

**Information, Power, & Location:
World Bank Staff Decentralization and Aid Project Success**

Dan Honig¹

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This paper uses individual data on World Bank staff placement to explore whether, and under what conditions, staff presence in recipient countries is associated with changes in World Bank project performance. I find that merely placing World Bank staff in developing countries has little effect on the success of development projects. Combining physical presence and greater staff decision rights is, however, associated with an impact on projects. In the most fragile states, the presence of senior personnel (World Bank Country Directors) is associated with greater project success. However — consistent with a bargaining model in which greater World Bank authority is at odds with recipient country direction of projects — as countries become less fragile, the net effect of the presence of Country Directors becomes negative. The impact of World Bank staff decentralization is mixed and appears to be driven by the differential exercise of power, not just the gathering of local information.

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“The notion that every decision [the World Bank made] had to be taken in Washington just struck me to be preposterous. The real strength in the organization are the people in the field who are very well skilled in making decisions. And I felt that the closer you could get the decisions to the field and the greater responsibility you could give to the Regions, the better off you’d be.” - Former World Bank President James Wolfensohn’s reflections on his presidency²

1: Introduction

International donors have long debated where to put their people. The central tension of the debate is also the essence of the principal-agent problem: it is difficult to make good decisions over great distances, and asymmetric information is critical for the success of development projects. But it is also exceedingly difficult to monitor agents in the field when staff are decentralized. Yet for all the ink spilled examining the success factors of development projects (Kilby, 1995; Ika et al, 2010; Khang & Moe, 2008, Kilby, 2000; Ahsan & Gunawan, 2010; Youker, 1992) there is remarkably little empirical work that explores the actual effects of staff placement on development intervention success.³

This paper begins to address that gap using detailed records on World Bank personnel disclosed by the World Bank in response to an Access to Information request. These staffing data are merged with data on World Bank-funded projects to examine the relationship between staff placement and project performance.⁴ These data allow for a more fine-grained analysis of the organizational dynamics and authority structures of aid agencies than has been possible to date, contributing to an emerging literature on the organizational structure of aid agencies (Bush, 2016a; Campbell, 2018; Gibson et al, 2005; Gavas et al, 2015; Honig, 2018; Swedlund, 2017) and shedding light on the interactions between international actors like the World Bank and developing country governments. This work joins with others in this special issue (e.g. Kay, Rogger, and Sen, 2019; Meyer-Sahling, Mikkelsen, & Schuster, 2019; Williams & Yecalo-Teclé, 2019) in furthering our understanding of bureaucrats’ control over their labors and their exercise (or not) of discretion.

This paper aims to forward understanding of the role of agents in aid organizations’ effectiveness and speak to broader questions of sub-national decentralization. While the World Bank is certainly unlike a national government in many ways, this paper provides a relatively rare window on the differential effects of decentralization on performance across different country contexts in ways that single-country studies of decentralization cannot. Is merely having staff

² Wolfensohn 2006, 72.

³ One exception is Honig 2018, which presents very preliminary findings in the appendix that suggest, using data that the author concedes is “surely inaccurate in many cases” (p. 205), that mere physical presence of donor staff in a developing country is insufficient. This paper takes substantially more accurate, and more fine-grained, data to a related question. It asks not just “is there an office,” but “who is in the office in the country, and what authority do they have,” thus allowing this work to interrogate questions not just of presence, but also of power.

⁴ The basic functional unit of development is the project; “a set of complementary activities over an established time and budget, intended to achieve a discrete development result.” (USAID 2016) Projects differ in location, sector, and purpose, and are composed of time- and place- bound activities that are the result of agency planning and preparation.

present sufficient to reap performance benefits – with field staff providing a conduit for information and greater organizational flexibility? Do those staff also need decision rights—the power to actually change things? To what extent do these effects vary when the same decentralization strategy is employed in different contexts? The World Bank data allow a relatively rare opportunity to examine the heterogeneous effects of a decentralization process using fine-grained, large-N data, exploring e.g. when and where the information and efficiency gains of decentralization leads to better agency outcomes.

2: The World Bank: Staff and the Strategic Compact

World Bank staff exercise substantial, if incomplete, authority over aid projects despite an administrative façade that implies otherwise. Officially, action is led by developing countries; as the World Bank puts it, “the borrowing country is responsible for examining the technical, economic, social, and environmental aspects of the project” (World Bank 1993). Once a plan is in place, “negotiations bring World Bank and the borrower together to agree on the measures necessary for a successful project. Through a give-and-take process, the Bank and the borrower review all the issues that have arisen during preparation.” (ibid) However, in practice, the World Bank has far more influence than this description implies. Bank staff create a Staff Appraisal Report (SAR) “which is the starting point for negotiations with the borrower” and “these documents, rather than the borrower’s preparation report are presented to the World Bank board of directors for approval.” (Kilby, 2001, p. 7). Deininger et al (1998) argue that “in most cases, countries are not in a position of having a well-defined investment program from which World Bank staff can pick and choose ... in most cases, projects are not close to being fully designed before World Bank staff become involved.” (p. 405).

