

# **Revolutionary Change**

**for**

**Relief and Development**

# Revolutionary Change

# **Revolutionary Change for Relief and Development**

**Not just talk ... about doing SOMETHING**

**By Peter Burgess**

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# Revolutionary Change

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Dedicated to my family and friends.

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## **Some Conventions Used in the Book**

### **“North” and “South”**

Instead of referring to “developing countries”, the “underdeveloped countries”, the “least developed countries”, the “Third World”, etc. I use the term “south”.

For the “industrialized countries”, “rich countries”, or whatever, I use the term “north”.

Obviously this does not fit into a rigorous geographic interpretation, with Australia and New Zealand, for example, being part of the “north”, but I prefer these labels to any others.

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## SECTION 1

### **The State of the Relief and Development Sector. Where We Are! How and Why?**

#### **1. Failure**

Broad brush ... subject to criticism. [Box: Good People Doing Amazing Work]. The relief and development sector. Documented failure. Poverty a bigger killer than terrorism. Where did it all go wrong? The problem of war, violence and terrorism. The problem of poverty and hunger. The problem of disease and premature death. The problem of education. So much intolerance. Wealth creation.

#### **2. Who Cares?**

Nobody. Except the poor. Maybe it would be smart to care. An emerging community of anti-north activists. And worse. Also a “north” community of advocates for reform.

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**Financing.** Types of financing. Local financing. [Box: My Yei Experience in South Sudan]. Community ... and the municipality. [Box: When New York was in Financial Trouble].

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**Introduction.** The main vehicle for economic activity. Improving organizational performance. Organizations in the “north”. Organizations in the “south” Organizations that are in “north” and “south”. [Box: The Kuwait Fund]. New organizations are needed. Virtual organizations, networks, etc.

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**Public Multinational Corporations.** About stockholder value and profit above all else. [Box: BP ... Beyond Petroleum]. Associations of big corporations. Corporate social responsibility.

**Private Multinational Corporations.** Some big companies, and growing. [Box: Caisse Noire]. Smaller closely held companies.

**The “South's” Enterprise Sector.** Social entrepreneurs. Cooperatives. Public Private Partnership (PPP) [Box: Public Private Partnership in New York]. Informal sector.

**Academic Institutions.** Academic institutions in the “north”. Academic institutions in the “south”. Cooperation.

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**Professional Firms and Organizations.** A critical part of society. In the “south”. Mobilizing the accountancy profession. The legal profession.

**Banking and Finance Organizations.** Microfinance organizations. Investment clubs. Community finance. Community currency organizations.

**Networks.** Unlimited potential. [Box: Clubs and Networks]. Network for knowledge sharing. Network for getting data inputs. The value of network. [Box: The Value Potential of Networks].

**Advocacy Groups.** Advocacy for relief and development sector reform. [Box: Principles of Physics 1]. Advocacy for debt relief. Advocacy for transparency. Letter writing ... and more. [Box: Bread for the World]. [Box: Principles of Physics 2].

**Other Structures.** New structures are needed. Community Development Finance Organizations. Universal Public Accounting Consortium.

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security sector. [Box: Worry About the Power of a Big Army]. Mining sector. Natural Resources. Productive sector. Professional sector. Public sector, private sector. Relief and development sector. Retail sector. Social sectors. Tourism sector. [Box: From London to Cape Town]. [Box: From Berbera on the Red Sea to Addis Ababa]. Transport. Wholesale sector. [Box: Wal-Mart].

#### **41. What Success Will Look Like**

It is personal ... it is what you make it. My community is a better place. Less of war and violence. Less of human rights abuses. Less of poverty. Less of hunger. Less of strength and anger. Add it all up.

#### **42. Afterword**

**Can We Have Success?** Certainly ... but only if. What's in it for me?

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## Foreword

Some time ago a friend who is a world class word-smith learned that I was thinking about writing a book about “international development”. Her observation which was right, was that (1) “Nobody is interested in the subject”; and, (2) “You can't write!”

If you get to read the book you will find that on the second count, she was absolutely right.

But though I may not be able to write, I think I have something to say.

This book should not have been needed. People, a lot more skilled at writing than I, ought to have written this, and more importantly, the leaders of the relief and development sector should have performance a lot better so that this book would not need to be written.

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# **SECTION 1**

## **The State of Relief and Development Where We Are. How and Why?**

### **Chapter 1**

#### **Failure**

##### **Broad brush ... subject to criticism**

I am well aware that what I am writing about is not something that people in the relief and development sector want to hear. I will be criticized for not having the sort of information that allows my writing to be put through a peer review process. But I am not writing to start an academic career, but to make a tangible contribution to relief and development sector performance, and specifically to get a culture of “management information” in play so that better decisions can be made all the time, and value destroying waste and corruption can be eliminated.

I am very critical of the Governments, the Breton Woods Institutions (World Bank and IMF), the UN system, the bilateral donors and the international NGOs. They are powerful entities that have failed to get reasonable progress in relief and development. I believe that they should have done a lot better and deserve criticism.

I am also critical of a powerful business and political elite that has been willing to embrace unlimited personal wealth creation without much concern about ethics and social responsibility. I am critical of

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an international corporate culture where anything goes as long as profits grow.

Broad generalizations always need caveats. I want to exclude from my broad criticism a big number of staff in the relief and development sector that work hard and exceptionally well in dangerous conditions without much regard to their own safety and do amazing things. But the overall system is so ineffective that the good work being done by good people is offset by an organizational setup that leaves relief and development a disaster. Later I refer to this as deadly dysfunction.

## Good People Doing Amazing Work

Some people do amazing work ... while the organization as a whole does not. I probably respect the UNHCR the most. The people of UNHCR seem to be effectively organized in a way that is rare in the relief and development sector, and as a result they achieve results that are extraordinary. Over the years I worked a good many times with UNHCR, and was never disappointed in their performance.

Those that are working around the world to clear land-mines deserve a big thank-you. Land-mines are nasty and clearing them is dangerous. I personally got to know land-mine experts in Afghanistan and in the Horn of Africa during my own assignments. When these people make a mistake, it can easily cost them their lives. I have a lot of respect for these people. They know, on the other hand, that a child herding animals should not be in danger from land-mines or unexploded ordnance (UXOs)

I respect the staff of Medecins Sans Frontieres (MSF – Doctors without Borders) who work in dangerous places when human life is in danger. They do not stop when the going gets tough, and they sometimes get kidnapped or killed. They do very good work.

I worked for a while with an amazing UN project leader on cross border development in Afghanistan, who kept on going even though some groups had a “price” on his head for his capture or death.

I attach tremendous importance to productivity and performance and respect enterprise and the ability of the corporate entity to be efficient, but not to the exclusion of all values except profits.

## The relief and development sector

The relief and development sector is a huge sector. In the course of a year, will disburse more than \$50 billion, soon maybe as much as

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\$100 billion a year, not an inconsequential amount of money. However, after the last 30, 40, 50 or 60 years, with poor results.

The relief and development sector comprises all the institutions and organizations that are involved with the planning, funding and implementation of relief and development activities around the world. The relief and development sector grew out of the perceived need several decades ago to help less developed countries progress and become more “developed” and prosperous.

Some of the better known institutions in the relief and development sector are the World Bank, regional development banks like the Asian Development Bank, the United Nations and its specialized agencies like UNICEF, WHO, FAO, UNDP and UNIDO, the bilateral aid agencies like the United States Agency for International Development (USAID), the Canadian International Development Agency (CIDA), the Swedish International Development Agency (SIDA) and international Non Governmental Organizations (NGOs) like CARE, World Vision, Oxfam, Save the Children, and Medecins Sans Frontiere (MSF) also known as Doctors Without Borders.

Governments play a big part in the relief and development sector, both as donors and as recipients or beneficiaries. Government donors in the “north” have had a big role in determining the development agenda, and governments in the “south” have had to take it or leave it. The big role of government in the process of development has been a feature of the relief and development sector for more than 50 years.

Much less known, but very important, are the thousands and thousands of local NGOs in the “south”. These organizations exist in every country and are engaged in many worthwhile efforts. They vary in size, in degree of organization, in what they do, and in where they operate, but they are important. Examples are The Fantsuam Foundation in Nigeria, AMREF in Kenya. Small community organizations exist everywhere, many doing amazing things with very little, but not much appreciated in the grander international scheme of things.

## Documented failure

Many of the organizations in the relief and development sector publish annual reports that look at the world situation from a variety of perspectives. The World Bank and the regional development banks all research and publish an annual report, as do most of the

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specialized agencies of the United Nations, UNDP, UNICEF, UNHCR, FAO and all the others. For many years now these reports have documented the tragic failure of the relief and development sector.

In particular the UNDP's Human Development Report (HDR) which has been published since around 1990, has a focus on the human condition, and the state of society in satisfying the needs of people. The HDR chronicles the absolutely disastrous state of socio-economic development in a large proportion of the world's countries.

It is a tremendous challenge to convey the scale of the failure in the relief and development sector. As many as 3 billion people, probably more, are affected by poverty, hunger and disease, and yet this is not high on the agenda of people in the rich communities in the world, their leadership and their media. Nobody seems to get it.

## Poverty a bigger killer than terrorism

Every American and most of the world knows that more than 3,000 people were killed on 9/11/2001 when planes were crashed into the World Trade Center in New York and the Pentagon in Washington. Almost nobody knows that the same number of children die every day from malaria in Africa. Every day!

And if we think of all children around the world that die every day from disease that can easily be treated and malnutrition that ought not to be, we are talking about 30,000. Yes, 30,000 every day ... of children that die ... needlessly.

## Where did it all go wrong?

In the 1950s it was expected that with the end of colonialism, the newly independent countries would prosper, and the socio-economic gap between the industrialized "north" and the developing "south" would reduce. In fact, over the past 60 years the gap has increased. Most poor countries are poorer today than decades ago, and the rich countries have moved on and are creating wealth on an unprecedented scale.

The process of development over the past forty years has ended in failure. Economic value destruction dominates the prevailing development process. As a matter of course, development interventions and investment have removed wealth from developing countries rather than creating wealth in these countries. It is

extraordinary that so much of the world is in catastrophic shortage in a world that has the potential for surplus in almost anything.

How come there is so much hunger and shortage for so many while there is surplus and excess for others. What is it that stops the free flow of goods around the world? Why so much war and violence? Why so much disease and premature death?

### The problem of war, violence and terrorism

War and violence is a symptom of a something wrong. But what is it that is wrong?

The 20<sup>th</sup> Century was the bloodiest in the whole of history. The two world wars in the first half of the century, and the Holocaust accounted for many millions of deaths, but the second half of the century was worse. It is hard to imagine how many millions of people have died violently in modern times. Though it is common to refer to modern “civilization”, it is “militarization” that really dominates the modern world. The ability to destroy has outpaced society's ability to build.

The materials of war are big business. The powerful need to be able to win a violent confrontation in order to maintain their positions, and the powerful keep a close grip on the money. Military procurement is big, always presented as a priority, and usually with a high claim on the available monies. The profits being made because of the prevalence of war and violence is huge. There is a lot of secrecy and, for the most part, the details of military commerce are difficult to see. The profits are huge, but paltry compared to the worldwide value destruction that results from war and violence.

The settlement of disputes through violence has been a part of human history. But it has changed in recent times with a lot more destructive power in the hands of the combatants.

And terrorism has now become a global affair. Terror is not new, but it has been a growing issue over the past few decades. Terror has been used by citizen groups of all sorts to get the attention of government, in Latin America, in Europe, in Africa, in South Asia but it has achieved a new notoriety since the events of 9/11 in 2001 in the United States.

I would argue a major failure in the relief and development sector.

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## The problem of poverty and hunger

Poverty is a result of failure, not a cause of failure. The world as a whole has resources, and enough for all to be substantially better off than we are. Depending on the methodology used, it is possible to argue that there is less poverty than a generation ago, but the reality is that the scale of the problem of poverty is far greater than it should be given the production and productivity potential of the modern world.

Based on results, it doesn't even look like anyone's been trying to solve the problem of global poverty for the last several decades.

In past times wealth was constrained by manpower and availability of food. In the old economies, it was impossible not to have poverty. But that has changed in recent times and now the productivity of modern agriculture and industries makes it possible to produce enough material goods and services for all. But, of course, this is not being achieved.

Another failure.

## The problem of disease and premature death

There have been epidemics in the past, and little science to help. For some time in the recent past (around 1950 to 1980) it appeared as if the world was making very good progress against disease. UNICEF and WHO successfully coordinated global programs that succeeded in eradicating some critical diseases such as Smallpox, Polio and Diphtheria. Childhood survival improved and expectation of life increased.

But the world has failed to become a much healthier place. Hunger and malnutrition is stunting children, and HIV-AIDS has arrived on the scene, and there has been a resurgence of diseases like malaria and TB. What looked like health progress 20 years ago has now morphed into a health disaster of pandemic proportions. It is commonly reported that some 30,000 children die every day from disease that is preventable.

Another symptom of failed relief and development.

## The problem of education

Far too many people all around the world are not getting an education, even though education is widely acknowledged to be the door to a better socio-economic future.



More failure.

And in addition there is the problem of education in the “north” where several generations of students have been taught a lot about how to do advanced business and economic analysis without much of an ethical foundation, and have little idea of the impact globalization and profit maximization has had on the “south” and people at the “bottom of the pyramid”.

### So much intolerance

Religious intolerance, holy war and terror seem to be on the rise, but taking a long view of history, this is more the norm than a special problem for these times. Because religion has been a critical cause of instability and violence in the past it should be considered a potential flash point today, but it can also be a path to peace and reconciliation and prosperity.

The extent of war and violence reflects a failure of too many of the religious community to choose the path of peace.

### Wealth creation

There has been a creation of wealth in the modern world that is, by any standard quite amazing. But beside great wealth there is great poverty. People with all the material goods that can be imagined are sharing space with people who have next to nothing. This is happening in North and South America, in Europe, in South Asia, in East Asia and the countries of the former Soviet Union. And arguably this is increasingly happening also in the “north”.

This is a symptom of something that is not right. Nothing wrong with the wealth, but a lot wrong with poverty.

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## Chapter 2

### Who Cares?

#### Nobody

Does anyone really care about failure in the relief and development sector?

The quick answer seems to be that nobody cares. Certainly not the rich and powerful. If they did, then the situation would have never got to this state in the first place, and it would have been fixed long ago.

The failure of relief and development is obscene. But mostly its impact is far away from the people who are comfortably off, and are able to live the good life.

Ordinary people do not want homelessness in their neighborhood, but homelessness that one never sees is not a problem ... at any rate, it is someone else's problem.

And organizations involved in relief and development seem to be comfortable with the disastrous status quo. For the staff there is job security as long as there is funding to respond to disaster.

#### Except the poor

Maybe the poor do care, but what can they do about it. As a practical matter, the poor have little access to any of the tools or resources that they need to climb out of their poverty. They do not have a voice, and even if they did, would anyone listen?

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Worse, the poor have stopped talking. There is a level of hopelessness that is numbing. The poor get by, but they have given up. Nobody is in their corner ... nobody in their local government and nobody in the international community.

### Maybe it would be smart to care

Whether the rich and powerful like it or not, the technology and the techniques that enabled their own wealth is going to make it possible for others to start a climb towards a more affluent life.

In the 1960s a barrel of oil was just \$3.50. In 1973 OPEC was able to create a cartel of petroleum exporting countries and move the price to \$13.50 a barrel. The balance of global power changed in a dramatic manner. Perhaps it was the biggest single economic event in all of history, and it might have been the end of wealth creation in the old money centers of the world (London, New York, Paris, Frankfurt, etc). As it turned out, it was not. The OPEC countries were co-opted into the money center system and a crisis for the “north” was averted ... at any rate for some decades.

### An emerging community of anti-north activists

Young people are learning all over the world. People in the “south” are not only learning what we in the “north” want them to learn, but have learned how to learn for themselves, how to analyze and draw their own conclusions. Many are figuring out that the world is not the way it should be. It takes a lot of explaining why some places and people are so wealthy while others are in abject poverty ... how some groups are so rich, and some are so poor.

The rationale that “the poor have always been with us” is not a very useful argument when trying to explain why someone is poor, has no job, has hungry sick children, and has no reason for hope.

What a community of anti-north activists will become is worth thinking about. Maybe it explains why increasingly people hate countries like the USA are want to do anything to inflict hurt.

### And worse

It is reasonable to argue that it is a rather small additional step for anti-north activism to morph into anti-north terrorism. All too often the face of the “north” presented in the “south” is very negative, especially the “north” as represented by government and its official

policies ... and so much of what is being done seems to be simply in the interest of the “north” and nobody else.

