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The Consulting Profession in Developing Countries

A Strategy for Development

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Governments should emphasize quality over price in evaluating bids, stop favoring public sector firms, and establish better contracting and compensation procedures. There should also be more joint ventures between developed and developing country consulting firms.

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This paper—a product of the Infrastructure and Urban Development Department—is part of a larger effort in PRE to improve the quality of the consulting profession in developing countries. Copies are available free from the World Bank, 1818 H Street NW, Washington DC 20433. Please contact INUDR, room S10-045, extension 33758 (52 pages).

The quality of domestic consulting firms in developing countries has not kept pace with their growth in number. Kirmani and Baum recommend a strategy for strengthening domestic consulting.

For developing countries:

- Joint ventures of foreign and local consulting firms should be encouraged to foster technology transfer and training.
- Local consulting should be confined as much as possible to the private sector; public sector consulting firms should be privatized or at least should get no preferential treatment.
- In the award of local contracts, procedures should be changed to give priority to quality in all but simple or routine assignments. Unless governments expect and demand quality performance, and create the environment to make it possible, they will not get it.
- Consultants should be paid on the basis of “man-month contracts,” except where the work can be precisely defined in advance and payment methods of “lump sum” or “percentage of construction costs” are acceptable.
- National development banks should provide financial and technical assistance to local firms for training, working capital, and physical facilities and equipment.

For the World Bank and other donors:

- The Bank should encourage joint ventures, giving them preference in the selection of firms to be short-listed and in the acceptance of the developing country partner as the sponsor or cosponsor in suitable cases.
- Technical assistance loans or credits (usually in small amounts—separately or as part of a larger loan or credit for a related purpose) should be extended to support government programs for developing the profession.
- The Bank should develop a method for quantifying the financial and economic costs of quality defects in projects, particularly at the feasibility and design stages, and reinforce it by selected case studies—to promote an understanding of the importance of the quality of professional work.
- The IFC should play a more active role in financial participation in local consulting firms, and EDI should give the subject more prominence in its curriculum.
- The most important contribution of bilateral donors would be to waive or modify the requirement of tying technical or financial assistance to the use of consultants solely from the donor country.

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The Consulting Profession in Developing Countries:
A Strategy for Development

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**The Consulting Profession in Developing Countries:
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Executive Summary

Evolution of the Consulting Profession

(i). During the past two decades, the number of domestic consulting firms in developing countries has increased phenomenally. The quality of their performance has not kept pace with the growth in numbers. The policies and practices of governments, internal weaknesses in staffing and management, and the lack of a supportive environment have prevented domestic consulting firms from effectively exercising the key role that they should in planning, designing, and implementing their countries' investment programs.

(ii). In industrialized countries, the consulting profession evolved in a series of stages over a period of more than 200 years. It developed from the growth of the educational system, the emergence of engineering as an applied science, and the formation of professional societies and associations. Prior to the establishment of consulting engineering as an independent profession --to be followed later by consultants in architecture, economics, finance and accounting, management and a host of other fields-- civil works were designed and constructed primarily by government departments. As the capacity of government organizations proved inadequate to meet the demands of rapid industrialization, opportunities opened up for private enterprises to develop construction and consulting services on a large scale. More recently, individual consulting firms have broadened their fields of specialization to become multi-purpose, or else formed joint ventures or consortia to enable them to compete in a variety of fields.

(iii). Professional societies, association of consulting engineers and others, and federations of the associations have played a crucial role in disseminating knowledge and

promoting high technical and professional standards. So have the relevant departments of universities through research and training and the interchange of personnel.

(iv). The consulting profession in developing countries is of more recent origin, and the development process has been more compressed. Professional standards have not yet been fully developed. While in developed countries consulting emerged primarily through private enterprise, in many developing countries the profession developed in the form of public sector enterprises, often as off-shoots of public works departments, and has lacked the discipline and stimulus of competition. Universities, and professional societies and associations, have not achieved the status that enables them to perform a supportive role. Governments, while active in protecting domestic firms from foreign competition, have otherwise done relatively little to nurture a strong profession.

(v). The size of the economy of a developing country and its stage and pattern of development have a critical impact on the growth of the consulting profession. The size of the public and private investment programs influences the demand for consulting services; the educational system, notably the universities and professional schools, influences the availability of personnel to staff the profession; and the openness of the economy influences the flow of technology and training from abroad and the potential for development of the private sector, in which a healthy domestic profession is most likely to take root.

(vi). The macro-economic policies of the government, insofar as they affect the overall rate of growth, the development of a market-based economy and the opportunities for private enterprise, will therefore help to determine the prospects for a viable domestic consulting profession, as will sectoral policies in such fields as higher education. But the primary interest

here lies in the more specific policies and practices of the governments and of external donors and professional societies, as they bear directly on the consulting profession.

Constraints to Developing the Consulting Profession

(vii). In some developing countries, such as a few in Latin America, there is a flourishing local consulting profession in the private sector and little further action is required. At the other extreme are some of the countries of Sub-Saharan Africa where the profession is still in its infancy, much needs to be done, but progress will inevitably be slow. Most developing countries lie between these two extremes; favorable opportunities for the growth of the profession exist, but a number of constraints will have to be overcome for those to be realized. The profession generally suffers from several structural weaknesses. It is characterized by a small number of large firms, mostly public enterprises, which dominate the business, and --at the other end of the scale-- a very large number of small or medium-size private firms, often in a precarious position.

(viii). Most firms, particularly in the private sector, cite the inability to attract and retain sufficient qualified staff as their most serious problem. A further, pervasive constraint is lack of experience in all aspects of consulting work. Local firms are often trapped in a vicious cycle: without experience, they cannot qualify for assignments; and without assignments they cannot gain experience. Lack of continuity of work adversely affects their cash flow and ability to attract full-time professional staff. Finally, managerial skills are in particularly short supply, as manifested in weaknesses in formulating sound proposals, preparing realistic cost estimates, and making long-range plans.

(ix). Many of these structural weaknesses are symptomatic of underdevelopment, but they often are exacerbated by the policies, procedures, and practices of governments. Although

governments are the principal clients for consulting services, few have a strategic plan or comprehensive program for developing the profession. Governments need to recognize that if they treat domestic consultants fairly and in a businesslike fashion they will be rewarded by an enhanced local capability to plan and carry out their development effort.

(x). Some governments have stifled development of private consulting capacity by their preference for public sector consulting firms, which get work without competition and receive financial support, higher salaries, foreign exchange, and access to training facilities abroad not available to private firms. Even while they enact regulations to protect domestic firms from foreign competition, governments may display a de facto preference for foreign firms because of their broader experience and superior technical staff and financial resources.

(xi). The procedures followed in selecting local consultants and paying for their services compound the problems. Selection procedures, which are often haphazard, leave too much room for considerations other than merit and qualification. There is excessive reliance on price, to the detriment of quality of service. Successful bidders, however selected, may be forced during contract negotiations to lower their bid to an uneconomical level. Long delays in payment for services rendered, and reimbursement at less than the cost actually incurred, further impair the financial viability of the smaller firms.

Defining the Objectives: The Importance of Quality

(xii). Consultants should be chosen with a view to obtaining the highest quality of service for the particular assignment. Consultants may be involved at all stages of the project cycle, and how well (or badly) they perform their task can have a decisive impact on the project's outcome. Selecting the consulting firm which, upon evaluation, appears to offer the

highest quality of performance does not guarantee the project's outcome, but selecting less than the best qualified firm can be a recipe for an unsuccessful project.

(xiii). The cost of consulting services is typically a small fraction (about 5 to 10%) of the total investment, and a much smaller percentage of life-cycle costs. Good consulting work pays for itself many times over in more productive investments. Consultants respond to the signals they perceive from their clients, and unless governments expect and demand quality performance, and create the environment to make it possible, they will not receive it.

Some Issues of Development Strategy

(xiv). Engineering, economic, financial and other services can be provided locally "in house" by public works departments (PWDs) of government ministries, by publicly owned consulting firms, or by private firms. PWDs, which flourished in the years following independence, have declined in importance relative to semi-autonomous government authorities (parastatals) which rely more heavily on outside consultants than in-house staff. PWDs have important residual responsibilities for low-period workload, planning investment programs, research and training, and helping to develop the consulting profession in their respective fields.

(xv). Publicly-owned consulting firms, with government officials on their boards and the security of preferential treatment, tend to expand and dominate the business, stifling the development of privately-owned firms. But consulting is par excellence a field where the private sector can perform more efficiently if given the opportunity, and publicly-owned consulting firms should be prime candidates for privatization over a reasonable period of time.

(xvi). For projects financed by external donors, and perhaps for some of the larger local projects, another issue arises: the choice between foreign and local consulting firms. There

are thousands of consulting firms from industrialized countries, many of them large, experienced, and well-staffed with qualified personnel, interested in competing for these assignments. With a few exceptions, firms from developing countries find it difficult to match their qualifications. Policy makers are thus faced with dilemma: how can local consulting be strengthened, and the quality of its performance improved, while still preserving the paramount importance of quality in investment work?

(xvii). Since the costs of domestic consulting firms are almost invariably lower, one way to enhance their prospects of selection might appear to be by taking prices into account. The World Bank's Guidelines make quality considerations the overriding factor in consultant's selection for Bank-financed projects but, as part of the objective of fostering domestic consultants, identify the types of assignments --generally those which are simple to define and execute-- for which price would also be an appropriate consideration. In practice, however, such assignments are not frequent, and taking prices into account has seldom tipped the scales in favor of a local firm not otherwise evaluated the highest.

(xviii). A much more promising way of providing opportunities for domestic firms without sacrificing quality is through joint ventures with foreign firms. A joint venture should be perceived as being of mutual advantage. The foreign partner can bring greater experience, professionalism, technically-skilled staff, and financial resources; the domestic partner can bring its familiarity with the local climate, physical conditions, and environmental concerns, its knowledge of local regulations, and its lower costs. When a joint venture has failed, it has been because one or both partners have viewed it primarily as a short-term business opportunity.

(xix). A joint venture should be designed as a long-term partnership extending over a number of assignments. The contractual arrangement should define clearly the responsibility of each firm; the contribution of the local firm should be the maximum of which it is capable and should increase as it gains experience. Above all, training should be specifically provided for and funded from the outset, training staff assigned, and their performance evaluated. Developing countries can further the process by encouraging foreign firms to establish a permanent presence in the country in the form of a joint venture, permitting them to compete for local business, and allowing the repatriation of profits.

