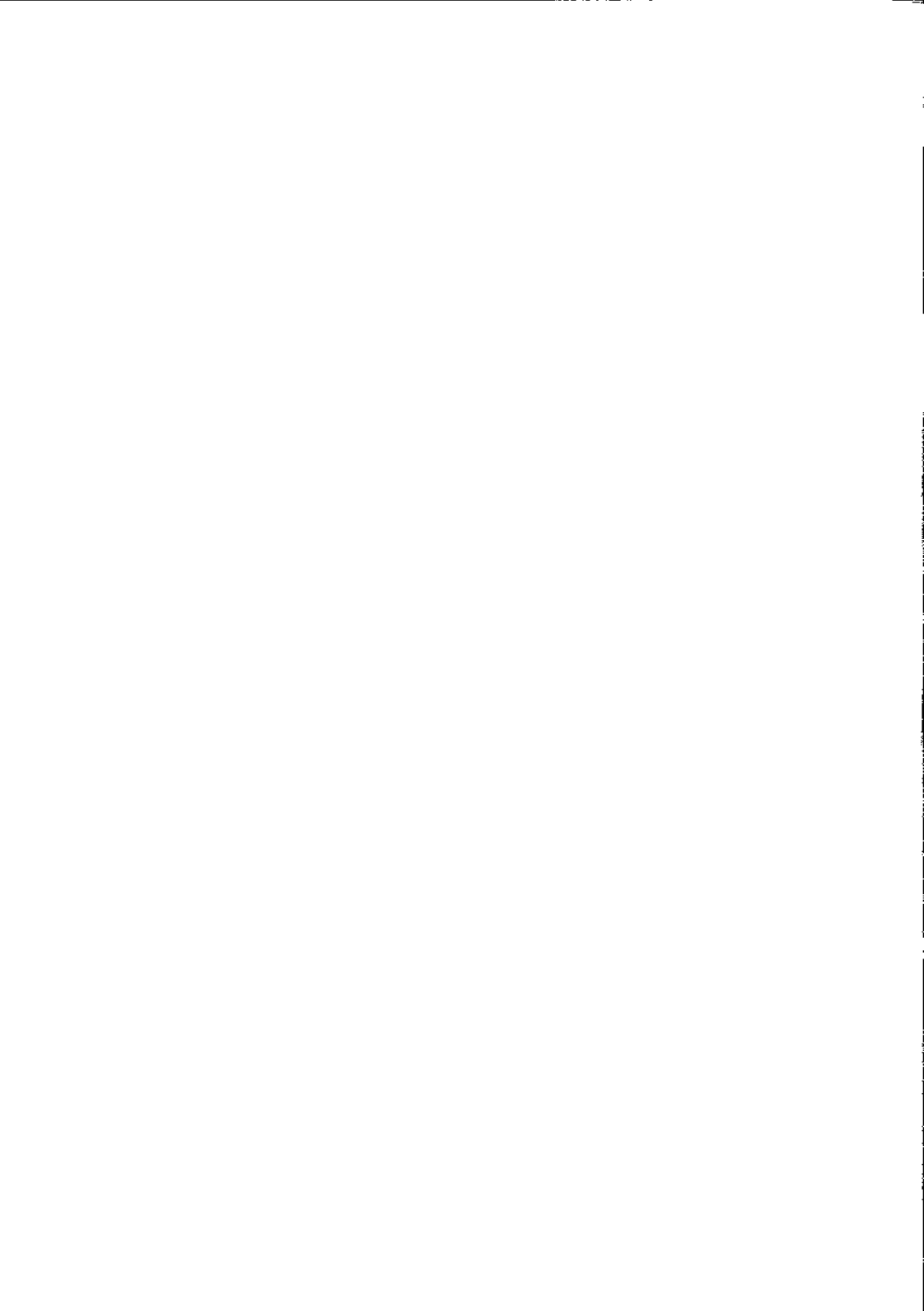


# CONTRACTING OUT: BANE OR BLESSING?





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*Main findings, focal points and summary of the report*

A policy survey on contracting out bilateral development activities, with special reference to rural and regional development



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## Main findings and focal points

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1. Since the early years of development cooperation contracting out of development projects and their direct implementation by the Directorate-General for International Cooperation (DGIS) have taken place side by side. The last ten years, however, have seen a trend towards more contracting out. Indeed, since the 1984 Review of Bilateral Development Cooperation Policy contracting out has been the official rule, while it has now become the exception for DGIS to be involved directly. Instruction No. 18, issued by DGIS ('Acquiring goods and services') is based upon the principle that work is to be contracted out to private-sector companies. Recent policy documents anticipate that an increase in the proportion of work contracted out will lead to the following three effects:
  1. a qualitative improvement;
  2. greater involvement of non-governmental circles in development cooperation;
  3. a reduction in the workload.

Research focused on the relative merits and drawbacks—with respect to these effects—of having development work carried out by DGIS on the one hand and contracting it out on the other, placing particular emphasis on bilateral rural and regional development projects. The development and implementation of policy by DGIS and a number of other donors, agencies and organisations in a number of developing countries were examined. The survey also included field research, a review of dossiers and discussions with a number of organisations in the Netherlands which are involved in advising on and conducting development cooperation.

- 1.1. Qualitative improvement: The advantages of contracting out certain categories of projects are generally recognised. This applies especially to preparatory studies such as cost-benefit analyses and feasibility studies, to projects requiring a high degree of specialisation which can be provided

by a particular organisation whose assistance is therefore required, and to designing and supervising the construction of infrastructure. The present field survey therefore avoids these project categories, focusing rather on rural and regional development activities. Opinions vary as to whether it is desirable to contract out projects in this category.

A study of 24 projects in the above category which were carried out on the basis of a number of different implementation formulae elicited the following information. Whether projects were implemented by DGIS or contracted out to non-profit-making organisations and small consultancy firms, the results were comparable in quality. Projects which were contracted out to large commercial consultancy firms were generally less successful as regards aspects such as the participation and organisation of the target group, institution building and fitting in with local structures. It should be noted that the relative quality of these projects can be ascribed only in part to the implementation formula chosen. Other key factors affecting the quality of projects are the standard of project preparation and supervision, national development policy, local living conditions affecting the degree of continuity of the teams of experts, and other local conditions.

- 1.2. Greater involvement of non-governmental circles in development cooperation: The extent to which growth in contracting out has helped to increase the involvement of the Dutch and the local community in development cooperation is a somewhat vexed question. The number of Dutch experts on long-term postings abroad is declining. The number of organisations supplying DGIS with experts is increasing, but most of these experts are provided by a limited number of organisations, both non-profit-making and commercial, which have been involved in this way since the very beginning of development cooperation. Many of the organisations operating on the implementation market also provide DGIS with advisory services. The supply of local experts is growing, as is the number of local organisations which can be involved in project implementation. In the long run contracting out may help to promote cooperation between organisations in the Netherlands and developing countries.
- 1.3. Reduction of the workload: The workload of employees of DGIS and the embassies concerned has not been noticeably affected by the increasing proportion of work which is contracted out. Contracting out means less financial and administrative work for the embassies (reimbursement claims,



housing rents, project funds, etc.). The increase in contracting out is just one of the many factors affecting the workload on the country desks. No reduction in the workload has been observed in the short term as a result of the increase in contracting out. However, there has been a shift in the tasks assigned to DGIS and the embassies—from recruiting and giving logistic support to experts attached to DGIS, to holding discussions with the management of the implementing agencies and appraising external advice.

2. Advantages and drawbacks of contracting out project implementation. The first advantage is that, in certain circumstances, it encourages institutional cooperation between Dutch and local agencies and organisations with comparable aims (consultants, universities, government services, non-governmental organisations, etc.). This makes it possible to deploy mixed teams for the implementation of projects. In these circumstances contracting out is an instrument whereby more local expertise can gradually be fostered and involved in projects.

A second advantage of contracting out is that the allocation of responsibility is clearer than in cases where DGIS itself implements projects. Throughout the project a single party is responsible for the whole of the Dutch-funded contribution.

A third advantage of this system is that the agencies and organisations to which work is contracted out are in a better position to recruit staff and deploy them in the field when needed and can usually offer better career prospects than DGIS.

