SWP

SWP Comment

NO. 50 SEPTEMBER 2023

Shadow Players: Western Consultancies in the Arab World

How Multinational Consulting Firms Shape Public Policy

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Across public sectors in the Arab world, international consultancy firms already play a pivotal role and are further expanding their operations. Among other projects, consultancies have (co-)designed such high-profile strategies as Saudi Arabia's "Vision 2030" and Morocco's "Green Agenda". Currently, they are stepping up their activities in national energy and climate strategies. Their operations involve almost no local public participation, which diminishes the legitimacy and quality of the policies crafted and undermines local development. Besides the ramifications for the Arab world, the consultancies' work in that region also affects German and European interests, even when it is commissioned by European actors or international organizations. If negative impacts are to be avoided, greater awareness and more transparency about the consultancies' activities are needed. Moreover, it is crucial to scrutinise whether, when and to what extent it is expedient to commission international consultancy firms.

A vibrant society, a thriving economy, and an ambitious nation — these are the three core themes of Saudi Arabia's "Vision 2030", a holistic transformation plan adopted in 2016. However, like Bahrain's "Economic Vision 2030" and Morocco's "Plan Maroc Vert", both from 2008, the Saudi plan was not solely of local provenance; instead, it was co-designed by the consulting giant McKinsey. Such consultancies are for-profit advisory firms of Western origin that operate globally. Public decision-makers contract them to design, implement, and assess reforms, among other things. Such firms include traditional consultancies such as McKinsey, Booz Allen Hamilton, and the Boston Consulting Group (BCG) as well as the "Big Four" accounting firms — Deloitte, Ernst & Young, KPMG, and PwC — which expanded into general public consulting a long time ago.

While the use of consultancies is common throughout the world, these firms play a unique role in the Arab world. First, project volumes are colossal: until recently, Saudi Arabia was BCG's largest client; and compared with 2022, the kingdom's overall spending on consulting services has just surged by a staggering 17.5 per cent to nearly €2 billion annually. Second,

Stiftung Wissenschaft und Politik
German Institute for International and Security Affairs

although less affluent countries like Morocco, Jordan, and Egypt do not engage consultancies as frequently as the wealthier Gulf states, the mandates Arab governments give to consultancies surpass the rest of the world in terms of scope and institutionalisation. With the above-mentioned national visions, consultants take over the steering wheel and determine the course of entire nations. Moreover, their activities go beyond mere strategy development. For example, BCG was Egypt's exclusive adviser for the 27th World Climate Summit and is tweaking Morocco's social security system while also playing a major role in the management of Saudi Arabia's €700 billion Public Investment Fund.

This engagement comes at a cost, not only financially but also in terms of the legitimacy and quality of the implemented policies. Moreover, it can impede local development on numerous fronts. At the same time, the activities of the consultancies have implications for Germany and Europe. The firms, which are operating with very limited transparency and accountability, edge their way into foreign and development policy and even into the defence sector. For example, more than 20 Western consulting firms – including PwC, Ernst & Young and McKinsey – are key players in the cybersecurity landscape of the Arab Gulf states, while the Middle East division of Booz Allen Hamilton, which has since been sold to a competitor, assisted the Royal Saudi Navy.

Origins, motivations, patterns

Foreign-led policymaking in the region is rooted in the colonial era. In 1926, as part of its indirect rule, the British Crown appointed an "adviser" to Bahrain's government who, as de facto ruler, largely shaped the country at will. Later, this system was transferred to neighbouring states – with varying degrees of scope and success. In 1957 Saudi Arabia, which had never been formally colonised, saw the arrival of foreign advisers mandated by the International Monetary Fund. Just over a decade later, the kingdom's First Development Plan was drawn up by a team of American experts, including from Stanford University. Modern consultancies soon followed; for example, PwC advertises having been active in the region for more than 40 years. Today, consultancies, local elites and rulers, and Western state actors all interact within a fluid and dynamic web of interests and (inter-)dependencies.

Motivation of the consultancies

Above all, the consultancies are concerned about making a profit. To secure contracts, they strategically target government officials who are receptive to such overtures. For example, McKinsey – in addition to its work in Bahrain and Saudi Arabia – courted the sons of the rulers of Yemen and Libya in the 2000s. For their part, these heirs to power saw McKinsey's reform agendas as an opportunity to brand themselves as progressive leaders ahead of their "ascent to the throne". In Morocco, consultancies were involved in the "Plan Maroc Vert" and the social security strategy of the current prime minister and former agriculture minister, who is one of the country's wealthiest businessmen and has close ties to the king.

