Overseas Development Institute

Consultancy in Overseas Development

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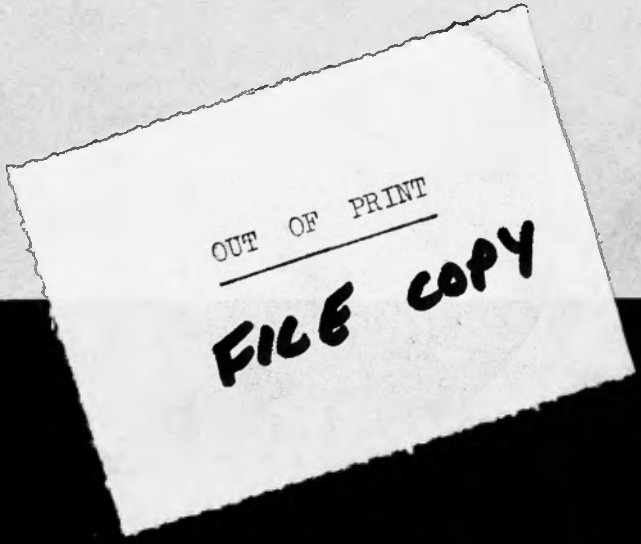
Charles Young



Consultancy in Overseas Development

Many major investment decisions made by developing countries are based on advice given by professional consultants from developed countries. Yet the special advantages and problems resulting from this practice have seldom been examined and are often overlooked. This pamphlet is an attempt to provide such an examination.

Consultancy in Overseas Development is based on the findings of a group brought together by the Overseas Development Institute and contains information on the range of consultancy services available to developing countries, an assessment of the advantages and the problems arising from the use of consultants, and conclusions concerning measures which could be taken by users of consultants, by consultants themselves, and by those concerned with aid to developing countries, to increase the advantages and overcome the problems.

The pamphlet aims first to be a useful handbook for those who are practically involved in any of these three activities (consulting, using consultants, and administering aid or loan programmes) and secondly to be of interest to all who have a more general concern with economic development.

Charles Young has worked for two years on the Zambian Development Plan as an ODI/Nuffield Fellow, and is now at the London School of Economics.

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Foreword

As an institute ODI is specifically concerned with problems of development in the less developed countries and with how the economically more advanced nations can assist the process of growth in the poor nations of the world. Much of its work has been directed towards an examination of the many aspects of the economic aid, both bilateral and multilateral, that flows towards the less developed countries. Studies have been made of the bilateral programmes of various donor governments—Britain, France, Germany, and Japan—and of multilateral financing, in particular the work of consortia and consultative groups organised by the IBRD and the OECD. In the course of these surveys the importance of ensuring the effective use of aid became more and more apparent; and when we turned our attention to an examination of the way aid was used and administered inside certain developing countries the significance of this was further underlined. The flow of resources, whether large or small, was clearly only one aspect of a complex web of relationships between the richer countries of the world and those seeking to modernise. At the centre of this relationship was the dialogue that was in process between those who provided economic assistance and those who received it. In a sense it is not fanciful to think of aid programmes, both bilateral and multilateral, in terms of a vast consultancy operation, and in ODI we became convinced that it was this aspect of aid which occupied a key rôle in the attempts being undertaken to promote economic growth overseas. We argued for the strengthening—in a variety of ways—of aid management overseas; and in the course of examining the nature and rôle of overseas missions we began to see something of the activities of private consultants. Here, clearly, was an area in which the public and private sectors overlapped and the rôle of the private consultant was crucial. However, in our preliminary discussions it became apparent that the scarce and valuable skills possessed by consultants have sometimes been used in a way that has not generated the maximum benefit for the less developed countries. Whenever this has happened the loss incurred has been a substantial one, as not to use consultants fully and effectively is a costly extravagance. It seemed to us that both the consultants themselves and the governments overseas that make use of them were probably not fully aware of the opportunities that were being lost; but even where there was such an awareness, a full understanding of precisely what needed to be done to improve the situation to the advantage of both the consultants and their clients was frequently lacking.

In a sentence, we found ourselves asking many questions about the rôle of consultants in overseas development. We wondered in particular

whether the process of economic development in the LDCs posed problems of relationship between the consultant and his client that were different from those ordinarily prevailing in economically more advanced countries.

For instance, the fees of consultants working in LDCs are frequently met from bilateral and multilateral aid. In these circumstances did the aid element in consultancy and overseas development create an ambivalence in the traditionally accepted and understood consultant/client relationship? Who, indeed, was the client in these circumstances? Also, could the consultant always assume that the operation he was specifically concerned with, however well conceived in itself, would be beneficial to the wider needs and potentialities of the country for whom the work was being undertaken? And if he had doubts about this, what should, or could, he do?

A further ambivalence could be detected over the professional code under which British consultants operated. On the one hand there were very strict professional standards, resulting in a reticence or even a total refusal by some categories of consultants to seek commercial gain through advertising or from other methods of promoting work. On the other hand there were forces demanding that British experience should be used to win orders for British products in view of the massive competition from foreign firms. Economic necessity required that an effective means should be found to beat these competitors. In this connection Lord Cromer, early in 1967, speaking at the Annual Dinner in London of the Association of Consulting Engineers, had suggested that more commercial adventuring by British consultants was long overdue, and he urged greater use of package deals comprising banks, contractors, and consultants in the execution of major projects. Here again the use of government aid to pay consultants introduced an additional complicating factor.

It was in the context of this growing series of questions that ODI decided to examine more closely some of the issues involved. One of our functions is to be a forum where those directly concerned with development can meet together to discuss their problems and share ideas. As a result various subjects have been examined in ODI by groups composed of persons with a wide range of experience in commerce, industry, government, and the professions. The milieu provided has made it possible for a wholly informal exchange of views to take place; and those engaged in operational work—in both the public and private sectors—as well as those more concerned with research activities have from time to time come together and joined in discussions where the differing standpoints of diverse interests could have full play. We therefore decided to set up a study group on consultancy and overseas development and we took as our terms of reference the following:

(a) to examine the function and organisation of British professional consultants; to appraise the advantages derived by their clients overseas: to compare British consultants' methods of operation with those of their competitors from foreign countries; to appraise official schemes to en-

courage use of British consultants (e.g. British Overseas Engineering Services Bureau);

(b) to examine the various links between consultant firms and government bodies, suppliers of finance and of capital equipment, and to assess their value in terms both of the national interest of developing and developed countries and of the professional and commercial interests involved;

(c) to consider the desirability of promoting specific types of relationship and to consider what can be done to strengthen the position of the profession and secure the removal of obstacles to its effective use and further growth;

(d) to examine what part can be played by aid (both bilateral and multilateral) in the promotion of consultancy as a form of technical assistance;

(e) to make proposals.

The report that follows is the outcome of our deliberations and has been based on discussions of the study group which met at ODI during the latter half of 1967. The group as a whole is in general agreement with the tenor of the text, but individual members of it do not necessarily endorse all the views that have been expressed or the form in which they appear. Responsibility for this rests solely with the author, Charles Young, who recently returned to the United Kingdom after spending two years with the Zambian Government as an ODI/Nuffield Fellow.

The list that follows gives the names and organisations of those who regularly attended the meetings; but, in addition, there have been others from government, international organisations, and business houses whose comments and advice have been of great assistance in the preparation of this document.

