

# Rebels or Money Makers?

## Decentralization and the Colombian Armed Conflict<sup>1</sup>

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### Abstract

This paper assesses the relationship between fiscal decentralization processes and internal armed conflicts. By using the Colombian case, the paper tests the hypothesis that the decentralization process carried out since the late 1980s, empowered the illegal armed groups and therefore increased the conflict in the periphery of the country. In order to test this hypothesis, the research uses data on human rights violations, municipal income, and distance to the department's capital at the subnational level for the period between 1984 to 2016. The different estimations find a positive and significant relationship between the decentralization process and the Colombian armed conflict in the periphery of the country.

**Keywords:** Illegal Armed groups, Internal Armed Conflict, Decentralization, municipal fiscal income.

**JEL Codes:** D74, H4, O17

## 1. Introduction

After the Second World War, social and political conflicts evolved around the world with no less harmful consequences for people and countries. In this new post-war era, contentions were characterized by intrastate struggles, insurgent local groups, unclear starting dates, and long-term persistence (Holsti, 1996, Blattman & Miguel, 2010).

Colombia belongs to the group of countries with the most ancient conflict in the modern era. Indeed, academics frequently disagree on the starting date of this process, i.e., some scholars found the origins of the conflict in the land disputes of the 1920s (i.e., Fajardo, 2015; Molano, 2015), others before the period known as *La Violencia* (1948-1953) (i.e.,

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Pécaut, 2015), while another set of scholars affirm that the modern conflict appeared after the exclusionary political agreement of *El Frente Nacional* (1958-1970) (i.e., Duncan, 2015; Giraldo, 2015). In any case, the debate suggests that Colombia has endured an armed internal conflict for at least five decades with individual and collective consequences. Explicitly, the internal Colombian conflict remains as the cause of 218.094 deaths between 1970 and 2010,<sup>2</sup> almost six million displaced persons between 1985 and 2012; 27.023 kidnappings, and thousands of other heinous crimes (Grupo de Memoria Historica, 2013)<sup>3</sup>.

While all this bloodshed was happening, citizen's movements demanded changes in political, social, and economic issues (Grupo de Memoria Historica, 2013). That is, Colombia experienced a combination of an ongoing internal war and increasing demands for social change. The proposed solution by the national government was the design and implementation of institutional reforms that included political, administrative, and fiscal decentralization; which ended up in a new political constitution in 1991. This decentralization process brought higher level of subnational autonomy with new rules for access to fiscal resources, democratic election of local governments, and local provision of public services (Eaton, 2006).

However, in this case, the cure was worse than the disease. The decentralization appeared in a context of fragility of the state and presence of local illegal actors involved in the conflict. Therefore, instead of strengthening the legitimacy and capacity of the government, the decentralization ended up diminishing the role of the state and strengthening the illegal actors in peripheral areas. In this regard, the illegal armed groups co-opted the new decentralized resources and power for their own benefit (Eaton, 2006). The mechanisms that the illegal actors used to capture resources and power are diverse: the shaping of taxation and property rights by influencing local institutions (Ch, Shapiro, Steele, & Vargas, 2018); the imposition of agreements with local governments, the capturing of royalties, and the infiltration into public legal business such as health provision (Eaton, 2006; Steele, 2018).

Under this debate, this paper studies the effects of the fiscal decentralization on the Colombian local conflict between the mid-1980 and 2016. The main hypothesis is that the

<sup>2</sup> 81% of these deaths were civilians.

<sup>3</sup> Moreover, several studies found effects on poverty traps, hopelessness, and welfare losses related to the displacement (Ibáñez, 2009; Ibáñez & Moya, 2010; Ibáñez & Vélez, 2008; Justino, 2009; Moya & Ibáñez, 2011).

fiscal decentralization opened new possibilities for illegal armed groups by increasing the subnational fiscal and administrative autonomy. Therefore, these illegal armed groups boosted violent actions to co-opt the new decentralized power and resources deepening, in this way, the severity of the internal conflict. Such process of violent co-optation of power could be more dramatic in the peripheral territories characterized by historical weak state legitimacy and capacity.

In order to prove this hypothesis, this paper uses an interaction between municipal fiscal income share and the linear distance to the department's capital. Following Schneider (2003)<sup>4</sup> and Fearon & Laitin (2003), fiscal income share captures the level of fiscal decentralization while the linear distance to the department's capital recognize the fragility of the state in the periphery<sup>5</sup>. In other words, the logic behind this interaction is that decentralization might have heterogeneous effects in the country depending on the presence of institutional capacity that could prevent or not the illegal appropriation of power and resources. In Colombia, historical events such as the continuous expansion of the agrarian frontier gradually shape new peripheral municipalities with recent and therefore weaker institutional settings (Duncan, 2014). Hence, the distance to the department's capital should be a good indicator for this heterogeneity because the farther away municipalities are, the lower institutional capabilities should be.

With this insight, the paper uses three empirical strategies to test the hypothesis: a fixed-effects panel estimation, a panel-probit model accounting for the probability of having conflict or not, and a fixed-effects panel-Poisson recognizing that the dependent variable might be a count variable. The paper finds that the interaction between income and distance has a positive relationship with the Colombian armed conflict, in every model, which suggests that there is a positive effect of the fiscal decentralization process on the conflict in the periphery of the country.

The rest of the paper is organized as follows: the next section provides a brief history of the armed conflict and the decentralization process in Colombia. This is followed by a literature review on the theoretical and empirical dynamics of conflict. The subsequent section describes the data used for the empirical strategy. Then the econometric

<sup>4</sup> The author argues that “the best indicator for the level of fiscal centralization or decentralization is the share of subnational expenditures and revenues.” (Schneider, 2003, p. 36).

