The Theoretical Implications of Institutional Theory for Aid
An Argument for the Refocusing of International Aid Efforts

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The debate over aid effectiveness has been polarized by the small percentage of successful aid stories over the past half-century. Current international consensus favours a generic array of humanitarian goals at the expense of country-specific consideration. This short paper will re-localize the concept of aid effectiveness using the concept of domestic institutions to explain why and when aid “works”. Ultimately, the paper will argue for a view of aid as devoid of intrinsic characteristics and instead position it purely as a source of revenue operating as a function of the essential character of national politico-economic institutions – whether they be extractive or non-extractive. Botswana and Zimbabwe will be used as case studies to provide an illustration of the broader argument in action.

Introduction
Since 2000, the dominant narrative surrounding development has been the United Nations’ Millennium Development Goals (MDG). The 8 MDG’s seek to eradicate extreme poverty and hunger, as well as several other issues pertaining to underdevelopment. Of the solutions proposed by said development regime, Official Development Assistance (ODA) is seen as a vital element of the overall strategy, assisting people in accessing basic necessities, healthcare and primary education. Yet, despite some advance in articulated target areas within the MDG’s, the concept of foreign aid as solution to the core issue of underdevelopment has recently come under question. Though successful in certain instances, development aid has met significant challenges as a long-term solution to poverty, often serving to maintain the domestic power dynamics that ensure continued poverty. Fundamentally, the issue lies in understanding what aid can do and what it cannot, as well as that which it provokes under extractivist, non-property respecting institutions – namely, dependency, corruption, lack of accountability and a shortage of innovative policy responses to organic situations. We must thus view aid not as fundamentally transformative in itself, nor can it be said to be corrosive of governments not already seduced by the easy wealth offered by exploitative and criminal behaviour; it reinforces prior practices, a means by which ruling elites may accomplish their ends. Therefore, rather than being definitively effective or ineffective, development aid effectiveness is a function of the recipient country’s either extractive or non-extractive institutions, serving as a reinforcement of regime form, and indicating whether or not it is truly committed to development.

To aid or not to aid?
Jeffrey Sachs who has long argued as part of his larger developmental theory, that development aid should be increased two to threefold in order to develop capacity at the micro level\(^1\). Thus, his argument suggests a bottom-up approach to development, with aid as a priority vehicle for its accomplishment, acting as a form of venture capital\(^2\). Poverty resolution is seen primarily, for Sachs, as an issue of economics, with politics and quality governance relegated to secondary status, circumvented through grassroots development\(^3\). Aid, in removing physical

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The Theoretical Implications of Institutional Theory for Aid

barriers, is meant to create the opportunity for the poor to ultimately escape Sachs’ “poverty trap”, the cycle of being too poor in capital to save and thus unable to make the necessary investments to lift oneself out of poverty.\(^4\)

A spate of recent scholarship has recently come out in complete opposition to development aid. William Easterly criticizes aid proponents for assuming the incorrect positions that “aid buys growth”\(^5\) and that planning for development can occur on a mass scale, a so-called “tyranny of [policymaking] experts”\(^6\), arguing that development must come from respect for the rights of the poor.\(^7\) Angus Deaton and Dambisa Moyo fall into the anti-aid camp to an even greater degree, arguing that aid in general creates a cycle of dependence,\(^8\) eroding the social contract by decreasing reliance on taxation and thus accountability, in turn reducing incentives for the cultivation of stable institutions ensuring the proper environment for the growth of the economy and of an entrepreneurial business class.\(^9\)

Sachs and his opponents raise important points, namely the prohibitive and cyclical elements of the poverty trap. However, if underdevelopment is the symptom, the illness does not lie with the people; rather, aid supporters as well as aid detractors misdirect their efforts, with the barrier or, alternatively, the opportunity for development being the state and its institutions.