ODI wishes to acknowledge its debt to the Chairman of the study group, Richard Bailey, and to all who participated in this work; their continuing interest and assistance over many months has made publication possible.

TOM SOPER
Director of Studies

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Introduction

Professional consultants have a key rôle to play in developing countries; the wise use of the scarce resources available for investment depends to a large extent on the ability and integrity of professional consultants from developed countries. The aim of this paper is to examine the nature of this rôle and to show in what ways it has changed, and is likely to continue to change; to describe the various types of consultant; and to suggest how developing countries can get the best value out of the consultants they employ. Since the study was carried out in Britain, and with the co-operation of British consultants, there is inevitably more information on British consultants than on their foreign competitors. However, many of the problems to be discussed are of a general nature and apply to consultants of whatever nationality. Some attempt will moreover be made to indicate the major differences in the approach of consultants from different countries.

An apology needs to be made for the lack of statistical data concerning consultancy; it would have been desirable to make a reliable estimation of the total magnitude of consultancy work done in developing countries per year. No such figures are available, although the section dealing with the World Bank contains figures which could be used for a rough evaluation of this magnitude. Statistics are lacking, too, for the performance of British consultants. All that can be estimated here is the turnover of the chief branch of the British consultancy profession—the consulting engineers (see the section on British consultants).

The form of the paper is as follows:

Section 1 describes the different types of consultant, the tasks that they carry out, and the stages of consultancy work.

Section 2 describes the particular relevancy of consultancy work to developing countries, and goes on to examine the economic aspects of consultancy work, with particular reference to the feasibility study.

Section 3 describes how aid-givers use consultants; rather full space has been devoted to setting out the policies of the World Bank in using consultants. The wide experience of this organisation, and its freedom from some of the motives influencing bilateral aid-givers, make these policies particularly relevant for the administrations of developing countries, who share with the World Bank the need to use consultants as effectively as possible regardless of the effect on the exports of developed countries.

Section 4 describes the consultancy professions of various countries.

Section 5 examines the main alternatives to the employment of consultants.

1 The Nature and Functions of Consultants

Essentially, consultancy is concerned with the provision of technical expertise; it follows from this that there are almost as many types of consultant as there are types of applied science. Yet, although consultants work in a large number of diverse fields, their work for the most part follows a similar pattern. The aim of this section is to describe what consultancy is by examining, first, the various stages of the consultant's work, and, secondly, the various fields in which the services of professional consultants are available.

(a) Stages of the consultancy operation

In the typical case, a consultant is called in when a government (or other body) is considering making a certain investment decision. The first task the consultant will be called upon to perform is to examine the need, the economic desirability, and the technical feasibility of the proposed project. This part of a consultant's work is known as the feasibility study. As a result of the feasibility study, a reasonably reliable estimate of the cost of the project should be possible. At the completion of this vital but preliminary stage of the consultancy operation, the client, armed with sufficient information on cost and economic justification, and on technical feasibility, is in a position to make the final decision on whether the project should be carried out or not.

The work of some consultants is limited to the feasibility study stage; economic or agricultural consultants may simply make recommendations, the actual implementation of the project being left either to other consultants employed by the client or to the client's own administrative and technical machinery. In the more usual case, once the project is approved, it will pass back into the hands of a consultant—not necessarily the same consultant—who will carry out the second stage: the drawing up of precise specifications, designs, and bills of quantities for the project. The project is now in such a form that the client can invite contractors to prepare and submit competitive tenders for the execution of the work. The consultant then examines the tenders and advises the client on the selection of the contractor or contractors.

The third stage of the consultant's work is the supervision of construction: making sure that the specified materials are used, that the designs are followed, and that the workmanship is of the specified standard. The consultant also acts as an intermediary in any differences which may arise

between the client and the contractors; he certifies payments to the contractor and he finally certifies when the project is complete.

The fourth and final stage of the consultant's work is—if the client requests it—advice and assistance in the operation of the completed project. This aspect of consultancy work is a fairly recent development; in the past the client nearly always took over entire responsibility for the technical and administrative running of the completed project. Three factors, however, have led to increasing use of consultants for this purpose: the shortage of adequately skilled technical and managerial personnel usually experienced by newly independent countries, the growth of management consultancy as a separate profession, and the recognition by aid-givers that a great deal of aid effort may be wasted through the inadequate operation of completed projects.

(b) Types of consultant

Not all consultants are able to offer the entire range of consultancy services from feasibility study through design, evaluation of tenders, and supervision of construction to supervision of operation; but the services offered by nearly all types of consultant can be fitted with little distortion into one or more of these classifications. The range of a consultant's responsibilities have historically grown outwards from the central stage —the designing of the project. This is perhaps why the oldest established and still by far the most important branch of the consultancy profession operating in developing countries—the *consulting engineer*—is almost the only type of consultant who does provide the entire range, either alone or at the centre of a consortium of consultants of different kinds. The types of project for which the use of a consulting engineer is appropriate are many; in the words of the Association of Consulting Engineers:

> 'Civil engineering in its narrow sense includes the provision of roads and railways with their bridges and tunnels, airports, water supply, sewerage and sewage disposal, land drainage, harbour works, land reclamation and coast protection. Electricity and gas generation are mainly the field of electrical and mechanical engineers, but require also the services of civil and structural engineers. Large modern buildings, whether residential, commercial or industrial or for the public services, have architects responsible for their general planning and appearance, but structural engineers design and supervise the foundations, framework, floors, stairs, etc. Mechanical, electrical, heating and ventilating engineers deal with the ever-growing services required in such buildings as well as process and handling machinery in manufacturing industries. Chemical engineers, mining engineers and metallurgists provide their specialised services in their respective industries.'

Most firms of consulting engineers are able to provide expertise in many

of these fields, though individual firms may specialise in particular types of projects.

The functions of *architects* are too well known to be described here. Most developing countries have access to the services of architects already resident in them; architects from developed countries are mainly used for exceptionally large-scale projects. In a similar field, *town-planners* are providing consultancy services on an increasing scale.

As with consulting engineers, the variety of services offered by *agricultural consultants* is extensive. It covers the location, identification, and mapping of land resources (including soil surveys and derivative studies indicating land capability under different systems of development) and of water resources; also surveys of land use, irrigation and drainage studies, and forestry and watershed management studies. Agricultural consultants may be complementary to engineering consultants, as on irrigated agricultural projects. Much of their work consists of feasibility studies and is concerned with the planning of development from initial regional appraisals onwards. Agricultural consultants therefore tend to come in early in the planning process, at the stage when the object is to identify the areas of the country and the sectors of agricultural and natural resource development in which investment ought to be concentrated. This can then lead on to consideration of individual projects. The actual setting up and running of particular projects is usually carried out by the administration of the country concerned: agricultural consultants can, however, and sometimes do provide personnel for management of projects.

The use of *economic consultants* has grown considerably since the Second World War, as it has come to be recognised that the economic aspects of the feasibility study have an importance equal to the purely technical aspects of ensuring a wise use of scarce investment resources. The importance of the economic consultant will become clear in the following section of this paper on the economics of consultancy. As well as working on feasibility studies, economic consultants may also be used to provide financial studies, or, more important, economic and market surveys of an economy or of a particular sector of an economy, identifying, as agricultural consultants do for the agricultural sector, the priorities for future investment. Except when his job is of this nature, the economic consultant is working not usually alone, but as part of a consortium of consultants together with consultants possessing the necessary technical expertise; his brief does not usually extend beyond the completion of the feasibility study.