In 1997, then-World Bank President James Wolfensohn announced a reform effort called the Strategic Compact. The Strategic Compact aimed to “reengineer the Bank’s entire organizational hierarchy and incentive structure” in response to a “series of scathing internal [World Bank] reports.” (Nielson et al, 2006, p. 108, 116) These reports had raised concerns regard the World Bank’s “internal features undermining the organization’s realization of overall development objectives” and suggested the World Bank suffered from an “over-reliance on universal, abstract knowledge and ‘blueprint’ project models that ultimately failed to respond to the specific needs” of countries in which the World Bank worked. (Weaver 2003, p. 233)

One of the main tenants of the Strategic Compact was an administrative restructuring that decentralized management and staff to field offices around the world. Before 1998 about 1,900 staff members of the World Bank were located outside of Washington DC (World Bank 2001b). Between 1997 and 2000 the Bank recruited over 3,300 new staff members, and about one third of these went to overseas offices (Weaver, 2007). While the Strategic Compact affected the placement of many staff, the Compact’s focus was the most senior country-oriented personnel at the World Bank below the level of Vice President: Country Directors. During the 1997 annual meetings, the first since the launch of the Compact, Wolfensohn said during his annual address, “To take this beyond rhetoric, we have decentralized aggressively to the field. By the end of this month, 18 of our 48 Country Directors with decision-making authority will be based in the countries they serve” (International Monetary Fund 1997, p. 8). The Strategic Compact did not just shift personnel; it also altered decision rights and responsibilities for those based in the field,

particularly for Country Directors. “With the Compact, Country Directors effectively became ‘princes’ in local financial fiefdoms.” (Nielson et al, 2006, p. 123).

3: Theory & Hypotheses

The World Bank has a large field presence and undertook structural reforms with an aim of placing more personnel in the field and increasing their decision-making rights, particularly Country Directors. The World Bank’s efforts in implementing its Strategic Compact provides leverage on whether and how the physical presence of staff impacts development project success, and whether the attempted change in decision-rights altered the relationship between staff physical presence and project performance.

Both within the World Bank itself and in the broader literature on aid agencies, the process of shifting staff from headquarters to the field is often referred to as “decentralization”. This use of the term is somewhat different than the academic, and general public management, use of the term. The literature is often focused on strengthening local and democratic accountability (e.g. Agrawal & Ribot, 1999, Azis, 2008, Ribot, 2002) as the pathway via which decentralizing agents will lead to better performance. But aid agencies have only limited accountability to the communities or countries in which their projects take place (Easterly, 2009). Aid agencies are ultimately primarily accountable “up” to their management—in the case of the World Bank, ultimately to the World Bank’s executive board, composed of executive directors appointed by shareholders, a system in which rich country shareholders hold the preponderance of the power—rather than “down” to the intended beneficiaries of aid projects in the developing world or developing country governments. Staff members at the World Bank “may even be punished if they respond too vigorously to stimuli other than the demands of their proximate principal” (Nielson & Tierney, 2003, p. 250).

That said, the World Bank’s staffing data offer the opportunity to think about two constituent elements of decentralization often put forward in the literature (e.g. Francis & James 2003, Miller 1999): deconcentration and devolution. Deconcentration focuses on the physical presence of staff in an agency; on where staff are located. Devolution focuses on decision rights, on what different levels of Government are able to do. This deconcentration vs. devolution distinction suggests two different channels via which we might expect World Bank staff decentralization under the Strategic Compact to impact performance: via the information benefits of physical presence (deconcentration) and the shifts in the power of Country Directors (devolution).

The Information Channel: Physical Presence/Deconcentration

IDO’s may lack local accountability, but these organizations still need to rely on local information to drive project success. Scholars of IDOs have theorized that staff’s local knowledge may be critical to the success of attempts to improve the condition of developing countries (e.g. Martin, 2006). Deconcentration’s potential to facilitate increased local knowledge has parallels in the broader discourse regarding decentralization. That is, organizations realize informational benefits from putting staff closer to the ‘coal face’ of implementation.

The Decentralized Power Channel: Decision Rights/Devolution

Perhaps it is not merely information transmission, but also devolved power, via which staff decentralization yields effects. Transferring information up a managerial chain can be time-consuming and costly. Allowing specific information to be used in decision-making processes, thus, “requires decentralizing many decision rights in both the economy and firms” (Jensen & Meckling, 1992, p. 1), or devolving control to the field. Being able to make use of the contextual information they can gather locally can allow field staff to make decisions their superiors would not have made, with benefits for organizational performance (Aghion & Tirole, 1997; Campbell, 2018; Honig, 2019; Stein, 2002).

Following Swedlund (2017), we can think of project preparation and implementation as a bargaining game between aid agency and recipient country. This need not imply that one side in the bargaining pair is in favor of development and the other is not; even when both donors and recipients both are committed to the same broad goals, they may have markedly divergent preferences about how aid should be deployed (Dreher et al., 2017; Winckler & Therkildsen, 2007). Albert Hirschman and Richard Bird wrote some 50 years ago that “project aid forces the recipient country to substitute to some extent the donor’s investment preferences for its own insofar as the use of the aid funds is concerned”. (Hirschman & Bird 1968, p. 6)

Greater decision rights for Country Directors increases the World Bank’s bargaining power relative to recipient countries, all else equal. The contract theory literature suggests that greater authority is likely to lead to greater effort by field agents, and greater access to and use of information that cannot be verified (and thus transmitted to headquarters). (Aghion & Tirole, 1997) Country Directors with greater decision rights may put forward more effort and have greater access to field information (e.g. regarding the bargaining tendencies of recipient country decision makers and what they may be willing to accept). This can also be thought of as reducing a bargaining advantage previously held by recipient country authorities; Swedlund (1997) highlights greater local information as one key advantage of recipient governments in influencing the outcome of aid bargaining. If World Bank Country Directors are based in the field and thus have both more access to and more power to act upon local information, we should expect recipients’ bargaining power to fall (and thus World Bank power to increase). Finally, bargaining theory suggests that delegated agents leading negotiations with more decision rights have more bargaining power, all else equal. An agent’s ability to credibly signal a willingness to walk away from an agreement as negotiations occur (that is, without needing to consult superiors) adds to an agent’s negotiating toolkit and thus increases the agent’s ability to pressure counterparties to accept the agent’s preferred position. (Mo, 1995)

All three of these reasons – 1) Greater Country Direct effort and use of unverifiable information and a reduction in the information gap between recipients and the World Bank which weakens the recipient’s information-based bargaining advantage; 2) Greater Country Director veto power; and 3) Greater Country Director ability to credibly negotiate without consulting superiors - augur for Country Directors’ greater ability to achieve the World Bank’s preferred position in negotiation. A project design negotiation process will in expectation yield a result more in line with what the World Bank desires (and thus less of what the recipient country desires, when and where there is a conflict between objectives) when Country Directors have greater power.