Recommendations for a Development Strategy

(xx). Governments must recognize that developing the local consulting profession is a long-term process of institutional development, which in industrialized countries took place over many decades and under economic circumstances more favorable than those now prevailing in most developing countries. The point of departure, therefore, is for governments to accept development of local consulting as a priority objective which they are prepared to pursue actively over a substantial period of time. A strategic program, and detailed plan of action, should be adopted, with the following as its principal elements.

- ° Local consulting should be confined, to the maximum feasible extent, to the private sector. In-house staff of PWDs should be related to their essential functions of planning, some operations and maintenance, and support of the sector. Public sector consulting firms should be privatized over a reasonable period of time. So long as they exist and compete with private firms, it is imperative that they be legally and administratively autonomous and receive no preferential treatment from the government.

- **Joint ventures of foreign and local firms should be actively encouraged to foster technology transfer and training. Foreign firms should be invited to establish a permanent presence in the country as a joint venture, preferably with a private local firm, and given the facilities to do so.**

- **In the award of local contracts, government regulations or practice often mandate that price be taken into account in evaluating bids. Since price then tends, almost inevitably, to become the overriding factor, procedures should be changed to give primacy to quality considerations in all except simple or routine assignments.**

- **Consultants should be remunerated on the basis of "man-month contracts", except in cases where the work can be precisely defined in advance and the more customary payment methods of "lump sum" or "percentage of construction costs" are acceptable.**

- **Changes in administrative procedures and practices are also essential to eliminate the pervasive delays in payments, and underpayments, through the use of mobilization payments and revolving funds.**

- **A system of "peer review" of consultants' work should be introduced to strengthen quality performance, relying on independent panels of recognized experts.**

- **To better understand the importance of the quality of consultant services, selective case studies should be conducted to examine the financial and economic costs associated with deficiencies in feasibility studies and project design.**

- **National development banks should provide financial and technical assistance to local firms for physical facilities and equipment, working capital, and training.**
 - **A specific organization or unit should be designated as the focal point with responsibility for preparing and monitoring the strategy and plan of action for developing the profession.**
- (xxi). **The World Bank should also adopt development of the domestic consulting profession as a priority objective. It can assist governments in a variety of ways, many of which are extensions of work already being done.**
- **In administering the Guidelines for Bank-financed consultant assignments, greater emphasis should be placed on the encouragement of joint ventures, both by giving them preference in the selection of firms to be short-listed and in the acceptance of the developing country partner as the sponsor or co-sponsor in suitable cases.**
 - **When a joint venture is approved, the Bank should ensure that the respective roles are properly defined, that technology and training are provided for and funded, and that these provisions are effectively carried out.**
 - **Sector-type surveys of the domestic consulting profession should be carried out, in a reasonable period of time, in those countries not studied so far and where there appears to be scope for further development. These should be actively followed up and provide the basis for dialogue with governments, with Bank staff**

prepared to advise and assist in the formulation and implementation of plans and programs, which must be tailor-made to the circumstances of each country.

- **Technical assistance loans or credits, which will generally be in small amounts, should be extended in support of government programs to provide funds for management and staff training, procurement of office equipment, establishment of professional societies and trade associations, and the like. There could be provided separately or as part of a larger loan or credit for a related purpose.**
- **To promote a better understanding of the importance of the quality of consultant's performance, the Bank should undertake to develop a methodology for quantifying the financial and economic costs of quality defects in projects, particularly at the feasibility and design stages, and reinforce it by selected case studies.**
- **IFC should play a more active role in financial participations in local consulting firms, and EDI should give the subject greater prominence in its curriculum.**

(xxii). The regional development banks generally share the same objectives as the World Bank in this field, and the forgoing recommendations apply equally to them. Many of the bilateral donors are also interested, and could assist in financing surveys and providing technical assistance, including direct financing to local firms. Perhaps their most important contribution, however, would be to waive or modify the requirement of tying their technical or financial assistance to the use of consultants solely from the donor country.

(xxiii). Universities, professional societies, and national associations of consultants in developing countries should play a more active and effective role in raising the professional

standards and quality of performance of the domestic profession. The parallel types of organizations in the industrialized countries should provide valuable assistance through "twinning" arrangements with their counterparts in the developing world. Thus, the engineering department of a university in an industrialized country could train professional staff, provide research equipment and teaching materials, engage in joint research projects, and second faculty on leave to a university in a developing country. The International Federation of Consulting Engineers (FIDIC), which is already commendably active in this field, should be encouraged to assist further in the formation or strengthening of associations of consultants in countries or geographical groupings of countries in the developing world.

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I. Introduction

1. The consulting profession plays a key role in planning, designing and implementing development projects. During the past two decades, the number of domestic consulting firms in developing countries has increased phenomenally. Indonesia, for example, had no significant domestic firms in the early 1970s, 300 by 1978 and 1,500 by 1989. Equally impressive is the growth in the size of firms, particularly in the public sector. The largest public sector firm in Indonesia has more than 1,050 staff and the largest one in Pakistan more than 1,600. The pattern and trends in other countries are similar, if less dramatic.

2. The quality of performance of domestic or local firms (the two terms are used interchangeably) has not, unfortunately, kept pace with the growth in numbers. Surveys of the construction industry in developing countries carried out by the Bank during the late 1970s and early 1980s revealed that the inefficiency and poor quality of the domestic consulting profession was a major impediment to the development of the construction industry. Subsequent surveys of the domestic consulting profession by the Bank and other institutions confirmed these findings and showed that the performance of domestic consulting firms was seriously constrained by governments' inefficient policies and practices, by weaknesses in their own staffing and management, and by the lack of a supportive environment for quality work. Despite the number, size and business volume of the firms, their technical and professional standards remain undeveloped. Past efforts to address these problems have met with little success.

3. Given the importance of an efficient consulting profession for economic development, the Bank's Infrastructure and Urban Development Department initiated a research study in 1989 to identify the constraints facing the profession and to propose a strategy for

developing it. A full report on the findings of the study is contained in a separate document. This report summarizes the larger study and outlines a strategy and proposed set of policies for consideration within the Bank and by the many other actors (donor agencies, governments, consultant associations, universities and others) who also have a part to play.

A. Characteristics of the Consulting Firm and Profession

4. The consulting profession offers professional services to clients in various fields of specialization on a fee basis. The term "professional services" underlines the need to conform to the technical and ethical standards of the profession and the academic preparation, knowledge and often long and intensive training to acquire the experience necessary to provide such services. Specialization in a given field emphasizes the high level of expertise required to provide a quality service. Remuneration on a fee basis reflects the professional character of the services.

5. Consulting services may be provided by individuals, firms or corporations, but they share the same characteristics. The clients may be individuals, firms, public sector enterprises, governments, or international organizations, but the character of the profession-client relationship remain the same. There are many fields of specialization such as engineering, architecture, economics, agriculture, education, law, management, finance, accounting and medicine. Engineering and architecture consulting firms were the first to emerge, both in developed and in developing countries, and they still constitute the largest sectors of the consulting profession. The various surveys of consultancy in developing countries focussed mainly on these two professions, but the observations and conclusions apply broadly to all fields of specialization.

6. A consulting firm is part of a larger consulting profession. The profession sets the professional and ethical standards required of its members and undertakes to enforce them, directly or indirectly, through such means as government regulations, registration, membership in an association or professional society, and peer pressure.

7. Consultancy, like other professions, is also a business. Its business success is a prerequisite to the employment of well-qualified staff able to provide competent services to clients. Maintaining high professional standards and doing good business are not mutually exclusive. However, when there is conflict between professional standards and business interests, the profession's code of ethics states that the former should not be compromised.

8. The consulting profession is part of a still larger profession within its specialization. Thus, consulting engineers are part of the engineering profession which includes professional engineers in the public and private sectors (public works departments, utilities, private industry) who plan, design, construct, maintain and operate civil works, formulate policies and procedures for engaging consultants, and administer consultancy contracts. It also includes professors at engineering universities. How well these professionals exercise their responsibilities has a profound effect on the consulting profession. Conversely, a well-developed consulting profession contributes to the quality of the engineering profession as a whole. The interrelations among the components of the profession are so strong that it is not possible to develop one successfully in isolation from the others.

B. Evolution of the Consulting Profession

(i). Developed Countries

9. The evolution of the consulting profession in industrialized countries provides important lessons for guiding its growth in developing countries. In industrialized countries, the profession evolved in a series of stages: the emergence of formal education; elevation of engineering to the status of applied science; its recognition as a profession; establishment of professional societies; consulting practice by individuals and later by firms; formation of consulting engineers' associations; development of professional standards; establishment of federations of consulting engineers associations; and development of joint ventures, multidisciplinary firms and other practices. This chain of events extended over a period of more than 200 years. The profession developed as one of the links in this chain; its standards and traditions evolved, were reinforced, and derived strength from the other links.

10. Prior to the establishment of consulting engineering as an independent profession, engineering works -- highways, railways, ports, irrigation works, buildings and other facilities - - were designed by engineers on the staff of the owners. Much of the construction work was also done by their engineering corps using labor supply contractors. These pioneers made impressive advances in design and construction techniques and built some of the finest engineering works. However, as the capacity of government organizations proved inadequate to meet the demand for services created by rapid industrialization, opportunities opened up for private enterprises to develop construction and consulting engineering services on a large scale.

11. More recently, consulting firms in developed countries have formed joint ventures and consortia to compete for projects requiring several fields of specialization. Not many firms can provide all the professional services required for designing and preparing large dams and hydroelectric projects; such multi-purpose projects need specialization in computer modelling,

economic and financial analysis, hydraulic models, soil and rock mechanics, human settlements, and so forth. Aside from obtaining the services of individual consultants who are experts in the required fields, the formation of joint ventures by two or more firms has helped in pooling resources and providing better services.

12. In some developed countries, consortia of several firms with various specializations have been formed to provide comprehensive services. They are not formed to undertake a specific project, but exist as a pool of resources available on demand. The lead firm explores markets in developed or developing countries and identifies the consulting firm (or group of firms) in the consortium best suited to provide the required services. When the proposed firm or group of firms is appointed, further arrangements with the client are carried out in the normal way. These arrangements are useful to both financing and borrowing countries in getting competent services expeditiously.

13. As an alternative to the formation of consortia, multidisciplinary consulting firms have been established that can provide services in several fields. These firms employ engineers, economists, biologists, agronomists, environmentalists, management and other specialists. They are usually more successful in marketing their services because the multidisciplinary approach improves the quality of service while offering clients the convenience of dealing with a single firm.

