

‘Bastard children’ – unacknowledged consulting companies in development cooperation

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Abstract

Development consulting companies are pivotal actors in bilateral projects, yet they are largely invisible in policy documents, and little researched. Their business model is a combination of ‘doing good’ and profit. This article examines the history, business logics and working relationships of consulting companies in development cooperation, taking the case of Finland. It asks 'Why are consultancy companies needed in development cooperation? Their relationship with donors appears to represent a principal-agent relationship, yet they often share the donor’s ethos, and even exchange staff. The dramatic decrease in technical assistance budgets over recent years, along with increasing bureaucracy, has caused profits to diminish and many companies have disappeared, taking institutional memory with them. However, if the donors wish to assert some policy guidance and have contact with work on the ground in developing countries, there is a need for technical assistance via consulting companies.

Keywords: Development consulting, consulting companies, technical assistance, altruism, principal-agent, value for money

Introduction

When considering the role of the private sector (currently fashionable in development discourse), many think of western companies selling goods to developing countries or extracting raw products; or of local companies being established. The common factor of these private-sector companies is profit; their *raison d'être* is to make money for their shareholders. While some may hold higher ethical standards than others, all have a bottom line. These are *not* the private sector that this article refers to.

Another private sector group works in development cooperation, yet are oddly invisible in policies or reports. One respondent stated 'consultants are the bastard children of development – no one wants to acknowledge them!' Development consulting companies recruit and manage international and local staff for bilateral and multilateral projects or assignments. The overall focus of these projects is usually sustainable development and the reduction of poverty, while the sectors and tools may vary. Most companies have a profit motive (though the return on investment is modest, as I will demonstrate), but they usually have aspirations to 'do good', and are dependent on donor funds (rarely paid directly by the ultimate client in country). Many within the development community and the media hold negative opinions about them, and anecdotes of questionable behaviour abound, yet there has been little research conducted. Part of the problem is the lack of information of how consulting companies operate.

The case focuses on the Finnish development consulting companies and their staff, which differ from those in other countries (though there are similarities with other Nordics).

This article gives a description of the history and current status of the Finnish development consulting scene, demonstrating the growing difficulties of profitability. It examines their role, financial position and ways of working. I ask several questions. What is the role of development

consulting companies and how does it differ from standard private sector operations abroad? Is it ethically appropriate to make money from poverty reduction – and is it even financially viable? I also consider their relationship with a bilateral donor, the Finnish Ministry for Foreign Affairs (MFA). It gives companies responsibility to spend taxpayers' money and transform theoretical policies into practice, yet also treats them with suspicion. The article discusses the influences on the behaviours of consulting companies and their relationships, which may shape whether or not they behave as expected by the client. It finally summarises the pros and cons as a modality, and asks 'Why are consultancy companies needed in development cooperation?'

Methodology and approach

There is little literature dealing with private consulting companies - what there is tends to focus more on the results of development than on the actors. This article draws on the limited research regarding technical assistance in development projects (commonly provided either via individuals or via companies) (eg. Mosse, 2005; Gibson et al, 2015; White & Haapala, 2019). I analyse the consulting company praxis via reflections against other literature, including organisational change (Gready, 2013); drivers of institutional development (Ostrom et al, 2001; Brett, 2003; Gibson et al, 2005); and the ethical basis of making a profit from development. In addition, aspects of institutional theory are relevant, including principle-agent relationships, social networks and incentives (eg. Eisenhardt, 1989; Brett, 2003; Mosse, 2005; Caldwell et al, 2006; Gibson et al, 2015; and Yanguas, 2018).

This article doesn't seek to establish whether the consulting companies *are* 'doing good' in the eyes of the beneficiaries. Nor does it consider the sustainability of projects or aid in general. These are much larger questions, part of evaluation practice and critical development research.

It is supplemented with knowledge gained from my long personal experience as a development practitioner (as a volunteer with a developing country government, Non-Government Organisation (NGO) staffer, consulting company staff and researcher). My personal biases have

shifted over the years, as I observed different modalities from the inside. I currently work for a Finnish consulting company, therefore I am an insider. While this gives me considerable access to both positive and negative cases of technical assistance and company processes, I tend to self-censor when it comes to publicising problem cases (and in practice, there could be legal repercussions, were I to publicise some issues). This is the dilemma described by various researchers of ‘negative academics and positive practitioners’. There is a risk of my insider role influencing my judgement, making me biased, but it is hopefully tempered by my experience with other modalities, and contributions from research literature, as well as feedback by academic supervisors.

I use semi-structured interviews with development consulting company management and staff, donors and other stakeholders in Finland. Interviews were conducted with 11 senior Ministry for Foreign Affairs of Finland (MFA) staff, and 13 consulting company managers and long-term staff (at the time of the interview). They were selected due to their long experience in development cooperation¹. I coded the interviews to extract key themes and commonalities, which are then used throughout the article. The main themes considered for coding were the ownership, motivations and values of the companies; consideration of how to rate successful implementation; the added value of companies; involvement of the donor in implementation; and the ethical basis of making money from development.

I also analyse OECD and MFA documents, company mission statements and their annual financial results. I consider the costs of technical assistance provision as well as the profitability of Finnish consulting companies.