The World Bank getting more of what it wants may mean that recipient countries get less of what they want. But it is ambiguous whether the World Bank pushing its own vision of projects forward at the expense of recipient governments' vision will lead to better development results. The "country ownership" agenda suggests that aid efforts are more likely to succeed when developing countries, rather than donors, are "in the driver's seat" (Booth, 2012; OECD, 2005). A stronger World Bank presence in-country means more local bargaining power for the World Bank, and thus relatively less possession of the "driver's seat" by developing countries.

I expect that the effect of greater World Bank bargaining power will be heterogeneous: When the World Bank interacts with less stable/more fragile states, the effect of greater World Bank bargaining power will be positive. Fragile states have lower capacity than other states (OECD, 2011) and World Bank planning can effectively substitute for the recipient Government's lacunae. World Bank actors in the field with decision rights can more rapidly respond to changing circumstances by adapting projects, granting waivers, etc; fragile states are "more unstable and unpredictable" than their less fragile peers. (World Bank 2006, p. 55) Thus if indeed the decision rights channel is important, we ought expect the positive impact of greater decision rights to be higher where more flexibility adaptation is in demand – in more unpredictable fragile states. In less fragile states, however, greater World Bank authority may be associated with reductions in project effectiveness as the World Bank's preferences are at odds with the vision of the developing country government.

Hypotheses

Both the deconcentration channel (with its focus on information) and the devolution channel (with its focus on decision rights and greater Country Director administrative and bargaining power) should, I expect, have impacts on project performance.

For deconcentration, I expect that while the Strategic Compact increased markedly field presence, the informational advantages of deconcentration should be present before and after the Strategic Compact. That is,

H1: Staff presence in the field will be associated with higher levels of project performance. This will be true both before and after the Strategic Compact reforms.

For devolution of power, however, the Strategic Compact is critical, shifting the power of those in the field, particularly for the Country Directors. I expect that

H2: The association of in-country Country Directors (but not all staff) with project success will be stronger in the post-Strategic Compact era, given the Compact's shifting of decision rights.

If H2 is supported I expect that, as theorized above, the effect will not be unambiguously positive. That is,

H3: Country Directors will have the greatest positive effects in the most fragile states, with declining effectiveness – and perhaps even a net negative impact – on project performance in the least fragile environments.

The next section turns to introducing the data and testing of these hypotheses.

4: Empirics

Dependent Variable: Development Projects and Project Performance Ratings

Following a World Bank project's completion, each project receives a rating ranging from one to six on a Likert-type scale as to its overall project success—whether it accomplished its development outcomes. A given project's rating is intended to incorporate a project's relevance, effectiveness, efficiency, sustainability, and impact, and maps onto a broader OECD Development Assistance Committee standard (OECD 1991, 2000). These ratings have been used extensively in the literature on donor effectiveness, which generally takes these ratings as a noisy but valid measure of project performance (Buntaine, 2016; Denizer et al., 2013; Dreher et al., 2013; Geli, 2014; Honig, 2019).⁵ The World Bank's Independent Evaluation Group (IEG) maintains a public database of projects evaluations. The analysis below incorporates almost 10,000 discrete projects, the full current database at the time of download.⁶

Staff Presence During Projects

In response to a formal Access to Information inquiry the World Bank disclosed a master list of “resident mission field offices” from 1947-2005.⁷ To my knowledge, no research internal or external to the World Bank has previously exploited this data. The data disclosed by the World Bank includes the identity of largely international (that is, foreign-born) professional-grade personnel based in each country office, and the dates of their presence.⁸ These data form part of this paper's replication archive, and thus can be accessed and used by other researchers who

⁵ This is not to suggest that ratings are unbiased, or not subject to “grade inflation”. However inasmuch as this paper focuses on inter-project comparisons, the threat to validity here is not bias but rather heterogeneous bias that covaries with the key independent variables; otherwise this bias will in expectation add noise and thus reduce statistical power, rather than leading to e.g. spurious findings. See e.g. Honig 2019 and Kilby & Michaelowa 2019 for a fuller discussion of World Bank, and donor project ratings, more broadly. ⁶ 9,787 projects; downloaded July 2016. Database available at <https://finances.worldbank.org/Other/IEG-World-Bank-Project-Performance-Ratings/rq9d-pctf>. The evaluation process begins with an evaluation conducted by project staff who are assigned to the project when it is completed. These staff (who almost certainly have not been with the project since the beginning of its lifespan-- World Bank staff rotate on shorter durations than the durations of nearly all projects) complete an Implementation Completion Report (ICR). The World Bank's Independent Evaluation Group (IEG) reviews all of these staff completion reports: for 20-25 percent of projects, the IEG conducts its own “in-depth field-based evaluation” (World Bank Independent Evaluation Group 2015, p 2).

⁷World Bank Access to Information (AI) Request #4614. Response received in November 2016.

⁸As clarified by World Bank archives staff, the disclosed data is weighted towards “professional” pay grades, and is not a comprehensive document listing all staff (e.g. it likely excludes the great majority of locally hired staff; nearly all individuals in the document have names that suggest they are not nationals of the country in which they are listed).

might find these data valuable.⁹ Using these data, I, in collaboration with research assistants, coded the presence of two kinds of staff variation. We coded whether any staff were present in an office as well as the presence of a Country Director in an office.

We calculated the presence of any staff and Country Directors as a simple proportion of the project's implementation period (the period between the start and end date of the project) and the project's preparation period (the year preceding the start of the project).¹⁰ So, for example, if any staff are present for three out of six years of a project's implementation, "any staff implementation presence" takes a value of .5. Similarly, if any staff were present for three of the 12 months prior to the project, "any staff preparation presence" takes a value of .25. For Country Directors the coding is additive. If e.g. multiple Country Directors (overlapping, say, because of a transition from one Country Director to another) were present at the same time, they are both counted.¹¹ The staffing data begins well before, and continued for nearly a decade after, the commencement of the Strategic Compact.

