



## Drugs, Security, and Development

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### Introduction

Illicit narcotics are a global issue. Consumption is found in virtually all countries, although the kinds of drugs involved and the incidence and level of drug consumption vary greatly across countries, regions, and groups of people. Drug trafficking also is widespread, although the number of countries where trafficking is large-scale and constitutes a major threat to national governance and development is much smaller. Production of agriculture-based illicit narcotics (primarily opium and coca) is highly concentrated in a small handful of developing countries.<sup>2</sup> Overall, the size of the global illicit drug industry and its direct and indirect costs are very large and worthy of serious attention from both research and policy perspectives.

Although seen by many decision makers and practitioners in the drug control community as primarily a criminal or a health problem, illicit narcotics constitute a development issue of the first order. The impact of the drug industry on security and governance in major producing and trafficking countries, as well as its more direct adverse effects on development, are of great, even overriding importance in some developing countries such as Afghanistan, Colombia, and Myanmar. The adverse development effects of illicit drug consumption are more diffuse but add up to something very large in global terms (including the spread of HIV/AIDS), and are very significant in countries with major drug consumption problems, such as Iran. Finally, the costs of combating drugs divert scarce resources from other priority uses, constituting another adverse impact from a broader development perspective.

Despite the large and costly efforts that have gone into the fight against illicit

drugs, success has been elusive. On the production side, a few countries have been able to eliminate cultivation of illicit drug crops on a sustainable basis, but because of increases in production in other countries, this has not translated into sustained declines in global output. On the consumption side, it has not been possible to sharply reduce drug consumption in mature consuming markets, and there have been sizable increases in consumption in new markets, especially in some transitional and developing countries. Where declines in consumption have occurred, they appear to be related more to changing fads, demographic factors, competition from synthetics, and so on, rather than attributable to specific counternarcotics interventions. Finally, the adverse side effects of drug control interventions have become increasingly evident, as will be discussed later in this paper.

These considerations highlight the need to “think out of the box” about illicit drugs, and to treat this squarely as an important development issue. The 2006 PREM Conference session “Drugs, Security, and Development,” on which this paper is based, was intended to bring broader development perspectives to bear on the drug issue. The session was also intended to encourage the rethinking of approaches in light of treating illicit narcotics as a development and security issue, rather than merely as a narrower problem of criminality and health. Last but not least, the session raised questions about what the World Bank should do or can do in this area—one it has traditionally avoided.

The presentations and discussion at the session focused on the following three questions:

1. What do we know about the implications of drug production and trafficking in poor countries involved in production / trafficking / consumption of illicit drugs?
2. What do we know about the development consequences, particularly the indirect consequences operating through security and violence, of developed country responses to drug production and trafficking?
3. Is it possible for developed countries to pursue their main policy goal (reduced drug consumption) in a way that better takes into account the development impacts of efforts to achieve that goal?

Focusing broadly on these questions but also expanding beyond them as appropriate, this paper provides a thematic summary of the four presentations and subsequent discussion at the session, and draws some conclusions and possible implications for strategy and policies. Rather than mechanically following the order of the presentations and summarizing the discussion, however, the approach is topical and issue-oriented, with the sequence intended to lay out the facts in a cohesive manner.

After this introduction, the paper starts by placing illicit narcotics within the broader phenomenon of illicit activities, based on Moises Naim's presentation (also drawing on his recent book, *Illicit*<sup>3</sup>). Then, based on Peter Reuter's presentation, it reviews global patterns and trends for illicit opium and opiates and coca and cocaine. The evidence available on the impact of various drug intervention strategies is summarized, and policy implications and dilemmas put forward. Based on Rodrigo Soares' presentation, the next section of the paper outlines a cost-benefit approach to evaluating drug control interventions. Also, based on this presentation, the paper looks at the unintended consequences of the illegality of illicit narcotics, and some possible implications for thinking and strategy. Drug control and development policies in Afghanistan, a premier example of a poor country affected by massive drug production and trafficking, are the subject of the next section, based on David Mansfield's presentation. The paper closes by drawing out key points from the discussion at the session and putting for-

ward some conclusions, including possible roles for the World Bank in this field.

### **The Broader Context of Illicit Activities Worldwide**

*(Based on Presentation by Moises Naim)*

Although they have existed on an organized basis for a very long time, illicit drug production and trade constitute only one component (albeit a very important one) of the burgeoning global illicit economy. Trafficking of people, counterfeit products, timber and other natural resources, and art are among the major (and in some cases rapidly growing) illicit activities worldwide. Although these activities have been present to some extent all along, a number of factors have contributed to the boom in illicit trade during the 1990s and in the initial years of the 21st century. These include, among other developments, improvements in communications technology, declining transportation costs, trade liberalization by many countries, conflicts and associated poor governance and weak rule of law, and several specific developments, such as the transition in the former Soviet Union countries and China's economic boom. The trends and events that have spurred globalization in general have also facilitated and stimulated the growth of illicit activities.

Illicit activities and trade have to be considered in assessing the size of a country's economy and in setting macroeconomic policies. In a considerable number of countries, illicit economic activities are at the heart of economic and political life. These activities can be profoundly destabilizing to governments as well as costly to societies, despite their economic benefits.

For many countries (especially poorer developing countries), illicit activities constitute the most effective way to integrate themselves into world markets. For these countries and their people, such activities represent globalization at work. Notable examples in the drugs sphere include opium in Afghanistan and coca in Bolivia, which bring farmers and traders into a close relationship with global drug markets.

The sources and enabling factors behind countries getting into illicit activities and trade vary greatly, with considerable context-specificity. Common themes include the following:

- Traditional activities (historical basis): for example, a traditional agricultural base for production of illicit narcotics appears to be an important factor in some cases.
- Locational advantages (geography matters): for example, Haiti is deeply integrated with Colombian drug trafficking, Costa del Nol in Spain is a center for a variety of trafficking activities, and Surinam is a connection for drug transactions between the Andean countries and developed countries' markets.
- Manufacturing base: for example, China for counterfeit goods, Ukraine for weapons, Romania for electronics and hacking.
- Financial system: countries and localities with a well-functioning, weakly regulated financial system have an advantage since they can engage in money laundering, a service that virtually all illicit activities require.
- Weak rule of law can be an important enabling factor for illicit activities.
- Path dependency: there seems to be a considerable role for historical factors, experience, and enabling logistics in determining the location of illicit activities.