¹ It is worth noting that some MFA staff approached for an interview refused. While their reasons were unclear, it is possible that they held more negative views of consulting companies.

What are development consulting companies?

For many decades worldwide, consulting companies have provided technical assistance (TA) for professional and administrative support to development projects or assignments for donor governments. Naturally, governments could recruit TA directly, and some do. Denmark recruits some individual experts directly, even for long-term project implementation. In Germany, the development agency GIZ has an unusual double role, both as a provider of technical assistance (with almost 21000 staff) and as a contractor of other private companies². However, transaction costs and the political need to be seen to minimise government size, has favoured the use of companies in Finland for bilateral cooperation.

Finnish companies operate in a smaller ‘pond’, are typically smaller and have a less ‘corporate model’ (as compared to the so-called *beltway bandits* of the US³ or large firms in the UK (Provost, 2016)). Typically Finnish companies are located somewhere between the Finnish NGOs, which voice humanitarian aims (though having a range of motivations, including religious and political, and competing for funding) – and standard private sector companies, with mainly profit objectives (although obviously these are generalisations). While some private sector companies outside of development may work overseas, and aim to act positively towards interacting communities, their main purpose is to sell a good or service. The *raison d'être* of development consulting companies is to implement the plans of the donor and partner countries, which outsource the responsibility and administrative role for a price (though losing some degree of control – discussed later in the consideration of principal-agent relationships). Consulting company websites and annual reports typically show happy communities, discourses and outcomes virtually indistinguishable from those of NGOs. The motivations of consulting companies are discussed later.

² <https://www.giz.de/en/aboutgiz/63962.html>

³ <https://www.newsweek.com/beltway-bandits-96591>

The majority of Finnish development consulting firms are not listed on the stock market. They are often owned by their staff or by non-profit organisations such as universities or municipalities. They vary in size, but the general progression in the last decade has been mergers, leading to a tendency for very small or quite large firms, and dropping out the middle-sized companies. This trend of mergers and acquisitions has been clear throughout Europe, with many companies originating in one country joining multinational operations.

It is vital to emphasise that Finnish development consulting companies *only* make money from the overheads on technical advisors. They do not have core funding or community donations, nor do they sell goods. This sets them apart from others in the private sector, as well as from NGOs or government agencies in development work (in Finland, many NGOs receive government funding as well as public donations, and there are twinning arrangements for government agencies).

The Finnish Development Policies of 2012 and 2016 skim over the role of consulting companies, when discussing modalities of cooperation. The only explicit mention of the private sector is in respect to development financing, referring to private sector companies importing or exporting goods and services in the wider business community. Similarly, Olesen and Pedersen's review of Danish development aid (2010) hardly mentions consulting companies, instead describing mainly manufacturers and tied aid for exports (despite the existence of many Danish consulting companies). Yet although consulting companies are invisible in a policy sense, they are instrumental in the implementation of the Finnish policies on the ground, such as the human rights based approach to development (White and Haapala, 2019).

As there is no clear description in the literature, a brief summary of the financial and administrative technicalities of company operations from an insiders' viewpoint (the author) is provided in Annex 1.

Changing aid modalities – a historical view of companies

Until the late 1970s the MFA (under its development department, FINNIDA) mainly directly recruited technical assistance staff for projects overseas. Some companies (including some owned by the State and some private) began work earlier in developing countries, carrying out training or enterprise development. However, the paradigm changed in the late 1970s and this process was outsourced to companies – at first directly and then through a competitive bidding process (Koponen, 2005). Specifically development-oriented companies (or branches of the existing ones) began to emerge. Their job is to search for experts, run tenders and carry out human resources and project management, putting the donor's policies and plans into practice.

Until the mid-1990s, tied aid was a common donor policy (including in Finland), whereby there was an imperative to use a minimum percentage of nationals of the donor country in the assignment. In 1990 some 62% of the aid flows returned to Finland in this way (Hassler 2003) – and much of it went to consulting companies as well as consultants. By 2010, only 15% was tied, predominantly with respect to concessional credit, rather than consulting services (OECD/DAC 2012).

In the early 2000s the discourse, policy and practice changed to a focus on budget support and aid coordination. However, by the end of the decade there was a return to project-based development cooperation in Finland. This coincided with waning enthusiasm of donor governments for budget or sector support worldwide after a series of cases regarding misuse of funds, and a realisation by donors that it was difficult to impose governance controls. In 2015 a conservative Minister was appointed, and severe cuts were made in all areas other than private sector finance support, resulting in a large percentage decrease in Overseas Development

Assistance (ODA). These changes can be tracked via analysis of the Finnish Development Policies (MFA Finland, 2016, 2012, 2007).

The themes, sectors and approaches of projects have also changed. The sectors supported by donors tend to move through cycles, as can be seen in the Development Policies of Finland. The enthusiasm for water supply, forestry, rural development, innovation, peace building or education varies depending on the interests of the Minister in charge and the current development discourse. Gready (2013) refers to ‘the dance that development agencies routinely perform as they adapt to shifting donor priorities’ (p.1342).

The boom times of consulting companies were the 1980s. In 1988, a Nordic study found that on average, Nordic projects had six international experts per project and one third of the projects had more than 15 experts working in them (Forss *et al* 1988, 17, 38). Several respondents referred to this heyday of Finnish development in the 1980s.