State Fragility

State fragility is measured via the Polity IV State Fragility Index (SFI). The SFI has an annual ranking of fragility for every country which incorporates security, governance, economic development, and social development measures and has two subscales: effectiveness and legitimacy.¹² This measure, then, speaks both to the level of environmental unpredictability in a given country-year and to the relative capacity of the recipient country's government.

Summary Statistics

One further complication for these data is that while project evaluations are available through 2015, staffing data is only available through 2005. Thus when examining project implementation, I only use projects whose operations closed in 2005 or earlier. When examining project preparation, I expand the sample to project for which preparation concluded and implementation began in 2005 or earlier. Tables 1 and 2 provide summary statistics. Table 1 includes relevant variables conditional on being included in the "preparation sample"; Table 2

⁹ Available at <https://doi.org/10.7910/DVN/E8KPJF>

¹⁰ Both implementation and preparation periods were coded separately as they both seemed critical to a project's success, but might have different effects. The need to make this separation was also stressed by some early interlocutors, who believed variously that e.g. Country Directors were likely to matter during implementation (but not preparation) as that is when more flexibility was needed, or that they were likely to matter during preparation (but not implementation) as that is when projects were designed and Country Directors were most actively engaged. After consideration I chose not to formalize an expectation in this regard, but coded the data in such a way as to allow for more nuance in the Country Directors' stage of engagement.

¹¹ As a result, the Country Director presence proportions in a very small number of take values above 1 (if e.g. a Country Director was present throughout the life of the project, with a period of overlap as an incoming and outgoing Country Director were both present for a number of months).

¹² The most updated version of the measure (Marshall and Elzinga-Marshall, 2017b) runs from 1995-2017, and thus is most useful for analyzing the post-Compact sample, as done in Tables 5 and 6 below.

includes relevant variables conditional on being included in the “implementation sample.” Project size data is from the World Bank.¹³

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|------|--------|-----------|--------|-------|
| Project Success (6 point scale) | 8491 | 4.066 | 1.271 | 1 | 6 |
| Any Staff Preparation Presence | 8491 | .591 | .479 | 0 | 1 |
| Country Director Preparation Presence | 8491 | .082 | .27 | 0 | 1.29 |
| Project Size (Logged Net Commitment Millions) | 8390 | 3.145 | 1.423 | -7.286 | 8.006 |
| State Fragility Index | 3731 | 11.631 | 5.223 | 0 | 24 |

Table 1: Preparation Sample Summary Statistics

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|------|--------|-----------|--------|-------|
| Project Success (6 point scale) | 7076 | 4.097 | 1.321 | 1 | 6 |
| Any Staff Implementation Presence | 7076 | .623 | .449 | 0 | 1 |
| Country Director Implementation Presence | 7076 | .081 | .238 | 0 | 1.175 |
| Project Size (Logged Net Commitment Millions) | 6993 | 3.154 | 1.39 | -7.286 | 8.006 |
| State Fragility Index | 2729 | 12.082 | 5.224 | 0 | 24 |

Table 2: Implementation Sample Summary Statistics

¹³ That is, as reported in the World Bank’s public project performance ratings data. Negative project size ratings are as-found in the original data. Turning all negative project sizes to 0 does not affect the substantive findings.

Hypothesis Testing

The empirics below first present the primary findings, then interrogate those findings. The basic econometric model is

$$\text{Project Success}_{i,j,t} = \text{PRESENCE}_{i,j,t} + \text{COUNTRYSPECS}_{j,t} + \text{PRESENCE} * \text{COUNTRYSPECS}_{i,j,t} \\ + \text{PROJECTSPECS}_i + \text{Sector Fixed Effects}_i + \text{Recipient Country Fixed Effects}_j + \text{Year Fixed Effects}_t + \text{Individual Staff Member Fixed Effects}.$$

Project Success of project i in country j at time t is a function of the primary explanatory variable - staff presence (PRESENCE) during a project's implementation and/or preparation; a vector of features of the recipient country (COUNTRYSPECS); the interaction of staff presence and recipient country features; and project-level features (PROJECTSPECS) such as the size of the project. All models include fixed effects at the recipient country, sector, and time (evaluation year) level. The fixed effects by country remove any fixed features of countries of the analysis, and mean that within-country variation in project performance is being leveraged. Sector and time fixed effects similarly allow the analysis to focus on within-sector and within-year variation in scores, thus controlling for any fixed differences of scores within-sector or within-year.¹⁴

Previous research (e.g. Bulman, Kolkma, and Kraay, 2017; Denizer, Kaufmann, and Kraay, 2013) has stressed the importance of the fixed features of individuals in predicting development project success. The data disclosed by the World Bank also includes the proper names of staff members; as such this analysis can and does incorporate staff member fixed effects, thus removing any fixed differences in quality between staff members that might otherwise bias this analysis (if e.g. more capable individuals were differentially assigned to certain countries or projects, as seems likely). Relatively uniquely in the study of public organizations, the present study thus presents estimates of the effect of deconcentration and devolution while removing features of the individuals themselves who are placed in the field (deconcentration) or to whom increasing power is granted (devolution).

All these controls do not mean that this analysis can speak to what might occur in a randomly selected country, however. Donor aid delivery strategies are endogenous to features of recipient country environments (e.g. Allen & Flynn, 2017; Buntaine, Buch, and Parks 2017; Bush, 2016b; Dietrich, 2013). Larger World Bank field offices and Country Directors are found in countries that are more strategically important to the organization. Measures of e.g. Country Director presence, then, allow us to estimate a local average treatment effect by comparing Country Director presence for projects in the countries to which Country Directors are assigned to other projects in the same country, but may not generalize to what might be expected were Country Directors randomly assigned to other countries.