In some countries "criminal governance" has emerged. These countries become structurally involved in illicit activities, with the government becoming in effect a criminal enterprise to carry out and protect such activities. Countries can even become "specialists" in certain illicit activities, not least in money laundering—several very small countries are in effect operating primarily as money laundering facilities.

In sum, illicit narcotics form part of a rapidly growing and increasingly globalized illicit economy. Strategic thinking, as well as law enforcement and regulation, lag far behind dynamic illicit trading, calling for greater attention and policy priority as well as rethinking of past neglect, and in some cases (for example, narcotics) counterproductive policies.

### **Illicit Drugs: Global Patterns and Trends** *(Based on Presentation by Peter Reuter)*

Global retail sales of cocaine and heroin generate \$100-150 billion per year.

However, farmers, refiners, and local traffickers receive less than 2 percent of this—which, nevertheless, is locally significant in some of the drug-producing developing countries.<sup>4</sup> International traffickers receive 5–10 percent—that is, up to \$15 billion. Thus the bulk of gross revenues from drugs accrues to distributors in the rich consuming countries.

Production and trafficking of illicit narcotics have broad adverse consequences for development. In the case of drug production, these include conflict between farmers and the government, corruption, erosion of the state and weakening of governance, and the international stigma attached to being a major drug-producing country. Drug trafficking can generate considerable organized violence, in extreme cases constituting a challenge to the government. In contrast to production (which tends to generate small-scale corruption), trafficking usually involves high-level, systemic corruption. The large share of drug revenues accruing to a few principals can aggravate inequality and associated tensions. The evidence as to whether drug production and trafficking create an increased risk of "drug epidemics" in the countries concerned is mixed, with Mexico, Turkey, and, at least up to this point, Afghanistan, being counterexamples.

An interesting feature of the situation is that illicit drug trafficking and especially production of agriculture-based narcotics is highly concentrated globally. Afghanistan and Myanmar have accounted for more than 90 percent of global illicit opiate production since 1990; Bolivia, Colombia, and Peru are the only producers of cocaine (although a number of countries have cultivated coca and opium in the past). More countries are involved in trafficking; nevertheless, opiates are shipped primarily through Iran, Pakistan, Tajikistan, Turkey, China, Thailand, and Mexico, and cocaine trafficking is concentrated in Mexico and the Caribbean. Drug abuse is much more widespread, but also concentrated in certain regions. Most opiate abusers are in Asia, and cocaine abuse is primarily in rich nations. Table 1 summarizes these patterns.

Global consumption of illicit narcotics is likely to continue to grow, although probably more slowly in the case of heroin and

**Table 1: Developing Countries Strongly Affected by Illegal Drugs**

	<b>Cocaine</b>	<b>Heroin</b>
Production	Bolivia Colombia Peru	Afghanistan Colombia Laos Myanmar
Trafficking	Mexico Dominican Republic Panama?	Iran Pakistan Tajikistan
Consumption		Iran Thailand India Tajikistan Russia

*Source:* Peter Reuter's presentation at PREM Conference Session on Drugs, Security, and Development (April 2006).

cocaine than for synthetic drugs. Demand for cocaine and heroin tends to be “sticky” downwards. Drug abuse spreads through “epidemics,” leaving aging cohorts of dependent users. No country has quickly reversed a drug use epidemic. More specifically, heroin consumption in rich countries is stable, a pattern likely to continue, but is growing in some regions, notably Russia, Central Asia, and China. Cocaine consumption is decreasing in the United States but may be increasing in Western Europe. Thus, developing countries will continue to face high levels of demand for drug production and trafficking.

### Policy Options and Dilemmas

*(Based on Presentation by Peter Reuter)*

As Table 2 shows, existing drug control strategies can be broadly classified into

three categories: demand-side interventions (prevention, treatment), supply-side interventions against production and trafficking, and harm reduction programs.

While demand-side interventions have played a significant role in addressing drug consumption in some rich countries, the main focus of counternarcotics efforts as they relate to developing countries has been on supply-side interventions. However, evaluation of drug control strategies and instruments has been uneven and generally weak. In particular, there have been relatively extensive evaluations of drug treatment programs in some countries, but few and weak evaluations of other interventions.

Evaluations in several countries have shown that methadone maintenance reduces opiate use, HIV risks, and crime. Other heroin substitutes appear promising. Cocaine treatment programs are less strong but also have substantial short-term effects. However, it must be recognized that even in good programs, most patients drop out or relapse, and there have been few such evaluations in developing countries. Evaluations of prevention programs have been much weaker, and predominantly conducted in the United States (primarily of school-based programs for children 12–14). Some experimental programs have had sizable effects on marijuana use, but the longer-term effects have not been studied, and it is not clear whether prevention programs affect people most likely to become problematic cocaine or heroin users—evaluations of implemented programs show little or no effect. Programs may need to be culturally specific to achieve results.

**Table 2: Classification of Existing Drug Control Strategies**

<b>Demand-Side Interventions</b>	<ul style="list-style-type: none"> <li>• Prevention</li> <li>• Treatment</li> </ul>
<b>Supply-Side Interventions</b>	<ul style="list-style-type: none"> <li>• Production controls               <ul style="list-style-type: none"> <li>— Eradication</li> <li>— Alternative development</li> <li>— General economic development</li> </ul> </li> <li>• Trafficking, smuggling, and distribution controls               <ul style="list-style-type: none"> <li>— Interdiction</li> <li>— Domestic enforcement</li> </ul> </li> </ul>
<b>Harm Reduction Programs</b>	<ul style="list-style-type: none"> <li>• Needle exchange               <ul style="list-style-type: none"> <li>— Heroin maintenance?</li> </ul> </li> </ul>

*Source:* Peter Reuter's presentation at PREM Conference Session on Drugs, Security, and Development (April 2006).

Little is known about the effectiveness of supply-side controls. Some interventions, like eradication and general economic growth, have not been evaluated for their impact on drug production. Alternative development programs have been studied, but only at the local level, and without assessment of spillover effects.<sup>5</sup> Contrary to arguments from some quarters, supply-side controls in source countries are unlikely to have a substantial effect on foreign consumption. This is because consumption can be affected only through price, but as shown in Table 3, only a small share of the final retail price is accrued in source countries.

