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# Aid, Institutional Transplants, and Democracy

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## *Abstract*

The paper revisits the impact of aid on institutions and discusses the role of pre-existing institutional conditions and institutional transplants in explaining the reported (adverse) institutional impact of aid. The paper provides an empirical investigation based on cross-country regressions on a sample of 68 developing countries over the period 1984-2003. The findings support the hypothesis that poorly received institutional transplants – and subsequent institutional crises – largely account for aid's adverse impacts on democratic institutions in developing countries. The analysis also offers evidence that aid does fuel state illegitimacy.

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## 1. Introduction

Transplanting institutions from one place to another has been a widespread phenomenon across the globe and throughout history. As emphasized by Djankov *et al.* (2003), institutional transfers can be held responsible for a large amount of the institutional variation among countries. For instance, the French legal system has been exported to Spain, Portugal, Holland, Latin America, some west African countries as well as in some parts of Asia, while the German legal system was transplanted to Switzerland, Austria and Japan. Similarly, the legal system of the Union of Soviet Socialist Republics (USSR) was introduced to socialist countries.

A number of scholars have discussed the point that institutional transplants play a core role in determining the outcomes of institutional and economic development of their host countries. Acemoglu, Johnson, and Robinson (2001) attempted to provide an explanation of comparative development, shedding light on the impact of colonial experiences on early and modern-day institutions. Similarly, some other scholars (Englebert 2000a; Dia 1996) have discussed the role of history and institutional transplantation in shaping the modern institutions of developing countries. They discussed the extent to which the ill-matching of colonial institutions with indigenous norms and rules can explain the current state of institutions in developing countries.

Early debates on the effectiveness of aid have emphasized the potentially damaging effects of aid on recipient countries' institutions, with some authors arguing that aid dependence can undermine institutions by weakening accountability, encouraging rent-seeking and corruption, fomenting conflict over the control of aid funds, siphoning off scarce talent from the bureaucracy and alleviating the pressure to reform inefficient policies and institutions (Knack 2001; Svensson 2000a; Alesina and Weder 2002; Brautigam and Knack 2004). The purpose of this paper is to explore empirically the hypothesis that the ill-matching of institutional transplants (that is, the extent to which transplanted colonial institutions did not mesh with pre-existing indigenous institutions) accounts for the adverse institutional impacts of aid in recipient countries. The theoretical underpinning of such a hypothesis is that countries where indigenous institutions did not successfully mesh with colonial institutions ended up with weakly effective and long-lasting post-colonial institutions, which then formed the foundation for weak institutional frameworks, translating into reported adverse impacts of aid on institution-building. We rely on the Ethnographic Atlas database coded by George Peter Murdock to construct a proxy of the ill-matching of institutional transplants, which we assume to have persisted over time.

The remainder of this paper is structured as follows: section 2 provides a literature review on institutional transplants; section 3 makes a connection of that literature with aid effectiveness. Section 4 presents the empirical analysis; section 5 concludes.