In that time it was really profitable. Finnwater had 24 full time Finns working in Mtwara [Tanzania]. You can imagine the overhead that generated for the company... Some of the companies were just in it for the money at that time. And when the development funding fell and it became less profitable, those companies left. (ex-consultant and MFA staffer)

While the modalities have varied over time, the number and types of TA in bilateral projects has decreased. By July 2019, there were only approximately 12 long term international senior experts in Finnish-funded bilateral projects in Finnish partner countries. This decrease, and the linked fall in profits, has led to a dramatic decrease in the number of companies. Naturally companies also tender to other donors, but the MFA link is important.

The data reported by Finland to the OECD Peer Reviews also tells a tale of decreasing technical assistance, even over recent years (OECD 2007 and 2017). The funding to both free-standing TA and that within projects appears to have declined considerably, however the MFA reports

significant problems with data quality and definitions, making it difficult to give accurate figures (personal correspondence).

What institutional theories apply to consulting companies and donors?

In a normal project management setting, the client contracts and pays a contractor to deliver a specified good or service. However, in the more complicated development cooperation setting:

This pay-for-service accountability is replaced by a complex web of mixed motivations, mismatched needs, knowledge gaps, and rigid management processes. Funders, contractors, and aid recipients are all accountable to different stakeholders at the same time... there are the funding agencies, who pay for (through loans or grants) but do not receive project deliverables, there are the implementing agencies who are involved in project delivery, and the target beneficiaries, who expect some benefit from them. (Ika and Donnelly, 2017, p.46)

Eisenhardt (1989), Brett (2003) and Caldwell et al (2006) discussed agency theory, defining the situation where one party (the principal) delegates work to another (the agent). Both engage in cooperative behaviour but with different goals, attitudes, ownership and financing structures. The principal cannot be certain whether the agent is behaving according to expectations or the two parties may have differing views regarding an appropriate risk. Governance and information systems can be used to minimise agent opportunism. These authors stress the difficulty of designing incentives to motivate the agent to act in the social interest in very complex environments.

In the case of the development consulting world, donors use contracts, logical frameworks and other regulatory tools, as well as audits and evaluations, to ensure consultants behave according to donor expectations (White and Haapala, 2019). However, the performance of consulting company work is far from the donor headquarters, and there are many risks and complicating

factors. 'The project supervisor in a development agency cannot know whether that output has been produced in the right quantity, or with the correct parameters, or at the appropriate quality, for the socio-economic environment in question' (Murrell, 2002, p. 74). As a consequence, the principal must also trust the agent – in this case the consulting company - to do their best. This is quite unlike a direct private sector contract, where the client can see what they are getting and refuse to pay if the deliverables do not reflect the contract.

Eisenhardt (1989) also discussed the concept of adverse selection, referring to the misrepresentation of ability by the agent. In the case of consultants an example is the tendering process. During tendering, the donor views the curricula vitae (cv) of the technical experts, showing their earlier work; and project reference sheets showing the previous projects of the company. The aim is to prove their competence for the future assignment. Scoring is given by the evaluator on this material. It is difficult within the confines of a tender to actually prove that competence. The expert who scores the most points may not be the best for the job – either due to personal inadequacies or a mismatch of the TOR with the needs. Chambers (2017) described the high transaction costs and demotivation involved with competitive tendering and heavy reporting requirements in the UK, and the same comments could be made in Finland. It was clear from many MFA and company respondents that the tendering process is a very blunt instrument to select the best personnel.

Recruiting a team that can work in a long-term project – it is more than the cv. In practice you just put together the mix of cvs that will maximise the scores you get in the tender evaluation and then you hope for the best...you use a huge amount of time to sort out the messes you get, because you recruited a cv, not an optimal person. (company staff)

It depends on the consultant staff, on the local ministry staff, on our embassy staff, and it depends on the desk officer in Helsinki. So the people have very much influence on whether it succeeds or not... not what is written on the paper only. It all boils down to the

individuals. They may have a good cv but they may not have the heart or the intellectual capacity to identify problems and deal with them. (MFA staff)

Agency theory disregards some of the other characteristics of relationships: autonomy, motivation, identification, authority, stakeholder orientation and short- versus long-term collaboration (Abländer et al, 2016) – which are relevant for this case. For instance, with a long-term relationship between the principal and agent (donor and company), the principal is able to assess the behaviour of the company more readily. In Finnish tenders, the procurement guidelines restrict the chance to consider past (good or bad) performance of a company. However, a good personal relationship between the donor and company staff is certainly beneficial in the implementation, to preserve communication channels and resolve problems.

Davis et al (1997) argued that agency theory is inappropriate in a setting where the parties' interests are in line (as could be assumed in development cooperation), and the actors hold shared values. They argue that an alternative - stewardship theory - could be better applied. Stewardship theory assumes that managers, left on their own, will act as responsible stewards of the assets they control. This different attitude is seemingly applied when the MFA deals with their other partners – including recipient governments, NGOs, multilateral organisations, auditors and financing institutions. The expectations are more relaxed for these organisations than in the consulting companies, as they are trusted to do the right thing. 'There is no attribution in the UN system. If we finance through them then the whole concept of attribution is unrealistic. You can't try to track it.... that is contrasting with the bilateral consulting world. It is 180 degrees different.' (MFA Manager).