There are also very few evaluations of supply-side controls directed against trafficking outside the source countries. Even in the United States, few papers have estimated the impact of tougher enforcement on drug availability and use. There are no very positive findings on domestic enforcement in consuming countries. For example, the methodologically strongest published study estimated that tripling incarcerations between 1986 and 1996 resulted only in a 10 percent higher price of cocaine. The findings with respect to international interdiction are mixed, with some studies reaching pessimistic conclusions and others somewhat more optimistic.<sup>6</sup>

All in all, it is hard to escape the conclusion that drug-affected countries, especially developing countries, have relatively narrow policy options and a very weak evidence base for action. It must be emphasized, moreover, that policies need to be analyzed in a context wider than that of a single country. For example, a crackdown against drugs in one country could well shift production elsewhere, as has happened in the Andean countries. Combined with the fact that the effects of drug production and trafficking are difficult to reverse

once they are established, this leads to the question of whether the world would be better off if one nation is the dominant producer for each drug. Although obviously extremely harmful for the country concerned, this approach might minimize the global costs in terms of corruption, and limit the adverse effects on governance and the state from drug production to one or two countries. However, even if such an approach were to be considered, is there an acceptable mechanism for selecting the world producers?

### A Cost-Benefit Approach to Drug Control Efforts

*(Based on Presentation by Rodrigo Soares)*

A cost-benefit approach is essential (and surprisingly, not much used hitherto) to assess whether drug control policies are working. On the benefit side, the assumption is that reduced drug consumption protects the individuals concerned from themselves (based on a paternalistic approach, or time-inconsistent preferences on the part of addicts). Reduced drug consumption also protects society from dangerous or incapacitated addicts (reflecting externalities associated with drug use). On the cost side, the costs of interventions include direct expenditures on police, judicial system, prisons, and so forth, as well as the loss of human capital of those incarcerated, loss of lives due to violence associated with crackdowns on drugs, and other related costs.<sup>7</sup>

In simple terms, the effectiveness of an intervention depends on (i) the extent (size) of the intervention; (ii) the elasticity of supply; and (iii) the elasticity of demand. The stylized facts on these three aspects are summarized below.

The size and associated cost of drug control measures have been very substantial in

**Table 3: Structure of Cocaine and Heroin Prices**

Stage	Cocaine (per pure kg equivalent)	Heroin (per pure kg equivalent)
Farmgate	\$650 (Colombian leaf)	\$500 (Afghan opium)
Export	\$1,000 (Colombia)	\$3,000 (Afghanistan)
Import	\$20,000 (Miami)	n/a
Wholesale (kg)	\$30,000 (Chicago)	\$50,000 (London)
Wholesale (ounce)	\$50,000 (Chicago)	n/a
Retail (100 mg pure)	\$100,000 (Chicago)	\$175,000 (London)

*Source:* Based on Boyum and Reuter, *An Analytic Assessment of U.S. Drug Policy* (Washington, DC: American Enterprise Institute, 2005).

some countries. In the United States, roughly \$35 billion annually was spent on fighting drugs at the end of the 1990s, up from \$10 billion per year in the mid-1980s. One in four prisoners is in jail for drug-related offenses, mostly nonviolent.<sup>8</sup> As shown in Figure 1, drug-related incarcerations have increased steeply over time.

It does not appear, however, that these major law enforcement efforts have had much impact on opium prices. As shown in Figure 2, prices for cocaine, heroin, and marijuana have all been trending downward in real terms. Nor do there appear to have been major changes in the incidence of drug abuse. Prevalence of heroin and cocaine abuse among high-school seniors appears to have remained relatively constant since the early 1990s, and marijuana use has increased following a low point in 1992 (although it still remains below peak levels of the late 1970s). And the rates at which these three drugs are mentioned in hospital emergency room cases (per 100,000 population) have increased continuously over the past two decades and longer.

Turning to Colombia, a prominent example of a drug-affected developing country,

military expenditure in 2004 was equivalent to 4.3 percent of GDP, compared with 4.9 percent for education and 6 percent for health. Military personnel composed 1.5 percent of the labor force by 2004. Although not solely for fighting against drugs, these resources and personnel were to a large extent devoted to this purpose. Interventions did have a substantial impact on crime, with significant reductions in homicides, kidnappings, and acts of terrorism between 2002 and 2004 (although whether these reductions will be sustained is questionable). But whether there has been any impact in reducing overall coca production, especially on a global basis, is not clear (see Figure 3).

Turning to the elasticity of supply, the effect of interventions on supply seems to be relatively limited. To the extent that prices may be inversely related to supply, the downward trends seen in Figure 2 do not suggest any significant impact of interventions on supply. This should not be surprising, for several reasons. The quantities transacted are relatively small (for example, the estimated annual import of cocaine into the United States is 400 tons, and total glob-

