Aid, Institutions, and the Potential of Anti-Corruption*

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Abstract

Can foreign aid succeed in countries with weak institutions? Conventional wisdom suggests that it cannot because institutional problems are intractable, aid is fungible, and most aid is political and thus inefficient. To provide evidence to the contrary, I individually coded all 3,663 World Bank investment projects approved from the years 2001-2016 for their use of context-specific, project-level Governance and Anti-Corruption Action Plans (GAAPs). Using matching for causal inference, I find that projects with GAAPs have better project outcomes than similar projects without GAAPs. Contrary to recent claims that the only way to effectively control corruption is through collective action, the results suggest that principal-agent style monitoring remains useful, and weak institutions also do not automatically yield poor development outcomes. International organizations' investments in large anti-corruption infrastructures after corruption-related legitimacy crises and bureaucrats' anti-corruption expertise are the primary drivers of the results.

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From 1943-2013, multilateral aid donors alone spent an estimated $US 7.8 trillion on foreign aid,[1] and a large portion of that colossal amount went to countries with weak institutions (Alesina and Weder, 2002). Given the potential for that aid to transform people's lives, it is essential to know: Can foreign aid succeed in countries with weak institutions?

Most scholarship follows Burnside and Dollar (2000) and suggests that aid is unlikely to succeed in the presence of weak institutions. On that score, the conventional wisdom highlights that institutional problems are both paramount and intractable (e.g., Rodrik, Subramanian and Trebbi, 2004; Acemoglu and Robinson, 2012); aid can be a "fungible" nontax revenue that corrupt politicians and bureaucrats capture (e.g., Bueno de Mesquita and Smith, 2009; Andersen, Johannesen and Rijkers, 2022); and aid distribution is politically-motivated and thus inefficient (e.g., Booth, 2011; Vreeland, 2019).

Although the institutional constraints to successful aid are real, I harness lessons learned from the anti-corruption literature to argue that multilateral aid can succeed in countries with weak institutions. The primary reason why pertains to the legitimacy costs that multilateral actors endure when their projects fail, especially when corruption is a cause of the failure. To curtail corruption-related legitimacy costs that affect both multilateral development banks (MDBs) and the donors overseeing them (Clausen, Kraay and Nyiri, 2011; Johnson, 2011), MDBs have invested in large anti-corruption infrastructures since the "corruption eruption" of the 1990s (Naím, 1995; Rose-Ackerman and Carrington, 2013). Since that critical juncture period, which formally took off following former World Bank president James Wolfensohn's (1996) "Cancer of Corruption" speech, MDB bureaucrats have not merely exercised their "fiduciary duty".[2] More consequentially for the present study, MDB bureaucrats have worked with aid-receiving countries to include context-specific anti-corruption action plans at the project level when appropriate. Because these action plans address potential "fungibility" and elite capture through additional audits, procurement con-

[1] These figures are presented in 2011 US dollars and come from AidData (Tierney et al., 2011).
[2] The "fiduciary duty" refers to the clause in the founding Articles of Agreement of all major MDBs, specifying that aid funds need to be spent for their intended purposes (e.g., World Bank, 1945).

trols, and other social accountability measures, I argue that aid can succeed in countries with weak institutions when bureaucrats design for success. Essentially, bureaucrats have agency to overcome the structural constraints posed by weak institutions.

To obtain data for my analysis, I individually coded all 3,663 World Bank investment projects approved from 2001-2016 for their use of context-specific, project-level Governance and Anti-Corruption Action Plans (GAAPs). In total, 352 of the projects utilized GAAPs for the period under study, making the share of projects with GAAPs around 9% of the sample. Given potential selection effects and post-treatment bias, my sample only counts GAAPs in projects issued before World Bank Executive Board approval. Thus, "problem projects" that the World Bank assigns a GAAP post-approval fall outside my sample, thereby mitigating endogeneity concerns. I also separately test for such concerns and find no evidence to support them.

I use King, Lucas and Nielsen's (2017) frontier matching to test the causal effects of the GAAPs on the standard measure of World Bank project success: IEG project outcome scores, which fall on a 1-6 scale. Like any matching method, frontier matching finds projects with GAAPs and compares them to very similar projects without GAAPs. What distinguishes frontier matching from other matching methods is that it (re-)tests and plots the causal effect of GAAPs using the maximum balance for each observation in the sample. That re-testing and plotting of estimates at the entire range of possible sample sizes is crucial: for matching estimates to be credible, they must not be sensitive to researcher design choices that may introduce bias-variance trade-offs or statistical power challenges. In any case, given that GAAP decisions are mostly project-specific, they do not have a clear panel structure or staggered adoption pattern. Accordingly, cross-sectional frontier matching is a more suitable method than potential alternatives, including the augmented synthetic control method and panel matching (see Ben-Michael, Feller and Rothstein, 2021; Imai, Kim and Wang, 2022).

Using frontier matching, I find that GAAPs indeed have a positive effect on World Bank outcomes. Usually, the effect ranges from 0.1-0.2, which is a sizable effect given the six-point scale of the dependent variable. Athey and Imbens (2015) intervals on potential model misspecification are also fairly narrow, suggesting that the results are robust.

Assuming the results hold after further robustness checks, the paper makes two larger contributions. Especially given that GAAPs are merely context-specific, top-down monitoring tools, the present study's first contribution concerns the efficacy of monitoring and the principal-agent model more broadly. To that end, numerous scholars have challenged the utility of the principal-agent approach, suggesting that top-down "reporting undermines performance" (Honig, 2019). Similarly, Kenny (2017) pleads for more focus on "results, not receipts", and very highly-cited work from Persson, Rothstein and Teorell (2013) argues that most-principal agent approaches to anti-corruption mostly fail because they do not change the sticky norms that underpin corruption. The present study's more positive results on the effectiveness of monitoring schemes thus challenges most recent literature, which favors collective action approaches to anti-corruption over ones rooted in principal-agent style monitoring (e.g., Mungiu-Pippidi, 2013; Fisman and Golden, 2017).