The following drawbacks are worthy of note. First, where contracting out is concerned the institutional interests of the chosen organisation must be taken into account. This aspect is particularly significant where projects with the character of a long-term programme are concerned. In such cases new sub-projects may be identified in the course of implementation, local people may use their influence to steer activity in a direction other than that which was originally planned, and the gradual building of institutions may also lead to changes in the approach to a project. Consequently, the tasks of identification, formulation and implementation run together and devolve to one party. Safeguards against a conflict of interests are called for when projects of this type are contracted out to organisations with an institutional interest. This applies in particular where work is contracted

out to commercial agencies, which depend more heavily on turnover in relation to man-hours invested in development projects than most non-profit-making organisations. In the past the experts employed by these agencies were trained to carry out infrastructural and technical work, and this is still true to some extent today. However, the commercial agencies are gradually recruiting a higher proportion of staff with a non-technical educational background and experience.

A second drawback is that of cost. On average, it costs 33% more to employ an external expert attached to a commercial agency than to employ an expert attached to DGIS on the same salary. However, this makes little difference to the total cost of employing experts, as a relatively high proportion of work has been contracted out for a long time, and the changes are on a limited scale (45% of the total man-hours were contracted out in 1979, as opposed to 60% in 1986). Contracting out would be considerably cheaper if more local staff were to be employed. Further study would yield additional insight into this issue.

3. Through the years, the deployment of experts and the orientation of DGIS towards project management and supervision have undergone changes of direct relevance to the issues discussed here. The nature of the projects themselves has altered in the course of time, shifting from projects aimed at the transfer of technical expertise in a particular field to individuals (students or people working in the same field in developing countries), to projects and programmes aimed at giving assistance to poverty-stricken groups, institution building and cooperating with local experts. This requires the formation of multi-disciplinary teams of experts with a changing membership, providing both technical and financial assistance, which places greater demands upon recruitment and project management.

As a result of the above considerations and the increasing emphasis upon the broader policy aspects of projects, heavier demands are placed upon the preparation, appraisal and supervision of projects. The following two factors complicate the acquisition of professional experience within DGIS:

- a. the quantitative limits imposed by the small number of posts in DGIS;
- b. the formal integration in 1987 of foreign service personnel and the staff of the Ministry of Foreign Affairs, including DGIS.

Prior to 1987 Ministry staff and foreign service personnel were recruited separately. Consequently, DGIS staff could be recruited from a pool of individuals with a certain degree of expertise, experience and affinity with development cooperation. Since the integration, a single method of recruitment has become the norm; admission to the integrated service is based on the results of an entrance examination, candidates being selected for their potential versatility in the Ministry and in the embassies, as their tasks will include diplomatic, political, consular, cultural and trade promotional duties in addition to development cooperation work.

The technical support unit DST/TA (Technical Advice Unit of the Sector Programmes Coordination and Technical Advice Department), set up in 1978, which comprises nine advisors with specialist knowledge in different fields, is the only section within DGIS which is still able to recruit specialists externally. A limited number of sector specialists may still be employed on a contract basis by the embassies.

This new system has resulted in faster rotation of staff. Transfers and exchanges within the Ministry and the embassies make it difficult to acquire expertise. The policy of contracting out work is not sufficient to make up for the shortage of experts for project preparation and supervision in DGIS and at the embassies. It is not only the implementation of projects which is contracted out. Other stages in projects—identification, formulation, supervision of implementation and evaluation—are also heavily dependent upon external experts, which makes it necessary to call on organisations linked with DGIS, many of which are active in a number of these fields and have their own institutional interests. DGIS needs to build up more specialist knowledge and practical experience of development cooperation on its own account. It is important that staff should rotate regularly between the embassies and DGIS, in order to avoid the narrowing-down of internal expertise. Steps must be taken to ensure that the functional demands arising from changing views and working methods in development cooperation can be satisfied. The measures for this purpose announced in the 1989 Budget Memorandum need to be developed in greater detail.

A number of factors—the rapid changes taking place in developing countries, the vast store of experience acquired through development projects, the increase in the deployment of local staff to implement and advise on projects, and the need to integrate project work more smoothly into the wider policy

framework of the recipient country—make it essential for the embassies to have their own experts on a permanent basis. A possible solution would be to expand the present programme for sector specialists assigned to a number of embassies in order to make available a group of versatile senior experts with extensive experience in the field, knowledge of the region, a wide knowledge of the sector, experience in working with local institutions and an understanding of different approaches to projects. These experts would undertake duties consistent with the supervisory task of the embassies. For the time being it would be satisfactory if the recommendation issued by the Advisory Commission on Experts Policy in 1986—that some 50 experts should be employed—were followed up. This would mean doubling the scale of the present sector specialists programme. In addition increased use of local experts in the preparation, implementation and supervision of projects is both feasible and desirable. Embassies in programme countries could help to achieve this. Contracts for implementation or consultancy services are generally concluded in the Netherlands between DGIS and the contracting parties. Contracting out, therefore, results in more centralised decision-making in The Hague by comparison with the policy of implementing projects under DGIS management. Such a tendency is contrary to the present policy of delegating authority to the embassies.

4. A comparison between DGIS and other donors with regard to their preference for carrying out projects under their own management or contracting them out, the links between the organisations and the development projects and the standard of management and supervision produced the following results:
  - a. There are no bilateral donors who choose either to implement 100% of their projects under their own management or to contract out 100% of their projects. Some donors have a clear preference for implementing projects under their own management (Denmark and Norway), while others opt for contracting out (USA, Canada, Switzerland) and a third group uses both methods of implementation (Britain, France, Sweden, the Federal Republic of Germany and Japan). Most donors make regular use of commercial consultancy firms in carrying out projects. The donors mentioned here prefer not to contract out 'software projects' (essential components of which are participation by the target group, training and, in general, local involvement) to commercial consultancy firms. Few donor organisations have explicitly stated, in the form of an instruction,

a preference for project implementation by the private sector, as has the Netherlands.

- b. In general, the donors discussed here are in a better position than DGIS to supervise projects using experts from within their own organisations. They are organised in such a way that a large proportion of the preparation, appraisal and monitoring of projects is carried out by their own experts. Where necessary, staff from the Ministry of Foreign Affairs of the country in question is seconded to Development Cooperation. However, none of the donors interviewed aim to create an integrated pool of staff able to pursue a career in both Foreign Affairs and Development Cooperation.
5. A number of points on which both policy and the practical aspects of implementation could be improved emerged from the survey. They concern the following areas:
1. policy decisions;
  2. conditions governing the use of external implementors and advisors;
  3. a number of operational aspects.

### 5.1. *Policy decisions*

The following policy decisions relating to DGIS are worthy of consideration:

- a. The results of this survey suggest that a number of changes to current policy on contracting out would be advisable. First and foremost, it is important that DGIS should retain the capacity to conduct activities under its own management. It may be desirable to deploy DGIS experts in situations in which contracting out would offer none of the advantages referred to in paragraph 2, or in which the drawbacks mentioned outweighed the advantages. There is also a need to have a number of experts attached to DGIS constantly available to complement its tasks and those of the embassies in the fields of identification, formulation, appraisal, supervision and coordination. In real terms this means expanding the existing programme for sector specialists.

In certain circumstances where the decision to contract out has been taken, it is preferable to use non-profit-making organisations. This applies particularly to situations in which organisations with a commercial

character, a given corporate identity and a given number of staff would be entrusted with a programme of activities, whereby the tasks of identifying, formulating and implementing subsidiary activities would run together and be controlled by one party.

Contracting out projects currently being implemented under DGIS management should be considered only if such a step offers clear advantages with regard to the supply of staff, the delineation of responsibilities or cooperation with local organisations.

- b. Policy aimed at building up specialist knowledge and experience in the field of development cooperation among DGIS and embassy staff, taking into account the diversity of tasks involved, expansion of the Technical Advice Unit of the Sector Programmes Coordination and Technical Advice Department of DGIS (DST/TA), and finally, expansion of the programme for sector specialists working at or near the embassies, for the purposes of identification, formulation, appraisal, supervision and coordination.
- c. Increasing the involvement of developing countries by giving them more say in the structure of projects (counter-signing project documents, selecting and engaging the implementing agency, greater emphasis on integrating projects into local situations, on increasing self-reliance and achieving sustainable results, and making greater use of local experts to advise on and implement projects). This policy would require DGIS to delegate further authority to the Dutch embassies in the countries concerned.

### *5.2. Deploying external experts for implementation and consultancy services*

- a. The following aspects are of particular importance as regards the use of external implementors:
  - It has been noted that the larger projects for rural/regional development require experts in a number of diverse fields. Projects of this type generally involve a combination of specialised advice, institution building, the transfer of knowledge and target group participation. This requires the deployment of a spectrum of expertise which is not generally to be found in a single organisation. It may thus be preferable for the implementing parties to join forces, provided that there is one main implementor with responsibility for the project as a whole.