## 2. On transplanting institutions

For a long time, countries have borrowed political institutions, business practices and policies from each other, through channels mainly including official assistance for development and colonial experiences. A rapidly growing literature on comparative institutional analysis has discussed the matter, focusing on how this can affect institutional settings in developing countries. Concerns have indeed been raised over the extent to which these institutional transplants have (not) been successful with respect in particular to their impact on the broad institutional arrangements in the recipient countries. The issue has been discussed in the work of Dia (1996) who emphasized that the poor governance and efficiency of public administration in most developing countries is due to a crisis of legitimacy and accountability that has been caused by a structural disconnection between the formal institutions that have been transplanted from modern Western models and the informal institutions rooted in the local culture of recipient countries. This point was also discussed in the work of Desai and Snavely (2007), which focused on the transfer of institutional norms and structures from the US to some formerly communist European countries and to Russia through institutional and professional capacity-building projects. The authors emphasized the point that institutional effectiveness is highly context-dependent, and that for this reason, institutional settings and models that have proven to be effective in one country may end up failing in other countries. Similarly, Seidler (2016) developed the argument that institutional transplants often fail because of the lack of their adaptation to local contexts in the first place and also because they often conflict with local practices. Building on this, Seidler (2018) emphasized that the adaptation of the imported institutions to the local context creates innovative, hybrid institutions which find more acceptance with local actors. The author further discussed the positive role of the extended stay of expatriate officers at the end of the colonial period in colonized countries in supporting the adaptation process through the concurrent transfer of informal institutions behind the formal imported institutions. The later argument is in line with the work of North (1990) and Platteau (2000), which emphasized the importance of informal complementary institutions and norms that allow formal transplanted institutions such as the legal system to function in the optimal way. On a similar note, Jacoby (2000) emphasized the importance of legitimacy for institutional transplantation processes, indicating that a transplanted institution needs to have political legitimacy in the host country in order to function well. this legitimacy is facilitated when the transplanted institution fits well with the local norms and the pre-existing institutional settings. Using county-level data on Prussia over 1871-1892 and proxying cultural linkage by the share of protestant in the total population, Lecce and Ogliari (2017) provided supportive evidence to the point that cultural disconnection between originating and recipient countries matters in explaining the success of institutional transplants. More specifically, they showed that the positive effect of importing good institutions is attenuated when the receiving territories are characterized by cultural traits in conflict with those embedded in the imported institutions. In relation to this, Boettke, Coyne and Leeson (2008) have discussed the “stickiness” of institutional change brought about through transfers (defined as the ability or inability of new institutional arrangements to persist where they are transplanted), which they link with the capacity of the “foreign institutional designers” to tailor them in such a way that they do not conflict with indigenous institutions.

A parallel strand of literature has discuss the phenomenon of persistence of ineffective institutions (North 1990; Ostrom 2005), which could serve to establish a linkage between the failure of institutional transplants and the subsequent institutional crisis adversely affecting modern day institutions in developing countries. Blewett (1995) provided an illustration of this by emphasizing that part of the persistent rent-seeking activities in the Maasai community in Kenya in modern days stem from the disruption of the pastoral policy of the Maasai in Kenya – which was based on the practice of communal ownership governed by tacit norms of restricted access – by the British colonial rule which substituted explicit contracts for it. The work of Acemoglu and Jackson (2017) also serves as a foundation to the point that a number of British laws went unenforced both in the colonial period and in modern days because of their (persistent) contradiction with the local social norms and legal customs.

## 3. Aid and institutional transplants

A large and unsettled empirical literature has investigated and discussed the point that aid can directly have an impact on institutions. A strand of that literature has focused on the extent to which aid can undermine some of the judicial dimensions of governance, including the rule of law, in which this paper is interested. A substantial part of the aid effectiveness literature has blamed aid for weakening government accountability, which is referred to as the obligations of a government to ensure quality institutions in return for tax resources mobilized from citizens. According to Brautigam (1992), high levels of aid make recipient governments more accountable to donors and less to taxpayers, as aid reduces their dependence on tax revenues. Large and sustained aid flows are indeed believed to reshape the relationship between government elites and local citizens by weakening the incentive of the former to build effective institutions, as they rely less on revenues collected from their citizens (Moss, Pettersson, and Van De Walle 2006). Using a sample of 32 Africa countries over the period 1982-1997, Brautigam and Knack (2004) tested the impact of aid on an average of the ICRG measures for bureaucratic quality, corruption, and rule of law, and found evidence that higher aid levels are associated with larger declines in the rule of law. Using a similar composite indicator of governance, Busse and Gröning (2009) also evidenced a small but statistically significant negative impact of aid over the period 1984–2004.