14. Management consulting is a relatively new practice, with a consulting firm operating as a general consultant to the owner. Most owners, particularly those who lack an engineering staff capable of administering and managing projects, prefer to appoint a competent consulting firm to manage the projects on their behalf. Management consultants carry out all or most of the owner's responsibilities: reviewing feasibility reports; procuring consultants,

contractors and supplies; supervising design and construction work; deciding day-to-day issues; and keeping the owner currently informed. They are frequently employed by the private sector but public sector organizations also use their services on large projects. Management consultants are also increasingly in demand, in a somewhat different capacity to advise clients on the organization and administration of their business affairs.

15. Professional societies, associations of consulting engineers and others, and federations of the associations have played a crucial role in disseminating knowledge, promoting high technical and professional standards, and enhancing the level of competence of the profession. So have the relevant departments of universities in providing research and training and, on occasion, the interchange of personnel.

(ii). Developing Countries

16. The consulting profession in developing countries is of more recent origin, and in most cases emerged after independence. Its evolution shares some of the characteristics of the profession in developed countries: first, individual professionals started consulting practice; then consulting firms were formed in the private and public sectors; and finally, associations of consulting engineers were established. However, the evolutionary process was short and the events took place in rapid succession. Consequently, adequate opportunities to develop high standards of professionalism and sound traditions were not available. While there are important exceptions, the profession in most developing countries lacks the basic strengths found in developed countries.

17. Other factors have also contributed to the weakness of the profession in developing countries. In industrialized countries, the profession developed primarily in the form

of private enterprises. The flexibility and freedom of private firms to decide, act, innovate, adapt and accept responsibility enabled them to improve quality and efficiency and to face the challenges of competition. Government policies generally fostered competition and rewarded quality performance. In many developing countries, on the other hand, the profession developed through public sector enterprises, often as off-shoots of the public works departments (PWDs) that grew up in the colonial era and assumed greater importance following independence. Because the public sector accounts for more than three-quarters of the demand for consultancy services in developing countries, public sector consultants often had little exposure to the discipline of competition. Developing countries in Latin America, where the profession was established in the private sector, were more successful in creating a competent profession. Professional societies, consulting associations, and federations of consulting associations have also been more active in these countries.

18. Another feature of the consulting profession in developing countries is the lack of strong links with other professional institutions. Thus, professors of most engineering universities work as full-time employees with limited availability to consulting firms. Service rules may deter engineers in public sector organizations from accepting short-term consulting assignments on a leave-of-absence basis. These practices limit the exchange of knowledge and experience. They are particularly damaging to the evolving consulting profession because most of the experienced engineers are in public sector organizations and there are often acute shortages of engineers in the market.

19. In industrialized countries, the initiative for developing the profession originated from professional societies, associations of consultants, and federations of the associations. The role of governments was mainly supportive. Moreover, the need for governments to protect the profession from foreign competition did not arise because internal competition was intense

and the profession grew in a competitive environment. Again, the situation in developing countries is different. Professional societies and associations of consultants are generally weak and their efforts to improve the profession are impaired by internal dissensions. Many governments have regulations which protect domestic firms from foreign competition and require foreign firms to work as subcontractors or form joint ventures with local firms. Few governments, however, have taken measures to protect the domestic consulting profession from its own inefficient policies and procedures, which are more crippling to the growth of the profession than is foreign competition.

20. These generalizations mask important differences in the evolution and current status of the consulting profession in different countries. A few examples drawn from Bank's surveys illustrate this variety and underline the point that policy prescriptions must be tailor-made to the particular circumstances of each country.

21. Latin American countries, particularly the larger ones -- Argentina, Brazil, Chile, Colombia and Mexico -- have relatively well-developed consulting firms. Although former colonies of European countries, they achieved independence early, had a large influx of European settlers, were well endowed with natural resources and had well established education systems. Extensive transfer of technology from the United States and Europe, and a longer period of exposure to international practices introduced by institutions like the World Bank and the Inter-American Development Bank, helped these countries achieve higher levels of growth in many fields including consulting. Consulting firms are mainly in the private sector, although some began as semi-autonomous public sector firms or as off-shoots from public utilities. Some have been successful in marketing their services outside their own countries.

22. Colombia has one of the most advanced consulting professions among developing countries and provides a useful model. Its consulting firms were first established in the 1950s by Colombian professionals returning from their studies abroad. These firms subsequently combined with foreign firms to participate in Colombia's development programs. The policies of USAID, UN Agencies, the World Bank and the Inter-American Development Bank supported local participation. More important, Colombia's free enterprise economy nurtured a healthy growth of the profession. It took place in three distinct phases. First, during 1950-62, foreign consultants employed a large number of Colombians or subcontracted work to Colombian firms. Second, from 1962 to 1974, foreign and Colombian firms formed partnerships and pooled their services. Finally, after 1974, Colombian firms were mostly the sponsors or lead firms in joint ventures with foreign firms and successfully provided services to both the public and private sectors. Practically all the leading consulting firms in Colombia benefitted from extensive technology transfer through joint ventures with foreign firms. The Government supported the process by instituting legal procedures in 1976 for forming joint ventures, decreeing professional registration in 1977, and establishing comprehensive regulations for evaluating technical proposals. The Colombian Association of Consulting Engineers (AICO), was formed in 1972, and became the founding member of the Latin America Federation of Consulting Engineers (FELAC), formed in 1974.

23. The pattern of growth of the consulting engineering profession in African, Asian and Middle Eastern countries was different. In Egypt, consulting engineering started as a profession in the 1960s when some university professors established private offices to supplement their income. Because the country's economy was centrally planned during 1952-1973, public sector organizations engineered all projects financed locally, and firms in the private sector received little encouragement. In 1974, the Government introduced an "open door" policy to encourage a market-oriented approach for investment of Arab and other foreign

funds. This policy fostered the establishment of domestic consulting firms and joint ventures with foreign firms. Current government policies strongly support development of local firms and make it mandatory for foreign firms to form joint ventures with local firms.

24. Foreign consulting engineering firms were present in Kenya before its independence in 1963, and it was only in the 1970s that local, Kenyan-owned firms were established. The major consulting firms are still owned by people of British and Asian descent. Joint ventures between Kenyan and non-Kenyan firms are not common because non-Kenyan firms have a good understanding of local conditions and also a sound financial base. However, with growing availability of Kenyan professionals, all consulting firms are attempting to increase the proportion of Kenyans on their staff and foreign firms have started associations with Kenyan-owned firms.

25. The Kenyan experience is not typical of Sub-Sahara Africa. Most of the countries in this region reached independence with less-developed educational systems, limited infrastructure, and a small private sector. Development of local consulting firms, particularly in the private sector, has been slow, and only recently have donors and governments begun to recognize the importance of an indigenous consulting capacity and taken steps to foster it. The majority of engineering and related work is still carried out by public works departments or other in-house staff, or by foreign firms.

26. India and Pakistan inherited a common system of engineering institutions and practices from the British. Their strong tradition of maintaining competent in-house capacity in the PWDs and other government organizations for designing and constructing public works continued after independence in 1947. This tradition severely inhibited the development of private consulting for a long time. Both governments favored the development of public sector

consulting firms, which were established in the late 1960s. They grew rapidly and virtually dominated government business. Although there are some competent large firms in the public sector, others have become too large and bureaucratic to maintain high standards of performance. The consulting profession as a whole remains undeveloped. Joint ventures with foreign firms are more the exception than the rule. The situation is changing -- private consulting firms are increasing in number and developing their capacity to design and supervise civil works. Associations of consulting engineers have been established but are not very active due to lack of interest and inadequate participation of both public and private firms.

27. Korea presents an example of successful development of the consulting profession in Asia. Prior to its independence in 1948, design and construction activities were entirely in the hands of the Japanese. After the Korean War in 1953, large-scale defense and post-war reconstruction works financed by the United States increased, and the U.S. Corps of Engineers and large U.S. firms who engineered and built these works employed Koreans in large numbers. Korean education standards (which were high during the Japanese regime), the training opportunities provided by working with U.S. engineering and construction firms, and the innate entrepreneurial talent of the Koreans, led to rapid development of private enterprises in engineering and construction. Most public works financed by Korean funds were designed by Korean consulting firms. The Vietnam War in the 1960s and the opening of large construction markets in the Middle East following the oil crisis in 1973, provided further opportunities for Korean firms to work independently or in joint ventures with large international consulting and construction firms. Korea introduced the Engineering Business Promotion Act in 1973 and offered tax incentives and protection of the domestic market to local engineering firms. The Korea Engineering Services Association (KESA) was established in 1974. Besides providing information to its members, KESA conducts research and development to upgrade consulting capability and selects and recommends consulting firms at the request of clients. It enjoys

strong support from the Government, which has taken steps to modernize the consulting profession and established policies that oblige foreign consulting firms to work as subcontractors to Korean firms for all projects except those requiring sophisticated technology.

28. The Peoples Republic of China presents a special case because it does not have a consulting profession as such. Government organizations, both at the center and in the provinces, have their own "design bureaus" which engineer all projects. Although China has designed and built impressive engineering works, its engineering profession is backward compared to many developing countries. Staff in the design bureaus remain attached to one bureau and therefore lack experience in designing different types of structures in various sectors of the economy. Long isolation from the rest of the world further constrained their growth and competitiveness. The situation is now changing, and China has established 17 consulting corporations in different fields of specialization. Their objectives include increasing China's participation in internationally-financed projects in the country as well as abroad. But China has a long way to go to establish itself in the highly competitive international consulting market.

(iii). Commentary

29. Several points emerge from these brief country profiles. Most important, the size of the economy and its stage and pattern of economic development have a critical impact on the growth of the consulting profession. This is manifested in several areas: a) the size of the public and private investment programs, which influences the demand for consulting services; b) the educational system, and in particular the status of universities and professional schools, which influences the availability of personnel to staff the profession; and c) the openness of the economy, which influences the flow of technology and training from abroad and the potential for development of the private sector, in which a healthy domestic profession is most likely to take root. At one extreme are countries, such as some in Latin America, where local

consulting is already flourishing in a strong private sector and little further action is required; at the other extreme are some of the countries of Sub-Saharan Africa where the profession is in its infancy, much needs to be done, but progress will inevitably be slow.

30. In view of the close linkages between the rate and pattern of a country's economic development as a whole and the evolution of the consulting profession, it follows that government policies which foster development of a market-based economy, liberal foreign trade, and a healthy private sector will do much to encourage the growth of domestic consulting. Sectoral policies, particularly in the field of higher education will also work in this direction. Of more immediate concern are the policies and practices of governments and of external donors and professional bodies that bear directly upon the profession and which also have a significant impact, for better or worse. These will be the principal points of discussion in the remainder of this report.