Second, the present paper helps clarify the conditions under which bureaucrats have useful agency to overcome structural constraints to achieving development outcomes. With respect to structures, the institutional revolution led by Acemoglu and Robinson (2012) has undoubtedly improved social scientists' knowledge of how politics and economics really work. It is possible to make an equally laudatory statement about Easterly's (2006, 2015) critique of planning and what Acemoglu and Robinson (2012) call "the ignorance hypothesis"—that is, that Western advice is always right and is crucial for achieving development outcome. Nevertheless, the present study shows that it is possible to challenge the strong version of such strong claims. More specifically, consistent with the matching approach, the present study does not contest the fundamental results of Burnside and Dollar (2000) that institutions matter for development outcomes. However, comparing between two very similar projects both with and without an extra corruption-related monitoring plan, the one with the plan will perform better, suggesting that it is possible to overcome institutional constraints to development. Accordingly, the results of the present study align with Denizer, Kaufmann and Kraay (2013) and Bulman, Kolkma and Kraay (2017), who find that at least 75% of development outcomes at the World Bank and Asian Development Bank relate to project-level features, as opposed to macro-level country features.

1. Governance, Corruption, Aid, and Institutions

Corruption involves the "misuse of public office for private gain" (Rose-Ackerman and Palifka, 2016), and the broader concept of governance encompasses "a government's ability to make and enforce rules, and to deliver services, regardless of whether that government is democratic or not" (Fukuyama, 2013). Accordingly, it may seem self-evident that governance and corruption challenges impede the achievement of development outcomes, including in foreign aid, but that was not the conclusion of influential early scholarship. In particular, early scholarship suggested that corruption may actually be beneficial for growth, because corruption—in the form of "speed money" bribery—was a useful means to overcome the inefficiency of large government bureaucracies (Leff, 1964; Huntington, 1965; Nye, 1967). A second generation of scholars, however, used stronger methods and empirical data to debunk those initial claims (Rose-Ackerman, 1975; Beenstock, 1979; Shleifer and Vishny, 1993; Mauro, 1995; Wei, 2000; Gerring and Thacker, 2005). By doing so, they contributed to the current scholarly consensus that governance and corruption challenges are both part and parcel of weak institutions, and all of them impede the achievement of development outcomes (e.g., Acemoglu, Johnson and Robinson, 2005; Acemoglu et al., 2019).

By showing how the above insights applied to aid effectiveness as well, Burnside and Dollar (2000) helped change the development landscape. The study's conclusion that aid only spurred growth in countries with strong institutional environments supported related efforts by the World Bank and other development financiers as they implemented revised mandates on governance and corruption (e.g., World Bank, 1992, 1997). Thereafter, numerous scholars subjected Burnside and Dollar's (2000) finding to numerous challenges (e.g., Easterly, Levine and Roodman, 2004; Clemens et al., 2012). However, the latest evidence suggests support for the proposition that aid causes growth (Arndt, Jones and Tarp, 2015; Galiani et al., 2017; Civelli, Horowitz and Teixeira, 2018).

During the same period that scholars and MDBs grappled with Burnside and Dollar's (2000) findings and their implications, the study of aid effectiveness bifurcated into a high-profile but inchoate debate between "aid optimists" (e.g., Sachs, 2005) and "aid skeptics" (e.g., Easterly, 2006). Although the debate garnered a lot of attention from policymakers and lay audiences, the debate was inchoate because neither side fully acknowledged the relevant political-institutional challenges (Wright and Winters, 2010, 62).[3] On that score, the politics of aid has particular impact on relevant outcomes given how the geopolitics affect MDB decisions (e.g., Faye and Niehaus, 2012; Vreeland, 2019), and bureaucrats' incentives to disburse money for career motivations (Booth, 2011).[4] Perhaps even more fundamentally, though, aid often does not necessarily rectify the institutional problems that create the need for aid in the first place (Acemoglu and Robinson, 2012; Deaton, 2013). Along similar lines, even though many scholars dispute the claim (van de Walle and Mu, 2007; Altincekic and Bearce, 2014; Bermeo, 2016; Findley et al., 2017), others argue or assume that aid is a "fungible" non-tax revenue that keeps corrupt leaders in power (e.g., Djankov, Montalvo and Reynal-Querol, 2008; Bueno de Mesquita and Smith, 2009; Moyo, 2009; Ahmed, 2012; Morrison, 2012; Andersen, Johannesen and Rijkers, 2022).

Despite the above challenges to aid effectiveness, they are likely not insurmountable. First, the most recent analyses of how recipient country institutional quality affects aid

[3] According to Wright and Winters (2010, 62): "Optimists appear to assume that a massive scale-up in aid will be used as economic theories predict, ignoring the possibility that governments have incentives to divert aid funds for their own purposes. The pessimists, meanwhile, argue that donors should bypass recipient governments and give aid directly to the poor (Easterly, 2006, 368), ignoring the political and technical difficulties of doing this."

[4] On the subject bureaucrats' incentives to disburse money, failing aid projects are not good for bureaucrats careers. Additionally, most concessional aid can only be used within certain time windows (see Winters and Kulkarni, 2014). Taken together, it is theoretically within bureaucrats incentives to finish a less-than-ideal aid project than to stop disbursements for it.

flows indicate that MDBs send most of their aid to countries with stronger institutions (Winters and Martinez, 2015; Denly, 2021). Consequently, the institutional challenges to aid effectiveness are likely not as omnipresent as most literature suggests. Second, at least since the 2005 Paris Declaration of Aid Effectiveness, MDBs have invested significant energy in using—as opposed to bypassing—recipient country institutions for aid delivery (Knack, 2014). In the process, countries have inevitably learned how to better manage aid flows. That is especially true because certain bilateral donors, such as France and Germany, only deliver aid through recipients countries' institutions as well (see Dietrich, 2021). Finally, although Western advice, especially what Williamson (1993) called the "Washington Consensus", has received considerable invective (e.g., Rodrik, 2006), the literature has recently reversed course (Easterly, 2019; Grier and Grier, 2021). That is even the case for famous aid skeptic William Easterly, the same scholar who wrote a book called "The Tyranny of Experts" and penned another article arguing that the idea of development assistance was a mistake (see Easterly, 2007, 2015). Against the above backdrop, there is likely more room for top-down, Western-led monitoring to improve development outcomes even when there are institutional constraints to achieving them.