Consultants are not pure outsiders. Consultant roles vary from that of 'outsider', based on simple market exchange of payment for advice or service, to 'insider', in which a web of social ties develops in what are often long-lasting relationships, developing shared values and cultures (Kitay and Wright, 2004). There is an element of movement of staff between the MFA and the

consulting companies (as well as NGOs and research). For instance, the persons interviewed had worked with an average of 4.3 types of organisation in development cooperation, with 10 of the 24 having worked both for the MFA/embassy and for a consulting company. Indeed, projects are a good training ground for the MFA to get access to field-experienced Finnish staff.

Eyben et al (2008) considered principal-agent theory to not be applicable in official aid relationships, as this presupposes only two parties in the relationship, while there is generally a network of accountabilities. Clearly, when it comes to being paid, the Client is important - but to achieve the results, the company and advisors usually have to also respond to the beneficiaries and recipient country stakeholders. 'I feel that it is the people out there that are supposed to benefit from the project...otherwise it might be that we write a lot of nice studies and reports for the MFA, but nobody actually benefits, because you aren't really accountable to them.' (company staffer). The degree of commitment to the beneficiaries may be one way for a company to make a difference and 'do good'. However the working environment is messy, and consultants may need to 'take sides'.

An ex-World Bank manager summed up the inadequate links between macro and micro levels:

The development industry is schizophrenic. It talks at two completely different levels, with very little articulation between the two. Donor strategies talk at the huge level of transformative change, while the actual interventions remain relatively modest and tightly bounded projects, because ultimately development agencies do projects. Practitioners within those agencies have incentives to keep talking at both those levels – the rhetoric gives a sense of grandeur and big change, while day-to-day promotions depend on activities at the project level (in an interview with Yanguas & Harding, 2014).

In practice, companies develop shared values and cultures with the Client and with other stakeholders, creating an 'alliance' to address collective problems. Ostrom et al (2001), and later Gibson et al (2005), presented the Development Cooperation Octangle, where all of the

actors (including donor and recipient governments, consulting companies and NGOs) are involved in potentially difficult collective action problems and principal–agent relationships. The implementing consulting company (and TA) plays a central role, as one of the few actors in touch with all. Embassy staff links to grassroots stakeholders are tenuous, mainly operating via the implementing consultant. Even further removed are the staff of the donor agency in the home country – in this case, the MFA. Donor staff rotate regularly, diminishing the opportunity for institutional learning. As the main contact with the beneficiaries, the donor is dependent on the consultant to ‘play fair’. This also bears a risk for local ownership and participation. If the consulting company is held responsible for implementation, it is in its interest to control the activities, rather than handing over the responsibility to local stakeholders.

Some MFA staff noted that they are unable to know what is really happening in the projects –

I couldn't see 100% what was happening in the projects. We rely on the Embassy – and they rely on the company to say what is happening. We get information in reports. We are quite far from the beneficiaries.

In some cases, they recognised that there was micromanagement, but reflected on the dilemma of balancing trust with accountability.

We have to monitor to see if things are going the way they should. But there also needs to be an element of trust. The whole idea when we procure services from a company is that we have procured people with knowledge... the best possible people that we can in the market to do the specific thing. (MFA staff)

Mosse (2005) described this relational problem from his own experience in India, where donor staff became disengaged from field reality, and constant rotations of government staff made institutional learning problematic. The consulting company and advisors play a pivotal role in those situations, dealing with all parties, with both technical and political tasks. Some managers in MFA Finland recognise the potential for a symbiotic relationship –

I think we need the bilateral cooperation very much. It gives us confidence to talk about developing countries. If we didn't have this contact [via consulting companies] then we wouldn't know anything...this is our only contact to reality. (MFA management).

Companies that have operated for many years usually have long-term employees – often providing more knowledge of projects and MFA activities than the MFA itself, with its rotating staff. This provides an element of institutional memory, often missing in the MFA. Studies of the donor development agencies point to the frequent rotations of staff and lack of institutional memory (eg. Ostrom et al 2001, Gould and Marcussen, 2004). In these circumstances, consulting companies may provide added value, if they have a long track record.

Our desk officers and team leaders change too often so the institutional memory is lost. This has an impact on the quality and sustainable results of the project... Institutional memory [in the consulting company] is very important. (MFA staff)

Donors undertake evaluations, carried out by external experts (either individuals or other consulting companies), as a means of objective checking. However, evaluators are themselves members of the network, with their own biases and an eye on future work. If regularly working for the same client the evaluator will tend to become an insider, and therefore uncritical. They are generally guided to an expected result by the donor staff, and in any case only get a snapshot of the project – precisely because they are less embedded in the local setting they may be independent, but they have a potentially weaker understanding. Yet the alternative of bringing in a consultant without experience of that donor can result in misunderstandings of processes and expectations (personal experience as evaluator and 'evaluee'; Gibson et al, 2005).