Although our paper mostly focus on the historical perspective of institutional transplants, it has to be acknowledged that modern-day institutional transplants have also been occurring, official development assistance being one of the main channels. Aid conditionalities have indeed often gone with donor-assisted reform efforts to establish certain formal institutions in recipient countries, and have been quite heavily criticized for their large ineffectiveness. Rodrik (2006) discussed this point using the experience of the implementation of the Washington Consensus precepts[1], which failed in the 1990s. The Washington consensus was marked by massive support for institutional transplants from Western countries-based models using a 'one-size-fits-all' approach. More specifically, the process relied on Anglo-American institutional blueprints such as political democracy, an independent judiciary, a professional bureaucracy, a small public enterprise sector, a developed stock market, a financial regulation regime that encourages prudence and stability, labor market institutions that guarantee flexibility, etc. (Ha-Joon 2006). These transfers turned out to be poorly matched with the local contexts and did not deliver the expected economic outcomes. Rodrik (2008) further introduced and discussed the notion of "second-best" institutions for developing countries, which would be more context-sensitive, and which would therefore have more chances to succeed. Investigating the reasons behind why reforms introduced in developing countries under the impetus of the international community often fail, Krause (2013) and Pritchett and al. (2013) introduced the concept of "isomorphic mimicry" to allude to point that developing states and bureaucracies only "mimic" best practices and reforms recommended by donors to in exchange for continued financial assistance. These reforms then fail because these governments adopt formal institutions insincerely without truly embedding them in the existing concept and also without adopting their functionalities. In connection with the "isomorphic mimicry" phenomenon, some authors have also discussed the issue of moral hazard behaviors of recipient country's politicians, which shapes their true incentive to undertake reforms, including Svensson (2000b) and Ouattara, Amegashie and Strobl (2009). The avenue of research that this paper explores is the extent to which the reported adverse

[1] The term 'Washington Consensus' summarizes the ten economic prescriptions offered by the Bretton Woods institutions to revitalize the developing economies affected by the debt crisis in the 1990s. Those recommendations advocated fiscal discipline, the reorientation of public spending, tax reforms, trade and market liberalization, the stabilization of exchange rates, the improvement of competitiveness, the removal of trade barriers, the liberalization of foreign direct investments, the massive privatization of public enterprises, deregulation, and the safeguarding of property rights.

institutional impacts of aid, which are associated in some instances with moral hazard behaviors or may just be the symptom of a persistent institutional crisis originating from an ill-matching of institutional transplants which occurred during the colonial period. This involves rigorously identifying the true causal effect of aid on institutions (*i.e.* devising an good instrumental variables strategy) and factoring in the ill-matching of institutional transplants in the empirical models, which this paper attempts to do in the following section.

## 4. Empirical evidence

### 4.1. The data[2]

The core hypothesis we test in this paper is that aid has an adverse impact on institutions, which no longer holds when a proxy of historical ill-matching institutional transplants is accounted for in the model. We rely on the International Country Risk Guide (ICRG) index of law and order, which we use as a proxy for institutional quality. The ICRG data cover a wide range of countries as well as a long time period. The ICRG's index measures the extent to which agents have confidence in and abide by the rules of society (incidence of crime, effectiveness and predictability of the judiciary and the enforceability of contracts). The index includes two equally-weighted components: the "law" sub-component, which assesses the strength and impartiality of the legal system, and the "order" sub-component which assesses popular observance of the law. The index ranges positively on a scale from 0 to 6, with higher scores indicating a better situation. Aid dependency is computed by scaling the country's receipt of Official Development Assistance (ODA) by its Gross Domestic Product (GDP) and by its Gross National Income (GNI). Our dataset includes 67 developing countries over the period 1984-2003.

### 4.2. Proxying the ill-matching of institutional transplants

With respect to proxying of the ill-matching of institutions transplants during the colonial period, we make a focus on democratic processes, as democracy is considered in the literature as a meta-institution for building good institutions and good governance (Rodrik 2000). To construct our proxy, we rely on data from the Ethnographic Atlas, which is a worldwide ethnicity-level database of preindustrial characteristics coded by George Peter Murdock and containing information for 1,265 societies. The Atlas includes a wide range of variables including location, major subsistence activities, mode of marriage, family organization, type of agriculture, number of jurisdictional levels, specialization of economic activities by gender, language, class structure, form and prevalence of slavery, property inheritance rules, type of dwellings, and most importantly on succession rules for local headman. The later variable describes the traditional form of succession of the local leader, with the categories reported in the data being: patrilineal heir, matrilineal heir, appointment by a higher authority, seniority or age, influence, wealth or social status, formal consensus, and informal consensus. In a first step, and following Giuliano and Nunn (2013), we use the tradition of village-level democracy data in the atlas to construct sample-wide and country-level averages of the level of traditional local democracy. This is defined as the fraction of individuals in each country with ancestors for which the local headman was elected through a democratic process (defined as either formal or informal consensus). In a second step, we pair each country in our sample with its former main colonizer where applicable, and then compute the gap in their