2. Theory

To support my argument that multilateral aid can overcome the structural challenges posed by weak institutions, I focus on two explanatory factors. The first concerns the legitimacy costs associated with corruption-related failures and the resulting infrastructural investments in anti-corruption that aid agencies have made to curtail these legitimacy costs. Second, there is increasing evidence about what tools work to control corruption, so it is logical that bureaucrats can use that knowledge to enact relevant context-specific measures when they are appropriate.

2.1. Legitimacy Costs, Corruption, and Multilateral Aid

I argue that multilateral aid can succeed in weak institutional environments because corruption scandals create severe legitimacy costs that nowadays force aid agencies to take countermeasures. As many scholars underscore, one of the main challenges to reducing corruption is having an honest principal to control corrupt agents (e.g., Persson, Rothstein and Teorell, 2013; Peiffer and Alvarez, 2016), and, along those lines, corruption was not always a top priority for multilateral aid agencies (Kapur, Lewis and Webb, 1997; Khan, 2002). However, this behavioral norm changed in the late 1990s and early 2000s (Marquette, 2004, 2007; Hough, 2013; Rose-Ackerman, 2013; Fisman and Golden, 2017).

During the early 1990s, major corruption scandals rocked Italy, Brazil, Japan, Mexico, India, Spain, Pakistan, Ecuador, Georgia, Germany, Peru, the United States, South Korea, and Switzerland, resulting in the resignation or impeachment of heads of state and high-ranking officials (Naím, 1995; Newell and Bull, 2003; Manzetti and Wilson, 2007; López Claros, 2015; Fisman and Golden, 2017). As publics around the globe became more aware of corruption, they also protested against international organizations and their neoliberal policies that prioritized the private sector over an honest state (Stiglitz, 2002). The infamous 1999 "Battle in Seattle", in which massive protests turned violent over a World Trade Organization meeting, was perhaps the most visible manifestation of popular discontent with international organizations, but it was far from the only such occasion (see Zürn, 2004).

The World Bank, a leading financier of development projects and producer of related research and knowledge products, was very much at the center of these legitimacy challenges (Pincus and Winters, 2002; Banerjee et al., 2006; Ravallion, 2016). For example, in 1994, crowds in Madrid greeted former World Bank President James Wolfensohn with chants of "fifty years is enough"—referring the institution's then 50-year mandate (Levy, 2014). The legitimacy challenges from corruption became even more acute in 1997, when the political economist Jeffrey Winters held a press conference to detail his findings on World Bank lending in Indonesia (Winters, 1997). In response to Winters's (1997) allegation that more than $USD 10 billion of World Bank funds disappeared due to corruption, at least 126 non-governmental organizations from 35 countries wrote the institution in protest (Rich, 2002, 49-50). Subsequently, the United States invoked congressional hearings on the World Bank's ability to control corruption (US GAO, 2000). The legitimacy challenges for both donors and the agencies were well-founded, too, according to former World Bank president James Wolfensohn's (2010) autobiography:

> "I was perplexed that corruption seemed to be nowhere on the Bank's official agenda. . . I checked past speeches from annual meetings; I checked the minutes of the Development Committee...The term corruption simply did not appear. The only time I ever heard the subject discussed was in private gatherings in people's homes. There was a wall of silence surrounding this critical issue.
>
> 'What is going on here' I kept asking my staff. Finally, Ibrahim Shihata, the Bank's experienced and intelligent general counsel. . . took me into the hall outside his office. Looking over his shoulder, as if someone might hear, he warned that in the Bank, there was no room to discuss the 'C-word'. 'It would be offensive to our shareholders and risk political repercussions.' Attacking corruption, he made me understand, would insult some of the executive directors who represented countries where corruption had reached the highest levels. It would also insult some of the rich countries that were well-aware of the problem but used it to their advantage" (Wolfensohn, 2010, 294-295).

To change the institution's trajectory on corruption, in 1996 Wolfensohn delivered a famous speech in which he decried the "cancer of corruption" and framed it as a development issue (Wolfensohn, 1996). Thereafter, among other things, the World Bank developed its first anti-corruption strategy and significantly increased staffing in financial management and procurement (World Bank, 1997); established the Integrity Vice-Presidency (INT) to investigate "allegations of fraud and corruption in World Bank-financed projects" (World Bank, 2002, 2015); included corruption as a required category in project-level risk management framework templates (World Bank, 2013*b*, 2014); and stipulated precise anti-corruption guidelines for aid recipients' use of World Bank financing and sanctions in the case of fund misuse (World Bank, 2006, 2016).

Consistent with diffusion processes on other policies (e.g., Heldt and Schmidtke, 2019), the Asian Development Bank (2010), African Development Bank (2006), and Inter-American

Development Bank (2009*b*,*a*), among other multilateral aid agencies,[5] have largely followed the World Bank's lead on anti-corruption. For example, in 2002 these agencies and others signed the UN-backed Monterrey Consensus, in 2006 they established a Uniform Framework for Preventing, and Combating Fraud and Corruption, and in 2010 agreed to cross-debarment on sanctions policy (International Financial Institutions Anti-Corruption Task Force, 2006; World Bank, 2010*b*).

Given that powerful donor countries benefited from corruption in recipient countries (Wolfensohn, 2010, 294-295), politics underpins multilateral aid flows (Vreeland, 2019),[6] aid agencies need to disburse money to survive (Booth, 2011), and "international organizations are frequently pawns of developed states" (Lake and McCubbins, 2006, 341), why did powerful donors (i.e., principals) grant multilateral aid agencies (i.e., agents) slack and permit expansion of their remits on anti-corruption? Why also have donors have financed large, expensive apparatuses to control corruption in multilateral aid (Rose-Ackerman and Carrington, 2013; Mungiu-Pippidi, 2015)?