By early in 2006, the price of a barrel of oil passed \$70.00 a barrel making huge profits for every oil producing nation and the oil companies. Rich people can handle the increased cost of gas (petrol), but for poor people it is a problem. The crude oil price increases of the 1970s was handled ... but it is less clear that the price increases 30 odd years later are going to be as easily handled.

pThe old “north” needs to pay attention. The global fund flows are not the same any more, and North America and Europe (and Japan) are a lot more fragile than is safe. This will certainly be exploited when the “anti-north” is good and ready. The “north” would be well advised to think through what it is that they can do that would be helpful.

Maybe it is too late ... but maybe there is time to make some changes.

### Also a “north” community of advocates for reform

There has been a small community of advocates for reform for many years. There has been a steady stream of critiques of development, and a lot of advocacy for change going back as long as I have been interacting with the relief and development sector. In the late 1980s books like Hanson's “Lords of Poverty”, and in the 1990s books like Catherine Caufield's “Masters of Illusion” posed important questions and documented problems taking aim mainly at the World Bank.

I sense that there is a broader base now than in years past. The relief and development sector was less mature twenty years ago and the organizations could more easily argue “give us more time”. A number of authors have started to write about aspects of the relief and development sector that were previously off limits. John Perkins has written “Confessions of an Economic Hit Man”, James Henry has written “Blood Bankers” and Bill Easterly has written “The White Man's Burden”. These books challenge the status quo and pose questions that need some serious answers.

These authors and others are starting to suggest that failure of the relief and development sector has been orchestrated by agents for the rich and powerful, and that this failure has been of inestimable benefit for the incumbent wealthy. They are suggesting that poverty and

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failure makes it possible for the rich and powerful to remain rich and powerful and then become even richer and more powerful.

Will this be different from ten or twenty years ago? Maybe ... maybe not.

We can be confident that there will be a lot of talk, but whether or not there will be anything more than talk is not yet clear.

## Chapter 3

### How and Why

#### Getting beyond mere description

There are libraries of data that describe what is wrong, but rather less about how and why there is relief and development failure. It is impossible to address problems with much hope of success until there are some honest attempts to figure out the how and why.

#### How?

I have been asking the question “How has relief and development failed?” for a very long time. I used to ask a similar question when I had profit responsibility in the corporate world and when I was a corporate CFO. When you know “how” something is happening it becomes relatively easy to figure out what to do about it.

After looking at this question from many, many different viewpoints over a period of 30 odd years and working to “connect the dots”, I have concluded that there are two big reasons. These are: (1) that some of the fund flow has never been delivered to practical activities because it got mis-applied on the way ... in other words corruption and fraud; and, (2) the resources have been used legitimately but in a very ineffective manner. These two reasons explain how the relief and development sector performance has been so poor.

In the relief and development sector organizations the “How?” question seems to be “off limits”. I remember (in 1978, now almost 30 years ago) being briefed by a World Bank staff person about the

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expectations they had of other staff and consultants ... “you NEVER criticize other staff or other consultants.” It did not seem such a bad rule or modus operandi at the time, because, after all, we were a team, and we were doing important work for the benefit of society. But like so many rules, the abuse of the rule became the norm, and used to avoid addressing important professional issues.

In my own work in the relief and development sector I have been asking “How?” whenever I have been on an assignment, and just as often when I see things that put me on inquiry. With so much money flowing into development ... recently some \$50 billion a year and now growing, by some accounts, to upwards of \$100 billion a year in 2006 ... and yet so little to see for it. How has the fund flow converted into so little tangible benefit?

How? In part it is corruption. In part it is incompetence. In combination, and with weak accounting and financial controls, there is great scope for diversion of funds and for using funds ineffectively.

### Why?

Why has the relief and development performance been so poor? Why has corruption and fraud not been stopped? Why have ineffective activities not been terminated and replaced by effective activities? Once again there are two big reasons: (1) senior people in the relief and development sector organizations just do not want to go head to head to stop fraud, corruption and ineffective activities; and, (2) the leadership and the staff do not know how to change the prevailing practices that are failing to produce good results. Both of these reasons are bad reasons.

Bluntly put, people are making the sorts of choice that suits them, without shaking up the system so that it can make the relief and development sector a success.

I contend that some of the staff in relief and development sector organizations just do not want to go head to head to stop fraud, corruption and ineffective activities because it is not in their self interest. There are a whole range of levels of not wanting to rock the boat, and a big range of personal self interest. Few people in big jobs in the relief and development sector want to put their salaries and retirement benefits on the line, and those that are heavily into ripping off the system do not want to end the gravy train.



## Chapter 3 - How and Why

The general public does not know very much about the type and the scale of the rip off in relief and development sector organizations. These organizations have a history of using government style fund accounting (cash based) systems. This accounting makes it relatively easy to make rip off look like a regular approved transaction. As long as the accounting stays this way rip off will be facilitated, and those on the gravy train can go on living happily. Society gets to pay the bills and the disenfranchised poor quietly suffer the catastrophe of failed development.

But while it might be expected that the general public does not know, the internal management information in relief and development organizations does not inform the staff very much about performance either. Most of the staff have no information about the “performance” of the organization as a whole, even if they have some data about the work they are engaged on themselves. Good loyal staff honestly believe that they are working hard and doing a good job ... and are going to go on believing this as long as decent management information is non-existent.

But it gets worse. There are big questions about corporate ethics, and the role that the corporate world has in facilitating inappropriate aspects of the global economy. It takes a lot to explain how people can be in so much poverty when their land is being exploited by international oil and mining companies. Something ... actually many things are clearly wrong.

As long as there is nobody to rock the boat the system can sustain itself, but the results in terms of relief and development progress will not be very good. And as things are at the present time, and have been for a long time now, those that do not want change do not need to be much concerned.

The people that want change for the most part do not know how to change the prevailing practices that are failing to produce good results. Making change is not easy, and certainly making change in big and bureaucratic institutions is really tough.

Making change that is going to have a significant impact on the prevailing corrupt gravy train and international corporate profit bonanzas is not going to be easy, nor is it going to be safe. But it is surely worth doing.

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## Chapter 3 - How and Why

## Chapter 4

### So Many Things are Wrong

#### Hundreds of issues

There is not just a single thing wrong. There are hundreds of things that are wrong, and have contributed to failed relief and development. (See a companion book “Hundreds of Issues that Impact Relief and Development Performance”).

#### My first visit to Africa

Before my first visit to Africa, I had learned something about it. I learned something during my education, but it was in the abstract, as education mostly is. I had learned development economics as a student, and at university I had a number of African friends. I had done some desk based project cost analysis of some World Bank projects in Africa while I was at Coopers and Lybrand, and I had followed the news on radio and in the newspapers as the countries in Africa became independent.

I first traveled to the “south” in 1974, to Liberia in West Africa. I thought I was well prepared for what I would experience. But actually being in Africa was much different from what I ever expected. More than anything else I was surprised by the fact that nothing seemed to work the way it should ... that nothing seemed to be maintained ... that people seemed resigned to broken everything.

## Chapter 4 - So Many Things are Wrong

It took me a while, but I got over these first impressions and eventually started to see people lived surprisingly happily in spite of so much around them being broken.

### My first visit to Africa

I remember getting off a Pan Am flight to Liberia from New York in 1974, and immediately realizing that nothing in the airport terminal worked, at any rate in a way that someone from Europe or the United States would expect. Air conditioning? No. Cleanliness? No. Baggage handling? Yes ... but really handling, not conveyor belts that actually moved. It was the wet season. It was a downpour, and would continue raining for the next several hours before stopping for a short while only to start again soon for the next day.

A colleague was waiting for me. He knew it was my first time in Africa, and was enjoying my shock and first impressions. As we drove from the Robertsfield Airport to the city of Monrovia, about 50 kilometers, he explained that the road had been funded for reconstruction several times, but the work still had not been done, except for some minor maintenance. The road was awful, or so I thought. It was raining. It was dark. It was really quite scary.

In 1974 Liberia was the largest “beneficiary” of US aid in Africa according to the statistics. It is relatively speaking a small country, and this amount of aid should be making a big impact. But of course, what actually got spent on aid was very much different from the statistics. Liberia was a “listening post” for US intelligence, and it has a large community of US personnel attached to the US Embassy, most of whom had little or nothing to do with Liberia and its development. The masts and aerials used by the US near Monrovia were an impressive collection. Of course, with newer satellite technology, they are no longer needed and this component of US security was phased out and closed a long time ago.

I should have made the link ... connected the dots ... between the statistics on spending, lack of development and US security considerations way back then. But it was not on my radar, and I did not give it much thought. I was visiting Africa as the Chief Financial Officer (CFO) of Continental Seafoods Inc. (CSF), a US based international fishing company, and subsidiary of Ward Foods, a NYSE company. Over the next few years I would spend a lot of time in Africa, as well as South Asia, the Middle East and Latin America.

As I recall, one lesson I learned very quickly was how similar and how different each of the countries were. My CSF colleagues understood local business and the local environment. They did an amazing job of keeping the company's operations going. They did not have it easy.

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## Bluntly put, everything is wrong

It is hard to find very much in the “south” that works right. This is a terrible thing to say, but sadly it is true.

Why is the economy so poor? Why is the government so ineffective, or worse? Why are people so ill? Why do the phones not work? Why are the roads so badly maintained? Why is there no electricity? Why? Why? Why?

## Connecting the dots

I have seen a lot, and like to think I have learned a lot. And as I have learned I have been trying to connect the dots, and what emerges, is a dysfunctional system with some people doing very well and the vast majority losing out. Worse, as the rich get richer, it seems the poor get poorer.

### Learning ... Experience

I am reminded of the story of a young international agricultural expert who was lecturing a group of farmers in the “south”.

One of the farmers asked a question starting with “I have 30 years of experience ...”.

The young expert in his reply started by saying “I need to correct you ... you have one year of experience 30 times.”

I like to think that I have 30 years of learning more and more, rather than just reworking the same small amount of knowledge over and over again.

And I am reminded also of the observation that some people “Learn more and more, about less and less, until they know everything about nothing”.

I like to think that I have been able to learn a surprising amount covering a very broad range of situations ... but that what I know is a tiny amount of what others know.

And after a visit to a remote rural community where I had learned a lot from the local community chief, I realized that “If I don't know it, it does not mean that it is not known”.

I am connecting the dots, as best I can. There are big problems ... but later I hope you will see that there is a huge potential to have a revolutionary improvement in performance.

## Chapter 4 - So Many Things are Wrong

### People

Even though people in the “south” live in a failed economic environment, people are amazing and go on in spite of all sorts of trials and tribulations. People may be poor, but people are hugely valuable, especially to themselves, their families and their communities. Good people are constrained by lack of opportunity. Meaningful opportunity is hardly ever accessible for the mass of the world's poor. It is a sordid and unpleasant fact. While rich people have access to anything and everything, poor people have access to almost nothing.

Many of the elite in the “south” are benefiting mightily from the prevailing systems for relief and development, and are able to use the fund flows in many different and inappropriate ways. People at the bottom of the pyramid who should be benefiting are not seeing very much of the fund flow that is discussed by leaders at the top and reported in the media.

### Why is the infrastructure so run down?

Infrastructure lasts a long time, but it does not last for ever. Infrastructure needs maintenance, and as it gets older it needs a lot of maintenance. Throughout the “south” there has been low investment in new infrastructure, and little maintenance of the old. Public works expenditures are totally inadequate.

There have been some big “projects” to build roads, for example, but the costs have often been high relative to the amount of construction completed. Many times the contractors have been either high cost international contractors or cronies of the ruling elites. In both cases the local people eventually get saddled with debt and not much decent road to show for it.

### Why is water such a problem?

Water is so critical to life, yet it is perhaps the biggest failure in the infrastructure of the “south”. People, mainly women and girls spend hours and hours every day carrying water by head load for household needs. In the “north” we expect water, hot and cold, to be instantly available at the turn of a tap. In the “south” water is rarely safe to drink ... the “north” expects its water to be potable, totally safe and instant.

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Water was a strategic component of the colonial era. The rivers were definitely part of the colonial scheme of things, and there were urban investments in water systems, but nothing like universal availability. None of this has been scaled up and maintained in the manner needed in subsequent years. The investments in potable water infrastructure have mostly been small, and the results inconsequential. There have been some investments in water for irrigation, but systems have been badly managed, have become saline, allowed to deteriorate and have stopped performing.

### Why so much war? Why so much violence?

Some of the reasons for war include: (1) pride; (2) land; (3) minerals (diamonds, gold, etc.); (4) energy resources; (5) food security; (6) access to the sea; (7) control of power; (8) redress of inequities ... the list can go on. The results of war do not reflect the reason for war.

People fight ... it is human nature. It is the way “men” show their strength. Physical prowess has been a central characteristic of society from ancient times until now, from the ancient Olympic Games to a modern Super Bowl.

Children fight on the playground. It is normal.

But all this fighting and physical prowess has an ugly downside. Combined with greed in any of its forms. Physical violence can get out of hand and produce catastrophic results. Power hungry have used violence throughout the ages, and so have people seeking riches. Why should modern war be any different. War is always about protecting or increasing ownership of something someone sees as valuable. And like a game of chess, the first move is not always the most important.

### Bloody guns: death, refugees and IDPs

The “south” is full of guns. These were not manufactured locally. They came from sources within the global munitions trade, much of which operates in the shadows but handles a lot of very real money. All the guns that do damage in the “south” come from the “north”, and the value destruction they cause is immense.

One of the result of guns is dead people. Hundreds of thousands of people are dead because there are a lot of guns which facilitate deadly interaction between people who are disagreeing.



## Chapter 4 - So Many Things are Wrong

A lot of people are dead because governments are better at making war than at making peace. Guns in the “south” were often delivered because of some ideology ... the cold war ... the fight against communism ... the fight against capitalism ... but never directly to help a poor family have a happier life.

### Refugees – war is the problem

War not only kills and injures people, but also causes a huge amount of displacement. The number of refugees and displaced persons in Africa has been in the millions for the years. In the early 1980s it was recognized that there was a refugee crisis in Africa and there were two major conferences (ICARA I and II) to highlight the crisis ... but rather little follow through. The world's attention was diverted to famine, especially in the Horn of Africa and the Sahel.

#### Refugees – War is the Problem

Over a period of about 15 years I did a series of assignments related to refugees and internally displaced persons (IDPs). My work was associated with how best to handle the refugee and IDP population and provide basic services. In the course of this work I gained a lot of respect for UNHCR and many of the NGOs that worked in partnership with UNHCR.

But no matter how well UNHCR did its work, the problem of refugees and IDPs is not going to be solved by better refugee services but by stopping war and violence that creates refugees and IDPs and stops them returning to their homes.

### Ghastly globalization

From the “north” perspective globalization has some attraction ... bigger markets, economies of scale, cheap labor, higher profits. But from the perspective of the “south”. It does not look anything like as good. Organizations like the WTO (World Trade Organization) seem intent on making sure that the rules of trade protect the rich corporate world of the “north, and do rather little to ensure that the “south” is included in a way that is reasonable and just. It is for a reason that ordinary people have disrupted WTO meetings calling for the organization to take into consideration the poor as well as the rich. Unrestrained free trade does not make for fair trade, and market

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solutions are not always the best solutions ... though government administration of prices is usually even worse.

### And the matter of intolerance

Intolerance is perhaps more problematic now than in years past, and history tells us that intolerance in the past was horrendous. With instant global communication, the aberrations of intolerance are rapidly spread, and the easy access to advanced technology for terror has made intolerance very messy. Intolerance is evident in all sorts of areas: religion ... between major religions and within the religions, between races, between political groups, between tribes, between castes, between ethnic groups, intolerance of the poor ... and the list goes on.

It was so much easier in the dim and distant past when we all lived in our own little enclave, and nothing from the outside ever bothered anyone ... or was it. If the crops failed, we were on our own, and starved!

### Making sense of this chaos

Making sense out of all the things that are wrong is a difficult exercise, perhaps impossible. We should not waste too much more time on getting a definitive answer, but quickly move on and figure out what to do.

Before we do that, some information that I find useful has been organized into the next five chapters. We look at results, and the prevalence of value destruction, the organization of the relief and development sector that has resulted in deadly dysfunction, people, and the disastrous decisions they make, and a little about management information that is missing in action.

Hopefully there will be enough material presented so that there is some feel for the existing chaotic situation and, more important, the emergence of some ways to move forward to improve relief and development performance.