<sup>5</sup> In section 3 is presented the line of arguments of how the geographical characteristics favor the conflict.

specifications, followed by the results of the empirical estimations and finally the conclusions.

## **2. Armed Conflict & Decentralization Process in Colombia**

Violent processes have been a persistent and evolving issue in Colombian since its foundation as a republic. During the early republican time, the creole elite violently disagreed on the political model for the new founded nation. Later, the unequal distribution of land was a source of disputes between the state, elites, settlers, and peasants during the late 19th and early 20th centuries. Subsequently, the legacy of the 19th century struggle was reflected in the confrontation of an entire country on the liberal and conservative sides. Then, between the 1940s and 1950s, Colombia experienced one of the bloodiest internal conflict between liberals and conservatives during the period known as *La Violencia* (The Violence, 1948-1953). From this period onwards, the most radical wings of both parties founded left-wing guerrillas and self-defense groups which ended up shaping the internal conflict after the mid-20th century (Grupo de Memoria Historica, 2013; Guzmán, Fals Borda, & Umaña, 2017a, 2017b; LeGrand, 1988; Melo, 2017).

Among these different periods of the Colombian internal conflict, the scholarship lays emphasis on the transition between *La Violencia* and the modern conflict of the late 20th century. This transition shows different complex characteristics that made of the Colombian conflict a particular case. Initially, the transition began with the amnesty process offered by the government to the armed groups engaged in *La Violencia*. However, a new outbreak of an insurgent struggle rose since national and international elements nurtured a new confrontation, e.g., residual bandit groups that did not accept the armistice, the propagation of an international revolutionary wave, and the political exclusion in the agreement named *Frente Nacional* (National Front) (Giraldo, 2015a; Grupo de Memoria Historica, 2013). This revolutionary wave in the second half of the 20th century served as an ideological basis for the foundation of the three main guerrilla groups. The Soviet Union influenced the *Fuerzas Armadas Revolucionarias de Colombia* (FARC). The Cuban movement influenced the

*Ejercito de Liberación Nacional* (ELN). The Chinese movement influenced the *Ejercito Popular de Liberación* (EPL). Moreover, the last prominent insurgent group was founded around 1970, the *Movimiento 19 de Abril* (M-19), an urban guerrilla founded because of the fraud in the presidential elections of 1970<sup>6</sup>.

Additional elements made the issue more puzzling. First, the emergence of private counterinsurgency armies; second, the global boom in drug trafficking which transformed the Colombian society and economy; and finally, the courthouse takeover in Bogotá by the M-19. In this regard, the emergence of private counterinsurgency armies rooted on the economic capacity of warlords. These landlords were owners of large extensions of land used for plantations and livestock. They decided to structure private armies to defend their territories against the insurgency attacks, justifying their decision in the incapacity of the government to protect these places. These armies, founded in the 1980s, were the first step of the national counter-insurgency project (Sánchez & Chacón, 2006). On the other hand, the appearance of mafia cartels that transformed the country into the primary producer and exporter of cocaine in the world. This event gave other means of financing that fueled the conflict because both guerrillas and paramilitaries participated in the production process. Left-wing guerrillas took care of the coca leaf crops in the south of the country because the fall of the USSR left these groups without external financing, while paramilitaries “administrated” illegal ports for shipping the drugs. Finally, the courthouse takeover in Bogotá by the M-19 and the subsequent retake by the army. This event marked the collapse of the state in terms of their fight against narco-trafficking, insurgency, and the control of territory. The population started a series of strikes to demand structural changes based on decentralization, and subsequently, the government had to accept their petitions (Eaton, 2006; Grupo de Memoria Historica, 2013). The landscape was therefore a collapse of the state, social protest, new violent actors and interests, and a modern conflict that arouses between 1982 and 1996

All these events led to a new political constitution that tried to decentralize the country. In the frame of the new constitution, the national government started a decentralization process that marked essential changes in political, fiscal, and administrative

<sup>6</sup> The success of the Cuban revolution in the '50s, the agrarian movement in communist China, and the foundation of the Soviet Union.

issues. In political terms, the changes at the subnational level consisted of the popular elections of subnational governments. The fiscal decentralization brought two main changes, the change in the distribution of royalties to a more equitable system because previously, only producing departments got royalties. The second change was the automatic transfers to the subnational level of national collected taxes. Finally, administrative decentralization gave essential responsibilities to the municipal administration. Since this change, they had to provide services such as education, health care, public housing, water, and sewage (Eaton, 2006). These modifications brought more resources and opportunities to the peripheral municipalities, and this meant a vast chance for armed groups to capture legal rents and strengthen their power, which suggests that the decentralization process changed the dynamics of the conflict.

The mechanisms for the appropriation of resources by armed groups were different for each of them. While the FARC imposed regional peace agreements with local governments to co-govern, the ELN, on its part, took advantage of the oil resources and royalties (Eaton, 2006). The national paramilitary project *Autodefensas Unidas de Colombia* (AUC) had a different strategy to expropriate local legal resources “municipal and departmental elections instead has enabled paramilitary groups to convert the local socio-economic power they have accrued since the 1970s into direct political authority” (Eaton, 2006, p. 557). In this line, Robinson (21013) states about the power of a paramilitary leader in the north of the country:

...called Jorge 40 "El Papa Tovar" (in Spanish, the Pope), and from his "Vatican" in the San Angel plains of the Magdalena River in the department of Cesar, he ruled over his small empire of 20 armed fronts in three departments. His authority in that region of the Caribbean coast was such that peasants whose land had been stolen by his men petitioned him as if he were a government official. (Robinson, 2013, p. 46)

In the context of the modern conflict, the period between 1996 and 2005, marked the escalation and degradation of the war in Colombia. In this regard, the insurgency abandoned politics, declaring the military offensive to “conquer” the State. This decision led the

insurgency to dedicate all its efforts to the armed combat, causing the expansion of these armed actors throughout important areas of the country. Similarly, the paramilitaries took over the other significant part of the country under the discourse of a national counter-insurgency project that would unite all the private armies to combat the insurgency and to eradicate communism. Both groups took large extensions of territory by force, displacing a large part of the peasant society and killing those who did not align with their ideas. The international context on the fight against drugs fed the conflict by becoming the fuel that drove the armed confrontation (Grupo de Memoria Historica, 2013).