¹⁴ Sectors are the broad sectors included in the World Bank data, which are roughly equivalent to the OECD Development Assistance Committee's 2-digit sector codes.

The Effect of Field Presence on Project Performance: Staff Deconcentration and the Information Channel

Table 3 presents the direct results of the presence of any staff and Country Directors on project performance during implementation and preparation of projects.

| Project Success | (1) | (2) | (3) | (4) |
|---|----------------------|----------------------|----------------------|----------------------|
| Any Staff Implementation Presence | 0.243* (0.130) | | | |
| Any Staff Preparation Presence | | 0.0409 (0.0713) | | |
| Country Director Implementation Presence | | | 0.208 (0.196) | |
| Country Director Preparation Presence | | | | 0.108 (0.105) |
| Project Size (Logged Net Commitment Millions) | 0.104*** (0.0154) | 0.114*** (0.0129) | 0.105*** (0.0153) | 0.113*** (0.0129) |
| Constant | 4.719*** (1.024) | 4.458*** (0.694) | 4.880*** (1.021) | 4.504*** (0.692) |
| Individual Staff Member FEs | Y | Y | Y | Y |
| Recipient Country FEs | Y | Y | Y | Y |
| Sector FEs | Y | Y | Y | Y |
| Year FEs | Y | Y | Y | Y |
| R ² | 0.239 | 0.223 | 0.239 | 0.223 |
| Observations | 6982 | 8367 | 6982 | 8367 |

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 3: Direct Effects of Staff and Country Directors on Project Success

These results suggest the effects of field staff presence in the field – be they any level of staff or Country Directors – are modest at best. During implementation, the presence of any staff (but not specifically Country Directors) seems to modestly improve projects at the 90% significance level; a shift from no staff ever present, to having at least one staff member constantly present, improves project performance by .25 points (on a six-point scale) in expectation. On the preparation side, there is no indication that greater presence by staff in the field improves project success. Table 3 suggests that mere physical presence – and by extension, deconcentration of staff from headquarters to country offices – has little effect on project performance in a given country-sector.

Staff in the Post-Compact Era: Devolution and Decision Rights

As noted in section 2, the Strategic Compact was not merely about placing more staff in the field. The shift in staff duty stations was accompanied by changes in the way the organization saw itself, and the power it gave to its Country Directors. Table 4 reruns the analyses in Table 3 above, but restricting the data to the post-Compact period.¹⁵

¹⁵ The post-Compact period is defined as all projects approved by the World Bank's board in 1997 or later.

| Project Success | (1) | (2) | (3) | (4) |
|---|----------------------|----------------------|----------------------|----------------------|
| Any Staff Implementation Presence | 0.0240 (0.636) | | | |
| Any Staff Preparation Presence | | -0.0961 (0.151) | | |
| Country Director Implementation Presence | | | 0.00653 (0.551) | |
| Country Director Preparation Presence | | | | 0.330** (0.143) |
| Project Size (Logged Net Commitment Millions) | 0.106*** (0.0343) | 0.135*** (0.0185) | 0.106*** (0.0344) | 0.132*** (0.0186) |
| Constant | 6.726*** (1.685) | 5.495*** (0.903) | 6.747*** (1.599) | 5.472*** (0.891) |
| Individual Staff Member FEs | Y | Y | Y | Y |
| Recipient Country FEs | Y | Y | Y | Y |
| Sector FEs | Y | Y | Y | Y |
| Year FEs | Y | Y | Y | Y |
| R^2 | 0.484 | 0.323 | 0.484 | 0.324 |
| Observations | 959 | 2309 | 959 | 2309 |

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 4: Direct Effects of Staff and Country Directors' in-Country Implementation and Preparation Presence on Project Success in the Post-Compact Era

As predicted (H2), Country Directors' presence during the preparation of a project post-Compact is indeed associated with improved project performance. In the post-Compact period, Country Director presence during the project preparation process is clearly associated with better project outcomes, a result significant at the 95% confidence level. A shift from no presence to presence for the entire year prior to project approval by a Country Director raises expected performance by .33 points on a six-point scale. Also as predicted, the effect of any staff presence on project success is not greater (rather, it is reduced) when examining post-Strategic Compact projects. Jointly, these findings strongly support the notion the decentralization of decision rights, and thus power, to the field was an important component of the Compact's effects.

Unpacking Effect Heterogeneity: Country Directors and State Fragility

Table 5 shifts to testing H3, examining the effect of Country Director presence during the preparation and implementation of projects in countries of differential fragility.

| Project Success | (1) | (2) | (3) | (4) |
|---|-----------------------|----------------------|----------------------|----------------------|
| Country Director Implementation Presence | 0.00467 (0.572) | -3.040*** (1.016) | | |
| Country Director Implementation*SFI | | 0.311*** (0.0862) | | |
| Country Director Preparation Presence | | | 0.297* (0.153) | 0.362 (0.385) |
| Country Director Prep*SFI | | | | -0.00598 (0.0321) |
| State Fragility Index (SFI) | -0.0556 (0.0705) | -0.177** (0.0775) | 0.0403 (0.0320) | 0.0420 (0.0333) |
| Project Size (Logged Net Commitment Millions) | 0.0986*** (0.0358) | 0.109*** (0.0355) | 0.130*** (0.0207) | 0.130*** (0.0208) |
| Constant | 7.794*** (2.143) | 9.950*** (2.202) | 6.010*** (1.238) | 5.979*** (1.250) |
| Individual Staff Member FEs | Y | Y | Y | Y |
| Recipient Country FEs | Y | Y | Y | Y |
| Sector FEs | Y | Y | Y | Y |
| Year FEs | Y | Y | Y | Y |
| R ² | 0.466 | 0.479 | 0.342 | 0.342 |
| Observations | 846 | 846 | 1800 | 1800 |

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 5: Country Directors and State Fragility in the Post-Compact Era

Table 4 suggested that during the implementation phase, Country Director presence had no consistent effect on project performance. However Model 2 of Table 5 reveals that this was likely due to a heterogeneous treatment effect – that Country Directors matter, but quite differentially. The interaction of Country Director implementation presence and state fragility index are quite substantively impactful – much more so than presence during the preparation phase, in fact – and substantively significant.