However, the firms do more than simply develop concepts, strategies and legislation. By overseeing the implementation, monitoring, and evaluation of projects, they amass sufficient influence to institutionalise themselves as quasi-state actors; indeed, Saudi officials informally dubbed the Ministry of Economy and Planning the "Ministry of McKinsey". In some cases, new state institutions have even been created or existing ones replaced. Bechtel Corporation – the largest US construction and engineering firm, which has close ties to the Saudi royal family – was commissioned to establish and run the kingdom's National Project Management Organization (Mashroat). This organisation was mandated to oversee cross-ministerial capital expenditures for infrastructure projects under the National Transformation Program.

Motivation of the local stakeholders

That power is centralised and redistributed is symptomatic of the consultancies' modus operandi and often meets with resistance from middle-management and other local actors who feel bypassed or overlooked. At the same time, the engagement of consultancies provides an opportunity for emerging local stakeholders, who tend to be younger, Western-educated, and leaning towards (economic) liberalism. It is often they who actively promote consulting firms — not only to push (their own) economic and socio-cultural reform agendas but also to gain influence. According to the consultancies, their clients and contacts in the region are often themselves former employees of multinational corporations or alumni of prestigious Western MBA programmes. Hence, it would be wrong to suggest that consultancies impose their policies on the respective countries; rather, there is support from within the borders of those states.

Motivation of the rulers

Rulers in the Arab world engage consulting firms for various reasons. More often than not, they attach more prestige to "imported knowledge" than to local expertise. This bias is a colonial legacy: Arab decision-makers still associate progress and modernisation with external know-how. The usual justification for engaging consultants is a lack of human resources or expertise — a view somewhat at odds with the realities of the region. Unemployment is rising, even among high-skilled workers; the Arab Gulf states are pushing for the nationalisation of the labour force; and in countries from Oman to Morocco, there are growing numbers of outstanding local institutions and professionals capable of devising public sector strategies. Yet, governments typically do not take such expertise seriously unless consulting firms endorse it. Even experts who come from the region and live abroad lament that they are asked to contribute their expertise on a pro-bono basis only and have very limited influence; this stands in stark contrast to the role of consulting firms.

Furthermore, the Arab world's rulers generally regard Western consultancies as "neutral", while local companies and experts suffer from the omnipresent politicisation of business and science in the region — even academics and private entrepreneurs are assumed to harbour national agendas and seen as political representatives of their countries.

In accordance with textbook business logic, rulers deploy these external forces, above all, to overcome internal resistance. This enables them to push through such controversial measures as comprehensive economic and social transformations or administrative reforms.

For rulers, one of the key attractions of consultancies is their ability to operate below the radar. Specifications, costs, and local sources of information are largely shielded from the public eye. This allows clients to conceal processes and data, sometimes even from the members of their own government; it also permits them to limit public participation to a minimum and stave off any interference in their "internal affairs". It is because of this opaqueness that Arab leaders find consultancies more attractive than state-funded Western development agencies (whose assistance overlaps to a large extent with that of consultancies), such as the United States Agency for International Development (USAID), the German Agency for International Cooperation (GIZ), and Germany's various political foundations. Their objectives include promoting democracy and Western values. In the case of consultancies, it is easier to dictate mandates and rulers are not concerned about normative agendas or political conditionality.

Incentives provided by external actors

At the same time, it is also international institutions and Western governments that provide incentives — both directly and indirectly — for the increased use of consultancies in the region. They view these firms as neutral or even like-minded actors that operate in accordance with Western norms, steer clear of local nepotism, and do not have a political agenda. Supposedly in the interest of objectivity, donor institutions often emphasise quantitative approaches such as econometrics. While this "measuring" of international development at all levels — which, in particular, has been fuelled by the UN's Sustainable Development Goals — has major pitfalls, it does favour international consultancies. These companies are often better equipped to meet such requirements than are state-financed development actors.

Plans drawn up by consultancies generally enjoy high levels of international credibility. Consequently, contracting these firms increases the likelihood of securing external funding for reforms. At the same time, it improves creditworthiness, which reduces the cost of public debt. Financial incentives are thus in play.