The drive for Results-Based Management requires targets to be set in advance and assumes a linear cause and effect relationship; not leaving space to try, potentially fail, and learn in a typically messy and complex environment. On the positive side, in Finland there is still room for adjustment of the logical or results framework, as MFA staff demonstrate more flexibility

than some donors. However, there is a tendency for both MFA staff and consultants to focus on success, and not learn from public discussion of mistakes, in order to satisfy both political masters and the public. The difficulty comes with the juggling of different imperatives. Donor staff must apply the donor's development policy and the interests of their Minister. At the same time, they must find common ground with recipient country government staff on the framework for cooperation, and apply the administrative rules. Mayer (2017) noted the limitations on aid practitioners – 'The bureaucratic system structured around aid has been designed to protect public funds from being misused, but while its purpose has been good, it has made practices more limited and challenging.' (p.255) As a consequence, there are some MFA staff 'who think that consultants will cheat at any moment that they have a possibility, and there are those who think that consultants are trying to do a good job.' (company staff, ex-MFA).

Consulting companies and TA are often regarded as self-interested agents rather than insiders or partners with mutual values and synergies. There is a vicious circle – criticism in the media leads to reluctance by the MFA to take any risks. Cuts to donor staffing, or recruitment of inexperienced staff, mean an increased work burden and less knowledge of reality in the field. Then the system bogs down in bureaucratic checks, often leading to delays and worse development results.

Procedures, contracting, contract management...that is what takes most of the time of the project officers here... calling upon the lawyers is increasing... probably due to the fact that there are a lot of young people without experience... (MFA staff)

However, in this circumstance, an experienced consulting company can support and inform the work of the MFA, if they are treated with trust.

Are development consulting companies profitable?

The business model for most of the larger consulting companies is to maintain a permanent core staff, comprising of financial and administrative staff, technical or management experts, and a roster of temporary consultants. Staff are responsible for tendering, project management from

the home office and backstopping missions to the field. At times they implement assignments themselves.

In long-term technical projects, income is assured over a longer period, however, they are expensive to administer. Rents and salaries of technical and administrative staff of the home office must be paid; regular queries from the donor answered; and capacity building assured. Usually only larger international companies can afford to finance projects, archive materials and provide financial accounting to the standard required by the MFA. Work is done on a payment-for-services basis, and the assignments are tendered and highly competed.

Consulting companies must constantly tender for new projects and assignments in order to maintain their cash flow. The successful hit rate in tendering competitions varies enormously. Most companies lose more tenders than they win – with consequent costs. While the fees sound high compared to local salaries in partner countries, after the running costs are paid, there is little profit (see below).

When they apply the procurement procedures, it means costs for the companies and the costs need to be covered by the margins, including the lost tenders. That is the cost you have – the additional cost due to the procurement. (ex-company staff)

While popular attitudes regarding consulting companies were shaped by the 1980s, as of 2019, there are few large Finnish-owned firms still operating, with some moving away from development and others bought by foreign firms. In comparison, a more commercial approach can be seen with multi-national engineering-based companies with a Nordic base (including Pöyry, Ramboll and COWI). Stora Enso Forest Consulting pulled out of development work in 2004. All have gradually withdrawn from most development consulting activities in recent years due to the small profits and high risks (based on interviews with staff).

Comparing the financial results of the companies working in development consulting is not easy, given mergers, internal fund transfers and name changes. However, it is clear that the results were poor for most companies in recent years. Some experienced wild fluctuations (Figure 1). In 2016, the downturn in the number of MFA-funded long-term projects was evident for most companies, with some showing significant losses.

