

The Microeconomics of Technical Assistance – A personal and unorthodox approach

1. Introduction

Ever since I started working in the area of Technical Assistance (TA) I have sometimes felt like a salesperson knocking on door to door and offering gadgets that no one actually wants. I have always wondered about that. Considering that TA is usually free of charge for the authorities and that it is supposed to be "demand driven", the problem should lie in its insufficient supply, rather than in the lack of demand for it. There are different definitions of TA. Here is the definition by the UNESCO, which can also be applied to the economic area: "Technical assistance is non-financial assistance provided by local or international specialists. It can take the form of sharing information and expertise, instruction, skills training, transmission of working knowledge, and consulting services and may also involve the transfer of technical data. The aim of technical assistance is to maximize the quality of project implementation and impact by supporting administration, management, policy development, capacity building, etc. The technical assistance focuses on particular needs and priorities identified by the beneficiary country ..."¹

Technical assistance is typically in the business of on-the-ground capacity development, which is defined as: "... the process of strengthening the abilities of individuals, organizations and societies to make effective use of the resources, in order to achieve their own goals on a sustainable basis."²

Admittedly, my overall experience with providing TA in different countries (mostly in Europe and Africa) has been extremely positive and rewarding, but in a few cases and countries (which I will not name) I felt redundant. This text is about such experiences. It is not supposed to be a thorough evaluation of TA, but rather a personal account. You may call it a case study of some negative experiences, which also makes an effort to suggest some improvements in TA efficiency. I have no doubts about the usefulness of TA or capacity development in general. What I would like to do is nudge TA donors, providers and recipients (i.e. all stakeholders) to think outside the box about how to make this important function more effective. Apart from the introduction, the paper comprises the following sections:

2. Supply side of TA
3. Demand side of TA
4. Is there a market-clearing solution in TA?
5. Summary

2. Supply side of TA

¹ Available at : <http://www.unesco.org/new/en/culture/themes/cultural-diversity/cultural-expressions/programmes/technical-assistance/what-is-technical-assistance>

² <http://www.giz.de/en/ourservices/270.html>.

The main outcome of TAs should be to strengthen the abilities of individuals and institutions. In practice, the main input of the "production function" of the strengthening of abilities is advisors' time, knowledge and skills. Experts (short-term experts, STXs) travel to countries on short-term TA missions and work with the authorities.³ During those missions, they "transfer knowledge" directly by talking to their counterparts and usually leave a memo, termed by the IMF an aide-mémoire, which is a written report for the authorities. Such reports typically include a description of the situation and recommendations for improvement. The authorities are expected to implement these recommendations. Donors hope that the authorities will carry out the recommended reforms in experts' absence. After a while, experts usually travel back to check with the authorities what has been done and what is left to be done. Long-term experts (LTXs) reside in a country and work with the authorities on a daily basis, often producing memos on different topics. This is what the "technical part" of our production function looks like.

From production functions, as we know from elementary microeconomics, we can derive cost functions. TA missions are typically quite expensive, as they involve the participation of several experts, paid international wages, covered travel and accommodation costs, etc. TA in general is also expensive, as it engages the work of the staff in the donor's country.

As the old saying goes: "He who pays the piper calls the tune". I understand the motivation of those paying for TA to have a measurable proof of the output, i.e. of what paid experts do. Moral hazard is something that has been well researched in economics. In the last decades, efforts have been increasingly made to measure TA output and outcomes. Results-based management (RBM) is one of the techniques used to provide donors with a measurable feedback on TA outcomes.

3. Demand side of TA

The authorities normally do not pay for TA. In Econ 101 textbooks the demand curve is usually drawn in such a way as to imply that for zero price the quantity demanded should be infinite. In the specific case of TA the demand for it is, in some cases, neither infinite nor high. I have experienced zero demand for zero price, which calls for some explanation. One possibility would be that the implicit "price" that the authorities perceive they are paying for TA is "above" their demand curve for those services. So, either a negative price (subsidy) might be needed for a market-clearing situation, or a "negative quantity", i.e. the authorities offering TA assistance, may ignite their interest in cooperating with donors. As the demand function for TA services is difficult to estimate, I have tried to work with the utility function. When discussing the authorities' utility function from TA it is reasonable to start with a budget constraint, which is their total time available for work. Let us assume (as economists often do) that the whole central bank is represented by the Governor. She allocates her time based on job requirements and her preferences. Assuming there are only two possible outcomes, the Governor can either devote her time to TA or to all other required activities.

³ In addition to missions, RTACs organize seminars and workshops for all or most of the countries, assist with secondment, peer-to-peer learning, etc.