**Figure 1: The Number of Adults Incarcerated for Drug Law Violations in the US Has Grown Sharply Over Time**

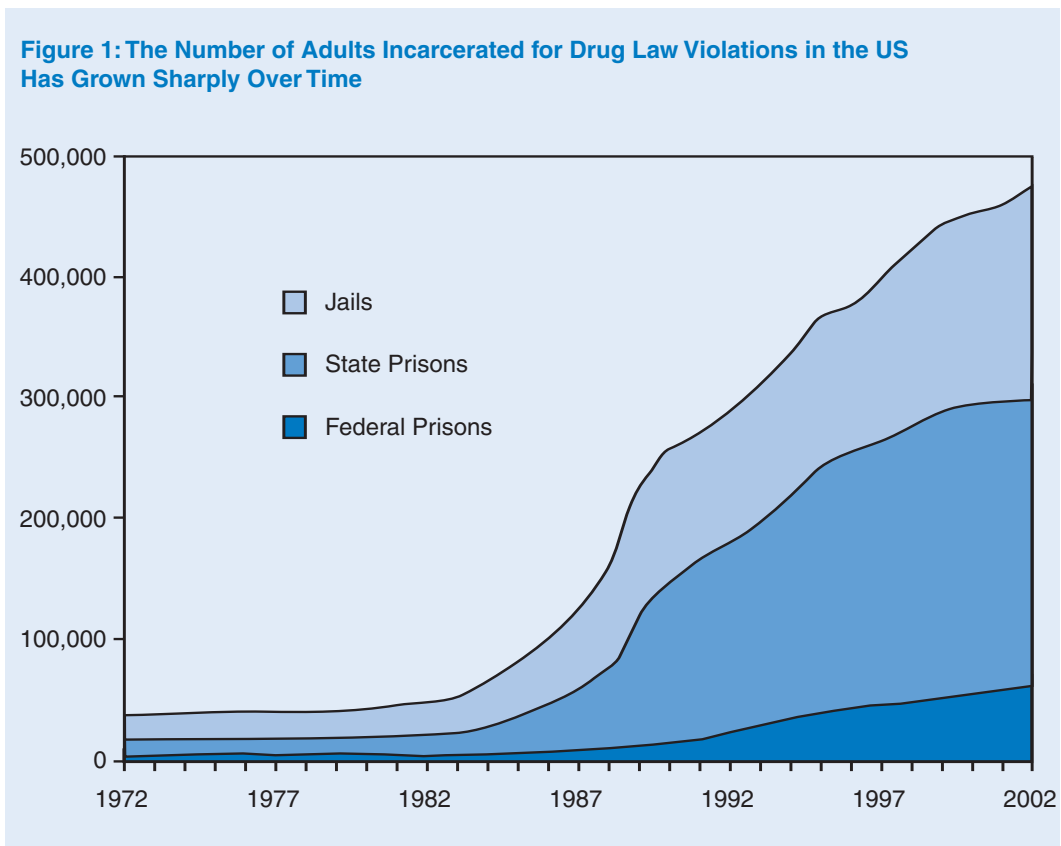
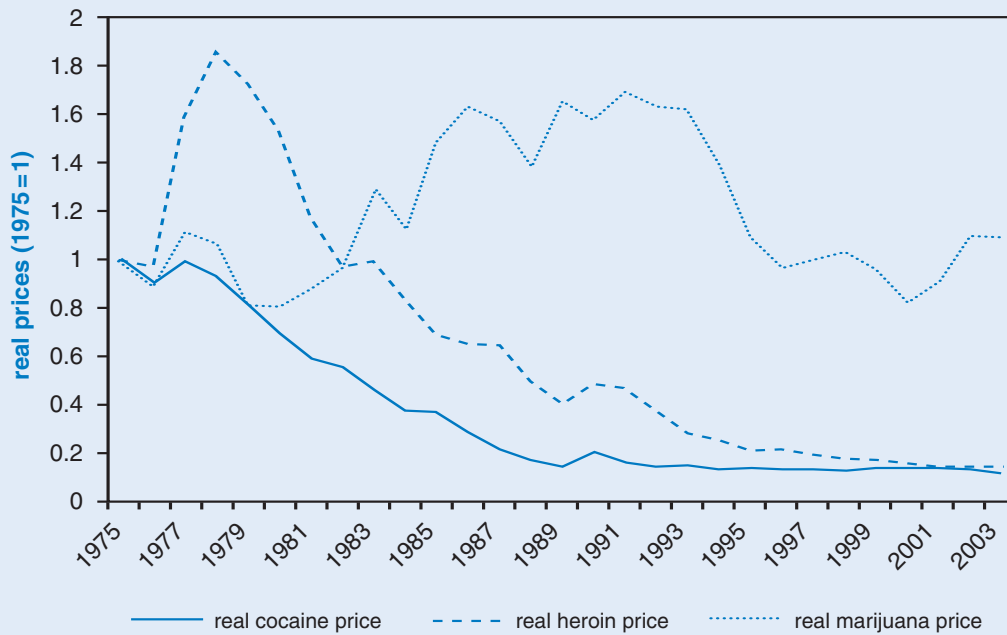


Figure 2: Real Cocaine, Heroin, and Marijuana Prices, 1975–2003

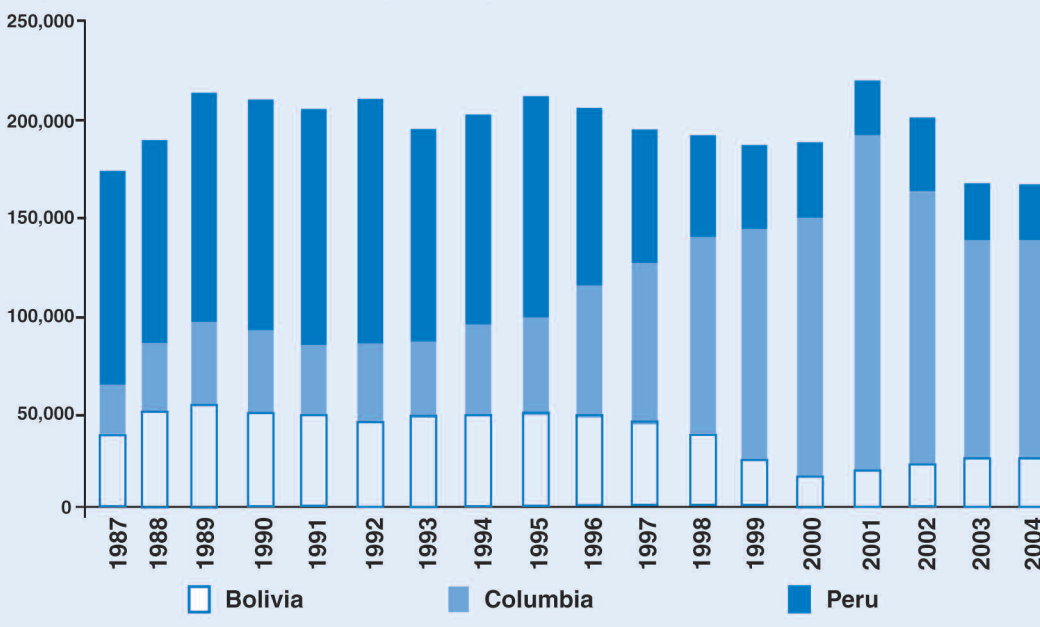


al production of heroin has been on the order of 500 metric tons per year). The cost of inputs and transportation constitutes only a small fraction of the final retail price (and the latter already builds in a large margin reflecting risks associated with law enforcement). Finally, there are many alternative regions for cultivation of illicit drug crops, and reductions in supply from one area (and associated price increases) can

easily stimulate a shift of production to other regions.