The use of consultants is not, however, confined to the planning and design of projects. *Management consultants*, in particular, are concerned with the solving of problems which may arise at any stage either in the planning or the operation of projects: they also give advice on problems of organisation which are not directly concerned with a particular project (e.g. increasing the efficiency of a branch of a Civil Service). A function of management consultants which is of great potential benefit to developing

countries is the training of personnel, both management and operational. Other functions of management consultants include feasibility studies, the general improvement of organisational efficiency, computer applications, and operational research.

Professional accountants' tasks cover a similar range but usually over a narrower, more specialised field. Their experience in the accountancy functions of a great variety of businesses and organisations can be applied to the benefit of specified projects, and in particular in organising their accounting and costing systems. In addition, their basic skill of financial analysis has applications of many kinds: the estimation of financial benefits and cost, and of the financial viability of projects, checking on the progress of projects and their accounting and costing management, to give examples. Most countries have their own professional organisations of accountants, which may or may not be affiliated to accountancy firms in developed countries. These local firms are usually employed as official auditors but not all of them have wide experience of more sophisticated organisations. The function of consultant accountants from overseas is to deal with less run-of-the-mill problems; their use is often required by aid-givers and lenders to ensure impartial and experienced auditing of aid projects.

This is not an exhaustive list of the services provided by consultants in developing countries—specialised consultants can probably be found to give advice on any technical subject, however obscure. The headings above, however, summarise the nature of the bulk of consultancy work.

2 The Economics of Consultancy in Developing Countries

(a) The need for consultants

The identifying characteristic of a developing country is that the technical methods of production in use fall short of those available elsewhere; the process of economic development consists in bridging this technological gap. Clearly, such a process cannot occur without an adequate supply of trained and competent technical manpower. Yet it is a common feature of most developing countries that they are short of precisely this type of manpower; even in those countries with comparatively high educational standards and comparatively widespread educational facilities, the output from the educational system has been biased in favour of administrative as opposed to technical qualifications. In addition to this, many of the projects which a developing country wishes to undertake are of such a specialised and non-repetitive nature that even if it were possible to train sufficient men for their execution locally, this would not be worthwhile. The chief justification for the use of consultants in developing countries, then, is that this provides a way of utilising, in the poorer half of the world, the advanced technological experience available in the richer half.

(b) The changing rôle of the consultant

The consultant has been defined as one who transfers technical expertise: but there has been an increasing awareness that wholesale transfer of advanced technical methods to one isolated sector of an otherwise backward economy may cause more harm than good. Most consultants—at any rate, those with experience of developing countries—are becoming aware of this, and it is this realisation which is causing changes in the rôle of the consultant.

The direction of the change is—as has already been suggested—away from a unique concentration on the purely technical aspects of the operation towards a more comprehensive responsibility for the economic and managerial aspects. Whereas before the war the job of the consultant was accepted as being confined to (for example) the designing of a railway system, he must now concern himself with questions such as: Is a railway system the best way of achieving the desired objective? Would a road do the same job for a smaller investment? Is the route proposed the optimum

one? And so on. It is probably true that most of the difference between a good consultant and a bad one lies in their respective ability to cope with such questions. Certainly it is the opinion of a World Bank economist that: 'As a general rule, the purely engineering aspects of (consultancy) studies are sound and not subject to serious qualifications or criticism. There are, however, cases when it seems that consultants have not adequately considered a sufficient number of alternate possibilities nor have kept the cost of the project to a minimum consistent with the job to be done. Design standards, for example, may be set too high.'[1]

It is in the feasibility study stage that these questions must be resolved; it is this that accounts for the growing use of specialist economic consultants for feasibility studies. The economic expertise needed is not simply the ability to work out financial costs and benefits and rates of return, but the ability to take into account the special economic situation of developing countries in general, as well as any particular problems of individual economies. There are several reasons why, if this is not done, the result is likely to be unnecessarily high capital investment on any given project.

First, technical innovations are almost invariably made in developed countries, that is to say in the context of full employment where the cost of labour is relatively high in relation to the cost of capital. Non-economic scientists have been liable to assume that what is best in developed countries is best also in developing countries. That this is not so is clear as soon as the relevant economic facts are taken into account—namely that developing countries as a rule have to import a high percentage of capital goods, that they are usually short of foreign exchange, and that there is generally a large reserve of unemployed or under-employed unskilled manpower. These facts indicate that the aim of increasing productivity per man (which is the idea behind most innovations) is actually the reverse of what is desirable in the monetary sector of a developing economy, where the aim is to increase (i) the number employed in the monetary sector as opposed to the subsistence sector and (ii) productivity per unit of capital.

Secondly, because market prices do not necessarily reflect relative abundance or scarcity, particularly in developing countries, the unsuitability of mechanised techniques does not always reveal itself in a purely financial analysis of a project. To quote Hogg again: '. . . for the efficient allocation of the resources available for investment, these (market) prices may need revaluing. . . . Ideally these "opportunity costs", "accounting prices" or "shadow prices", as they are variously called by economists, should be given to the consultants by the international lending agency or the government's economic planning authority. In practice, they are difficult to measure and not usually available. If the consultant were to make his own estimate he might find himself in the invidious position of implying that his client's currency is grossly over-valued. The [World]

1. Quotations in this section are from a paper by V. W. Hogg of the World Bank entitled 'Feasibility Studies: an International Lender's View', prepared for a conference on 'Civil Engineering Problems Overseas' held in London, June 1966. Grateful acknowledgement is made to the Council of the Institution of Civil Engineers for permission to reproduce quotations from this paper.

Bank, therefore, sometimes attempts to rework project cost estimates on this basis.' In the usual case, however, the financial (market price) estimates of cost and benefits are allowed to stand, and, because the market price of labour is usually vastly in excess of its shadow price, this results in too large a capital investment.

Thirdly (a related point), 'there seems to be a tendency for many studies to use too low an interest rate in their cost-benefit ratio calculations' (Hogg). Clearly, this tendency leads to excessively capital-intensive projects.

It may be worth citing an example from the experience of a large firm of economic consultants to illustrate the need for appreciation of the relevant economic facts. A road for the extraction of the coffee crop in a mountainous part of East Africa was to be designed. A simple earth road would have become impassable during the wet season, and would have required a considerable amount of maintenance at the beginning of each dry season. On these grounds the engineering section of the team carrying out the feasibility study felt inclined to recommend a gravel road of considerably higher standard and considerably greater cost. The technical reasons for such a recommendation were clear; but this would have failed to take into account two relevant economic facts. First, the road was to be used almost exclusively for the transport of coffee, so that it was scarcely required during the wet season, and secondly the maintenance of the road, though costly in financial terms, was a useful source of rural employment in an area where employment opportunities for unskilled labour were at a premium.

Close co-operation between applied economists and engineering consultants is thus vital for feasibility studies if over-extravagant investment decisions are to be avoided. A feasibility study which takes no account of economic realities and possibilities is of as little use as one which takes no account of technical realities and possibilities. It would, however, be wrong to conclude that consultants alone are responsible whenever an economically wrong decision is taken as a result of a feasibility study. Often the capital cost of the project is not decided by those carrying out the feasibility study, but is set out by the client in the terms of reference. The client government—or more particularly the client ministry—may often itself ask for an unnecessarily ambitious project, either for reasons of prestige, or for other more valid political reasons, or because the technical advisers in the ministry are themselves lacking in economic knowledge.