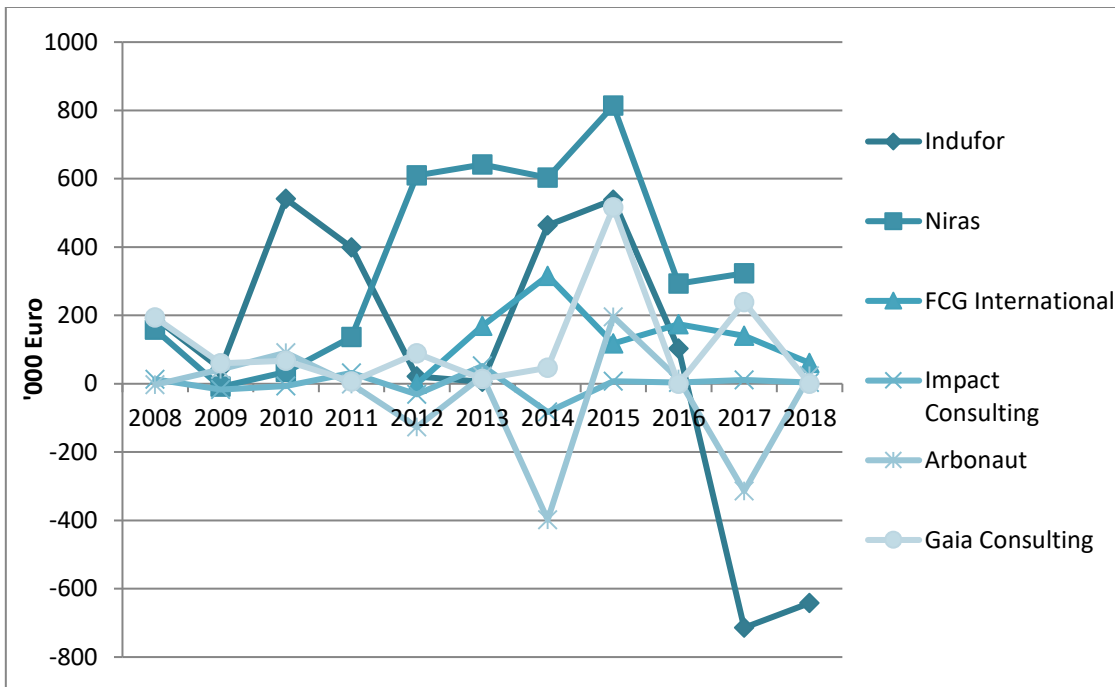


Figure 1: Annual Profits of Consulting Firms in Finland (from public data)

<https://www.is.fi/yritykset/> (accessed 23.7.2019)

Development Today in 2007 noted that from a peak in 1991, the number of companies in aid had dropped from 20-25 down to a handful. By 2019, despite the move away from budget support, there is even less technical assistance, on which the companies rely (OECD and MFA). While there are still large budgets channelled via project modality, the formerly large TA teams have almost disappeared, and the norm has become a project with one or two international staff, and a handful of national experts. As this change has taken place, many companies have left the development market.

How do companies respond to fewer tenders and less profit? As seen above, and in my interviews, some leave the business altogether, or change the business model to incorporate more private sector work or national work. Some muddle along, partly due to their accumulated expertise or the interests of their employees or owners. Some lay off senior staff and use more juniors, or move operations offshore and employ cheaper local staff. All have been involved in mergers and acquisitions, and the field has reduced dramatically. This reflects the general consolidation of development consulting worldwide.

Many of the organisational changes are imposed from outside, due to the need for the companies to 'follow the money'. There is only limited room for change within consulting companies, as they work in response to the priorities set by the donors. Companies must adapt to the changes in sectoral emphasis or approaches, or they will not win tenders and survive. This means finding the required experts, forming consortia, and introducing the donor's priorities to local partners and beneficiaries.

Motivations of firms

Why are some consulting companies persevering? Potential reasons can include the obvious financial incentive, supplying the demand from the donors for TA – however, as noted above, profitability has decreased, and those driven by mainly financial reasons have left the market. No company is likely to withdraw from an area of work if it is a viable economic proposition. However, if the financial incentive does not exist, or the risks are high, there must be some other motivation.

Overlapping motivational factors include: societal/enabling environment (such as public interest in development, good PR that benefits other activities); organisational (such as history, mission, culture, incentive structure); and individual (salary, intrinsic motivations and morals). (UNDP, 2006). 'In a workplace context, belief in the "mission"—the social purpose—of the organization can be an important element in "moral" motivation'. (Paul and Robinson, 2005, p.19). Gibson et

al (2005) noted that profit was only one motivation, and often not the most significant, while developing meaningful partnerships and contributing to well-being and poverty reduction in developing countries were important drivers. Most of my respondents reported that this was a motivation of individual staff. Motivations of a company are hard to differentiate from the staff that make it up, especially within the small Finnish development consulting companies, and not all the consultants working for a company will share identical motivations. However, research by White (2015) has demonstrated a shared *habitus*, and the small employment market means staff are less inclined to rock the boat with employers or donors.

How can altruism be defined with respect to development companies? Pure altruism is typically defined as a gift without return, a concept unlikely to drive companies. However, altruistic and commercial motivations can co-exist. Profits can measure both satisfaction of market needs and the ability of a for-profit organisation to manage itself efficiently. Measurement of intangible services is more difficult, but company work via projects is constantly evaluated. If the project aims to make a positive change in society, and the objectives are achieved, is that enough? The limited space for companies to go beyond that is to support their field staff to deliver more than the specific requirements of the project document and contract (usually narrow and focused on expenditure). In some projects this includes extra studies and publications, introducing innovations and broadening the scope of the work from the technical and administrative, moving to ‘doing development differently’. Yet there is little financial incentive to do this, beyond reputational.

Value statements of the companies usually refer to developing capacities, contributing to sustainable development and well-being. Value statements can be seen as window dressing, however some company respondents voiced their importance. Some said that tenders had been dropped in the past due to a conflict with the values (for instance, if the company would need to offer a bribe to win). Company values are also important for the individuals in the field,

particularly in dealing with corruption. ‘The values of the company have a big impact because if the company doesn’t support you in this you will find it very difficult.’ (company staff).

Codes of conduct have also become increasingly important. In the case of at least one company, blacklisted earlier by a financier, staff and contractors must take an ethics course and the code of conduct is applied strictly. Blacklisting by donors or financiers is a serious risk, both financially, but also to reputation. With the market being so competitive, there are incentives to act corruptly in order to win tenders. Yet, while some instances have been reported in work with multilateral financiers, there has not been verifiable evidence within the Finnish bilateral projects of outright corruption.

Limited companies with ownership by institutions or their own staff, have less pressure to return a high profit. One manager noted that work with developing countries is in line with the political wishes of the owners, despite limited profits. In another, staff recognised they needed to be profitable – ‘but at the same time people want to do something that has meaning, the ‘building a better world’ thinking is there’. However, in Finland companies should make a profit⁴, and in order to tender for assignments, donors require a company to be profitable.