**Evaluating Effectiveness: Theorizing an Institutionalist Approach**

To understand what this paper means by its answer to the question of “is development aid effective?”, one must understand development as, first and foremost, a state-based phenomenon – this is to say that it is primarily incumbent on the state to foster development in its own territory. Aid effectiveness would generally be taken to mean improving the economic, educational and health condition of developing countries – in other words, to incite development. To turn then to the state, the behaviour of their officials and citizens is governed by their institutions, defined by Douglass C. North as “humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights)”\(^11\). These can be further divided into two forms; non-extractive institutions, in other words, institutions designed to maximize widespread prosperity and diffuse power relations, and extractive institutions, those that are meant only to enrich and keep in power a small ruling elite.

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at the expense of the remainder of the population\textsuperscript{12}, generally through high barriers of entry and elevated transaction costs\textsuperscript{13} in politics and business.

Non-extractive institutions include those in the service of protection of property rights, which when protected, provides a line of defence against appropriation of land and resources allowing people to safely save and invest. Rationalisation through codified law would be another such non-extractive institution, ensuring that the political and economic “rules-of-the-game” are known and (theoretically) applied equally to both government and citizen. These non-extractive institutions have been found to promote long-run growth\textsuperscript{14} as well as wider dissemination of wealth and protection from government abuse\textsuperscript{15}. How? Through the lowering of transaction costs so those who wish it may open and build businesses, save, invest and pull themselves out of poverty, without fear of extralegal appropriation of their return. Thus, aid effectiveness, or in other words aid spending in line with the implementation of the overall development project, is subject to pre-existing institutions. This political-level consideration is precisely that which Sachs ignores. Transaction costs (bribery, appropriation, political targeting) will only continue to soar under extractive institutions, rendering useless any progress made as a result of aid, not to mention theft of aid money and mismanagement, precisely because they incentivize behaviours meant to keep a select few at the top of the power ladder.

For Acemoglu and Robinson, there is a fundamental confusion surrounding poverty and corruption; they are not a matter of lack of resources\textsuperscript{16}. As an example, Africa has more than enough, while Singapore managed to build its economy with none at all. Instead, the issue of development is structural, beginning and ending at the institutional level, either through encouraging or limiting extractive elite behaviours that discourage private enterprise and (relatively) meritocratic distribution of wealth, on the one hand, or prosperity and sovereignty on the other. Could aid then modify institutions? Could conditional aid, designed to modify incentives in recipient countries by attaching conditionalities to aid provision, serve as a suitable solution to whatever structural challenges aid may encounter? Attaching conditions to aid could produce better outcomes by, for example, encouraging democratic reforms and legal rationalisation. Unfortunately, the empirical evidence for this is scant; donors are often unwilling to withdraw aid despite broken contracts and human rights violations (Clist theorizes empathy as cause)\textsuperscript{17} while recipient countries’ poor statistical capacity and oversight leads to misleading numbers indicating achievement of goals and poor expenditure accounting\textsuperscript{18}. Further, the link between democracy and aid has been empirically proven to be tenuous\textsuperscript{19}, while the emergence of

\textsuperscript{13} North, Douglass C. "Transaction Costs, Institutions, and Economic Performance." International Center for Economic Growth: 1-35. 6
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\textsuperscript{17} Clist, Paul. "The Continued Use and Failure of Conditional Aid." 16-17
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the Chinese aid-as-investment model as alternative allows for fewer democratic reforms (false or otherwise) should states wish to pursue an alternative source of funds. Finally, over-conditionality imposes a “tyranny of experts” in a post-Washington Consensus era, when “ownership” of aid has become consensus du jour. As such, this paper argues that aid cannot be judged to be effective in development outside of the specific national and institutional context within which it is being implemented; aid, as any other resource, reinforces the position of recipients, and thus its effectiveness in supporting development is a correlate of its institutional context, not the reverse.

The Millennium Development Goals – False Flag

As mentioned in the introduction, the major paradigm surrounding development has been the United Nations’ MDG’s. Introduced by the United Nations in 2000, the Millennium Development Goals were an attempt to end poverty through the new paradigm shift represented by humanist development discourse. The 8 goals, trackable through a diverse set of indicators, were primarily concerned with halving the extreme poverty rate and establishing a basic living standard, primarily through the development of a global partnership for development aid, which manifested in net ODA increases throughout 2000-201520.