## Chapter 4 - So Many Things are Wrong

## Chapter 5

### Value Destruction

#### Metric of Performance

##### What is performance measurement?

In order to measure performance there is a need to relate inputs with outputs. Inputs can be measured in terms of resources used. Output should be measured in terms of incremental value created.

It is fairly clear that there is a lot of failure in the relief and development sector over the past 40 years, but why has there been such failure? My experience suggests that the fundamental reason is that the output value has been small while the input use of resources has been large ... almost \$3 trillion over these years.

There is not much measurement of actual performance. While there is a lot of dialog and analysis in the process of preparation and justification of projects and programs, there is rather less during implementation and in evaluation. At any rate it seems that way. Either there is a level of secrecy about performance, or there is little information about performance. It is not clear which of these is the true explanation ... but neither is good.

##### Where performance is measured.

Most implementation performance is measured, if it is measured at all, either within the project or program or within an organization. This is not a good place to do this measurement. Most socio-

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economic performance is measured at the national level, and again, this is not an effective way of getting useful management information.

Almost all organizations are required to publish some form of financial report every year. These reports usually provide a modicum of analysis, usually the allocation of their spending between “program” and administrative overhead. Almost no organizations publish anything which shows how effective their programs have been ... there is nothing numerical about the value arising as a result of the programs.

But it is rare for organizations to provide much information about their projects and programs. There are some tentative steps, like, for example, the World Bank's AIDA database that is accessible on the web ... but this is difficult to use and tends to move the user rapidly from very basic information about the project to a lot of data that buries the user in material, almost all of which adds little to the understanding of the project performance.

And while there is tentative progress, there is regression. The UNDP which for years published the Development Cooperation Report has discontinued the report, probably under pressure from donors who intensely dislike the very useful information that these reports used to present.

There is little good to say about national level economic information. Its only use is to prove or disprove economic theory ... and to the extent that it disproves the theory what on earth do you do next.

The best place to measure relief and development performance is at the community level. I have used community level analysis in my own work over the years, not intentionally, but really by default ... and eventually concluded that community is the natural level of the measurement of performance.

### Value analysis

Value analysis is a technique to understand in a systematic way whether or not activities are value creating ... good ... or value destroying ... bad.

When this technique is applied to relief and development activities it becomes clear that there is a lot of value destruction. Value destruction happens when money is disbursed, activities take place, and at the end there is nothing much of tangible value remaining.

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Development ought to be about building value. In fact relief and development spending does more of value destruction. What is apparent is that much of what goes on in the relief and development sector ends up being value destruction. Money is consumed, but with minimal results. While it is apparent that a lot of relief and development expenditure ends up being “value destruction” ... there is very little or no analysis of this going in the major relief and development sector organizations. To the extent that anyone knows, it seems to be a secret.

Value analysis shows a lot about the impact of investment, corruption and favored treatment on the economy, and especially on the economy in the host community.

Value analysis can also address the issue of debt. There has been value destruction directly caused by bad projects, but worse the bad lending / bad borrowing has resulted in an enormous third world debt. The only thing “for sure” in a World Bank project, and all other loan financed initiatives, is that the disbursements will result in debt, but nothing is for sure about the benefits that will arise.

Value analysis also throws light on the impact of the policies of the rich “north” on the poor “south”. While some argue that globalization is making the world a richer and better place, the facts seem to be that for some, the rich, this is true for for most, the poor, globalization is a disaster. What is unacceptable is that much of this is brought about be decisions and policy choices that ensure that these are the results.

## **Value Destroying Activities**

### Projects and programs

The relief and development sector operates largely through projects. Not many of them are value adding, rather they a value destroying. Though the project form of organization works well for the construction of major civil works such as dams, roads, ports, etc., it works very badly as support for work in the social sectors like health and education.

The performance of projects and programs is one of the best kept secrets in the relief and development sector. There is a lot of focus on

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how much money is disbursed, but very little about the value that is accomplished using the money. Without measurement and effective oversight, then project performance becomes unimportant.

### Value Destroying Projects

At one point in my career I was retained by UNDP to evaluate (desk review) part of their project portfolio. I was not asked to repeat the exercise, and my work was probably totally ignored. But the overriding conclusion was that there was much disbursement of money for work that sounded worth doing, but the activities and the results rarely did anything like what was projected.

All the projects were worth doing, based on the project proposals, but feedback of performance information to the head office showed that money had been disbursed, some things had been done, but rarely anything of substance had been achieved. The costs were there, the durable value was not.

Thought it was very clear that disbursement of money had been done for work that sounded worth doing, it was equally clear that not very much was being accomplished. The feedback of performance information to the head office showed that money had been spent, and some things had been done, but rarely that anything of substance had been achieved.

### Value Destruction in South Sudan

For years and years UNDP funded a small capacity building project in South Sudan. The project consisted of a single CTA working in an advisory capacity with the local government. The expenditures were a generous UN rate salary together with normal living and transport allowances ... perhaps 50 times what he would have earned in a government job in his home country. The CTA had an office in the government administration building and by all accounts was “on seat” around 10 hours per week. The project goals were never achieved, but every year someone in the local government wrote glowing letters asking that the project be continued, and it was, over and over again, despite considerable staff objections. Nobody knows who was paying who, but it is almost certain that this was the underlying problem.

The problem of project performance has been systemic. Why was it that a project with almost 100% value destruction in South Sudan kept on going year after year ... the funding agency had official government letters saying the project was important, and that was all

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it took for the funds to be reallocated year after year. Not a great outcome.

A World Bank / DANIDA funded shrimp project in Yemen (YAR) at Hodieda is another example of value destruction going on because of a bad project. Almost everything about this project was wrong, but the disbursement kept on going ... even after a supervision mission had recommended an immediate end to the funding.

### Shrimp Project in Yemen (YAR)

I worked with a World Bank mission in Yemen (YAR) to help assess progress on a shrimp project based in Hodieda. As a former CFO with an international company in fisheries (shrimp) I know something about the fisheries business and I was shocked by almost everything I learned about the project .

The World Bank and the Yemen authorities had taken perfectly good resources and converted them into into a operational liability and created a big debt repayable to the World Bank. This was an almost 100% value destruction performance.

Similar project performance is relatively common. It is something the World Bank and others in the relief and development sector should be ashamed of. Having a failure once in a while is understandable, but failing almost all the time is unforgivable.

Why on earth did the World Bank, UNDP and the broader relief and development community do little or nothing for years about pathetic project and program performance.

### Foreign direct investment (FDI)

How has foreign direct investment (FDI) turned into a source of value destruction for the “south”. FDI should be a winner for the beneficiary country, the communities hosting the investment activity and the people. But more often than not, FDI is a disaster for local people, the host communities and even the country.

It is apparent that experts from the “north” have been able to negotiate and get agreements with the “south” leadership that have been very beneficial to the corporate “north” and have done little or nothing for the people of the “south” and arguably have created nasty long term environmental liabilities.



### Extractive industries

The value chain for the extractive industries end to end from the natural resources to the consumer is not usually presented for publication and easy access. In spite of big investment and great profits, it seems that there are huge durable value problems in many of the host communities while the “north” corporations and their stockholders are enjoying stupendous profits.

#### Value Destruction in a Mining Enterprise

An investor comes into the country to open a mine. The host community has an area that is rich in ore. The investment is estimated to be \$500 million. The host country does everything to welcome the investor, and the investor arrives.

A large amount of mining equipment arrives ... the reported cost is around (say) \$400 million and work commences. Some local staff are employed and trained, but the local payroll is tiny relative to the expatriate payroll. The mine does well and soon over a \$billion of ore has been removed, processed and exported. The investor is well pleased.

The mine is now ready to be transfered to local ownership. The mine comprises a huge hole with the best ore already gone, and worn out mining equipment that is almost fully depreciated. Keeping it profitable is going to be a challenge.

The community has had some economic activity for a few years, and now has a dirty polluted area with not much future. The value has been extracted and the community has not a great lot to show for it.

In this typical scenario the investors probably make \$100 of profit for every \$1 of value that is realized in the community. In some cases the pollution of ground water turns FDI into a disaster for the local community ... with absolutely no recourse for community people.

This should not be possible, but money talks. There is usually an elite group in the “south” that is also able to profit mightily from foreign direct investment. Rigorous value analysis shows that, more often than not, FDI extracts value from the host country rather than putting value into the local economy ... and combining this with the pattern of bribery and corruption, there are big value distortions when corruption is out of control.

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## Infrastructure construction

Infrastructure investment is very much needed ... but does infrastructure building in the “south” need to be as expensive as it is. Where there is international FDI the driver is the maximum of corporate profit, rather than being the the maximization of durable socio-economic benefit.

There are hundreds ... no, thousands ... of PhD level economists at the World Bank and around the relief and development sector organizations yet they do not seem interested or capable of doing the analysis to show that there is an optimum way of doing construction in the “south” to get the maximum of socio-economic benefit. Instead for many years now the “south” has been getting infrastructure projects that are designed in a way that makes profit at the expense of tangible socio-economic improvement. Maybe Bechtel benefits, but the “south” does not.

## Coffee, cocoa, tea, cashew, palm oil, etc., etc.

There is something fundamentally wrong with the value chain. At retail in the “north” the prices have gone up along with everything else. At the farmgate, however, the prices are more or less the same as they were years and years ago ... and costs have risen for farm inputs and everything else a family has to buy. Net net the farmers doing coffee, cocoa and tea are increasingly poor.

What is the problem? In large part the World Bank got it terribly wrong 30 years ago when they were predicting rapidly increasing demand and prices for all these items.

### World Bank's Rotten Projections

Over and over again in the late 1970s and early 1980s I objected to the World Bank's rotten commodity projections. They had a department that occupied itself with price projections and a new-fangled computer program that gave them the definitive answer about the future ... but it got it wrong ALL THE TIME.

I had recently moved on from being a corporate CFO who needed to get price projections for our products right in order to have profits ... and in the areas I knew very well they were getting it very wrong.

I then worked in a variety of agricultural project appraisals and supervisions ... and every single projection made by the World Bank staff was considered wrong by the expert independent consultants involved ... using the World Bank projections these projects were adequately beneficial for approval ... using the independent consultants' views, the projects were not good enough. In every case the World Bank view of the world was the one they used ... with totally predictable results.

### Parastatals, FDI and privatization

Parastatals, FDI and privatization provide another set of sad stories of value destruction for the “south”. A lot of productive foreign corporate investment was nationalized in the early days of independence, which was understandable. Much of it turned out to be a mistake, and parastatal performance deteriorated over the years. Subsequent privatization of these entities with foreign investors has recreated some of the same exploitive value chains that existed in the colonial era ... surely this could have been anticipated by the relief and development sector experts. Not surprisingly the good parastatals were sold off easily ... and the dogs remained for a long time. Almost all aspects of these programs ended up doing value destruction for the “south”

### Trade

In the global mercantile era of the 18<sup>th</sup> and 19<sup>th</sup> centuries, trade was bigger, fairer and more free than it is today.

For some, trade is easier now than in years past. Mainly it is the corporate “north” that has easier trade, but the “south” is stuck. Terms of trade are almost universally worse than they were years ago, especially for agricultural commodities. International agreements are

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long and complicated and rarely do anything of substance that benefits the “south” while having huge value for the corporate “north” ... worse, with bad results for the “south”.

### Workshops and conferences

All workshops and conferences have a cost, but not all of them have value. It takes a substantial expenditure to run a workshop or conference both on the part of the organizers and the participants.

Some workshops and conferences are popular because the participants are paid to attend, and receive travel and per diem allowances as well. These payments can be substantial relative to the pitifully low salaries paid to civil servants in most of the countries in the “south”, including quite high positions in the civil service system. For these people there is a money value that is quite tangible, but is an inappropriate justification for the workshop or conference.

Workshops and conferences may have a high professional value in facilitating networking and sharing professional experience. Some professionals may get significant value from this, and where this is going on, the costs may well be justified. But more often than not, workshops and conferences do little more than cost money and do not very much. Even so, donors seem to be willing to support them because they are an easy and quite visible way of showing that there is some tangible activity going on, and they can use this in public relations efforts to feed the media and other stakeholders.

Without metrics that measure relief and development performance, the majority of workshops and conferences are never evaluated to see how big the costs are in relation to any tangible relief and development benefits.

### Research and studies

All research and studies have a cost, but not all of them have value. They represent a very substantial investment that is almost total value destruction. There is a huge archive of research and studies which is very difficult to access and use.

### A Study of Studies in Lesotho

I was part of a team doing research on the rural sector in Lesotho in 1987. The TOR called for us to review the studies that had already been completed and not carry out any “new” work. When we arrived in Maseru to start the work, UNDP had collected for us most of the reports that we should review. The collection was stacked against a wall of the conference room and measured some 3 feet high and some 12 feet long.

The cost of preparing these reports was probably upwards of \$20 million, a substantial amount in the context of Lesotho. The practical “on the ground” investment in rural sector development was tiny. Much less than the cost of all the studies. Value destruction in progress.

Research and study have no value in themselves. Their value is only realized when the results of the research and study are incorporated into some practical activity that improves socio-economic conditions in some tangible and durable way.

### The academic community

The academic community has a significant involvement in the relief and development sector, but it is not clear that it is value positive. Certainly it ought to be, but looking at the performance of the relief and development sector it raises questions about the role of the academic sector in this performance.

It looks very much as if what has been “taught” about relief and development and the operation of all the institutions and activities might not be right. In fact it might be significantly wrong. This is a serious problem and one that does not seem to be getting much attention, if any.

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## Teaching Relief and Development Methodology

I first realized that academia was part of the relief and development performance problem when a USAID staff member retired and soon afterwards was teaching a course at a well known university on USAID's Logical Framework. This happened soon after I had been working on a USAID project and had been faced with a logical framework that ensured the project would fail, unless the project, based on this logical framework was redesigned.

I also ran into a similar problem where the World Bank was recruiting just graduating students and then training them on how the World Bank did things ... ensuring that the World Bank methodology was applied, and ensuring that the World Bank methodology would never be the best that it could be and should be.

It also looks as if the “research” being done in the academic arena is of very little importance. Most research is done as a “requirement” for some academic credential, and though this is important in the academic context for the individual, it is not of much importance in the mainstream of relief and development. To the extent that this research is often funded using grants that come from budget lines that ought to be used for important work in relief and development, this is an inappropriate diversion of scarce relief and development resources.

Academia should be an important and valuable component of the relief and development arena, but it does not appear that they are adding value. As in most things, there are exceptions, but the role of academia in the “north” putting some really valuable into the mix seems still-born. From my perspective as someone with an interest in management information, the typical academic and statistical approach to information is dangerous, and not an appropriate way of proceeding. Rather it would be better if a little bit of academic effort that costs a lot were to be replaced by a lot of good relief and development information that would cost rather little.

## Valueless political rhetoric and press releases

There is a lot of political posturing and press releases, mainly about plans, or reports that have been prepared, but never about moneys disbursed, activities undertaken and results achieved.

This is not surprising because many activities do not achieve much in the way of result. In order to have relief and development success, resources have to reach the intended beneficiaries, and be funding activities that are useful for the beneficiaries.

### **Value Destruction Aggravated with Debt**

#### Debt is a result

Debt is a result of decisions and actions. Unsustainable debt has come about in the “south” because the lending has been bad and the use of resources has been bad.

The “south” suffers from a shortage of investment ... too little infrastructure ... too little of public services ... so how come there is so much debt? There are some simple answers: (1) money has been lent badly by the World Bank and other lenders; (2) the money has been used badly by the borrowers, primarily borrowing governments and their crony's; and, (3) the structuring of the loans so that they are denominated and repayable in a basket of “hard” currencies.

Back in the 1970s when the international financial system was in turmoil after the oil shocks, Walter Wriston, the CEO of Citibank from that era summed up the financial opportunity saying something along the lines that developing countries “needed the money, paid high interest, and could not go bankrupt” and the international financial community was happy to oblige. Many commercial banks eventually lost some in the eventual restructuring and debt forgiveness that subsequently has taken place, but overall they did very, very well. The World Bank participated in the flurry of lending, but in the case of the World Bank, did not do much to forgive its debt when the “projects” failed to deliver much “development”.

The whole debt discussion is a cruel hoax on the world's poor and vulnerable. Without other interventions these people remain poor and vulnerable. The “south” needs to get financing for the things that it needs so that it can do critical things on a timely basis and on a meaningful scale.

Some of the relief and development experts in the “south” understand the issues, but do not often have a forum for their views to be heard and taken into consideration.

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## Minister in Namibia Had It Right

When I was working in Namibia I was present at a meeting of the donors with the Minister of Finance of Namibia. The purpose of the meeting was to move forward the country's strategy for development and how it would be funded. As is the custom in these meetings all the donors had an opportunity to say their piece.