C. Domestic Market Opportunities

31. A developing country's investment program determines the nature and volume of demand for consulting services. Most of the demand in most countries still comes from investment programs of the public sector; demand in the private sector, though significant, varies according to the size of the economy and the degree of privatization of industries and services. Semi-autonomous public sector corporations (parastatals) such as water, power, or irrigation authorities, which have been growing in importance relative to PWDs, use more consultants than the latter in implementing their investment programs. Other sources of demand are the technical and financial assistance programs of international financial institutions and donor countries. Their funded projects are included in the country's public and private sector programs, and they also use foreign and local consultants for preparatory work. The changing

nature of investment programs, lack of information on the types of services required, and the absence of published data on past years seriously constrain consulting firms in planning for the future.

32. The gross domestic fixed investments of a country and the projections of its growth are broad indicators of the aggregate demand for consulting services and its future trends. World Bank data show that investments in developed countries during 1978-87 increased substantially while those in developing countries remained virtually stagnant. This was mainly due to the steady growth in the economies of developed countries, the effects of low oil prices on investments in OPEC countries, and the slow growth and debt problems of developing countries. Although the overall demand for consulting services in developing countries in this period was stagnant, the surveys show that the number of domestic consulting firms in many countries and their share in the domestic markets increased for several reasons: first, there was a significant shift in investments from major infrastructure projects (hard sectors) to agriculture, rural development and small, widely dispersed projects (soft sectors) where local consultants had more to contribute; second, governments became more aware of the need to promote the domestic profession and established protective policies; and third, foreign consultants found it increasingly useful to acquire local consultants as partners.

33. The structure of the market is also changing in many developing countries. The creation of public sector corporations (parastatals) and the growth of the private sector have increased the demand for consulting services and eroded the ability of PWDs to recruit and retain competent staff. Consequently, the latter are now using consultants increasingly. The profession is also benefiting from improved building codes. Faced with the problems of rapid urbanization, municipalities are enforcing regulations to ensure public safety and avoid excessive costs in providing roads, water supply and other facilities. The regulations require that all

buildings, both residential and non-residential, be designed by qualified architects and engineers. The market opportunities in developing countries as a whole can be expected to increase in line with their overall rate of growth and that of the private sector, although prospects in individual countries will vary significantly in accordance with the pace and direction of their development. It can also be expected that consulting firms from some developing countries will have increasing, if still modest, success in marketing their services abroad, notably in other (less developed) countries of the third world.

II. Constraints to the Development of the Consulting Profession

34. Many international financing agencies have conducted surveys of the domestic consulting profession. The World Bank surveyed 16 countries during 1978-83 and was executing agency for additional studies financed by the UNDP. In addition, the Bank organized a major study in 1987 on developing the profession in Africa in collaboration with five multilateral agencies^{1/}-- AfDB, ECA, EEC, ILO, and UNDP--and the bilateral aid agencies of the Netherlands, France, the Federal Republic of Germany and the United States. The Asian Development Bank carried out surveys of the profession in 11 developing countries during 1981-82. In 1986, the Agency for Technical Cooperation of the Federal Republic of Germany reviewed the profession in Sub-Saharan Africa. Similar reviews were also conducted by the United Nations Industrial Development Organization (UNIDO), United Nations Center for Trade and Development (UNCTAD), Canada's International Development Research Center and other agencies. UNDP financed many studies executed by other agencies and also conducted independent reviews of its own.

^{1/} African Development Bank (AfDB); United Nations Economic Commission for Africa (ECA); European Economic Community (EEC); International Labor Organization (ILO); United Nations Development Program (UNDP).

35. These surveys in total covered nearly 50 countries ranging from the middle-income economies of Brazil, Colombia, and Korea to the low-income economies of Sub-Saharan Africa. The surveys show that, despite significant differences in their extent and severity among countries, there is a broadly consistent pattern of problems and constraints to the growth of the consulting profession in most developing countries. Unfortunately, despite more than a decade of surveys and studies with almost identical findings and recommendations, effective programs to implement those recommendations have seldom been launched.

A. Structural Weaknesses

36. The structure of local consultancy shows a familiar pattern, true also of many phenomena in both developing and industrialized countries, with a small number of large firms dominating the industry and a much larger number of small firms with a relatively small share of the business. Brazil, for example, has three firms with more than 700 professional staff, 15 firms with 100 to 600 staff, 46 firms with 10-100 staff, and a vast majority of firms with 1-10 staff.

37. Large firms are much better organized, financed, and equipped to overcome the inherent constraints to the profession and to protect their interests. Moreover, many of the larger firms are in the public sector and benefit in various ways from government subsidies, protection, and support. Small firms are typically in the private sector, and are fully exposed to the vagaries of government policy and the other constraints discussed below. Associations of consulting firms tend to be dominated by the large firms, so much so that in some countries (e.g. India and Indonesia) the small firms have established separate associations to promote their interests. However, the well-being of the profession, and its potential contribution to the development of the country, depend no less on the many small and medium-size firms as they do on the few large ones.

38. Local consulting firms, particularly in the private sector, have cited the inability to attract and retain qualified staff as their most serious problem. Most firms have too small a cadre of permanent, well-trained technical staff to function effectively. The problem has several facets. A shortage of qualified staff often reflects the inadequate output of the professional and technical education system. Competition is acute for the limited supply, and consulting firms have difficulty in matching either the higher salaries that other parts of the private sector can provide, the greater security and fringe benefits of the public sector, or the higher salaries and better emoluments of employment with developed country firms. Technical staff, particularly those trained abroad, are sometimes reluctant to work in remote areas where the assignment may be located. In some countries, government policy prohibits university faculty from doing part-time consulting work. Private consulting firms may lack the resources and expertise to train staff; overseas training in particular is costly, requires foreign exchange which is often not available, and may lead to the loss of the trainee. Joint ventures with foreign firms could provide valuable training but often fail to do so, a point discussed more fully below.

39. A further, pervasive constraint is lack of experience in all aspects of an assignment, from drafting proposals to supervising work in the field. Local firms may be trapped in a cycle as vicious as it is familiar: without experience they cannot be selected for jobs; and without jobs they cannot get the experience to be selected. Here again, joint ventures could be useful in enhancing the prospects for selection.

40. Lack of continuity of work is another major problem for most domestic firms. It affects their cash flow and hence their ability to attract full-time professional staff and foreign specialists and to invest in training and support facilities. Unlike other enterprises, they find it difficult to borrow from commercial banks; since their principal asset is personnel rather than equipment or real estate, they lack the collateral that banks require.

41. **Managerial skills (business know-how) are in particularly short supply, and this can be a more serious problem than lack of qualified staff. The surveys have revealed that management is especially weak in formulating sound proposals and preparing realistic cost estimates for the services required. Long-range planning to develop the business and train staff is frequently absent.**

42. **These deficiencies are reinforced by the difficulties many firms encounter in obtaining information. They are often unaware of the opportunities for work in the domestic market, and even more so of the opportunities to participate in internationally-funded projects. National trade or professional associations, a customary source of such information, are typically not organized or staffed to perform this service.**

B. Policies, Procedures, and Practices of the Government

43. **Many of these structural weaknesses are rooted in, or can be viewed as symptomatic of, underdevelopment. Thus, they are more prominent in parts of Asia and in Africa than in most of Latin America. The policies, procedures, and practices of government can have an important impact, however, either in alleviating or exacerbating their severity. More often than not, government appears to be part of the problem rather than of the solution.**

44. **In virtually all developing countries the government is the principal client for consulting services. Despite their importance, however, most governments do not have a strategy, program, or comprehensive approach to developing the local consulting profession. There are some notable exceptions, among them Korea, Indonesia, Brazil and Colombia. But many governments have acted to stifle the development of a private consulting capacity through their preference for in-house services provided by PWDs; now of greater significance, some**

governments have established large and well-staffed and equipped public sector consulting firms. In-house departments and public sector consulting firms tend to dominate, if not monopolize, the domestic market. They get work without competition, and receive financial support, higher salaries, foreign exchange, and access to training facilities abroad not available to private firms.

45. Many developing countries have policies to protect domestic firms, both public and private, from foreign competition. Some require that foreign consultants engage local consultants or enter into joint ventures with them. A few provide substantial financial support and tax incentives to domestic firms which export their services. Despite these protective policies, many government officials display a de facto preference for foreign firms because of their more extensive experience, superior technical and financial resources, and proven ability to handle complex projects. Local firms complain that their governments favor foreign firms even when local firms are well qualified because their greater experience and reputation make them a "safer" investment. The lack of confidence which some governments display toward their own consulting firms then becomes a self-fulfilling prophecy.

46. The procedures followed by many developing countries in selecting local consultants and paying for their services compound the problems. Selection procedures are generally not well defined or enforced. With no organized system for registering and prequalifying firms, or evaluating their performance, the selection decisions of government staff are often influenced by personal contacts and preferences without due regard for merit or qualifications. Frequent reliance in practice on price competition--in an understandable but not necessarily effective effort to reduce costs and avoid favoritism and corruption--encourages unqualified firms with low overheads and inadequate resources to bid low and win contracts they are not capable of executing to a suitable standard of quality.

47. Even when a firm is selected solely on the basis of superior quality of its proposed services (as recommended by the Bank for all except the most routine assignments), contract negotiations with the selected firm may force it to reduce its billing rates to unrealistic levels or risk loss of the contract to the next bidder. This may leave the selected firm without an adequate financial base for profit, professional development, and staff training, and compel it to cut corners on the assignment with adverse consequences for the quality of the work performed.

48. Bid bonds, bank guarantees, and retention monies are a standard feature of construction contracts. They are less necessary or appropriate for the use of consultants and are seldom required by law; when followed in practice, they are often too high for the level of fees and further weaken the financial base of private firms. Finally, but by no means of least importance, chronic and long delays by the government in paying for services rendered are a common complaint. The payment delays are not necessarily related to the source of financing or the stringency of government budgets. They occur as well in externally-funded projects and are due largely to slow and inefficient bureaucratic procedures. When combined with a reluctance of disbursement officers to pay the contractual rates for overhead and services, they can place private consulting firms in a precarious financial condition. Once again, private firms, especially small firms with limited financial resources and staying power, are the most adversely affected.

C. Role of the Domestic Consulting Profession

49. Local firms in most developing countries have not organized themselves into effective professional associations. In industrialized countries, strong associations of architects, accountants, engineers, economists, lawyers, and other professions perform a variety of

functions. These include: representing the profession in relations with the government; self policing professional conduct through codes of ethics; ensuring proper registration; conducting public relations; providing a forum for discussing common problems; organizing training programs; issuing publications; and representing the national profession in international forums.