(c) The rôle of the feasibility study in the consultant's finances

While for the economic consultant the feasibility study is usually the only part of the job with which he is concerned, for other consultants, such as engineering consultants, it often comes to be regarded as merely a prelude

to the more profitable work of design and drawing up specifications, from which the larger part of the consulting engineer's income is derived. This fact gives the feasibility study a rather important place in the economics of the consultancy operation, as far as the consultant is concerned. He may be willing to accept a smaller profit, or even a loss, on the feasibility study in the hope of being appointed for the design work. In more than half of the cases—perhaps six out of ten—where a consultant has undertaken the feasibility study, he is not employed to undertake the actual design work, either because the project is abandoned, or because another consultant is retained. Nevertheless, the chances of getting a particular design job are without doubt far greater for a firm which has been connected with the feasibility study than for one which has not: there are obvious advantages for the client in retaining a firm which is already conversant with his problems.

It should also be mentioned in this context that the profitability of the design work tends to vary directly with the size of the capital investment undertaken, since fees are generally worked out on a sliding percentage basis. This may seem a strong added motive for the recommendation by consultants of unnecessarily large and capital intensive projects; at any rate, this consideration could hardly be said to help to keep the size of projects down. It would, however, be easy to exaggerate the strength of this influence. Most consultants are unwilling to have their names associated with projects which turn out to be white elephants, and are conscious that theirs is a profession in which a reputation for a high standard of integrity is worth a great deal of money. It has been observed, moreover, that technicians directly in the employment of the client government have the same tendency to ask for unnecessarily high technical standards, even though they have no financial interest in the matter.

Because the feasibility study has come to be seen as a way of trying to get more profitable design jobs, and not just as a job in its own right, there is increasing competition to offer feasibility studies at lower prices, and even to offer them for nothing, to underdeveloped countries. To offer a feasibility study for nothing is not justified in terms of expected profits for a consultant who is hoping only to get the design work; in many cases, however, the consultancy divisions of large manufacturing and contracting firms can offer this in the hope of getting not only the design work but also the contract for the building and supply of the project. Clearly, when the consultancy work is being done by a contracting or manufacturing firm, the incentive to minimise the capital cost of the project is even weaker than when the work is done by independent consultants. If the project is one which is in fact not worth carrying out at all, the feasibility study will probably not reveal this.

There often may be, then, a fairly straight choice for those responsible for commissioning consultancy work between getting a feasibility study done cheaply and getting it done impartially. This is not to say that every below-cost feasibility study involves deliberate exaggeration of the necessary

capital investment; it is a question of the incentive to decide one way or the other in marginal cases.

(d) Impartiality in consultancy

Since part of a consultant's work is the drawing up of specifications and deciding on the materials to be used, as well as advising on the selection of a contractor, there is usually strong pressure on the consultant to allow a degree of bias into his work. Many countries expect their consultancy professions to provide some kind of return in the form of increased exports; in those countries where the consultant has some connection with a firm of contractors or manufacturers, the pressures are even stronger. On the other hand, it is in the best interests of the client that the consultant should be entirely unbiased in his recommendations, and freedom from bias is a strong selling point for consultants.

For the most part, this conflict is resolved by regulations ensuring the independence of consultants from any ties with contractors or suppliers. This is certainly the case in Great Britain, where the rules of the Association of Consulting Engineers (ACE) lay down that:

> 'A member shall not be a director or salaried employee of any company, firm or person carrying on any commercial, contracting or manufacturing business which is or may be involved in the class of work to which his appointment relates. Neither shall he, without disclosing the fact to his client in writing, have any substantial financial interest in, nor be an agent for, any such company, firm or person.'

Furthermore,

> 'A member shall not receive directly or indirectly any royalty, gratuity or commission on any transaction or on any article or process in connection with the work to which his appointment relates, unless and until acceptance of such royalty, gratuity or commission has been authorised by his client in writing. A member shall not, except with the authority of and on behalf of his client, place contracts or orders. Nor shall he be the medium of payments on his client's behalf, unless instructed to do so, but shall only issue certificates to his client for payment. A member shall accept remuneration only from his client unless he has his client's authority in writing to do otherwise. He shall not accept any trade commission or discount, allowance or indirect payment or other consideration in connection with any professional work on which he is engaged.'

Broadly similar rules apply to members of the Fédération Internationale des Ingénieurs Conseils (FIDIC), the corresponding international body: but while nearly all British consulting engineers have connections with the ACE, there has been increasing competition in the international sphere from consultants who are not members of FIDIC. Consultants

who are attached to contractors and suppliers have an advantage not only in the fact that they can offer their services free or at a reduced rate; they are also well able to meet independent consultants on their own ground. This is because being part of a larger organisation enables them, first, to keep in close touch with relevant developments in many parts of the world, so that they can be on the spot as soon as they hear of a likely job, and, secondly, to undertake a substantial financial commitment in guaranteeing that their work will be satisfactory. In a different category they may also have connections, e.g. with banks, which can be useful to the client in finding finance for his project.

Clearly, consultants who are connected with contractors and manufacturers have a positive effect on exports from their country of origin. What is not so obvious is that independent consultants, while continuing to work in the best interests of their clients, may have a similar, though much weaker, effect. For example, a consulting engineer, while designing a bridge, may wish to find out from steel manufacturers about types of material suitable for the particular problems encountered. In this and in other ways, manufacturers get to know what these problems are, and this process of dissemination of information means that, when the project goes out to tender, local manufacturers can often be a jump ahead of their competitors. It would be hard to quantify this effect, but there seems to be no doubt that it exists.

3 The Use of Consultants by Aid-Givers and Developing Countries

(a) The World Bank

There are three main purchasers of the services of consultants: the governments of developing countries, national governments granting bilateral aid or loans, and international bodies dealing with multilateral aid and loans. Private companies are relatively insignificant buyers of the services of consultants in developing countries, although they are important clients in the developed world. Of these three types of client, the third, and in particular the World Bank, will be discussed at some length. This is not only because a large proportion of consultancy work is for the World Bank, but chiefly because—as mentioned in the introduction to the paper—the long experience of the Bank in working with consultants, and its strong financial interest in getting the best out of them, make its method of dealing with consultants of particular interest.

In the last financial year, the World Bank gave loans for projects whose value amounted to about £500m. Lending by the World Bank accounted for roughly half the cost of these projects, the remainder being local costs which were the responsibility of the receiving countries. The value of consultancy work done for the World Bank, assuming that fees amounted to 5% of the cost of the project, was therefore about £25m —perhaps £30m if UNDP projects administered by the World Bank are included. Lending by the World Bank was about 16% of total lending and aid-giving to the developing countries in that year.