This period marked the consolidation of insurgency and counterinsurgency both in economic and military terms. This stage of the conflict was the most violent, affecting mainly the civil population, the second peak of the conflict. The insurgent project gained power with the alternative forces and having a presence throughout the country. In the mid-'90s, the FARC had 62 fronts, the ELN 49 fronts, and the EPL only had 13 fronts because of the massive demobilization process of this group (Echandia, 1998). The power of the FARC was so high that as a desperate measure, the national government decided, in the frame of a peace process, to create a clearance zone of 42.000 square kilometers<sup>7</sup> where there was no ruler different from the guerilla members. As expected, this process failed, and in 2002 the army took over this area (Grupo de Memoria Historica, 2013). While this was happening, the paramilitaries consolidated a national project under the name of the AUC. Their power and their achievements were so significant that some part of the military forces, the traditional political structures, and economic sectors started to collaborate with paramilitary groups after what it is well known as *El Pacto de Ralitos* (The Ralito agreement). The primary purpose of this agreement was to refound the country, expulsing the insurgency and the communism. Years later, this secret agreement confirmed the scandal of the relationship between paramilitary and politics, known as *parapolitica* (paramilitary politics) (Grupo de Memoria Historica, 2013).

In political terms, this period was also a very turbulent time. Initially, the dominant idea was to negotiate with the insurgency to end the conflict. However, the failures of the peace process mentioned before, proposed by president Pastrana<sup>9</sup>, with the FARC, modified

<sup>7</sup> The area of Switzerland is 41.285 square kilometers.

<sup>8</sup> Santa Fe de Ralito is a village from the municipality of Tierralta in Córdoba.

<sup>9</sup> Andrés Pastrana was president between 1998 to 2002.

the opinion of the Colombian society from a negotiated peace to a military defeat of the insurgency, while a negotiation of a peace agreement with the paramilitaries was viewed as the right path. This change led to the emergence of Álvaro Uribe as president with a “democratic security” speech that promised to eradicate guerrillas from the country (Grupo de Memoria Historica, 2013). Also, in 2003, again in Santa Fe de Ralito, the high commissioner for peace and the AUC signed an agreement to start a peace process to dismantle the paramilitary project and "as the purpose of this process is the achievement of national peace, through the strengthening of democratic governance and the restoration of the monopoly of force in the hands of the State" (Alto Comisionado para la paz, 2003, para. 1).

The last period is the transformation of the conflict, due to the attempts to pacify the country by military means in one front while negotiating concessions in the other, this period considers from 2005 to this day. There was never a consistent policy about fighting the armed actors and understanding the conflict as a whole. The government led the insurgency to historical lows through its military capacity. They achieved decisive military victories, such as the death of members of the FARC secretariat, and strategic victories, such as the release of former presidential candidate Ingrid Betancourt<sup>10</sup>. These coups finally led the most crucial guerrilla group to negotiate a peace agreement with the government, which ended better than the process with the paramilitaries. However, it also left new dissident or "neo-insurgent" groups, the failed demobilization of the AUC led to the emergence of multiple "neo-paramilitary" groups, less ideological, more criminal, and with more greedy instincts (Grupo de Memoria Historica, 2013).

Meanwhile, under the flag of democratic security, the government poured its entire military capacity into the fight with the insurgency. By these times, the army won in almost every battle, killing secretariat members of the FARC, liberating hostages, and in the end, reducing this guerrilla to their minimum expression. This reduction of the military capacities led, years later, to a new peace negotiation between the Colombian government and the FARC. This process started in 2012 and ended in 2016 with the sign of a genuine peace agreement that until today goes more or less as expected. Although the process has had many problems, like the rearmament of various members of the FARC secretariat with significant

<sup>10</sup> Ingrid Betancourt was kidnaped in 2002 and liberated by the army in 2008.

ties to narcotrafficking and the change of government that complicated the implementation, this might be the best peace process in the history of Colombia.

An important caveat in this evolution of the Colombian conflict is the unfinished colonization process. Although this process grew steadily since the independence, it was not until the 20<sup>th</sup> century when the massive mobilization to the wastelands controlled by the state started. The issue is that the absence of land or opportunities for the underprivileged created a cyclical process of colonization. In general, people used to settle down in new places with no presence of any institutional capabilities of the national government. Then, small towns appeared in which the state capacities gradually started to deploy with new roads and essential public services. However, not all new communities achieved permanent settlements. Those who failed to settle down in the newly created towns moved away to another unexplored land, and the process started again (Duncan, 2014). The problem is that this process led to the possibility of the establishment of peasant movements and agrarian guerrillas in the periphery, which were the seed for the insurgent movement in Colombia.

