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# EU Development Co-operation in Higher Education

## Organizational Design vs. Institutional Incentives

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# Structure of Presentation

1. **Co-operation Challenges and Institutions**
2. **Organizational Design of EU Development Co-operation Model (Framework, Procedures, Actor Incentives)**
3. **Strengths and Weaknesses from an Institutional Perspective**

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## Challenges to Dev Co-op.

- Major problem of development co-operation is finding ways to make it efficient (output), effective (outcome) and sustainable (impact)
- Factors which are obstacles to success are:
  - Informational problems – asymmetric information, imperfect monitoring and lack of accountability in **principal-agent** scenarios
  - Lack of **ownership** – projects/programmes must be owned by recipients in order to be accepted (especially when it comes to policy reform)
  - Lack of incentive alignment – where organization structures in the cooperation delivery process lead actors to perform for their own benefit, not for that of the project (**perverse incentives**)
- Main focus of my research: In what way does the organizational design of this specific model ('**EuropeAid**' model) create institutional incentives for the actors (donors, agents, recipients) participating in higher education development cooperation to China? Will formal and/or informal institutions influence co-operation incentives, and how do formal/informal institutions interact?

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## Institutions in Dev Co-op.

- Institutions:
  - To be distinguished from 'organizations' (groupings of persons)
  - "... The prescriptions which humans use to organize all forms of repetitive and structured interactions" (Elinor Ostrom, 2005)
  - "Rules of the game" (Douglass North, 1990)
- Institutions can be **formal rules** (formal constraints), such as laws or contracts, but also social conventions or customs – these differ, depending on the cultural context or the commercial settings (**informal constraints to behaviour**)
- Informal institutions create **behavioural incentives** – these may also interfere with formal institutions
  - Example: Agreements which violate culturally-dependent conceptions of fairness will be breached or ignored, despite economic interests to comply (see literature in Behavioural (Law and) Economics on spite and fairness)
- EuropeAid Development co-operation possesses both institutional elements – will they complement or hinder each other?

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## EuropeAid for HE in China (1) IEE

- Project aid awarded on meritocratic basis (aid tournament), advertised by EU
- Applicants are EU higher education institutions, supported by a self-formed consortium of EU and Chinese higher education institutions (plus potential further 3<sup>rd</sup> country institutions if desired)
- Winning Applicant signs Grant Contract (co-operation agreement) with EU ('Contracting Authority'), becoming sole 'Contract Beneficiary' and accepting implementation responsibility and liability for project – **principal-agent scenario**

FRAMEWORK OF COOPERATION AGREEMENTS

**Diagram 1:** Contractual Framework of EuropeAid model for Dev Co-operation in Chinese higher education (written agreements) 5

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## EuropeAid for HE in China (2) IEE

- Co-operation agreement consists of 2-5 page document plus hundreds of pages of annexes (including initial proposal)
- Legal and financial conditions are pre-drafted and non-negotiable, including rules on eligible costs (not adapted to countries)
- EU does not pledge fixed amount, but only fixed percentage of *eligible* costs which are *reimbursed* ('floating budget'), the rest is met by **all** project partners plus income (in some cases)
- EU correspondence and fund transfer is only with the Contract Beneficiary

TRACKING THE EUROPEAID MONEY

**Diagram 2:** Fund Dispersion in the EuropeAid model for Dev Co-operation in Chinese higher education 6

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## Actor Incentives (1)

**EU Commission ('Contracting Authority')** (DG Development & Cooperation (EuropeAid/DEVCO); European External Action Service (EEAS); Education, Audiovisual and Culture Executive Agency (EACEA); Delegation of the European Union to China):

- Promotion opportunities of EU agents are determined by results produced which are in line with completing the pre-determined log frame (influences risk-taking behaviour)
- Incentive to select the consortium with a) the European institution best able to implement the project, as well as b) the Chinese institution(s) most likely to comply with the Contract Beneficiary – not necessarily the best Chinese partners
- Has advantage of being the only party with bargaining power regarding legal and financial regulations, so no incentive to stray from any part of the co-operation agreement (including Annex I) once it has been signed
- But: Delegation in Beijing often has several projects in China, so they must not be too dismissive of Chinese parties (especially where criticism is voiced)