50. Few developing countries have such associations and those that exist are more concerned with maintaining registers and seeking jobs from the government than in developing the profession through training programs, dissemination of information, and the like. As a result, most private firms act as separate and competing entities without a common approach to some of their common problems. Nor does there appear to be any pressure or encouragement, either from the government or from the association, for the smallest firms voluntarily to merge into stronger and more viable enterprises when their particular circumstances make this desirable.

D. Role of External Donors

51. The external donor community, including both international financial institutions and bilateral donors, share some of the responsibility for constraining the development of local consultancy. While many agencies have expressed interest in promoting this development and participated in the surveys noted above, in other respects practice has often fallen short of profession. Bilateral donors frequently insist on tying the procurement of consultants to nationals of their own country, effectively shutting out domestic firms. Even without such tying, most agencies exhibit a preference, more or less strong, in favor of foreign consultants on grounds of efficiency, quality, and speed of project execution, except perhaps in the social sectors where local knowledge is recognized to be crucial. Lack of knowledge of the capabilities of local firms, and disinterest in providing them opportunities through joint ventures

or subcontracts, reinforce these attitudes. Perceptions that external donors lack confidence in local firms and influence the selection process against them are widespread in developing countries.

III. Defining the Objective: The Importance of Quality

52. When an owner, be it the government, an international financial institution, or a private concern, selects a consultant it is (or should be) to secure the highest quality performance for the given task. The operative word here is "quality." Quality is, like the celebrated jurists description of pornography, more difficult to define than it is to recognize in practice. To attempt a definition: the quality of a consultant's performance reflects the extent to which it corresponds to the highest appropriate standards of professional work in all phases of the contractual assignment. Put more simply, quality involves a continuing search for excellence. The objective is not to seek an (unattainable) ideal, but to achieve the optimum performance that is possible in light of all the circumstances surrounding the assignment, including the objectives and requirements of the client, the resources at its disposal, and the political, economic, and social environment in which the assignment takes place.

53. Frequently, a consulting assignment is concerned with one or more phases of project or investment work. Most investments of substantial size or complexity are planned, designed, supervised during procurement and construction, and may be assisted during operation and maintenance by consultants (including in-house staff acting in effect in that capacity). The work is multidimensional and can apply at all stages of the investment cycle. It includes:

- the right choice among alternative ways of achieving the objective of the investment;

- a feasibility study based on reliable preliminary cost estimates, sound economic and financial analysis, risk assessment, and attention to social, institutional, cultural, and environmental concerns;
- an efficient engineering design including the most appropriate choices of technology and attention to life-cycle costs and long-run sustainability;
- assistance in the economical and efficient procurement of civil works and equipment;
- timely execution within the detailed cost estimates;
- proper design, funding, and implementation of maintenance and cost recovery programs during the operating stage; and
- training of staff and management, strengthening of project institutions, and introduction or improvement of management and financial information and control systems.

This list is by no means exhaustive, and the test of quality work lies in the details.

54. Why is it important to stress quality? The answer is at least implicit in the extensive and multi-dimensional nature of the consultant's responsibilities as described above. How well (or badly) the consultant performs these tasks can have a decisive impact on the realization of the investment's objectives and its contribution to the country's development.

55. To be sure, many other factors also influence the investment's outcome, among them the economic climate, government policies, the client's attitude and the degree of support it provides, and the performance of the contractor or equipment supplier over which the consultant has oversight responsibility but in practice may have limited control. Nevertheless, the consultant is an essential link in this chain, and in many cases there is likely to be a close

correlation between the quality of its work and that of the finished product. This is amply confirmed by the audits and reviews of Bank-financed projects conducted by the Bank's Operations Evaluation Department (OED), which have identified countless instances in which the quality of the consultant's performance has been closely tied to the project's outcome.

56. The quality of the consultant's work influences this outcome at all stages of the project cycle, and no stage can be ignored or underrated. Delays in project implementation, for example, can be very costly in terms of benefits delayed or foregone. (A Bank study of the delays in project completion in Indonesia showed that, for a two-year delay in the Bank-financed FY 85 program involving a total investment of US \$1.6 billion, the potential economic benefits foregone by Indonesia would exceed US \$400 million.) But for most types of projects (some social sector projects are again a possible exception) it is at the stage of feasibility study and project design that the consultant has the greatest opportunity to shape the project's results. It is easier and cheaper to address problems at the design stage than to attempt to correct them afterwards.

57. OED's evaluation results for FY 1988 indicated that the designs of projects which were successful and proved sustainable had several features in common:

- competent preparation of the technical designs;
- satisfactory institutional arrangements based on realistic assumptions of the institution's capacities;
- an adequate understanding of local conditions with the participation of the beneficiaries in project design;
- adequate budgets for recurrent costs; and
- the inclusion of the project in a clearly-defined national strategy.

Although the cost of shortcomings in project design are difficult to measure since they are only manifested later when other factors have also come into play, it is obvious that they exceed by a large margin the cost of the consultant's service. Good consulting work pays for itself many times over in more productive investments.

58. In recognition of the importance of quality, the World Bank and others have established elaborate criteria and procedures for selecting consulting firms. Because no two consulting firms have the same level of technical resources, experience, training, and competence they are evaluated on the basis of experience, reputation, adequacy of work plan and the qualifications of the personnel proposed for the assignment. Numerical ratings are used for evaluating their qualifications and the firm that scores the highest overall rating is given the first opportunity to negotiate the service contract. The evaluation is qualitative, and performance subjective to some extent, but it underlines the importance of quality.

59. While the importance of quality is widely recognized, few clients specify its requirements in service contracts or take the measures to ensure quality. A review of about 100 Terms of Reference (TORs) prepared during 1980-1985 by the staff of the World Bank and borrowing countries for various assignments involving feasibility studies, project preparation, detailed designs and construction supervision showed that very little, if anything, was said about the quality expected by the owner. The TORs described the objectives of the assignment, but they neither specified how those objectives should be achieved in terms of the type, content and quality of the end product nor described the processes (investigations, examination of alternatives, etc.) that might be required.

60. Selecting the consulting firm with the best reputation for responsibility and professionalism, the most experienced and qualified personnel, and the best work plan provides

the best assurance that the work will be competently executed, but it is no guarantee to that effect. Many unexpected problems invariably arise, and continued monitoring of the consultant's performance as the work evolves and tasks have to be revised is essential. But selecting less than the best qualified firm is often a recipe for a less favorable performance and project outcome. The quality of work is not a continuum. That is, if firm B's overall qualifications are rated 10 percent lower than those of firm A, it does not follow that the end product will be 10 percent less satisfactory. It may be more or less than that, depending on the circumstances, but sometimes the difference between the "best" and "second best" proposals and performance on the job can spell the difference between a successful project and one that fails to meet its objectives.

61. There is no direct relation between the size of a consulting firm and its ability to ensure quality. The size of a consulting firm varies with the volume of work and the types of services. The smallest firm is the individual professional consultant--a one-person operation. Some large firms have more than a thousand employees. The staff of consulting firms varies substantially from year to year, depending on the workload. Many firms prefer to remain small with fewer business management problems, concentrating largely on technical matters. They contend that their small size helps to specialize in a few fields, ensures quality of work and provides better opportunities for giving personal attention to staff development. Many small firms have operated successfully without undue emphasis on growth. Large firms are more entrepreneurial. They employ multidisciplinary staff, have a strong urge to expand their business in many fields and are not too concerned with the size of their organization. Their success depends on effective delegation of authority to their management units, sound personnel recruitment and training, rigorous quality control measures, active business development (marketing) and sound financial management. In the final analysis, the critical factors at the level of the firm are its commitment to quality, its quality management policies and procedures,

and its professional responsibility--factors that depend more on the culture of the firm than on its size.

62. All consulting firms are sensitive and responsive to the signals they receive from their clients. Unless the client (most frequently the government) makes it clear that it expects and demands quality, it is not likely to get it. More research and study of the quantitative impact that deficiencies in consultant' s performance can have in terms of increased costs, time delays, and benefits foregone would help clients to understand better why it is essential to insist on quality at every stage.

IV. Some Issues of Development Strategy

63. As previously noted, the development of the domestic consulting profession tends to follow closely that of the economy as a whole. A strong domestic profession can be viewed as both cause and effect of economic development. A number of the constraints on the growth of the profession described above are essentially symptoms of underdevelopment and not particular to the profession itself. Thus, a shortage of engineers, economists and other professions, as well as of managerial talent, reflects the general underdevelopment of the educational system, particularly at the university level. Similarly, delayed payment and underpayment for local consulting services by government can be systemic and apply as well to other purveyors of goods and services, reflecting a chronic shortage of public funds and inefficient administrative procedures. Slow emergence of private consulting firms may be indicative of the more general lack of development of a country's private sector.

64. This means that the future growth of local consulting will be tied in large measure to a country's overall rate of development. In industrialized countries the local

profession grew to maturity over many decades. Developing countries, however, can ill afford to wait for so protracted a process. It is important, therefore, that they pursue the policies that will accelerate the process. A government strategy to develop the profession is both necessary and feasible. Most of the initiative must come from governments, but external donors, and the consulting firms, professional associations, and universities of industrialized and developing countries also have important parts to play.

65. The strategic objective is to build a local profession that is knowledgeable, capable, and experienced, responsible and ethical in its behavior, and committed to providing quality services to its clients. Promoting the local consulting profession is in the nature of institution building which, experience tells us, is one of the most difficult tasks of development. Technical assistance rather than large amount of money are required, based on a long-term and whole-hearted commitment on the part of all those concerned.

66. Past efforts of governments to promote the profession have met with only partial success. For the most part these efforts have suffered from lack of a coherent strategy and program, low priority reflected in intermittent attention, and excessive emphasis on the procurement of services at the lowest price. Quality has seldom been demanded or rewarded. Nor has much consideration been given to creating the stable and supportive environment necessary for the profession to realize its potential.

67. Before discussing our recommendations for a development strategy, three issues that are critical to the formulation of such a strategy need further elaboration. They are: the respective roles to be assigned to in-house capacity, public sector firms, and private firms; the consultant selection process, most notably the choice between foreign and local firms and the role of price; and the potential of joint ventures as a means of technology transfer and training.