### **3. Dynamics of Armed Conflicts**

#### **Theoretical Dynamics of Armed Conflicts**

A starting point is a dichotomy that proposes that conflicts are caused either by greed or grievance. Greed, widely used in economics, means that disputes are opportunities to extract rent, so individuals face positive incentives to participate in the conflict to capture rents. Oppositely, grievance, used as the leading cause for conflict in political science, means that all those social, political, and economic abuses can lead a fraction of the community to participate in violent protest. A grievance can be either religious or ethnic hatred, political repression, political exclusion, or economic inequality (Collier & Hoeffler, 2004). Under the line of the greed argument, it is commonly affirmed that rebellion is an industry that generates rents by looting (Grossman, 1999; Grossman, 1991). In terms of economic inequality, the most intense conflicts occur when there are intermediate land inequality levels because of the problems of no provision of the land as a public good (De Luca & Sekeris, 2010).

Although the dichotomy between greed and grievance has been widely extended and recognized as valid, it has some gaps that precisely allow the continuing exploration of concepts and opportunities in this line of research. The critique of this theory is that it does not include the actions and functions of armed actors within contexts where there is no war per se. Additionally, the excessive simplification of the dichotomous model is questioned, stating that the interaction of both causes must have more importance (Keen, 2012).

The discussion over greed or grievance implicitly entails the endogenous relationship between conflict and poverty because either conflict causes poverty, or poverty can lead to conflict. This relationship is addressed relating to households' vulnerability to poverty and vulnerability to violence, recognizing that families provide human and material capital to conflict<sup>11</sup>. Poorer households will have a higher probability of participating and supporting one side in the armed conflict, but also families more vulnerable to violence have a more significant likelihood of joining and supporting one side in the battle. This line of theory recognizes that, indeed, the possibility to capture rents can drive the dynamics of armed conflicts, but also social problems might have an impact on these processes (Justino, 2009).

Another issue that has not been taken into account in the theories presented before is the role of democracy and democratic institutions in the dynamics of these events, and how these institutions can increase or decrease conflicts. In terms of the implications of democracy, a potential source of grievance, higher levels of democracy relate to lower risks of conflict. It is argued that the risk of conflict and the level of democracy has an inverted U-shaped relationship, i.e., in autocratic regimes and stable democracies, there is no room for disputes; while in semi-democratic systems, the probability of conflict is the highest as the central government is weak. Rebel groups can exploit this weakness in military and financial terms because more fragile states have less capacity to fight but also less capacity to control the appropriations of rents (Gleditsch & Hegre, 1997; Hegre, 2014).

Geographical characteristics<sup>12</sup> of a country, combined with the poor state of the roads connecting the center to the periphery of the country favor the emergence of insurgency and its oppression of civil society. Also, authors claim that there are several factors related to the risk of conflicts such as political instability in the center of the country, weakness of the

<sup>11</sup> Resources such as money, information, or shelter, among others.

<sup>12</sup> Complicated geographical characteristics that complicate the presence of the state in the whole territory.

central government, a large population spread over a wide area of territory, facilities to produce some high-value and low-weight goods<sup>13</sup> and state-dependence on oil production (Fearon & Laitin, 2003).

An evolution of the theory of the determinants of conflict is that the motivation and the viability of the conflict do not behave perpendicularly, but that the viability can end up determining the dispute. Regardless of the initial motivation of conflict, rebel organizations will gradually transform into organizations that are motivated by the economic incentives when there is room for growth in terms of funding and revenue capture within the conflict. This theory uses the theories presented before and recognizes that every single argument used might be part of the process that explains the dynamics of the conflict. These arguments are not mutually exclusive but rather complementary (Weinstein, 2005).

Deepening into the "rational" side of the causes of conflicts, there are more elaborated theories that frame the decisions to participate in this event according to the economic rationality in a more general way. An extensive review of the literature, groups conflict causes in three subgroups. First, revolutions justified by competition for resources; second, asymmetric information; and third, the inability to enforce contracts. Each one of these causes has its way to explain how the dynamics of the conflicts shaped (Blattman & Miguel, 2010).

Concerning the relationship between rebel organizations and the central government, departing from the incomplete contracting problem, to deploy a principal-agent model interacting a state that faces an armed opposition. Here the state decides either to live with the opposition while negotiating to weaken the capabilities of their rivals or to try to monopolize the violence to consolidate its power by disarming the opposition. In general, the author concludes that the incomplete contracting problem, based on the incapacity of the government to enforce contracts in future periods, leads to a constant risk of fighting because the state prefers to consolidate its power through fighting (Powell, 2013).

Institutions in the middle of the conflict depend on two variables, the time horizon of the armed group and the quality of the institutions in the pre-war period. If the time horizon is short, there will be just disorder, but if the time horizon is long, the type of institutions will depend on the quality of the institutions. In this case, good institutions will lead to an alioocracy where rebels only interfere in public order and taxation and civilians have

<sup>13</sup> High-value and low-weight goods like cocaine, diamonds, or gold.

bargaining power, but in places where corrupt institutions appears there will be a rebelocracy where everything beyond public order and taxation is controlled by the rebel organizations (Arjona, 2014, 2017).

In terms of institutions, the lack of quality or the absence of them leads to the problem of the appearance of private providers, that fulfill those grey spaces where the state is absent or unable to operate correctly. The issue with private provision of institutions is that they might use their influence in those places to favor some local elites or to extract illegal rents and resources. “The Public Goods Trap” proposes a vicious circle when there is an inadequate supply of public goods by the state and its implications in terms of economic and social issues:

Whenever public goods are poorly provided in a society, people find ways to satisfy their needs. If they have the resources, they will try to privately provide for themselves what is not being offered by the government... But now think of the implications. If people have their needs satisfied privately, if they have solved the problem, they do not need to demand public goods... The final step in this feedback loop simply recognizes that when people do not demand public goods from the state, the state will not provide as many of them. (Fergusson, 2017, p. 3)

All the arguments presented before, in the rational line of explanations for conflicts, can be summarized in two or three lines. Individuals take part in the conflict according to rational decisions but also because of other issues related to economic rationality such as asymmetric information or incomplete contracting. These individuals find their motivations to participate either on social and political grievances or in the possibility to capture rents, which is explained by greed. Additionally, issues like institutions, the level of democracy, the opportunity to produce high-value and low-weight goods, and geographical characteristics influence the risk of conflict.

