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Consultancy for LDC Projects

by Professor Fritz Huhle, Darmstadt *

How much and what kind of development consulting the industrial states provide for the less developed countries (LDCs) must depend on the structure of the recipient country and the specific needs for advice ensuing from it. Constant consultation on development issues and development programmes for the whole national economy may be wanted or only advice on individual development projects. The two forms are connected insofar as individual projects must dovetail with an overall plan.

The term "Development Consulting" may be defined as "planning and consulting with special application to overseas work" to distinguish it from other kinds of national or international consulting. It ranks among the international services and has many sub-divisions. The technical, economic and management services may each be grouped together; when they are listed separately, it must not be forgotten that they interlock¹. In project planning the consulting services are related to certain individual objects but even here attention must be given to complementary micro- and macro-economic decisions, especially those concerning programme planning.

Tasks of the Development Consultant

Accordingly development consulting covers a wide range of tasks, as may be illustrated by the following example. An American firm of consulting engineers specialising in irrigation was long ago already searching for ground-water in Iraq, supervising drilling operations on the spot and training Iraqi personnel for the future operation of the installations. This particular job was carried out in three phases — the investigative phase of feasibility studies, the drilling phase when wells were bored, pumps installed, etc., and the continuing phase when a watch was kept on results and the geology department was reorganised. Consulting services were provided during all three phases².

The work of German consulting firms on jobs undertaken by them similarly covers three phases — pre-investment (planning), investment (execution), post-investment (operation)³. Whether

consulting services are rendered during one or all three phases varies from case to case according to the contractual arrangements with the client and depends chiefly on the particular nature of the project and the client's ability to draw on experts of his own.

Pre-Investment and Investment Phases

It is easy to understand why the demand for consulting services has increased in line with the growing importance of the first phase. Planned investment requires feasibility studies to make sure that the production fits in with the needs of the market. Where no adequate feasibility studies were undertaken, errors and miscalculations in investment have often spelled ruin for development projects, and there will be more such cases. But sensational stories of snow-ploughs being shipped to Africa, of impoverished peasants being supplied with chemical fertilisers, of cement works being built without any technical investigation and consumer goods being manufactured without knowledge or appreciation of consumers' habits are not sufficient reason for denouncing all development work. The mishaps which have occurred rather point to a need for consulting services of a high order in the first phase when the basic data for determining and deciding on a project are assembled and scientifically examined to establish the feasibility of the project. Detailed regional and sector analysis is here no less important than correct market appraisal and unit-size assessment. The project scale must match the project objective, which may create problems where the minimum technical-economic capacity

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¹ Cf. Manual on the Use of Consultants in Developing Countries, United Nations, New York, 1968.

² Cf. Clodwig Kapferer, Unabhängige technische Beratung (Independent technical consulting), Schriften des Hamburgischen Welt-Wirtschafts-Archivs (Publications of the Hamburg Institute of International Economics), No. 6, p. 36.

³ Cf. Mitgliederverzeichnis des Verbands unabhängig beratender Ingenieurfirmen (List of members of the Association of Independent Consulting Engineering Firms), 1971, p. 84, concerning Gesellschaft für Organisation, Planung und Ausbildung mbH (Society for Organisation, Planning and Training) — GOPA, Bad Hamburg.

cannot yet be sustained by the narrow market of the LDC.

In the second phase of the development project the all-important question for the consultant is how the planned investment can be carried out, i.e. how the aim is to be achieved. Tenders for the construction of the plant must be invited and, when received, assessed; contracts must be placed with the firms whose bids seem to be most advantageous. It is important that staff of the consulting firm are brought into the contract negotiations, and it is advisable that such staff also help to draft the contract. LDCs will be well advised to avail themselves of such help. They may save millions in some cases, e.g. if it can be found out in time that a bid, though suiting the supplier very well, gives scant regard to the needs of the LDC. The second phase does not close until the plant has been built; it thus covers the whole time from the planning of the investment up to the handing-over of the completed plant, including the supervision of any trial runs required.

Post-Investment Consulting

The investment phase is succeeded by the third phase during which the consultant provides technical and commercial advice on management and specialised subjects. It should be taken for granted that new plants are handed over only to trained personnel of the country which is being given development aid, and that obviously means that native personnel must receive training in the running of advanced aggregates.

In dissimilar countries this training may take entirely different forms as the degree of expertise in LDCs covers the whole gamut from the least developed states to those on the threshold of industrialisation — from Mali, Uganda and Afghanistan to countries like Korea, Iran and Brazil. In the list of the LDCs the least advanced 25 have been determined by three criteria (which are not regarded as final) — a GDP per head of population of US\$ 100 or less, a share of industrial production in total GDP of 10 p.c. or less, and a literacy rate among those over 15 years of age of 20 p.c. or less. It is meaning and purpose of this classification to single out countries for favoured development aid treatment on special terms⁴.