When it came to the turn of the Commonwealth Secretariat, represented as I recall by a Canadian, Namibia was encouraged to gain membership of the Breton Woods organizations (World Bank, IMF et al) so that they could borrow for development.

The Minister asked some pertinent questions including about rates or interest and the currencies of the loans, and was told that the interest rates would be low, and that the currency would be a basket of currencies like the US dollar, the Canadian dollar, the Swiss franc, and so on.

The Minister then asked about project performance from such financing, and specifically what rate of return and what cash flow would be projected. The donor representatives present started to be a little uncomfortable, and no real answer was provided.

The Minister went on saying more or less the following: "I think you know, our currency is the South African Rand. This is a currency that is being rapidly devalued because of the economic sanctions against South Africa ... which we support ... but it does mean that our currency is devaluing at a rate of more than 20% per annum. If we borrow, we have a real interest cost of 20% plus whatever the low interest that is being charged by the lenders. And up to now, I have not seen any development project that is going to be able to support debt financed development in Namibia".

This was one of the best summaries of a critical development dilemma. The Minister was absolutely on target with his analysis. Sadly, I am not sure the donor representatives really understood. Most were not as well educated and experienced as this Minister.

Debt cancellation, restructuring ... whatever

There has been around 20 years of dialog about debt forgiveness and debt restructuring or rescheduling or whatever ... but much less discussion of how and why the debt came into existence in the first place, and specifically who are the responsible people involved. The leadership of the relief and development sector has never taken any meaningful action to get at the culpability of the various actors and to hold them accountable.



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There are many advocates for debt cancellation or some form of radical restructuring. There have been “agreements” about this over and over again, but also conditionality. There has been some debt cancellation, but only after the beneficiary country has jumped through hoops to satisfy the terms and conditions. The way the process works is typical of the relief and development sector, a huge amount of study and reports and meetings and negotiations before any agreement and any useful action.

The media and the advocates for debt reduction have periodic press bonanzas, but for poor people in poor countries it is all but invisible. The 2005 G8 Summit hosted by Prime Minister Tony Blair in Scotland highlighted commitments about debt reduction, but for all practical purposes, not very much can be seen from the perspective of the poor communities. There are headlines in the “north” nothing to be seen in the “south”. The reorganization of the “debt” is not more than a bookkeeping exercise with far too little of financial substance.

### **No Sustainability**

#### Value destruction is unsustainable

The relief and development sector has done very little that is sustainable in the past few decades. After years of relief and development sector mismanagement none of the poor countries in the “south” can operate independent of its donors. Very little can be sustainable without a complete rethink of how relief and development operates.

There are many areas where sustainability should be accomplished: (1) in the family; (2) in the community; (3) in the organization; and, (4) in the country. The idea of sustainability is clear in the corporate for profit organization, because if the company fails and goes bankrupt, it will be liquidated. In the relief and development sector, there is no equivalent.

#### Environmental sustainability

Environmental sustainability is talked about, but rather little is being done about it. There is increasing concern in the public dialog, but this is not translating much into actions that make a difference.

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Over the past 30 years plus I have taken flights in small planes over various parts of the “south” ... and places that used to be covered in trees are now, for all practical purposes, desert. Trees go, and soil erosion increases dramatically. Less trees, more global warming. Less trees, and a fuelwood crisis for poor communities.

The rich “north” has cleaned up its rivers over the past 50 years. The air looks cleaner, but colorless gases increase as energy consumption increases and more and more industrial materials are produced. Air pollution is notorious in urban areas of the “south” and especially the richer countries in the “south”.

Why is this? In the north of England in my youth there was a saying “Where there's muck, there's money”. This is still very much true today, except that it is also unsustainable ... and will get much worse.

## Sustainability of the community

While the countries of the “south” may not be sustainable without donor involvement, communities in the “south” have had no choice. They may not have progressed, but they have kept going with little or no external support from either their own government or the international community.

From time to time, events have impacted communities in terrible ways. Natural disasters like earthquakes and tsunami waves have wiped out communities, as well as drought and famine. Violence in its many forms also has a big affect on communities. It is in the community that the impact of failed relief and development is at its most visible. It is not pretty.

## Organizational sustainability

The biggest challenge for organizations in the relief and development sector is to ensure that their budgets get funded, and that the staff remuneration is covered without too much staff attrition or too much challenge around pensions and other long term benefits. Keeping the organization sustainable is “Job 1” in any organization, and impact on the relief and development process is subservient to this.

Keeping donors happy is an essential aspect of organizational sustainability, and making reports to donors is very important for this reason. This has, however, little to do with relief and development

## Chapter 5 - Value Destruction

performance, and the use of funds to get the most relief and development benefit.

Some of the ways in which donors are “kept happy” are of a questionable nature. The revolving door between donor organizations and the community of primary recipients is wide open.

An organization expecting to be funded by USAID needs to structure itself to suit USAID. One that gets its funding from World Bank projects has a structure that suits the World Bank. The same goes for organizations looking to get funding from the various philanthropic foundations.

And USAID must organize itself to get its funding from the Congress of the USA, and similarly for other bilateral aid agencies, and the World Bank from its funding stakeholders. Mostly this means that administrative resources go into study of the funding sources ... and it can be said that the organizations that are getting a lot of funding are taking care of this part of the business.

Organizations do not have a priority to look “down” towards the intended beneficiaries. There is much less imperative to have a strong relationship with the downstream organizations, and little or no incentive to invest money and effort to be strong on the ground. Clearly there has to be enough of a field presence to be able to stay in the front rank of donor interest, but best to have data and evidence that spins well rather than hard cost and performance information that could prove embarrassing.

### Project sustainability

Most projects play lip service to sustainability. It is almost always talked about in the project documentation, but the reality of sustainability is not given much consideration.

Almost by definition a typical World Bank, UN or donor funded project cannot be sustainable. Almost everything that makes up the project mode is artificial relative to the host economy, and it is rare for the project to be able to transition into the general economy.

### National sustainability

The problem of national sustainability has not been taken seriously by the relief and development community. The arguments about relief and development performance tend to ignore the crisis of national

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accounts and the failure of the national economy to be viable in its relationship with the global society.

This is a silent crisis that has been permitted because it really has had little impact on anyone except the people of the “south”. Why is it that the exchange rate for almost every “south” currency is a fraction of what it was 40 years ago?

It should matter. But when the financing institutions of the relief and development community denominate their loans in external hard currencies, what goes on with the local currency does not matter very much. If you are an ordinary person in the society, however, it can have a terrible impact.

## Chapter 6

# Organization Deadly Dysfunction

### A Dangerous Situation

#### Reduced expectation of life

In the “north” poor economic performance increases unemployment or reduces wages somewhat ... not good, but not life threatening. In the “south”, poor economic performance translates into death.

When a company fails, it goes bankrupt and closes down. There is hardship, but everyone can move on. When a community or country economy fails, there is no moving on ... and the way things get back into equilibrium is that people just die faster. In many poor countries in the “south”, for a variety of reasons, expectation of life has been reducing catastrophically.

The organization and structure of the relief and development sector just does not work well enough. There is much more an ability to talk, than an ability to act ... even when there are practical solutions that would work ... and there are people at risk of dying prematurely.

Even when there is war and violence, even when a family is displaced, even where there is a failed state ... people still have to feed themselves. If life is to go on, there have to be some basic activities that have to go on. And when they do not, people die.

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It is a global disgrace that so many people do die ... that there is so much war and violence and failed states, but it is also amazing that so many people are able to keep going in such disastrous circumstances. It is impressive how much continues when the formal organizations of society have all broken down.

## Too Much Death

My perspective on financial and economic analysis changed when I first saw dead young children ... in what was meant to be a rich “south” country. I realized for the first time that my underlying mindset that more wealth meant more socio-economic progress was just plain wrong. This was in 1974.

While there is nothing wrong with good analysis ... it can never be good if it does not include all the factors ... and the impact on human beings needs to be a big part of this. Sadly neither corporate MBAs or development economists seem to put the human dimension into their analysis.

## Organizational performance

The fact of organizational dysfunctionality is not high on anyone's agenda. Performance analysis is not being done. Very few of the organizations in the relief and development sector are able to point at the value adding that they are doing, though many are able to describe something of the activities they are supporting. These organizations are not using the relationship between what things are costing and the value being derived as a critical metric of socio-economic performance.

In the main, these organizations are “policy” organizations rather than operating organizations. Efficient operating organizations are missing. The gap has been filled to some extent by NGOs, but many of these organizations have limited capacity and not enough of the technical knowledge needed.

Though many of these organizations have a certain effectiveness in some areas, they are not, in general, effective in the overall delivery of successful relief and development. They stay involved more because they have “an example” of success, rather than a complete portfolio of success. Or they stay involved because they have convinced donors that they are worth funding, no matter what is actually going on in the field.

### Dysfunctional Organizations

I attended an conference on management and organization some years ago. A lot of the discussion was about information, decision making, human resources and the structure of organization. There were great presentations by high profile IT experts and by well known CEOs,

But at the end of the conference my one liner about the typical organization that had been described was that the IT functioned well as the nervous system of the organization, that the CEO's office functioned well as the brain of the organization ... but there was no neck to join the two pieces together.

And more recently in my thinking about the relief and development sector I see the multiple organizations that dominate the sector as a huge head thinking hard about the problem, with hardly any hands to do the necessary implementation.

### Dysfunctional process

The relief and development sector does not function in an efficient “process” mode, but rather, it functions just as all “bureaucracies” function, as a chaotic mix of politics, expertise and crisis. Nothing happens until it is “too late”, and the real reason for decisions is rarely very much in evidence on the surface. There really is no process, and little is done of systems analysis.

### What Dysfunction Looks Like

In the relief and development sector, the process works something like this.

There is no rain ... and the crop fails. The experts know that this has happened, but “not to worry” this happens quite often. Some people have enough food stored away. Some people do not. But on balance not a big deal.

The next year there is no rain ... the crop fails again. Now this might be a problem. Time for study. Call in consultants to visit the area and write reports about what we already know ... or certainly ought to know.

If the information stays out of the media ... nothing probably has to be done. If the malnutrition and death gets into the media, the studies show we are on top of the problem.

If the media gets the stories ... then we can go about raising money to do some practical helping ... we can convene a conference on the merging crisis ... otherwise ... not to worry.

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The relief and development sector as a whole is organized in a way that makes success very difficult. Even for an efficient individual organization, trying to operate effectively in the sector is a challenge. The golden rule applies ... “if you have the gold, you make the rules” and this puts the donors in total control of the agenda. For donors that are government agencies, this means that donor country politics is in play. Since most individual voters have little knowledge of or interest in international relief and development issues, from the voter perspective less assistance money seems to be better. Since beneficiaries are not part of donor country politics, beneficiary needs are not important. For philanthropic foundations, the issues are different, but the result is similar.

## **Relief and Development Organizations**

### The relief and development sector

The types of organizations that are involved in relief and development run the gamut from governmental organizations and parastatals, non-governmental organizations (NGOs), multinational companies, local businesses, commercial and multilateral financial institutions, organized religions and faith based organizations, professional organizations, to community groups.

Many of the organizations that make up the relief and development sector are well known. They include the World Bank, the UN and its specialized agencies such as UNICEF, FAO, WHO, UNHCR and so on, and bilateral development assistance agencies like USAID, CIDA, SIDA, DFID and so on. While they are well known, and the media gives their press releases a good share of coverage, there is little or no public information about their performance.

Based on performance, the relief and development sector is dysfunctional, at any rate in so far as contribution to value adding development in places where the beneficiaries are located.

The government budget of many countries in the “south” gets a majority of its funding from donors, and international sources. Most of these fund flows are used for government services, some of which have social value, and some are associated with the both legitimate and illegitimate military and security activities.



## Chapter 6 - Organization – Deadly Dysfunction

In the aggregate it is difficult to find anything like the value creation that one would expect given the scale of official development assistance.

### Improving Relief and Development Performance

Years ago, I had hoped that improving relief and development performance might have some of the same dynamic I had experienced in the corporate sector.

I thought a good project ought to be expanded or replicated ... but when I tried to get the system to continue a very successful project (The Shenge Project ... box page nnn) I was able to accomplish absolutely nothing. It was a classic case of bureaucratic bungling, with absolutely nobody willing to take any responsibility and nobody accountable. This was 15 years ago. But nothing significant seems to have changed.

### Disastrous decision making processes

Most of the relief and development sector has a very rigid process for decision making. It does not have much in the way of performance metrics, and does not have much need for the sort of decision making associated with improvement in what is going on. Ad-hoc decisions to improve performance are practically unknown. This should not be surprising. The processes come from founding member government and public sector governance years ago ... nothing from the enterprise world, and not much can ever be changed.

But even where there is information about ineffective projects, it is not easy to get bad projects terminated.

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## Value Destruction in South Sudan

For years and years UNDP funded a small capacity building project in South Sudan. The project consisted of a single CTA working in an advisory capacity with the local government. The expenditures were a generous UN rate salary together with normal living and transport allowances ... perhaps 50 times what he would have earned in a government job in his home country. The CTA had an office in the government administration building and by all accounts was “on seat” around 10 hours per week. The project goals were never achieved, but every year someone in the local government wrote glowing letters asking that the project be continued, and it was, over and over again, despite considerable staff objections. Nobody knows who was paying who, but it is almost certain that this was the underlying problem.

The responsible officer at UNDP headquarters tried to get this project closed down, but could not. The letters carried weight with the decision making committee.

## Too much planning

The relief and development sector is big on planning. In most well run organizations, there is planning. However, there is and a big difference between good planning in the best corporate organizations and the less than mediocre planning that pervades the relief and development sector.

Good planning for national socio-economic development is a challenge, and requires a lot of effort and experience in order to get a sensible balance between a host of competing needs and limited resources. At its worst national planning is a disaster, as was Gosplan for the Soviet Union, and, I would argue, World Bank planning, in the relief and development sector.

Planning is not being done to optimize resource use and maximize socio-economic development progress. More often planning is done to satisfy donor procedures and justify using the organization being a funded as an intermediary for delivery of program activities. There is a lot of planning for incorporation into funding proposals, but rather little planning to optimize relief and development spending on the ground at the country level and practically none at the community level.

## Chapter 6 - Organization – Deadly Dysfunction

### Learning organizations and institutional memory

My experience in the corporate sector suggested a continuum of learning. Corporate organizations that refused to learn from their own experience, and failed to integrate information from the world around them, very quickly found themselves in financial difficulties ... and were soon out of business.

In contrast the relief and development sector seems to be stuck in a deep rut ... with each organization doing what it does in a way that seems to learn nothing from the past, and nothing much from the world that is swirling around them.

### **Projects and Programs**

#### The project and the project cycle

The project form of organization and the project cycle are part of the reason why relief and development has failed. The “project” form of organization dominates the relief and development sector, but it is not an organizational form that well suited to relief and development interventions. The project cycle the following elements: (1) Identification; (2) Preparation; (3) Appraisal; (4) Negotiation; (5) Implementation; and, (6) Evaluation.

The project form of organization suffers from: (1) a short life; (2) an impermanent artificial structure; (3) issues of starting up; (4) issues of closing down; and, (5) all sorts of economic distortions, not least of which pay scales.

#### **My Experience with World Bank Projects**

Over the years I have worked with many World Bank projects and have worked at each of the stages of the project cycle. Almost all of the projects them are designed so that they are almost impossible to manage. They are too complex. They are often too big. They are often too constraining. They are too rigid. They do not go on long enough. They are just plain unmanageable. It is really no surprise that the projects end up costing a lot, creating debt, and not accomplishing very much. Too much money is spent on identification, preparation, appraisal and negotiation, and the management and oversight dimension of implementation is almost totally absent. The ex-post evaluation stage is too little and far too late.

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The “project” form of organization is arguably the best way to organize for a “one-off” project such as the construction of a dam, bridge or power station, but this form of organization is unsuited to providing financial support for routine activities of public institutions like education and health.

The project form was adopted as a means to accelerate development, but has probably had the reverse effect. Rather than addressing the fundamental causes of development delay, the project approach simply avoids problems, rather than solving them. After multiple generations of "projects" the problems still remain, and may well have been aggravated.

### People in the project structure

The damage done to government and civil services cadres by “projects” recruiting good people out of the permanent government system into the project is a serious and a huge cost to the “south”. Worse, good people have also had their local careers disrupted, though some have been able to move from the local “project” to being part of the international elite in the relief and development sector.