The basic principle of the World Bank in employing consultants is that the work of the consultant should be separate from that of the organisation tendering for the project. In the case of a dual organisation which takes on both consulting and contracting work, the World Bank will only employ it for consulting work if it disqualifies itself from contract and supply work. The pamphlet entitled *Uses of consultants by the World Bank and its borrowers*, issued by the World Bank, states:

> 'Consulting engineer firms fall generally into one of the following categories: (a) Firms of independent consulting engineers: (b) Firms which combine the functions of consulting engineers with those of contractors, or which are associated with, or affiliated to, or owned by contractors; (c) Consulting engineering affiliates of manufacturers, or manufacturers with departments or design

offices offering services as consulting engineers. Firms in categories (b) or (c), even though qualified, are acceptable only if they agree to limit their role to that of consulting engineer and will disqualify themselves and their associates for work in any other capacity on the same project. In the case of category (c) firms, it becomes doubly important to erect safeguards, not only to ensure that affiliates will be disqualified from future bidding on any parts of the project, but that specifications will be impartial and can meet with compliance on a competitive basis.'

In addition to insisting on this strict separation of the functions of consultant and contractor, the World Bank is also at pains to avoid an excessive element of price competition by consultants which might lead them to skimp on important parts of the job; in the view of the World Bank this is a short-run economy which is not worthwhile in view of the long-run failure to minimise costs which might result from it. To quote again from the same pamphlet:

'The selection of a consultant for a particular assignment, whether by Bank or borrower, should begin with the preparation of a reasonably sized list of firms claiming expertise in the field. The list may then be shortened by detailed studies of each firm's experience and capabilities until four or five remain as comprising a final list to receive invitations for proposals. It is desirable that borrowers submit to the Bank the final list of consultants before invitations are sent out so that the Bank may satisfy itself that the firms are qualified to perform the work envisaged. Invitations should define the objectives of the undertaking and stipulate the conditions under which the work is to be performed. It should be clearly indicated that financial terms are not desired at this stage; and that selection will be made entirely on the basis of qualifications to perform the work and not on price. Proposals, when received, should be carefully analysed and compared with respect to plans of approach, schedules, experience and capabilities of personnel to be assigned, the qualities of supervisory leadership to be furnished, attention to be given by principals of the firm, facilities of the home office, and the assistance, if any, that may be available from others. After selection has been made of a firm considered to be the best qualified for the assignment, negotiations should be opened in order to determine a reasonable fee. If no agreement can be reached, the firm should be informed that negotiations are to be opened with the firm next in line.'

Deciding what is a 'reasonable fee' is, of course, easier for a body with the experience and personnel of the World Bank than it is for most administrations in developing countries. Nevertheless, it does seem plausible that the system of competitive tendering is liable to encourage a sacrifice of long-run considerations for the false economy of relatively small short-run

savings in consultancy fees which amount to only about 5% of the cost of the project.

The Bank also pays great attention to the settling of clear and comprehensive terms of reference for the consultant:

> '. . . the Bank's primary interest is to see that the responsibilities of the consultant are clearly set out in his contract with the borrower and that he is fully utilised in carrying out those responsibilities. To achieve this, it is necessary in most cases to hold discussions with the borrower and his proposed consultant to agree on terms of reference for inclusion in the contract, and to ensure not only that the consulting engineer is aware of the terms and conditions of his employment but also that the borrower is aware of the responsibilities and authority which the consulting engineer is going to bear on his behalf. During these discussions, the Bank should make clear any requirements which it may have in regard to the work, and satisfy itself that the borrower will give to the consulting engineers sufficient power and discretionary rights to exercise their responsibilities and carry out the terms of reference.'

It was stated earlier that the World Bank usually finds that the central stage of the consultancy operation is satisfactorily carried out. This being so, the World Bank pays considerable attention to the economic preliminaries and to the follow-up of the project. It often makes itself responsible for carrying out broad economic surveys to determine investment priorities, thus safeguarding itself against undertaking projects which, though worthwhile in the sense that their benefits are greater than their costs, may not be the top priority for the country's economy, while at the same time gathering economic background information which can be used by consultants in their feasibility studies (e.g. shadow prices).

The World Bank also makes a practice of writing into the loan agreement arrangements for the after-care of the project—the use of suitable auditors or management advisers, for example. In cases where this has not been done, the results have occasionally been unfortunate. Difficulties sometimes arise when the government of the country receiving the loan feels that the use of the completed project is a matter for that country only, and resents the interference of the World Bank on grounds of national sovereignty. The World Bank is, however, better equipped than bilateral aid-givers to deal with this situation, since it does not have political aims. Most borrowing countries are willing to comply with World Bank requirements on this point since they do not wish to run the risk of disqualifying themselves for future loans.

(b) Bilateral lenders and aid-givers

Bilateral suppliers of aid and loans are of course more concerned with minimising the foreign exchange cost of their activities; British and Ameri-

can grants for feasibility studies are conditional on the employment of consultants from the respective countries. There are few exceptions to this rule. Overseas affiliates of British consultants may sometimes be given work by the Ministry of Overseas Development (ODM), and the Agency for International Development (AID) occasionally allows firms from outside the USA to tender for small consultancy jobs when there is no suitable American firm on the spot.

The British Ministry of Overseas Development, unlike the World Bank, gives aid for feasibility studies as an exercise independent of the giving of aid for the project itself. Aid of this kind amounted to £550,000 in the last financial year, and is expected to total £620,000 in the current year. The ODM requires four conditions to be satisfied before it will grant aid for a feasibility study: first, the project itself should be one which is likely to make a significant contribution to the economic development of the country; secondly, it must be reasonably clear that the government of the country concerned has the intention of carrying out the project in question if the results of the feasibility study are favourable; thirdly, there must be a reasonable hope that the country concerned will be able to secure funds for financing the project; and fourthly, that the country concerned does not propose to finance the capital cost of the project in such a way that British companies would be precluded from tendering for the capital works. The later stages of consultancy work, i.e. the preparation of detailed designs and specifications, the preparation of tender documents, advice on the award of contracts, and supervision of the construction, are regarded as part of the capital costs of a project and thus to be met as a charge on funds made available for project aid.

(c) Developing countries

Collectively, the governments of developing countries are probably the most important buyers of consultancy services, though more various in approach. In so far as one can generalise about the experience of numerous developing countries, it seems likely that fiercer price competition exists between consultants where the buyer is a developing country than where it is an aid-giver or lender. When feasibility studies are offered free by manufacturers, money spent on independent consultants may seem to be money wasted. The dangers of this approach have been set out in Section 2 above. It may, however, be possible for a developing country to avail itself of such offers while avoiding the dangers of over-investing in imported capital goods; by allowing manufacturers or other bodies to carry out free feasibility studies, and subsequently subjecting these studies to scrutiny by independent consultants, it may be possible to pay less for consultancy services while offsetting the tendency to bias inherent in most free consultancy work. Such a policy has been followed where possible by some users of consultants in developing countries with reasonable success. A

policy of ensuring that the consultant and the contractor for any one project are of different nationality is also sometimes pursued. It is felt that this reduces the chances of any collusion between these two parties at the expense of the developing country. Such a precaution should not be necessary with reputable consultants and contractors; but those responsible for the selection of consultants in developing countries may not have enough evidence to decide whether a particular firm is reputable or not. Undoubtedly, developing countries have occasionally been defrauded by contractors and consultants, so this precaution is perhaps justified.

4 Consultancy in Various Countries

It is not possible to describe in detail the consultancy professions of all countries offering consultancy services in developing countries. Those which are mentioned may, however, give an idea of the various types of consultancy organisation.