Sometimes privately owned businesses have a long-term business case for using the consulting experiences. For instance, the motivation of a large forestry company involved in development consulting in the 1980s and ‘90s was described by one of their staff:

My boss said ‘[We] will become a big international company in the future, and we will need staff to carry out operations in the tropics. We are training foresters in this development work’. He had a vision and it has more or less materialised now.

⁴ Limited Liability Companies Act, Part IV, Chapter 13, section 9

Those listed on the stock exchange have a duty to their shareholders and face more pressure. As can be seen in the chapter on financial returns, many listed companies are withdrawing from development consulting. 'There can't be any hits on the project profits. In a listed company if you say you had a bad year, you are kicked out.' (company manager).

Why are development consulting companies either invisible or derided?

Maybe this rests on questions of the ethical basis of making a profit from development?

Hancock's seminal work 'The Lords of Poverty' (1989) damned 'Development Inc.' and its role in wasteful development work of the 1980s. There is extensive international academic literature critical of development in general, and consultants in particular. Even donors join in. The UK International Development Secretary was quoted saying she "will not tolerate the profiteering by those who have created an industry out of the suffering of the world's poorest"⁵.

Is it still a fair criticism, faced with the financial realities for consultants in Finland now? It seems the philosophical objection remains. Journalist Heikki Aittokoski (2013) expressed outrage that anyone would make money from development -

'The only ones who will certainly have benefited from the development assistance over the long term are the men and women of the development industry... Expat salaries are high - in comparison with the incomes of the world's poorest, they are nothing short of astronomical. Consultancy firms are eager to find a share from the global development pot... they don't do their job out of the kindness of their hearts - they want margins.' (author's translation)

⁵ <https://www.ibtimes.co.uk/britains-foreign-aid-budget-pays-out-billions-pounds-consultants-1595418>

In my former work in other modalities, I also judged the motive of consulting companies to make money from work with the poor to be inappropriate. Are these criticisms fair? Beyond volunteers (who can't volunteer forever), everyone working in development earns a salary. Advisors in the field spend long hours far from home, risking disrupted family lives, uncertain contracts and potential danger. This comes with a high fee, and companies must charge an overhead to be able to provide professional services, project management and administration of the demanded quality. Funds could bypass companies altogether, with individual consultants occasionally employed directly by the MFA (with associated bureaucracy costs); or move to budget support, with fewer explicit costs (but also less control by the donor).

None of the MFA and company staff interviewed were critical of consulting work from an ethical point of view. Most argued that if we accept that a certain expertise in development cooperation is needed, then we have to expect to pay for that expertise. In addition, many argued that if the private sector is considered an appropriate service delivery method in Finland, then the same should be true overseas.

Should you make money out of poverty reduction? Why not? It would be a bit naïve to think that all these development results could be delivered from the kindness of their hearts... It is a business that has ethical rules, that have to be interpreted by the staff according to their work morale, and that is guided by the ethic from their owners. (MFA staff)

However, the respondents raised questions of value for money, and ownership by local stakeholders. When asking about the fees, it was clear that consulting companies felt that they were too low (noting that the costs have risen and profits had decreased).

The problem is that for an outsider they look huge. Wow – how much is this person earning?! But when you take out all the costs you have, behind that, the margins in the long term projects are low. (ex-company staff)

MFA staff were not clear on how the fees were split between the expert and company, and what the costs for the company were. Some said they found fees hard to defend to recipient governments. However, they argued that having made a decision on the use of consultants (with associated decreased administration), the MFA must be prepared to pay the going rate.

The consulting companies, and the people who work with consulting companies, need to have enough fees, they have to be competitive and sufficient for the companies to be successful. But we also need to look at the fees in comparison with the impact we get from consulting. (MFA management)

Indeed, there are certainly examples of weak projects and advisors who don't deliver, despite high salaries. Sometimes that is due to problems in the design, or disagreements with other stakeholders in the 'octangle'; at other times the complex tendering process doesn't result in the best person for the job. Advisors who aren't focused on achieving the best possible results give bilateral projects a bad name. The company is then responsible for replacement costs, and the potential reputational risk with the donor. However, there are also failures in other modalities, with a high overall cost.

Conclusion

To summarise, what are the pros and cons of using consulting companies to provide TA?

Companies provide institutional memory, especially facing the turnover of staff in the government. They provide a training path for development workers, who can then work in other modalities or for the government. It is usually more politically and economically feasible to outsource, than for the government to recruit staff directly, and maintain a larger bureaucracy to manage them. Relevant professional expertise can be recruited that is specific to a project or assignment, rather than maintaining many experts on standby. Company in-house capacity can support the experts in the field on technical or administrative issues. Use of companies and external experts serves as a way to outsource risks away from government staff.

For the MFA, there is a specific advantage to contract Finnish companies. They provide a ‘Finnish’ link, which is closer to the MFA, speaks the same language and knows the policies and procedures. They participate in policy development discussions in Finland, supporting the MFA, and provide stories and connections to the taxpayers. It also satisfies the wish of politicians to support Finnish business.