### Whatever happened to the “multiplier effect”

I learned my economics in a Keynesian environment. The “accelerator” and the “multiplier” were two ideas that were central to my understanding of how an economy worked ... as well as savings and investment. In my world of economic analysis, all of the different components of the economy were linked together in a coherent way.

Over the years Keynes dropped out of favor in academic circles, which was a pity. The Keynesian multiplier helps explain a lot what happens when World Bank projects start, and what happens when World Bank projects end. And Keynesian thinking helps in understanding why places with no investment never make much progress.

### Project complexity

Project planners at the World Bank and the other development bank seem to love complexity. I have been told many times that a World Bank project needs to be a certain scale in order to be efficient, but if anything, the World Bank has accomplished a level of complexity that ensures dis-economies of scale rather than economies of scale.

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With a multitude of activities, comprehensive relief and development means complex linkages, which in turn leads to complex organizations. In almost all cases, project organizations have become very complex, World Bank projects especially. With complexity it is difficult, if not impossible, to have clarity and accountability. All the organizations in the relief and development sector seem to believe that complexity is not only acceptable, but desirable. Complex is not a solution, but a problem.

### The Education Sector in Brazil

I did an analysis of a World Bank plan to help with financing of the education sector in Brazil, and tried to design a management information system that would enable the Bank staff to monitor project progress.

As a practical matter the project was designed so that it could not be effectively monitored by the World Bank independently.

That is not to say the Government of Brazil, and in particular, the Ministry of Education and the Ministry of Finance could not effectively monitor the funds using their routine budget control procedures and budget execution accounting systems.

But the World Bank and other donors have systemically avoided using Government control systems in favor of their own, and in the process have weakened the Government systems and created parallel systems that serve to confuse rather than to control. And the confusion has in turn, facilitated diversion of funds rather than making it more difficult.

### Projects are sometimes not planned right

Projects sometimes go wrong because the basic planning and preparation of the project is done badly. The World Bank holds itself out to be very good at what it does, but I am not so sure. There is very little independent and objective analysis and feedback ... and to the extent that it exists it is not easy to see. The following is an example of really bad planning and project preparation, that really should never have been permitted ... but it happened.

## Shrimp Project in Yemen (YAR)

### Project Preparation was Wrong

I was recruited to join a World Bank mission to Yemen (YAR) to help assess progress on a World Bank funded shrimp project based in Hodieda. I had been the CFO for Continental Seafoods Inc (CSF) that had carried out a thorough fisheries (shrimp) resource assessment for the Yemen Red Sea area some years before.

The study was funded by the FAO. It was designed to be sufficiently thorough to enable an investment decision to be made about shrimp fisheries development. Most resource studies carried out by FAO at the time were far less intensive, and the results therefore much less reliable, and unsuitable for investment justification.

After the study which lasted for more than a year, CSF concluded that the Yemen shrimp resource did not have enough potential for our company to consider investing. We concluded that perhaps two shrimp trawlers could operate profitably, but that only two trawlers would not be economically viable for our company to operate in Yemen.

I was curious how the World Bank and the government had decided to finance a shrimp fishery project based on the same resource, and based, in principle, on the CSF/FAO resource study. The project planned to put in 20 trawlers instead of our two, and, it seemed to be argued, with the economies of scale everything would be all right. Wrong ... the limiting factor is the shrimp resource, which now gets shared between 20 vessels in instead of two, and there are costs for 20 trawlers rather than two trawlers. Financially, this project had to be a disaster.

Something had gone terribly wrong with the project preparation. It turned out that the project preparation had been done using an Arabic summary (not even a complete translation) of the CSF/FAO report that now contained the idea that the whole of the biomass could be caught ... and not just the sustainable yield.

But how had this gone uncorrected in the appraisal process? Probably because the World Bank was frequently using agriculture analysts to fill in as experts in fisheries ... and they do not know enough to do the analysis right.

### **Development Investment**

#### Excessive unproductive investment

The planning by the World Bank and the other relief and development sector institutions and their favored international consultants has been poor to say the least. Very little that I have looked at over a period of more than three decades gets a passing mark from me. Much of the planning is little short of incompetent, though brilliant if the goal is, as John Perkins has suggested, to create the largest amount of economic chaos and justify procurement from the donor's home country. The situation in the fisheries sector in Burma is an example (See Box).

#### **The Fisheries Sector in Burma**

I did some work for the World Bank in Burma related to the fisheries sector. The sector was operated by the State through the Peoples Pearl and Fisheries Corporation (PPFC) and was funded largely by international loans, both official development assistance (ODA) and private sector loans.

I don't think the World Bank often uses accountants and former CFOs in its missions. I learned a lot more about PPFC than the World Bank wanted to know. Its chief accountant was very competent as well as a large staff of accounting clerks, and there were a lot of accounting data in routine reports and easily accessible. As is common, very few people in positions of power used these accounting reports ... including the international experts ... and the result was dramatic over-investment in the fisheries sector, with absolutely no way that the many loans could be repaid from the revenues of the fisheries sector.

The PPFC accountants knew the problem, but nobody was listening. Bottom line, perhaps as much as 10 times the investment that would have been prudent had been made through PPFC ... and much of PPFC's fishing operations were not operating profitably. Why not?

While the fisheries sector in Burma became a disastrous mess, the builders of fishing vessels and the suppliers of fishing gear all around the world were very content. They were paid good money to manufacture everything, and people were put to work in their respective countries ... and the people of Burma were saddled with a value destroying fishing sector and debt.

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Even the financing that was in “grant” form ended up making the country poorer. If the investment cannot produce value during its operating life, even grant financing is undesirable.

### Waste in investment

The “south” needs investment in its infrastructure, but so little of what really needs to get done gets funded. The process is dysfunctional and there seem to be no checks and balances that work.

In my first visit to Africa I was told about the Liberian road rebuilding that had been financed several times ... and a visit to South Sudan some time later showed considerable spending, but not much for anything of serious economic value.

#### Tarmac Roads in Equatoria, Sudan

I worked in the south of Sudan in the 1980s. It was an interesting learning experience, to say the least.

As I recall the Canadians had brought road construction equipment into the area. It was in a yard in Juba, and had been for some years. Apparently it had been donated by Canada, but was used equipment without spare parts. I don't think it ever did anything. USAID had also done some road construction, but their beautiful tarmac roads were limited to the confines of the USAID compound. Kuwait had done a few miles of tarmac road construction, basically from the airport to the Government Buildings, past a new mosque that Kuwait had financed and just a few weeks before the Emir of Kuwait made a visit to Juba to open the mosque.

The most important road in the area was the road between Yei and Juba. Improving this road to a reasonable all weather standard so that the separate markets of Yei and Juba could interact without a transport constraint would give a payback measured in just a few months. Why did the international relief and development sector do absolutely nothing useful?

## Scale and Complexity

### Economies or dis-economies of scale

One of the reasons why projects and organizations do not work is because they are the wrong scale. The idea of “economies of scale” is taught at schools of business, and in economics classes throughout the educational establishment, but while it has some validity at the



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“Economics 101” basic level, it cannot be simply applied in the real world. It is particularly questionable in the “south”.

In the relief and development sector, there are more dis-economies of scale than economies scale.

In some industries bigger produces efficiencies, in other industries bigger can reduce profit.

Take the case of the capture fishing industry. The best scale for profitability is largely determined by the nature of the fish resource.

### Scale in the Fishing Industry

The fishing industry is a classic case of less being more. Too many fishing boats can quickly ruin a fishery. It has happened over and over again, and the fishing industry knows this.

I have worked on this problem over and over again both as the CFO of a fishing company, and later as a consultant in the relief and development sector. Decision makers outside the fishing industry don't seem to understand the issue of scale. The World Bank, FAO and others ought to know better, but they have funded the expansion of fisheries way beyond what the fishery resources can handle over and over again.

The concept of sustainable yield is critical in fisheries development planning ... and if the goal is maximum industry profit, then an even lower level of fishing investment and fishing effort is usually advantageous.

Experts who have only Economics 101 understanding of economies of scale usually get fisheries planning wrong, and cause a lot of long term damage.

For a government department in the “south” it may be more efficient to have many small departments than a single large department. Many small departments might be a better way for government to be compatible with the larger society than a single big department.

### Complexity

Relief and development is complex ... and the sector is also huge. Put together huge and complex is unmanageable.

The organizational structures that have worked the best for corporate stakeholders have been very simple. Coca Cola sells one product (not quite true any more ... but it is really a one product company. McDonalds sells hamburgers in fast food outlets, now billions of them all over the USA and around the world. Mass production of

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cars, and mass production of everything else is the way to go. Not very many different types of telephone are sold to everyone on the planet. Large scale does have advantages. But in every case that works, the scale is on top of something that has been made simple, and still works very well.

Anything to do with human beings and change is not simple. Treating people like bits of machinery does not work unless it is in a very structured setting and the incentives are right. McDonalds has done this ... but the relief and development sector has not, and probably cannot, and should not.

Wall Street and the financial community has got used to thinking in large terms. They want big projects with \$billions at stake and huge potential for profit. They mainly want to invest in huge low risk high return situations ... and there are few of these in the “south” ... or at any rate in the “south” that will be outside sectors like energy and mining.

Anything involving people is going to have some level of complexity, but the actual activities associated with relief and development should not be complex. In almost all cases, however, they are complex, and the World Bank especially, but also other organizations in the relief and development sector, seem to believe that complexity is not only acceptable, but desirable.

In my private corporate career the idea “Keep It Short and Simple” - the KISS principle was always being invoked. The relief and development sector does not seem to have ever heard of it.

## **Large Scale Foreign Direct Investment**

### Value analysis ... value destruction

In the corporate world, the goal is to earn profits ... the more the better. There ought to be an equivalent measure in the relief and development sector, but there is not. The idea of value adding and value destruction is a useful way to think of performance in the relief and development sector. When relief and development activities are looked at using a value analysis methodology, it is possible to sort out the good from the bad in a reasonably objective way. The problem is

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that it has never been done in a systematic way and on a meaningful scale.

Though the metrics are incomplete, there are enough data points to know that the value proposition for the big economic actors is very favorable for the investor, and more or less bad ... value destruction ... for the local community.

### Foreign direct investment (FDI)

There are many big global industries that operate in the “south” and generate a lot of value, but not much of it remains in the “south”. The value chain, end-to-end is very profitable, but little of this profit is shared with stakeholders in the “south”. As far as a small community in the “south” is concerned, almost all foreign direct investment results in value destruction for the community. Very little accounting of this is ever done ... it is not one of the GAAP (Generally Accepted Accounting Principles) requirements ... even though it is of tremendous importance in explaining the terrible failure of the relief and development sector.

There are numerous examples of exploitive exploitation in energy, in mining, in timber, in rubber, banana, palm oil, coffee and tea plantations and in general commerce and construction. There is growing talk about corporate social responsibility, the double or triple bottom line and so forth, but much less application of these principles. Post colonial FDI has not proved to the source of value creation for the “south” that it was projected to be 50 years ago.

### Diamonds

Diamonds ought to be a huge source of wealth for Africans, but this has not been the case.

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## Blood Diamonds

With a few guns and a team of thugs, it is possible to take over a village in the middle of Africa and take possession of a source of diamonds. The villagers do all the hard work, and get almost nothing. They have no say in the matter.

These rough diamonds can be sold in any number of markets where the rough diamonds will easily blend into the aggregate global diamond flows, and soon they will be turned into high priced gem stones and become available for sales to the world's beautiful people at interestingly high prices.

Killing for diamonds is the norm and not the exception. De Beers, famous for their diamond cartel of diamonds, to their credit, have served to reduce death for diamonds, but the diamond arena outside De Beers and a few other corporate operators remains a free for all where ruthlessness wins.

Though diamonds have a huge retail value, very little of this value has been of socio-economic benefit for Africans.

A large part of the diamond industry is controlled by a De Beers organized marketing cartel and a number of powerful intermediaries all the way to the retail sale. But there is also a substantial informal trade in diamonds that is large enough to fund war and violence killing hundreds of thousands (maybe millions) and displacing millions.

Almost none of the diamond's value benefits ordinary Africans. In the informal diamond sector, the value chain is controlled by thugs with guns, and the village sees none of the value.

## Oil

How is it that places where oil is produced are not all rich and developed? The value chain seems to be designed so that places rich with oil are populated with poor and disenfranchised, and oil companies and an elite community of rich and powerful local people share the oil wealth amongst themselves.

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### Oil Poverty

Oil should be a huge source of wealth for any country with exploitable reservoirs, but is not. I have done work in Nigeria intermittently since the early 1970s, just after the Biafra war ended. I worked in the oil areas, not as an oil company executive, but in the fishing business. I was involved with building shore facilities for our trawler fleet and we fished in the sea where oil companies were drilling and pumping oil. Some years later I was team leader in the Niger Delta for an IFAD appraisal mission to fund artisanal fisheries in areas where there was extreme poverty next to multi-billion dollar oil industry activities.

The local population had no power or influence. They were completely “put upon” by everyone and totally excluded from both the oil wealth and the pool of national wealth.

Why? There is no nice answer.

### Globalization

#### Good for the “north”

Globalization ought to be a good thing, but there is not a global market with a flat playing field, but one that is controlled in all sorts of ways. The global economy and the relief and development sector have two parts: (1) is the international monetized economy; and, (2) there is the informal and largely un-monetized economy. The international monetized economy reaches the elites in capital cities, and wherever there are pools of foreign direct investment, but that is only 20% of the people of the “south”. The informal sector and the un-monetized sector ... also often remote and rural has no part in the globalization discussion.

In fact, more than 50% of the world's population has little knowledge of anything beyond what they can see and have personally experienced ... some 3 billion people. Included in this huge number are a high proportion of children, and a large proportion of these children will die prematurely, and of those that survive, many will never get an education.

Globalization ought to be helping, but it seems more than helping, it is polarizing and facilitating value flows from poor places in the “south” to the already rich countries of the “north”.

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## Level Playing Field

Nobody wants a level playing field ... everyone wants a playing field that favors “my side”. It is a version of the Golden Rule.

Globalization has created an interesting “playing field” that is less level today than perhaps at any time in history. Those with power and influence it is possible to get the playing field tilted in their favor, and the playing field looked at from the perspective of the global poor and disenfranchised it is about as level as the Himalayas.

There are a lot of techniques that are being used to manage the playing field in favor of the establishment. One is the widespread application of the “rule of law” that makes it legal to do things that are blatantly wrong, though they do generate profits and wealth for the elites.

With so little transparency it is very difficult for the ordinary person to have any idea how globalization has distorted the level playing field concept.

## Subsidies and unfair trade practices

Subsidies dramatically distort economic activity. The “north” has a big system of subsidies, mainly, but not exclusively in the agriculture sector. The scale of subsidy is substantial, typically larger than the fund flows into international relief and development. Subsidy is difficult to end in a democratic system because beneficiaries of subsidies wield considerable political power, and ending subsidy is fraught with political risk.

### Distortion Arising from Subsidies

At one time I tried to export some powdered milk from the USA to West Africa. It took me a while to figure out all the possible combinations of buying prices in the USA and Europe that we might be faced with, as well as the likely selling prices in Africa. If we bought at a price that made a US or European farmer a modest profit the cost would be around \$2,500, but if we were able to buy within the quota of available subsidized product in the USA the cost would be around \$1,200. At this cost, with transport, insurance and duties we would have a landed cost of (say) \$1,450. But if a competing trader was able to buy in Europe at a subsidized price of \$1,000, then his landed cost would be around \$1,200.

It was not clear whether or not the subsidized product would be available from Europe, but African buyers were not in a position to commit to transaction based on the US higher costs, because they knew that they also would be stuck if lower cost product were to come through from Europe.

And the buyers were also careful because from time to time the market would get flooded with “free” product that was originating somehow through the World Food Program (WFP) or other donors.

Because the market was all over the place because of the subsidy regimes of the USA, Europe and WFP, traders had to protect themselves with absurdly high margins ... to the detriment of the African consumer. It was also apparent that some of the subsidy “decisions” were also influenced by political and more inappropriate relationships.

Not a pretty situation.

### Market economics

The idea of a free market is academically appealing, but the free competitive market can be a very rough. A decent modern society is unlikely to be achieved merely by letting free markets to operate without any form of ethical intervention whatsoever.

There are very different market behaviors in surplus economies and in shortage economies ... and market behavior changes dramatically when there are cartels, oligopolies or monopolies. In most market situations there is some intervention, usually by groups that benefit from the system.