(a) Britain

The traditional system is one of independent consultants free from connections with contractors or manufacturers. The quotations already made from the articles of association of the Association of Consulting Engineers demonstrates the degree of independence necessary for the British consultant. Nearly all British consulting engineers subscribe to these rules; only one or two important firms are not members of the Association, chiefly because they prefer to practise as limited liability companies, which is forbidden by the ACE.[1]

No estimate can be made of the overall size of the entire British consultancy profession, but some figures are available from which one can guess at the order of magnitude of the annual output of British consulting engineers. The annual report of the ACE for 1967 states that the total value of work in hand for which British consultants are responsible was £1,416m at the beginning of 1967. This excludes work done inside the UK and the relatively insignificant amount done by consulting engineers who are not members of the ACE. Of this amount, over £1,200m was in developing countries, the remainder being mainly in Australia, New Zealand, and South Africa. The average length of time for the completion of a project is around five years, so one would guess that 20% of the £1,200m represents new work—perhaps more if the turnover is growing. If one estimates consultants' fees as 5% of the project—they tend to be proportionately more for small projects and less for large projects—this indicates an annual turnover of around £12m. About half of this represents local costs, so a reasonable guess of the order of magnitude of the annual invisible exports of consulting engineers would be about £6m. Oddly enough, although the large majority of the work of consulting engineers, and a sizeable proportion of that of other consultants, is on overseas contracts, there is no allowance for rebates of Selective Employment Tax, which consultants, as a non-manufacturing industry, are liable to

1. The pros and cons of doing away with the rule forbidding limited liability are at present being studied by the ACE.

pay on all their employees. There is no discernible reason for penalising consultants in this way, and their contribution to the United Kingdom's income from invisibles should be recognised by a rebate on the percentage of their output which is for overseas customers.

Although one cannot say what the share of British consultants in the world market is, there seems to be a feeling that this share may be declining. This could be due to several factors. A lot of work has in the past been done in countries which have only recently become independent of Britain, and the desire on the part of such countries to diversify away from dependence on the former colonial power for such services as consultancy is one such factor. France, the other main ex-colonial power, seems for a variety of reasons to have been more successful in maintaining the predominance of French commercial and industrial interests in what were once her African dependencies; so this alternative market has not been penetrated much by British consultants. Another factor contributing to the decline of the British share of the market for some forms of consultancy services has been the fact that more consultants from countries other than Britain are now offering specialised services.

Apart from the strict regulations concerning the freedom from bias necessary for British consultants who are members of the ACE, there are also tight rules about the methods by which members of the ACE may get new orders. The regulations state, for example, that: 'A member shall not, either himself or through any person or firm, canvass, advertise for or solicit professional employment; neither shall he offer to make payment, by way of commission or otherwise, for the introduction of employment.' They also state that: 'A member shall not knowingly compete with another on the basis of professional charges.' The competitive disadvantages arising from the first of these rules are perhaps more apparent than real; on the whole, British consultants are able to find ways of making themselves known to the necessary people when they hear of a job which they would like to take on. A more serious disadvantage to the British consultancy profession is perhaps that of finding out about future projects in time to make themselves known before a foreign consultant has got the job. Compared with that of other countries, the British consultancy profession is fragmented; it includes a number of relatively small firms. Such firms cannot afford a large commercial information network, being unfavourably placed in this respect by comparison with countries such as France and Italy, where the bulk of consultancy work overseas is carried out by a single firm or family of firms.

The British Overseas Engineering Services Bureau (BOESB) was set up two years ago in order to provide a central pool of information for British consultants as well as to inform potential customers about the capabilities of British consultants and act as an intermediary in connecting potential clients and consultants. It has sent delegations to about half a dozen countries, and fulfils a useful rôle with its information-providing activities. Most British consultants are affiliated to the Bureau, with the

exception of architects, whose code of professional ethics for some reason does not allow this. The administrative costs of the Bureau are shared between consultants and the British Government. While the professional ethics of members of the ACE prohibit them from unsolicitedly writing to potential clients to suggest themselves for a certain piece of work, they may do so if the client and the BOESB have been in contact, and the BOESB suggests to the consultant that he would be suitable for the job in question.

The Byzantine formality of these finer points of professional ethics seems on the face of it unnecessary and incompatible with a dynamic attitude to getting more orders. British consultants feel, however, probably rightly, that their reputation for the maintenance of standards of professional ethics is one of their best selling points overseas. The rules by which these ethical standards are regulated are kept constantly under review by the Council of the ACE, and amendments are frequently considered. Yet the rules often seem to lag slightly behind what is considered acceptable conduct at any one moment.

Apart from its task of providing information and acting as intermediary, the BOESB also administers a fund which was set up with the purpose of enabling British consultants to offer feasibility studies at the extremely low prices at which, for the reasons outlined above, less independent consultants can offer them. The idea behind the fund was that, if a British consultant makes an offer to carry out a feasibility study at less than cost, the Treasury, acting through the BOESB, would make itself responsible for bearing half of the loss so incurred. The sum of £100,000 was set aside at the outset for this purpose. Although several applications and requests for funds from this source have been made, no money has as yet been paid out from this £100,000. The reason for the lack of enthusiasm on the part of consultants to offer below-cost feasibility studies is not far to seek: even though the Treasury is willing to bear half of the loss, firms of consultants are not willing to bear the other half. For, although it is true that the carrying out of a feasibility study does increase the chances for that consultant when the profitable design work is commissioned, it still remains true that, in about six cases out of ten, the firm carrying out the design work is different from the one that did the feasibility study. While British consultants may be prepared to forgo profits to some extent on feasibility study work in the hope of future profits, they do not consider it worthwhile to incur actual losses. The present organisation of the fund to encourage British firms to extend their activities on feasibility studies, and to enable them to compete more effectively, has not been a success. A re-thinking of the best way in which to achieve this aim is, in fact, in progress at the moment.

(b) The USA

The American consultancy profession is composed both of independent consultancy firms and of the consultancy departments of large-scale

industrial organisations (such as the Kaiser group). These latter, in particular, can call on the vast resources of the parent organisation in support of sub-economic or free surveys and feasibility studies, as well as for the maintenance of a sizeable information network. American consultants have a valuable home market, and are responsible for a larger proportion of total engineering work in the USA than British consultants in the UK. The scale of the American aid programme itself provides a large amount of work for American consultants; the Agency for International Development (AID) provides substantial amounts of finance for both feasibility studies and investment surveys. The investment surveys programme is designed to encourage private enterprise in developing countries, and requests must come from potential investors. Under the provisions of this arrangement an investor undertakes the survey at his own expense and it is only if he decides not to go ahead with the investment that he may apply to obtain payment of half his expenses from public funds.

Feasibility studies are undertaken by AID in those cases where no private investor is available but where a project is considered suitable for development by American finance. The request for a survey must originate in the developing country concerned; applications are not entertained direct from US firms of consulting engineers. In recommended cases the whole cost of the survey is provided from a loan or grant from AID funds.

(c) Germany

The concept of the consulting engineer is relatively new in Germany; traditionally consulting work was undertaken by the planning offices of manufacturing and supply firms or by contractors. In part, at least, this reflects the position today; some feasibility studies are subsidised by German industry. More recently a number of firms of consulting engineers and other consultants have grown up who are more or less independent, on the British model; they are mostly affiliated to a body which corresponds to the British Association of Consulting Engineers, and is known as the Verband Unabhängiger Beratender Ingenieurfirmen. Like British firms, many German firms tend to suffer internationally from a lack of size and financial resources when competing with established consultants of other nationalities. A number, while retaining their independent status, are working in permanent teams, a practice which enables them to handle projects too large for them individually. They do not appear to have any financial advantages not enjoyed by British firms.

