How does the institutionalisation of development policy influence the effectiveness of ESF interventions? Evidence from the evaluation of human development programmes in Hungary

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Motivation

Evaluations of ESF-financed development programmes regularly concluded that
• there is cherry-picking of clients (or some other distortion) due to the indicator requirements of financing contracts
• there is lack of coordination with sectoral policies, which leads to sustainability problems

We have drawn the following lessons:
• It is not enough for the evaluator to say that such distortions should be corrected.
• Evaluation should make recommendations for changing institutional incentives in order to solve these problems.
• This requires an institutional approach in evaluation.
Perspective and Questions

• Perspective:
  – Efficiency and effectiveness requires that actors in the implementation process have **incentives** congruent with policy goals.
  – These incentives depend on the way the implementation process is **institutionalised**.

• Questions:
  – What are the **key challenges** to institutionalising the implementation of Operative Programmes?
  – What **institutional solutions** did Hungary adopt in the 2007-2013 period?
  – How did these institutional solutions **affect** the efficiency and effectiveness of OPs?
  – What general **lessons** can be drawn?
Evidence

HETFA Research Institute conducted in 2012-13

• Nine evaluations of human development programme financed by Hungary’s Social Renewal OP (ESF) and Social Infrastructure OP (ERDF)
• Sectoral, not territorial programmes
• Mixed methodology
• New institutional economics as theoretical framework to explore institutional solutions in implementation
• Can we generalise?
  – Hungary’s specific responses to general dilemmas
  – Large amount of funds – 12% of central budget in 2012
Key challenges of institutionalising OPs

- Chain of Principal-Agent contracts
  - Divergence of interests and information asymmetry
  - Problems of coordination and moral hazard
  - Selection and motivation by incentives as potential solutions
  - Each P-A relationship is constrained by incentives from ‘above’ and limited ability to control agents ‘down the chain’
Key challenges of institutionalising OPs

• 2 key challenges:
  – How to respond to the expectations laid down in the contract between EC and national government?
    • National ‘promises’ in terms of absorption, regularity, quantifiable indicators
  – How to involve existing sectoral or territorial organisations of public administration in the implementation?
    • Alternative is to create separate organisations.
### Institutional solutions I – OP Management

- National Government – Managing Authority relationship:
  - Selection: MA separated or subsumed under sectoral ministry

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<th>Separated (Hungary’s choice)</th>
<th>Subsumed</th>
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<td><strong>Organisational goals</strong></td>
<td>Few clear OP-specific goals (absorption, no irregularities, ESF indicators)</td>
<td>Multiple sectoral goals; overall performance of sectoral policy</td>
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<td><strong>Strength</strong></td>
<td>Strong incentive to fulfil OP specific goals</td>
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Institutional solutions II – OP intermediation

• Between the Managing Authority and beneficiaries:
  – Level of involvement of sectoral administration:
    • as Intermediate Body or
    • as beneficiary of a ‘strategic project’
  – Hungary’s choice:
    • centralised, separated IB
    • Tendering systems managed by IB vs ‘strategic projects’ managed by sectoral ministry or agency

• Dilemma of delegation to sectoral administration
  – Under delegation: sectoral internal monitoring and incentives must be trusted
  – Problem of credible threat against a (powerful) ministry
• Responses:
  – Delegation only if credible internal control and incentives exist or are easily created (e.g., scholarship programmes in higher education)
  – Partial delegation – direct performance contracts with lower level agencies within the sector (e.g., regional public employment centres)
  – ‘Own’ tendering system if lack of trust in sectoral agencies (e.g., grants to universities, nonprofit organisations in employment policy)
Effects of institutionalisation

- **Overstretched projectification**: almost exclusively financing through projects
  - Project as one-off, short-term performance contract with quantified indicators
  - Suitable for procuring infrastructure and standardised, easy-to-measure services
  - Ill-suited to human services whose true effects are difficult to measure and often long-term (basic research, primary education, social care, employment support etc.)
  - Behaviour of beneficiaries biased towards short term goals, foregoing beneficiary’s investment with long-term effects
Effects of institutionalisation

• ‘Hot Potato’ game of risk-shifting
  – MA and IB minimise risk of producing OP-level indicator values
    • OP-level indicators appear directly in financing contracts
    • Payment is directly tied to fulfilling indicator requirements
  – Risky indicators induce risk-aversion
  – Two strategies:
    • Ex ante: promise very low indicator values
    • Ex post: structure activities to minimise risk of not fulfilling the promise – refrain from real innovation; cherry-pick non-risky clients etc.
  – MA is complacent due to pressure to absorb and supply indicators

• Role of incentives beyond financing contracts
  – Success where the existing institutional environment gives incentives
    • E.g. universities embedded in international science or with strong partnerships with labour market actors
    • E.g. nonprofit service providers working closely with churches or municipalities.
Effects of institutionalisation

• Problem of sectors receiving large funds (especially under fiscal austerity): Crowding out of regular budgetary resources
  – Projects are allocated where they can absorbed, not where project finance suits the activity
  – Ordinary activities labelled as ‘developments’ and projectified
  – Traditional governance structures are weakened:
    • At personal level: low wages and lack of career finance
    • At organisational level: insecurity of long-term finance and weakening of non-project-based management structures
Lessons learned

• Planning for 2014-2020
  – Increased stress on OP indicators may have unintended negative effects
  – Creating trust in sectoral administration is key to mitigate these effects
    • Presumes making sectoral monitoring and incentives credible
  – Focus should be on easy-to-measure developments
  – For difficult-to-measure developments:
    • Financing should share risks sensibly – contracts should go beyond crude use if indicators
    • Where project finance, i.e. short-term performance contracts, are ill-suited, effectiveness can be ensured by greater reliance on existing governance structures
Lessons learned

• Evaluation:
  – Need for theory-based evaluation to provide useful recommendations to change equilibria
  – New institutional economics as a theoretical frame to identify problems of information and incentives as well as alternative solutions
  – Recommendations at different levels:
    • European Commission
    • Setting up Mas and IBs
    • Choice of allocation mechanisms
    • Contract details
Thank you for your attention.

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