Though markets are difficult and sometimes produce results that are not the socio-economic best, they are often very much better than prices set by some political or administrative process. The economy

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of the Soviet Union was ruined by a system that made little use of market driven enterprise ... but though

## Development economics

The development economics that I learned as a student 40 plus years ago has not been applied by the relief and development sector. Economists are perhaps the dominant discipline in the World Bank, IMF and other parts of the relief and development sector, but they seem incapable of getting economic theory to help in the practical arena of real world development. My economics is essentially Keynesian ... modified by a dose of experience with engineering, accounting and business.

Bluntly put ... when there is no investment for the future ... then the future is worse than the past. When there is economic expansion, good things can multiply ... when there is economic contraction, good things divide.

Look at the poor “south” ... there has been little of no meaningful investment for years. When a project opens there is some progress, and when the project closes there is regression.

And all the sophisticated thinking and analysis based on monetary economics is worth nothing in the analysis of subsistence society where money represents but a tiny part of economic activity. I sometimes think that monetary economists solve this problem by assuming that the subsistence economy equates to zero ... which is a helpful simplification for the formulas, but not very useful when 60% or even 80% of the society is operating in a subsistence mode. And even less useful when the biggest monetary fund flows in the society are being used to buy guns, and the economic and financial data about this is secret and thus rather easily ignored.

## **Military ... Relief and Development**

### Valuable core competence

The military, army, navy, air force, marines have a core competence ... it is destruction. It is destruction of the enemy's infrastructure and the enemy's fighting forces. The military are not police, and they are not “nation builders”. They serve to keep a peace



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by being a deterrent, and not by being a proponent of peaceful progress.

In other words the military is not designed to be a force that works effectively in anything but a war situation, where enemies and the objectives are clearly defined.

The military are equipped to move men and equipment over long distances and over difficult terrain quickly. They have the logistics so that they can maintain a force in remote places for a long period of time. The military engineers can build emergency structures in difficult conditions better than any other organization. These capabilities have enormous value in emergency situations and have value where relief is needed.

But when it comes to development, and human life is not at risk, the military is an expensive way to operate. For development, there needs to be as much result as possible, but at the least cost. In development, it is civilian contractors that should be doing the work, and to the greatest extent possible it should be local contractors with low costs consistent with the local economic conditions.

There is no reason why military should not be charged with giving security to contractors as they go about the business of building ... but it is a limited assignment.

A military group cannot be expected to be police. Police work is very different. Police need to know the neighborhood and know the issues in the area, and be able to work with local people in getting local issues resolved.

Military has only a very limited potential in the development arena.

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## Chapter 7

# People Disastrous Decisions

### People are Central to Everything

#### People make the bad decisions

Almost everything that goes on in this world is a result of decisions made by people. The failure in the relief and development sector is all about people making bad decisions, or perhaps more accurately, decisions that work for the individual no matter what the consequences, no matter what sort of disastrous results ensue.

People make decisions, and they do not do this in a vacuum. Decisions are mainly made that are the best for the decision maker ... and even where there are benefits flowing to others, there is an individual component to the decision that cannot be ignored.

There is a level of complacency in a lot of decision making that explains why big issues on the other side of the world do not get handled in a very effective way. What does it really matter to me if people are being killed 5,000 miles away? Why should I give up anything if that killing has little or no impact on my good life?

This complacency is very prevalent in the “north”. The “north” has been amazingly successful in the past 30 years in accumulating huge wealth, albeit denominated in US dollars. It is easy to conclude that the decisions that have been made have been good decisions.

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## “I'm all right Jack!”

This was a popular phrase in the UK back in the 1950s when the middle class was doing very well. In North America and Europe, the white middle class was prospering and nothing else very much seemed to matter. If people are doing well then other issues get very little attention.

It took Russia's launching of Sputnik to shake the mood of complacency, and then the civil rights movement in the USA and the end of colonial rule in Europe.

The events of 9/11/01 when terrorists struck in the United States should have served to break down complacency about failed relief and development rather than simply serving to strengthen a resolve to prove the “north” has a God given right to its wealth.

Not taking notice about the failure of relief and development is certainly going to undermine the security of the “north”, maybe soon, but definitely in the long run.

## Where do priorities come from?

People make priorities, and what is priority depends where you are in the global socio-economic structure. There are vast differences between priorities as seen by people in different organizations and in different countries.

Those that work in the UN, the Breton Woods institutions, the bilateral donors, the government in the “north”, the governments in the “south”, the international NGOs are going to have different priorities than those that work in the world's capital markets, and in the corporate world. The elite of the “south” and the wealthy people in the “north” are likely to see things rather differently than the poor ordinary people in the “south”, and indeed the ordinary people in the “north”.

And it is likely that the priorities that people talk about might well change based on the time of the week. What might be priority with the family at the weekend, or at Church on a Sunday (Mosque on Friday, Synagogue on Saturday) may be different from the priorities during the business work week.

Priorities are enormously important, since they are a critical factor in decision making. Decisions are especially important when there are

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limited resources. In general, priorities are determined by personal self interest.

### My job ... my career

My job and my career are key to the decisions made by individuals. I used to think that decisions were made in a vacuum and were objectively decided based on the facts. But the facts that are mostly taken into consideration are those that relate to whether the decision is going to benefit me, my family and perhaps, at a stretch, my community.

#### Disaster Relief

The relief industry is not needed if there are no disasters. But the relief industry has been a growth area, and is now very much an entrenched part of the relief and development establishment. Humanitarian relief has been a good area to make a career.

I was in Ethiopia at the end of the great famine in the 1980s. Millions had died, and a huge relief community had grown up in Addis Ababa in response to the crisis. At last rains had come, and crops were doing well for the first time in years. The UN's relief operations in Ethiopia were closing down, the staff were depressed and getting ready to leave.

While the boxes were being packed up, a fax came into the office. Locusts had been found in a northern part of Ethiopia. There was a palpable happiness that this was an impending new disaster, and the relief operations would need to be reactivated.

It was one of those moments that I will always remember with profound disgust. Though it happened more than twenty years ago, I remember it as if it was yesterday ... there was something deeply discomfoting about this happiness on top of news of a crisis that would kill people.

The lesson is that people want the work, and if work results from disaster ... the more disaster the better. Relief consumes a lot of relief and development resources, doing some immediate good, but very much at the expense of sustainable socio-economic progress.

It has been interesting to watch people in my age group go from being highly motivated activists for change and a better world in their 20s, to being vary careful and guarded about their jobs and their pensions as they aged and got into their 50s. This is a reality and understandable, but it also explains why the sort of changes that are needed do not get done.

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Organizational priorities are more than anything else about sustaining the organization's existence and people keeping their jobs.

### People are not held accountable

Even though it is people that make decisions, there is very little systemic association of results with people and their decisions. This is typical of bureaucracies, but it does not result in results oriented decision making.

Because people are not held accountable other than in a limited way for their job performance ... not at all through a framework of public accounting ... people are doing a lot that should not be tolerated. People will always do the easy thing, and will follow the incentives. There are no incentives for excellence in personal and corporate citizenship.

## **Obscene Greed and Cruelty**

### Who is taking responsibility?

The global society is an unacceptable mess, with obscene greed and cruelty in play. The world's leadership in the “north” is avoiding involvement and avoiding responsibility and ordinary people are tuning it all out. But this mess came about because people are making decisions all the time that have ended up giving these results, including leaders in the “south”.

### 21<sup>st</sup> Century Robber Barons

The world's elite does not seem to believe that there is one human race, and that all people should be treated right, that everyone should have some opportunity to share in the world's wealth.

There is a community of elite that have a single focus on what is there in it for me, and this mindset has been very profitable.

I was recently told that the largest eight corporate organizations in the world control more of the world's global wealth than do 50% of the world's poor. A staggering amount of wealth has been concentrated into the world's wealthiest groups and the corporate world.

## Chapter 7 - People – Disastrous Decisions

### People make war

War comes because there has been failure. People have many reasons for going to war, few of them good.

Rarely do people go to war because it is truly the “right” thing to do. Usually a war is started because some people see advantage in the war, and expect to gain from it. And people do not stop war because they also see advantage from it.

A lot of people have seen big benefits from war, especially a remote war. Being a supplier of military equipment to groups at war can be very profitable, especially if the groups are rich and the war is a long way off.

But war is a value destroyer as well as making profit for some elite groups. The value destruction can be devastating ... and the human cost of war something obscene.

### People do violence

And on a more local basis, people do violence to one another. The reasons for violence are usually greed in some form or other. And once there is violence there is then the back and forth of retribution and revenge.

Violence is also a value destroyer ... and gets in the way of socio-economic progress in all sorts of ways.

## **Incompetence or Brilliance**

### Incompetent, or brilliant, staff and experts

It is not at all clear whether international staff and experts are incompetent, or brilliant and simply working towards a different end. Many of the staff and experts engaged in the relief and development sector are highly intelligent and well educated. Many have a lot of academic credentials and many have significant field experience, but it is a big question how much of this is relevant, and how capable they are at addressing the practical issues of the relief and development sector.

There are many issues. There is a prevalence of terms of reference (TOR) that make it impossible for an expert to get the work done

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right. Consultants want the work and rarely hold out for TOR that are meaningful.

And there is also the question about the comfort level of staff and experts in the relief and development sector around accounting information and hard data about performance. Certainly it is clear that there are not many professional and experienced accountants around the relief and development sector, and the use of good accounting information is minimal. The UNDP practice of budget adjustment is a typical example of the level of financial understanding in the organization.

### UNDP - Would You Believe This!

I had difficulty believing this when I found it.

For years and years the United Nations Development Programme had a practice of adjusting the budget of its projects to the actual expenditure prior to closing them out. Under this system, there was never any reported variance between budget and actual. Just a report of actual expenditures, with budget no longer in the record.

They also used to adjust the objectives in the project paperwork so that the final reports would show that the projects achieved the objectives. The costs projected and the objectives used to justify the expenditures at the beginning of the project simply disappeared from sight.

Worse ... many of the staff did not seem to understand how inappropriate these accounting mechanisms were. I do not know if these practices have been changed ... I hope so, but they were the standard practice for much longer than a decade to my certain knowledge.

## Economic hit men

The business of business is “hard ball”, and the same goes for international affairs. It should come as no surprise that all sorts of inappropriate behavior is the norm rather than the exception.

The publication of information about “Economic Hit Men” is not really surprising<sup>1</sup>. I did similar work to John Perkins, but without the “connections” that he had, and without the need to satisfy clients. Rather I spent a lot of effort trying to get the relief and development

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1 John Perkins. Confessions of an Economic Hit Man



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agencies to change their project design so that it would actually do some good for the intended beneficiaries.

Eventually I was deemed a non-conforming consultant and did very little work after that. A few bank staff who wanted objective assessment, no matter what the outcome, continued to give me assignments, but that is a small group.

Overall it is sad to say, the experts who advised inappropriate projects were able to get more funds and failure ... and therefore debt, than people like myself who did not want to do a project unless it was designed to do some good, and be repayable.

### What happens to good work?

Good work is unacceptable to most relief and development organizations if the conclusions are not in accordance with the wishes of the sponsoring organization. Consulting assignments are rarely expected to give results that are based simply on the evidence.

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## Liberia – Cooperatives and Other Organizations

A World Bank agricultural project in Liberia had, inter alia, encouraged the formation of agricultural cooperatives as a way to improve rural sector socio-economic performance. Our assignment was to confirm that cooperatives were effective and that other parastatal entities were not an effective organizations in the sector. This report with favorable conclusions was a condition for second phase financing of the project.

I am an accountant. I can read financial statements ... if I am allowed to read them and if they exist. It turned out that they did exist ... a small government office had done audits of all the cooperatives in the country, big and small, and prepared audit reports. I was told about the office, not by the project staff, but by some people in a small cooperative who knew this work was being done.

Initially I was not allowed to go to the office, but I eventually did go to the office and was told that I was not allowed to see the reports. Eventually I managed to see the reports and was able to make a comprehensive analysis that showed more than anything else the scale of the theft that was taking place in the big cooperatives (supported by the World Bank project) and the excellent performance of the little cooperatives run by community farmers.

I also showed that one of the parastatals was excellently managed and performing very well and with almost no inappropriate political influence, while two other parastatals were operating in a disastrous fashion with heavy political influence. The issue was not the form of the organization, but the competence and the integrity of the people involved.

The Government and the World Bank were not pleased. The conclusions of the report were that the World Bank and project supported cooperatives were nothing more than a vehicle for removing funds into private hands. The problem of next phase conditionality for financing was easily solved. The World Bank and the government agreed to remove the conditionality. And as for the consultants ... we never got the pay owed to us!

Two years later the World Bank eventually realized that it needed to pull out of Liberia ... nothing was working and it was embarrassing the World Bank!

There are exceptions. I have been employed on occasions simply because my analysis tends to reflect the underlying facts, no matter what the consequences. Good people and good projects benefit from this ... and it can form the basis for thinking through solutions that will work.

### Bad work

Too much of the consulting work that is done in the international relief and development sector is not very good. There is not very much professional oversight and accountability, so to a large extent anything goes, and in most places there are far too few local people with the experience to challenge the international experts.

#### Fish Meal in Malachal, Yemen (PDRY)

I visited Malachal, Yemen (PDRY) to see the fish meal industry as part of a World Bank mission in the late 1980s to evaluate performance of the fisheries investments. There was a big fish meal plant, but very little fish were being caught to supply the plant. Apparently some incompetent “experts” had recommended that the economies of scale of a bigger fish meal plant would solve the problem of failed smaller plant.

The problem was not the fish meal plant, but the fish resource. Two seiners had been operating and were catching much less than anticipated ... and with the resource in question it was quite irresponsible to invest a lot of money in a bigger fish meal processing operation.

In the original planning for the fish meal plant investment it was clearly set out that validation of the resource was a critical first step to be done before there was a major investment in fish meal processing. Subsequent consultants ignored this, as did the World Bank experts and the government.

Relief and development consultants frequently do their work with a view to doing more consulting work in the future, and put this ahead of a decent level of professional integrity. Two common forms of this are: (1) the recommendation that more study and research is done before taking any decision about action, and (2) ensuring that the client gets a “feel good” report, rather than one that get to grips with the issues.

A lot of academic consultants do their work with an eye on publication in peer reviewed journals. This is good for an academic career, but not good for relief and development progress. Peer reviewed journals have a very different function in academia than good research studies in the relief and development sector, which should, in my view, contribute to “management information” and the ability to make better operational decisions.

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## **People are Responsible for Corruption**

### There's a hole in the bucket

Where has all the money gone. Over the past 40 years as much as \$2 trillion has been disbursed through the relief and development sector, and at the end of this time there is a lot of debt, but rather little development. Many of the problems of development are blamed on lack of money and financial resources, without being specific about where the money flows are being measured. The fact of the matter is that there a large amount of money has gone into the system, but rather little of it has been getting to where it is needed. Some of the fund flow loss is plain corruption and fraud, and some is poor decision making.

Fund flow accounting is not done very well. There is little reporting that makes tracking fund flows easy. Oversight breaks down as funds move from organization to organization. Since in modern government and the relief and development sector funds are commonly disbursed into another organization, and often then disbursed further into other organizations, oversight becomes totally non existent.

From an accountant's perspective, fund flow accounting in the relief and development sector is one of the most obvious places to make substantial improvement.

### Accountants are meant to control corruption

Bribery and corruption are not new. People have always been “for sale” but the scale of modern bribery and corruption is probably at record levels.

I was introduced to the idea of fraud and bribery and corruption in a book published in the 1930s called “Very Private Business”. This book opened my eyes to the creativity of people when a lot of money is involved. Later, when I had accounting responsibilities in the US corporate arena I remembered lessons from the book, and tried to build accounting and control systems that would make it difficult, if not impossible for the creative crook to run off with the company's assets.

When I started consulting in the relief and development sector it was a real shock. Though there are many procedures and controls, and they are very onerous, but they are totally useless. They serve to make

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it difficult for good people to do a good job, and are virtually no deterrent to the rich and powerful crooks.

Few of the basic but sound financial controls needed are in place. It was a shock to find that huge fund flows were not accounted for, and were not the subject of any oversight or corrective action for months and years. In my corporate experience I would have wanted action tomorrow, if not already today.

There were very few people around in the relief and development organizations who had accounting training, even at a most basic level. With no accountants in the dialog, it was very easy for everyone to fall into the trap of simply talking about corruption and control as if talk on its own is going to be enough. For some things, this may be so, but when it is the accounting and control of money it is totally inadequate.

### Very little of the funding gets to beneficiaries

Only a very modest amount of relief and development fund flows reaches communities where ordinary people live and work. Most communities are really “on their own” and rarely see any form of support either from their own government or from NGOs supported by relief and development sector donors. Without community level initiatives there is not going to be much of visible and useful results. Funding flowing into government and into parastatals and other government controlled entities has been almost 100% ineffective as a vehicle to deliver fund flows to community activities.