[2] The underlying database for the empirical analysis can be accessed through the paper's posting on the journal's website http://www.accessecon.com/pubs/eb/.

national levels of traditional democracy. The core assumption we make is that the larger the difference is, the more likely an ill-matching of the transplants of democratic processes during the colonial period will occur. In line with Besley and Persson (2019), we further hypothesize a long-lasting effect of those historical political institutions and make the point that institutional crisis arising from the ill-matching of democratic institutions transplants in the colonial period would persist through the long term.

### 4.3. Model and identification strategy

We investigate the impact of aid and the ill-matching of institutions transplants on institutional quality, which we proxy by an index of rule of law. This is in line with the literature which suggests that the rule of law and democracy tend to be mutually reinforcing (Rigobon and Rodrik 2004). The following econometric model is used:

$$\text{Rule of law}_{it} = \alpha + \left\{ \begin{matrix} \beta(\text{ODA})_{it} \\ \gamma(\text{Ill} - \text{matched transplants})_{it} \\ \delta(\text{Controls})_{it} \end{matrix} \right\} + \mu_{it} \tag{1}$$

Where *i* and *t* respectively stand for countries and time periods. The regression coefficients $\alpha$, $\gamma$ and $\delta$ quantify, respectively, the impact of aid dependence (ODA/GDP ratio), the ill-matching of institutions transplants (proxied as explained above) and a set of control variables. These controls variables have been selected following the literature on the determinants of institutional quality and the rule of law. Ethnolinguistic fractionalization (the likelihood that two citizens belong to two different ethnic or linguistic groups) is included as it is assumed to have deleterious effect on the rule of law (Touchton 2013). We have also included as covariates the level of income (GDP per capita), income growth, and trade openness, assuming that a higher income level should lead to stronger rule of law as evidenced by Rigobon and Rodrik (2004). We also controlled for British legal origin (proxied by a dummy variable indicating whether the country is a former British colony) following Klerman and Mahoney (2007). We control for the share of primary product exports in the gross national product, measured as of 1970 to account for the fact that countries with a long track record of such exports may experience a different institutional pathway (Sachs and Warner 2001). Following the work of Barro (1999), we also include in the set of controls adult literacy and a proxy for urbanization, as a large urban population should put more pressure on governments to ensure better institutions. We finally included an Africa dummy to investigate specificities of the African countries in our sample following Englebert (2000b). We use robust estimates of standard errors based on the Huber-White sandwich. We consider the 5-year average values of all of our variables over the period of estimation (1984-2003), mainly to account for the fact that institutions may vary in the medium to long-term.

### 4.4. Dealing with the endogeneity of aid

As with institutional variables in general, it is very difficult to disentangle the effect of aid from the reverse effect. It is indeed likely that our aid variable suffers from a reverse causality bias, due to the fact that while aid would directly affect the quality of institutions (as widely evidenced in the literature), recipient countries' institutional performances might also be at the same time a determinant of aid as these are either made part of aid conditionalities or are simply correlated with other macroeconomic factors (poverty levels, limited growth performance, etc.) that are targeted by donors. In order to address this concern, we devised an instrumental variables approach based on two instruments constructed in a way to capture variations in aid flows that are linked to exogeneous factors: aid from main donors weighted by the linguistic proximity and aid from main donors weighted by the religious proximity. The rationale for the use of such instruments is in line with Tavares (2003) and is based on the point that for a given recipient country, a good proxy of the exogenous variations in aid would be aligned with variations in aid flows from its closest main donors. For instance, a country very close to Japan will have a negative exogenous shock on its aid if Japan's overall aid declines relative to other donors. We use the following process to construct our two instrumental variables for aid: in a first step we select for each recipient country in our sample and for each year, its top five donor countries to ensure a good level of both "between" and "within" variability. To capture the cultural proximity in a second step, we proxy: *(i)* linguistic proximity by a dummy variable indicating the existence of a common official language or a common working administrative language), and *(ii)* religious proximity by the degree of correlation (adjusted to make it always positive) in the religious structure of the countries. Linguistic and religious variables are borrowed from La Porta *et al.* (1999). In a last step, we use the two proximity variables as a weight for aid flows from each of the top five donors for each recipient country.