(d) France

Whilst there are large and important firms of independent consultants, the bulk of French consultancy work in developing countries is carried out by the Bureaux d'Études, otherwise known as the SOFRE (Sociétés

Françaises d'Études et de Réalisations) organisations. These are made up of the research and consultancy offices of the various major industries and contracting organisations in France. Many were originally established to carry out surveys in metropolitan France and in the former overseas territories on behalf of the French Government. The bureaux have now become a recognised part of French technical assistance; the French make extensive use of consultancy firms in all their aid programmes, both inside and outside the Franc zone. A number of the SOFRE organisations are closely associated with French nationalised industries, with private industry, and with national and private banks. They do not receive direct governmental support; if they are able to provide feasibility studies at below cost this is either out of their own resources, from one of their constituent associations, or as part of the French technical assistance programme. Because the associations of the bureaux are with French 'user' industries and not with manufacturing industries, they are able to comply with the World Bank's requirements regarding the separateness of supply and consultancy organisations; for example, the electrical organisation, Sofrelec, does not have connections with French manufacturers of electrical equipment, but only with the nationalised electricity retailing board, Électricité de France.

The Bureaux d'Études have the advantage that they can offer to developing countries a means of approach to contractors rather more effective than would be provided by an independent consultant, as well as access to finance through the banking connections which form an integral part of the enterprise. Their disadvantage lies in their lesser degree of independence.

(e) Italy

There is no independent consultancy profession as there is in Britain. Italconsult, the largest consultancy organisation, was set up as an autonomous non-profit-making company in 1957 by leading figures in the Italian technical and economic world, with the support of industrial and banking circles. Shareholding companies that are represented on the board of Italconsult by top management and on which it can call for technical advice include: Edison, Fiat, Innocenti, Montecatini, Pirelli, Italcementi, La Centrale, and Sade, together with the Instituto Mobiliare Italiano, a government organisation which owns 25% of the capital. The object of the organisation is to 'study, organise and develop industrial, commercial, financial, mining, agricultural, land reclamation and irrigation activities, as well as public works and service enterprises, particularly abroad'. It has regional offices in Buenos Aires, Cairo, and Tehran, with field offices or local representatives in 27 other countries. Like the French SOFRE organisations, it would appear to offer the advantages of close contacts with financial and other organisations together with the relative lack of independence which this implies.

(f) The Netherlands

A consultancy consortium called Nedeco was set up in 1961 to undertake all stages of engineering and related consultancy work including project studies outside the Netherlands. This organisation operates commercially, its original capital being put up by banks and private institutions. It is independent of contracting and manufacturing interests, and is not controlled by public authorities but by an elected board of directors. It receives no financial assistance from the Netherlands Government, but can call upon the assistance of government officials who are seconded at Nedeco's expense.

(g) Others

Among the other countries that offer consultancy services in developing countries but that have not been discussed above are: the countries of Eastern Europe and Yugoslavia (whose consultancy organisations are of course totally integrated into the State-controlled economic organism, with consequent loss of impartiality), Japan, Australia, Norway, Sweden, Canada, and Israel. This short description does, however, give some idea of the range of different methods of organising the consultancy profession that are found in different countries.

5 The Alternatives to Consultancy

The employment of professional consultants, independent and otherwise, is usually not the only way of getting the necessary technical expertise. In this section, the pros and cons of the most important alternatives—the use of package deals and of individual technicians—will be briefly examined.

(a) Package deals

When a manufacturing or contracting firm gets to know that there is an intention to carry out some project, it may itself submit proposals to carry out the project, having carried out the preliminary design work in its own offices and, in the first instance, at its own cost. The rôle of the consultant is thus taken over by the manufacturer. The advantages of this system seem more obvious than its disadvantages. Although no separate payment is made to a contractor, such a system does not, of course, save the costs of the contractor's work. The design costs are merely paid together with the other costs of construction. Indeed, since manufacturers or contractors may put in several offers for package deals, not all of which are accepted, they may find it necessary to carry the costs of several design operations on each package deal which is accepted.

Where the project is of a standardised type of which the package dealer has considerable experience, the package deal may have advantages of speed resulting from the closer integration of the design and contracting work and also, in some cases, total costs may be lower, where the package dealer has evolved, through his experience of the type of project in question, more efficient methods of construction.

The client, however, in the case of a package deal, has little chance of estimating whether he is getting value for money. Whereas a consultant makes it part of his job to itemise each item needed for the project and evaluate its cost, no such check is available to the client in the case of the package deal. Even where the client has some method of evaluating whether the total cost is fair or not—e.g. by comparing it with some similar project—he will not know (unless he has adequate technical expertise available) whether costs have been cut by means of inferior workmanship, or whether lower costs have genuinely resulted from more efficient design. For similar reasons, the client will have difficulty in selecting one from a number of package deal offers, as he will find it difficult to evaluate their technical difference.

Secondly, the manufacturer offering a package deal has far less incentive than the consulting engineer to carry out the economic assessments which, this paper contends, constitute the most vital, and the most frequently neglected, aspects of the consultancy operation. He will clearly not wish, after spending his own money on a preliminary study, to advise the client that the project is not worth proceeding with, nor will he be in a position to examine alternative methods of achieving the desired end, since as a rule the package dealer is a specialist in projects of one particular kind. Finally, he will lack any incentive to minimise the capital cost of the project. Thus while the package deal may in certain circumstances offer a more economical way of carrying out a project, the client will seldom be in a position to know when the circumstances apply. Combined with the other inherent disadvantages of the package deal system, this means that he would do well to opt for the independent consultant in all cases where (i) he is not absolutely sure which type of project will serve his ends best, (ii) the design of the project which he requires is not of a very standardised and simple nature, and (iii) he has not sufficient technical expertise at his disposal to be confident that he can evaluate the differences between tenders for a package deal project, and estimate the fairness or otherwise of the proposed price. If these conditions were observed, the use of the package deal system would probably be less common than it is. Its prevalence may be due to the larger size and financial facilities of manufacturing and contracting organisations in comparison with consulting organisations, and their correspondingly bigger information networks and sales forces.

(b) The use of individual technicians

A second alternative to the use of a consultancy firm is the employment of individually recruited technicians. The considerations to be taken into account in deciding between these alternatives are less easy to generalise. Clearly, there are some tasks for which the use of consultants would be quite inappropriate. It would scarcely be worthwhile to say that the running of the civil service and defence force is a task which could not be entrusted to a team of consultants, were it not for the fact that a hard-selling firm of management consultants has been known to make a modest proposal to assume these functions for an appropriate fee! There are, however, borderline cases—the implementation, for example, of agricultural projects—where the choice between the employment of individual experts or of a consultancy firm is more difficult to make. Certain considerations may be relevant. The usual reason for choosing to employ individual experts as opposed to consultants is that one only has to pay the individuals themselves, and not an additional amount representing the profit of the consultancy firm; but there are many situations in which what the client gets for this extra amount is more than sufficient to justify

it. For example, the project may require the use of special machinery, which cannot be re-used for other projects. Mapping, for example, requires not only specially equipped aircraft but also highly specialised photogrammetric machines for the interpretation of aerial photographs. It would obviously be a waste of money for a client to purchase such equipment himself for one project. Secondly, a firm of consultants will provide not only the necessary technical personnel, but also experienced managerial staff for the supervision of the project; the client may find it difficult to provide this himself if he chooses to recruit individuals. Finally, the employment of a firm of consultants implies that definite contract terms have been agreed on, and that a collective reputation is at stake; this provides a safeguard for the completion of the work on time and to the agreed specifications. In short-term projects of a once-and-for-all nature, there are then advantages in the employment of consultants as opposed to individually recruited technicians.