The UN’s latest development project must necessarily be treated with caution under an institutional approach. There is certainly a positive to be found in the promotion of individual human rights. It is certainly not outside the realm of possibility that extractivist nations may feel the eventual crunch of a higher-educated and healthier populace. Problems however abound, with the primary issue that of a lack of national context in the selection of goals as well as broad, and often unmeasurable goals21. The bulk of achievements were also completed in the economically booming East Asian and South Asian regions (China and India did most of the heavy lifting22), leaving one to wonder whether these goals were completely inconsequential in the face of simple market-oriented policies. This is a particular issue for those advocates of development, and not humanitarian (a key distinction – humanitarian aid addresses needs of consumption and health while development aid aims, or should aim, to create a relatively self-sustaining state), aid in that those countries who have most contributed to the completion of the MDG’s have been those to least rely on aid, while the opposite is also true. Unfortunately, dealing with an AIDS crisis in Ethiopia is a humanitarian issue; improving the state’s capacity to deal with such an issue in the future requires an understanding that AIDS in the Global South is primarily an issue of poverty23 and poor healthcare systems, and that these are thus both issues of poor institutions. Therefore, the greatest issue (along with typical UN issues of enforceability and measurability) with the Millennium Development Goals is the lack of discussion of the root institutional and elite-level causes of the problems they try to solve, focusing primarily on alleviating immediate humanitarian concerns as opposed to fostering the environment for long-term development. As a result, as Asia has undergone a process of institutional overhaul and

rapid development, Africa – particularly the Sub-Saharan region – has continued to be mired in poverty despite increased foreign aid efforts, due in large part to their institutions – which have in turn been reinforced by the proliferation of foreign aid. The argument, to illustrate in concrete terms the impact of institutions and their interaction with aid, now turns to a qualitative analysis of two Sub-Saharan cases with substantially divergent trajectories: Botswana and Zimbabwe.

**Botswana - Developmental Golden Child**

Botswana remains one of the few political bright spots of Sub-Saharan Africa – it is a rare stable multiparty democracy with an independent judiciary and free elections\(^{24}\) in a region otherwise beset by instability and corruption. To wit it has often been singled out as an example of successful development policy in no small part because of its proper use of foreign aid. Indeed, on independence, Botswana was mired in poverty, relying heavily on grants from the British government for its development spending\(^{25}\). Botswana, under Seretse Khama (son of the major pre-independence chief), had clear aims in mind when it began post-independence development, using grants and loans to invest heavily in the mining sector as well as in the development of human and physical capital, through heavy infrastructure and education investments\(^{26}\). Though health indicators, especially in light of the recent AIDS crisis, remain concerning\(^{27}\), Botswana has managed to build itself into a middle-income country, challenging the concept that aid cannot work.

The use of aid was key to this process, and key to how aid was used were the institutional arrangements in place following independence\(^{28}\). General disinterest on the part of the British during colonialism ensured that Botswanan traditions of pluralism and chieftain accountability were easy to reinitiate post-independence\(^{29}\), only this time in the form of a parliamentary democracy. Furthermore, heavy resource extractivism (meaning the stripping of natural resources for elite gain) was not implemented in Botswana\(^{30}\) either during the British occupation or afterwards, with the Botswana elite turning their focus towards cattle exports and the diamond industry\(^{31}\). That rationalization and respect for private property existed post-independence is no miracle – indeed, the respect for private property preceded colonization, with many of the Tswana leaders being large cattle owners. The industry required the protection of land rights, with a diffusion of power among a varied and

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multi-tribe elite. The respect for private property thus carried over and foments ownership safety for both foreign and domestic investors. Due to these institutions, aid money has been put to good use. Revenue from the diamond industry was carefully re-invested in building up infrastructure (replacing the British grants), while aid spending targeted agriculture, development of human capital and transport. Botswana was thus able to avoid issues of heavy corruption, poor management of its large diamond reserves and the rest of its economy.