Furthermore, Western development agencies and international organisations themselves contract consultancies. In Tunisia, for example, Germany's GIZ is collaborating with Deloitte to integrate women into the labour market, and USAID has funded PwC to develop fiscal reforms. Also in Jordan, consultancies frequently receive contracts from Western development agencies. Moreover, donor countries often engage consulting firms to evaluate state-funded development projects, as in the case of Yemen, where the mandates given to external actors have expanded since the onset of the conflict from financial auditing to project monitoring.

Consequences for the region

Under certain circumstances, it is completely warranted to engage international consultancies — for example, when local expertise is not available, dysfunctional systems need to be overcome, or development agencies lack flexibility and access to modern methods. However, involving consultancies in public policy poses significant risks. The issue is increasingly being researched and scrutinised in other regions of the world and various policy domains (for instance, most recently in the context of the Africa Climate Summit). This is not so much the case in the Arab world, in part owing to limited access to relevant information.

Interviews with academics, government officials, and former and present consultants highlight the issues associated with the use of consultancies in public sectors in the Arab world. These range from the lack of policy legitimacy and quality deficits to development obstacles.

Lack of legitimacy

In order to produce results rapidly and flexibly, consultancies work in small teams that have privileged access to the relevant stakeholders. The consultants, who are often flown in from abroad, carry out their work below the radar of public perception. Local actors in politics, administration, academia, and civil society are consulted only in certain instances and at the discretion of the consultants; typically, there is no public involvement.

This leads to deficits in legitimacy and ownership. Participation in political processes and public initiatives is already severely limited throughout the region. But consultancies, for their part, sidestep existing institutions, which undermines state legitimacy — something that is important everywhere, including in autocracies — even if the success of a policy is more important than who formulated it. Furthermore, the lack of ownership complicates implementation, especially in broader transformation processes: when administrations and citizens do not identify with what is being undertaken, compliance issues arise. A case in point is the RAND Corporation's attempt to reform Qatar's K-12 education, which is one of the most studied examples of failed consultancy interventions. One decade after its implementation started, the reform had to be partly rolled back owing to ongoing criticism and inadequate outcomes. Among the reasons cited was the insufficient involvement of teachers in the reform process.

Poor quality of consultancy services

Consultancies face a fundamental constraint: securing new contracts requires satisfied clients and, as a rule, clients seek outcomes that affirm rather than fundamentally challenge their set course. This limits the spectrum of recommendations.

Local officials and academics frequently criticise the poor quality of consultancy services. The issues raised include questionable advice, shallow PowerPoint presentations submitted as end products, inconsistencies in reports, and even gross errors in the handling of data and facts. In 2011 Moroccan economists sharply criticised the “Plan Maroc Vert,” which was drawn up mainly by McKinsey. Ever since, there has been hardly any government communication on the public awarding of contracts to consultancies, even though consultancies are still contracted widely. And in the Arab Gulf states, officials noticed that some reports were — either in part or in whole — verbatim copies of deliverables produced for other countries, sometimes even without the name of the original recipient country having been removed.

This copy-paste consulting has strikingly adverse consequences. Notably, recommendations seldom deviate from familiar motifs, owing in part to a tendency towards groupthink in the largely homogeneous consulting industry. Agendas and reforms mostly centre around privatisation, liberalisation, and the so-called “Dubai Model”, even though the academic literature has pointed out substantial flaws in the last-named (and in infrastructure-driven growth in general). If the industrial policy advice given to Arab countries — for instance, to scale up tourism or IT — is always identical, the result is aggressive competition in new sectors instead of (urgently needed) specialisation based on comparative advantages and national differences. This ruinous competition is not only costly; it also jeopardises crucial diversification initiatives aimed at reducing oil dependency.

Overall, the consultancies’ recommendations tend to reflect a lack of contextual awareness and insensitivity to social, cultural, and political realities. Solutions are typically based on presumed “best practices” duplicated throughout the region. For example, Qatar’s education reform, discussed above, sought to introduce the US concept of the partly privatised charter school — something alien to the region — but overlooked the fact that many female teachers are willing to work only in gender-segregated public schools. Another banal example stems from energy efficiency recommendations some consultants made to Bahrain and the United Arab Emirates. They suggested that air conditioners could be turned down and that people should simply dress less conservatively if they felt too hot, in complete disregard for religious and social norms.