The price elasticity of demand also does not appear to be very high. Taking an example from another addictive product, it has been estimated that the prohibition against alcohol reduced consumption by no more than 10–20 percent (and perhaps not at all over the longer term). Although estimates for illicit narcotics suggest that the elastic-

Figure 3: Coca Bush Cultivation (hectares)



ty may be somewhat higher, it is still relatively low in comparison to the costs of intervention. For example, recent work suggests that the price of cocaine is only 2–5 times what it would be in a legalized market.

This cursory summary of drug control efforts from the perspective of cost-benefit analysis clearly calls for consideration of alternatives. The question arises as to whether, from this perspective, a form of legalization with regulation would result in something any worse than the present situation. This could be the case, if (i) governments were not able to effectively regulate the legal market, or (ii) addiction increased uncontrollably and there were no means of treating it.

With respect to the first issue, given the relatively low elasticity of demand, legalization with regulation may be more effective than prohibition, even taking into account the possibility of a black market. Moreover, governments in many countries (especially high-income countries) do regulate markets for several different drugs, most of them quite effectively.<sup>9</sup>

With respect to the second issue, it is difficult to make a firm prediction. However, the fact that the number of Americans with substantial drug problems is limited and has remained roughly constant (in the range of two million people) suggests that the incidence of harmful drug addiction might not increase very substantially following legalization. Moreover, effective treatments do exist for some drugs, notably methadone for heroin addicts. Even in the case of crack cocaine—probably the most damaging drug from personal and social perspectives—the indirect social costs due to repression are estimated to be higher than the direct social costs resulting from addiction.

### **The Unintended Consequences of Illegality**

*(Based on Presentation by Rodrigo Soares)*

In addition to the considerations outlined in the previous section, there are other adverse consequences of the illegality of illicit narcotics, which may be particularly important and damaging for developing countries. These can be broadly divided into three categories: impacts on (i) resource endowment, (ii) public health, and

(iii) security, safety, and institutions.

In the primary producing countries, drugs can account for a substantial proportion of total economic activity. Similarly, the value of drugs trafficked through some of the main transit countries is equivalent to a significant share of GDP and total exports. It should also be noted that income from illicit narcotics is highly skewed—as between the transit and especially source countries and high-income consuming countries (see earlier discussion), and within the source countries as between farmers, wage laborers, and small-scale traders on the one hand, and the more substantial traders in the distribution chain on the other.

In the area of public health, the adverse effects of illegality include those of unregulated, variable, and often substandard quality, notably the risk of overdose because of uncertain purity, and poisoning because of the adulteration of drugs with other harmful substances. Contagious diseases, including HIV/AIDs, are spread by sharing of dirty syringes among addicts. Another possible adverse effect is environmental damage due to aerial spraying.

But most serious for countries heavily affected by illicit drugs are the adverse implications for institutions. Under conditions of large rents and the necessity for distribution networks with private enforcement of contracts in the illicit drug economy, organized groups using violence tend to emerge. In a weak institutional setting, this may lead to perverse effects of intensified law enforcement and policing—higher crime rates, more corruption, and, perversely, a larger role for organized crime.

Emergence of strong organized crime has several negative implications. There are typically turf wars and escalation of gang violence. In Colombia, 27,000 people died per year as a result of the violence, which is estimated to have had a welfare cost corresponding to a present value of 250 percent of GDP. Increased illegal drug trafficking was also associated with the advent of organized crime and increased violence in Brazil (see Table 4). The social costs of violence typically are concentrated among the prime-age population.

Other adverse effects on a country's institutions include the symbiotic relationship

between illicit drugs and guerrilla movements and terrorism in some countries, FARC (Fuerzas Armadas Revolucionarias de Colombia—Revolutionary Armed Forces of Colombia) in Colombia and the Shining Path in Peru being notable examples. Such relationships can start out from either side but rapidly build synergies. Corruption associated with illicit drugs ranges from petty corruption (for example, police, customs) to grand corruption, involving political campaigns and the judicial system. Displacement of vulnerable populations is another adverse side effect—for example, the estimated 2.5 million desplazados in Colombia in the past decade. More generally, a culture of violence and lawlessness becomes entrenched. All of these factors can generate political instability, whether through murders of top officials (Colombia), effective power wielded by drug interests in certain slums (Brazil), or popular protests resulting in toppling of a government (Bolivia).

To summarize the arguments in this and the previous section, the effectiveness of the existing drug control efforts in actually reducing consumption and production of illicit drugs is, at the very least, questionable. On the other hand, the costs of these interventions are obvious and very large. Hence there is a need to think critically and objectively about this issue, and to consider whether there are viable and realistic alternatives to present approaches.

## Drug Control and Development Policies in Afghanistan

*(Based on Presentation by David Mansfield)*

The case of Afghanistan brings out in stark form many of the issues discussed earlier. Afghanistan is by far the world's largest producer of illicit opium; its share in global output has risen sharply over the last couple of decades and is now in the range of 90 percent. Opium has become the country's leading economic activity, accounting for on the order of one-third of total (opium-inclusive) GDP. Not surprisingly the opium economy, and the ongoing counternarcotics efforts to fight it, are having profound effects on Afghanistan's economy, society, and governance, as well as politics.

However, there is great diversity within the country in the incidence and importance of opium, and even at current levels of production, only a small proportion of the total cultivated land area is being devoted to the crop. Afghan rural households have complex livelihood strategies, depending on the assets, opportunities, and constraints that they face, with opium an element of varying importance for different households. Extensive rural fieldwork in recent years suggests that the degree of dependency of rural households on opium is inversely related to households' access to assets of various kinds, including those of the household itself (size of household, number of able-bodied adults, landholding, livestock assets, and so forth), the resources of the locality (irrigation water, climate, whether double-cropping is possible), access to labor and commodity markets, and local governance and rule of law. These relationships are summarized graphically in Figure 4, which is intended to capture the spectrum of dependency lying between the two extremes of access to assets and dependence on opium.