Figure 1 presents the net effect of the interaction. The more fragile a country becomes, the more useful a Country Director (as this analysis employs country fixed effects, the relevant comparison is of a country to itself over time). For a very fragile state, a Country Director can be quite useful indeed. A project in a state with an SFI of 20 – equivalent to the rating of Somalia on the 2017 SFI (on a scale from 0 to 25) – is expected to perform a full 1 point better (on a six point scale) if a Country Director is present for the entirety of implementation, as opposed to absent for the entirety of implementation.¹⁶ This effect of Country Director presence falls as state fragility declines in a country. When a country becomes quite stable, in fact, the net effect of Country Director presence becomes negative. The same country with an SFI of 8 – equivalent to the rating of e.g. South Africa and Indonesia on the 2017 SFI – sees an inverse performance effect, with a project in expectation performing one point *worse* if a Country Director is present for the entirety of implementation, as opposed to absent for the entirety of implementation.

¹⁶ Ratings from Marshall & Elzinga-Marshall 2017a, Table 2.

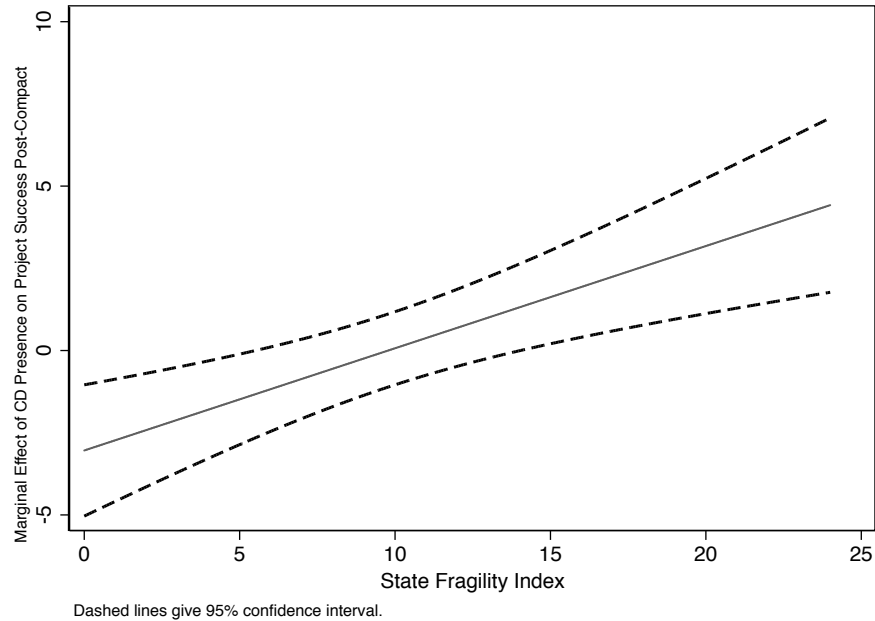


Figure 1: Conditional effect of Country Director implementation presence on project success by state fragility index

Addressing Selection

The countries which host Country Directors are not determined by lottery. Of particular concern for the results which focus on the post-Strategic Compact era – those in Tables 4 and 5 – is the possibility that countries where Country Directors and staff were newly sent following the Strategic Compact reforms were systematically different than those which did not newly receive a Country Director. That staff placement is endogenous to features of countries is only partially addressed by the use of recipient country fixed effects (which remove any time-invariant differences between countries); that is, countries may vary in their importance or attractiveness (or other relevant features endogenous to staff assignment) over time. If, for example, these were World Bank priority countries at in the mid-90’s, and this importance drove both staff assignment and project success, this would lead to spurious conclusions regarding the role of Country Directors in projects post-Compact. To partially address these concerns, I rerun in Table 6 the analysis in Table 5 while dropping any country where a Country Director is present after the Strategic Compact but not before.¹⁷

¹⁷ This restricts the countries with Country Directors to Argentina, Bangladesh, China, India, Madagascar, Philippines, Senegal, and Sri Lanka, the eight countries for which there is a Country Director present in at least one project which closed (for implementation) or preparation was completed (for preparation) by or in 1996. The full list of countries who ever have a Country Director in the sample is Argentina, Bangladesh, Brazil, China, Egypt, Ethiopia, Ghana, Hungary, India, Indonesia, Ivory Coast, Kazakhstan, Kenya, Korea, Madagascar, Mexico, Mozambique, Nepal, Nigeria, Pakistan, Peru, Philippines, Poland, Russia, Senegal, South Africa, Sri Lanka, Tanzania, Thailand, Turkey, Ukraine, and the West Bank & Gaza.

| Project Success | (1) | (2) | (3) | (4) |
|---|---------------------|----------------------|----------------------|----------------------|
| Country Director Implementation Presence | -0.0438 (1.056) | -2.568* (1.444) | | |
| Country Director Implementation*SFI | | 0.354** (0.139) | | |
| Country Director Preparation Presence | | | 0.175 (0.251) | -1.012 (0.938) |
| Country Director Prep*SFI | | | | 0.107 (0.0818) |
| State Fragility Index | -0.107 (0.0839) | -0.175** (0.0874) | 0.0162 (0.0384) | 0.00192 (0.0399) |
| Project Size (Logged Net Commitment Millions) | 0.0923* (0.0474) | 0.104** (0.0473) | 0.135*** (0.0266) | 0.135*** (0.0266) |
| Constant | 8.869*** (2.421) | 10.09*** (2.450) | 6.735*** (1.482) | 6.996*** (1.494) |
| Individual Staff Member FEs | Y | Y | Y | Y |
| Recipient Country FEs | Y | Y | Y | Y |
| Sector FEs | Y | Y | Y | Y |
| Year FEs | Y | Y | Y | Y |
| R^2 | 0.481 | 0.490 | 0.343 | 0.344 |
| Observations | 608 | 608 | 1283 | 1283 |