Until recently, consultants used to come mainly from abroad, lack regional expertise, and show little interest in local societies. But in recent years, firms have started increasingly to recruit people from the region for their local offices — often at the request of clients. This shift has led to a superficial “Arabisation” of the consulting firms. But limited social diversity and a veiled form of colonialism persist at these companies: their employees are expected to have graduated from elite Western universities, and they will usually come from privileged, urban backgrounds. As a result, the perspectives of the less privileged or more conservative segments of society continue to be overlooked. Thus, consultancies risk perpetuating the existing divide between a modern, globalised core and what some seem to consider a “backward” rural periphery.

Obstacles to development

The poor quality of consultancy services can have a lasting impact on a country’s development. This is particularly true when, as noted above, industrial policies are misguided or the implemented reforms clash with the local work culture, thereby jeopardising the nation's prospects for sustainable development. But there are other risks that Arab countries face when they engage consultancies.

First, the exorbitant costs of hiring consultants can impede development, particularly in countries with limited financial resources. And it is unclear whether consultancies are paying taxes on locally generated profits. For example, the Moroccan press reported in 2022 that McKinsey's local office had failed to pay any taxes despite generating revenues of approximately 27 million euros. Furthermore, some clients in the Gulf suspect there is price collusion among consultancies.

In order to secure sizeable and long-term contracts, consultancies have to cultivate close relationships with their clients. The closer these relationships are, the more challenging it becomes for firms to maintain their integrity — that is, to steer clear of inadvertently engaging in nepotism and corruption. Such risks were laid bare, for example, in the scandal surrounding McKinsey's operations in South Africa.

Another barrier to development is the consultancies' propensity to sideline stakeholders who are either problematic or irrelevant for the client. This practice not only undermines the efforts of Western development agencies to broaden inclusivity in development processes but also fosters centralisation and power consolidation. Consequently, local viewpoints and potentially important counterarguments are pushed to the margins.

Particularly serious is the issue of the brain drain and the failure to increase local capacities. When "indigenous knowledge" is systematically neglected and undervalued, the barriers between academia and civil society, on the one hand, and administration and politics, on the other, are perpetuated. The importation, monopolisation, and privatisation of knowledge all contribute significantly to the brain drain. Experts opt to emigrate to countries that value their skills rather than remain at home as mere suppliers of individual data or facilitators for enabling consultancy recommendations. At the same time, the procurement of external expertise hinders the development of local skills. This results in a vicious cycle of dependency on consultancies, as the lack of local capacity building allows decision-makers to justify the continued reliance on external resources.

That said, there are distinct differences across the region. The fact that consultancies are not ubiquitously active in Morocco's public sector is due not only to limited financial resources but also to the palace's deliberate efforts to build the country's own capacities. Morocco's "New Development Model", introduced in 2021, was crafted — intentionally — by local actors alone. In Saudi Arabia, the authorities were instructed in 2019 to increasingly engage domestic consulting firms. Meanwhile, Western consultancies, which are perceived as neoliberal in Algeria, find it particularly challenging to gain a foothold in that country, owing to its statist economic mindset and anti-colonial reflexes. In 2022, the Algerian government (temporarily) suspended the activities of three of the "Big Four" firms and launched investigations into those companies, an act that was seen as a political move to protect the local consulting market.

Conclusion: Heighten awareness and reassess engagement

Armed with mandates from well-intentioned decision-makers, consulting firms can play a beneficial role by disseminating new knowledge or circumventing corrupt frameworks. Ultimately, it is the commissioning governing bodies that bear responsibility for their nation's development. Consultancies merely respond to the political ecosystem in which they operate. Furthermore, many of the issues cited here apply equally to (Western) state development agencies and international organisations as they, too, risk inadvertently fostering dependencies or providing negligent advice.

The crucial distinction is that consultancies in the Arab world often operate under the radar of public perception and have to turn a profit. Moreover, their influence in the region is growing, particularly in the area of energy and climate issues. For example, BCG is collaborating with numerous governments on national carbon-neutrality strategies, while other consultancies are responsible for hydrogen strategies.

