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Going Out to the Country: World Bank Staff Decentralization and Aid Project Success

Decentralization of an organization's staff does (at least) two things: it changes information flows and it changes decision rights. Foreign aid agencies have long preached the value of locating their staff in their "client" developing countries. Locating staff overseas is framed as giving staff access to local knowledge and context, with presumed benefits for project success. This paper sheds light on the net effects of World Bank staff decentralization as well as the mechanisms. In doing so, it provides a rare opportunity to understand how country features mediate the effects of an identical decentralization effort. Changes in the decision rights of field-based personnel in the late 1990's also provide leverage on the independent effect of information flows and decision rights. Using finegrained individual level data on staff rotation from 1947 to 2005 allows the analysis to capture the effect of different levels of decision-making power while stripping away any fixed features of staff via individual fixed effects. I find that merely placing World Bank staff in developing countries has little effect on the success of development projects. Combining physical presence and decision rights does, however, yield an impact on projects. In the most fragile states, the presence of senior personnel (World Bank country directors) with authority 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 and project ownership—as countries become wealthier, the net effect of the presence of country directors becomes negative. The impact of decentralization in this context is mixed and flows from the exercise of power, not just information.