### 4.5. Findings and discussion

The main findings are summarized in the table 1 below. The first two columns present results based on Ordinary Least Squares (OLS). Column 1 summarizes the findings from a bivariate linear regression testing the impact of aid on the rule of law. Unsurprisingly, aid enters in the regression with a negative and statistically significant coefficient, suggesting that an increase in aid flows tends to be associated by a weaker rule of law. In column 2, we include the full set of controls in the regression to test the sensitivity of the aid variable coefficients to the fit of the model. Aid still appears to have a significant and negative impact, although with a slightly higher magnitude. Trade openness also proves to have a positive and significant impact on the rule of law. This is in line with the findings of with Rigobon and Rodrik (2005), which suggest that trade openness is good for the rule of law. In column 3, we address the potential endogeneity of aid as discussed in section 4.4. With the Two-stage Least Squares (2SLS) regressions, aid still have a negative and significant impact on the rule of law, but with a larger coefficient of -0.1, suggesting that a 1% increase in the ODA/GDP ratio leads to a 0.1% decrease in the rule of law index. Among the other controls, only trade openness turns out to be statistically significant. In column 4, we include in the model our proxy of the ill-matching of institutional transplants. Interestingly, the results indicate that with such a specification, the aid variable loses significance, supporting the point that ill-matched institutional transfers eclipse the adverse impact of aid. Consistent with the literature, we also find that trade openness and initial income have a positive impact on the rule of law. Overidentification tests performed for the instrumental variables for aid confirm the quality of the instruments, as the *p-values* associated with the Hansen statistic are well above 0.10 across all 2SLS specifications (columns 3 and 4). We rule out main concerns over the endogeneity of our proxy of the ill-matching of institutional transplants which could arise from a simultaneity bias, given that the variable is measured during the colonial period. We have also ensured that our model do not suffer from any severe omitted variable bias by running regression specification error tests using the Ramsey-Reset procedure. While we cannot reasonably certify that the measure of the level of traditional local democracy is free of any measurement errors, there is comfort that the Ethnographic Atlas database by George Peter Murdock provides credible and reliable codifications of the traditional forms of succession of local leaders.

Finally, we went a step further in the regressions and checked the robustness of our main results relative to the use of an alternative measure of aid dependency and to the exclusion of outliers (for aid dependency). Table 2 summarizes the results and confirm the previous findings (*i.e.* no statistically significant impact of aid in the regression model when the ill-matching of institutional transplants is accounted for). Column (1) replicates specification in column (4) from table 1, while using the ODA/GNI ratio instead of the ODA/GDP ratio. Column (2) presents a similar replication, but exclude Liberia, Mozambique and Guinea-Bissau, which were identified as outliers using the approach developed by Hadi (1994).

Table 1: Aid, the appropriateness of historical democratic institutions and rule of law (OLS and 2SLS regressions)