European policymakers need to figure out how to engage with these highly relevant actors, not least because their operations directly impact European key interests throughout the region — that is, not only in Morocco, Jordan, and Tunisia, where Europe is actively and deeply involved in local development. First, as outlined above, consultancies can create significant obstacles to development and thereby undermine European aims. Second, the business model of consultancies requires close, fiduciary-like relationships with their clients, which can conflict with Europe's value-based approach to policy — for example, when consultancies end up strengthening authoritarian governments or even contributing to state-led repression campaigns. Saudi Arabia, for example, used McKinsey data to persecute opposition figures; one affected party even filed a lawsuit against the firm. Third, consulting firms can also affect German and European interests with regard to knowledge management and technology transfer. The lack of transparency about how and to whom data are transferred is cause for concern, particularly when consultancies are advising European and Arab authorities either in succession or at the same time.

The issues mentioned both here and above are structural ones associated with the very nature of consultancies and are to be found worldwide. However, they become exacerbated in regions such as the Arab world, where independent market surveillance and accountability to parliaments or audit offices — factors that could mitigate some of the risks — are rare. Given these complexities, German and European decision-makers should consider a more proactive approach to dealing with consultancy firms, even though this is not without pitfalls.

Minimise risks. The "insider knowledge" of consultancies is very appealing to certain governments. It can be used not only to strengthen foreign industrial competitors but also to reveal state secrets, including knowledge about critical infrastructure, such as energy, water, and cyber networks. Consultancies attempt to mitigate such risks by erecting "Chinese walls" — that is, separating the internal flow of information when there are conflicting interests — but whether the firms adhere to their ethical commitments cannot be monitored. Although national security interests can never be fully protected, decision-makers can mitigate risks by stipulating their own conditions when contracting consultancies.

Mandate transparency. Since consultancy activities can affect Western national interests, there are grounds to advocate for regulation, including restrictions on the scope and/or site of the firms' activities. This would, of course, constitute a significant infringement of economic freedom and would likely meet with fierce resistance from the companies themselves, not least in the form of harder-to-regulate evasion tactics being deployed such as outsourcing work to regional affiliates. Nonetheless, given the imperative of safeguarding their security and foreign policy interests, European states should at least demand more transparency from consultancies about their activities both in the Arab world and beyond.

Empower local consultancies. Overcoming these challenges in the Arab world requires building and using local capacities to compete with multinational consultancies. Germany and other European actors could support these processes through government-to-government cooperation or via their development agencies. However, such endeavours are problematic as they are essentially paternalistic, risk prompting accusations of neo-colonialism, and can even create new dependencies. Moreover, they will be in vain if they do not meet local expectations and, as a result, decision-makers refuse to make use of these organisations' services. Thus, existing institutions should be promoted instead of new ones being established.

Commission local actors. Germany and Europe's most straightforward means of leverage are the mandates they hand out — for example, in the areas of humanitarian aid and development assistance. A more deliberate approach towards selecting contractors or even a paradigm shift towards prioritising local organisations over multinational entities could mitigate some of the problems. The oft-cited argument that transparency, quality, and anti-corruption measures necessitate the engagement of international service providers does not hold water. Even global organisations are not immune to corruption, as shown by the aid scandals in Yemen. Proactive measures to prevent malpractice are essential, regardless of the commissioned entity. But giving a mandate to a local organisation will support capacity building and agency. The region has already produced organisations that are not only independent from the West but also effective and locally respected. The intergovernmental, pan-Arab Regional Centre for Renewable Energy and Energy Efficiency and the government-affiliated think tank KAPSARC in Saudi Arabia are prominent examples in the energy sector.

Commission carefully. As discussed above, engaging consultancies can indeed have benefits. However, such advantages are context-dependent and require meticulous scrutiny, which, in turn, necessitates enhanced transparency from the firms involved. At the same time, decision-makers should reconsider the trend towards "quantifying" project evaluations, which has gained traction in recent decades. Quantitative formats are not inherently superior to qualitative approaches, but they can contribute to a dependency on consulting firms.

Raising awareness. More often than not, European decision-makers and ministries are unaware of the significant role that consultancies play throughout the Arab world. On the one hand, more theoretical knowledge is required. Because consultancies are not traditional actors in political science, they have rarely been the subject of academic research, even though both theoretical and empirical research is urgently needed in this area and should be encouraged. On the other hand, public actors should keep a closer eye on the activities of consulting firms and how they may affect existing policies.

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ISSN (Print) 1861-1761
ISSN (Online) 2747-5107
DOI: 10.18449/2023C50

(English version of SWP-Aktuell 53/2023)