With these theories in mind, the hypothesis that the decentralization process affected the dynamics of the Colombian armed conflict is supported mainly in the greed argument, extending the greed not only to economic resources but also to political outcomes. In the

rebelocracy argument, as mentioned before, Colombian warfare has endured several decades, and the institutions in the periphery have been very limited. In general, it is explained by the rational causes, because as this conflict has many lines, each argument helps to explain the big picture of the conflict.

## **Dynamics of the Colombian armed conflict**

For the Colombian case, empirical research is not widely studied because of the lack of data, but it is still not indifferent to the dichotomy between greed and grievance. If a choice were to be made, greed rather than grievance shaped the conflict, recognizing the role of historical institutions, democracy, and the war on drugs.

The search for the strengthening of their finances, due to fiscal decentralization, shaped the geographical expansion for the insurgent guerrillas in the early '80s and later on for the paramilitary groups. It is greed, or the intention to capture rents, that has led to the emergence and expansion of the conflict between the '80s and the late '90s (Sánchez & Chacón, 2006). About democracy, the relationship between political openness, guided by the election of mayors and governors, and the conflict is explained by a phenomenon called "armed clientelism", which means the appropriation of public resources with the use of violence (Sánchez & Chacón, 2006).

Fiscal decentralization and the popular election of mayors and governors achieved in between the late '80s and the '90s increased the phenomenon of armed clientelism bolstering conflict because of the appearance of more resources in areas of the country where the state was fragile (Eaton, 2006). The main point that caused the failure of decentralization, concerning the conflict, was the "ineffective or non-existent provision of policing services in large parts of the national territory" (Eaton, 2006, p. 547). This institutional absence ended up creating "a series of new opportunities for those armed actors who refused to accept the terms of the government's decentralizing offer" (Eaton, 2006, p. 548). Each faction of the conflict reacted differently to this process:

the FARC responded to decentralization by initiating subnational peace negotiations with municipal authorities in various regions. The ELN focused

on taking advantage of new rules governing the distribution of oil royalties, given its base in areas that had significant oil deposits. The paramilitaries set their sights on penetrating departmental offices, not just municipal governments. At a deeper level, however, what is more striking is the fact that all three groups have adroitly used decentralization to reinforce the practice of armed clientelism. (Eaton, 2006, pp. 548 – 549)

The institutionalist approach, which means understanding the conflict in terms of the country's institutional context or social constructions, recognizes that the institutional framework of Colombia is what has shaped the interactions that led to armed conflict. Extractivism in political and economic terms since the colonial institutions led to an actual extractivist institutional system that only thought of extracting income to benefit main city centers and not the periphery (Galindo, Restrepo, & Sánchez, 2009).

Based on the state's capacity to regulate its national territory and the implications for the armed conflict, an alternative explanation, that combines economic motivations and political ones, suggests that armed conflict has developed because there are certain areas in the country where the state has not been able or has not wanted to impose all its institutions. In these areas, the illegal armed groups are active, exercising the role that the state has left empty. Here the armed groups strengthen their social base, charge taxes to the community to sustain their operation, and additionally manage to extract all kinds of illegal income, such as drug production or illegal mining, that allows them to increase their financial capabilities (Duncan, 2006, 2014).

As for the relationship between natural resource extraction and armed conflict in Colombia, exogenous shocks to commodity prices such as coffee and oil affected the conflict in the late '90s and the first years of the 2000s. For the shocks on coffee prices, there is a negative relationship between coffee and conflict, which implies that a fall in prices leads to an increase in violence from all armed groups in the coffee municipalities, while a shock over oil prices has the opposite effect, which means that an increase in oil prices leads to a rise in paramilitary attacks (Dube & Vargas, 2013).

The precariousness of the Colombian state can explain a large part of the conflict. This weakness led to institutional gaps that allowed corruption, appropriation, and control by

illegal agents to appear (Restrepo & Aponte, 2009; Richani, 2013; Sánchez, 2007; Uprimny, 2001; Yaffe, 2011). Also, in terms of the capacity to do land reforms, one of the central causes of the conflicts in Colombia (Grupo de Memoria Historica, 2013; LeGrand, 1988, 2003), there is evidence that if reforms are significant enough they will reduce insurgent activity. However, if there are small reforms, they boost insurgent activity; the downside of these reforms in Colombia is the role of local political elites that blocked these reforms and tried to favor large landowners, and the landowners' role per se because in certain areas they founded private armies to recapture land extensions affected by the reform (Albertus & Kaplan, 2012).

All the empirical and qualitative work presented in this section supports the idea of the importance of rents in the dynamics of conflict, supporting the hypothesis presented in this paper. Also, as the data used in these studies only cover short periods, there is space for continuing this discussion with better data and with a long-term vision that allows the analysis of a conflict of more than five decades.

## 4. Data

The identification strategy consists of building up a panel data base with 1094 municipalities. This database includes information on the variables of interest such as conflict and socioeconomic data for the time period 1984-2016. This time framework is selected because it includes the very first peak of the conflict, around the mid-1980s, and the data availability.

The variables for conflict are from the project Violent Presence of Armed Actors in Colombia (ViPAA) developed by Osorio, Mohamed, Pavon, & Brewer-osorio (2019)<sup>14</sup>. This report collects individual violations against the human rights committed by the two main illegal actors of the Colombian armed conflict, insurgent and paramilitary groups. The report allows identifying individual violent events, leading involved actors, and latitude and longitude of the event. The information is collapsed into a municipal-year panel, which includes the total number of violations of human rights by each armed actor per year.