| | Dependent variable: ICRG index of rule of law | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| | OLS | OLS | 2SLS | 2SLS |
| ODA (%GDP) | -0,018 | -0,034 | -0,1 | -0,073 |
| | (0,005,4)*** | (0,015)** | (-0,061)* | (-0,048) |
| Ill-matching of instit. tranpl. | | | | -0.755 |
| | | | | (0.355)** |
| Africa dummy | | 0.588 | 0.668 | 0.688 |
| | | (0.348)* | (0.410) | (0.326)** |
| Ethnolinguistic fractionalization | | 0.001 | -0.002 | 0.000 |
| | | (0.005) | (0.006) | (0.005) |
| Init. primary exports | | -1.064 | -0.643 | -1.058 |
| | | (0.669) | (0.948) | (0.842) |
| Init. Income (log) | | 0.0002 | 0.0001 | 0.0002 |
| | | (0.0001) | (0.0001) | (0.0001)* |
| Trade openness (log) | | 0.774 | 0.992 | 0.928 |
| | | (0.238)*** | (0.335)*** | (0.279)*** |
| Income growth (log) | | 0.095 | 0.099 | 0.128 |
| | | (0.119) | (0.102) | (0.105) |
| Literacy | | 0.007 | -0.001 | 0.006 |
| | | (0.009) | (0.013) | (0.009) |
| Urban population (log) | | -0.473 | -1.093 | -1.428 |
| | | (0.393) | (0.654)* | (0.640)** |
| British legal origin | | -0.152 | -0.251 | -0.186 |
| | | (0.320) | (0.367) | (0.307) |
| Intercept | 2.981 | 1.525 | 3.784 | 5.228 |
| | (0.123)*** | (1.654) | (2.186)* | (2.201)** |
| $R^2$ | 0,04 | 0,18 | 0,12 | 0,18 |
| Obs | 256 | 156 | 155 | 151 |
| *Overidentification test for aid's instruments* | | | | |
| Sargan-Hansen Stat p-value | | | 0,31 | 0,99 |

Notes: *Heteroskedasticity-Robust standard errors in brackets. (a): denotes significance at 1%; (b): denotes significance at 5%; (c): denotes significance at10%.

Table 2: Robustness checks

| | *Dependent variable: ICRG index of rule of law* | |
|---|---|---|
| | (1) | (2) |
| | ODA (%GNI) | Excluding outliers |
| ODA | -0.084 | -0,073 |
| | (0.057) | -0,048 |
| Ill-matching of instit. tranpl. | -0.709 | -0.755 |
| | (0.353)** | (0.355)** |
| Africa dummy | 0.748 | 0.688 |
| | (0.354)** | (0.326)** |
| Ethnolinguistic fractionalization | 0.001 | 0.000 |
| | (0.005) | (0.005) |
| Init. primary exports | -1.044 | -1.058 |
| | (0.837) | (0.842) |
| Int. Income (log) | 0.0002 | 0.0002 |
| | (0.0001) | (0.0001)* |
| Trade openness (log) | 0.912 | 0.928 |
| | (0.284)*** | (0.279)*** |
| Income growth (log) | 0.117 | 0.128 |
| | (0.105) | (0.105) |
| Literacy | 0.009 | 0.006 |
| | (0.008) | (0.009) |
| Urban population (log) | -1.270 | -1.428 |
| | (0.571)** | (0.640)** |
| British legal origin | -0.170 | -0.186 |
| | (0.306) | (0.307) |
| Intercept | 4.403 | 5.228 |
| | (1.874)** | (2.201)** |
| $R^2$ | 0,16 | 0,18 |
| Obs | 151 | 151 |
| *Overidentification test for aid's instruments* | | |
| Sargan-Hansen Stat p-value | 0,88 | 0,99 |

Notes: * Heteroskedasticity-Robust standard errors in brackets. (a): denotes significance at 1%; (b): denotes significance at 5%; (c): denotes significance at10%.

## 5. Concluding remarks and policy implications

This study discusses the role of institutional transplants in explaining the reported adverse impact of aid on institutions in developing countries. The study hypothesizes that unsuccessful institutional transplants are at the root of a persistent institutional crisis in developing countries, which accounts for aid's adverse impact on institutions in recipient countries. The findings of the research have three main policy implications. First, the research suggests that local contexts matter for transplanting institutions and should definitely be taken into consideration. Second, as suggested by Berkowitz, Pistor, and Richard (2003), institutional reforms (particularly those borrowed from other countries) need to be domestic demand-driven in order to ensure a good fit with these pre-existing local conditions and ensure legitimacy. Third, Aid, which has also played a role in transferring institutions, may be given a role in correcting the long-lasting impacts of history through appropriately designed conditionalities and technical assistance programs, so that the potential uniqueness of contexts and the local constraints and opportunities are carefully managed.

