land and maritime border demarcation since less than a quarter of Africa's borders have been formally marked and agreed upon, and disputes are likely to continue with future discoveries of oil. Second, it promotes cross-border cooperation to deal with itinerant criminal activities. Third, it supports cross-border peacebuilding programs. Fourth, it consolidates gains in economic integration through the creation of regional economic networks. An initial pilot project was launched in the Sikasso region of Mali and in Bobo Dioulasso in Burkina Faso—bringing together local, private, and public actors to strengthen economic cooperation, but the program has lacked resources.<sup>8</sup>

Another example of cross-border programming is a UN interagency initiative that from 2004 to 2009 supported national efforts to stabilize Ecuador's northern border region with Colombia. Already facing internal social conflict, Ecuador was confronted with spill-

### **BOX 7.1** *The Multi-Country Demobilization and Reintegration Program: Addressing regional violence*

The Multi-Country Demobilization and Reintegration Program (MDRP) was a World Bank-led regional initiative in which, between 2002 and 2009, over 40 partners collaborated to disarm, demobilize, and reintegrate close to 300,000 combatants in the Great Lakes Region of Africa. Seven neighboring countries embroiled in the regional war fought out in the Democratic Republic of Congo (DRC) participated in the MDRP: Angola, Burundi, Central African Republic, DRC, Republic of Congo, Rwanda, and Uganda.

This regional program was the best response to a regional conflict that transcended borders. Although demobilization, disarmament, and reintegration (DDR) programs were implemented at the national level, the MDRP's regional framework helped build confidence for mutual disarmament by increasing transparency across programs and supporting joint learning and collaborative activities. The regional approach also enabled the pooling of financing for DDR, which in turn promoted efficient resource allocation across participating countries. As a regional program, the MDRP could support cross-border activities, including the DDR of irregular forces that needed to be repatriated to their home countries.

For programs like the MDRP that have both national and regional elements, attention should be paid to regional aspects up front, including putting in place a dedicated team and resources. Generating collective action for regional activities and establishing incentives for actors to think beyond their country borders was not easy, particularly since countries faced problems on their home fronts. Undertaking a large regional multistakeholder initiative like the MDRP was also inherently a high risk, high reward enterprise.

The World Bank, the donors, and the broader development community must be prepared to accept the risks, difficulties, and uncertainties associated with implementing such programs in a post-conflict setting—especially when national peace processes and elections dictate the speed of DDR operations.

*Source:* Correia 2010.

overs from the activities of armed groups in Colombia, with communities along the border overwhelmed by refugees, gang violence, and drug trafficking. But by 2009, following cross-border programming, crime and violence were reduced, services improved, and dialogue established to resolve local conflicts. More important, despite upswings and downturns in diplomatic relations between the two countries, lasting bilateral collaboration has been established with respect to these issues.<sup>9</sup>

Regional organizations also play a key role in addressing cross-border violence. As the AU example suggests, and as the post-World War II history of European cooperation demonstrates, regional organizations can help countries address mobile populations and

the seepage of violence across national borders. They can also spur regional adoption of global principles. Many of them, however, need support to operationalize these roles. Euro region cross-border cooperation and integration can offer inspiration in tackling some border area challenges in other regions (see box 7.1 and the later discussion of regional economic integration).

### Trafficking

Internal security—and economic—arrangements can also be undermined by external trafficking. In February 2010, the UN Security Council noted “the serious threat posed in some cases by drug trafficking and transnational organized crime to international security in different regions of the world.”<sup>10</sup> Chapter 1 discusses the role trafficking plays in generating violence in fragile states, particularly when illicit revenues provide nonstate groups the wherewithal to outbid national police and armed services.

Over the past 15 years, regional and global initiatives have been launched to address illegal trafficking. They typically use one of two types of mechanism to stem activities and bring perpetrators to justice: either they try to identify and intercept smuggled *commodities* at points of production,<sup>11</sup> transit, processing, or consumption; or they attempt to identify and disrupt the *financial* flows that both fund and result from illicit trafficking.

Other initiatives, such as the recently released due diligence guidance on “Responsible Supply Chains of Minerals from Conflict Affected and High-Risk Areas,” have objectives that focus not just on tracking flows, but also on human rights protection and loss of livelihoods.<sup>12</sup> Efforts to tackle physical trafficking in commodities are discussed here; those dealing with the financial dimensions of trafficking are dealt with in the following section on external economic stresses.

Approaches to tackling the trafficking of commodities is shaped by their physical and market characteristics; these determine the ease of physical tracking and interdiction. Trafficking in commodities with concentrated production, processing, or wholesaling is easier to control (table 7.1). This helps explain some of the initial success of the Kimberley Process in dealing with “conflict diamonds” (box 7.2). Timber, unlike gemstones or point-source resources, has a big footprint, with many upstream production and processing points, and is easily mixed with legal wood—requiring detailed systems for verifying the legality of origin, and permits and expertise to identify restricted species.

In contrast to diamonds, weapons (particularly small arms) are very portable, are manufactured by many enterprises, are sold everywhere—and are cheap. Despite a steady decline in the total dollar value of the arms trade since the end of the Cold War, there is no apparent corresponding decline in the in-

**TABLE 7.1** To defeat trafficking in commodities, pay attention to physical and market characteristics of the products

Commodity	Estimated annual value of trafficking flows	Value-to-weight ratio/portability	Concentration of production	Concentration of processing or wholesale markets	Ease of tracing origin of product	Ease of consumer identification
Diamonds	US\$127 million <sup>13</sup>	High	High	High	Depends <sup>14</sup>	High
Oil	US\$1 billion <sup>15</sup>	Medium	Medium	High	Yes	Medium
Timber	US\$6 billion <sup>16</sup>	Low	Low	Low	Yes <sup>17</sup>	Low
Arms	US\$170 million–US\$320 million <sup>18</sup>	Medium	Low <sup>19</sup>	Low	Limited <sup>20</sup>	Low
Drugs (cocaine, heroin)	US\$143 billion <sup>21</sup>	High	Medium	Low	No	Low

Sources: UNODC 2009a, 2010a; Lawson and MacFaul 2010; Small Arms Survey Project 2001; Greene 2001.



international transfer of small arms and light weapons (SALW). The total annual value of SALW is estimated at between US\$4 billion and US\$6 billion, of which approximately 10–20 percent constitutes illicit transactions.<sup>22</sup> There are over 900 million small arms in circulation worldwide, produced by more than 1,000 companies dispersed in more than 100 countries.<sup>23</sup> SALWs are responsible for almost 500,000 deaths a year, of which 50,000 to 300,000 occur in armed conflicts, most particularly in poor countries.<sup>24</sup> While SALWs do not *cause* internal conflict, they do multiply its effects. Beyond massive civilian casualties, the misuse of SALWs also impacts negatively on development. The illegal use of SALWs contributes to human insecurity, crippling burdens on health care systems, rising criminality, and violation of human rights.<sup>25</sup>

The focus on arms trafficking in fragile states has shifted from the international to the subregional arena.<sup>26</sup> The UN Department of Disarmament Affairs has increased its efforts, in collaboration with major donors, to pursue subregional trafficking in arms—including opening regional offices, as in West Africa. But the country-specific nature of the UN's peacekeeping presence restricts the interdiction of weapons flowing across borders.

Similarly, the UN's peacekeeping operation in southern Lebanon faces mandates and political restrictions to investigating claims of illegal small and heavy weapons shipments to non-state armed forces across regional borders.<sup>27</sup>

Drug trafficking is also increasingly important in fragile states. Heroin, cocaine, and a variety of recreational drugs are illegal in almost all countries. Increases in demand in recent years have driven up prices and created huge profits for the illegal networks that traffic in them (see box 7.3). Heroin and cocaine networks—organized on paramilitary lines, to protect themselves from competitors and law enforcement agencies—are responsible for high levels of death and mayhem.

Tracking and interdiction of drug traders are fragmented. International efforts to track and seize illegal drugs are intense, but given the high value of even small volumes, these efforts have failed to stop global flows. Instead, concentrating efforts in one area has more often simply displaced the trafficking route. Since transshipment costs, including the bribery and intimidation of officials en route, are only a small fraction of what is earned from trafficking, criminal networks have overcome or adapted to even the most sophisticated interdiction systems. Com-

### **BOX 7.2** *The Kimberley Process for “conflict diamonds”*

The Kimberley Process, a certification scheme to ensure that the origins of rough diamonds are sources free of conflict, was initiated to stem the flow of “conflict diamonds” used to fuel rebellions in countries like the DRC, and has been jointly undertaken by civil society groups, industry, and governments. It evolved from recommendations by a UN Security Council sanctions committee that investigated the relationship between commodity trafficking and violence in the DRC. The Kimberley Process diamond certification scheme imposes extensive requirements on its 49 members (representing 75 countries) to ensure that the rough diamonds shipped have not funded violence.

Although diamonds have high value-to-weight ratios and are very portable, diamond wholesale markets and processing facilities are concentrated in specific locations, with the former primarily in Antwerp and the latter primarily in Mumbai. Some 80 percent of rough diamonds and more than 50 percent of polished stones pass through Antwerp. Only high-value stones are now polished in New York; most small low-value stones are polished in and around Mumbai, whose workshops accounted for an estimated 90 percent of the global polished diamond output in 2009. The number of licit diamond producers is also small. All these factors make it hard to trade conflict diamonds without attracting attention.

Sources: Goreaux 2001; Montgomery 2010; Kimberley Process Certification Scheme 2009, 2010.

### **BOX 7.3** *The economics of cocaine trafficking*

In 2008, the average kilo of cocaine entered the Mesoamerican transit corridor at a price of about US\$1,000.<sup>28</sup> The same kilo could then be sold on the U.S. side of the border for about US\$33,500. These numbers, point estimates based on average market values, can vary widely depending on market conditions, purity, organization, and vertical integration in cocaine production and trafficking. Still, taking these rough estimates as a starting point, the average potential profit for moving a kilo of cocaine through the Mesoamerican transit corridor into the United States is over US\$30,000 before other costs of trafficking are deducted.