<sup>14</sup> Osorio, Mohamed, Pavon, & Brewer-osorio (2019) use the report *Noche y Niebla*, a magazine edited by the *Centro de Investigación y Educación Popular* (CINEP), one of the most traditional news sources in terms of armed conflict, peace, and human rights.

Moreover, there is a dummy variable that takes the value of 1 if there is at least one human rights violation in each year. However, this variable might have a downward bias because it is well documented that many places in the country show a relatively stable peace; nevertheless, the conflict might be present because the armed actors are around the territory (Arjona & Otálora, 2011)<sup>15</sup>.

Data from ViPAA is used and preferred to other sources because this database has two advantages compared to other references. First, this database is one of the most extensive data sources for the Colombian armed conflicts because it has information since 1984, which means that it manages to take almost the whole modern conflict into account. Second, this database collects deaths, which is commonly used as a proxy for conflict, and data for human rights violations. This means that the authors recognize that the conflict is much more than the deaths related to it.

The variable for fiscal performance is municipal income in current prices according to *Departamento Nacional de Planeación* (National Planning Department). This variable allows calculating for instance the share of the municipal fiscal income in the total departmental income. These data are from the Municipal Observatory of *Universidad de Los Andes* and could shed lights on fiscal decentralization (Schneider, 2003). The control variables used are the Basic Necessities Index, to account for the time variant characteristics of each municipality, and the population to consider the municipality size; both variables are also from the Municipal Observatory of *Universidad de Los Andes*. Table 1 presents all the variables used, their meaning, and their name for the identification strategy.

**Table 1: Variables and definitions**

<b>Name</b>	<b>Variable</b>	<b>Definition</b>
C <sub>1</sub>	Insurgency attacks	Number of insurgent human rights violations
	Paramilitary attacks	Number of paramilitary human rights violations
C <sub>2</sub>	Insurgency attacks	Number of insurgent human rights violations
	Paramilitary attacks	Number of paramilitary human rights violations
C <sub>3</sub>	Insurgency dummy	Dummy variable: 1 if there is at least one insurgent human rights violation, zero in other cases

<sup>15</sup> Authors state that armed presence in Colombia is underestimated between 30% to 80%

	Paramilitary dummy	Dummy variable: 1 if there is at least one paramilitary human rights violation, zero in other cases
I	Income share	Share of municipality income respect to the department income
D	Distance	Linear distance in kilometers of the municipality to the department's capital
X	Basic necessities index	Basic Necessities Index
	Population	Number of inhabitants

**Source: Own construction**

Table 2 shows the descriptive statistics of the panel used for the empirical strategy. The number of observations varies along the time because several municipalities were founded after the first year included in the sample. In terms of attacks per year, the maximum varies between groups. Insurgents have perpetrated more attacks in a single municipality in one year than the paramilitaries. In general, the panel is strongly balanced, but several variables have fewer observations (missings) because of the foundation year of some municipalities. It is important to mention that the variables are transformed into logarithms for the identification strategy<sup>16</sup>

**Table 2: Descriptive statistics**

	(1)	(2)	(3)	(4)	(5)
	N	Mean	SD	Min	Max
Log. Insurgency attacks	37774	0.17	0.52	0	6.50
Log. Paramilitary attacks	37774	0.13	0.45	0	5.88
Insurgency attacks	37774	0.64	6.93	0	663
Paramilitary attacks	37774	0.47	4.63	0	358
Insurgency presence	37774	0.13	0.34	0	1
Paramilitary presence	37774	0.11	0.31	0	1
Log. Income share	35719	0.03	0.07	0	0.69
Distance	37774	80.90	59.60	0	493.08
Basic necessities index (est.) <sup>17</sup>	37774	50.31	21.72	5.36	269.47
Population (est.) <sup>18</sup>	37774	36896	223021	0	8.08e+06

**Source: Own calculations**

<sup>16</sup> Before taking logarithms, each variable is transformed as  $new\ var = 1 + old\ var$  to avoid losing observations with values at zero due to the logarithm.

<sup>17</sup> The basic necessities index was estimated using the intercensal growth rate from the population censuses of 1985, 1993 and 2005.

<sup>18</sup> Population was estimated directly by the national department of statistics DANE based on the national censuses mentioned above.

## 5. Identification strategy

This paper assesses the relationship between fiscal decentralization and the Colombian conflict by using three model specifications (see equation 1, 2, and 3). The first specification is a panel-data model with municipality and year fixed effects (equation 1). The second is a panel-probit model for understanding the probability of conflict (equation 2). Finally, a third specification is a panel-Poisson fixed effects model to recognize that the measure used as a proxy for conflict is a count variable that takes non-negative integer values (see 3).

The dependent variable for the first model is the natural logarithm of the number of human rights violations of either insurgency or paramilitary groups. This paper assesses the relationship between fiscal decentralization and conflict using as explanatory variable the interaction between municipality income share (following Schneider, 2003) and the linear distance to the department's capital, used to recognize the heterogeneous effects of this process between center and periphery. In each model,  $\beta_1$  is the coefficient that will determine if the fiscal decentralization process has any relationship with the Colombian armed conflict.

If  $\beta_1$  is positive and significant it means that higher levels of income will increase the conflict if there are located far away from the central government. In other words, municipalities far away from the center of the country and with significant income will have more conflict than those with lower levels of income. This means, in terms of the hypothesis, that if  $\beta_1$  is positive and significant, the fiscal decentralization had a positive effect on the conflict, specially, in the periphery of the country

$$C_{git}^1 = \beta_0 + \gamma_i + \alpha_t + \beta_1(D * I)_{it} + \beta_2 I_{it} + \beta_3 X_{it} + \varepsilon_{it} \quad (1)$$

For the panel-probit, it is used a dummy variable that takes 1 if the municipality had at least one human right violation in the respective year and 0 otherwise; for the last model, the count of human rights violation of each armed group in every year. The control variables are the series of population to address for the municipality size and the basic necessities index

that collects all the time-variant distinctive characteristics of the municipality. The first model includes municipality and year fixed effects to address the omitted variables bias.