- Increased use of locally available experts is both feasible and desirable. Expert knowledge can be transferred through cooperation with Dutch organisations and agencies. This applies to consultancy firms, universities, government agencies and private sector organisations.
- b. External advice is used to varying degrees. The way in which external advisory services are organised also varies from project to project and from one country desk to another. External advice was found to have varying effects upon the projects investigated. The rules and responsibilities in this area require clarification. How external advice can best be used depends upon a whole range of factors:
  - The degree of demand for external advice depends upon the number and standard of experts in DGIS itself.
  - One of the factors affecting the demand for external advice is the level of difficulty of the projects and the quality of the field teams.
  - The deployment of local experts may be encouraged not only in implementation but also for advisory purposes. Opportunities vary from one country to another.
  - The question of whether it is better to engage external advisory services through contracts with individuals or with institutions requires further investigation. There are no conclusions on this point in the present survey.

### *5.3. Operational aspects*

- a. While the project is being formulated it is important to devote close attention to a broad analysis of the problems involved before deciding on a specific approach. It is also necessary to ensure that a number of fundamental aspects of the project approach are incorporated in the project document. Such fundamental aspects include: fitting the project to policy needs and the requirements of the institution(s) concerned, sustainability of results, the extent to which local experts can be deployed, the degree of emphasis given to participation by local people and to the transfer of expertise, and the powers of the team of experts in relation to the counterpart organisation, which should be governed by the principle that counterparts and target groups should have as large a say as possible. Doing so will make it easier to select an implementor who fulfils the requirements which are considered important for the project in question.

This will also enable the parties involved to judge better the extent to which the implementor adheres to these points.

- b. DGIS can play a more active role in assessing the suitability of the candidates proposed. The demands placed upon experts in projects contracted out (such as knowledge of the appropriate language(s) and the local culture) must be the same as those to which DGIS experts are subject.
- c. The developing country itself must be involved to a greater extent in the selection of implementors and advisors, particularly under a policy aimed at wider deployment of local experts. It is proposed that—as far as this is feasible—the developing country should select implementors and advisors and sign the contracts itself, with a measure of supervision by the Netherlands.
- d. All parties concerned must be in a position to assess the progress of the project on the basis of the same documentation. This is not yet the case, as there may be differences of emphasis between the project document, the terms of reference, the quotation of the organisation which has been awarded the contract and the more detailed implementation document.
- e. Progress reports should be standardised to a large extent on the basis of a fixed frame of reference comprising a number of standard items. Each of these items would form the subject of a short report, on the basis of which action could be taken as quickly as possible.
- f. In Dutch practice, evaluations are used chiefly as management instruments for those directly involved. More attention should be devoted to other functions of evaluation, such as *ex post* measurement of the impact of the project and the feedback of experience for the purposes of policy decisions.

In introducing improvements, every effort should be made to find practices useful to as many donor organisations as possible, as developing countries experience serious problems accommodating the wishes and procedural regulations of the various donors.



Finally, the following topics are deserving of further investigation.

- a. Funding counterparts and operational costs: In a number of the examined projects, local counterparts and operational costs were funded to a greater or lesser extent. There are no unequivocal criteria for such funding. A further investigation could be carried out to determine how these forms of funding influence the long-term effects of the project.
- b. The availability of local experts. In principle, more use could be made of local or regional experts (living in the country in question or in the surrounding countries respectively). Before such a policy can be put into practice, more information is needed about the availability and the standard of local expertise. In any event, analyses of the availability of local experts and guidelines on remuneration are needed. This is an area which should, ideally, be dealt with by the governments of the developing countries themselves, possibly with assistance from donor organisations. Consultation between donors is important here.
- c. The role of experts posted to developing countries. One of the factors determining the role of local experts is the role assigned to foreign experts. As the deployment of local experts increases gradually, further consideration will need to be given to the role of experts sent from overseas. Other factors besides the purely technical contribution are at stake, most of which receive no mention in the job description. They include monitoring and supervision, the possibility of coordinating local authorities, and serving as a buffer between target groups and government authorities or between local authorities and central government.
- d. The role of project aid as opposed to aid in the form of a programme. Each of these aid instruments has its advantages and drawbacks. In certain circumstances project aid may form a disproportionate burden on the government of the developing country in question, which is all too often weak. This may lead to distortions in the planning and allocation of government resources. In a number of countries part of the aid is used more directly to support existing government programmes (budget support). The advantages and drawbacks of each of these forms of aid and criteria could be investigated further, examining both Dutch experiences and those of other donors.



# Summary of the aim, design and findings of the survey

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## 1. Aim and background

- 1.1. The aim of the survey is to examine the advantages and drawbacks of certain forms of project organisation: the implementation of development projects under direct DGIS management (by experts recruited and employed by DGIS on a contract basis), as opposed to implementation by contracting out to third parties, which involves entering into an agreement with an organisation or agency employing its own experts.
- 1.2. Contracting out and project implementation under DGIS management have co-existed since the early years of development cooperation. The last ten years have seen a shift towards more contracting out. Since the 1984 Review of Bilateral Development Cooperation Policy, contracting out has been the official rule and implementation under DGIS management the exception. Recent policy documents have predicted that the increase in contracting out will have the following three results:
  - a. a qualitative improvement, i.e. sustainable results, greater effectiveness and efficiency.
  - b. greater involvement of non-governmental circles in development cooperation, by involving various groups in Dutch society and in developing countries in the development process.
  - c. reducing the workload of DGIS and the embassies in programme countries.

The Review of Bilateral Development Cooperation Policy and the 1985 DGIS instruction which regulates the acquisition of goods and services (instruction 18) are based on the principle that development work must be contracted out to the private sector.

- 1.3. It is not only for project implementation that DGIS has recourse to forms of contracting out. It is also used for project advisory services (identification, formulation, the selection of implementors, monitoring, supervision and evaluation), for which external experts are used on a large scale.

Where projects are carried out under DGIS management, the main task of the external advisors is to provide technical support for the teams in the field and to monitor progress for DGIS. In cases where projects are contracted out, on the other hand, the contracted party in question is responsible for technical support, while the main advisory task is to provide DGIS and the embassy staff with information on the preparation and implementation of the project. The increase in the number of cases where projects are contracted out means more rigorous demands on systematic monitoring. External advisors are often used for this purpose.

## **2. Design of the survey**

- 2.1. The survey comprises a number of complementary subsidiary studies:
  - a. An inventory of contracting out in Dutch development policy.
  - b. Policy implementation, procedures and working methods.
  - c. The external parties involved in implementation and consultancy.
  - d. Background information in developing countries: counterpart organisations, embassies, local organisations.
  - e. DGIS compared with other donors.
  - f. Project studies on the basis of a field survey.
  - g. A supplementary study of project dossiers.

A number of the results of the subsidiary studies were instrumental in determining the direction taken by the field survey.

The project survey (f. and g.) focused on bilateral projects in the field of rural and regional development on which experts were employed on behalf of the Netherlands Government and which were carried out in cooperation with the governments of developing countries. Supplying materials outside the framework of a project, and strictly private-sector and multilateral programmes fall outside the scope of the survey, as do programmes of cooperation between universities and international educational establishments.

- 2.2. The various types of implementors and advisors were divided up into a number of different categories on the basis of subsidiary surveys b. and c. (paragraph 2.1.) This categorisation was among the factors influencing subsidiary surveys f. and g.

Implementors may be divided up into the following categories:

- local implementors;
- large commercial consultancy firms;
- medium-sized and smaller consultancy firms;
- non-commercial organisations, such as universities and institutes;
- non-governmental organisations;
- DGIS experts.

Advisors may be divided up into the following categories:

- project advisory groups;
- private consultants;
- sector advisory groups;
- internal advisory services and ad hoc short missions.

- 2.3. Subsidiary surveys 2.1.b and 2.1.c showed a broad consensus among DGIS workers and advisors that contracting out is an attractive form of management for the following project categories:

- a. Preparatory studies (feasibility studies, cost-benefit analyses, etc.), if the body funding the implementation of the project requires the study to be conducted by a consultancy firm or institute with a good reputation, which can be held responsible for the quality of the study.
- b. Projects requiring highly specialised expertise which is to be found par excellence in a particular organisation (such as the PTT (Netherlands Post and Telecommunications Company), Dutch Railways, the Hydraulics Laboratory in Delft, universities, central government services, etc.).
- c. Designing, assisting with and supervising the construction of infrastructure.

These categories of projects were generally contracted out in the past as well. There is no reason to consider implementing them under DGIS management. Categories a. and c. are generally contracted out to commercial consultancy firms.