If 10 to 20 percent of the cost is used in transportation, security, and labor, and 20 to 30 percent of cocaine in transit is seized, this would reduce the potential profits from trafficking an individual kilo to between US\$15,000 and US\$21,000. Even taking these deductions into account, this profit range is far higher than the annual 2008 GDP per capita of any country in the region. But in economic terms, the prospective drug trafficker must consider two other potential costs: the opportunity cost of other gainful employment forgone and the risk premium associated with the dangerous and illegal occupation of drug trafficking. Recent increases in interdictions and arrests would also increase these costs.

*Source:* WDR staff calculations based on Demombynes 2010; UNODC 2010a

pounding this inherent difficulty is the fragmentation of efforts to halt the flow of drugs (box 7.4).

The majority of efforts against trafficking in drugs have focused on supply—or on actions by producing and transit countries. Because drug consumption is illegal in most countries, only fairly limited mechanisms are available to reduce the links with violence through demand-side measures. The poor record of global attempts to stop the trade in illegal drugs, and the extreme violence associated with these attempts, have spurred debates on legalization and some tentative steps to test the proposition (mainly with marijuana, but more broadly with several drugs in Portugal). Opinions are divided (box 7.5).

#### ***Insecurity and injustice: Transnational ideological threats***

Violent transnational ideological movements<sup>29</sup> can flourish in violence-affected and fragile states, making common cause with local movements and drawing resources from transnational trafficking routes. The insertion of transnational ideological movements into otherwise localized violence adds resources, expertise, and ideological fuel that

can significantly alter the balance of force and severely pressure the domestic capability to respond.<sup>30</sup>

This Report is not the place to engage in a full discussion of the performance of global or regional approaches to counter-terrorism. The adoption by the UN General Assembly last year of a comprehensive strategy for counter-terrorism provides a starting point for engagement on the multilateral front, and governments (through both bilateral and regional mechanisms) are increasing their cooperation on counter-terrorism activities.<sup>31</sup>

However, global terrorist movements can feed on the absence of what the Report has highlighted as critical to building resilience to violence: institutional accountability, legitimacy, and capability. Ideologically motivated groups may have a particular ability to penetrate where the presence and reach of legitimate government are limited (as in the Sahel and Afghanistan). These global movements often cast their cause in terms of injustice and exclusion<sup>32</sup>—a message that can resonate with local perceptions of elite-driven and exclusionary politics and policies. This raises questions about the balance between global and local approaches to reducing the threat from terrorism.

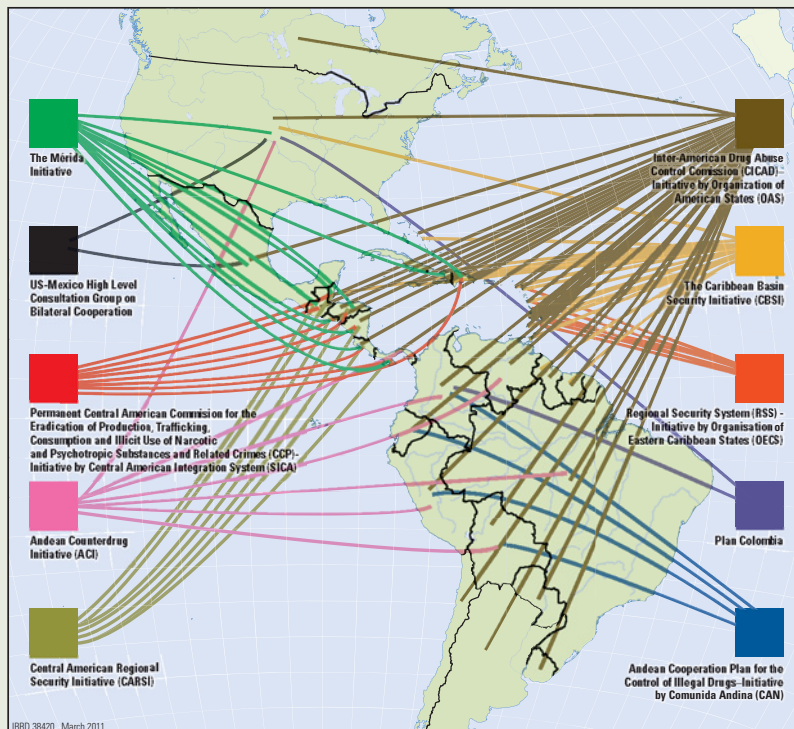
### BOX 7.4 *Multiple interdiction efforts: Cocaine in the Americas*

In the Americas, the cocaine trail begins with on-farm production in only three South American countries (in 2008, Colombia accounted for 51 percent of global production, Peru 36 percent, and Bolivia 13 percent);<sup>33</sup> transits through Central America, Mexico, and the Caribbean; and is sold wholesale and retail in the United States. A proliferation of initiatives is trying to stem this flow: 10 bilateral or regional programs, with many countries belonging to more than one program (see map).

This situation raises questions about the coherence of the international response, especially since increased enforcement in one area often leads to diversion to another. The creation of one Caribbean initiative was justified in part because “recent efforts to enhance drug enforcement efforts along the [U.S.] southwest border seem to be having a consequent effect of moving transit routes back into the Caribbean.”<sup>34</sup>

#### The current (fragmented) state of international cooperation against drugs in the Americas

*The map illustrates the fragmented regional focus and overlapping mandates of 10 initiatives related to drug trafficking in the Americas. Each colored line indicates a separate initiative and connects the member countries involved in the initiative.*



Sources: UNODC 2009b; U.S. Office of National Drug Control Policy 1999; Seelke, Sun Wyler, and Beittel 2011; Central American Integration System 2009; Inter-American Drug Abuse Control Commission 2010; Andean Council of Foreign Ministers 2001; Embassy of the United States in Mexico 2010.

Research into the interactions between the local and the international dimensions of terrorist recruitment and mobilization is too limited to allow for definitive statements

about the relationship between violence, development, institutional transformation, and terrorism. What we do know, however, suggests that international development prac-



### **BOX 7.5** *Expert viewpoints: For and against regulated drug legalization to reduce violence*

*The WDR team asked two well-known authorities on the subject to offer their opinions.*

#### *Against*

**Mark A. R. Kleiman, UCLA School of Public Affairs**

If the avoidance of failed states were the sole policy goal, the legalization of all drugs would be transparently desirable: failed states and civil conflicts create congenial conditions for illicit drug-dealing, while illicit drug production weakens states and fuels civil conflict, with drug revenues supporting insurgents and other armed nonstate actors and corrupting officials. However, drug abuse creates problems for drug abusers and for their families, neighbors, and co-workers. Prohibition is not a perfect answer: it can exacerbate those problems, create violence and corruption around illicit markets (in producer, transit, and consumer countries), and contribute to the problem of mass incarceration. Yet prohibition also tends to reduce drug consumption. Alcohol abuse is far more common, and generates far more intoxicated violence, than the abuse of any illicit drug. So there is tension between security and governance and the control of drug abuse: blanket drug legalization would be a blow against terrorism, but would also increase the prevalence of substance-abuse disorders.

It is sometimes claimed that the full benefits of prohibition in reducing substance abuse could be achieved through some combination of taxes and regulations, without incurring the costs of prohibition in terms of violence. But that claim rests on two fallacious beliefs: that taxes and regulations would not be profitably defied, and that the economic and political muscle of the newly legalized drug industries would not succeed in eating away at the controls that limit their marketing scope.

Effective taxation and regulation might be technically feasible, with bans on marketing, restriction of commerce to cooperatives, or delegation of authority to physicians and pharmacists operating under professional strictures. But there is no reason to be confident that such systems of effective control would be established or would remain stable.

The current international drug-abuse control regime too rests on twin fallacies: first, that actions in producer countries can greatly restrict drug abuse “downstream,” and, second, that, since drug production creates security-and-governance problems, any sort of counter-drug activity naturally helps solve those problems. “Source control” efforts are largely futile, and source-country counter-narcotics efforts—not only enforcement but also alternative development—naturally exacerbate, rather than ameliorate, security and governance problems. They do so by raising prices (and thus revenues, since final demand is highly inelastic to farm gate price) and by conferring competitive advantage on traffickers with the most guns and the most influence: terrorists, insurgents, warlords, armed transnational crime groups, and corrupt officials. The same is true of “crop substitution” or “alternative development.” In Afghanistan, a combination of enforcement and development efforts has concentrated poppy growing in areas under Taliban control, and thus increased the yield to the Taliban from whatever “taxes” it can collect from poppy farmers and heroin refiners.

It is possible to imagine a drug-enforcement effort focused on the intersection between drug dealing and security-and-governance problems, pursuing traffickers and growing regions that contribute most to instability. But as with taxation and regulation, imagining a better policy is not the same as implementing it.

Reduced source-country enforcement would have minimal impact on the drug problem in rich consumer countries. Soil in which illicit drug crops can be grown is not a scarce resource, and shrinking the supply from one producer generally means a corresponding increase in production elsewhere.

Successful demand-reduction efforts both reduce substance abuse and shrink the revenues of illicit enterprises, including those that threaten the stability of producer-country governments. Forcing drug abusers under criminal-justice supervision for other crimes has much greater potential to shrink total volumes. We should try to optimize the policies that implement prohibition, developing a drug-control regime that serves the goal of reducing the extent of substance-abuse disorders and the damage they cause at the minimum cost in terms of security and governance.

*For*

**Jeffrey A. Miron, Department of Economics, Harvard University**

Worldwide prohibition of drugs is roughly 100 years old. During that time span, national and subnational governments have expended enormous sums on police, prosecutors, and prisons in attempts to enforce it. Advocates of prohibition believe that, despite these costs, the world has benefited by avoiding a far greater incidence of drug use, addiction, and other negatives. Thus, according to this perspective, the benefits of prohibition exceed the costs.

In fact, prohibition causes far more deleterious consequences than it prevents. To see why, consider the consequences of prohibition.