The wide range of countries covered by development aid shows what a large variety of tasks is facing the consultant and in particular how indispensable for successful consulting is the ability of personal involvement and sensibility. "To be

able to assist and advise, foreigners must not only know their subject but have the ability to fit into a different culture, to persevere patiently and to gain the trust of native collaborators"⁵. Consulting in the third phase includes giving counsel on day-to-day economic questions. In the case of export promotion projects a point must be made of the need for high quality, regularity and punctuality in effecting delivery if the enterprise is to take its place successfully as a partner in the international division of labour. The administration of the aid is the concern of development banks and ordinary commercial banks.

Specialised Tasks

Among the sections of the economy which can make use of development consulting services are industry, crafts, small-scale manufacture, development authorities, development and regional planning offices, transport, tourism, agriculture, forestry and timber trade, fisheries as well as education (through analyses of training requirements and the conception, organisation, establishment and direction of vocational training centres). Big consulting organisations with large staffs of qualified scientific and technical assistants and specialists for particular projects are covering all these various fields on a world-wide scale on behalf of governments, state and private enterprises and international organisations⁶.

Under the heading of "development authorities" fall ad-hoc consulting services to development banks, industrial research institutes, government departments concerned with planning, development and economic affairs and the authorities which attend to common markets. There is an overlap here between independent consulting firms and scientific research institutes, of which the African Study Centre of the Ifo — Institut für Wirtschaftsforschung (Ifo — Institute for Economic Research) in Munich may be mentioned as an example⁷.

Objective Information and Advice

The suitability of the two alternative commercial forms of consulting for foreign countries — namely, by an independent firm of consultants operating on its own or by the planning and design section of a supplier — has been the subject of

⁵ Kapferer, *Ibid.*, p. 53.

⁶ Cf. GOPA, *Ibid.*

⁷ Cf. Schnittger and Lübke, *Entwicklungsplanung und Entwicklungsfinanzierung in Uganda* (Development planning and development finance in Uganda); Hans Reichelt, *Industrieproduktion in Uganda* (Industrial production in Uganda), both issued by Afrika-Studienstelle (African Studies Centre) of the Ifo-Institut für Wirtschaftsforschung (Ifo Institute for Economic Research), Munich; and Wilhelm Marquardt, *Wirtschafts- und sozialwissenschaftliche Feldforschung in Entwicklungsländern* (Economic and social field studies in developing countries), Ifo-Studien (Ifo Studies), 1972, No. 2.

⁴ Cf. Resolution No. 2768 of the 26th United Nations General Assembly.

debate ever since development aid began. The LDCs are clearly in need of specific, impartial and objective advice, which they believe to be available only from independent firms of consultants. Lack of impartiality and objectivity is suspected on the part of planning and consulting specialists working on behalf of a supplier because their recommendations may be for certain specified products. Similarly, untied capital is given preference over aid which is subject to certain stipulations. The only stipulation which may reasonably be made for development aid is that countries which lack industrial experience should draw on a consulting service.

It is not reasonable to tie capital aid to certain projects (project-tied capital aid) if there are no yardsticks for measuring the anticipated success of a project. Its objectives must be clearly known in order to decide what can be considered a successful result. In many cases one cannot rely on the private profit of an operation as the yardstick of success. That seems obvious in certain kinds of infrastructure investments as for roads, hospitals or schools. The profit yardstick is of no avail if "...social costs and social benefits of the project deviate appreciably from the corresponding costs and benefits of individual enterprises. That can happen even in the case of so-called commercial or directly productive projects. ... There is a crucial argument in favour of tying capital aid to certain projects: Such commitment has the effect that a definite project which has been examined by the capital donor and makes economic sense to him will be put into operation under supervision and that judgment can be passed afterwards on its success or failure. For this reason most capital donors have a perceptible preference for tying capital aid to specific projects⁸". For the consultant this means that he is given one integrated job.

Social Benefits

It is one of the overriding tasks of the development consultant to consider and examine not only the individual project and how it is best put into operation, but whether its execution can be advocated on general grounds. There is here an opportunity to counterbalance national thought and action patterns which have infiltrated into development policy as well as the restrictive effects of patently bureaucratic organisation of development aid⁹. The development consultant will enjoy an all the better image if the country

seeking his advice can be convinced that he sees the picture as a whole. By giving sensible and detached counsel aligned to the overall development aims the consultancy firms can help effectively to mitigate and eschew the danger of misdirection of development funds. If the consultant sees his task in this light and performs it on this superior level, he will also help to banish the illusion — to which those accustomed to thinking in terms of national interest are prone — that large and consequently costly projects are all-important, and to create understanding for the value of less ambitious undertakings. This change of mentality marks the road from colonial policy to development policy.

"The examination of development projects needs supplementing by the examination of development programmes"¹⁰. It is certainly not for the development consultant to press for such programmes or to withhold his counsel when no such programmes exist. The consultant's obligations in this respect are limited. So long as no such plans exist or such as exist are seen to be unrealistic, the assessment of the social aspects of individual projects will have to be regarded as a basis for capital aid. If there are realistic plans, the development programmes require appraisal and consideration as additional criteria. At the back of the mind of every responsible consultant should be the thought that development is not just industrialisation or technisation. "Wanted is an improvement of the specific situation no less than overall growth"¹¹.