A principal reason why is that there is significant evidence of "guilt-by-association" (Johnson, 2011). Because powerful states control aid agencies by means of their executive board positions, citizens across the world view the powerful states as responsible for the negative outcomes fostered by multilateral aid agencies that they steward. Corruption is also a significant determinant of popular distrust in public institutions (Clausen, Kraay and Nyiri, 2011), so donors have an incentive to qwell such concerns. That is especially true since the end of the Cold War and subsequent fracturing of the liberal international order, resulting from the rise of anti-globalization sentiments and populist politicians (Bearce and Jolliff Scott, 2019; Copelovitch and Pevehouse, 2019; Börzel and Zürn, 2021, 283).

More broadly, if donor countries no longer see the gains from delegating to multilateral aid agencies, then donors can sanction the agents by defunding or dissolving them (Hawkins

[5] It is also possible list agencies such as the Islamic Development Bank (2012).
[6] Further references include, for example, Fleck and Kilby (2006), Kilby (2009), and Dreher, Sturm and Vreeland (2009).

et al., 2006, 30), but that is not what happened. Instead, donors have financed even more international organizations (Pevehouse et al., 2020), increased funding to these organizations (Tierney et al., 2011), and actively encouraged multilateral aid agencies to effectively tackle corruption (US GAO, 2000; Rose-Ackerman and Carrington, 2013).

2.2. Controlling Corruption at the Project Level

Although having a larger infrastructure and remit to deal with corruption risks helps with curtailing relevant legitimacy costs, corruption, aid effectiveness, and governance challenges are context-specific (Grindle, 2004, 2011; Gingerich, 2013). To achieve better aid outcomes at the project-level, it is necessary to mitigate the risks of aid fungibility, elite capture, and their resulting legitimacy costs with context-specific measures. Isomorphic mimicry of actions across projects is not sufficient due to the differing implementation capacities of states and institutions within them (Andrews, Pritchett and Woolcock, 2013, 2017).

An emerging literature on the effectiveness of anti-corruption tools supports my argument that it is possible to control corruption in weak institutional environments by enacting specific measures. For example, aid agencies and governments around the world have effectively used financial, technical, and social audits to expose corrupt politicians, measure the quality and probity of road construction, and track the consequences of social fund diversion (e.g. Reinikka and Svensson, 2004, 2011; Olken, 2007; Ferraz and Finan, 2008; Bobonis, Cámara Fuertes and Schwabe, 2016; Gans-Morse et al., 2018). Similarly, procurement controls and e-procurement systems have constituted important means to prevent aid fungibility and elites from capturing the trajectory of bureaucrats' careers (e.g. Charron et al., 2017; Lewis-Faupel et al., 2016). Although the evidence on social accountability is more mixed, measures that aid agencies take such as community-monitoring, citizen scorecards, and participatory budgeting have yielded positive public goods outcomes in various countries (Björkman and Svensson, 2009; Banerjee et al., 2010; Olken, 2010; Casey, Glennerster and Miguel, 2012; Joshi, 2013; Touchton and Wampler, 2013; Fox, 2015; Khemani et al., 2016; Björkman, de Walque and Svensson, 2017; Casey, 2018). All of the above yields the following hypothesis:

> The legitimacy costs of corruption-related failures, aid agencies' large investments in anti-corruption, and increasing knowledge about anti-corruption monitoring tools have enabled bureaucrats to design projects that can overcome the structural constraints to improving aid outcomes in weak institutional environments.

3. Research Design

3.1. Governance and Anti-Corruption Action Plans (GAAPs)

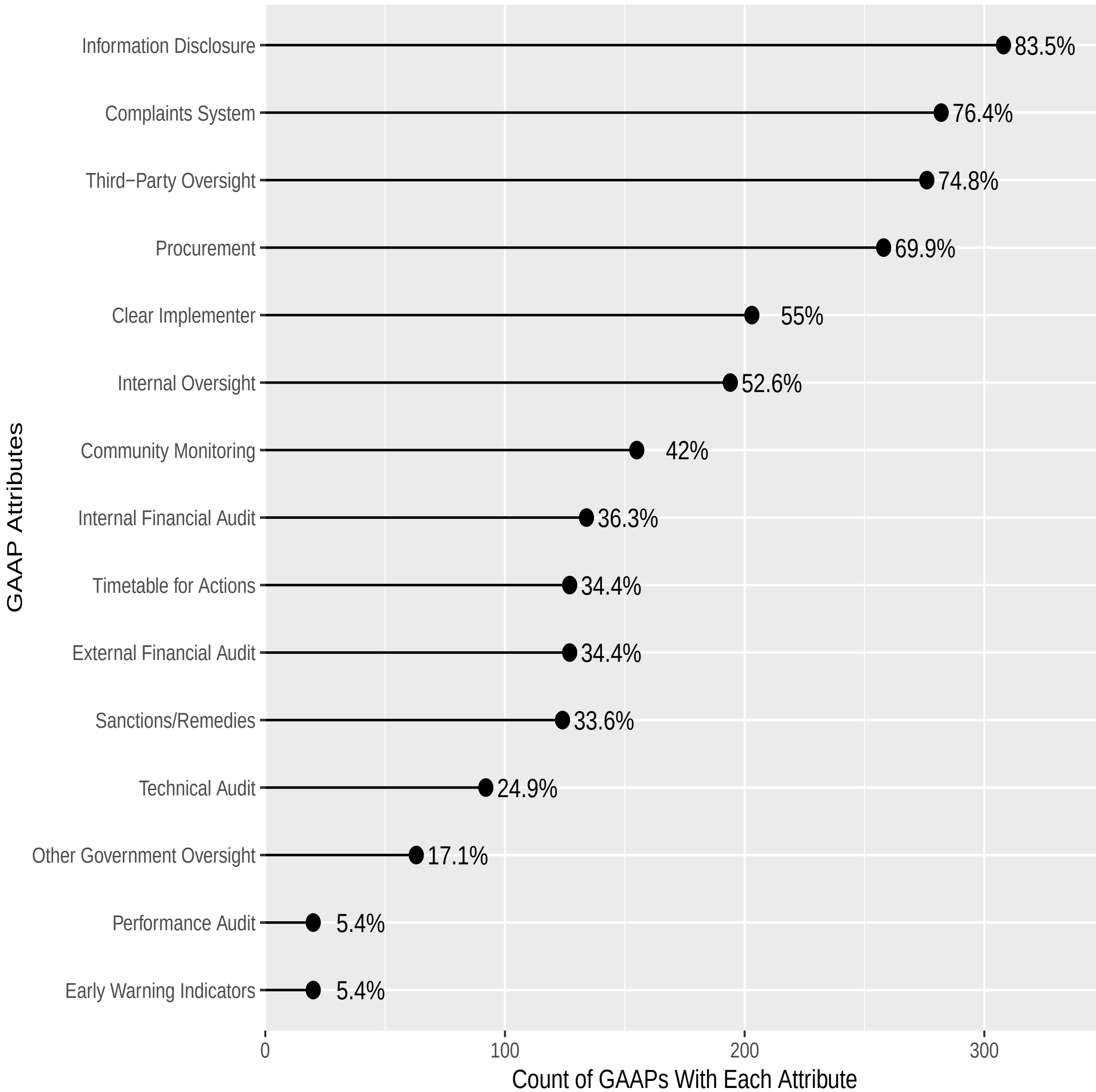
To demonstrate the empirical relevance of the argument, I examine the effectiveness of the World Bank's use of Governance and Anti-Corruption Actions Plans (GAAPs) on improving project-level development outcomes. Although GAAPs often have slightly different names,[7] GAAPs comprise a project-specific mix of anti-corruption tools, such as audits, procurement controls, and social accountability measures that *supplement* existing project-level requirements.[8] Figure 1 provides a detailed breakdown of the attributes of GAAPs, which the World Bank only uses in investment lending, not more fungible budget support, including Program for Results and structural adjustment loans.[9] As Figure 1 underscores, some of the most prominent attributes include additional information disclosure, grievance redress systems, and third-party monitoring.