First, prohibition generates violence because it drives markets underground. In legal markets, participants resolve their disputes with advertising and lawsuits, but in underground markets these nonviolent mechanisms are not available, so participants use violence instead. Traffickers engage in turf battles with rival traffickers and shoot employees who steal, customers who do not pay, and suppliers who renege on contracts. Traffickers also employ violence against law enforcement attempts to arrest them, against politicians who support extradition to the United States, and against civilians who cooperate with the police.

Violence soared in the United States, for example, in response to federal alcohol prohibition in 1920 but then declined rapidly after repeal. Prohibition also generates corruption. Those who run afoul of the law have strong incentives for bribery of police, judges, and politicians.

Prohibition contributes to the spread of HIV, hepatitis, and other blood-borne diseases because it raises drug prices. When drugs are expensive, users face an incentive to inject rather than consume in less risky ways because injection delivers the biggest bang for the buck. The impact is not only on drug users but on the broader population.

Prohibition creates a source of finance for violent groups, including terrorist groups and rebel organizations. Traffickers need protection from law enforcement and the military, so they hire terrorist groups to provide this enforcement. Terrorists benefit by earning income that supports their operations. Without this support, terrorist groups like the Taliban in Afghanistan, the FARC in Colombia, and the Shining Path in Peru would face far greater difficulty in funding their activities. On the flip side, legalization would allow police and the military to devote more resources to fighting terrorist or insurgent groups than fighting traffickers.

All these effects are adverse consequences of prohibition. The only possible justification for prohibition, therefore, is that it might reduce drug use or the harmful side-effects of use.

Yet abundant evidence suggests that prohibition has, at most, a modest impact in reducing drug use. Repeal of alcohol prohibition produced only about a 20 percent increase in use, while Portugal's 2001 decriminalization policy for reasonable personal consumption of drugs did not cause a measurable increase (indeed, use was lower afterwards). Across countries, use rates bear little connection to the strictness of the prohibition regime. The Netherlands has a tolerant policy towards use of marijuana, for example, yet use rates differ little from those in the United States.

This evidence does not rule out the possibility that use might increase by measurable amounts under legalization, but assertions that use or addiction would skyrocket are inconsistent with evidence. Societies have the option of legalizing the good but targeting misuse—as is done for alcohol and other goods that can be used irresponsibly but that most people use responsibly. Consistency therefore requires the same approach to drugs.

In sum, prohibition has a broad range of harmful effects and, at best, a modest and speculative benefit. Legalization means the harms from drugs fall mainly on those who choose these risks, many of whom were already doing so under prohibition, rather than on innocent bystanders and law enforcement institutions. The choice between prohibition and legalization is therefore clear. Legalization is not a panacea, but it is unquestionably the lesser of the evils.

tioners and diplomats working to support national coalitions and institutional transformation should pay attention to the potential for excluded groups and neglected regions to become fertile ground for ideologically driven recruitment into violence—while international actors working on global counter-terrorism policy should pay attention to the way local violence and weak institutions can help fuel global movements.

### External economic stresses

Fragile states and areas can be exposed to externally generated stresses of an economic nature. Prominent among these are corruption driven by outside corporate interests, illicit financial flows associated with corruption, tax evasion, and trafficking—and both the price shocks associated with rising global demands for food and fuel and the pressure to acquire access to or ownership of essential natural resources (land, water, and energy). Again, states with relatively weak governance systems and bargaining power cannot be expected to address such external stresses without global and regional assistance.

### *Transnational corruption*

As chapter 5 highlights, efforts to counter corruption are an important and politically challenging part of national reform processes. Corruption is often not just a local challenge; international malefactors are significant in corruption dynamics and can pose a substantial obstacle to national efforts at transformation. Progress will depend at least in part on international efforts to address the external dimension of corruption. The principle that states should criminalize acts by their own nationals who corrupt officials of other states is now firmly entrenched in international law, although there is much room for improvement in its implementation.

As recently as 2000, many developed nations actually fostered corruption across na-

tional boundaries by allowing their citizens or companies to take a tax deduction for bribes paid to officials of other governments.<sup>35</sup> Ten years on, the situation has changed dramatically. The OECD (Organisation for Economic Co-operation and Development) Anti-Bribery Convention (Convention on Combating Bribery of Foreign Public Officials) and the UN Convention Against Corruption require that state parties prescribe criminal sanctions for bribing a foreign public official. This extraordinary turnaround is particularly important for states with fragile governance. The bribes paid to officials of these countries to win mineral concessions, arms contracts, or other lucrative business opportunities almost always originate outside their borders—so shutting down transnational bribery is crucial to curbing corruption in these states.

Sanctioning those who corrupt foreign public officials, however, is still a work in progress. Transparency International's 2010 evaluation of the OECD Anti-Bribery Convention found that only seven of the 38 countries party to the convention are actively enforcing the provisions of their domestic laws to criminalize the bribery of foreign public officials. Another nine are making some effort to enforce the ban. The remaining 20 are making little or no effort to do so. Although this is an improvement from the group's first report in 2005, when only four parties had prosecuted more than one case, Transparency International concludes that "current levels of enforcement are too low to enable the convention to succeed."<sup>36</sup>

The international community is developing innovative measures to prosecute officials involved in transnational corruption. Yet even when there is evidence that a public official in a fragile state has accepted a bribe, proving the case presents legal, technical, and logistical challenges that are often beyond the capacity of investigators and prosecutors in fragile situations. Where capacity or political constraints prevent prosecution, authorities in weaker jurisdictions have exploited the

### **BOX 7.6** *Partnering with client countries to curb corruption in World Bank–funded projects*

The World Bank's Integrity Vice Presidency investigates allegations of corruption, fraud, coercion, collusion, and attempts to conceal this conduct in World Bank–funded projects. If a complaint is substantiated, a process is begun and can result in barring firms or individuals from bidding on Bank-financed contracts, with referrals to the appropriate law enforcement authorities for possible criminal prosecution under national law.

Over the past six years, 67 individuals and firms have been barred from bidding on World Bank contracts from two years up to indefinitely. The list includes very small firms and nongovernmental organizations in developing countries to U.K. publisher Macmillan Limited and the China Road and Bridge Corporation, a large state-owned enterprise. During this period, the Bank also concluded a settlement agreement with Siemens AG whereby the Siemens Group agreed to voluntarily refrain from bidding on Bank-financed contracts for two years. As part of its settlement with the Bank, Siemens will commit US\$100 million over the next 15 years to global efforts to fight fraud and corruption. Macmillan and others have agreed to cooperate with the Bank's ongoing efforts to combat fraud and corruption in its projects and to implement an anti-corruption compliance program.

The World Bank, the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank have agreed to honor each other's debarments so that in the future, a firm debarred by one bank will be ineligible to bid on contracts funded by the other banks.

Since it was established in 2001, the Bank's Integrity Vice Presidency has referred 112 cases to national law enforcement agencies. Referrals in 2001–06 resulted in convictions in national courts in Bolivia, Guinea, Norway, and the United States for receiving a bribe, embezzlement, or other corruption offenses. More recently, a referral led the Kenyan Anticorruption Commission to open 38 criminal investigations, two of which are being prosecuted. Acting on information from the World Bank, the Norwegian government indicted three former employees of Norconsult for bribery, and the Palestinian Attorney General's office opened an investigation of a contractor on a World Bank–funded project for fraud.

Source: World Bank 2010h.

laws in other countries to overcome these hurdles. Under U.K. law, for example, using the proceeds of corruption to invest in the U.K. constitutes an offense under anti-money laundering laws—Nigeria's Economic and Financial Crimes Commission has supplied U.K. authorities with information that enabled prosecutions in the U.K. related to stolen Nigerian state assets. Haitian and U.S. officials worked together to convict a senior official of Haiti's telecom authority in a U.S. court for taking bribes from American companies. Three U.S. nationals have also pled guilty to offenses in connection with the payments to the Haitian company.<sup>37</sup>

As ties between law enforcement authorities in developed and developing states have grown, authorities have also begun joint investigations with the evidence available for

use in proceedings in both countries. The investigations provide invaluable training opportunities when experienced investigators from developed countries pair up with counterparts from developing states. Indeed, the World Bank's Department of Institutional Integrity plans to follow this model when it refers evidence of corruption in a Bank project to national authorities (box 7.6).

#### *Illicit international financial flows*

Prosecuting corruption in commodities is complemented by efforts to interdict the financing flows from these and other corrupt activities, including drug trafficking. Many international initiatives are under way in this area. A large number of laws and programs aim to identify and stem the laundering of

illicit funds—whether generated by corruption, tax evasion, or drug trafficking—through the legitimate financial system. This is important for violence prevention: many armed movements in civil and political conflict are financed from these sources. The Financial Action Task Force, established in 1990 to control the flows of drug profits, now has rules for controlling laundering of illicit funds, and financial intelligence units combat money laundering at the national level.<sup>38</sup> Such units, in place in 116 countries, work together under the Egmont Group initiative.<sup>39</sup> This expansion in financial intelligence has been paralleled by greater attention from banks and other financial institutions to monitor and report on customer transactions—and by increased interest in law enforcement agencies in following the “money trail.”<sup>40</sup>

Together, these steps in intelligence-gathering, monitoring, and the amassing of evidence increase the ability of the international community to build strong cases against organized and transnational crime. Using the same principle applied in the prosecution of Al Capone for income tax evasion in 1931, evidence of illicit financial dealings provides a way to prosecute violent criminals for “proxy offenses” without having to rely on witnesses to violence—who can be bribed or threatened. In August 2009, 70 countries and dependencies agreed to create a Global Forum on Transparency and Exchange of Information for Tax Purposes to reduce tax evasion through trusts, corporations, and other devices outside the country levying the tax. Modeled on the Financial Action Task Force, the forum will conduct peer reviews of members and selected nonmembers to determine whether they have entered at least 12 tax information exchange agreements, enacted legislation allowing them to comply with requests for information from their treaty partners, and are in fact providing information when requested.