A. In House, Public Sector, or Private Firms

68. Most developing countries reached independence with local engineering talent and experience concentrated in public works departments (PWDs) of government ministries in such fields as roads, irrigation, public health, and (sometimes) power. Separate government organizations with characteristics similar to the PWDs were established for railways, telecommunications, and (sometimes) power. The "in house" staff of these PWDs, often supplemented by expatriates in line positions or as advisors, provided the critical mass necessary to plan and carry out the investment program in their respective sectors, and their role was essential in the early stages of the country's development. It still remains so in some of the least developed countries, and in others it still is providing a valuable training ground for younger staff.

69. As economies expanded, investment programs become larger, many expatriates departed, and foreign donors became more active, the relative importance of the PWD's declined. Separate public enterprises or authorities (parastatals) were established to receive foreign aid and design and implement investment programs. While practices vary, most of these parastatals have relied primarily on consulting firms to carry out their engineering and related functions. The PWD's have been left with diminished responsibilities, depleted staff following the departures of key personnel to the parastatals or private sectors where salaries and working conditions are more favorable, and increased bureaucratization and political intervention.

70. At the present time and in many developing countries, the "in house" functions of PWDs need clearer definition. It is generally agreed that they should retain responsibility for the low-period workload including routine work such as operations and maintenance, although there is some evidence that road maintenance can be executed efficiently through

private contracting. In addition to routine work, the PWD's still have very important functions to perform in planning investment programs, conducting research, organizing the training of professionals in their respective fields, and helping to establish the "rules of the game" for the consulting profession, including methods of consultant selection and payment. Some PWDs have deteriorated to the point that they cannot perform these functions adequately, and their revitalization should receive priority attention.

71. Some of the engineering functions originally carried out "in house" by the PWDs have been transferred by governments to public sector consulting firms. Initially public sector firms may have performed a useful transitional role in establishing a consulting profession outside the regular government service. In the long-run, however, and ideology aside, there is little to be said in favor of such firms. Government officials serve ex-officio on their boards, and government-owned firms almost automatically receive preferential treatment from the government in access to assignments and to financial subventions, making it very difficult for private firms to survive and compete. They are more likely to be open to political pressures and less likely to be held accountable for their mistakes or to suffer their consequences. There is also a tendency for such firms to grow to very large sizes, absorbing the pool of available professional talent to whom they can give higher salaries and more stable working conditions.

72. If, despite these inherent disadvantages, a government should persist in the use of public sector consulting firms, it should as a minimum ensure that: a) they are administratively autonomous, with independent management; b) they receive no financial subsidy, or excessive payment for services, from public funds; and c) there are several such firms and that they compete independently for business. The last of these conditions is particularly difficult to satisfy, since the practice has generally been to establish only one public consulting firm in any sector. The World Bank will not permit public-sector firms to participate

in competition for the consulting services in projects which it finances unless their financial and administrative autonomy have been established.

73. Public sector consulting firms and any excessive in-house staff should be prime candidates for privatization over time in any program to develop the consulting profession. Consulting is par excellence a field where the private sector can be expected to perform efficiently if given the opportunity. Entry is relatively easy, competition can be keen, and the profit motive gives firms an incentive to be enterprising and innovative. Governments would be well advised to reap the benefits of these inherent advantages, and to direct their efforts primarily to the very important tasks of providing a stable and supportive environment.

B. Selecting a Domestic or Foreign Firm

74. The foregoing has been concerned with different forms of local consulting, or their equivalent. Some governments protect the local consulting business by prohibiting foreign firms from bidding on locally-financed contracts. Others permit foreign firms to bid only in association with local firms. For contracts financed from external sources, and perhaps for some of the largest local projects and related consultancy contracts, the choice may lie between foreign and local firms (when some of the latter can qualify for the work).

75. There are by now several thousand consulting firms from industrialized countries interested in participating in contracts in developing countries. Many of these are large firms, well staffed with qualified professionals and with extensive experience in development work, and familiar with the process of forming consortia with other firms if necessary to round-out their qualifications. Some of the larger consulting firms in (for example) Brazil, Korea, Colombia, and India can match them in most of these respects (with the possible exception of

experience in marketing their services abroad), but the great majority of developing country firms cannot. The international consulting business is so competitive that virtually no firm, even from an industrialized country, can afford to rely exclusively or even primarily on foreign markets as the source of its revenues. Most of the firms that are active and successful in the international arena have the bulk of their business in their home countries.

76. In view of the paramount importance attached to the quality of the consultant's work, how can local firms be expected to compete in the international market, or even in the largest projects in their own countries? Are they forever doomed to the vicious cycle referred to earlier: no work because of no experience, and no experience because of no work? This is a real dilemma. Perhaps the central issue raised in this report is: how can local consultancy be developed while still retaining the necessary quality of professional work.

77. The World Bank has tried to address this issue in its Guidelines for the Use of Consultants by World Bank Borrowers. The Guidelines emphasize that "Quality considerations will continue to be the overriding factor in consultant's selection". They state further that "It is the Bank's policy to encourage and foster the development of domestic consulting firms in connection with Bank-financed projects where such firms are qualified to perform the work either alone or in combination with foreign firms." This policy is further enunciated in O.D.11.10 of July 1990, which describes some of the advantages of local firms and some of the ways in which the Bank encourages their use:

"Bank policy is to promote the participation of consultants from the borrower country and other developing countries, and to foster and improve consultant capabilities in these countries. Such consultants often have valuable knowledge of local conditions and practices, language, cultural and social affinities, as well as experience in working in the same or similar social, technical, administrative, and political environments. The Bank, therefore, (1) encourages the consideration of qualified firms from developing countries, either by including them in short lists or, where appropriate, on a single-source basis; (b) encourages their use as subcontractors by short-listed firms; and (c) under some circumstances, allows joint ventures--mandated by the borrower--between local and foreign firms."

78. One of the most effective ways of fostering this development, through subcontracting or joint ventures with foreign firms, is discussed below. Another is to ensure that at least one qualified domestic firm, or failing that a firm from another developing country with the requisite experience, is included in the short list (generally three to six firms) invited to submit proposals. But inclusion in the short list has seldom resulted in award of the contract to the domestic firm (with the exception of the few giants--Brazil, Korea, etc.). The relative inexperience of most domestic firms is reflected, *inter alia*, in their difficulty in preparing a proposal which meets the standards of other firms. Bank staff have attempted to remedy this deficiency through seminars and meetings with domestic firms, but the process is slow.

79. This leaves the question whether--and if so, how--the price or cost of the consulting services, which are invariably lower, sometimes substantially, in the case of domestic firms, should be taken into account in evaluating proposals. The Guidelines deal at length with this question and are worth quoting.

- "2.28 For certain types of assignment, it may be appropriate to take into account, in addition to the technical evaluation, the cost to the borrower of the services offered. The process of selection, with or without price, should maintain quality as the paramount requirement of consulting services. Price must not dominate the selection process to the detriment of the effective execution of the project. Nevertheless, by inviting consulting firms to submit priced proposals for certain types of assignment for which price comparisons can appropriately be a factor, borrowers may be able to take advantage of cost savings.
- 2.29 Consulting assignments can be broadly classified in terms of certain characteristics which affect the extent to which price may appropriately be used in the selection process. These characteristics are: (1) the complexity of the assignment; (b) the assignment's impact on the end product; and (c) the probability that the proposals submitted by the invited firms will lead to comparable outputs.
- 2.34 The extent to which price may be used as a factor in selection depends, therefore, on the technical complexity of the assignment, the impact of the assignment on the end product, and the comparability of proposals. The more complex the assignment, the more significant the end product and the less comparable the proposals, the less influence price should have on the selection. For assignments which are difficult to specify precisely, or which are at the top end of the complexity scale, or where the end product is such that a small reduction in

quality could conceivably have an unacceptable impact on the project associated with the assignment, price should not be used as a selection factor."

80. The Guidelines then indicate how price should be taken into account in appropriate cases:

"2.35 The decision whether or not to take price into account should be taken prior to inviting proposals. In cases where it is appropriate to take price into account, except as noted in para. 2.36, the Bank does not recommend any specific method or procedure other than to emphasize that price as a selection factor should be used judiciously and cautiously, and should never undermine quality or client/consultant relationships. The appropriate relationship between price and technical quality should be a matter of judgment in any particular case, taking account of the three characteristics of assignments discussed above. The price and technical evaluations are carried out on different scales which are not easily comparable. A 10 percent difference in technical quality may or may not be worth, say, a 20 percent reduction in price, depending upon the nature of the assignment and the judgment of the client. Careful consideration should therefore be given in each case to the determination of the weights that are to be given the price and technical factors.

2.36 Where price is taken into account, the technical evaluation should be undertaken independently and free from the influence of price. A two-stage procedure should, therefore, be adopted, with the technical and financial proposals submitted separately in sealed envelopes, or with the price proposals submitted at a later date. In either case, the technical evaluation should be completed before the price proposals are reviewed.

2.37 It is important to safeguard the integrity of the two-stage procedure. Appropriate procedures should be followed to ensure that access to price information is not available to the evaluators until the technical evaluation has been completed by requiring that price proposals remain sealed and, for example, be deposited with a government or private accounting office. As part of its review of the borrower's proposed selection procedures (para. 2.21), the Bank will make a determination, in cases where price is taken into account, as to whether a satisfactory two-stage procedure is adopted."

81. In those cases where price has been taken into account in the evaluation process for Bank-financed projects, it has seldom led to the selection of a firm that would not otherwise have been ranked in first place. O.D.11.10, written subsequent to the (1981) Guidelines, attempts to take the use of price a modest step further. While repeatedly citing the Guidelines, it reformulates the central proposition somewhat in stating:

"Use of Price as an Evaluation Factor. To help control costs, the Bank considers the price of consultant services as an appropriate evaluation factor in assignments where such a consideration will not unduly compromise quality. (Emphasis added) Price considerations, however, should not dominate the selection process to the detriment of

the effective execution of the assignment. The choice of price as a criterion will depend on the complexity of the assignment, its possible impact on the quality of the end product, and the expected comparability of proposals."

82. O.D. 11.10 also proposes a specific weight to be given to price in the evaluation.

"When price is an evaluation factor, technical and price evaluations should be carried out separately, and then combined, using predetermined weights. Since only qualified firms are short-listed and the higher-ranked technical proposals are generally of comparable quality, assigning 10 or 15 percent of the total weight to price would be adequate for an economic solution without affecting technical quality. A higher weight for price should be used only for very routine or simple tasks.....(Emphasis added.) Prior to inviting proposals, the Bank's agreement should be obtained for use of price and its intended weight. Any financial advantages enjoyed by public sector firms or UN agencies over others should be taken into account in the evaluation process."