Opinions vary within DGIS, at embassies in programme countries and among implementors and advisors, as to whether activities aimed at a target group or groups, which involve the formulation and implementation of new subsidiary activities in the course of the project, and activities which demand particular attention for the building and strengthening of institutions, should be contracted out. For this reason a number of projects belonging in general terms to this category were selected for the field survey. Most of the projects selected are concerned with rural and regional development, a field which accounts for over 60% of the total number of bilateral projects.

- 2.4. The field survey examined 18 rural and regional development projects in five programme countries. All of the categories of implementors and advisors referred to in paragraph 2.2 were represented in these projects. A supplementary study of the dossiers on six projects in other programme countries or regions was also conducted. In 1987 one quarter of the experts posted abroad on long-term bilateral projects were represented in the 24 projects examined in the survey. Taking as a basis the central question of whether there is a connection between the quality of a project and the way in which it is implemented, independent experts discussed some forty issues with teams of experts, organisations from the developing countries themselves, embassy staff, DGIS workers and external advisors.
- 2.5. The survey was set up by the Operations Review Unit, using Dutch experts specialised in researching and evaluating Third World studies and development cooperation. It was decided to appoint an Operations Review Unit inspector as director of research; he was advised by a senior member of staff of the University of Utrecht throughout the survey. Ten independent, experienced experts employed by organisations with no direct interest in the results of the survey were deployed on the field missions. A group of researchers from the Institute of Social Studies in The Hague conducted the supplementary review of project dossiers. The survey as a whole was supervised by a reference group.

### **3. Findings**

#### *3.1. The deployment of the experts*

- 3.1.1. There has been a change in the manner of deployment of experts and teams of experts over the years. In the 1950s and 1960s experts were used chiefly to pass on technical expertise to fellow experts and students in developing countries. The past two decades, however, have seen a shift in emphasis towards the combating of poverty, aid tailored to the needs of the poor sections of the population, cooperation between institutions, transferability, sustainability and fostering local expertise. This requires the formation of multi-disciplinary teams with a flexible membership, which changes according to the stage the project has reached.
- 3.1.2. DGIS has always encountered difficulties in recruiting the right experts. A major problem is the fact that experts recruited for projects abroad can only be engaged on a contract basis. Efforts in the past to engage a number of experts on a more permanent basis (as members of a pool of agricultural experts or a group of experts) were doomed to failure, as long-term needs are unpredictable and a large number of technical experts were no longer eligible (or no longer wished to remain eligible) for new postings after a certain time.

External agencies and organisations to which projects are contracted out are generally able to offer their staff better prospects of continuity, as they normally work for a range of organisations and have links with the Dutch market.

- 3.1.3. Ever since 1975 policy documents issued by the Ministry of Foreign Affairs have commended contracting out. The facts on implementation under DGIS management and contracting out are as follows: in 1979, 45% of the total number of man hours in bilateral projects were contracted out. This figure rose to nearly 60% in 1986. Of this number, approximately two-thirds were contracted out to commercial firms and one-third to the non-profit sector (universities, government agencies, etc.). The total number of long-term bilateral postings (whether under DGIS management or contracted out) has fallen by 14% over the last decade, probably as a result of wider use of programme aid and increased deployment of local experts.

In 1986, 341 bilateral projects of over 6 'expert months' each and with an annual turnover of some NLG 251 million were in the process of implementation. Of the above sum, approximately NLG 93 million was earmarked for actual expenses linked with the long-term posting of experts. The remainder was for short missions, project materials, the paying of local costs, etc. The sum of NLG 251 million had largely been provided by the bilateral countries and regional programmes (category II of the Netherlands development cooperation budget), whose total expenditure amounted to NLG 1,194 million in 1986. In addition to technical aid, programme aid and financial project aid with no long-term deployment of experts were funded under category II. In 1986 some 550 experts were working on the technical aid projects (through contracting out and on a DGIS contract) on the basis of a long-term assignment, that is, one longer than six months. In that year nearly half of these experts were deployed in four programme countries: Indonesia, North Yemen, Kenya and Sudan. Over half of the experts posted abroad were employed in the agriculture/forestry sector, and a quarter were working on public works projects. Half of the experts were concerned chiefly with supervising local work and 30% with the transfer of expertise. Most of the projects funded by the Netherlands had a relatively small staff; fewer than 20% of them had teams of more than three experts. Over 60% of the technical aid projects were concerned with rural and regional development. The field survey focused on this category of projects. Contracting out took place mainly in the Asian programme countries, with the exception of Sri Lanka. Most of the bilateral projects in Africa were carried out under DGIS management (though to a lesser extent in Egypt, while projects in Sudan are generally contracted out.)

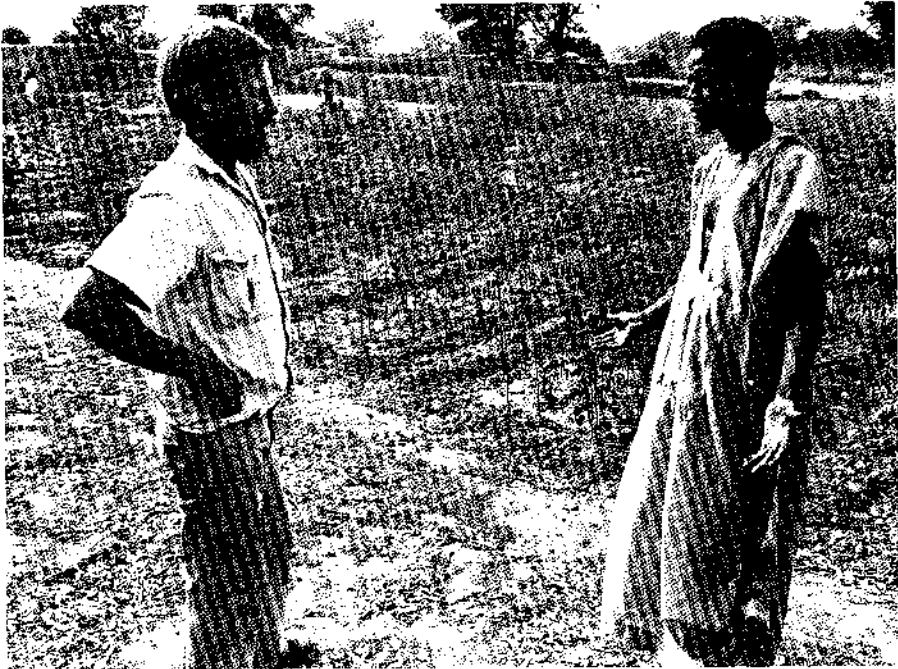
A large proportion of DGIS experts were employed in agriculture and forestry, above all. The same applied to experts employed on projects contracted out to universities. Experts of commercial consultancy firms were active in this sector too, and were also well represented in public works. The transfer of expertise was the main task of over one-third of the projects under DGIS management. Most of the projects contracted out to commercial consultants related to implementation of local works, while a mere one-fifth were concerned with the transfer of knowledge.

The approximately 550 experts mentioned above form only part of the total number of long-term postings funded by the Department of Development Cooperation. Some 100 associate experts have also been assigned



to bilateral projects by DGIS. DGIS also contributes to the salaries of just under 300 local experts employed on a contract basis under a supplementation scheme. The Organisation of Netherlands Volunteers (SNV) posts almost 600 development workers abroad, while non-governmental organisations account for about 500. Finally, about 100 people have been posted abroad on long-term projects in the context of international education and cooperation between universities.

- 3.1.4. A representative Advisory Commission on Experts Policy issued a report in 1985 on the consequences for the recruitment and career prospects of experts resulting from the rigorous policy on contracting out proposed in the 1984 Review of Bilateral Development Cooperation Policy. The Commission estimated that even if contracting out were pursued to its limits, there would still be a need for some 50 experts on a DGIS contract to act as coordinators of flexible interdisciplinary bilateral programmes. The remaining DGIS experts would have plenty of opportunity to join other organisations which would be able to expand their operations as a result of the trend towards contracting out. The Commission's proposals have had only limited success in the programme for sector specialists based at embassies. In September 1988, 17 sector experts were employed on a contract basis. The proposal to employ programme coordinators too has not been put into practice.
- 3.1.5. Over the years the orientation of the structure of DGIS to project management and supervision has undergone changes bearing directly on the issues discussed here. In 1973 the Minister for Development Cooperation was made responsible for the disbursement of financial aid, which had previously been the responsibility of the Minister for Economic Affairs. Since then instruments for technical and financial aid have been increasingly combined in the same projects, which has helped to increase flexibility, manageability and coherence. In 1979 the departments responsible for financial and technical aid were merged and regrouped in country divisions. Multidisciplinary projects combining financial and technical aid were set up during this period. Since the early 1980s procedures for the various subsections of the bilateral aid programme have been rationalised and set out in instructions. Project activities have been set out in the form of a cycle comprising five stages: identification, formulation, appraisal, implementation and evaluation. This period has also seen the beginning of the formal delegation of authority to the embassies. The identification



of new activities and the supervision of the implementation phase has also been delegated to the embassies.