However, the sheer number of initiatives poses a challenge. More than 74 global, regional, and multicountry exercises now col-

lect and use information on money laundering, international corruption, trafficking of specific commodities, and terrorism. Of these, 30 are focused on money laundering or corruption, while another 37 deal with specific commodities (drugs, arms, illicit minerals, and natural resources).<sup>41</sup> In addition, there are numerous national offices: just four OECD countries have at least 22 offices between them dealing with these issues.<sup>42</sup>

The system for identifying money laundering or terrorist financing establishes links between persons and transactions. The more detailed the data, the more likely they are to reveal malfeasance. But tracking and investigating “criteria-based” activities (foreign exchange transactions, international wire transfers) multiplies the flow of data to a financial intelligence unit. To operate well, these initiatives require sophisticated capacity. The analysis of transnational financial flows can uncover information for use in several different jurisdictions, and analysis in higher capacity environments can thus be of great use to developing countries (box 7.7). While analytical capability is high in a few wealthier countries, this is not the case in most low- and middle-income states.<sup>43</sup>

Pulling out information to uncover sophisticated networks requires resources and analytical capacity not found in many units. Nor are the necessary prosecution and judicial system capabilities always in place. Effective international action depends on strong networks and information exchanges between jurisdictions. Even in the medium term, it is unlikely that developing states can build the capacity to operate financial intelligence units at the level required to produce results. Resources may be better devoted to stopping the flow of funds to secrecy jurisdictions<sup>44</sup> than to controlling the flow out of fragile states.

Cooperation across borders is not always smooth. To prosecute cases of cross-border money laundering and trafficking, jurisdictions must share data that may not affect their own nationals or institutions,



### **BOX 7.7** *The Australian Crime Commission's high-risk money movement strategy*

Under its financial crimes program, the Australian Crime Commission is piloting a risk-based approach to identifying funds linked to organized crime. This approach to money laundering, developed with the Australian Transaction Reports and Analysis Center (AUSTRAC), analyzes bulk financial transaction data to identify and monitor "high-risk" money movements (those most likely to involve illicit funds). To identify these flows and the associated criminal enterprise structures and entities, the commission has developed a methodology to identify unusual and unexpected amounts of money flowing through AUSTRAC and the SWIFT (Society for Worldwide Interbank Financial Telecommunication) banking system.

This highly selective approach allows investigators to target their resources efficiently. Individuals and groups identified this way are cross-checked for police records and, if found suspicious, are further investigated using surveillance, interviews, and, where necessary, coercive powers. The intelligence enables investigators to follow high-risk transactions into and from Australia and to identify potential criminal actors at each end of the money chain.

This approach helped identify one Southeast Asian crime syndicate that imported A\$129 million of narcotics over five weeks in 2001. The group is likely to have conducted similar imports throughout the preceding 12 months, or more than A\$1 billion in illicit funds for this syndicate alone. Another Southeast Asian crime syndicate of four small shops transferred A\$300 million in drug profits overseas over 12 months in 2001.

*Sources:* Australian Crime Commission 2010; Government of Australia 2010.

and must trust the other jurisdiction not to leak the data to those implicated. NORAD (Norwegian Agency for Development Cooperation) sponsors an informal network that brings prosecutors and anti-corruption agency officials from developed and developing countries together twice a year to share information and collaborate on cases. Under the auspices of the Asian Development Bank and the OECD, anti-corruption officials in East Asia and the Pacific meet regularly to discuss common problems. The World Bank supports the International Corruption Hunters Alliance and, with the UNODC, the Stolen Asset Recovery Initiative.

Getting the most from today's systems will take perseverance. Despite progress to date, three problems need attention. The first is the varying capacity across jurisdictions, with a disproportionate weight in developed country organizations. The second is a misalignment of incentives among countries, and even among institutions within a country. A third is the imperfect harmonization of vari-

ous international initiatives. In principle, a more unified global system capable of analyzing financial flows and strengthening country financial systems would benefit all countries, particularly if reinforced by stronger justice systems in conflict-affected countries. A global commitment of this complexity and magnitude would require significant additional resources and political will at many levels. Nor should the challenge be underestimated—even though the number of global jurisdictions that account for the bulk of global transactions is fairly small (see chapter 9).<sup>45</sup>

### **Resource stresses**

Fragile states are disproportionately susceptible to globally driven resource shocks. Unlike other low-income countries, fragile states depend heavily on food imports and are vulnerable to globally driven increases in commodity prices and scarcities in essential resources. The pressures are mounting as economic growth

### BOX 7.8 *Growing regional and global approaches to food insecurity*

**Effective early warning systems.** Multi-agency food security early warning systems that use satellite data to anticipate crop failures and food shortages include the Global Information and Early Warning System, which aims to improve food security response planning in 22 drought-prone African countries—and the Famine Early Warning System Network, which monitors food supply and demand in all countries, with special emphasis on 80 low-income, food-deficit nations.

**Regional expertise.** The Southern African Development Community's (SADC) Remote Sense Unit in Harare, Zimbabwe, and the AGRHYMET Regional Center in Niamey, Niger, are two specialized institutes that provide national and local food security assessments and help build local capacity in agricultural policy and program development. Recent regional efforts include the creation in 2002 of the ASEAN (Association of Southeast Asian Nations) Food Security Information System (AFSIS) by member states plus China, Japan, and the Republic of Korea. AFSIS aims to improve food security in the region through the systematic collection, analysis, and dissemination of food security-related information.

**Regional price stability mechanisms.** AFSIS is closely linked to the East Asia Emergency Rice Reserve Pilot Project, which is building a mutual assistance mechanism to share rice stocks among the 13 ASEAN and AFSIS countries, addressing shortages, and helping stabilize prices in the region.

**Financial mechanisms.** Insurance for agricultural communities may prove effective in countries where conflicts over access to and control of natural resources are heightened in periods of drought, flood, or other climate-driven scarcity. Index-based insurance relies on objective measurements such as rainfall (too little, too much), and acts to share risk between farmers and insurance markets. The schemes have been piloted in instances of crop loss (in Ethiopia) or livestock mortality (in Mongolia). Although index-based insurance has been implemented in more than 15 countries, it has yet to be scaled up or become sustainable, especially in low-income countries.

Sources: Bora and others 2010; Brinkman and Hendrix 2010.

in middle-income countries produces new middle classes, which are adopting OECD consumption patterns in food and energy. Climate change—and the search for adaptive measures—is likely to amplify them.

As chapter 1 notes, climate change can multiply natural resource-related pressures due to its potential effects on food production, water availability, energy demand, and land-use patterns (such as carbon sinks and biofuel production). Climate change is already affecting water systems and, in some areas, the supply of arable land. Climate change and economic pressures are not separate: wealthier countries also face declining water supplies and are searching for new

sources of food, water, and land overseas, often in fragile states.

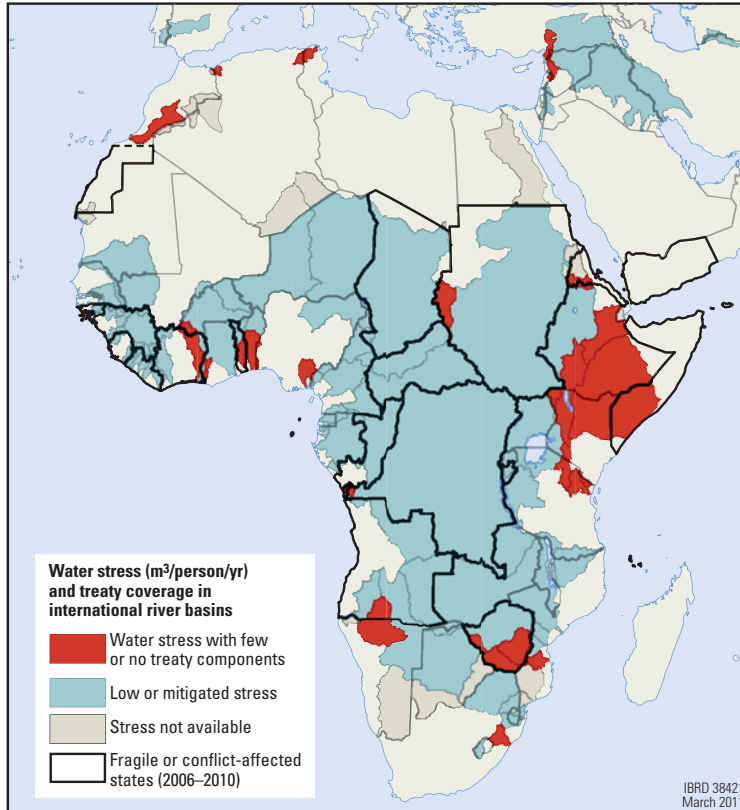
Food vulnerabilities need priority attention. The share of agriculture in official development assistance declined from a high of 17 percent in the 1980s to 5 percent in 2006–08, with only 18 percent of this spending (some US\$1.2 billion) going to fragile and conflict-affected states.<sup>46</sup> Some regional and global efforts to address food insecurity and agricultural productivity are under way (box 7.8), but much more needs to be done at the country level to develop agriculture in those countries.

By contrast, international water treaties have shown signs of success in reducing the risks of violence. A shared water resource has more often stimulated a search for compromise than conflict, with cooperative interactions between riparian states over the last 50 years outnumbering conflicts by more than two to one.<sup>47</sup> The international community has also helped resolve riparian issues such as water use. But there are qualifiers. Although many shared water systems have cooperative frameworks, some 150 do not. Many feature both high water stress (low per capita water availability) and fragility in one or more riparian state. And climate change may affect regimes based on specific quantities (as opposed to proportions) of a defined water flow (map 7.1). Based on these circumstances, there are instances where it may be appropriate to update and refine certain elements of existing water treaty systems (see chapter 8).