[7] See Appendix A for more details.

[8] I italicize the word "supplement" to underscore that GAAPs are not part of regular anti-corruption controls that all World Bank projects must use.

[9] Structural Adjustment Lending (SAL), Development Policy Lending (DPL), and Development Policy Financing (DPF) are all equivalent. The World Bank currently refers these instruments as DPFs. In any case, given that the World Bank does not use GAAPs for budget support. Accordingly, concerns relating to loan type targeting (Winters, 2010), conditionality involving prior actions (e.g., Svensson, 2003; Easterly, 2005; Köberle et al., 2005; Kilby, 2009), and the potential fungibility of general budget support (e.g. Feyzioglu, Swaroop and Zhu, 1998; Lahiri and Raimondos-Møller, 2004; van de Walle and Mu, 2007) fall outside the scope of the present study. This distinction is critical because project-related investment aid is generally not fungible, especially as compared to budget support (Findley et al., 2017).

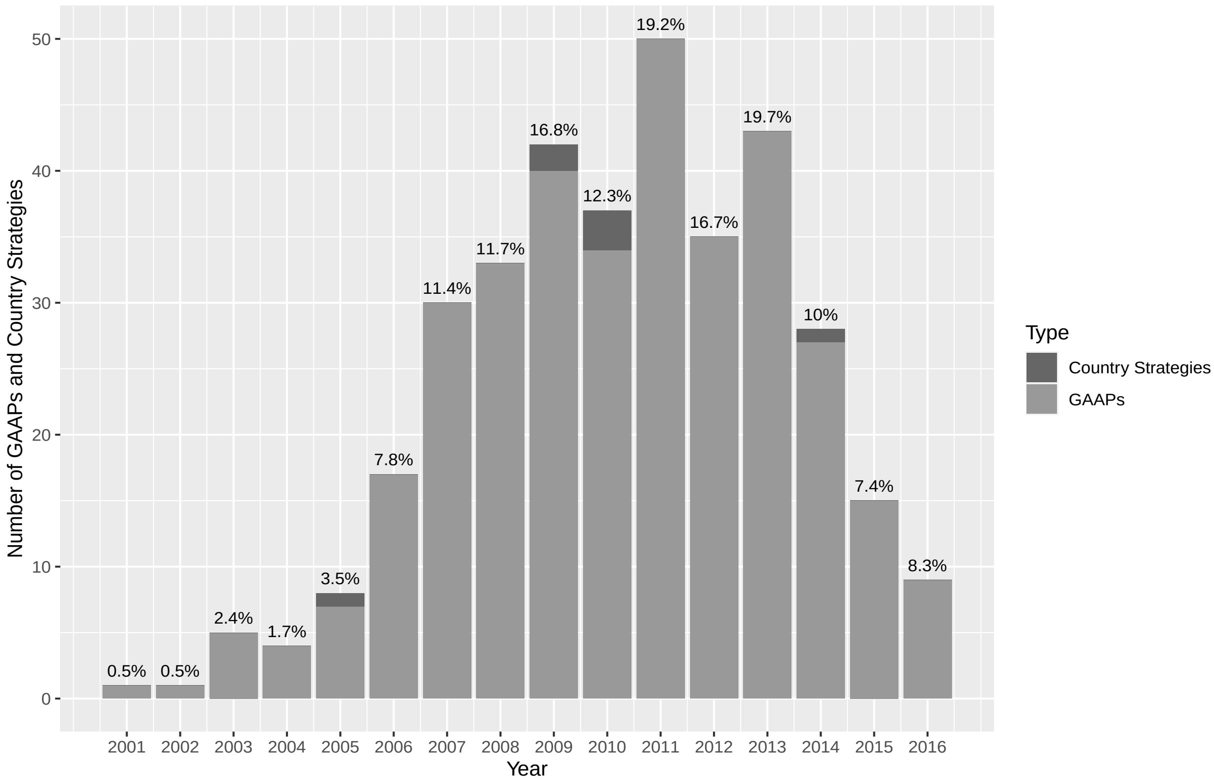
Figure 1: World Bank's Usage of Governance and Anti-Corruption Plans (2001-2016)