83. Apparently the intention of this language is to ensure that, in cases where price can be taken into account in accordance with the criteria set forth in the Guidelines, the weight given to price not exceed 10% to 15% in order that it not have undue influence on the outcome. The language on this point needs to be clarified, however, since it is open to other interpretation. It is desirable, as O.D. 11.10 indicates, that if price is to be taken into account the intended weight should be agreed upon in advance and specified in inviting proposals.

84. Cost considerations can play a part in the contract negotiations with the first selected firm. While it is unwise to ask a firm to reduce its salaries, overhead costs, or fees without evidence that they are excessive, since they will induce the firm to cut corners--to the detriment of quality--rather than lose the contract, Bank staff will agree to negotiations with the second-ranked firm if the billing rates of the winning firm are clearly unrealistic.

85. The foregoing has been addressed to the choice between foreign or local firms. For smaller contracts, for which only local firms are bidding, the same issues of quality arise and there is no need to use price differentials to give preference to local firms. Also, price differentials should be less marked than between foreign and local firms. For these reasons,

there is even less argument in favor of taking prices into account in the evaluation process. The practice, however is frequently the opposite, as will be discussed below.

C. Joint Ventures

86. Joint ventures between foreign and domestic firms are one of the more promising ways of promoting the domestic profession. Subcontracting may also help to develop a domestic firm by providing it with business, but it does not entail a long-term relationship including training and technology transfer. Similarly, efforts by local firms to upgrade their staff by hiring foreign expertise directly are problematical, since local firms often lack the financial resources and foreign exchange to pay their salaries and benefits and few experts are interested in direct employment with local firms (except perhaps for the largest ones with an international reputation, who need them least). There is by now extensive experience with joint ventures. The results, it must be said, have been mixed. Numerous problems can and do arise. But there are success stories as well. Properly conceived and implemented, this option is definitely worth pursuing.

87. A joint venture can be to the mutual advantage of both parties and must be perceived as such if it is to be successful. The foreign partner can bring its greater experience, professionalism, technically-skilled staff, and financial resources. The local partner can bring its familiarity with the local climate and environmental concerns, physical conditions and design practices, its knowledge of local regulations and administrative procedures, its cultural affinity, and its lower costs.

88. When joint ventures have not achieved a significant degree of training and transfer of know how, it has usually been because the foreign firm has used its local counterpart primarily as a means of gaining entree into a business opportunity. (Conversely, and in

recognition of this, the local firm can sometimes "sell" its name without any intention of entering into a genuine collaboration). Training may have been included in the assignment as an afterthought, or not at all, and is not pursued actively because it is regarded as a time-consuming and therefore costly diversion of staff from their primary function. In these circumstances the local firm is assigned only minor roles and routine tasks, and learns little. Yet, the client holds it responsible for any inadequate results after the foreign partner leaves the country. The local firm may also find that it is unable to retain any expanded staff after completion of the contract, for lack of new jobs.

89. An improved design of joint ventures should therefore include the following elements:

- The joint venture should, both in spirit and contractually, be regarded as a long-term partnership between the two firms, extending over a number of years and more than one assignment, and from which both parties will benefit.
- The contractual arrangement should define clearly the responsibilities of each firm, the services to be provided by it, and the technical and financial arrangements for each assignment.
- The contribution of the local firm should be the maximum of which it is capable, and should increase progressively as it gains experience and competence.
- Training should be specifically provided for, both on the job and at the headquarters of the foreign firm or at other job sites. Training should be planned from the outset, sufficient funds provided for the purpose, and specific staff assigned. (The World Bank and other donors are generally prepared to pay the costs of training when included in joint venture contracts that they finance.)
- The foreign partner should be made aware that the evaluation of its performance by the client, and by the lending institution, will include the training component.

90. Developing countries can further the process by encouraging foreign firms to establish a permanent presence in the country in the form of a joint venture. The foreign partner must have a reasonable assurance of access to local business by being invited to participate as well in projects that are locally financed. It must also have the opportunity to repatriate those profits not reinvested in the business. Developing countries might in fact do more for the long term promotion and the strengthening of local consulting by encouraging joint ventures than by sheltering it from foreign competition. An increasing number of countries are recognizing the potential contribution of joint ventures and pursuing them more aggressively. Some of them, however, have only promoted joint ventures with publicly-owned local consulting firms, a practice that should be discouraged for the reasons given above.

91. As an alternative to a joint venture formed from the outset between two partner firms, some Latin American and other countries have encouraged foreign firms to establish a branch office and register as a local firm. Local staff are employed but the management initially is in the hands of expatriates. In the course of time more and more managerial responsibilities are transferred to local hands so that increasingly it becomes de facto a local company. The foreign firm retains an interest in the form of its name and a proprietary share in the company, and provides home office support as needed.

92. The World Bank, for its part, should welcome and actively encourage the formation of joint ventures both in the projects it finances and as part of the strategy for developing the profession. Bank policy, as set forth in the Guidelines, is to encourage borrowers to employ domestic consulting firms in connection with Bank-financed projects where such firms are qualified to perform the work either alone or in combination with foreign firms. With respect to joint ventures, the Guidelines indicate further that,

"The Bank prefers voluntary joint venture arrangements and will accept mandatory joint ventures only if:

- (a) there are a sufficient number of capable domestic firms available to allow reasonable freedom of choice for the invited foreign firms;
- (b) the desirable contribution by either firm will not be constrained by any prescribed manner or extent of participation; and
- (c) association with specific name firms selected by the borrower is not required."

This policy could be strengthened if the Bank, in its relations with the borrower in the consultant selection process, were to indicate a positive readiness to accept joint ventures, and indeed to confine the short list to such partnerships when a sufficient number exist or can be formed to provide a reasonable choice.

93. How legal responsibility is shared within the joint venture can be a sensitive question. The Guidelines provide:

"Responsibility is a major issue in a joint venture, and the contractual arrangements should clearly define the responsibility of each firm. The bank prefers that one firm assume contractual responsibility (and liability) for satisfactory execution of the assignment. If a contract calls for all firms to be jointly and severally liable, then the Bank should be satisfied that at least one firm in the joint venture is financially capable of meeting the contract requirements and potential liabilities on its own."

The language leaves satisfactory scope to deal with a variety of situations, but the policy needs to be actively pursued. Specifically, the Bank should be prepared to accept the local partner in a joint venture as the sponsor, or co-sponsor, when the firm has substantial experience but may not yet be capable of meeting the prequalification requirements in its own right. To serve as sponsor the local firm should be of sufficient standing to contribute substantially to the project and accept responsibility for the results, and the joint venture should have been operating for a sufficient length of time to ensure that it is a viable concern.

V. Recommendations for a Development Strategy

94. Successful pursuit of the objective of developing the local consulting profession requires the concerted action and support of a number of actors, both public and private and

in both developing and industrialized countries. The recommended strategy, many elements of which have already been discussed, can usefully be recapitulated in terms of the responsibilities devolving on each of these actors.

A. Governments

95. Governments should recognize that developing the local consulting profession is a long term process of institutional development, which in industrialized countries took place over many decades and under economic circumstances more favorable than those now prevailing in most developing countries. Nevertheless, there are important things that governments can do (positively) and refrain from doing (negatively) that will accelerate the process and pay high dividends in terms of more productive investments and more rapid economic development. The first step, therefore, is for governments to accept development of local consulting as a priority objective which they are prepared to pursue actively over a sustained period of time. This should include the adoption of a strategic program, and detailed plan of action for its implementation, by each of the parties concerned.

96. Local consulting is almost ideally suited to the private sector. Governments should therefore take steps to ensure that the size of in-house professional staff in PWDs and public enterprises is kept only to the level necessary for them to pursue their essential functions of planning, some operations and maintenance, oversight of the sector, training and support of the local consulting profession. These are important functions, which may need some strengthening of organizations and staffing to be effectively pursued.

97. If there are public sector consulting firms, the preferred solution would be to privatize them over a reasonable period of time. Since capital requirements of consulting firms are not large, this is an easier task than in some other fields. Failing that, it is imperative

that the public firms be legally, administratively, and financially autonomous and that, if private firms are also present, public firms receive no preferential treatment, whether in access to information, evaluation of proposals, or provision of foreign exchange. If this is wishful thinking, it reinforces the argument in favor of privatization.

98. Joint ventures of foreign and local firms, especially on a long-term basis, should be actively encouraged to foster technology transfer and training. Foreign firms should be invited to establish a permanent presence in the country in the form of joint ventures and should be permitted to bid on all local business for which they are qualified. They should be entitled to foreign exchange for the import of equipment, and the foreign partner should be able to repatriate profits. In addition, foreign firms should be permitted to establish a permanent presence as a local firm if their stated intention is, over time, to transfer managerial responsibility to local hands.

99. In many countries regulations or administrative practice with respect to the local award of consulting contracts mandate that price be taken into account in evaluating bids. Price then tends to become the overriding factor since it is the only one that can readily be quantified, and conscientious officials whose awards are subject to public scrutiny find it difficult to justify the award to any but the lowest-priced bidder. The arguments presented earlier with respect to the primary importance of quality in the selection of consultants apply with no less force to competition solely among local firms. Award of the contract to the lowest price bidder without due regard to quality can lead to the choice of a firm that proves incapable of performing the assignment to the desired standard, except by engaging in questionable practices, with adverse consequences that can far exceed the initial difference in bidding prices. In the more simple and straightforward assignments, price can, of course, be a relevant consideration.

100. A related issue concerns how consultants are remunerated. Two methods of payment which are popular because of their simplicity are "lump sum" and "percentage of construction costs." Both of these methods can lead to the wide variations in the prices of consultants' proposals noted above due to inadequate definition of the project's scope or other reasons, with potentially high risks of lapses in quality. The procedure recommended by the Bank is "man-month contracts", which include salaries, non-salary expenses, and a multiplier for overhead and profit. This method should be followed in all cases except those where the work can be precisely defined in advance.

101. Changes in administrative procedures and practices are essential to eliminate the delays in payments, and underpayments, that are a pervasive problem in developing countries and which also adversely affect the quality and timeliness of the consultant's work. Unlike other business, consulting firms' assets are limited. They incur substantial expenses in preparing bids, most of which are not recovered since the probability of success is seldom better than 10 to 20 percent. In order to attract and retain good staff, consulting firms must pay them promptly every month. They also continue to incur expenditures during the period between submissions for reimbursement and receipt of payment. Surveys indicate that small firms experience more delays than large firms and domestic firms than foreign firms, suggesting that preferential treatment is also a factor. Systematic under reimbursement of costs, even when these have been independently verified, is also widespread, particularly in the case of local firms where an arbitrary standard such as the salaries of government officials may be applied.