Having a set amount of time (the hours can be long, but they are still finite in number), the Governor allocates her time either to TA or to other activities (OA). The more time she spends on TA the less time she spends on other work, such as reading documents, travelling, signing directives, organizing the bank's operation, talking to a PM or having a leisurely lunch with the staff. If the Governor has "no time for TA" this simply means that her marginal utility from the time spent on TA is lower than the one from the time spent on all other activities.

Normally what TA does should be very useful for the authorities. It should have a positive marginal utility for those institutions and therefore benefit those countries. So, another question is how come there is no demand for TA? I have come up with the following theoretical answers.

Information asymmetry. TA can be beneficial, but the authorities are not aware of that. This is a relatively simple case to resolve: TA providers should inform the authorities about it in a diplomatic and efficient way.

The authorities' discount rate in time preferences is very high. Or, if one prefers a more modern term, they use "hyperbolic discounting". In many central banks the top management is highly engaged in daily operational issues⁴, issues that require their immediate action. They value the present much more than the future. As TA delivers results in the future (sometimes only in the medium or long run), with high time preferences TA services are marginalized.

There is no demand for a particular type of TA. We can call this situation a non-existent market. Some authorities may not be interested in what TA has to offer. How do you sell a hamburger to a vegetarian?

There is an excess supply of TA. International donors sometimes have their favourite countries, so that these countries may receive much more TA than others (regardless of their actual needs and absorption capacity). The authorities receiving TA believe in its benefits, but due to the already existing excess supply of TA, additional TA may not be beneficial. If the law of diminishing marginal utility applies (and why should it not?), with the huge quantity of TA provided marginal utility may be close to zero or even negative for the last ones.

The tools I used to explain the lack of demand for TA services were mostly from neoclassical microeconomics. The answers to my puzzle may partly lie in a more modern behavioural economics toolkit. Let us examine several of those ideas:

The authorities may not be always rational. It may be wrong to assume that the authorities always make rational decisions about TA. Maybe, when asked for TA, they make decisions in a fast, instinctive and heuristic way, which Daniel Kahneman calls "System 1" functioning of the brain? Maybe the fact that the market for TA is non-existent is due to the authorities thinking that the "reference point", i.e. the development level of their institution, is "too high" for the content a particular TA can offer? Maybe they see a TA as a "lemon" and the signals

⁴ This is usually an indication of serious governance problems in some central banks (lack of good management skills and delegation), but I will not go into those details here.

from his or her CV are not strong enough to overcome this information asymmetry? The objective function of the Governor may not maximize the quality of the institution, for example, a central bank. A particular TA may improve the work of the central bank and, in turn, the welfare of the country, but the Governor's political interests may lay elsewhere. Evidently, there are many possible other answers to real life situations, and without a deeper digging into every particular case it would be very difficult to come up with specific solutions. However, one may try to offer some ideas how to make the market for TA more efficient.

4. Is there a market clearing solution in TA?

Where do we go from here? With no intention of offering a comprehensive solution for improving the efficiency of the matching market for TA, below I present some of my proposals.

Donors should make sure that the recipient country-organization wants TA (determine the existence of demand). Sometimes donors have their own agendas, they want to "help" a country regardless of whether it is interested or not. As the direct cost for the authorities is zero (opportunity costs are higher), they accept TA although there is no need for it.

In selecting TA priorities one should pay more attention to listening to the authorities and helping them formulate their needs. More time is needed to understand the countries and institutions and listen to them. One should try to help the authorities formulate their needs in a language that is understandable to the donor corporate culture. Advisors should also be "translators" and they should develop a relationship with the authorities. Advisors should understand the circumstances in the institution and in the country as a whole, its main economic, socio-cultural and political issues, they should employ emotional intelligence when talking to the authorities, etc. If there is no genuine "buy-in" from TA recipients, one should simply abstain from supplying it, regardless of the donor's strategic interests.

TA providers/experts should devote less time and focus to writing and written reports and instead focus more on direct hands-on capacity development/working with the authorities. Most TA reports are written in a form, language and style intended primarily for the donors. In the language of competitive businesses, customer should be the king, not the donor's headquarters.

The donor's insistence on measuring all the output, milestones and outcomes of TA may produce unintended consequences. Donors more and more insist on measuring the output, which can have unintended consequences. Not everything advisors do or should do to effectively build the capacity in an institution can be measured or defined as a milestone. I will give three examples. First, as an advisor/TA provider in the past I have often found myself in a position that was well described in a recent Paul Krugman blog⁵. Krugman said that a long time ago a government economist explained to him the nature of his job: "... it was mostly about fighting bad ideas. And these bad ideas were like cockroaches: no matter how many times you flush them down the toilet, they keep coming back." How do you

⁵ <http://krugman.blogs.nytimes.com/2013/02/02/cockroach-ideas-2/>.