The example of the shrimp project in Yemen (YAR) shows how creative people can be. The project was turned into a major source of funding for senior people in government, while the project became a totally dysfunctional operation. When we (the supervision mission) identified the problems, we recommended immediate remedial action, that was quickly agreed on a technical basis, but subsequently was reversed at a high political level. It is very difficult to do good accounting when the high leadership does not want it, and will do nasty things to ensure that accounting does not become a threat to fund flow diversion.

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### Shrimp Project in Yemen (YAR)

#### Substantial Corrupt Benefits

But it did have benefits. The trawlers were costing considerably more than was planned for the project, and much more than I would have allowed my old company to pay. I learned conversationally that the billing price was higher than the original quotes which is shorthand for saying that someone is getting rich at the expense of the project, and as I learned more about the accounts of the project it was apparent that almost everything was being substantially marked up.

The accounting information about project performance made it clear that the project would never be able to justify itself ... and the mission team and technical staff of the World Bank and a co-financier (DANIDA) quickly made the decision that the project financing should be immediately terminated.

Later, I learned that the decision was reversed. Decision factors that had nothing to do with the technical performance of the project meant that disbursements continued to fund a totally failing project. No wonder there is unrepayable debt!

Where the profit opportunity and the maximizing of the value chain for “north” benefit is worth \$billions a year, it is obvious that the business decision should be to pay whatever it takes to ensure that this profit opportunity is protected ... like an insurance.

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### From Nigeria in the 1970s

I was in Nigeria and friendly with some of the Central Bank staff in Nigeria at the height of the cement scandal. Hundreds of shiploads of cement were sold to Nigerian businessmen using irrevocable letters of credit. Because of a huge overload situation in the Nigerian ports, there were very long waits to come in to unload. International businessmen know their trade, and most of the ship charters were “time charters” which means that payment for use of the vessel depends on how long it is being used ... and with the port congestion this became a very long time ... months instead of days to get into port. With bribery it was easily possible never to get into the port. The situation was totally out of hand, and a disaster for Nigerian businessmen.

The Central Bank decided that it would solve the problem by revoking “irrevocable” letters of credit, something that was never ever done by serious international financial institutions. I commented at the time that in 5 minutes the Central Bank had done damage to Nigeria's reputation that would take decades to rebuild. More than 30 years later, Nigeria's financial reputation is still a shambles.

So the result seems to be that a few very powerful local people ... the elite ... get to earn a lot while the larger population of the country are taken to the cleaners. People who understand the corporate logic, and get their salaries and bonuses from the corporation, have little choice but to do whatever makes corporate profit even though in an individual capacity they might consider it unethical.

### Bribery is profitable ... therefore widespread

It one looks closely, it is fairly easy to figure out ways to make money in the “south”. The dynamic is different in most of the “south” because they are “shortage economies” rather than being economies of abundance.

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## Brunei

The people of Brunei are poor, very poor. But the Sultan of Brunei has been listed as one of the richest individuals in the world for decades. Where has this wealth come from.

For many decades Royal Dutch Shell has been exploiting the oil resources of Brunei.

When you connect the dots, the conclusion is that the wealth of the Sultan and the poverty of the people are something to do with Shell.

Everything, I am sure has been “legal”. But that does not by any stretch of the imagination, also make it ethical.

The way to make money in a shortage is to hold out for the highest price. If “government” chooses to regulate the price and hold it down, then the market mechanism just moves into the shadows and the official low price gets supplemented by some bribery that nobody sees. If I can afford it, and get the goods ... what is so bad about that? It is, after all, the market economy at work, and simply circumventing inappropriate control of the market by government. Does it really matter that the local “rule of law” is being flaunted ... it ought to, but probably does not.



### More from Nigeria since the 1970s

I was working a lot in Nigeria during the 1970s when the first oil crisis increased crude oil from \$3.50 a barrel to \$13.50 a barrel and made Nigeria very, very wealthy.

I was staying at the Ikoyi Hotel in Lagos and watched the flood of foreigners, mainly Europeans and Americans, who arrived in Nigeria intent on getting profitable contracts no matter what. Most arrived with lots and lots of cash, which they exchanged for contracts for everything under the sun. Most contracts were not worth the paper they were written on, but the Nigerians were happy, and the foreigners were happy until they got home and realized how little they had for their money and effort. These were heady times, and the world's greediest people were on a feeding frenzy.

The business community from the “north” expected to bribe the Nigerians and profit mightily. In fact, quite often, the Nigerians conned their new partners and the greedy lost their investment.

And there was also the close association between the leaders of the Nigerian military, the government and the oil companies and oil industry contractors. It is common knowledge that government and government leaders in Nigeria, with a lot of their friends and associates became fabulously wealthy through all sorts of schemes, and largely at the expense of the national treasury and the Nigerian people. Though the oil companies can probably prove that they did nothing illegal, there are few close to the Nigerian situation that are comfortable with the oil industry's behavior.

The grand corruption practiced in Nigeria has distorted the economy so that the country is almost insolvent while its elite are among the world's wealthiest.

No accountability anywhere. A lot of the country's economic activity is now in the control of the corrupt, and the mass of ordinary Nigerians get left out.

### Corruption is very well protected

There are lots of ways that money or value is removed from the system for private benefit. But it is difficult to do very much about it, especially when the amounts are substantial. In many parts of the world it does not cost very much for someone to be eliminated ... and if some of the recent writing is to be believed, this is not limited to the “south”.

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## Making Corrupt Money in Fisheries in Burma

PPFC was losing money operating fishing trawlers, which did not make any sense based on the state of the fisheries resource and the characteristics of the fishing vessels. As a former fisheries and seafood company CFO I knew something about the industry and its operations. Something was going on.

As part of the World Bank mission we traveled by boat from Rangoon to the mouth of the Irrawaddy River, the same route used by the PPFC trawlers. Many hundreds of small motorized fishing vessels were active near the mouth of the river, and it suddenly became clear what was happening. The large trawlers were supplying fuel to these fishing vessels and making a fortune for themselves. The official price for fuel was 3 and the black market price was around 30 ... so a good profit. And bluntly put, private profit to benefit political leadership and the elite is much more use than the profit from fishing that would accrue to PPFC.

And for small people ... there was another area of opportunity. When I looked closely at the fuel storage facilities I noted that almost all the flanges joining the pipes were leaking ... not a lot, but something. And under every leak there was a small can collecting the fuel. The official economy of the country was not working, but there was an underlying enterprise economy that was alive and well, albeit illegal.

Corruption is very difficult to contain, especially grand corruption. People who benefit become rich very quickly and they can use this wealth to protect themselves in many different ways, none of them very pleasant for people that get too close to understanding the problem and doing something about it.

And there is a lot of money involved, people are willing to do almost anything to get it and keep it. Rules are always going to be applied to the poor and people with limited money, but rich and powerful elites are able to do a lot of things without bothering too much about the rules. When the money is big enough, after all, the laws and the rules get changed.

## **Poor People ... Human Beings or Pawns**

Every person should be treated right

The world does not seem to believe that there is one human race, and that all people should be treated right, that everyone should have

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some basic inalienable human rights. The treatment of human beings is far too often totally degrading ... and ought to be the source of widespread outrage. Only a few seem to be concerned, and people with wealth and power do not seem to be interested or listening at all.

### Economic migration

With extreme poverty in a large part of the world, and stupendous economic opportunity in other parts, it is not surprising that there are massive migrations going on. Economic migration is not new. It has probably been going on since prehistoric times ... but it is aggravated now by the terrible failure of the relief and development sector in the “south”, and the amazing recent wealth creation in the “north”.

People will take huge risks when life is already pretty much impossible, and everything is hopeless.

#### Escaping from Ethiopia

Ethiopia under President Mengishdu was not easy ... and for some ethnic groups it was especially bad ... and worse for people identified as being against the regime.

I knew a teacher who had this profile. In Europe or the USA, she would have been on the fast track, and an asset to the educational establishment. But in Ethiopia she was facing no job ... no money ... no future.

She had determined that she absolutely had to leave Ethiopia. She tried to get a passport, but her money was stolen by the officials ... all of it. She was left with no money and no passport.

With nothing, she decided to walk out of Addis Ababa over the mountains to Sudan ... to the refugee camps on the Sudan side of the border. I know she left. I don't think she arrived. Hardly anybody did.

Laws to limit migration imposed by the “north” can slow the flows but not reduce the pressure. The pressure to migrate will not be reduced until there is progress in making a success of socio-economic performance in the “south”.

People with potential don't have a chance in far too much of the “south”. The domination of peoples by the corrupt and powerful is a feature of modern governance and global society that is an absolute abomination ... and widespread.

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## Brain drain

A flow of intelligent educated people from poor places in the “south” with little opportunity for economic success to rich places in the “north” where there are huge economic opportunities is normal ... it is the way a market economy works. Laws can be passed to stop the brain drain, and people can be coerced to stay where they are ... but again, the pressure to move is not reduced.

## Human trafficking

Money is being made by all sorts of unsavory middlemen who engage in human trafficking. There is human trafficking associated with prostitution and the porn industry in its many forms. Though it is usually illegal, it is also profitable, and there is money also to be made from “protection”. There is also human trafficking associated with economic migration ... getting people into Europe ... getting people into the USA. The activities are usually illegal, but the rewards are substantial.

## Chapter 8

# Management Information Missing in Action

### **Lots of Data ... Not Much Information**

#### Economic data, not financial

The relief and development sector has a huge amount of data, but it is not very useful for decision making. It is almost entirely economic data, usually developed through statistical method, and rarely the sort of information, management information, that is needed to make practical decisions.

A lot of the data are aggregates at the country level ... macroeconomic information. This is a good way of seeing results, but not a good way of measuring performance. Data aggregated at the country level may help in the comparison of countries, but it does very little to understand the good and the bad within a country.

The relief and development sector is managed by staff who have training in many disciplines including economics, public policy, political science, international affairs and others, but rarely are trained and experienced in accountancy. For decades there have been studies that have collected information and used the information within the framework of the study, but rather little effort has been made to get

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accounting information organized into a system that helps to measure the performance of the relief and development sector.

There are many different datasets that are part of the information pool in the relief and development sector. In fact, each of the major specialized agencies of the United Nations engages in collecting data about their sector ... and this information is interesting, and valuable. Broadly speaking, however, this is all data associated with the economics of the relief and development sector, and not the performance of the sector.

## Ignorance is Bliss

“Ignorance is bliss, 'tis folly to be wise” was one of the little phrases I remember from a radio talk show in the 1950s, or was it the 1940s. Over the years I learned to respect information and knowledge, and I still believe that good information is a powerful aid to making good decisions.

A tutor at college advised me to “Get the data, do the analysis, understand the results and draw your conclusions.” He also observed that too much that was in print and common knowledge was just plain wrong, and needed to be worked on.

In the corporate world ... management information has been embraced. In the relief and development sector it is largely absent.

In summary ... lots of information. Little of it of very much practical value.

## Why is so much data compiled?

There are many drivers to compile data ... not many of them of much value for relief and development performance.

Donors have become very comfortable with funding studies and reports. The money is usually paid to nationals of the donor country, and tangible, albeit valueless, reports are produced at the end of the work. The study develops data, and the report makes it available, though usually not easily.

Modern PC technology now makes it easy to compile data, and manipulate it in various ways. It is also easy to merely copy data so that it appears that there is more data than there really is.

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### And yet a paucity of useful information

The relief and development sector institutions have a huge amount of data, and a lot of studies. But all of this does not translate into very much useful information that makes it possible: (1) to make good decisions; and, (2) to hold people accountable for subsequent performance.

Much of the information is driven by the questions that are asked by economists and the numbers economist use. But as a practical matter how do you improve the Gross National Product (GNP) ... or the Per Capita Gross National Product. Analysis of the GNP can help a bit, but not very much, and in fact, there are a lot of ways in which information about GNP can end up encouraging absolutely the wrong decisions.

Perhaps one of the saddest results of an economist's mindset is that people tend to be forgotten as assets and the power of the economy, but rather the number that GNP is divided by to calculate per capita GNP. Thus more people result in a lower per capita GNP ... a bad outcome ... when a better interpretation would have been that people actually were the power behind creating the GNP in the first place.

### Accounting

Accounting in the corporate world is very strong ... it is used everywhere. It helps managers control the resources and optimize performance. But the accounting and the analysis of financial aspects of relief and development is primitive.

Accounting is one of the key tools of management. It is central to management information, but plays rather little role in the management of the relief and development process. Without good accounting, there is little financial control and anything goes.

In the corporate world, accounting has been very effectively integrated into the MBA culture and used by management in every possible way to optimize profit performance. But in the relief and development sector, accounting is still at its most primitive and not much removed from the minimal clerical activity needed to prepare some budget numbers and vouch disbursements. The systems are archaic and incapable of being used for decision making.

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The timeliness of the reports shows how much priority the leadership has assigned to the preparation of submission of accounting reports. If it were not so serious it would be laughable.

### Lots of Accounting ... and No Information

I have characterized the type of accounting used in the relief and development sector as being “voucher based bookkeeping”.

All disbursements are “supported” by vouchers which show that the disbursement was “authorized” according to the procedures. Therefore, the accounting is right.

What a travesty! This is a system designed to make corruption about as easy as it gets, and the fact that this system has not been fixed is a terrible measure of institutional incompetence and institutional corruption. Some people do not know how to fix it, and some people do not want it fixed.

In a good financial control system the authority to disburse is checked and the value received in connection with the disbursement is also checked. When value must be received for every disbursement, it is difficult for funds to be used inappropriately.

In the relief and development sector, much of the fund flow moves from institution to institution without actually creating much value ... but hopefully at the end of the chain there is value. It does not matter how many hops the money has to make, there should be a financial control step to relate value to the money disbursed.

Is this complicated? Why has it never been done?

Why are there no metrics about relief and development performance and an accounting for the use of all the money that can easily be audited? Is it a question of incompetence or corruption?

## UNDP information going backwards

Going back as far as 1978, UNDP was called upon by resolution of the General Assembly to prepare country level development cooperation reports. These reports detailed all the official relief and development assistance projects being implemented in the country, and were a very interesting and useful dataset. They were not particularly well prepared by UNDP's staff mainly because mostly the staff used for the work were junior and lacked the necessary training and experience to do a good job. Many of the supervisors were not skilled in this work either. But the information was still the best



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available. These Development Cooperation Reports have been discontinued in recent years, and the reason is not at all clear.

### Why Was the DCR Discontinued?

I have been a user of the UNDP Development Cooperation Reports (DCRs) and I have helped in their preparation.

Some “north” countries objected strongly to UNDP doing this work. They considered their bilateral assistance to the beneficiary county to be a private matter between their aid agency and the recipient government. This was very “convenient” because it allowed a lot of valueless work to be delivered ... that is valueless to the “south” though of some benefit to the donor country.

My guess is that UNDP agreed to stop the preparation of the DCR because of pressure from donor countries that do not want their bilateral aid projects to be subject to any form of easily accessible analysis, evaluation or accountability. In return I would not be at all surprised to find that UNDP received funding commitments that it otherwise would not have had.

Around 1990 UNDP starting preparing the Human Development Report, and the associated Human Development Index. This was an attempt to provide metrics that would measure global progress not so much in terms of standard financial economics, but in terms of parameters that were important to the quality of human life.

What is really sad is that this new and impressive new data about relief and development results was not related in a systemic, and quite simple, way to the economic resources being used to maintain this state of human development. A great opportunity was missed.

### OECD DAC Reporting

The international community routinely uses the information published by the OECD Development Assistance Committee (DAC) as the definitive information about relief and development fund flows. Based on several attempts to use the data, I do not believe this information to be at all reliable.

There is an appearance that the DAC information flows are more self-serving for the donor countries, being primarily a compilation of information supplied by the donor countries with little or no verification by anyone. The DAC information does not provide end to end accounting of relief and development fund flows. Until this is

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available and easily accessible in the public domain there will be abuse of relief and development sector resources. This needs to be fixed as a matter of priority.

### DAC Data Accuracy

I have tried several times to reconcile the information available in individual “south” countries project by project with the aggregate information published by the OECD Development Assistance Committee (DAC). I was unable to get the figures even close to agreeing, suggesting that the DAC information which is sourced from the donors is nothing more than self serving information with little tangible reality.

I am not sure why the numbers do not agree. One issue is that the numbers are not subject to any form of external or independent validation. Another is that the methodology of reporting is inadequate.