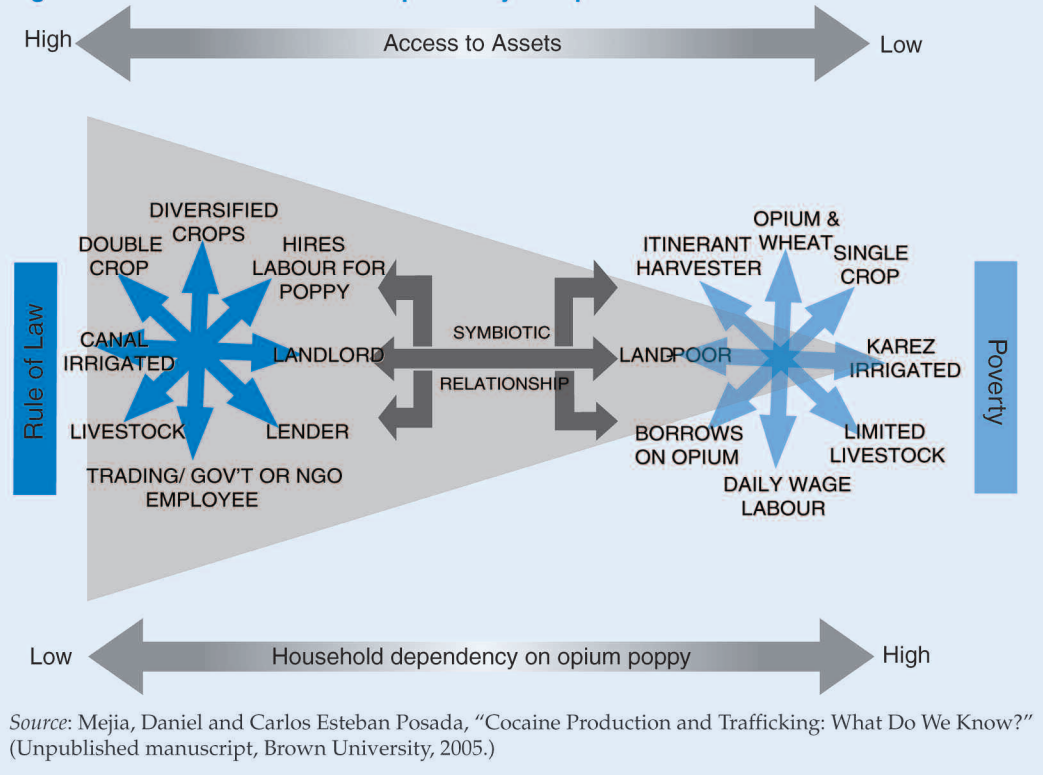
For the relatively resource-rich (in the Afghanistan context), opium provides an opportunity to earn higher returns on their land, profit from holding inventories of opium, and mobilize outside labor for opium through favorable (to the landowner) share-cropping arrangements. Given their assets and location, for these types of households law enforcement measures against opium poppy cultivation are appropriate and are likely to be effective and sustainable, as they can move into licit activi-

**Table 4: Evolution of Violence in Brazil**

	1980	2002
Homicide as Fraction of Total Mortality	2%	5%
Homicide Rate (per 100,000)	12	28
Homicide as Fraction of Total Mortality Males 15–29	18%	44%
Homicide Rate (per 100,000) Males 15–29	36	105

*Source:* Brazilian Ministry of Health, Sistema de Informacoes sobre Moralidade.

**Figure 4: Access to Assets and Dependency on Opium**



Source: Mejia, Daniel and Carlos Esteban Posada, "Cocaine Production and Trafficking: What Do We Know?" (Unpublished manuscript, Brown University, 2005.)

ties and earn sufficient (even if lower) returns to cover their livelihood needs.

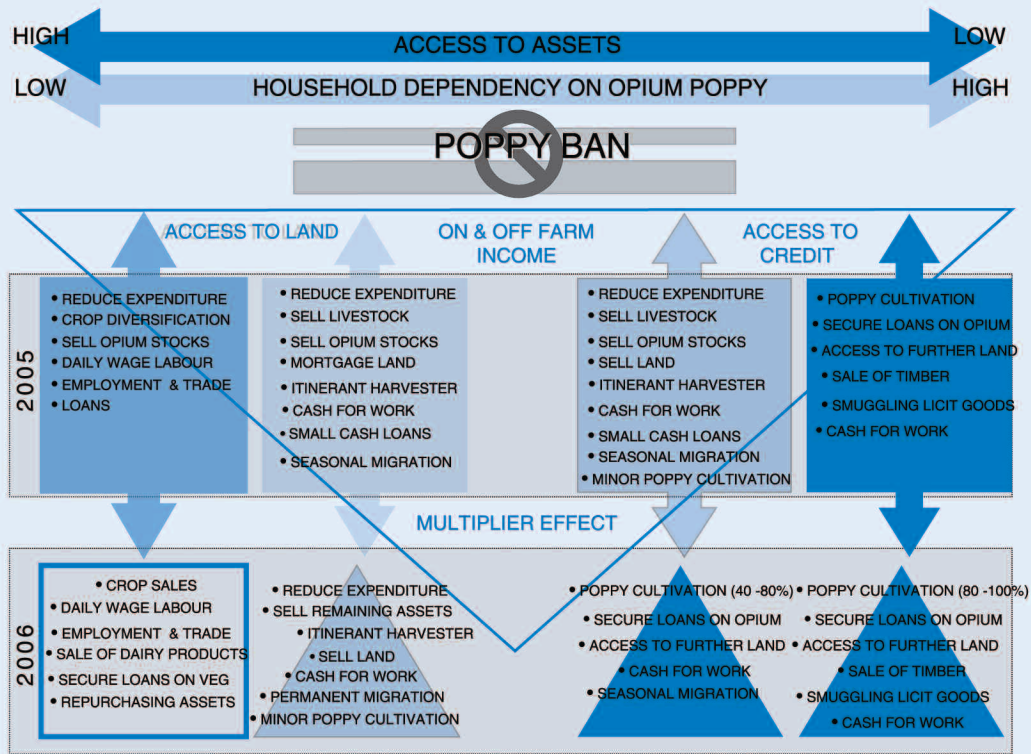
On the other hand, for resource-poor households the opium economy provides in many cases indispensable access to essential resources to help meet their minimum basic needs. These include, most notably, access to land and credit, as well as wage labor opportunities in opium harvesting. Dependency of poorer households on opium is exacerbated by the opium-related debts that many of them have accumulated, which require continuing opium poppy cultivation to be in a position to service the debt. For these households, choices become much more limited and stark in the face of eradication or other enforcement efforts against drugs. Many of them simply have no viable alternative for making ends meet in the absence of the opium economy, and under such conditions may be forced to take drastic, counterproductive coping actions, for example selling remaining assets or outmigration.