In 1986 multi-year plans for programme countries and regions setting out a framework for new projects and programmes were drawn up and disseminated.

3.1.6. There are two factors which complicate the process of building up and maintaining professional skills in DGIS:

- a. the quantitative restrictions imposed by the very limited number of posts available;
- b. the integration within the Ministry of Foreign Affairs of foreign service staff and personnel based at the Ministry itself, which was officially introduced in 1987.

Before 1987 there were separate recruitment procedures for Ministry staff (including DGIS personnel) and foreign service personnel. Consequently,

it was possible to recruit DGIS staff from a pool of individuals with a certain degree of expertise, experience and affinity with development cooperation. Since the integration, a single method of recruitment has become the norm; admission to the integrated service is based on the results of an entrance examination, candidates being selected for their potential versatility in the Ministry and in the embassies, as their tasks will include diplomatic, political, consular, cultural and trade promotional duties in addition to development cooperation work.

The technical support unit DST/TA (Technical Advice Unit of the Sector Programmes Coordination and Technical Advice Department), set up in 1978, which comprises nine advisors with specialist knowledge in different sectors, is the only section within DGIS which is still able to recruit specialists externally. A maximum of 25 experts can be employed on temporary contracts for the programme for sector specialists based at embassies, referred to above.

This new system has resulted in faster rotation of staff. Transfers and exchanges within the Ministry and the embassies make it difficult to acquire expertise. The 'institutional memory' of DGIS, essential to the retention of the capacity to influence policy and to take policy decisions, may be adversely affected by this.

### *3.2. The market for implementation and advisory services*

3.2.1. The survey distinguishes two categories of experts: implementors (experts who cooperate with counterpart organisations in order to carry out projects) and advisors (experts who advise DGIS and the embassies on the identification, formulation and appraisal of projects, the selection of implementors, the supervision of projects, and evaluations). Most of the external organisations linked with DGIS operate both on the implementation and on the advice market (with the exception of the International Agricultural Centre, which provides advisory services only).

3.2.2. Implementors may be divided up into the following categories:

- a. Local implementors. These may be local consultants, local universities, NGOs, or, in some cases, local government bodies. This form of contracting out is already to be found on a large scale in India, and is on

the increase in other countries, such as Indonesia, Pakistan, Bangladesh, Kenya, Colombia and Nicaragua. The contribution made by Dutch experts is generally limited to short missions.

- b. Large commercial consultancy firms. Virtually all of these firms, many of which are based in the Netherlands, are banded together in the NEDECO association (Netherlands Engineering Consultants Group), which has 17 members. NEDECO members have been involved for a long time in projects dealing with land and water infrastructure, public works, drinking water provisions and agriculture. They operate on an international scale, and receive commissions from such organisations as the World Bank, UNDP, the European Development Fund (EDF), regional development banks, the governments of developing countries and DGIS. Over the last few years DGIS has accounted for between 20% and 30% of NEDECO's total volume of work abroad.

Large commercial consultancy firms account for some 25% of long-term postings for bilateral DGIS projects. Their share in the market decreased slightly in 1985 and 1986. These agencies also carry out a large number of short missions (shorter than six months). Increasingly, they are tending to form cooperative associations with agencies in developing countries.

- c. Medium-sized and smaller commercial consultancy firms. These firms account for between 10% and 15% of the total number of man-hours on DGIS projects. They are acquiring an increasing share in the total. Some 45 agencies are affiliated to the umbrella organisation NethConsult. They are specialised in fields such as marine technology, the environment, agro-industry, energy, rural areas and industry. The agencies often work together, and also seek to cooperate with local agencies. Work contracted out by DGIS accounts for about 50% of their turnover.

The past ten years have seen the establishment of several dozen small firms (employing between 1 and 5 people) working mainly in project formulation and supervision through short-term missions.

- d. Non-commercial organisations. These are universities, higher vocational education establishments, government services and international educational establishments. They account for approximately 15% of long-term postings to bilateral projects, a share which has remained relatively stable.

Universities and international educational establishments are also active in educational cooperation programmes, which fall outside the scope of the present survey.

Organisations of this type are used to providing experts for projects under DGIS management, by allowing them to take unpaid leave, an arrangement which is still in force today. They now operate as institutional participants on the implementation market.

- e. Non-governmental aid organisations. This category embraces organisations as diverse as NGO donors, NGOs based in Western countries which fund NGOs in developing countries, local voluntary organisations, professional associations, labour organisations, and so on. These organisations receive regular funding from government resources (joint financing programmes, sector programmes, Organisation of Netherlands Volunteers) and have recently also been entrusted with the implementation of several bilateral projects. Approximately 1% of all experts posted abroad are employed in this way.
- f. DGIS itself, sometimes with additional technical support provided by the field teams. Between 1979 and 1986 the number of DGIS experts posted abroad fell from 400 to 230. They account for approximately 40% of all long-term postings linked with bilateral projects.

### 3.2.3. Advisors may be divided up into the following categories:

- a. Project advice groups. These were widely employed on large-scale projects under DGIS management in the past. Their members are often drawn from universities, government establishments or ministries. They have a dual task: to provide technical support (known as 'backstopping') for the field teams, and to advise DGIS and the embassies on the progress which a project is making (identification, project appraisal, the selection of experts, progress reports, evaluations). DGIS does not generally employ these advisors on a contract basis.
- b. Private consultants. These advisors are used mainly on projects contracted out to other organisations. In such cases the organisation responsible for carrying out the project provides its own backstopping. Private consultants serve as the 'eyes' and 'ears' of the project staff based with

DGIS and the embassies. They provide services on a contract basis and are generally excluded from the implementation of DGIS projects in the country in question.

- c. Sector advice groups. Sector advice groups advise on a group of projects in a given sector. This arrangement is in line with a system whereby the Netherlands provides support for project clusters which belong to a given sector in a particular country. The members are drawn from universities, research establishments, government bodies or consultancy firms. They are often employed on a contract basis by DGIS.
- d. Internal advice and ad hoc missions. Internal advice is provided by DGIS's technical advice unit (DST/TA), sometimes supplemented by short missions made up from external advisors on an ad hoc basis.

In 1986 internal advice was used in 60% of the projects. The other 40% received a similar level of support from project advice groups, private consultants and sector advice groups, while DST/TA provided advice at a distance.

3.2.4. Contracts for implementation are generally concluded in the Netherlands between DGIS and the other contracting party, and this increasingly applies to contracts for advisory services as well. This aggravates the tendency for decision-making to be centralised in The Hague; the organisations on contract, which generally have their head office in the Netherlands, regard DGIS as their principal and the party with which they liaise. This tendency towards centralisation is at odds with the policy to delegate authority to embassies.

### 3.3. *Local experts*

3.3.1. Developing countries are increasingly able to provide local experts to carry out projects, and are making every effort to build up their own systems for the monitoring and evaluation of projects. The emphasis placed on the selection of Dutch implementors and advisors in Dutch aid is not conducive to this development.

3.3.2. A number of Asian and South-American countries have reached a point at which local experts can take over most project implementation. African

countries such as Kenya will also be in this position in a few years from now. There are no reliable figures on the degree to which local experts are deployed on projects funded by the Netherlands (with the exception of Kenya). Their share in development work is generally thought to be on the increase, though it is rather modest at present. Those projects investigated which made use of local experts generally received a favourable assessment.

3.3.3. Most of the developing countries visited are pursuing policies aimed at furthering the deployment of their own experts. In cases where the developing country has more control over the development process (if, for instance, it invites tenders and contracts out work itself), the proportion of local experts employed is higher. Nonetheless, there are clear advantages in cooperation with foreign organisations, consultancy firms, government services and the like, as these provide opportunities for the developing country to raise the standard of its own organisations. Most countries have umbrella organisations of local consultants, and are attempting to set up registration and quality control systems. There has also been a marked increase in local NGOs which, in a number of countries, perform tasks comparable to those of the local authorities. In virtually all cases the governments of the developing countries encourage this trend. It is only possible to pursue such a policy through contracting out.