6 Conclusions

(a) Conclusions for users of consultants

In general it is evident that developing countries have a great deal to gain from a liberal use of competent consultants. Whatever type of development is aimed at—whether the emphasis is on agricultural development from the grass roots of the society, or on industrialisation—reliance on locally available expertise and experience will sooner or later lead to bottlenecks which could be overcome with the help of consultants from more developed countries.

The risks arising from the misuse of consultants—the dangers of inappropriate techniques and excessive capital-intensity—were spelled out in Section 2. The emphasis there was on why consultants tended to act in this way and what could be done from their point of view to counterbalance this tendency. But the clients themselves bear an equal responsibility, since errors of this kind can usually be avoided by taking care that precise and unambiguous terms of reference, covering, where needed, economic and managerial as well as purely technical aspects, are drawn up. Unless the client makes it clear in the terms of reference precisely what his aims are, he will not be justified in complaining that the consultant has failed to carry them out. He may of course require advice on the appropriate terms of reference: in this event he should have consultations with his consultant so that no doubts remain when the terms have been finalised.

Precise terms of reference are not the same as narrow terms of reference; given that the consultant is clear about the aims of his client and the constraints to which he is subject, he should, because of his experience, be in a better position than the client to recommend the actual method by which these aims can be achieved.

Other things being equal, the client clearly will—and should—prefer the consultant who has experience in developing countries. Where the consultant lacks such experience, the importance of precise terms of reference is multiplied, and in particular there is the danger that even if the consultant has appreciated the nature of his client's aims, he may not understand the special constraints that apply in developing countries.

As regards the selection of consultants, the client is well advised to benefit from the experience and practice of the World Bank and to make use of similar procedures to those described in Section 3(a) in order to ensure that he selects a suitable and unbiased consultant. The selection of a consultant on grounds of technical ability, with cost negotiated subsequently, rather than by a system of tendering, also has clear advantages. Consultants' fees are a small percentage of the cost of a project, so

that in most cases the saving in overall cost due to the employment of a good consultant is likely to outweigh any differences in fees—not that good consultants necessarily charge higher fees.

(b) Conclusions for consultants

Consultants themselves as a rule adequately fulfil the technical demands made on them. The chief spheres in which extension in the services offered by consultants can be made are in the economic and managerial aspects of consultancy. This is not to say that consultants offering these services do not perform them adequately; but too often they are left out of the consultancy process. Consultants working in developing countries need to be in a position to offer a complete range of services, from thorough assessment of economic viability through design to supervision of operation, if the client so desires. To achieve this, consultants from different faculties must increasingly combine with each other—on a temporary or permanent basis —in order to be in a position to offer advice on every aspect of a problem. In many cases where large sums of money have been invested in projects which have turned out to be unnecessary, or, if necessary, inadequately utilised, this might have been avoided by devoting to the economic, marketing, and operational problems an amount of expertise and effort similar to that devoted to the engineering aspects. Such combinations will increasingly need to include bodies having access to finance for the project itself, and may in certain conditions form part of a wide consortium.[1]

No conclusions are offered on whether British consultants' interests suffer as a result of restrictively high standards controlling such matters as permissible methods of approaching potential clients, publicity, etc. This is partly for lack of evidence, and partly because in practice it is for the individual consultant to find the suitable combination between professional behaviour and a forceful attitude to getting more orders. It may, however, be worth saying that what impresses the client is not compliance with certain formal rules but a sympathetic attitude towards his problems and a manifest determination to minimise his total costs.

(c) Conclusions for aid-givers and lenders

The governments of developed countries enter the picture in two ways: first in their rôle as aid-givers, and secondly as bodies responsible for maintaining the required level of activity in their own countries. The two functions may overlap.

In their capacity as aid-givers, the governments of developed countries face essentially the same problems with consultants as developing countries

1. The question of finance in relationship to consultancy is among the subjects of a separate study by Lord Cromer, undertaken at the invitation of the President of the Board of Trade and published as a White Paper, *Export Business from Capital Projects Overseas*, Cmnd 3516, January 1968.

themselves. In both cases the aim is to get the maximum value for money invested, and in both cases this aim is best achieved through the unbiased, comprehensive consultancy services discussed in the first part of this section.

The matter becomes more complicated when a secondary aim of giving aid is to minimise the balance of payments cost to the donor (or even to reap net advantages by higher subsequent exports) and to utilise spare domestic capacity. Consultancy may come to be regarded as a means of achieving these secondary aims. This can be harmful if it leads to confusion about where the consultant's responsibilities lie. They must lie with the recipient and not with the donor; consultants should not be put in a position where they are expected to profess impartiality while furtively pressing the merits of domestic contractors and manufacturers in cases which do not justify it. Both aid-givers and recipients should distinguish clearly between genuine consultancy aid, and the creation of export opportunities through biased consultancy. Both activities are legitimate as long as no confusion between them is generated. This does not contradict the point made in Section 3 about the legitimate ways in which consultants can without bias affect exports from the home country through dissemination of knowledge.

Governments of countries providing consultancy services also have a responsibility to encourage consultants to combine in the way suggested in part (b) of this section; in Britain the BOESB has already begun to play this rôle, and it is hoped that more use will be made of it.

One might end this paper suitably with a plea for the collection of more comprehensive statistics on the output, invisible exports, etc. of consultants, without which the rewarding task of a more comprehensive study of consultancy could not be carried out.

Quicks the Printers, Oxford Road, Clacton-on-Sea, Essex

Overseas Development Institute

The Overseas Development Institute is an independent non-government body aiming to ensure wise action in the field of overseas development. It was set up in 1960 and it is financed by grants from the Ford Foundation and British foundations, and by donations from British industrial and commercial enterprises. Its policies are determined by its Council. The Director is William Clark.

The functions of the Institute are:

1 to provide a centre for the co-ordination of studies on development problems;

2 to direct studies of its own;

3 to be a forum where those directly concerned with development can meet others and discuss their problems and share ideas;

4 to spread the information collected as widely as possible amongst those working on development problems;

5 to keep the urgency of the problems before the public and the responsible authorities.

The Less Developed Countries in World Trade

Since the first United Nations Conference on Trade and Development (UNCTAD) held in 1964 there has been growing discussion on the relationship between trade and aid, and the relative contribution of these to development.

This handbook is intended to present the non-expert reader with facts about the direction and composition of the export trade of the less developed countries, the policies of the major developed countries affecting this trade, and the work of the two international institutions primarily concerned with trade policies: the General Agreement on Tariffs and Trade (GATT) and UNCTAD. In describing current and proposed trade policies and institutions, the handbook also comments on some of the main issues raised.

The handbook represents an attempt to select and compile information which is already available from many different sources, some not easily accessible. We hope that the availability of this information in a single publication will be of use to those with an interest in the contribution of trade to development.

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