In the face of this diversity, the imposition of an effective ban on opium poppy cultivation, as occurred under the Taliban regime in 2000–01 (which virtually eliminated cultivation in Taliban-controlled ter-

ritories for one year) and on a more sporadic, localized basis in subsequent years—most notably in the southeastern province of Nangarhar in the 2004–05 growing season (when a 96 percent reduction in cultivation was achieved), can have variegated and often counterproductive effects. A notable example of the latter is the increased burden of opium-related debt on many rural households, as a result of the sharp price increase for opium in response to the Taliban ban, and the inability of households not cultivating opium poppy to service their debts. Cases of poor households providing underage girls in marriage to opium traffickers to settle their opium-related debts have been widely reported. Generally, the impact on better-off households in localities with better resources and access to markets has been quite different from the impact on poorer households in more remote areas, lacking access to markets and poorly served by infrastructure.

Figure 5, which builds on Figure 4 and reflects analysis from recent fieldwork in Nangarhar province, divides the spectrum of households in terms of access to assets and dependency on opium into four categories, with declining access to assets and

**Figure 5: Effectiveness and Sustainability of the Opium Ban in Nangarhar**



Source: David Mansfield's presentation at PREM Conference Session on Drugs, Security and Development (April 2006).

increasing dependency on opium from left to right. The figure distills the experience of these four categories of households during the two years since the opium ban was imposed in Nangarhar. Households with the most assets and with access to markets and other resources (the leftmost category) were not only able to weather the opium ban (albeit with significant loss of income), but were able in the following year to further develop a variety of licit activities and improve their income positions. At the opposite extreme, for the asset-poor households in remote locations (also more difficult to reach by law enforcement), the opium ban in Nangarhar never worked in the first place; households continued to cultivate some opium poppy even in the first year of the ban, with increases in the following year. For the middle two groups, the opium ban was largely effective in the first year but with clear signs of becoming unsustainable in the second year. Assets and licit income opportunities, while better than for the most resource-poor group, are nevertheless insufficient for viable and sustainable alternative livelihoods. Thus some

of these households and areas have already returned to opium poppy cultivation, and others are likely to do so in the near future.

In summary, extensive fieldwork and research in Afghanistan highlight the diversity of rural households and their relationships with the opium economy. In this differentiated context, imposition of a ban on opium poppy cultivation has widely varying short-run impacts and difficult prospects for sustainability. In particular, it is only in the case of localities and households with viable alternative livelihoods that a ban has good prospects of being sustained beyond the initial year. Efforts by the aid community to provide alternative livelihoods in the short run to households affected by an opium ban, for example through cash-for-work programs, are not sufficient or sustainable. Moreover, they do not address the benefits beyond short-run income provided by the opium economy, notably access to land and credit for poor, landless households. Thus, short-term alternative livelihoods programs do not fundamentally change the patterns depicted in Figure 5.

This gives rise to a policy dilemma: efforts to eliminate opium poppy cultivation will not work unless households have access to viable licit alternative livelihoods, but except where these already exist as a result of household assets and local resources and opportunities, it is not possible to generate alternative livelihoods quickly or sustainably through development assistance. Moreover, opium bans imposed on poorer areas and households tend to be counterproductive, actually increasing the potential dependency on opium by forcing households to engage in harmful asset sales and other coping mechanisms in the face of the ban, and leaving them with even fewer alternatives to opium poppy cultivation in the future.

Thus, there is no alternative to a longer-term, well-sequenced approach that targets eradication and other efforts to eliminate opium poppy cultivation in the short run at better-off localities, which already are in a position to shift to licit livelihoods to meet their basic needs. Development of viable alternative livelihoods for resource-poor households in remote localities with limited resources will take a long time (and is likely to involve outmigration from the most remote, resource-poor localities). As demonstrated by experience with the Taliban ban and more recently in Nangarhar province, forcing such households to stop cultivating opium poppy, before development progresses to the point where viable licit livelihoods become a reasonable prospect, can exacerbate poverty and increase dependency on opium over the medium term.

### Discussion and Conclusions

The presentations summarized in this paper provoked a lively discussion at the session, which focused to a large extent on two key questions:

- Even if the presentations point toward legalization with regulation as an alternative to current drug control policies that may be worth considering is this at all a realistic possibility, and what has been the experience with legalization of other once-prohibited goods?
- What can and should the Bank do in this field (which it has traditionally avoided) —what are its comparative advantages (if any), what are good

entry points, and how could the Bank have an impact?

The first question led to generally negative conclusions from the panel: the global policy environment—in particular the strong commitment to prohibition and a law enforcement approach on the part of key high-income countries—makes any prospects for bold rethinking of policies and consideration of a different approach to the legality of illicit narcotics very unlikely. It was also stated that there is very little popular support in the United States for legalization of drugs. This is the case despite the positive experience with the ending of the prohibition against alcohol a number of decades ago, and sharp reductions in smoking in the United States achieved through regulation of tobacco. Developing countries' policy options are severely constrained by the drug control policies of high-income countries. Nevertheless, it was felt that the issue of legalization should continue to be studied and raised in policy forums, from technical (for example, cost-benefit) as well as institutional and governance perspectives.

With respect to the role of the World Bank, there was broad agreement that the Bank cannot ignore illicit narcotics, both as a global issue and as an important development issue for heavily drug-affected countries. Leaving drugs out of the picture risks weakening the quality and relevance of the Bank's analytical work and policy advice in contexts where drugs are a significant problem. At the global level, taking a broader development perspective in analytical and policy work would be useful. At the country level, the importance of narcotics issues varies greatly across countries, but clearly this area should not be ruled out (in advance of examining country contexts) from being included in country analytical work and policy dialogue as appropriate. Drugs are also very important in some regional contexts (for example, the Andean region and nearby transit countries, and the wider Central Asia region around Afghanistan); thus, this issue needs to be brought into the Bank's regional work as necessary.