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 6: Country Directors and State Fragility in the Post-Compact Era, Excluding Countries Which Only Receive a Country Director Post-Compact

The results in Table 6 are substantively identical (indeed, the point estimate on the key interaction term depicted in Figure 1 is slightly higher), though sample size and thus power are reduced. These results depict a treatment effect on those countries that have a Country Director present prior to the Strategic Compact, which are not random; but Table 6 should give us confidence that the time-varying features of countries to which Country Directors were newly deployed following the Strategic Compact, or the World Bank's particular focus on those countries in the mid-90's, is not driving the results. It does seem to be something about Country Directors' shifting status following the Strategic Compact rather than the shifting set of countries in which Country Directors were present following the Strategic Compact that is driving these findings.

Further Robustness

While I have fit OLS models in the main results above for ease of substantive interpretation, the dependent variable is a Likert-type scale; as such, in Appendix Table A1 I employ ordered logit models to ensure that OLS is not leading to spurious results. The ordered logit models have, in fact, substantially stronger findings – both the coefficients on the main effect of Country Director presence and the interaction between presence and the state fragility index are significant at the 99% level in the ordered logit specification. Appendix Table A2 finds substantively similar results when restricting the sample to only the minority of projects which have an ex-post evaluation created by the World Bank's Independent Evaluation Group (IEG). This suggests that the results in Table 4 are not a product of changing country-level project evaluation standards following the introduction of the Strategic Compact.

5: Discussion

The results provide a decidedly mixed picture. There is only marginal evidence of a pure “informational” role of having staff in general (that is, considering staff without regard to rank) resident in the country where work is occurring. There is a modest substantive benefit to the presence of staff during implementation (but not preparation), per Table 3. However, this effect is not substantively very large, and is not present in the post-Compact period. Country Directors, on the other hand, matter quite a bit. The presence of these relatively senior officials is quite consequential in the post-Compact period, where Country Directors matter both during the preparation and implementation phases of projects. It seems that not just mere presence of World Bank but also authority is needed to “move the needle” with regards to what happens during the preparation and implementation phases of projects.

This does not mean that Country Directors’ presence is unambiguously positive, however. While Country Director presence is associated with a modest but non-trivial positive effect during the preparation phase of projects, during the implementation phase Country Directors’ presence is more mixed. For states going through very fragile periods, there are substantial returns to the presence of a Country Director. For the least fragile states, however, the presence of a Country Director is a net negative. Increasing the World Bank’s authority is not an unambiguously good thing—even for the performance *of the World Bank’s own projects*.

This is not the only possible interpretation of the correlation between Country Director presence post-Compact and project performance. The Strategic Compact changed many things, and it is possible some other change covaries with Country Director presence but not presence of all staff and interacts with state fragility (and thus is not absorbed by the year fixed effects, which otherwise address organization-wide changes that vary over time). In addition, while the section on selection is strongly suggestive of decision rights rather than the choice of countries newly assigned Country Directors post-Compact driving the results, it is still possible that selection plays a role; and in any case it is an open question whether the local average treatment effect on the (relatively important) countries where Country Directors are based would hold in other countries of similar levels of fragility.

It is also possible that it is indeed Country Directors presence that drives changes in project performance, but it is not via differences in bargaining power and thus direction of the project during implementation that Country Directors heterogeneously effect project success. Perhaps the tasks Country Directors perform are only useful in the weakest states, though that leaves the negative relationship between presence and project performance in the least fragile states less well explained. Perhaps the presence of a Country Director in the field allows senior management to meddle more in projects, actually reducing the autonomy of the lower-level staff who are in charge of particular projects. In this case, however, it is unclear why this meddling would be beneficial in the case of e.g. the most fragile states, but not others. This interpretation also runs directly counter to Honig’s (2018) finding from multiple donors that control by headquarters is particularly *harmful* in the most fragile states. While the bargaining explanation seems the most plausible candidate, the evidence is far from definitive and future work might help address this matter.

Where states are weak and contexts are changing rapidly, these findings are consistent with the World Bank's own thinking guiding projects in a positive direction. A Country Director in the field can push back on requests from World Bank headquarters, which may be well-intentioned but inappropriate: empowered agents in the field can design and bargain for better projects and in implementation can help make quick decisions when needed, armed with contextual understanding. Where recipient countries are more stable, however, these findings are consistent with the view that putting a powerful Country Director in the field can do more harm than good. Strengthening the World Bank's resident "negotiating team" may lead projects to follow the World Bank's vision, rather than that of the recipient country.

While these results may seem to conflict with those of scholars arguing field staff ought lead development efforts (e.g. Andrews, 2013; Campbell, 2018; Honig, 2018; Levy, 2014), I believe these results are consistent with that literature, albeit with additional nuance. The mere existence of a country office is not sufficient. An office needs not merely to exist, but also to have the ability to alter the course of events, in order to have a meaningful impact on development projects. These results also suggest that more control by front line "street level bureaucrats" and more control by in-country senior officials may have heterogeneous effects.

For those with an interest in decentralization more broadly, these results provide a relatively novel opportunity to tease apart deconcentration and devolution channels of decentralization, while accounting for confounds that are frequently very difficult to systematically address. The large dataset of individual projects allows the inclusion of country, year, sector, and individual fixed effects. These results focus on variation within-country and within-staff member. As such, they allow us to recover what we might expect to happen when a given country becomes more or less fragile. These results also speak to what we might expect if a given individual was moved from headquarters to the field, or remained in the same country but was promoted to Country Director, for example, from a lesser rank. These results may be a useful input for scholars and practitioners seeking to better understand deconcentration and devolution channels in order to best design decentralization efforts.