Where  $g$  stands for insurgents or paramilitaries,  $i$  for each one of the 1094 municipalities and  $t$  for the years from 1984 to 2016. Also,  $\gamma_i$  is the municipality fixed effect and  $\alpha_t$  the year fixed effect. In the second and last model  $g$ ,  $i$  and  $t$  stand for the same issues as in the previous model.  $G$  is the cumulative distribution function (C.D.F) of the standard normal distribution. Finally, the panel-Poisson model includes municipality ( $\gamma_i$ ) and time fixed effects ( $\alpha_t$ ) to address the overdispersion and the excess of zeros.

$$Pr(C_{git}^3 = 1 | D_i, I_{it}, PP_{it}, X_{it}) = G(\beta_0 + \beta_1(D * I)_{it} + \beta_2 I_{it} + \beta_3 X_{it} + \varepsilon_{it}) \quad (2)$$

$$C_{git}^2 = e^{(\beta_0 + \gamma_i + \alpha_t + \beta_1(D * I)_{it} + \beta_2 I_{it} + \beta_3 X_{it} + \varepsilon_{it})} \quad (3)$$

## 6. Results

Table 3 presents the econometrical results for the panel data model (equation 1). Columns 1 and 3 are the simplest models, and 2 and 4 the models the complete models. The primary outcome of this model is the positive and significant coefficient of the interaction between income and distance in all the presented configurations. According to the econometrical results, an increase in one unit of the interaction is related to an increase in conflict between 0.8% to 1.4% involving the insurgency and between 0.26% to 0.6% with the paramilitary. This result means that larger municipal income levels, as the measure for the fiscal decentralization process, the effect of distance in conflict is stronger. Moreover, vice versa, that farthest away from the department's capital, the more consistent the effect of decentralization on conflict will be. This result suggests that municipalities far from the national and subnational centers of governments are more prone to be immersed in the conflict. Therefore, the decentralization process developed by the state since the mid-1980s seems to influence the Colombian conflict.

The effect of income share alone confirms the logic behind the sign of the interaction because if it does not account for distance, the coefficient should be driven by the main cities of the country, because those cities are the ones with higher income levels. The logic behind

this result is that higher-income levels relate to bigger cities, and big cities in Colombia are those where there is more state presence and less violations of human rights. This result suggests the possibility to confirm the hypothesis that the decentralization process affected those municipalities far away from the state capacity while the total effect seems to be negative.

**Table 3: Panel data estimation**

Log. Number of attacks	(1)	(2)	(3)	(4)
	Insurgency	Insurgency	Paramilitary	Paramilitary
Distance # Log. Income	0.0142*** (0.00203)	0.00835*** (0.00179)	0.00604*** (0.00173)	0.00268* (0.00161)
Log. Income	-1.004*** (0.170)	-0.855*** (0.150)	-0.262* (0.145)	-0.266** (0.135)
Observations	35,719	35,719	35,719	35,719
R-squared	0.002	0.226	0.0003	0.138
Number of municipalities	1,094	1,094	1,094	1,094
Municipality FE	YES	YES	YES	YES
Controls	NO	YES	NO	YES
Year FE	NO	YES	NO	YES

Controls include estimated series of municipality basic necessities index and population. Standard errors in parentheses.

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1, + p<0.15.

**Source: Own calculations**

Table 4 presents the average marginal effects of the panel-probit (equation 2). Again, the columns follow the logic mentioned above. These estimations support the results presented before. The average marginal effects of the interaction between distance and the logarithm of the income share, as the measure for decentralization, are positive and significant, which means that this interaction increases the probability of conflict. As in the previous model, the interaction can be interpreted in two ways; first, in the periphery of the country municipalities with higher benefits due to the decentralization process have more probability of suffering the conflict and the other way is that municipalities with a higher gain of the decentralization process have more risk of conflict if there are far away from the center of the country. In numbers, an increase in one unit of the interaction is related to an increase in the probability

of conflict involving the insurgency between 0.24 to 0.55 percentage points and involving the paramilitary between 0.12 to 0.45 percentage points.

The other outcomes of this model have mixed results, on one hand, the average marginal effect of distance supports the idea because it is positive and significant, which means that, on average, distance to department capital increases the probability of conflict. On the other hand, the effect of the logarithm of income share is positive and significant which goes in the opposite line of the results presented in the previous model; the interpretation of this results might be that, in general, the decentralization process increased the probability of conflict in the whole country regardless the institutional capacity of the government.

**Table 4: Panel-probit estimation**

Pr(Being attacked = 1)	(1) Insurgency	(2) Insurgency	(3) Paramilitary	(4) Paramilitary
Distance # Log. Income	0.00244*** (0.00507)	0.00549*** (0.00112)	0.00118+ (0.00079)	0.0045*** (0.00105)
Distance	0.00134*** (0.00042)	0.00416*** (0.00055)	0.00121*** (0.00042)	0.00473*** (0.00059)
Log. Income	2.7374*** (0.37191)	2.3729*** (0.41819)	2.5499*** (0.39487)	2.06116*** (0.46299)
Observations	35,719	35,719	35,719	35,719
Number of municipalities	1,094	1,094	1,094	1,094
Controls	NO	YES	NO	YES

Average marginal effects reported. Controls include estimated series of municipality basic necessities index and population. Standard errors in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1, + p<0.15.