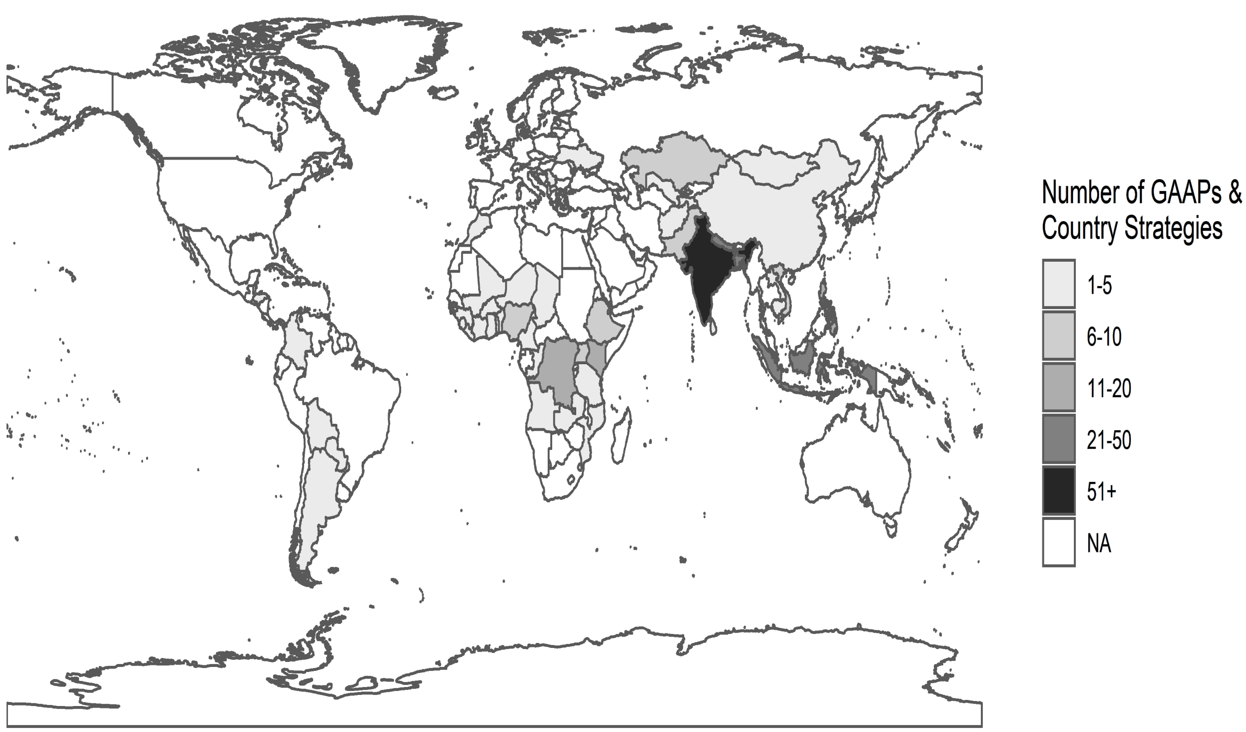
Note: Own coding based on project approval documents as well as project evaluation documents. The coding only includes projects with GAAPs present in the relevant approval document, because coding post-hoc GAAPs used for poorly-performing projects might introduce an endogeneity problem or post-treatment bias. In any case, Appendix A provides further details on the coding, and the percent numbers above refer to the share of projects with GAAPs or Country Strategies that have each attribute.

Figure 2: World Bank's Usage of Governance and Anti-Corruption Plans (2001-2016)

(a) Frequency by Year



(b) Country Usage



In terms of where and when the World Bank uses these tools, Figure 2b provides the relevant data. Following the aforementioned legitimacy scandals regarding World Bank lending in Indonesia, the World Bank first used a GAAP in 2001 when financing Indonesia's 2001 Second Kecamatan Development Program.[10] Since then, Indonesia, India, Bangladesh, and Nepal received the most GAAPs, which was largely a result of country-level decisions to include them in all the countries' respective projects. Outside of Asia, the Democratic Republic of the Congo, Uganda, and Kenya employed around 5-12 GAAPs from 2001-2016. For its part, projects for Latin American countries have used GAAPs more sparingly, with only Argentina and Honduras receiving a total of GAAPs 4 for the 2001-2016 period. In total, 59 countries used these tools for the study period, encompassing around 9% of approved projects.[11] Based on author interviews with project Team Leaders and other World Bank staff, GAAPs diffused based on Team Leaders taking up new positions as well as at the direction of regional World Bank anti-corruption advisors (see also World Bank, 2009, 2010*a*, 2013*a*).

As Figure 2a demonstrates, there is a second variant of a GAAP that one may call a Country Strategy. The latter differs from a GAAP in that a Country Strategy uses the same mix of attributes across different projects covering sundry sectors in a country. By contrast, GAAPs are always project-specific. In any case, Country Strategies are rather rare (see Figure 2a), so the present study focuses on GAAPs—more specifically, GAAPs incorporated into project design before Board approval. Such a design feature mitigates potential endogeneity or post-treatment bias concerns associated with failing projects receiving a GAAP post-hoc.

With respect to potential endogeneity or selection concerns, I further investigate them in two ways. First, I test whether GAAP incidence correlates with the Varieties of Democracy's political corruption measure, which McMann et al. (2022) show is likely the best available

[10] Indonesia's Kecamatan Development Program famous community-driven development project has previously received scholarly attention (e.g., Olken, 2007).