3.4. *Improving quality, increasing the involvement of non-government circles in development cooperation and reducing the workload*

3.4.1. 24 bilateral rural or regional development projects were examined in detail. Field missions were sent out to 18 projects in 5 programme countries (Indonesia, India, Sudan, Kenya and Burkina Faso). In order to achieve a better geographical distribution, 6 projects in other countries were subjected to a comparable analysis through studies of dossiers. These projects were situated in Mali, Zambia, Sri Lanka, North Yemen, Peru and the Dominican Republic. The missions, which were composed of independent experts, drew up standardised reports. The draft reports were summarised in concise reports on individual projects, enumerating both their strong and their weak points.

In order to assess their quality the 24 projects were split up into the following four categories:

- I. Plan and design adequate, few problems with implementation, results positive, effects likely to be sustainable.
- II. Plan adequate, a few criticisms of the design and/or a few problems with implementation and/or some doubt as to whether effects will prove to be sustainable.
- III. Plan and design acceptable, but fundamental problems with implementation, with an adverse effect upon the results and the likelihood of their proving sustainable.
- IV. Inconsistencies in the structure and design of the project, with a clearly adverse effect upon the results and the likelihood of their proving sustainable.

Projects contracted out and those carried out under DGIS management are distributed over the four categories as follows:

	I	II	III	IV	Total
Contracted out	3	6	5	1	15
DGIS management	2	5	1	1	9
Total	5	11	6	2	24

By separating projects contracted out to large consultancy firms from projects in which other forms of contracting out had been used, the following results were obtained:

	I	II	III	IV	Total
Contracted out to large consultancy firms	1	–	4	1	6
Other forms of contracting out	2	6	1	–	9
DGIS management	2	5	1	1	9
Total	5	11	6	2	24

Of the 24 projects, then, 16 fell into the ‘higher’ categories. Of these 16, 9 had been contracted out and 7 carried out under DGIS management. Of the 8 projects which fell into the two ‘lower’ categories, 6 had been contracted out and 2 carried out under DGIS management. When the projects which had been contracted out were split up into two categories—those contracted out to large consultancy firms and those contracted out in some other way—it transpired that the latter group scored more or less the same as those



projects implemented under DGIS management, while the former group fell mainly into the 'lower' category, owing to their lack of attention to development aspects such as target group participation and organisation, institution-building and adapting developments to local structures.

These figures should be interpreted with caution. The findings relate only to the category of rural and regional projects, not to project categories (such as those referred to in paragraph 2.3.a, b and c), and it would therefore be wrong to use them in a discussion of the relative merits of implementation under DGIS management and contracting out. As regards the assessment of the quality of the projects, the following three observations should be made:

- a. The assessment was made on the basis of a single issue: the advantages and drawbacks of the chosen implementation formula. The items on the checklist were selected with this in mind. The main purpose in assigning the projects investigated to the four categories was to facilitate a comparison between the different implementation formulae.
- b. Although the missions which conducted the field survey used information from the early stages of the projects onwards, they inevitably tended to place rather more emphasis upon the situation at the time of the survey.
- c. In determining the relationship between the implementation formula and the quality of the project, it is difficult to isolate the implementation formula from other factors which may influence project quality. A whole complex of interlinked factors are involved, all of which influence each other to varying degrees. The quality of the project, then, may be ascribed only in part to the implementation formula chosen.

It is, in fact, impossible to conclude from these results whether implementation under DGIS management or contracting out is preferable.

- 3.4.2. However, the survey has shown that contracting out can have a number of advantages and drawbacks. One of its advantages is the fact that it can encourage cooperation between Dutch and local agencies and organisations with comparable aims (consultants, universities, government services, NGOs, etc.). This makes it possible to use mixed teams for the implementation of projects. Contracting out can serve as an instrument for the gradual

introduction of more local experts. This advantage, which is stressed in the developing countries visited, is noticeable only if DGIS actively supports these countries' policy of introducing more local experts and requires the Dutch organisation in question to help build up the resources of its local partner. It is only through contracting out that a policy of this type, which has a greater chance of success if the developing country itself is in a position to conclude the contracts, can be introduced.

A second advantage of contracting out is the fact that the allocation of responsibility is clearer than in projects carried out under DGIS management. Throughout the entire project a single party can be held responsible for the whole of the Dutch financial contribution. This responsibility must be laid down in the contract. This aspect may be particularly significant in the more complicated long-term projects with a rotating staff.

A third advantage of contracting out is that agencies and organisations to which development work is contracted out may, in certain situations, be better able to recruit staff and post them to the field at the appropriate time than DGIS. Moreover, they can usually offer better career prospects than DGIS. This advantage is particularly significant in cases where personnel needs to be recruited for projects in areas with difficult living and working conditions.

The following drawbacks should be pointed out.

First, where contracting out is concerned the institutional interests of the chosen organisation must be taken into account. This aspect is particularly significant where projects with the character of a long-term programme are concerned; in such cases new sub-projects may be identified in the course of implementation, local people may use their influence to steer the project in a direction other than that which was originally planned, and the gradual building of institutions may also lead to changes in the approach to a project. Consequently, the tasks of identification, formulation and implementation run together and devolve to one and the same party. Guarantees against a conflict of interests are called for when projects of this type are contracted out to organisations with an institutional interest. This applies in particular where work is contracted out to commercial consultancy firms, which depend more heavily upon the turnover in relation to man-hours invested in development projects than most non-profit-making organisations, and

which, in view of their interests and available staff, tend to lay particular emphasis on infrastructural work. In the past the experts employed by these agencies were trained to carry out infrastructural and technical work, and this is still true to some extent today. However, the commercial consultancy firms are gradually recruiting a higher proportion of staff with a non-technical educational background and experience.

A second drawback is that of the cost; contracting out involves higher project costs than implementation under DGIS management. One of the main reasons for this is that the indirect costs of a DGIS expert are borne by the general budget of DGIS, and are not included in the budget of the project. In projects contracted out, that component of the indirect costs borne by DGIS is also not included in the cost of the project. However, the component of the indirect costs which is incurred by the organisation to which the project has been contracted out does add to the total costs of the project. The costs of a 'man-month' on a long-term posting have been estimated, taking into account only the costs accruing to the project budget. The following, then, were not taken into consideration: differences in the costs of project administration for DGIS and the embassies, differences in social benefit for DGIS experts and personnel who returned to the Netherlands from projects contracted out to non-DGIS agencies, and differences in the costs of external advice.

Bearing these limitations in mind, the estimate shows that the monthly costs of contracting out to commercial organisations are approximately 33% higher than those of carrying out a project under DGIS management (given the same basic monthly salary). Projects contracted out to non-DGIS agencies are often more expensive because of the common practice of sending out short-term missions for 'backstopping' and supervision from the head office of the organisation in question.

It is evident that local experts are far less expensive than Dutch experts posted from the Netherlands. A recent Nordic evaluation report states that the average costs of employing local experts in three African countries lie between 4% and 25% of those for foreign experts, depending upon their training, the type of work they perform and their level of experience.

If there were to be a further shift in the proportion of man-hours accounted for by contracting out, from the current 60% to 80%, without any change

in the relative distribution over the various categories of implementors, some NLG 4.5 million extra per annum would be required to cover the direct costs payable from the project budget. A return to the ratio between implementation under DGIS management and contracting out of a decade ago would result in savings on a comparable scale.

If 25% of the current numbers of experts posted abroad were to be replaced by local experts, on the other hand, this would result in savings between NLG 17 and NLG 22 million, assuming that the costs of employing local experts as estimated in the Nordic report were maintained.

- 3.4.3. The effect of external advice on the projects examined appeared to vary considerably. External advice is effective in a number of cases. It is important that there should be mutual trust at a personal level between advisors and the parties receiving advice: country desks, embassies, project implementors and counterparts. Some advisory groups do not have a sufficiently wide spread of disciplines; some lack sufficient specialist knowledge of the country or the problems surrounding the project, and they may fail to adopt an independent position. The external project advisors are seldom assigned a specific role in discussion on the broader policy aspects of the project (ensuring that it fits in with macro-economic developments, translating experience acquired on projects into policy, etc.). Cooperation between Dutch and local external advisors was not found in any form in the projects examined.

The best way of setting up an external advisory service depends on a whole range of factors, including the following:

- the degree of professionalism of Ministry staff, DGIS and the embassies, as the demand for external advice is determined to a large extent by the number and standard of the Ministry's own experts;
- the degree of difficulty of the projects and the standard of the field teams;
- the extent to which the trend of the devolution of powers to the embassies continues; if the embassies assume responsibility for a greater number of tasks, more emphasis will be placed upon the provision of external advice at local level;

- whether it is possible to deploy local experts in external advisory services; this varies from one country to another;
- whether it is preferable to take on external advisors through contracts with individuals or through contracts with establishments.

