Risk Management in International Development Projects

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Introduction

International Development Projects refer to projects undertaken with the prime objective of poverty reduction and improving living standards of people in the developing countries. Project environments for international development is far more complex than domestic projects in industrialized countries. There are many internal and external, visible, and invisible factors that influence the environment that create high risk in accomplishing project objectives. Some of the contributing factors are:

- Influence of various stakeholders such as International Development Financial Institutions (IDFIs), citizen groups, Non Government Organizations (NGOs), media, political ruling class, and bureaucrats
- Cultural, socioeconomical, technological, and political environment
- Lack of managerial and technological capabilities in the recipient countries
- Unclear project objectives
- Shortage of resources
- Lack of ownership
- Poor infrastructure for project development
- External driving forces such as inflation, currency exchange, and international politics.

This paper elaborates conceptual framework and risk management strategies for international development projects, which should be taken into consideration during the project initiation and project planning phases to enhance project success.

Conceptual Framework

International Development projects are influenced by internal and external factors that make up the project's environment. Internal factors include stakeholders and other client groups, management processes and expertise, and technical factors that impact the project. External factors include political and legal system, socioeconomic context, geography and historical perspective, and international economic environment.

Development Oriented

International development projects have the following objectives (Sharif 1999).

- Poverty Reduction: Including poverty assessment in recipient countries to identify key policy issues and recommend a strategy for reducing poverty. To enhance the socioeconomic development of the local population including health, education, and basic social services.
- Human Development: Including health, nutrition, and population programs. These include designing effective policies to improve performance of both private and government health systems. To enhance human capital productivity by improving the operation of the labor markets.
- Environmentally Sound Development: Strengthening the national environmental agenda, building local capacity for environment management, and revitalizing rural development and sustainable agriculture.
- Finance, Private Sector and Infrastructure Development: Restoring confidence in financial systems, strengthening institutional capacity of the society, helping evaluate fiscal situations, helping countries to strengthen and sustain the fundamental conditions they need to attract and retain private investment, and identify policy options to promote fiscal discipline. Helping its client governments improve their economic and social policies so as to increase efficiency and transparency, promote stability, and bring about equitable economic growth.

The project manager must appreciate the environment of development projects, maintain flexibility, and be competent to analyze the nature of associated problems and their adverse effects on the success of the project, and address these promptly.

Internal Factors

- Stakeholders including intended beneficiaries and the client groups with lending institutions, which possess a powerful ability to influence the outcomes
- Technical capabilities available in the recipient country consisting of planning and implementation expertise, manufacturing and servicing capacity, and infrastructure
- Managerial factors such as management processes, end-user participation, and project management competencies.

External Factors

- The bureaucratic context in which the project implementing organizations are situated, as the various entities provide the inputs essential for the development program's operation

- The national policy context such as administrative policies, finance policies, industrial policies affect the development plan and the lending organizations' and other development partners' response to the policy
- Political system of the recipient country and its stability
- Socioeconomic context including economic situation, social and cultural settings that projects operate in.

The ability of a development program is critically dependent upon environmental factors (Brinkerhoff 1991). Therefore, it is vital that the international development project manager understands and analyzes the characteristics of the environment and develops a project management strategy to enhance the probability of project success.

Risk Management Strategies

There are major contextual and project environment differences existing in planning and implementation of international development projects. The following are the characteristics and risk management strategies for international development projects.

International Projects

International development projects involve international participation by the international multilateral, governmental or nongovernmental organizations through financing and technical assistance. This characteristic makes them unique thus requiring a different planning and implementation than domestic projects. There are obvious differences such as communication, wage rates, level of productivity, statutory duties, legal systems, and taxes. In addition, there are other differences such as local codes and practices, weather and climate conditions, availability and quality of materials and equipment, social systems, local cultural norms and values, which may be overlooked due to lack of cultural understanding or detailed project planning.

Technical and Management Skills

The recipient countries lack the technical and management skills for successfully accomplishing development project objectives. Many of the IDFIs require them to engage foreign consultants to assist with project preparation and implementation. These "expatriates" come from very different cultural background, speak different languages, are accustomed to different approaches to engineering and project management practices, and they are not familiar with local customs, requirements, and resources. Also, they live in strange and tough environment, with "inadequate" basic facilities such as medical, food, and water. The project manager must address these issues and create an environment, which would make all the project participants—domestic and international, feel like a cohesive team focused on accomplishing project objectives of scope, time, cost, and performance.

Project Planning

Project design, engineering, and construction require thorough and realistic project planning in international collaboration environment. Woodward and Humphreys (1998) present the following list of project elements that should be considered when planning and executing an international project:

- Project design: considers local codes, practices, weather, climatic, and geological conditions
- Bulk materials: refers to availability and quality of materials locally
- Construction labor: concerns availability of skilled labor, labor wages and taxes, need and availability of housing for the labor
- Construction equipment: refers to availability and quality of construction equipment locally, and availability of local labor for operating the equipment
- Construction management staffing: refers to staffing for construction management.
- Schedule: refers to impact of factors such as mobilization, equipment delivery time, weather conditions, local productivity on schedule
- Local infrastructure requirements: refers to availability of infrastructure such as water, electricity, highways, rail services, ports
- Material and equipment delivery: considers shipments, customs, and insurance for equipment and material delivery
- Progress payments: for equipment and materials, currency and exchange rate fluctuation, schedule of payments
- Local taxes and Insurance
- Project finance: refers to the need for minimum required purchase of resources locally
- Legal recourse: in case of disputes
- Social System: refers to local holidays, religious customs.