The task of the consultant is, finally, not confined to the examination of projects presented by the LDCs. An important field is the detection of worth-while projects — finding the answer to the question where in an LDC projects deserving promotion can be found. They can be determined by a macro-analysis. The radius in which projects are looked for must be drawn very wide; it includes production, commerce, transport and also education. Regional and sectional bottlenecks must always be identified so as to apply the development aid efficiently and to good purpose.

Regional Development Policy

In many instances it is better to integrate new projects with the development policy for larger areas than to pursue them in isolation in individual countries. There are good economic reasons why the LDCs should take technical progress

⁸ Armin Gutowski, Projektgebundene, nichtprojektgebundene Kapitalhilfe oder Programmfinanzierung (Capital aid or programme finance, tied or untied), in: Rudolf Meimberg, Voraussetzungen einer globalen Entwicklungspolitik und Beiträge zur Kosten- und Nutzenanalyse (Prerequisites of a global development policy and contributions to cost-benefit analysis), Berlin, 1971, pp. 198, 199.

⁹ Cf. Behrendt and Lühr, Voraussetzungen einer globalen Entwicklungspolitik (Prerequisites of a global development policy), in: Meimberg, *ibid.*, p. 54 seq.

¹⁰ Gutowski, *ibid.* p. 205.

¹¹ Wilfried Guth, Entwicklungspolitik in der Krise (Crisis of development policy), Kieler Vorträge (Kiel lectures), New Sequence, 1972, p. 21.

and the conclusions to be drawn from it into account. Many industrial investments lose viability below a certain minimum volume of production. Erection of one large aggregate in one country may be a much better economic proposition for everybody than a number of small-capacity plants distributed over several countries.

A case in point is a project for a sheet glass industry in African countries. The commercially most advantageous floating process for the production of sheet glass is only suitable for large-capacity works. As however none of the individual countries has a domestic market big enough to justify a high-capacity plant, the only feasible alternative is a large-scale project to serve several countries. This example clearly demonstrates the advantages of subcontinental cooperation – of decision-making on a supranational level. A study on the metal fabricating and electrotechnical industries undertaken by GOPA on the initiative of ECA involved investigating the situation in eleven East African countries and determining appropriate projects for them. The basic problem encountered here was that for technical reasons a single plant had to be given such a large capacity that its output would be far in excess of the quantities which any one consuming country could absorb. In a number of industries it would be possible to supply the whole East African market adequately from one efficiently run plant. The governments of the three East African countries must find a formula for allocating such common industries amongst themselves. A fair allotment is a difficult task even in theory. Agreement can be reached only if each of the three states is prepared to concede to either or both of the partner states potentially greater advantages from common industries than it stands to receive itself¹².

Private Economy Consulting

The development consultant cannot always regard commercial profitability as the sole or decisive motive for recommending a project. Social or economic considerations provide in many cases an additional or indeed the initial argument for a recommendation. A good firm of consultants will endeavour to do them justice.

The employment of consulting firms has various advantages, including in particular a quality guarantee because an inferior performance would be bad for the consultant's reputation. He will carry out a detailed investigation on the basis of scientific methods which he will seek to develop further by his own work. Firms of consultants are in a position to train their own staff. They can also offer technological advice, store the infor-

mation which they have gathered in many years of practical work, and support staff working for them abroad in many other ways from their headquarters¹³.

Development consultants should, as is actually the case in the Federal Republic of Germany, prove their worth by exposing themselves to competition. They should be organised as a free profession. The provision of consulting services of a high quality involves considerable expenses because they depend on first-class personnel, independent research work and many different kinds of information. The very object of development consulting therefore makes for concentration. Government orders are needed to provide consulting firms with the basic load without which they cannot operate efficiently in this field, and this will certainly remain so in future.

German consultants have no easy stand against international competition. The main reason is that whereas German consultants started up in the early sixties, other countries, such as France and Belgium, entered the field thirty years earlier. It therefore seems sensible and in the long run advisable that German consulting firms should be employed for German development aid, just as other countries customarily use their own firms. The competitive position of the German firms would suffer if a decline in the volume of Federal projects were to deprive them of their basis. One should rather try to encourage the young consulting profession by means of public assignments, as is done in France, Belgium, Italy, Great Britain, the USA, etc., and to give it a stronger competitive foundation internationally. This is definitely to be recommended to give German firms even chances with other countries which have had an earlier start.

Firms of consultants also exist in developing countries – e.g. in India and Pakistan – but these mostly operate in their own territories. Competition has so far not imperilled individual consulting firms. The general demand for their services is increasing, especially of course in the LDCs. These countries will require outside advice for many years to come. In contrast to the consulting work in the industrial countries in which sophisticated rationalisation methods call for highly specialised consulting skills – e.g. consulting on inventories in the motor car industry rather than inventory consulting in general – the task of the consultant in the LDCs will for a long time be more generalised and cover complete projects.

¹³ Cf. *Uses of Consultants by the World Bank and Its Borrowers*, International Bank for Reconstruction and Development, September 1966; and also S. Aldewereld, *The Consulting Engineers and the World Bank*, in: *Finance and Development*, Vol. II, No. 4, 1965.

¹² Cf. Hans Reichelt, *ibid.* p. 6.