Where important (for example, in the case of major drug producing and transit countries, and in work on HIV/AIDS), drugs cannot be ignored in the Bank's

financial operations, even though direct financial support to drug control programs is not a prospect. For example, given the pervasive nature of the opium economy in Afghanistan, efforts are underway by the Bank and some other donors to “mainstream” the counternarcotics dimension in development programs.<sup>10</sup>

In terms of comparative advantage, although the Bank has no expertise on drugs per se, it does have a global development reach and perspective as well as demonstrated skills and resources to take on complex cross-cutting issues, and to do innovative thinking on such issues from a broader development perspective. Moreover, Bank technical expertise on specific sectors closely related to drugs—for example, agriculture and health—can be brought to bear. The Bank’s expertise on governance and corruption also is relevant to work on drugs. As in other areas, a way forward would be through partnerships with other agencies working in the drug field to exploit synergies and differing comparative advantages.

Turning to entry points, at the country level they would vary, depending on the context. In countries where drug production is a major problem, the broader macroeconomic and development impact is an obvious area for Bank engagement and concern.<sup>11</sup> In these and also in major trafficking countries, the impact on governance and corruption may be a good entry point as well. In some cases sector work (for example, in agriculture or health) may be a good way to engage initially. Patient dialogue with governments and proactive response to demand, as well as taking advantage of opportunities when they arise, are likely to be essential.

At the global level, one entry point may be HIV/AIDS and other serious diseases spread through illicit drug use. The Bank is engaged in global programs in these areas, and it would make sense to incorporate drug issues in this work. The Bank frequently gets invited to international forums on drugs, and its presence at such meetings could serve as an entry point. Continuing research on drugs and their nexus with security and other issues from a global development perspective may create further entry points.

Although the presentations highlight the complexity and difficulty of the drug issue, this does not mean it is impossible for the Bank to have an impact. In the case of Afghanistan, for example, Bank engagement through analytical work and dialogue has been productive. However, expectations need to be kept modest, given the enormity and intractable nature of the problem.

Finally, we return to the three main questions that were intended to guide the presentations and discussion at the session. Based on the presentations and the discussion as summarized in this paper, the following conclusions emerge:

There is ample evidence of the adverse development and governance implications of drug production and trafficking in the producing, trafficking, and poor consuming countries. In some countries the economy becomes distorted and uncompetitive as a result of drugs, and the drug industry can be a serious threat to the state as well as a major source of corruption.

There is also evidence that drug control policies, often vigorously advocated and strongly pursued by developed countries, do not achieve much effect (particularly in relation to their costs), and moreover have adverse development consequences for developing countries, including through violence and displacement and, in extreme cases, political destabilization.

It would appear that there are possibilities to pursue drug control objectives in ways that better take into account development impacts. Even if legalization with regulation is not a realistic option, evidence from fieldwork suggests that more targeted and better sequenced approaches involving law enforcement and development programs could work better. In any case, the lack of success of the drug control policies pursued hitherto points to the need to look for new and improved approaches.

## Endnotes

<sup>1</sup> This paper summarizes and builds on the four presentations at the World Bank PREM Conference session on “Drugs, Security, and Development” on April 26, 2006, by Moises Naim, Peter Reuter, Rodrigo Soares, and David Mansfield. It also draws on the discussion at the session following the presentations, and to some extent from other recent work on illicit narcotics issues. The session was organized by William

Byrd and Philip Keefer. The views, findings, interpretations, and conclusions expressed in the paper are those of the author and (where indicated) the presenters, and should not be attributed to the World Bank, its affiliated organizations, its Executive Board of Directors, or the governments they represent.

<sup>2</sup> Production of synthetic drugs, such as metamphetamines, which are based on chemical rather than agricultural raw materials, is much more dispersed.

<sup>3</sup> Moises Naim, *Illicit: How Smugglers, Traffickers, and Copycats are Hijacking the Global Economy* (New York: Doubleday, 2005).

<sup>4</sup> For example, in Afghanistan opium was roughly estimated to account for 31 percent of total (opium-inclusive) GDP in 2005.

<sup>5</sup> It makes little sense to evaluate an alternative development project positively if it merely results in drug production shifting from the locality covered by the project to other localities in the country. A similar issue can be raised about using the country as the unit of evaluation. For example, drug control programs have been deemed successful in eliminating opium production in Thailand over a period of decades, but from a global perspective this production shifted across the border to Myanmar. Similar arguments can be made about successes achieved against opium in Iran and Pakistan, while production in Afghanistan boomed.

<sup>6</sup> However, as the following section will discuss, any benefits of such drug control interventions must be evaluated against their costs.

<sup>7</sup> Although drug users may perceive that they gain some benefits from drug consumption, at

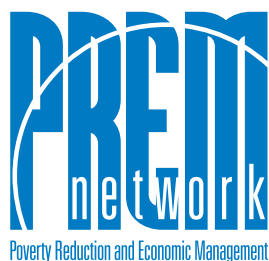
least in the very short run, the impact of lower drug consumption on consumer surplus is not included on the cost side. However, this issue is relevant on the production side, and the loss of income and producer surplus if drug control policies are successful in reducing consumption—which necessarily implies a reduction in production over time, if not immediately—should be taken into account.

<sup>8</sup> This puts the U.S. imprisonment rates for drug-related offenses above the overall imprisonment rate in most western European countries.

<sup>9</sup> This raises the question as to whether regulation of drugs would work in low-income countries with weak states and poor governance, possibly leading to a different choice between prohibition and legalization with regulation. However, law enforcement efforts also are less likely to be effective in weak states suffering from poor governance, with a risk of massive corruption and destabilization of the state. Thus, whether from a cost-benefit perspective the choice would be different for developing countries is not at all clear.

<sup>10</sup> In addition to exploiting possibilities for development efforts to contribute to the development aspects of the national counternarcotics strategy, it is also very important to ensure that Bank-supported programs “do no harm” in relation to drugs—for example, that irrigation projects do not result in expansion of opium poppy cultivation in the irrigated area.

<sup>11</sup> In the case of Afghanistan, for example, the International Monetary Fund has also become concerned and has done analytical work on the macroeconomic implications of the opium economy.



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