Integration of Equipment and Services

International development projects involve equipment and services suppliers from many nationalities as well as those procured locally. Due to lack of resources and technology, quality level of the locally procured equipment and services may not conform to the international standards. In addition, convergence of deviations during construction and installation of equipment may result in the final product not matching anticipated performance. International and local equipment and services integration requires expertise in similar endeavors.

Culture

Culture as applied to the industry means "training of the mind, manners, and tastes or the results of such training" (Kangari & Lucas 1997). Hofstede (1984) presents the following four dimensions to differentiate national cultures:

- Power distance
- Uncertainty avoidance
- Individualism
- Masculinity.

As project management deals with people, the international development project manager must understand and appreciate the importance of cross-cultural differences. The project manager should perform a cultural analysis of the recipient country and plan mechanisms such as social outings with families, cultural events, intercultural demonstrations, and collocation to enhance cultural consciousness of the team members and promote team building.

Time Concept

Another aspect of culture is the "concept of time." The concept of punctuality profoundly differs across cultures around the world, which contrasts with the "scheduling by the clock time" concept in North America. Other cultures place a very different value on punctuality—terms like late, early, or on time are not universal. In some cultures, "after tomorrow" may imply next week or even later. Levine (1997) studied time norms in Brazil and noted that Brazilians have much more flexible conceptions of time and punctuality than Americans do and they believe that lack of punctuality is a badge of success. A competent project manager would not tend to label national character around the pace of a particular culture's way of life, and should appreciate such cultural differences and cope up with them.

Located in Developing Countries

International Development projects are targeted at alleviation of poverty in the developing countries. The project environment in developing world imposes severe constraints on project planning and implementation. Few of the examples include shortage of the needed technical skills or managerial expertise to manage complex projects, low human capital productivity, shortage of the required material or equipment, lack of political stability leading to frequent change of policies, poor infrastructure, lack of confidence in the local economy, corruption, high illiteracy, and restrictive foreign exchange regulations. Also, developing countries have the characteristic of turbulence for unpredictable and rapid change, which can have disastrous effects on their developing economies. Changes in economic downturns leading to fiscal unbalance as occurred in South East Asia and increase in petroleum prices as is currently happening are good examples.

Weak Institutions

In the recipient countries, generally the institutions—legal, political, financial, law and order, and media are weak. As many of the developing countries became independent, the political environment suffered an early setback as their nationalist leaders turned dictatorial and suppressed freedom. Development of society's institutions is the last priority for these leaders as weak institutions support continuation of their rule. Weak institutions create an atmosphere of uncertainty, political turbulence, and social unrest, all leading to lack of investor confidence. Strong institutions are of obvious significance to any project as the projects have planned budget and schedule. Any change in the politico-economic environment can severely impact international development project success.

Currency Exchange Rate

International development projects invariably involve import of equipment and/or services from industrialized countries, which makes it all the more necessary for the project manager to have a working knowledge of the existing foreign exchange regulations. In addition, inflation, devaluation, shortage of foreign exchange resulting in limiting foreign exchange practices aimed at conserving it is a fact of life in developing countries. Due to restricted regulations, many companies have ended up with their project development funds blocked in recipient countries. Ellis (1988) suggested the following techniques for solving blocked funds problems:

- Receive contract payments in dollars
- Increasing the margin from parent company to the subsidiaries
- Parallel loans between subsidiaries of separate companies
- Purchase of host country dollar bonds
- Transferring only net amount to subsidiaries
- Increasing local purchases
- Capital investment of the blocked funds in the host country
- Gifts to charities
- Substitution and counter trade of equivalent value
- Insurance
- Movie production as an alternate investment
- Applying pressure on the government.

Project Scope Creep

Easily available international funds coupled with lack of accountability and regulatory institutions often lead to scope creep resulting in addition of unrelated objectives to the project goals, later requiring larger funds for operations. At times of financial stringency, there are budget cut back by the recipient countries and the allocated funds may not be sufficient for effective operation of "gold-plated" assets.

International Development Financial Institutions Funding

Rapidly expanding urban areas around the developing world require enormous amount of investment for development of the associated infrastructure. The economic costs of inadequate infrastructure and inability of capital markets to provide the needed funds makes these developing countries to borrow from the IDFIs. Either a private company or the local government is the borrower and the client of these financing institution. The ultimate beneficiaries—the general public is nowhere in the picture while the projects are planned.

In most instances, a major part of the development funds ultimately find its way back to the companies in industrialized countries contracted to build the development projects. This is achieved through the lending institutions requiring the recipient country to employ consultants from developed countries or import the needed resources thereby expending precious development funds. The bureaucrats and the local politicians abandon the project and move over to the next project once the "deal" is finalized. "Negative stakeholders" push "structural reforms" projects using the lure of soft funding and grants from the World Bank and multi-lateral agencies that the fund-starving states cannot resist (Devasahayam 2000). Lack of sponsorship, soft funding, and the "unknown client" are major causes of challenge to the development projects and should be addressed to safeguard the success of the project.

Summary and Conclusion

International development project environment is influenced by many internal and external factors and has unique characteristics—international effort, located in developing countries, development oriented, and funded by international financial institutions. The project manager must fully understand the nature of such international development projects and how these differ in many important respects from other kinds of projects to prevent cost and/or schedule overrun, project postponement or project cancellation.

Further, because of the inherent challenges associated with international development projects, coupled with low monetary benefits, remote locations, and lack of career incentives, qualified staff in the recipient countries may not find development projects motivating and challenging. Therefore, to accomplish development project goals successfully, it is suggested that the project team should include only those individuals who are committed to project success, as the reluctant team members would not be able to work as effectively and efficiently as the project success demands.

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