3.4.4. A comparison was made of the training and work experience of experts working on the field projects investigated for this survey, conducted on the basis of *curricula vitae*. This comparison revealed that only in the areas of knowledge of relevant languages and specific preparation on local conditions the DGIS experts are better qualified than experts working in projects that are contracted out. Courses in these fields are compulsory for DGIS experts.

3.4.5. There is no unequivocal answer to the question of whether contracting out helps to increase the involvement of individuals and organisations in the Netherlands or developing countries. As far as the Netherlands is concerned, it has been noted that the total number of experts on long-term postings is on the decrease. On the other hand, the number of agencies or establishments on contract to DGIS rose from 35 in 1978 to 142 in 1986. However, it is impossible to say at the moment whether this is having a different effect upon existing broad public support for development cooperation from that which a change in the number of experts posted to projects under DGIS management would have. There is reason to think that the increase in contracting out will encourage cooperation between establishments in the Netherlands and the developing countries. The transfer of expertise which goes hand-in-hand with this development may help to strengthen the position of local establishments.

3.4.6. Up to now it has been difficult to tell whether the increase in contracting out has had any effect on the workload of DGIS and embassy staff. Where projects are contracted out, fewer duties of a financial and administrative nature (such as dealing with statements of expense, house rents, project funds, etc.) fall to the embassies.

The important questions for policy-makers working at embassies are whether a project is leading to problems and what stage it has reached, regardless of the implementation formula chosen.

As far as the country desks are concerned, the increase in contracting out is only one of many factors affecting the workload, including the introduction of tendering for technical aid, the drawing up of country policy documents, the recent emphasis upon controlling expenditure, the consequences of integration, etc. Over a short period of time no decrease in the workload has been observed as a result of contracting out on a large scale. However, there has been a shift in duties from recruiting and providing logistic support for DGIS experts to negotiating with the management of organisations involved in carrying out projects and assessing external advisory reports.

- 3.4.7. The results of this survey suggest that it would be advisable to make one or two amendments to present policy on contracting out. Firstly, it is important to maintain resources for activities under DGIS management. The deployment of DGIS experts may be an attractive option in situations which lack the possible advantages of contracting out referred to in paragraph 3.4.2 or in which they are outweighed by the drawbacks. There is also a need to ensure that a number of DGIS experts are constantly available for work on behalf of DGIS and the embassies in the fields of identification, formulation, appraisal, supervision and coordination. In concrete terms this means expanding the existing sector specialists programme.

In certain situations it is preferable to contract out work to non-commercial organisations. This applies particularly to cases in which commercial organisations with a given corporate identity and staff would otherwise be entrusted with programme activities, which would mean that the separate activities of identification, formulation and implementation would run together and devolve to one and the same party.

The contracting out of ongoing projects that started under direct DGIS management should be contemplated only if it offers clear advantages in terms of staffing, the delineation of responsibility or cooperation with local organisations.

The project document will need to provide a clearer indication than is generally the case at present of the degree of importance which the implementor will be expected to attach to aspects such as the following: the strictly technical aspects, the question of whether the main emphasis should be placed on implementation or the provision of advice, ensuring that results are sustainable, strengthening institutions and making sure that

they are compatible with their surroundings, the transfer of expertise, the participation and organisation of target groups, the role of women, the environment, and the deployment of local experts. This will make it easier to select an implementor on the basis of the aspects considered important in a particular project. The parties involved will also be better able to judge whether the implementor continues to devote sufficient attention to these points.

DGIS could play a more active role in assessing the suitability of the candidates put forward. Preparatory training for experts (to improve their knowledge of the appropriate language(s) and local culture), prior to their assignment to projects contracted out to non-DGIS agencies, should be required to meet the same standards as those applied to DGIS experts.



3.5. *Project supervision by DGIS and the embassies*

3.5.1. The policy of contracting out cannot compensate for the shortage of experts within DGIS and at the embassies who are able to prepare and supervise projects. Indeed, the effect of such policy is actually to increase the need for DGIS staff to work on these tasks. The current trend is to contract out not only the implementation, but also the preparation, supervision and evaluation of projects. This is undertaken by organisations associated with DGIS, many of which have their own institutional interests and operate in all of the fields mentioned. The practice of contracting out and the growing complexity of development cooperation are placing increasingly heavy demands on DGIS and embassy staff. DGIS has a limited capacity to exercise control and to assess and process experience in a useful manner. Consequently, contracting out is not an adequate solution, as it is essential that DGIS retain its status as partner to the organisations working on contract.

DGIS will remain ultimately responsible for decisions on the allocation of funds. If the degree of expertise within the Ministry of Foreign Affairs is to be upgraded, the technical support unit (DST/TA) must be expanded, while specialist expertise in other DGIS units must be maintained and reinforced.

3.5.2. In view of factors such as the rapidity of change in developing countries, the volume of experience acquired in development projects, the increase in the deployment of local staff as implementors and in an advisory capacity, and the need to adapt project work better to the broader policy framework in the country receiving aid, the embassies also need their own experts on a permanent basis.

A possible solution would be to expand the programme for sector specialists so that a group of versatile senior experts with extensive experience in the field, knowledge of the region, extensive knowledge of the sector in question, experience with local institutions and knowledge of a variety of approaches to projects would be available to assume responsibility for tasks in line with the supervisory duties of the embassies. These senior experts (sector specialists, regional experts, programme coordinators) could be stationed away from the embassies, while working under their auspices. Provisionally, it would seem advisable to follow the recommendation of the Advisory Committee on Experts Policy and take on some 50 experts for



work of this nature. In view of the importance of retaining experienced personnel, they should, of course, be offered good career prospects. They should also be able to spend some of their career in the Netherlands.

3.5.3. An increase in the deployment of local experts as implementors and in an advisory capacity is both desirable and feasible in most of the countries visited in the course of the survey. Those responsible for drawing up project documents should always ascertain which experts can be employed at the local level. Local experts can also be employed on a larger scale in an advisory capacity, sometimes in cooperation with Dutch advisors. This could be a task for embassies in programme countries and regions.

3.5.4. The field survey has produced a number of findings, discussed in greater detail in the main report, which if studied in greater depth could result in operational amendments to the structure and management of projects. This applies to fields such as fitting projects to institutions, financing local expenses, project formulation, the preparation and selection of project personnel, project management, supervision, advice and evaluations, development orientation and project documentation.

### *3.6. A comparison between DGIS and other donors*

3.6.1. In the course of the survey information was gathered on the policy of ten bilateral donors with regard to carrying out projects under the direct management of the aid agency, contracting out, project supervision and personnel policy within the donor organisations.

3.6.2. The following was revealed regarding the choice between implementation under the direct management of the aid agency and contracting out:

a. No bilateral donors choose to carry out all their projects under their own management or to contract all of them out. Some donors have a strong preference for implementing projects under their own management (Denmark, Norway), while others prefer contracting out (USA, Canada, Switzerland) and a third group uses both implementation formulae (Britain, France, Sweden, Federal Republic of Germany and Japan).

b. Most donors make regular use of commercial consultancy firms for project implementation. Few donor organisations have explicitly stated a

preference for implementation by the private sector in the form of an instruction, as the Netherlands has done.

- c. Infrastructural and technical work on a large scale is nearly always contracted out to specialist commercial consultancy firms, even in the case of donors with a strong preference for implementing projects under their own management.
- d. Most donors have difficulty recruiting experts to work on projects under their own management.
- e. In most cases donors prefer not to contract out 'software projects' (of which target group participation, training and, in general, local involvement are essential elements) to commercial consultants.

3.6.3. In general, the donors referred to above seem to be better than DGIS at supervising projects with the help of internal experts. They are organised in such a way that their own staff carries out a large proportion of the task of preparing, assessing and monitoring projects. Where necessary the staff has recourse to external experts, mostly in cases requiring highly specialised expertise. Economic and technical feasibility studies are generally contracted out to consultants. Most donors employ independent external experts to carry out evaluations. All the donors draw a distinction between monitoring and evaluation. Monitoring, which takes place more regularly than evaluation, is generally conducted by the personnel of the donor organisation in question. Evaluation involves an examination of the more fundamental issues—such as whether the aims of the project can be realised. Most of the donors differ from DGIS in carrying out *ex post* evaluations, the aim being to draw conclusions and to integrate them into development policy.