[11] See Appendix A for more details on the coding strategy.

country-level corruption measure. I find that the two measures correlate at 0.06. Second, I test for selection/endegeneity concerns using a more relevant measure for World Bank bureaucrats. More specifically, I run the correlation between GAAP incidence and the World Bank's official yearly designation of countries that are considered "fragile states". Given that the two measures correlate only at -0.03, it is difficult to argue that endogeneity or selection concerns characterize the use of GAAPs.

3.2. Dependent Variable: Project-Level Outcomes Scores

To assess the effectiveness of GAAPs on development outcomes, I follow past literature and use the World Bank Group's Independent Evaluation Group (IEG) project outcome rating. IEG rates each project after completion based on their respective outcomes (Independent Evaluation Group, 2016), using all project documents and, in many cases, interviews with project team members. To accompany and justify the ratings, IEG provides a Project Performance Assessment Report (PPAR). The latter largely mirrors project Implementation Completion Reports (ICRs) prepared by the respective project team members and their consultants. The key difference between the final IEG PPAR ratings and the ICR ratings is that those of PPAR tend to be lower, thereby providing an additional layer of protection against biased or inflated ratings (see also Dreher et al., 2013; Girod and Tobin, 2016). The IEG project outcome ratings have six potential scores: highly unsatisfactory (1), unsatisfactory (2), moderately unsatisfactory (3), moderately satisfactory (4), satisfactory (5), and highly satisfactory (6).

3.3. Identification Strategy

I use King, Lucas and Nielsen's (2017) frontier matching to identify the causal effect of GAAPs on IEG project outcomes scores. Frontier matching is preferable to other potential methods because GAAP decisions are mostly project-specific and do not have a clear staggered adoption or panel structure. The only exceptions were Indonesia, India, and Nepal, all of which at one point decided to use GAAPs in all of their projects. However, at a later time, the countries reversed their decisions and no longer required their projects to have GAAPs. Consequently, alternative potential identification strategies, such as the generalized synthetic control method (Xu, 2017), the augmented synthetic control method (Ben-Michael, Feller and Rothstein, 2021), and panel matching (Imai, Kim and Wang, 2022), are not feasible for the present study.

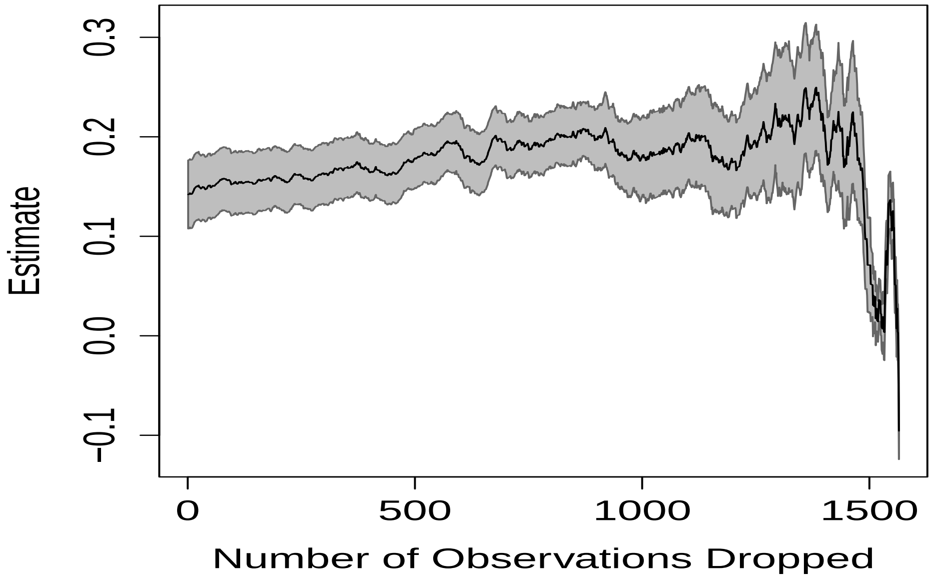
Like any matching method, frontier matching finds projects with GAAPs and compares them to very similar projects without GAAPs. What distinguishes frontier matching from other matching methods is how it (re-)tests the causal effect of GAAPs. It does so by first pre-processing the data, finding the maximum balance for each observation in the sample. Next, it re-tests the causal effect of the GAAP treatment on project outcomes using the appropriate parametric techniques for each maximally balanced matched sample. Given that frontier matching allows researchers to see how the causal effects differ as the sample size increases and decreases, it enables analysts to discern how bias-variance tradeoffs and statistical power considerations may affect the results. By contrast, traditional matching methods, such as propensity score matching, which King and Nielsen (2019) argue have many issues, conduct one such analysis based on finding the one sample with the maximum balance and common support. Even other matching techniques that use matching as a pre-processing technique only conduct their analysis one potential sample (e.g., Ho et al., 2007), so frontier matching represents a significant improvement over most matching methods.

3.4. Control Variables

To discern the causal effects of GAAPs on project outcomes with any degree of confidence, it is necessary to take into account the potential determinants of higher and lower project outcome scores other than GAAPs. Following Denizer, Kaufmann and Kraay (2013) and Bulman, Kolkma and Kraay (2017), I control for both project- and country-level predictors. With respect to the project-level determinants, I focus on log commitment amounts and log preparation costs, which I deflate to constant 2015 US dollars to account for inflation. Commitment amounts and preparation costs are crucial, because both the aid recipients and World Bank may be likely dedicate more supervision time to projects that cost more to prepare and entail higher amounts of money. Denizer, Kaufmann and Kraay (2013) further argue for the importance of mid-project risk flags, supervision costs, and effectiveness delays.[12] However, effectiveness delay information and mid-project risk flags are not publicly available, and in a follow-up study Bulman, Kolkma and Kraay (2017) find inconsistent effects of effectiveness delays. More significantly, though, I do not control for risk flags, effectiveness delays, and supervision costs, because doing so would clearly introduce post-treatment bias—or what Angrist and Pischke (2008) call "bad controls".