The global search for energy and food supplies is amplifying pressure on arable land in developing countries, especially where institutions are weak. Land-based conflict is typically treated as a purely national issue, or at best a subregional issue, but land use is increasingly subject to external competitive pressures. Commercial leases or purchases by foreign governments or foreign government-backed enterprises can overlap with communal land claims and lead to tensions—famously so in Madagascar, where such an arrangement over a large land leasing deal

**MAP 7.1** *Water availability, fragility, and the potential for riparian conflict in Africa*

*Fragile states are not necessarily water stressed. Most have signed international treaties. Still, some vulnerabilities remain. (Red areas on the map indicate riparian areas that have water stress and few or no treaty components. Those in blue have low or mitigated water stress).*



Source: De Stefano and others 2010.

generated popular resentment that, combined with other long-standing tensions, contributed to unrest and the eventual toppling of the government in early 2009.<sup>48</sup>

A recent World Bank research effort suggests that foreign investment in land does not increase with good governance, unlike other types of foreign investment. On the contrary, foreign investment in land tends to be greatest in countries with a combination of weak land governance, abundant land, and low mechanization. This finding lends support to growing concerns about the ability of local and national institutions to provide adequate protection to vulnerable groups against land acquisition.

Contributing to weak governance in areas of increasing land demand are project approvals issued without due diligence, rivalries among institutions with overlapping responsibilities, and insufficient capacity. All these problems are exacerbated by lack of transparency. Official records on land acquisition are often incomplete; poor data on land transfers reduce tenure security and investment, increase the likelihood of conflict, and make it difficult to collect land taxes and monitor project progress.<sup>49</sup>

International attention to land pressures is fragmented. The UN's Food and Agriculture Organization (FAO) examines the impact of changing food production and consumption

### BOX 7.9 *Global approaches to land*

In response to a sharp increase in investment involving significant use of agricultural land, water, grassland, and forested areas in developing and emerging countries, the FAO, International Fund for Agricultural Development (IFAD), United Nations Conference on Trade and Development (UNCTAD), and the World Bank launched a consultative process involving governments, civil society, international organizations, and the private sector to develop voluntary guidelines for responsible large-scale acquisition of land rights.

The principles are intended to assist in “alleviating hunger and poverty, enhancing the environment, supporting national and local economic development, and reforming public administration” by setting priorities for domestic food, shelter, and sustainable development needs. The draft set of “Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources” is as follows:

1. Existing rights to land and associated natural resources are recognized and respected.
2. Investments do not jeopardize food security but rather strengthen it.
3. Processes for accessing land and other resources and then making associated investments are transparent, monitored, and ensure accountability by all stakeholders, within a proper business, legal, and regulatory environment.
4. All those materially affected are consulted, and agreements from consultations are recorded and enforced.
5. Investors ensure that projects respect the rule of law, reflect industry best practice, are viable economically, and result in durable shared value.
6. Investments generate desirable social and distributional impacts and do not increase vulnerability.
7. Environmental impacts due to a project are quantified and measures taken to encourage sustainable resource use while minimizing the risk/magnitude of negative impacts and mitigating them.

The draft guidelines will be available for review by the same parties in 2011.

Source: FAO and others 2010.

patterns on land use; the International Organization for Migration tracks the impact of changing land patterns on migration; the International Commission on Property Rights for the Poor has analyzed the implications for the poorest people of arbitrary or unregulated transfers of land rights. The World Bank has provided a comprehensive view of how international pressures affect domestic land availability and use, and an international working group has presented draft guidelines to improve the governance of land and other natural resources (box 7.9). This exercise needs to be deepened to ensure that land investment does not deprive local populations of the means of sustaining themselves.

In international dialogues on food, energy, and climate, fragile states have weak voices despite bearing substantial impacts. As with international dialogues on counter-terrorism, the impact on fragile areas is often neglected,

and the least developed countries have modest capacities to contribute. An important exception is the way African states pooled their diplomatic energies, under Ethiopia’s leadership, in the 2010 Cancún climate change negotiations, contributing to agreement on adaptation funding of US\$100 billion a year—a model worth replicating in other fora.<sup>50</sup> Moving forward, international negotiations on climate, energy, and food scarcity issues need to keep a careful eye on impacts on fragile states.

International donors can also help fragile states weather volatile external pressures by investing in social protection programs. That assistance can take several forms (see chapters 8 and 9). While the systems are global, many of the buffer mechanisms that warrant most attention are regional—true not just for issues related to resources, but more generally for buffering national authorities and societies against external stresses.

## Between the global and the national: Regional stresses, regional support

Like all states, fragile states exist in a regional and global space. The region matters for several reasons. Personal relationships within subregions are often deep, allowing regional actors and institutions to exercise moral suasion and create incentives for responsible leadership. Neighbors are a source of trade, cooperation, and even of potential shared administrative capacity. On the negative side, neighbors can be a source of insecurity and political interference.

Regional organizations provide an increasingly strong platform for action.<sup>51</sup> Since the end of the Cold War, regional organizations have become more prominent, in conformity with the principle of “regional subsidiarity” articulated in chapter 8 of the UN Charter.<sup>52</sup> Chapter 1 of this Report discussed the impressive progress made in combating coups d’état and abusive military rule in Africa and Latin America. The African Union’s African Peer Review Mechanism and the mediatory efforts of the Economic Community of West African States (ECOWAS) show that support in the neighborhood has advantages.<sup>53</sup> Member states of the African Peer Review Mechanism participate on a voluntary basis and use this forum to work toward the aims set out in the New Partnership for Africa’s Development. The mechanism assesses and reviews progress toward a set of ambitious governance indicators, economic growth, and regional integration.<sup>54</sup> The degree of capacity for action does vary between regions: regional security, political, and economic arrangements are only as strong as the interests they share.

Regional organizations are also combining their comparative advantage in political leadership with global technical capacity. In Southeast Asia, for example, ASEAN has provided political leadership in a number of international engagements with technical support from other organizations. In Timor-Leste, it provided much of the lead diplomatic and peacekeeping capacity within the

UN peacekeeping mission. In Aceh, Indonesia, ASEAN led a joint monitoring mission with the European Union, at the Indonesian Government’s request, to support the peace agreement. In Myanmar after Cyclone Nargis, the organization helped open access to humanitarian workers, with support from the UN, the Asian Development Bank, and the World Bank.

Regions that have experienced conflict face a dilemma. Organized criminal groups and cross-border support to rebels undermine the potential for cross-border collaboration. But collaboration and shared administrative services could create precisely the net gains in capacity that would allow all participating states to better handle organized violence. In Central America, the peace processes explicitly linked neighbors into monitoring and implementation arrangements, including implementation within their own borders. This not only helped reduce violence—it laid the foundation for greater subregional economic integration. Even states that have had tense relations, or have suffered from disruption inflicted by groups based in each other’s territory, can find common interests in tackling transnational threats and protecting shared resources like water. In the Middle East, cross-border initiatives to manage water resources have survived turbulence in political and security relations;<sup>55</sup> Thailand and Myanmar have had successful cooperation on health issues and on trafficking.

The physical, demographic, and economic characteristics of many fragile states increase the potential returns to regional cooperation. Of the 38 states classified by the World Bank as fragile today, 24 have populations under 10 million, and 13 are either landlocked or island nations off the main sea lanes. The economies of many fragile states share structural disadvantages: physical isolation of the whole or part of the country, combined with high transport costs to export destination markets, limited internal demand (and limited economies of scale), weak national institutions, and scarce trained personnel. This lack of competitiveness and consequent



## REFLECTIONS FROM ADVISORY COUNCIL MEMBERS: 2011 WORLD DEVELOPMENT REPORT

**BOX 7.10** *The role of regional institutions and initiatives in norm-setting and violence prevention***ASEAN's experience in crisis prevention and recovery**

Surin Pitsuwan, Secretary-General ASEAN; *WDR Advisory Council Member*

There are many conflicts simmering in the ASEAN landscape. But the region is not totally without its own experiences in mediation and conflict resolution. ASEAN has played an important role in endeavors. The ASEAN Troika in the Cambodian conflict of 1997–99, the Timor-Leste peace-keeping operation of 1999 onward, the Aceh Reconciliation of 2005, and the Myanmar Cyclone Nargis catastrophe of May 2008 were cases of mediation and eventual resolution where the regions and some ASEAN member states have made valuable contributions and learned lessons from the process. It has always been like putting pieces of a diplomatic jigsaw together, weaving tapestry of peace, improvising the best modality and pattern from the available and suitable materials at hand.

One important lesson for us is that our ASEAN structures can play an important political convening role when there are sensitivities with member states. There was a higher level of mutual confidence between Indonesia and the ASEAN states participating in the Timor-Leste operation. We got around the rigid principle of “non-interference” by offering troops under a joint command with an “ASEAN” military leader taking an active leadership role. And Indonesia made it easier for all ASEAN partners by issuing an invitation to come and assist. In Myanmar, ASEAN played a central role in the dialogue with the Government after Cyclone Nargis, helping to open up the affected areas, where over 130,000 men, women, and children had died and many more faced traumatic conditions, to international aid.

A second lesson is that we can find useful combinations of capacity between our local knowledge and political convening role, and the technical capacities of other partners. Our work in support of recovery after Cyclone Nargis was supported by technical teams from the World Bank, and performed in conjunction with the United Nations. In the Aceh Monitoring Mission, we worked jointly with colleagues from the European Union who brought valuable technical knowledge.

The third is that the more operations of this type that we undertake, the more our capacity builds. In Timor-Leste, long years of joint military training and exercises between the Philippines, Republic of Korea, and Thailand, supported by partners outside the region such as the United States, paid off. The troops on the ground could communicate, cooperate, and conduct joint operations without any delay—but their experiences in Timor-Leste also added to their capacity. In Myanmar, ASEAN's role meant drawing on personnel from many of our member states, such as Indonesia, Thailand, and Singapore, who have extensive experience of managing post-disaster recovery, and also building capacity within our Secretariat. Linked to long-term programs of capacity-building with some of our donor partners, these experiences make us more ready to face new challenges in the future. The cumulative results of these efforts in managing political conflicts and natural disaster relief have helped ASEAN in enhancing its capacity to coordinate our development cooperation strategies. We have learned to contain sporadic violence and tension in the region and would not allow them to derail our community development efforts aiming at common security and sustainable prosperity for our people.

low national income is often offset only by foreign assistance and rents from natural resource extraction. These factors can create an unhealthy mix of what has been called “enclaved development plus dependency.”<sup>56</sup>

Remote and insecure areas have little infrastructure—and need more.<sup>57</sup> Areas that are mountainous or have few roads are difficult for governments to provide basic services or to police. Isolation tends to result both in divided identity groups and in marginalization. And there are few economic opportunities: the average GDP per capita of all landlocked developing countries is three-fifths that of their maritime neighbors.<sup>58</sup> The 2009 *World Development Report* on economic geography

underscored the challenge of distance and division for development in Sub-Saharan Africa, and called for spatially blind institutions as the bedrock of integration efforts.<sup>59</sup> In many parts of the world, roads and other infrastructure are absent from the more remote and insecure areas (map 7.2). In the Pacific, the high transport costs associated with small-capacity freighters play the same isolating role as the lack of roads in the Saharan and Sahelian areas of northern Africa and the mountainous drug-producing regions of Myanmar.