3.6.4. As regards personnel policy, it may be concluded that the donors interviewed take care to maintain the professional skills of their staff. Most of the staff members have extensive experience of projects. Their field experience is maintained at a certain level through regular postings to field offices or temporary postings as an expert or team leader. In the cases where the aim is to produce staff members with all-round skills, these skills are all in the field of development cooperation. Development cooperation is regarded as a profession in which field experience is indispensable and must therefore

be kept constantly up to scratch. Staff from the Ministry of Foreign Affairs are sometimes seconded to the Department of Development Cooperation. However, none of the donors interviewed aims to combine the staffs of the Ministry of Foreign Affairs and the Department of Development Cooperation in such a way as to make them fully interchangeable.

### *3.7. Summary of the conclusions*

3.7.1. Up to now it has proved difficult to discern any evidence of the three effects which the policy on contracting out was expected to produce. Any qualitative improvement has to do with a more intensive use of available expertise, a clearer delineation of responsibilities and greater flexibility in the membership of teams. The increased involvement of organisations in the developing countries themselves as a result of contracting out is more important than the greater involvement of Dutch non-government circles that was originally assumed to be an advantage. More involvement of local organisations can be achieved if work is contracted out to organisations in developing countries and Dutch organisations with comparable aims. This is known as 'twinning'. It has proved difficult hitherto to discern any lightening of the workload of DGIS and the embassies as a result of the increase in contracting out. The advantages of contracting out cannot be exploited to the full because of the limited supervisory capacity of DGIS and the embassies.

3.7.2 There is a close link between contracting out projects, the availability of internal experts in DGIS and the embassies and the demand for external advisory services to supervise policy on contracting out. Given the shortage of internal experts in DGIS and the embassies and the growing complexity of development cooperation, DGIS is becoming increasingly dependent upon the organisations to which work is contracted out on the one hand and upon those from which it requests advice on the other.

Many of the organisations linked to DGIS operate on both the advisory services and the implementation market. They have their own aims and institutional interests.

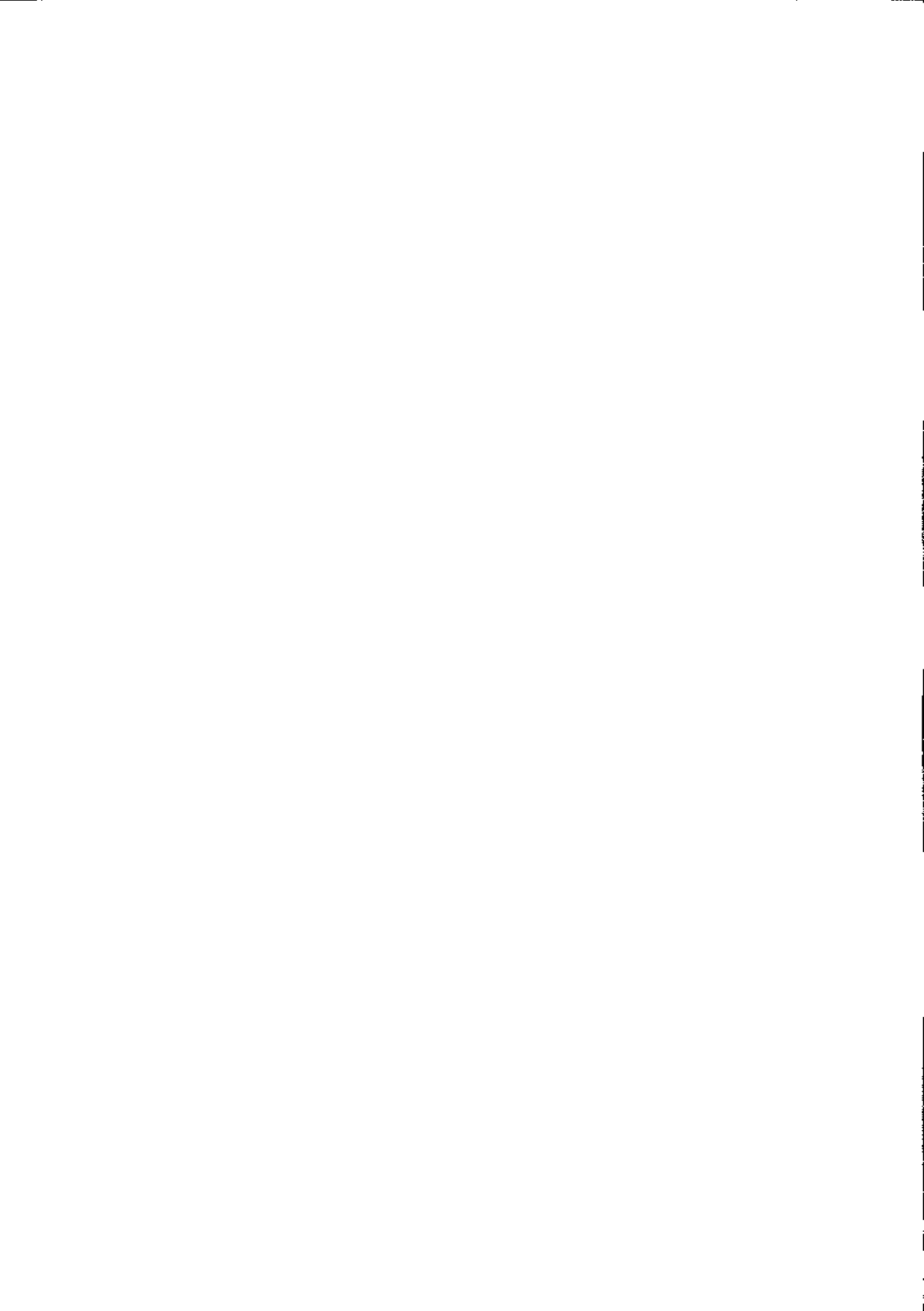
In the long run, policy on contracting out can only lead to the advantages anticipated if DGIS and the embassies are able to assess the quality of implementation and advice, at least in rough terms. Ultimately, it is only

DGIS itself which can decide whether a given activity should be financed from development cooperation funds.

- 3.7.3. Many developing countries are undergoing extensive changes. Their experts are better educated; efforts are being made to bring projects into line with national policy priorities and macro-economic developments; and greater attention is being paid to operational costs and the cost of projects to the country itself. Developing countries are attempting to exercise more control over the donor's contribution to the projects. All this means that a relatively high level of emphasis is being laid on the supervision of the bilateral programme in the field. The increase in contracting out and the greater demand for Dutch advisors have led to an expansion of the role of the head office, as contracts are generally drawn up in the Netherlands. This tendency can be brought to a halt if the embassies are given the opportunity to play a greater part in the supervision of the development programmes, provided that they have the specialist experts necessary for this. For subjects which may be dealt with in the framework of the proposed development policy, implementors and advisors will have to apply to the embassy first.
- 3.7.4. The vast majority of external advisors operate from the Netherlands. The advice which they provide is regularly assessed as being too non-committal and too far removed from local circumstances. Developing countries are trying to build up their own monitoring and evaluation capacity. How external advice can best be put to use depends upon the level of professionalism of DGIS and the embassies, the availability of local experts, the degree to which powers have been devolved to the embassies and the question of whether external advice is best engaged through personal contacts or institutional contracts.
- 3.7.5. The additional costs of expanding the practice of contracting out are, as in the past, fairly limited, as there have been no large-scale shifts. Employing more local people could even lead to a considerable reduction in costs.
- 3.7.6. Projects in the form of a programme, which involve an intermingling of the identification and implementation of a number of subsidiary activities, must have in-built safeguards to ensure that they are not exploited in the interests of the implementor. Projects contracted out to organisations and agencies with a strong institutional interest in a particular type of implementation are particularly at risk.

3.7.7. The results of this survey suggest that it would be advisable to make one or two amendments to policy on contracting out. Contracting out can have a number of advantages which may be significant in certain situations (cooperation with local organisations, a clearer delineation of responsibilities, a more flexible personnel supply). Where these advantages are absent or the drawbacks referred to above outweigh them, preference may be given to implementing projects under DGIS management. A lower limit has been defined for activities carried out under DGIS management. Moreover, it is essential that DGIS maintain its own group of experts for the supervision of activities contracted out to outside agencies. To achieve this aim, the current group of sector experts in the field should be supplemented with versatile senior experts able to act as regional or sector coordinators and to report directly to the embassy without necessarily being posted there. Efforts should be made to build up a better pool of expertise within the Ministry itself by expanding both the regional sections and the technical support unit, DST/TA. Unless this is done, the policy of contracting out will not help to improve aid projects. If the workload is to be lightened in the desired fashion, the solution must also be sought in this area. Increasing the involvement of non-government circles in development cooperation—in the limited sense of drawing organisations in the Netherlands and in Third World countries into development activities—may be promoted by initiating cooperation of different types between organisations with comparable aims. They are likely to perpetuate their cooperation beyond a particular project.





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