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## Actor Incentives (2)

**Leading European higher education institution ('Contract Beneficiary')** (project administration staff, Dean's Office at faculty level, central administration (i.e. University finance department), University Head Executive Office) – *non-exhaustive*

- Pre-signature:
  - When choosing partners for the consortium previous relationships can function as warranties, so incentive to stick with what (who) you know
  - Try and gather as much information about the Chinese partners, including Chinese regulations and customs, as possible, in order to minimize contractual incompleteness
- Post-signature: Incentive to comply with the co-operation agreement, as signed with the EU, in all cases:
  - All costs that are not eligible may not be recoverable from other partners
  - Total project budget is not known until the last day (only ceiling known)
  - Incentive to implement scheduled activities only in so far as these are in line with the log frame, otherwise costs may not be reimbursed
  - Co-operation agreement enforceable (Belgian law with EU partner)

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## Actor Incentives (3)

**Chinese partner higher education institutions** (project administration staff, faculty/department heads, Communist Party university representative, President and Vice-Presidents of University, Chinese Ministry of Education, Chinese central government) – *non-exhaustive*:

- From the development cooperation perspective:
  - Share as much information as possible, and be as open as possible
  - Invest all committed funds
- From their own perspective:
  - Do not share any information about organizational (and political) constraints which make consortium selection less likely
  - Spend as little of the pledged funds as necessary, until all other partners have spent their contribution plus EU funds
  - Use informational advantages to extract rents (or take advantage of aid fungibility), since liability and responsibility rests solely with EU project leader and co-operation is final

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## Strengths

- **Addressing informational constraints:**
  - Principal-Agent Problems: Eliminating moral hazard by transferring implementation responsibility and liability to most involved partner (EU higher education institution who is project leader and chief implementer)
  - Encourages consortium to use existing institutional links → creates trust and reduces informational costs arising from necessary incomplete contracting
  - Incentive to correspond and co-operate as much as possible pre-signature
- **Addressing ownership concerns:**
  - All parties, especially the recipients, are required to be involved in the conception and implementation of the project, and this will be actively sought by European partners
  - All Chinese consortium partners must contribute – in cash or in kind – to the project (however, costs must eligible to be deductible)

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## Weaknesses

- **Evaluation and monitoring:**
  - Effectiveness assumption: if input happens as planned, and output is generated as planned, the project was effective (in eyes of EU)
- **Perverse incentives:**
  - No incentives exist for the donor to allow for any flexibility or changes to be made to the existing cooperation agreement, even if this would be good for project
  - Result compliance/ visibility determine professional success and career opportunities of involved agents, so this influences strategic and risk behaviour
- **Actor multiplicity:**
  - The actors consist of different actor sets, with mixed objectives and therefore mixed incentives, which will affect their strategies regarding fulfilment of their duties (regarding giving information, project implementation, risk-taking, etc.)
- **Ownership concerns:**
  - Ownership in the post-signatory phase exists only as duties, no longer as rights (no voice in shaping cooperation beyond the proposal (Annex I of Contract))

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## Conclusions

- The formal institution – EuropeAid framework – gives rise to positive and negative effects regarding informal institutions (cooperative behaviour)
- This is exacerbated by the organizational design of the cooperation, as represented by the contract
- Bargaining power is unfairly allocated, creating incentives on part of the implementing co-operation partners (European and Chinese) to withhold information from one another
- The contractual obligations reposition the main cooperation efforts from between the implementing parties to the contract signatories – by insisting on the contract, informal institutions become subservient to the formal institution
- By undermining informal institutions, this can create distrustful or spiteful behaviour between parties during project duration, diminishing the opportunities for prolonged co-operation/ project continuation after EU financing has ended
- This model is an example where formal institutions, if unsupported by informal institutions and their incentives, lose their effectiveness

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# Thank you for listening!

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