A lack of economic incentives for infrastructure explains much of the shortage. The reason for low infrastructure penetration in

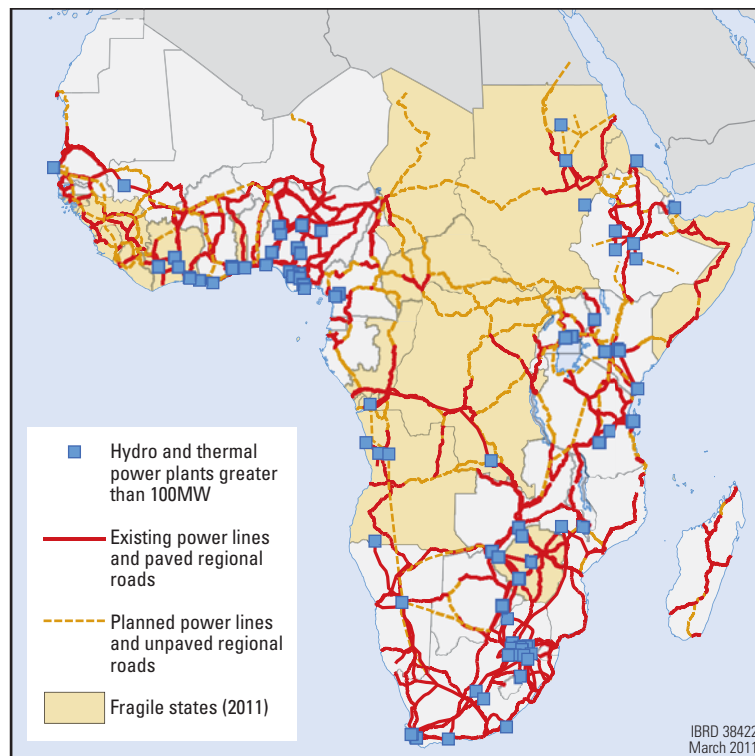
remote areas is a combination of low economic activity and insecure transit, which lessen the demand from business interests and result in low projected returns to such investments. The returns can be improved if such investments are part of regional networks. But governments can be reluctant, on sovereignty grounds, to allow international or regional investment in troublesome border areas.

Where issues of mistrust can be overcome—say, by involving a neutral third party or joint organization—shared regional services have a good track record. The provision of some government services by regional institutions can result in higher quality of services than countries could otherwise afford—and can build a high-quality cadre of civil servants. For fragile and conflict-affected states, the regional pooling of services can reinforce rather than undermine national sovereignty and citizen confidence in government (box 7.11). This is exemplified in the Caribbean and in Sub-Saharan Africa, where regional solutions have improved the quality of various public services. The Eastern Caribbean Supreme Court is a regional superior court of record for six independent states<sup>60</sup> and three British Overseas Territories.<sup>61</sup> Countries under the court rank high on the World Bank Institute's 2008 Rule of Law rating, derived from enterprise, citizen, and expert surveys. The Pacific Islands Forum's Pacific Plan for Regional Integration and Cooperation includes a provision for regional pooling of national services (customs, health, education, sports).<sup>62</sup>

Shared administration also has significant potential. Small and fragile states can benefit from pooling administrative functions. As chapter 4 discussed, the poor quality of public services is a serious obstacle to economic growth and degrades citizen confidence in government.<sup>63</sup> Most countries spend around 12 percent of GDP on government goods and services, but nonfragile states spend about twice as much as fragile states do in per capita terms<sup>64</sup> (the average low-income fragile or conflict-affected state spends US\$38 per cap-

### MAP 7.2 Sub-Saharan Africa's regional infrastructure challenge in fragile states

*Regional infrastructure is extremely limited in many of the fragile states in Africa. This map shows the presence of power plants, power lines, and regional roads in Sub-Saharan Africa (fragile states shaded pink). Some areas lacking infrastructure have very low populations to support, but others—such as the border area between the Central African Republic, Chad, and Sudan—are isolated primarily due to insecurity. This reduces trade across borders and access to electricity, locking insecure areas out of economic connectivity.*



Source: Briceño-Garmendia and Foster 2010.

ita on government goods and services, while the average low-income non-fragile state spends US\$80) (table 7.2). The poor quality of public services is a serious obstacle to economic growth, eroding citizen confidence in governments.<sup>65</sup>

Forging shared regional arrangements often benefits from support by third-party mediation perceived to be neutral. For example, the evolving institutions of the European Union sponsored many arrangements that fostered cross-regional cooperation at the national and local level (see box 7.12). Suspicion between neighbors can be ameliorated by a trusted third party—a role that

### BOX 7.11 *Pooling services regionally*

In the past three decades, the role of regional organizations as providers of public services has increased in Sub-Saharan Africa and the eastern Caribbean. Political independence brought self-determination but also meant that services formerly provided through colonial institutions had to be supplied by fledgling national institutions. Several countries responded by pooling resources regionally and contracting out some public service provision to the newly created regional organizations.

In most cases, the services contracted out were advisory rather than executive. For instance, countries relied on regional organizations for advisory aspects of banking supervision (as with the Eastern Caribbean Central Bank or the Banque des Etats de l'Afrique Centrale,<sup>66</sup> and the Banque Centrale des Etats de l'Afrique de l'Ouest),<sup>67</sup> while retaining the role of each country's sovereign government in enforcing recommendations. In hindsight, this model worked well when there was a tradition of cooperation in central banking that predated independence.

By pooling resources, countries have produced higher quality services and better civil servants than would have been possible had the countries acted separately. The success of this model has encouraged other experiments. The Eastern Caribbean Central Bank, Civil Aviation Authority, and Supreme Court, regional entities under the Revised Organisation of Eastern Caribbean States Treaty, have been followed by a joint telecommunications regulator, the Eastern Caribbean Telecommunications Authority, and a joint natural disaster risk pooling mechanism, the Caribbean Catastrophic Risk Insurance Fund. These organizations have also raised the bar on what the public and politicians expect for the quality of public services. Similarly, the regional central banks were followed in 1993 by the Organisation pour l'Harmonisation en Afrique du Droit des Affaires in Central and West Africa, founded to harmonize business law among member countries and serve as a supranational appeals court on aspects of business law. The West Africa Telecommunications Regulatory Agreement, established in 2002, has pursued the harmonization and integration of the telecommunications market in West Africa.

Although the role of regional organizations as public service providers has not developed to the same extent in the Pacific, due in part to vast distances and more diverse historical and cultural backgrounds, the University of the South Pacific is an initiative that others can learn from. Opened in 1968 and supported by 12 Pacific Island countries, it is acknowledged internationally as a credible institution of higher learning.

Source: Favaro 2008, 2010.

**TABLE 7.2** *Shared administration can help fragile and conflict-affected states provide better quality public services*

	Government expenditure on goods and services		
	Government consumption, % of GDP	US\$ per capita	US\$ purchasing power parity per capita
<b>Low income</b>			
Fragile and conflict-affected states	11	38	131
Non-fragile states	15	80	267
<b>Lower middle income</b>			
Fragile and conflict-affected states	13	247	858
Non-fragile states	13	470	1,296

Sources: Favaro 2010.

Note: Averages of most recent data available (2001 to 2008) for 88 low- and lower-middle-income countries (data are missing for 11 fragile and conflict-affected countries).

the Asian Development Bank has played with good effect in the Greater Mekong Subregion.<sup>68</sup> Regional organizations have been encouraging national leaders to explore such arrangements—and seek third-party help in managing violence and shepherding transition.

External assistance can help regional initiatives and regional institutions to realize their full potential in addressing security and development links. As with Europe's early integration (see box 7.12), where regions have the political appetite to explore sharing administrative capacity or pooling

**BOX 7.12** *Early European measures to create shared economic interests in peace*

The creation of the European Coal and Steel Community (ECSC)—the forerunner to the European Union—shows how economic integration can underpin peace and security. The ECSC was formed to create a common market and jointly monitor the production and use of coal and steel—strategically important goods. The ECSC Treaty was signed in Paris in 1951 and led to the free movement of coal and steel and free access to sources of production. A common High Authority supervised the market, respect for competition rules, and price transparency.

The ECSC enabled the lifting of ceilings on coal and steel production in key German industries in the postwar period without seeming to threaten the security of the country's neighbors. Lifting these ceilings and generating regional confidence in coal and steel markets were important, not just for Germany's economic growth, but also for European economic recovery as a whole. The notion of cross-border cooperation to spur investment, regulate production, open markets, and build confidence and trust are applicable in other regions prone to political instability or recovering from conflict.

Other forms of European cooperation have also managed to develop productive exchanges across borders and individual regions. The "Euro region" began as an innovative form of transborder cooperation (between two or more states that share a common bordering region) in the late 1950s. With the purpose of stimulating cross-border economic, sociocultural, and leisure cooperation, the Euroregion model grew, and was boosted through the creation of the European common market and recent democratic transitions. There are currently more than 100 Euroregions spread across Europe, and the model has in recent times been replicated in eastern and central European territories. Cooperation has not been without problems in areas previously affected by conflict, but there are good examples of cross-border developmental, social, and security programs that involve areas where ethnic minorities reside across several states or in areas that have suffered the trauma of interstate and civil war in the past.