On the other hand, consulting companies are expensive – though it is unclear if it would actually be cheaper via the MFA or as individuals. Local firms in participating countries would definitely be cheaper than international consulting companies, but don’t usually have the capacity to finance projects.

Donors strictly apply restrictive practices reflecting principal-agent theory, despite often sharing values and aims with consultants. Tendering processes are inadequate for finding the ideal TA – this can result in companies or TA that are good at tendering but bad at implementing.

Increasing bureaucracy and complex tendering processes are counter-productive, as they work against smooth achievement of results. Further discussions between donors and companies might assist in identifying improvements to processes. Power is focused in the consulting companies and TA when putting plans into practice (for good and bad), and the results of activities will depend on the relationship with all parties and trust in the TA. Use of a company concentrates donor reliance on TA and loosens the relationship between the donor and recipient government.

International development consulting differs considerably from standard private sector operations. Consulting companies are constrained by the specifications of the donor and partner organisation, leaving only limited space to act independently to go beyond the project document or to ‘do good’. They play a pivotal, but virtually unacknowledged role in bilateral cooperation, as the only actor dealing with all parties. With the overhead on the experts being their only income, companies are highly reliant on the donor. However, this dependence is mutual –

donors rely on the companies for information from the ground, the role of implementing donor policy and plans, and providing institutional memory.

Although often judged by the earlier years of high returns, falling ODA expenditure in Finland, increasing demands and overheads have diminished the profits. Company balance sheet downturns and the continuing consolidation of the industry are indicators of this trend. Only a few companies remain involved, with incentives ranging from money, learning opportunities and varying interest in ‘doing good’. There is a risk that the ‘unacknowledged bastards’ could disappear altogether soon.

There is a niche for consulting companies to go beyond the strict confines of the project document. Companies can simply focus on money – or they can play an important go-between role, brokering policy to practice, and bringing together donor and beneficiaries. They are the ‘boots on the ground’ when it comes to putting the donor policies into practice (whatever may be argued as to the validity of those policies). While donors wish to control the funding to some degree, to maintain institutional memory and assert some policy guidance, there is a need for consulting companies and their staff.

Annex 1: Description of the nuts and bolts of Finnish Development Consultancy work

Finnish consulting assignments (and those of most donors) normally have a maximum budget. Companies present the team, along with the methodology, in response to a Terms of Reference (TOR), open globally. The TOR for the assignment has expected outcomes that may or may not be in line with the time and financial framework. The allowable reimbursable costs are defined by the Ministry for Foreign Affairs (MFA). Normally the tenders are evaluated on the basis of 80% weighting for the technical and 20% weighting for the financial evaluation scores.

Short-term consulting assignments (for instance evaluations) usually require a team of one to four people, some international and some recipient country nationals. The companies present a tender including fees of the expert team, reimbursable costs (flights, hotels, daily allowances, local transport, workshop costs, etc.), as well as their proposed methodology (in response to the TOR). Average costs per working day vary according to the type of expertise and nationality, and whether social costs and insurances are included. Short-term technical experts normally do not have continuous work. Hence, their fees must reflect this uncertain cash flow and cover their own social costs. The overhead of the company covers administrative costs (organisation of the assignment, financial reporting), the cost of advancing funds to the expert team for the assignment and quality control on reports – in addition to profit.

In the case of **long-term assignments** (usually a project), companies present a tender for anything ranging from only one expert to a larger team. They must strictly follow Instructions to Tenderers to avoid being eliminated from the process. The instructions normally specify exactly the technical assistance required, and a large element of the scoring is based on the cvs of the experts. They present the technical approach and company experience, plus an overall budget. The tendering costs include fact-finding visits, finding the right experts and bringing the team members to Helsinki to participate in the tender interview, and the administrative costs for writing the approach and preparing the tender. In many cases, the successful company is required to finance the implementation of project activities up-front. They are only able to invoice the MFA when the reconciliation is done on expenditure and receipts produced. This makes the company a de facto bank and may mean 100,000s of Euros are invested, at some risk, for periods of three to six months with no interest paid. In the case of projects funded by the European Commission, the time lag for payment can be years. The fees invoiced from the MFA per working month (a maximum of 10½ months per year) is the only area of the budget where the consulting company can make their overhead and finance technical backstopping. A home office coordination fee of 1000 Euro per month in total can be invoiced, but this covers only a

small part of the financing and administration costs (and is the same, whether there is one expert or 30 in the team). Most companies aim for 30% overhead within that monthly fee, but it is usually closer to 20%. If the company employs an international expert they usually pay per working month, but a Finnish expert on salary is paid per calendar month, and social costs must be covered.

Given the intermittent and limited opportunities to use company staff in projects these days (in contrast to the large teams of the 1980s and 1990s), the companies usually use external staff as well, maintaining databases of external experts. Others are found by advertising in response to the TOR. It is not economically viable to keep a large stable of technical staff in the office in the hope of winning tenders. This leads to a risk, as external experts may not do a good job. They may leave the company with the responsibility to replace them or repair the 'damage', and there may be a gap in presence. In the meantime the financing and backstopping costs still accrue. In addition, the company is often required to cover the costs of changing experts, such as flights and transport of personal belongings.

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