At the country level, I follow authors such as Denizer, Kaufmann and Kraay (2013), Girod and Tobin (2016), and Kilby and Michaelowa (2019) control for the (deflated) GDP growth rate, debt as a percent of GNI, Foreign Direct Investment as a percent of GDP, natural resources as a percent of GDP, and log GDP per capita from the World Bank's (2017) World Development Indicators. To control for democracy, I include the Varieties of Democracy (V-Dem) polyarchy measure. I also use V-Dem's corruption measure given its superior performance relative to alternatives (McMann et al., 2022), such as that from the Worldwide Governance Indicators and Transparency International. Finally, I control for Polity IV's state fragility measure following Honig (2019). Given the lack of Country Policy and Institutional Assessment (CPIA) index for the time period of study, I use Henisz's (2000) political constraints index to control for institutional considerations.

Figure 3: Main Results



4. Main Results

Figure 3 presents the main results. Overall, GAAPs have a positive effect on IEG project outcomes, with an average effect size of 0.13. With the exception of one sample, which has a treatment effect of -0.006, all 1772 other samples using the maximum L1 balance for each configuration of independent variables have a positive effect on project outcomes. Athey and Imbens (2015) intervals for robustness to model misspecification are quite narrow, too.

5. Conclusion

Previous literature has indicated that it is mostly impossible to obtain good aid outcomes in weak institutional environments due to the politics of aid allocation, the inadequacy of Western advice, the "fungibility" of aid, and the primary importance of institutions to

[12] Effectiveness delays refer to starting project late after Board approval, which often happens when there are implementation challenges.

economic development. In contrast, I argued that multilateral aid can succeed in weak institutional environments because corruption scandals create legitimacy costs that nowadays force aid agencies and their donors to take countermeasures. These countermeasures notably include the development of large anti-corruption infrastructures in aid agencies and the use of GAAPs that are context-specific to each aid project.

Primarily due to the endogenous relationships between development outcomes and anti-corruption measures, credible tests of my hypothesis previously proved elusive. To overcome this problem, I coded a new dataset of GAAPs used in World Bank investment projects from 2001-2016 and tested for potential endogenous relationships in the data. Since I found no such endogenous relationships, I proceeded to test my argument with matching and found strong support for my hypothesis: GAAPs cause better development outcomes across the board. Bureaucrats have agency to overcome the structural constraints imposed by weak institutions.

Appendices

A. Coding Strategy

A.1. Coding of GAAPs and Country Strategies

As specified in Section 3.1, GAAPs and Country Strategies only take place in investment projects, not structural adjustment/development policy or Program for Results loans. I coded GAAPs and Country Strategies differently, because the latter do not always specify actors' responsibilities and implementation timelines. Most of the time, if the project Task Teams specified the responsible person/office for one task, they generally did so for the rest of the actions in the GAAP. Thus, only a limited number of cases pertained to the differences between GAAPs and Country Strategies (see Figure 2).

The differing structures of the appraisal documents containing the GAAPs or Country Strategies presents one relevant challenge for the coding.[13] Most of the appraisal documents detailed the GAAPs and Country Strategies in an annex. These cases tended to involve easy decisions to count the respective GAAP or governance/anti-corruption strategy. It was more difficult to make an accurate assessment when the Task Teams decided to include the GAAPs or Country Strategies outside of a dedicated annex. Generally, I tended not to count these instances, because they did not provide anti-corruption measures outside of the required measures that all projects must include.

I counted GAAPs and Country Strategies that contained: (1) measures outside the scope of standard, required financial management, procurement, and demand-side governance controls; (2) governance and oversight arrangements that exceeded regular smart project design regarding internal controls and overlapping accountability structures; and/or

[13] The relevant appraisal document include: Project Appraisal Documents (PADs) (for normal projects), Project Papers (for additional financing loans), Technical Annexes (in case of Interim Strategy Note or part of big program), or Program Documents (in case of supplemental Investment Loans).

(3) specified responsibilities for undertaking the relevant governance and anti-corruption measures. Some of the documents with sections labeled "anti-corruption action plan" or "governance strategy" did not meet the above criteria, so I excluded these projects from my count of GAAPs and governance/anti-corruption strategies.

The final types of governance/anti-corruption strategies that I excluded from my count are those included in the project risk frameworks or ORAFs. These are not formal governance/anti-corruption strategies and correspond more with overall risk management and the "GAC is everyone's business" approach (see Kunicová, 2013). Although I examined guarantee projects from the sample of potential projects with GAAPs and Country Strategies, none of them employed either tool. Consequently, despite their presence in the IBRD/IDA (PE) product line, I removed guarantees from my sample before conducting the analysis.

The World Bank has occasionally added GAAPs and Country Strategies to investment projects after Board approval. I did not code for such instances in my data set of GAAPs and governance/anti-corruption strategies. The lack of consistent data on such instances would have complicated the relevant coding, but endogeneity issues accounted for the primary reason behind my approach (see Section 3.1).

A.2. Coding of GAAP and Country Strategy Attributes

As Figure 1 showcases, I code the following components:

- <u>internal audits</u>: financial audit conducted by auditors within the same government implementing agency.
- <u>external audit</u>: financial audit conducted by either a different government agency or external firm.
- <u>performance audit</u>: audit designed to improve performance, as opposed to monitor it.
- <u>technical audit</u>: audits designed to measure the quality of infrastructure, such as in

Olken (2007).

- procurement controls: measures to control corruption in procurement beyond the required ones that all projects use.
- internal oversight: additional oversight measures by employees of the relevant implementing agency of the government
- other government oversight: additional oversight measures by a different government agency, such as an ombudsman.
- third party oversight: additional oversight measures by a private company or different aid agency.
- community monitoring: monitoring by citizens/beneficiaries living near the implementation of the project, including score cards, report cards, social audits
- clear implementor responsibility: the GAAP specifies the responsible actors necessary for completing the required actions.
- timetable: timetable for completing the attributes/actions.
- sanctions and remedies: extra project-level sanctions and remedies beyond those captured by the World Bank's sanctions and debarment framework.
- early warning indicators: indicators for further in case of certain negative outcomes.

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