**Source: Own calculations**

Finally, Table 5 presents the econometrical estimations for the panel-Poisson model (eq. 3), used for recognizing that the dependent variable is a count variable. Again, the coefficients of the interaction support the hypothesis of the paper, and as in the previous tables, the logics of the columns are the same. If there is a unit increase in the interaction, holding everything else constant, the differences in the logarithms of expected counts of human rights violations are expected to be between 0.0732 to 0.0734 higher for the insurgency and between 0.037 to

0.043 for the paramilitary. This means that the decentralization process' effects on conflict are increased by the distance to the department's capital or vice versa, the effect of conflict is higher in the periphery if the gains of the decentralization are high.

For the other outcomes of the model, again, there are mixed results. The logarithm of income alone has a negative and significant effect on the insurgency, which means a unit increase will lead to a decrease of the differences in the logarithms of the expected counts, supporting the first model. For the paramilitary, there is a positive and significant (for almost all cases) effect supporting the second model, which means an increase of the differences in the logarithms of the expected counts of human rights violations. It is important to note that in this model, the number of observations is lower compared to the other models because it excludes the municipalities that do not have any human right violation in the period.

**Table 5: Panel-Poisson fixed effects estimation**

Number of human rights violations	(1) Insurgency	(2) Insurgency	(3) Paramilitary	(4) Paramilitary
Distance # Log. Income	0.0732*** (0.00425)	0.0734*** (0.00461)	0.0425*** (0.00499)	0.0376*** (0.00573)
Log. Income	-3.513*** (0.229)	-2.386*** (0.280)	0.0817 (0.276)	1.008*** (0.366)
Observations	27,899	27,899	25,706	25,706
Number of municipalities	855	855	787	787
Municipality FE	YES	YES	YES	YES
Controls	NO	YES	NO	YES
Year FE	NO	YES	NO	YES

Controls include estimated series of municipality basic necessities index and population.

Standard errors in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1.

**Source: Own calculations**

Two issues about the identification strategy are worth of discussing. First, the role of illegal rents in the conflict, particularly the role of cocaine production in the Colombian armed conflict. It is widely accepted that illegal actors fight for the control of illegal rents. Regarding this issue, this paper only focuses on the resources related to the decentralization process since it is a fact that illegal actors also fought to co-opt these legal resources (Duncan, 2014;

Eaton, 2006; Sánchez & Chacón, 2006). Moreover, there is no agreement between scholars about the causal relationship between conflict and drug production. In this way, Cornell (2005, 2007) reviews economic, political and social literature to conclude that there is no explicit causal mechanism that confirms that drug production causes conflict, although the author recognizes that both processes are related. Finally, another problem related with the role of illegal rents is the absence of data of drug production, the only data available is the planted hectares of coca leaf. This information is only available from 2000 onwards. These arguments therefore explain why this paper does not take drug production into account. Nonetheless, it does recognize that the drugs debate need to be addressed in further investigations.

The other issue is the possible endogeneity due to omitted variables. In order to solve this problem, the models include fixed effects to address the time invariant omitted variables. Additionally, the models also include the basic necessities index to control for the time variant omitted variables, i.e., as a proxy for all the time variant characteristics. This index collects information in five different dimensions: housing, public services, domestic spaces, schooling and economic dependence of the families.

## **7. Conclusions**

This paper analyzed the relationship between the decentralization process and internal conflict in Colombia between 1984 and 2016. The main hypothesis is that the fiscal decentralization opened new possibilities for illegal armed groups by increasing the subnational fiscal and administrative autonomy. Therefore, these illegal armed groups boosted violent actions to co-opt the new decentralized power and resources deepening the severity of the internal conflict.

In order to assess this hypothesis, decentralization was measured as the interaction between the log of the fiscal income share and the linear distance to the department's capital of the Colombian municipalities. Moreover, three different models estimated the effects.

The main finding of this research is the positive and significant relationship between the fiscal decentralization process in the periphery of the country and the violations of illegal

armed groups. These results are robust to the different specifications and models because the results remain in the same line with a traditional panel data estimation, a panel probit estimation, and a panel-Poisson estimation.

The logic behind these results is that armed groups fight to control places where there are more resources to loot, not only economic but also political resources. These interactions led to the kind of institutions described in the dynamics of armed conflicts section in which, at some point, the state has to accept the role of these groups consolidating an aliocracy as defined by Arjona (2017). In such institutional setting, these groups offer some of the services that only the state should provide. For instance, where the state "loses" the war with these groups, a 'rebelocracy' appears and, in this 'rebelocracy,' the irregular groups provide almost every service, beyond security and taxation.

This paper therefore adds information to the debate on the Colombian armed conflict by using a new variable approach with the interaction of income and distance to understand the decentralization process in the periphery. In this line, the paper participates in the greed versus grievance debate providing more arguments to the greed side by presenting reasoning in favor of the hypothesis that the Colombian armed conflict is based on the greed of both insurgency and paramilitary forces.

Finally, in terms of policy implications, this paper suggests that, although decentralization processes may have many benefits, such process demand an adequate institutional capacity to avoid to co-optation of power and resources. Such fact is especially critical in a context with presence of local illegal armed actors. In these contexts, the downside can be dark forces that can capture an essential part of the resources. The Colombian case might be a useful example of a good-intentioned policy that went wrong because of the lack of context from the policy makers. Those who participated in the design of the decentralization process did not take into account the role of the illegal armed groups in the territory or at least did not understand the capacity of these actors. The main lesson of this historical process is that, before proposing decentralization processes, any central government should evaluate the context, because if the institutional setting is not strong enough, the cure might be worse than the illness.

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