*Sources:* Lockhart 2010; Eichengreen 2010; Kelley 2004; Kubicek 2003; Schimmelfennig and Sedelmeier 2002; European Union 1951; Greta and Lewandowski 2010; Otocan 2010; Council of Europe 1995; Council of Europe and Institute of International Sociology of Gorizia 2003; Bilcik and others 2000.

functions or services, external assistance to that process can be invaluable. So far, international aid has tended to support national rather than regional efforts. Support to regional organizations has grown in recent years, but it is generally directed as technical assistance to the organization, rather than to larger-scale regional delivery programs

(European assistance to African peacekeeping is a significant exception). The potential for regional arrangements to create buffers against external threats and to provide a cost-effective way to enhance institutional capacity warrants much more attention in international assistance—an issue discussed in chapter 9.

## FEATURE 7 *Central Asia: External pressures and external assistance*

<b>Types of violence:</b> Political violence, local intergroup conflict, local conflicts with transnational ideological connections	
<b>Transition moment:</b> Moderate space for change	<b>Key stakeholders:</b> Governments, opposition parties, regional partners
<b>Key stresses:</b> Legacies of colonial past, transboundary natural resource management, human rights abuses, real or perceived discrimination, corruption	<b>Institutional challenges:</b> Lack of political accountability and inclusion, limited capacity of regional forums and institutions

Regional cooperation is widely accepted as a process and instrument for preventing conflict, promoting economic growth, and facilitating country integration within the region and with the international community. The most successful model is the European Union, which evolved over half a century from the original six-nation European Coal and Steel Community. The Association of Southeast Asian Nations (ASEAN) and other subregional groups are also often cited as models to follow for conflict prevention and economic cooperation in Central Asia. But almost 20 years after Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan emerged as independent states from the former Soviet Union, there has been little progress in regional cooperation in Central Asia, and the risk of conflict may be increasing.

Despite their cultural links and shared development experience as part of a large centrally planned economy for most of the 20th century, the five Central Asian countries have pursued different paths and rates of economic and political transition—partly the outcome of policy choices and partly from their Soviet legacy. Their different approaches and uneven natural resource endowments have resulted in increasingly differentiated outcomes in growth, poverty, and, ultimately, stability. Moreover, their sometimes conflicting interests—in transboundary water use and management, for example—influence their attitudes toward, and thus the prospects for, enhanced regional cooperation.

### *Is regional cooperation important?*

Central Asia's geography, history, and people—as well as its landlocked position and the integrated energy, transport, and water infrastructure it inherited from the Soviet Union—together make the five countries unusually interdependent. In reality, a modicum of day-to-day coordination of transboundary oil and gas pipelines, electricity transmission, and water distribution is a practical necessity.

Given their economies' small size, relative isolation, and reliance on exports of primary products, these countries' regional integration and market development could in principle help develop clusters of suppliers and complementary public services, improving all five countries' access to world markets. Local community associations and networks developed during Soviet times, based on the contours of economic subregions such as the Fergana Valley—now partitioned by the borders of three countries—could be revived as the basis for increased intraregional trade, thus reducing the risk of cross-border conflict.

If regional approaches were adopted and strengthened, several negative externalities could be tackled more effectively and efficiently. These include environmental deterioration, of which the dying Aral Sea is only the most visible example; land degradation and desertification, which have reduced crop yields and the availability of arable land; drug transit and trade; and eventually the impacts of climate change.

Two international studies have estimated that improved regional cooperation could increase Central Asia's regional GDP by between 50 and 100 percent—and regional per capita incomes by up to 100 percent—in about 10 years. Lower transport costs would increase trade with large neighbors such as China, the Islamic Republic of Iran, the Russian Federation, and, indirectly, South Asia. Managing and exploiting transboundary water, irrigated agriculture, and related hydro and other energy resources would be more cost-effective. And collaborative approaches to regional public goods, such as biodiversity, the environment, and public health, would benefit from economies of scale—as would enhancing security, managing natural disasters, and curbing the drug trade.

### *If so, why is cooperation receding?*

The explanation for cooperation not developing, and even receding—less than 20 years after independence—is that each



country's interest in regional cooperation is different, and individual nation-building is still under way. Other factors include

- Diverging approaches to, and different rates of, economic transition—exemplified most obviously by the contrast between Kazakhstan's relatively open economy and Uzbekistan's relatively closed one
- Differing views between the two upstream (the Kyrgyz Republic and Tajikistan) and three downstream countries (Kazakhstan, Turkmenistan, and Uzbekistan) over the management of the region's two key transboundary water resources (the Amu Darya and Syr Darya rivers and their tributaries) for hydroelectric power generation and irrigation, respectively
- Rival searches for the same extraregional and global markets, often complicated by the competing interests and motivations of the subregion's principal external actors
- Rekindled cultural, ethnic, and religious identities of the five titular nationalities—following 70 years of suppression during the Soviet era—coupled with the stresses and strains of modern nation-building.

Less tangible but still significant are contending claims to regional leadership by the two largest countries (Kazakhstan and Uzbekistan) and growing instability in the two smallest, most fragile countries (Tajikistan and the Kyrgyz Republic)—particularly in the Kyrgyz Republic where recent political turmoil and interethnic violence could destabilize its neighbors. An outcome of these divergent interests is the dwindling efficacy and influence of the regional forums and institutions, whose managerial and decision-making capacity remains limited.

### *Institutional constraints*

The only regional institution involving all five countries is the International Fund for Saving the Aral Sea—a single-purpose body established in the early 1990s to mobilize financial resources to mitigate the environmental, humanitarian, and social impact of the Aral Sea's drying up. In addition, the UN has sponsored three regional groups. The Special Program for the Economies of Central Asia—a framework for periodic dialogue inspired originally by Kazakhstan—has only very limited resources. The UN Regional Center for Conflict Resolution, based in Ashgabat, promotes regional dialogue, security, and understanding. And the recently established Central Asia

Regional Information and Coordination Center, based in Almaty, Kazakhstan, exchanges intelligence to identify and disrupt drug trafficking networks and strengthens regional criminal justice capacity. The Central Asia Regional Economic Cooperation program, initiated and funded mainly by the Asian Development Bank, is a partnership of eight countries and six multilateral institutions to promote and facilitate regional cooperation in transport, trade facilitation, trade policy, and energy.

### *What lessons can be learned?*

A 2008 survey of regional cooperation institutions worldwide suggested five key lessons relevant to Central Asia:

- Effective regional cooperation takes time and effort to develop, requiring incremental, gradual, flexible implementation with visible payoffs.
- It also requires sustained leadership—at the country, institutional, and individual levels.
- The size and membership of regional institutions should be kept manageable.
- Financial resources and instruments are needed to support regional investments and cooperation.
- External actors should assist wherever possible.

In addition to these findings, a 2007 World Bank Independent Evaluation Group analysis of regional programs—including two in Central Asia—listed five design features of successful programs consistent with these principles: strong country commitment to regional cooperation; objectives that match national and regional capacities; clear definition and coordination of the roles of national and regional institutions; accountable governance arrangements; and plans for the sustainability of program outcomes.

Central Asia satisfies few, if any, of these criteria. In particular, there is little or no country commitment to regional cooperation—for the reasons noted earlier—beyond the minimal bureaucratic and technical coordination needed to ensure effective functioning of the countries' integrated infrastructure. Indeed, relations have deteriorated in the last two years, particularly with tensions strained among some countries over plans to complete two Soviet-era hydropower projects. Some of the countries have agreed to accept the conclusions of externally financed, independent assessments of one of the project's economic, environmental, and technical

## FEATURE 7 *Central Asia: External pressures and external assistance (continued)*

feasibility—apparently signaling their interest in a mutually acceptable bilateral solution.

### *From conflict to cooperation*

Experience appears to confirm the analysis of at least one Central Asian scholar, Matveeva (2007), who concludes that regional cooperation, however desirable in theory, cannot be prescribed from outside. The mediation of conflicts inherited by the five countries, if not their resolution, is a prerequisite for more broadly based regional cooperation. And regional cooperation is more likely to evolve in limited well-defined areas of obvious mutual interest or concern.

Another couple of scholars, Linn and Pidufala (2008), view relations between the five countries as driven mainly by competition and rivalry—for influence, leadership, markets, and resources—warning, in addition, that this may not be a temporary phenomenon related to nation-building. According to this view, Central Asia’s regional problems are unlikely to be resolved in the near term, and the main priority for external actors should be to reduce the risk that they may worsen and cause real conflict.

The need for closer cooperation in Central Asia—to prevent conflict and to maintain and reinforce regional stability—may be greater and more urgent than ever, especially in energy and water, and trade and transport, which have so far proven intractable. While the outlook for enhanced cooperation may have worsened, this makes renewed focus and coordinated effort by external actors all the more important. In this context, the Central Asia Regional Economic Cooperation program’s pragmatic emphasis on coordinated country-specific investments in energy and transport infrastructure benefiting two or more countries may be a model for other partners to follow.

If cooperation is indeed more likely to be ad hoc and in narrowly defined areas of common interest or concern—not involving all five countries—a flexible operational framework, rather than an elaborate regional plan or strategy, is the right way to shape external actors’ actions. External actors can do much in convening, mediating, and resolving issues, but without mutual interest and political will in the countries, their role will be limited.

*Sources:* Houdart and Pearce 2010; and others described in endnote.<sup>69</sup>

## Notes

1. For a discussion of these linkages, see for example Naim 2006.
2. See Baker 2005.
3. Rubin 2002; Small Arms Survey Project 2005, 2009.
4. Gambino 2010; U.S. Department of State 2010.
5. Oliver 1999.
6. UN “Groups of Friends” began in the post–Cold War period as a mediation tool for countries attempting to prevent or exit conflict. Friends groups have been operating over the past two decades, providing a core group of interested states that apply diplomatic persuasion—carrots and sticks—in promoting peace settlements. Most often these are informal groupings, with a negotiated and varied rather than rigid mandate based on the country context. See Whitfield 2007.
7. Patel and Ross 2007; O’Loughlin, Witmer, and Linke 2010.
8. See African Union 2007a.
9. UNDP 2010a.
10. UN Security Council 2010b.
11. In the case of heroin and cocaine, which are illegal in almost all countries.
12. See OECD 2010h.
13. Estimated value of conflict and illicit diamonds. In 2008, conflict diamonds were estimated to account for 0.1 percent of the total global production of rough diamonds, which stood at US\$12.7 billion. See Kimberley Process Certification Scheme 2009, 2010.