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**Appendix A: Data definition and sources**

| *Variable* | *Definition* | *Source* |
|---|---|---|
| ODA (%GDP) | Official development assistance (Total net disbursements including grants and loans with a grant element of more than 25%) measured as a percentage of Gross Domestic Product. | Author's calculation from OECD/DAC aid statistics and World Development Indicators 2008 |
| ODA (%GNI) | Official development assistance (Total net disbursements including grants and loans with a grant element of more than 25%) measured as a percentage of GNI. | OECD/DAC statistics and World Bank estimates |
| Law and Order | Indicator of corruption as reported by international consultants. Scaled from 0 to 6, higher values denoting less corruption | International Country Risk Guide |
| Ill-matching of institutional tranplants | Gap in the settlers and colonized countries' national levels of traditional democracy. | Constructed by authors using data from the Ethnographic Atlas |
| Init. Income (log) | Natural logarithm of gross domestic product (GDP) divided by midyear population in 1977. | Word Development Indicators |
| British Legal origin | Origin of country legal system. Dummy variable taking the value 1 for former British colonies and 0 otherwise. | Global Development Network Growth Database |
| Ethnolinguistic fractionalization | The probability that two random selected individuals within the country belong to the same religious and ethnic group | Atlas Narodov Mira |
| Africa dummy | Dummy variable taking the value of 1 and 0 otherwise | Coded by authors |
| Urban population (log) | Natural logarithm of urban population (% of total). Urban population refers to people living in urban areas as defined by national statistical offices | World Development Indicators |
| Trade openness (log) | Ratio of total exports and imports in GDP | World Development Indicators |
| Init. primary exports | Share of primary products in total exports in 1970 | Global Development Network Growth Database |
| Income growth (log) | Natural logarithm of GDP growth | Global Development Network Growth Database |
| Literacy | Percentage of people ages 15 and above who can both read and write with understanding a short simple statement about their everyday life | Word Development Indicators |

**Appendix B: List of countries**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1. | Algeria | 19. | El Salvador | 37. | Madagascar | 55. | Senegal |
| 2. | Angola | 20. | Gabon | 38. | Malawi | 56. | Sierra Leone |
| 3. | Bangladesh | 21. | Gambia, The | 39. | Malaysia | 57. | Somalia |
| 4. | Bolivia | 22. | Ghana | 40. | Mali | 58. | Sri Lanka |
| 5. | Botswana | 23. | Guatemala | 41. | Mexico | 59. | Sudan |
| 6. | Burkina Faso | 24. | Guinea | 42. | Morocco | 60. | Tanzania |
| 7. | Cameroon | 25. | Guinea-Bissau | 43. | Mozambique | 61. | Togo |
| 8. | Chile | 26. | Guyana | 44. | Myanmar | 62. | Tunisia |
| 9. | Colombia | 27. | Honduras | 45. | Nicaragua | 63. | Uganda |
| 10. | Congo, Dem. Rep. | 28. | India | 46. | Niger | 64. | Venezuela, RB |
| 11. | Congo, Rep. | 29. | Indonesia | 47. | Nigeria | 65. | Vietnam |
| 12. | Costa Rica | 30. | Iraq | 48. | Oman | 66. | Zambia |
| 13. | Cote d'Ivoire | 31. | Jamaica | 49. | Pakistan | 67. | Zimbabwe |
| 14. | Cuba | 32. | Jordan | 50. | Panama | | |
| 15. | Cyprus | 33. | Kenya | 51. | Papua New Guinea | | |
| 16. | Dominican Republic | 34. | Lebanon | 52. | Paraguay | | |
| 17. | Ecuador | 35. | Liberia | 53. | Peru | | |
| 18. | Egypt, Arab Rep. | 36. | Libya | 54. | Philippines | | |