measure the work with a central bank's staff, sometimes quite substantial, that resulted in avoiding a bad decision? Positive results, such as a change in monetary regulations (for example, lengthening the reserve requirement period to two weeks) may be a milestone, but what if one spends months in persuading the management of a central bank that they should not introduce distortionary foreign exchange controls? Second, some relevant things are difficult to measure and put in a written report as a quantifiable outcome. We will probably agree that one of the most important assets in any central bank is credibility. But what is credibility exactly and how do you measure credibility?⁶ If a central bank is credible, the transmission channel is stronger, monetary policy more efficient, and vice versa. If a governor has no credibility, even technically correct monetary interventions may not have the same impact. Some will say that this topic is for communication experts and not for monetary operations experts. Everything a central bank does that is visible to the outside is communication. Monetary operations lacking credibility are simply less efficient. Credibility may require a long time to be cultivated, but it may be lost in a moment because of one bad decision or statement. Third, changing institutions and individuals may take a long time⁷. There is a nice story about the Chinese bamboo. It is a fascinating plant, a species of grass. Once you plant it, you have to water it and cultivate it, not for one season, but for four seasons. Nothing is seen on the surface, maybe only a small sprout. Imagine four years of work and nothing to be seen. Then, usually during the fifth season, once the grass starts growing, it can actually grow up to 25 meters high in about 5-6 weeks. Sometimes one meter a day. Assume a farmer of the Chinese bamboo is asked to write a work program for the next fiscal year and report quarterly milestones. What will he put into it: "Watering a plant without visible results?"

Insisting on measurable outcomes may result in a suboptimal TA. For example, if we define the output of an activity as the number of persons trained, the incentive may be to maximize the number of people rather than the quality of training. If it is days of training, then one may end up with a boring long lecture which does not result in increased capacity, etc. As an economist, I have to say that days spent in training are an input, the number of regulations at best an output, but what we should focus on are outcomes, and they are difficult to measure. I understand that TA needs to be monitored and evaluated, advisors have to be accountable, reports need to be written, RBM forms need to be filled in, otherwise we may face a huge moral hazard. But I am of the opinion that a fine balance has to be found between the "measurement" of everything and an efficient TA.

To create additional demand by the authorities, I would consider using some behavioural economics techniques, such as nudging, framing and soft paternalism in general to incentivize people to change their behavior. If what TA does is good (capacity development) for the country, then TA should find a way to incentivize the authorities to take positive decisions based on "System 2" brain functioning (slower, analytical mind, as defined by Kahneman). Let me throw a provocative idea. If we really think TA services have a

⁶ There are many attempts to measure credibility, but they do not seem to be credible themselves. See Hellmueller, et al (2010).

⁷ Pritchett. <http://www.cgdev.org/publication/capability-traps-mechanisms-persistent-implementation-failure-working-paper-234>.

positive impact on the institutions and countries as a whole, why not subsidize them? Actually, we already subsidize them, as our TA is not charged at a "market price". What I have in mind here is a cash transfer to the authorities/institutions to work with us. If this sounds too radical today just consider what our views on nominal negative interest rates were ten years ago? Or on quantitative easing, etc? Central banking may not be as dynamic as Silicon Valley is, but boring it is not. For an economist like me, if TA has positive externalities, subsidizing those activities should be a rational option to think about. And the level of subsidy in the form of not charging for TA may not be enough. We need not apply these new ideas throughout TA, but we should make experiments. Experimental economics has made great progress and, for example, a randomized trial with subsidizing TA for less developed economies might provide new insights into the behavior of TA recipients.

It is surprising how little academic work and serious analysis has been done on the TA market. Big donors do perform regular (ex post) evaluations of TA (such as the IMF's Independent Evaluation Office). In my humble view, the TA market (supply and demand) has not been examined thoroughly enough. As the market for TA is not competitive, and the price may not ensure optimal allocations, we should pay more attention to market design, matching markets. Al Roth's book "Who gets what and why?" may be a good starting point for the work on market design for TA.

5. Summary.

Technical assistance is a global multibillion dollar business. Pure market solutions may not work, and effective TA delivery may be a complex and sometimes lengthy process. There are no easy solutions for allocating TA resources more efficiently. In the last two decades I have observed positive changes in TA delivery: it is more demand driven, countries have improved ownership (bigger buy-in) and coordination among donors has been improving⁸. However, my strong feeling is that by paying even more attention to the needs of the authorities as the ultimate consumers of TA services, trying to encourage them to increase their demand for capacity development where needed (by overcoming information asymmetries and nudging them via different ways), thinking about market design for TA and being technologically and economically more innovative we could improve the efficiency of the process even more. We should never forget that TA should primarily benefit the people⁹ in the countries that receive it. That is what technical assistance and capacity development should be all about.

⁸ My own experiences from the countries I have worked in in the last almost two decades.

⁹ I described the ultimate objective of economic policy-making in Škreb (2000).

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