For the World Bank itself and scholars of the developing world, the lessons of the Strategic Compact are perhaps twofold. First, deconcentration – shifting the physical location of staff – makes at best a modest difference for performance (though it may still be useful e.g. for the World Bank's legitimacy or public image, either with developed world publics or client countries). That the "information effect" seems negligible is interesting, and arguably provocative. While it is possible that the World Bank's other strategies for gathering local information – e.g. frequent analytic work, consultation with Government officials, etc. – are sufficient and thus the addition of staff has no marginal returns to information, it is also possible that local staff are inadequate or ineffective in gathering information. More radically, these results might be taken to tentatively suggest that the primacy of place this paper, and a great deal of the literature, gives to principal-agent frameworks and thus implicitly the notion that aid agency field staff can best be understood via examination of hierarchical organizational relations and dynamics may be misplaced. The null finding on returns to World Bank staff placement and thus better information is arguably more consistent with the literature which privileges the culture of aid staff, accounting for the null effect via the possibility that many newly assigned

field staff are rapidly acculturated into conventional modes of action and inaction and thus do not provide substantial information returns to their organizations. (see e.g. Autessere 2014, Mosse 2011)

Second, these findings suggest that increases in the World Bank's bargaining power may not always help the institution achieve its own ends. When physical staff location in a recipient country is coupled with the authority to actually make change via devolution, the World Bank would do well to be cognizant of its own strength. Where states are weak, this strength is a critical substitute, assisting in the success of critical development efforts. Where states are strong, however, more "muscle" from the World Bank may lead the institution to achieve even less of what it aimed to accomplish than it might have in the absence of any field presence at all.

Former World Bank President and architect of the Strategic Compact James Wolfensohn, then, seems to have been right when he said, as quoted at the top, that "The notion that every decision [the World Bank made] had to be taken in Washington just struck me to be preposterous." But he may have been wrong when in the next breath he argued that "the closer you could get the decisions to the field and the greater responsibility you could give to the Regions, the better off you'd be." The answer, as in so much of life, seems to be that it depends—not just on showing up, but on what staff do once they get there. Field staff are sometimes irrelevant, sometimes critical components of success, and sometimes defeat their organization's broader interests even while attempting to pursue the organization's objectives. As in so much of development assistance and development studies, this paper's findings suggest that when it comes to the decentralization of staff, there is no universal right answer. Much depends on the details of person, place, and power.

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Appendix I: Robustness Checks

This brief appendix provides the tables referred to in the robustness checks. Table A1 fits ordered logit models to the main results in Table 5, which – as noted in the main text – in fact strengthens the results. The interaction between Country Director implementation and the state fragility index and the main effect of Director Implementation presence are now significant at the 99% level. The association of Country Director preparation presence with project success is now significant at the 95% confidence level.

| Project Success (6 point scale); Ordered Logit Models | (1) | (2) | (3) | (4) |
|---|----------------------|----------------------|----------------------|----------------------|
| Country Director Implementation Presence | 0.418 (1.143) | -6.740*** (2.018) | | |
| Country Director Implementation*SFI | | 0.746*** (0.168) | | |
| Country Director Preparation Presence | | | 0.631** (0.315) | 0.418 (0.786) |
| Country Director Prep*SFI | | | | 0.0203 (0.0646) |
| State Fragility Index | -0.162 (0.134) | -0.454*** (0.150) | 0.0505 (0.0642) | 0.0452 (0.0675) |
| Project Size (Logged Net Commitment Millions) | 0.227*** (0.0715) | 0.250*** (0.0724) | 0.284*** (0.0430) | 0.285*** (0.0435) |
| Individual Staff Member FEs | Y | Y | Y | Y |
| Recipient Country FEs | Y | Y | Y | Y |
| Sector FEs | Y | Y | Y | Y |
| Year FEs | Y | Y | Y | Y |
| Observations | 846 | 846 | 1800 | 1800 |

Standard errors in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table A1: Country Directors and State Fragility in the Post-Compact Era (Table 5), Ordered Logit Models

Table A2 also focuses on the robustness of Table 5's results, restricting the sample to evaluations conducted by the World Bank Independent Evaluation Group (rather than evaluations by project staff or contracted evaluators). The pattern of results remains the same – indeed, point estimates are higher - though statistical significance is reduced given the small sample and limited degrees of freedom.

| Project Success (6 point scale); PARs (WB IEG Evals) Only | (1) | (2) | (3) | (4) |
|---|-------------------|--------------------|----------------------|----------------------|
| Country Director Implementation Presence | -0.227 (1.368) | -9.612* (5.014) | | |
| Country Director Implementation*SFI | | 0.866* (0.446) | | |
| Country Director Preparation Presence | | | 0.463 (0.346) | 0.402 (1.025) |
| Country Director Prep*SFI | | | | 0.00473 (0.0748) |
| State Fragility Index | 0.200 (0.227) | 0.0539 (0.232) | 0.240** (0.0984) | 0.238** (0.102) |
| Project Size (Logged Net Commitment Millions) | 0.143 (0.126) | 0.151 (0.122) | 0.192*** (0.0696) | 0.192*** (0.0699) |
| Constant | 1.192 (5.759) | 10.70 (7.428) | -0.0217 (2.980) | 0.0156 (3.049) |
| Individual Staff Member FEs | Y | Y | Y | Y |
| Recipient Country FEs | Y | Y | Y | Y |
| Sector FEs | Y | Y | Y | Y |
| Year FEs | Y | Y | Y | Y |
| R^2 | 0.826 | 0.840 | 0.751 | 0.751 |
| Observations | 196 | 196 | 319 | 319 |

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table A2: Country Directors and State Fragility in the Post-Compact Era, WB Independent Evaluation Group Assessments (PARs) Only