As seen above, Botswana has managed to avoid the aid trap – rent-seeking, corruption, mismanagement and dependency. Why then, have the gloomy predictions of Deaton and Moyo failed? Simply put, Botswana’s political and economic institutional arrangements have by-and-large prevented abuse of power. This is a situation where the Millennium Development Goals’ focus on aid may prove to be useful. Botswana has a need for help in slowing an AIDS crisis; having proven themselves able to manage aid, the humanitarian nature of the MDG’s may prove useful in this context. An additional lesson to draw is the need for a pre-planned move away from aid; Botswana reduced its reliance on aid to an almost significant amount by the 2000’s, accomplished through the use of non-extractive institutions to stimulate the private sector.

Zimbabwe – Extractivism Exemplified

If Botswana has played golden child, Zimbabwe has been an aid black sheep. An unmitigated disaster under Robert Mugabe’s socialist (in name) regime, Zimbabwe’s economy, chockful of potential upon the end of British and then Rhodesian white-minority rule, has sputtered and steadily declined. Corruption has been rampant, with stories like Mugabe winning a lottery organized by a state-owned bank providing a neat synopsis of the state of affairs. Indeed, Mugabe’s rule has seen aid inflows above those of even Botswana, yet GDP per capita has stagnated for years on end (with a small recent uptick due to the switch away from the Zimbabwean dollar). The high-potential private sector has crumbled under Mugabe’s socialist economy; yet Mugabe and his group of cronies have amassed fortunes, taking hefty cuts out of both development aid inflows, and state-owned enterprises, leading to 4% of the population owning 90% of the wealth.

The reason behind Zimbabwean (lack of) aid effectiveness, as in Botswana, lies in its institutions. Acemoglu and Robinson once again provide an institutional history of Zimbabwe. British control was first implemented by the racist Cecil Rhodes’s British South Africa Company.
(BSAC). Discarding even the front of the civilizing mission, Rhodes sought only to extract mineral wealth from the country (then called Rhodesia). Though he failed to turn much of a profit, white settlers started arriving in droves and took over the farmlands, establishing a hold over the economy while the native population remained mired in poverty. When Ian Smith and the white Rhodesians who made up government declared independence, the institution of minority rule was only further ingrained into the national conscience; extractive industries set up by the white government included, “a host of regulations on prices and international trade, state-run industries, and the obligatory agricultural marketing boards.” Similarly, rationalization at the political level was also ignored as Mugabe repressed political opposition, disbanded the senate, rigged elections and has generally ignored the courts and constitution. Property rights were systematically violated as of 2000 with the appropriation of hundreds of commercial farms, ending one of the few insurance bases for bank lending and leaving thousands without employment; the economy predictably collapsed. Thus, under this repressive regime, extractive, exclusionary and minority-based patterns of wealth accumulation have persisted and structurally encouraged the misappropriation and mismanagement of aid funds, ensuring a fundamental lack of aid effectiveness.

Conclusion

The connection is thus clear; if aid has been constituted as having its own inherent qualities but has led to divergent outcomes in different settings, it must be concluded that these are either secondary or non-existent in relation to institutional arrangement in recipient countries. Development aid, thus being little more than a resource, can only be effective insomuch as institutions are predisposed towards wealth diffusion; Botswana remains a perfect example of this, with significant money entrusted to its leadership and subsequent political and economic development. Zimbabwe, on the other hand, despite high potential in the private sector, suffers from the colonial-era persistence of extractive economic and political institutions. These same institutions have allowed for a political culture incentivizing misappropriation and elite impunity. How can the aid regime respond? The Millennium Development Goals are lacking, representing the continuation of a paradigm that saw conditional and tied aid fail Global South states, while many of the goals fall more in the category of humanitarian and not development aid. If development aid is to be socially transformative, then the West may have to make very difficult decisions about who it trusts with its money, balancing the moral indignation incited by human suffering against considerations for the long-term development of nation-states. Governments will have to be particularly attentive to transitional periods: as has been demonstrated by the divergent paths of the case countries, these are a crucial time for setting the tone of a new nation’s institutional arrangements and whether it will keep or discard extractive practices.

Ultimately, what matters, what has always mattered, in development is a country’s institutional arrangements; aid can only reinforce them, supporting those nations who wish to undergo a process of development, while doing the same for those that do not. Its effectiveness must thus be judged within these parameters.

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