14. Gemologists are generally able to identify the origin of diamonds if they receive several parcels of gems coming from the same area. They have great difficulties in identifying origin once stones from different areas have been mixed, and they are completely unable to identify the origins of a polished stone (see Goreaux 2001).
15. This is an estimate for oil trafficked only from Nigeria, where this problem is concentrated, and is based on an estimated 150,000 barrels per day at a price of US\$20 per barrel—a significant discount over world oil prices to attract large buyers (see UNODC 2009a).
16. Estimated 2008 value of illegally imported wood products (see Lawson and MacFaul 2010, 125).
17. While it is technically feasible to trace the origins of timber (and this indeed has been the focus of a number of “responsible forestry” initiatives), doing so depends either on tagging at the country of origin and a secure chain of custody, or on a more complicated DNA analysis.
18. UNODC 2010a, 129.
19. The number of legal manufacturers of small arms is estimated to have increased from fewer than 200 companies in 1980 to more than 600 by 2001. As of 2001, at least 95 countries had the capacity to undertake the legal production of small arms. See Small Arms Survey Project 2001.
20. Most, but not all, small arms and light weapons are marked at the point of manufacture, for example, with a serial number and manufacturer’s mark that is stamped, etched, or engraved into metallic parts of the weapon. However, where they exist, the marks often contain insufficient information for unique identification and reliable tracing, and there is no centralized record-keeping. See Greene 2001.
21. UNODC 2010a, 82, 111.
22. Illicit trade in small arms and light weapons takes place in both the black and the gray markets. For a definition of both markets, see Stohl and Grillot 2009. For information on the SALW, see Small Arms Survey Project 2006. The estimate of the illicit portion is reported in Marsh 2002.
23. Small Arms Survey Project 2011.
24. See Cukier 2002 and Markowski and others 2009.
25. On the developmental impact of SALW, see Bourne 2007.
26. See Small Arms Survey Project 2009.
27. Ben-Ari 2010; Worsnip 2009; UN Security Council 2009.
28. Demombynes 2010.
29. Although the definition of terrorism is fraught, and the question of which groups should be referred to as terrorist organizations is contested, 12 UN Conventions that have been adopted by the General Assembly specify tactics that are classified as terrorism.
30. An example of this today is the presence of transnational terrorist organizations affiliated with Al-Qaeda in the subnational conflicts in Indonesia and the Philippines (see Putzel 2003; Kilcullen 2009; Acharya and Acharya 2007).
31. UN General Assembly 2006.
32. Berman and others 2009; Berman 2009; Berman and Iannaccone 2006.
33. UNODC 2009b, 65.
34. U.S. Office of National Drug Control Policy, 1999, 26.
35. OECD 1996, 2009; Greenberger 1995; Gantz 1998; Hines 1995.
36. Transparency International 2010, 8.
37. Messick 2011. Also see box 8.4 in chapter 8.
38. The Financial Action Task Force (FATF) was established in 1990 by the finance ministers of G-7 countries to combat the problem of illegal narcotics trafficking and money laundering through strengthened international cooperation. The FATF’s initial mission was to focus on preventing the use of the banking system and other financial institutions for the purpose of money laundering. As an initial step and based on an analysis of the existing situation, the FATF developed a series of recommendations on specific measures, including the adaptation of national legal and regulatory systems, that would help detect, prevent, and punish misuse of the financial system for money laundering. Following the terrorist attacks of 9/11, the FATF issued additional guidelines to counter the terrorist financing. The FATF relies on a unique cooperation network involving more than 180 jurisdictions around the world, including multilateral organizations such as the G-20, UN, World Bank, and IMF. Additionally, eight FATF-style regional bodies have been created over the years as part of this network. See Financial Action Task Force 2010.
39. The Egmont Group of Financial Intelligence Units is an informal international gathering of financial intelligence units (FIUs) formed in 1995. FIUs are national centers to collect information on suspicious or unusual financial activity from the financial industry and other entities or professions required to report transactions suspected of being money laundering or terrorism financing. FIUs

are normally not law enforcement agencies; their mission is to analyze the information received. If sufficient evidence of unlawful activity is found, the matter is passed to the public prosecution. The goal of the Egmont Group is to provide a forum for FIUs around the world to improve cooperation in the fight against money laundering and financing of terrorism and to foster the implementation of domestic programs in this field. Intscher 2010.

40. Intscher 2010.
41. WDR team calculations.
42. Such as the U.S. Financial Crimes Enforcement Network (FINCEN), the U.K. Serious Organized Crime Agency (SOCA), the Australian Transaction Reports and Analysis Center (AUSTRAC), and the Canadian Financial Transactions and Reports Analysis Center (FINTRAC).
43. A large proportion of FIUs (about 60–65 percent) receive only Suspicious Transaction Reports, which meet some test of suspicion, and are by and large domestic transactions, usually of a relatively modest amount. This is the mandatory minimum reporting requirement of the FATF Recommendations. A substantial minority of FIUs (about 25–30 percent) also receive, or have access to, Large Cash Transaction Reports, reported solely on the basis of the transaction exceeding a threshold value specified in law or regulation. A small proportion of FIUs (perhaps 10–15 percent) receive some Foreign Exchange Transaction Reports, usually those above a specified value threshold. A quite small proportion of FIUs (maybe 5–8 percent) receive, or have access to, Electronic Funds Transfer Reports (“wire transfers”), usually above a threshold, mostly for international, but in some instances also domestic transfers. See Intscher 2010.
44. Secrecy jurisdictions refer to jurisdictions that facilitate illicit financial flows stemming from three overlapping sources: bribery, criminal activity, and cross-border trade mispricing. Secrecy jurisdictions undermine development for the poorest countries as individuals taking advantage of these jurisdictions can commit a wide range of crimes such as tax evasion, nonpayment of alimonies, money laundering, terrorist financing, drug trafficking, human trafficking, illegal arms trading, counterfeiting, insider dealing, embezzlement, fleeing of bankruptcy orders, fraud, and others.
45. One barrier relates to privacy: access to information on wire transfers, for example, means infringing the privacy of the many millions of customers using wire transfers for entirely legal means.
46. OECD 2010b; Willman 2010.
47. De Stefano and others 2010.
48. Cooke and Brown 2010.
49. World Bank 2010f.
50. The Green Climate Fund will support projects, programs, policies, and other activities in developing country parties using thematic funding windows. The fund will be governed by the Green Climate Board comprising 24 members, as well as alternate members, with equal number of members from developing and developed country parties. The assets of the Green Climate Fund shall be administered by a trustee, and the World Bank was invited to serve as the interim trustee, subject to a review three years after operationalization of the fund. The Cancún negotiations also decided that an independent secretariat shall support the operations of the fund. It was also decided that the Green Climate Fund shall be designed by a Transitional Committee of 40 members, with 15 members from developed country parties and 25 members from developing country parties.
51. The preminent example of regional cooperation in the cause of conflict prevention is captured in the emergence of today’s Europe, after centuries of interstate violence had culminated in the most destructive war in history. From the Marshall Plan and the Organisation for European Cooperation through the creation of the European Union and its absorption of former Soviet bloc countries, this evolving social compact has so far managed to navigate a range of volatile political and social developments and to bring a degree of political and economic unity that few would have foreseen 65 years ago. The current accession process provides very strong incentives for candidate states to attain specified governance, security, and human rights standards. Lockhart 2010; Eichengreen 2010; Grimm 2010.
52. See Wulf and Debiel 2009.
53. See Shiawl-Kidanekal 2004.
54. For further information, see NEPAD 2010.
55. World Bank 2007b; Kramer 2008.
56. “The cost ‘wedges’ associated with small size, undeveloped human capital and institutions, and market distance mean there is little scope for exports of manufactured goods or services; national economic viability in the Pacific is instead vested largely in three external income streams: i) rents

from natural resource extraction; ii) aid and fiscal flows; and iii) remittances from labor exports.”  
See World Bank 2009b.

57. See, for example, Fearon and Laitin 1999, 2003.
58. Faye and others 2004.
59. World Bank 2008h.
60. Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.
61. Anguilla, British Virgin Islands, and Montserrat. See Byron and Dakolias 2008.
62. See Pacific Island Forum Secretariat 2005.
63. See also La Porta and others 1999; Acemoglu, Johnson, and Robinson 2001; Hall and Jones 1999.
63. The result holds for both lower- and lower-middle-income countries, both nominally and in purchasing power parity adjusted.
65. Favaro 2010.
66. The Banque des États de l’Afrique Centrale (BEAC) serves six countries: Cameroon, Central African Republic, Chad, Equatorial Guinea, Gabon, and Republic of Congo.
67. The Banque Centrale des États de l’Afrique de l’Ouest (BCEAO) serves eight states: Benin, Burkina Faso, Côte d’Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.
68. The Greater Mekong Subregion (GMS) countries (Cambodia, China, Lao People’s Democratic Republic, Myanmar, Thailand, and Vietnam) have implemented a wide-ranging series of regional projects covering transport, power, telecommunications, environmental management, human resource development, tourism, trade, private sector investment, and agriculture. These projects were carried out with the assistance of the Asian Development Bank, which had a track record of working with each of these countries on a bilateral basis, and was able to offer a platform for dialogue as well as contribute technical knowledge and expertise that helped set consistent standards acceptable to all. The GMS is recognized as having enhanced cross-border trade while reducing poverty levels and creating shared interests in economic stability and peace. See World Bank 2006d.
69. UNDP 2005a; Asian Development Bank 2006; Linn and Pidufala 2008; World Bank 2007c; Matveeva 2007; Olcott 2010.