102. The solution lies in the efficient and even-handed administration of policies which provide adequate mobilization payments on contract signature and a revolving fund during the contract period which is automatically replenished when depleted to a specified level. Bills should be paid within 30 days without pre-audit but subject to adjustment in the next bills based

on post-audit. Consultants also need to be paid in full, not only for basic salaries but also for the benefits (social costs) and overhead (administration and work facilities) which are essential to attract competent staff and perform quality work.

103. A system of independent or "peer" review of the work of consulting firms is followed by professional associations in some developed countries as a means of enhancing the quality of the firms' work and reducing liability claims. Some firms have initially resisted the review process because of its potential effect on future business, or the risk of disclosing business secrets, but have later come to recognize its merits. The discipline of an external review makes firms more vigilant and induces them to reinforce internal quality management to avoid mistakes. In many developing countries peer review by other consulting firms may not yet be realistic. In that event, the government could advantageously establish an independent panel of experts of recognized professional competence and objectivity to conduct the reviews.

104. In the end, governments will get the quality of consultant services that they demand. It is important, therefore, that they appreciate how the quality of a consultant's work can impact on the productivity and effectiveness of the investment, and shape their evaluation and compensation procedures accordingly. Research through selective case studies measuring the financial and economic costs associated with deficiencies in feasibility studies and project design would help to bring the message home. The Bank can assist in the design of such studies, as described below.

105. National development banks and development finance companies can assist in complementing the government's program. They can provide financial and technical assistance to enable local firms to establish adequate physical facilities and equipment, acquire working

capital, train staff, and establish partnership arrangements with foreign firms. It must be recognized, however, that the borrowing capacity of local firms on conventional terms is limited by the modest size of their assets.

106. A focal point should be identified by the government with responsibility for preparing and monitoring the strategy, and concrete plan of action, for developing the profession. This designated agency or organization should have an overview and facilitating function with respect to the policies and procedures described above. It should also maintain liaison with universities, professional societies, and trade associations, both in the country and in developed countries prepared to assist. It could provide a home for the peer review process, or ensure that the implementing agency properly conducts the review. Funds for training fellowships should be provided when other sources are not available. Finally, but of considerable importance, it should establish and administer procedures for the registration of local firms and for their prequalification. To avoid becoming another bureaucracy, its staff should be no larger than required for these purposes.

B. The World Bank

107. Primary responsibility for the long-term process of institution building must lie with governments, and the agenda outlined above can be a formidable one for some countries. The Bank has an important role to play through its close involvement in consultant selection in the projects it finances, its continuing dialogue with governments on development issues, and the technical assistance it can provide. Bank policy, as enunciated in the Guidelines, is to encourage and foster the development of domestic consulting firms. It does so in the selection process for Bank-financed projects by ensuring that one or more domestic firms are included in the short list when they are qualified to perform the work either independently or as part of

a joint venture, or accepting them as the designated firm in single-source selection at the borrower's request. The Bank also encourages the inclusion in the short list of qualified firms from other developing countries.

108. The Bank has also carried out surveys of the domestic consulting profession in a number of countries, on the basis of which it has initiated discussions with the government on measures to strengthen it. Seminars and symposia designed to inform domestic consultants of Bank policies and procedures have been conducted by Bank staff in a growing list of countries. Technical and/or financial assistance to various branches of the consulting profession, including finance and accounting, have been provided to several countries, usually as part of a loan for a related purpose. Some projects, as in feeder road construction in Sub-Saharan Africa, have been designed to use local consultants under the general direction of a foreign consultants. In its continuing relation with the principal international association of consulting engineers--the Federation Internationale des Ingenieurs Conseils (FIDIC)--the Bank has encouraged the latter to take the type of measures to support sister organizations in developing countries described below.

109. The Banks policies and procedures in this field are essentially correct. What should be asked, however, is whether the key role which the domestic consulting profession can and should play in the development process is adequately recognized and whether, in consequence, this activity is supported with the priority and vigor that it warrants.

110. While no substantial changes in the language of the Guidelines are proposed, it is recommended that in their administration joint ventures be given greater emphasis, both in the selection of firms to be short-listed and in the acceptance of the developing country partner as the sponsor or cosponsor in suitable cases. When a joint venture is approved under a Bank-

financed project, Bank staff should ensure that the respective roles of the partners are properly defined, that training and technology transfer are provided for from the outset, and, above all, that these provisions receive close attention and are effectively implemented during project implementation and Bank supervision. O.D. 11.10 should be clarified to bring its language with respect to quality and price into conformity with the Guidelines.

111. Under the rubric of sector work, surveys of the domestic consulting profession should be undertaken, within a reasonable period of time, in those countries which so far have not been studied and in which there appears *prima facie* to be scope for a more substantial role. These surveys, which should be tailored to the particular circumstances of each country, should focus on the potential of the domestic profession, the constraints to its expansion, and the design and implementation of programs to effect the needed changes, including privatization, the promotion of joint ventures, modification of government regulations and procedures, and fostering of professional societies and associations. They should be actively followed up, and provide the basis for dialogue with the governments, with Bank staff prepared to advise and assist in formulation and implementation of action programs. Staff should also identify domestic firms with good prospects for participation in Bank-financed projects, either singly or through joint ventures, and bring these to the attention of those concerned with the consultant selection process.

112. These measures are manpower intensive and will, of course, have to compete for staff time and attention with other activities also established as high priority. They should be supplemented, where appropriate, by technical assistance grants, credits or loans. These would support government programs to develop the profession, provide funds for institution building through management and professional staff training, procurement of office equipment, establishment of professional societies and trade associations, fellowships and the like. These

grants, credits or loans would not be for large amounts, and they could conveniently be incorporated into a larger loan or credit for a purpose not too distantly related. But such small add-ons often receive scant attention during project implementation and Bank supervision, and separate technical assistance operations may be preferable. Alternatively, this technical assistance could be combined with Bank-supported programs to develop the local construction industry in which local consultants are actually engaged and which depend, for their success, on a strong local consulting profession. Bank-financed Development Finance Companies (DFCs) can also be used to finance technical assistance or equipment to strengthen local firms.

113. The centerpiece of all these activities should be improvement in the quality of the performance of the domestic consulting profession and the enhancement of its role in the development process. Since the impact of poor quality appears only later--usually after the project has been completed and when other factors have also played a part--its importance can easily be underestimated. In the United States, research by the Construction Industry Institute has shown that quality deviations in constructed projects are in the range of 20 to 30 percent of the project costs, and that 80 percent of these deviations relate to problems of project design rather than construction. OED studies have repeatedly underscored the critical importance of the early stages of project preparation and design, where consultants may have the principal responsibility. It would be helpful if the Bank were to develop a methodology for quantifying the financial and economic costs of quality deviations in projects, particularly at the feasibility and design stages, and share it with its member countries. This could be reinforced by selected case studies, illustrating in detail how the quality of consultant's performance impacts on the outcome of the project.

114. Other parts of the World Bank Group can also play a more active part. IFC has evinced some interest in this field, and has financed at least one successful association with a

local consulting firm. EDI has also expressed interest and could have a useful educational role, inter alia in raising the level of awareness of policy makers in developing countries.

C. Other External Donors

115. The regional development banks generally share the same objectives as the World Bank with respect to the development of the domestic consulting profession. Their guidelines for the use of consultants are broadly similar. Some of the regional Banks (such as the Asian Development Bank and the African Development Bank), have conducted surveys of the domestic consulting profession in their regions, independently or in conjunction with the World Bank and other agencies. The recommendations with respect to the World Bank can therefore be applied pari passu to the regional development banks.

116. Various bilateral agencies have also been interested and actively engaged in fostering local consultancy. Some of them have the advantage, relative to the international financial institutions, of being able to provide financial assistance directly to private local organizations. These commendable efforts can be frustrated, however, by the practice some agencies follow of tying financial or technical assistance to the use of consultants from the donor country. This obviously denies opportunity to domestic consulting firms. Two desirable modifications of the practice are to limit the use of tied funds to: a) contracts awarded to a firm from the donor country following the evaluation of proposals from short-listed firms from several countries under the supervision of an international financial institution; and b) joint ventures with domestic firms, preferably of long duration and which include provision for technology transfer and training. Partial untying, in which the bidding would be open to firms from developing countries (on a selective basis) would also be a step in the right direction.

D. Associations of Consulting firms, Professional Societies, and Universities

117. In industrial countries, non-governmental organizations such as universities, professional societies, and national or international trade associations have played significant roles in the development of mature and competent professional consulting firms.

· Universities have provided a regular flow of high-quality graduates in engineering, other technical fields, and the social sciences who have become the main capital of the consulting profession. Some of these graduates have had a period of government service, in a national engineering corps, public enterprise, or the like, before joining private firms. University research programs have expanded the frontier of scientific knowledge, and faculty members on leave of absence have undertaken assignments with consulting firms, to their mutual advantage.

· Professional societies, with representation from individual members of a particular discipline (engineering, economics, etc.) rather than firms and drawing from government and the private sector alike, have focussed on the advancement of knowledge, experience, and competency in their particular fields and have been instrumental in drawing up and supervising professional codes of ethics.

· National associations of consultants, sometimes linked to international associations such as FIDIC, have been concerned with the development of the consultancy profession as such. They have provided a forum for the exchange of professional, management, and business experience, the promotion of ethical standards, and the conduct of research. They also serve as the point of contact with their governments, and with international agencies, on matters of mutual interest.

118. In many developing countries these organizations, particularly the professional societies and trade associations, are not far advanced. Helping to establish and strengthen them should be an important component of the government's program and one of the principal concerns of the governmental agency or organization charged with the overall promotion of the domestic profession. An important way in which the non-governmental organizations in industrialized countries can be of assistance is by "twinning" arrangements with consultant organizations in the developing world. That is, a university in a developed country can "adopt" or link up with a "twin" in a developing country. The twinning arrangement, for example, would enable the university's engineering department to strengthen the counterpart department by training professional staff, providing research equipment and teaching materials, engaging in joint research projects, seconding faculty on leave, etc. FIDIC has been commendably active in promoting sister organizations in the developing world, some of which are now full-fledged associates with it, and taken other measures such as seminars and symposia to promote domestic consulting. There is enough positive experience with these twinning arrangements to suggest that, if further exploited, they can be a useful part of a development strategy for the domestic consulting profession.

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A Strategy for Development**

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