This is a long standing problem and not yet addressed seriously by anyone.

Some of the DAC reporting seems to be carefully designed to be almost totally useless. For example reporting about Foreign Direct Investment without giving a sector breakdown to facilitate analysis without the oil and gas sector, or without the mining sector is practically worthless ... unless of course the goal is simply to show how big the FDI fund flows are in aggregate.

### Reporting in the ODA world

I have been shocked at the accounting and the use of information in the ODA world.

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### Delayed Accounting is No Accounting

I tried to get some basic financial information within the UN system some years ago, and was told that the information would not be available for about 12 months or so. The explanation was that the accounting information had to go from the field offices to the specialized agency's head office and then it would come to New York.

As CFO for an international company a few years before, my requirement was that every operation around the world would submit their complete monthly accounts two business days after the end of the period closing.

If we did not get the accounts (sent by telex) at the end of 48 hours, we waited a day for telephone contact, and a day later either the company President or myself would be on a plane and arrive in the offending office perhaps 24 hours later. It took just six months for a company that had had no financial controls to embrace the value of analytical financial and operational information. More important, the company's profits improved and staff were highly motivated and quickly made the company's performance as good as anywhere in the industry.

### Who wants good accounting?

Does anybody want good accounting? Almost nobody.

### Management Accounting for UNDP

Some years ago (around 1992) I made a presentation to the UNDP Administrator's Office about "Management Reporting and Responsibility Accounting" and afterwards was given the feedback that none of the senior staff present had any understanding of the key words or ideas that I used in my presentation: (1) accounts and accounting; (2) responsibility; and, (3) management. Clearly this was a problem, but if you are operating without these things, why would you ever want to install them.

Around that time others were making efforts to improve this situation, and a very strong professional accountant was brought into UNDP on secondment from one of the most prestigious accounting firms in the USA. After just a few weeks his role as Chief Financial Officer was completely eviscerated by making his work purely advisory, and effectively worthless.

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## Who understands accounting?

The shrimp project in Yemen is an example of how little understanding there is of accounting and the way accounting reports are prepared.

### Shrimp Project in Yemen (YAR) Accounting Not Understood

I worked with a World Bank mission in Yemen (YAR) to help assess progress on a shrimp project based in Hodieda. Though the project had been in the construction phase for almost two years the World Bank had not yet seen any project accounts in English. I was told the project had no accounting based on the fact that the World Bank had asked for an audit of the accounts, and an audit had not yet been done.

When I visited the project site I found, in fact, that the project had quite well prepared accounts every month in Arabic with all the detail needed for analysis. Not surprisingly, the Chief Accountant and the accounting staff were Arabic speakers, as were all the project staff, so it was normal that the accounts would be in Arabic.

I am not an Arabic speaker, but the Chief Accountant and I were able to create a spreadsheet template in one afternoon so that his Arabic accounts could easily be understood by English speakers ... and then this information could easily be compared to the project budget. It says something about the World Bank that they would wait almost two years to get such a basic and simple thing done?

The relief and development sector is destined to maintain its low performance status as long as the staff have little understanding of accounting.

One would expect the corrupt and inefficient people in an organization not to want good strong accounting. Without decent accounting these people can go about their corrupt business without having to bother very much about being caught and being held accountable.

But good accounting is opposed by good and efficient people. Too many of these people have learned somewhere that accounting costs money and has little relevance in the area of relief and development. They seem to think that accounting is only for the corporate for profit sector and to prepare tax returns. They do not seem to “get it” that

## Chapter 8 - Management Information – Missing in Action

having accounting and internal control helps to manage resources and get the money used in the best ways possible. Maybe they just do not want the hassle or they do not want to have to face any level of possible criticism.

In the relief and development sector, the end result of decades of operation without very much management accounting is huge inefficiencies in the use of scarce resources. This is a very bad outcome since external money and materials are very in very short supply, and not by any means adequate for the work that is needed.

## **Chapter 9**

### **Some Other Issues**

#### **Transparency and Accountability**

##### Transparency

I am not at all sure where transparency fits into the picture. Clearly, getting inappropriate behavior out in the open where it can be stopped is a valuable thing to do, but is the dialog about “transparency” actually doing this.

Transparency is a relatively new term ... and is being used more and more because there have been systemic failure of organizational management in almost every sector ... government, big corporations, big NGOs as well as in small organizations. Mismanagement of funds, or worse outright stealing has become far too common, in large part because the underlying focus on good accounting and financial control is very weak.

Transparency has no place in most relief and development sector organizations. Some information is made public, either through financial reports mandated by regulators or through a carefully edited process of public relations and press releases. A growing amount of process detail is being released by some organizations, but hardly anything about performance. Part of the reason for the lack of performance information is because this information is also missing from the internal information systems.

## Chapter 9 - Some Other Issues

I suppose it is better to talk about the need for “transparency” than to ignore it altogether ... but transparency is not a silver bullet that is going to solve very much. More than anything else, the transparency movement is putting better packaging round a fundamentally flawed system that lacks decent accounting and financial controls.

### Who is to blame?

Not me! “It is not my responsibility” is a common refrain. But who is? It is very difficult to find people in the relief and development sector who are responsible and take responsibility. There are, it should be noted, some quite remarkable people in the system to whom this generalization does not apply ... but as a system, finding the focus of responsibility for anything important is not easy.

### A system without accountability

The relief and development sector as a general rule avoids clear responsibility and accountability. There is very little systemic analysis that shows what results have been and calls to account the people that made the decisions and used the money.

“Projects” funded by the World Bank could be a clear focal point for responsibility and accountability, but rarely is. It would be possible to keep track of decision making, and call to account the decision makers later on, but I have seen little evidence that this is part of the Bank's management culture. Rather my personal experience is that staff move on and their decisions stay in the old place.

## **Media ... Telling a Story**

### Story telling is not management information

Story telling is part of a media environment that measures success in terms of audience that see the story ... which in turn, can be translated into advertising revenue.

The role of management information is to help decision makers make good decisions ... and management information is doing its job when data are helping to improve performance.

A story can be a great success for a media organization and create a big audience ... while management information is a great success when the results are improved.

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## Media

The media is a powerful component of society, and accordingly its control determines a lot about what the public learns. In “free” societies, the media is an independent part of the societal structure, and in many countries has constitutional protection.

Who owns the media, and who controls the media are ongoing issues. How are standards maintained? What role does censorship have in maintaining standards or in controlling information? Should the media be profitable, or should it be merely excellent, and not part of the “for profit” economy.

How does the media police itself? Does it police itself, or does it merely parrot material that ought to be filtered out?

## Where is investigative journalism?

From time to time the media does amazing investigative work, but most of the time the reporting is ho-hum. Whenever I have dug into a story in some of the major newspapers I have been surprised at how little time it took to do the research, and I have been rather impressed by how much information was obtained in such a short time, and rather more understanding of why the analysis is often superficial and essentially wrong.

From time to time newspapers like the New York Times do articles about Africa and other regions. They send a correspondent to the Africa, for example, and in a period of two weeks there are six or seven articles from as many countries. The writing is excellent, but the information does not have any depth. Interesting for a quick read, but not worthy of a “newspaper of record”.

## Spin

A huge problem. The organizations of the relief and development sector have a lot of name recognition. The World Bank is well known and easily gets attention from the media. The same is true of the United Nations and its various agencies. They are an easy source of stories for the media, and these organizations make substantial use of press releases and press conferences to publicize their view of the issues. But what gets into the media is a limited subset of information. A lot more is needed and the analysis needs to be better.



### PR Versus Reality

Why do people think that the UN is the “only game in town” when it comes to issues of relief and development and activities in the “south”?

Some of the things that the UN does are absolutely fantastic. UN peace keepers, the soldiers of the UN, were deservedly honored with a Nobel Peace Prize, and lots of others put themselves in harms way to do the right thing. But too much of what the UN does is mediocre, or worse, and nobody seems to be paying attention.

The UN has a Public Information activity that keeps the public informed and tells all the good stories. But there is no mechanism for the UN to inform the public in a manner that is not pure spin. Why should there be? There is no requirement for it, and who wants transparency anyway? Certainly not people inside the organization, and especially the top leadership.

### Technology

The world is awash in information. Old print journalism was the standard methodology for centuries, and then challenged by radio and television broadcasting. In both areas the control of the story was very much centralized and the quality of the information controlled by an editorial function. But this is changing as all sorts of new electronic tools are becoming available to move information around the world.

The potential for people to know more that is useful is better than any time in history, but at the same time it is just as likely that people are going to be fed information that does not help. The technology is now available so that anyone with an opinion is now able to address the public at a modest cost. This is an awesome idea, but not necessarily all good. How does anyone choose between competing opinions.

### Where is reliable useful information to be found?

Somewhere there has to be the trusted source of information ... but who is going to provide that place? And how does that place earn its reputation and keep its reputation? What is going to be the information of record ... or is that idea long gone?

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## Chapter 9 - Some Other Issues

The World Bank is one of the largest publishers in the world. They research, write and print a vast array of books and pamphlets that have to do with the relief and development sector. For the most part, they are not “easy read” books. Sadly, they have importance in the relief and development sector because they serve to promote the myth that the World Bank has deep intellectual stature.

### Spin - Impact of World Bank SAP in Ghana

The World Bank started using Structural Adjustment Program (SAP) lending towards the end of the 1980s. They were soon characterized as a bad approach by civil society and advocates for developing countries, creating deterioration and not progress in economic performance.

The World Bank published a book about Ghana, taking credit for SAP as the driver of Ghana's economic progress. Yes, SAP was introduced into Ghana. But was it SAP or was it non-SAP events that were driving the success.

My assessment based on several visits to the country around this period was that a lot of history was, at long last, coming together to help Ghana. Better governance was a part, but this was President Rawlings in his third time round, more than it was SAP. It was the financial impact of retirement and repatriation of Ghanaians from career jobs in the UK and their retirement remittances. It was the availability of adequate electricity courtesy of major public investments ... the Volta River Project, three decades before. It was a big pool of well educated Ghanaians who were now middle aged, stable and experienced who had benefited from good public policy decades before.

Put all of this into the mix and the World Bank's SAP can have a favorable outcome ... but the reason for the favorable outcome was ALL OF THIS, and not just the SAP. In fact, I will happily argue that SAP was more of a distraction than anything else.

## Oversight Absolutely Absent

### Internal oversight

The relief and development sector which includes government units and parastatal organizations have very little meaningful internal oversight. In a broad manner, the legislative branch of government may have an oversight function over the operations of government, but the process is clumsy, at best, and is usually invoked a long time after the problem has done damage.

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Such oversight as there is seems to be too little and too late. There seems to be a lot of audit when a problem surfaces, rather than good accounting so that the problem never arises in the first place. There seems to be all sorts of transparency when the problem has hit the media, and then only in ways that do not expose much of the organizations functioning.

### GAO

I always smile when the US Government Accountability Office (GAO) is in the news. Quite often the press is reporting on a GAO report that has just been released and shows some substantial abuse of government resources. I smile because these reports usually come after the money has gone missing or been spent badly, and one has to ask who on earth is running the store. How can these vast amounts of money get spent badly or go missing unless the system is absolutely broken or the people are seriously corrupt or incompetent. And why is it that an internal oversight function did not pick up on these things during its routine work.

## Internal audit

Many organizations have internal audit functions, but getting any information from these departments is difficult.

### UN Internal Audit

It would be interesting to have the internal audit reports of UN agencies as part of the public record. There is, or used to be, an active internal audit function in UNDP, but I am fairly confident that unfavorable material is suppressed and never becomes widely known even inside the organization, let alone outside.

People in the UN system seem to know a lot about things that are going on ... but there does not seem to be any way for these things to be stopped. Some of the abuse is minor, and perhaps not worth bothering about, but there is also systemic abuse that should be addressed. A lot of project money goes missing because of abuse. How much is difficult to tell. But in some cases the amounts are substantial ... in one case I know of, perhaps as much as \$30 million. There are lots of cases of using UN duty free status to avoid a duty on totally unrelated UN work.

I am sure that a lot of this is documented in the internal audit files ... but who will ever see them?

## Chapter 9 - Some Other Issues

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## Audit

Audit does not substitute for good accounting and reporting. There are far too many people in the relief and development sector, and probably in the general public, who think that an audit assures good accounting, but it really does not. A routine audit along the lines of a company audit of the accounts simply helps to assure that the reports reflect what the accounts have recorded, and that there is a reasonable hope that this reflects reality. An audit will almost certainly fail to detect systemic fraud unless there is good accounting and internal control as well.

When a special audit is called for, it usually means there are problems with the accounts and the management and control of assets, especially money.

Audit is not a very useful management tool, unless it is used in conjunction with other management techniques.

### Oversight ... the Fannie Mae Fiasco

Sometime in early 2006 the government oversight community was very much visible. They had negotiated with Fannie Mae to pay \$400 million to the government because of accounting errors made going back to 1998. There was a lot of patting on the back and self congratulation ... but surely something was very wrong here.

The problem was being described as one of the worst accounting matters ever, going back almost 10 years. My simple question was “Where on earth were all the oversight agencies and regulators for years and years and years?”. Surely the system should find and correct problems, if not today, with a few weeks or months ... not almost a decade later.

## Monitoring and evaluation

Monitoring and evaluation (M&E) is a routine in many parts of the relief and development sector. But it is not very powerful. It is usually done at the end of a project and is too late to have much of an impact on the project that has already been completed.

Some value can be achieved by learning lessons from the M&E exercise, but many organizations have very limited “institutional memory” and the knowledge is unlikely to be used.

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M&E is very often a requirement of donors. It gives comfort, but does not seem to be an effective way of actually achieving better performance.

### Whistle blowers

Whistle blowers have been an important source of oversight and transparency in government and the relief and development sector, but it is not the right way to get information about performance and behavior. Protecting whistle blowers is almost impossible, but making an organization responsive to the issues ought to be a “norm”, though presently it is the exception. There ought to be a strong system of oversight so that issue routinely come to light and can be addressed.

### Feedback and remedial action

I spent my professional career doing financial and operations analysis. When I was doing this in the corporate world my work rapidly moved from study to review to decision ... and as a result my work had a tremendous value to the companies where I was working. The study and the review had costs, but the decision step resulted in profit improvement many multiples of the cost of my work.

In the relief and development sector there is very little performance measurement. The example of the Global Fund shows some movement towards transparency, but not much in terms of managing performance and holding people accountable for the use of resources.

#### Global Fund

The Global Fund for AIDS, Tuberculosis and Malaria (Global Fund) has a strong procedure to analyze and approve programs for funding (arguably too strong and rigid because it excludes interventions which might be substantially more cost effective) and it provides easily accessible information about all the disbursements it makes to the primary recipients. But after that it is difficult (or near impossible) to find out what happened to the funds, and certainly not easy to find out what the funds were used for. No matter how hard one tries to find it, there is no public information about what was achieved using Global Fund resources.

But knowing about performance weakness is not enough. There needs to be remedial action based on performance information when

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performance is not as good as it ought to be. In the case of the shrimp project in Yemen, even though the best decision would have been to close the project and cut the losses, the people in control chose to keep the fund flow going as long as they could.

### Shrimp Project in Yemen (YAR)

#### No Remedial Action

I worked with a World Bank mission in Yemen (YAR) to help assess progress on a shrimp project based in Hodieda. Some years before the company I worked for as CFO had done a fisheries (shrimp) resource assessment for Yemen funded by FAO and had concluded that perhaps two shrimp trawlers could operate profitably. We had also concluded that it was not a shrimp fishery with enough potential for our company to consider investing.

The accounting information about project performance made it clear that the project would never be able to justify itself ... and the mission team and technical staff of the World Bank and a co-financier (DANIDA) quickly made the decision that the project financing should be immediately terminated.

Later, I learned that the decision was reversed. Decision factors that had nothing to do with the technical performance of the project meant that disbursements continued to fund a totally failing project. No wonder there is unrepayable debt!

## We know ... but what on earth to do?

We know a lot about all sorts of bad things ... but there are no mechanisms to change anything. Where mechanisms exist, it is difficult to tell what is good and what is scam. They both look very much alike, and there is no trusted way of telling them apart.

It is not a good picture. What do ordinary people do about Darfur, or the Lord's Resistance Army, or the chaos in Congo, or the despicable behavior of Mugabe in Zimbabwe? There is very little anyone can do as long as the relief and development sector stays the way it is.



## Chapter 9 - Some Other Issues

## **SECTION 2**

# **A Way Forward Evolutionary Solutions**

## **Chapter 10**

### **Practical Framework For Success**

#### **A Pragmatic Approach**

##### Small steps and a different mindset

Efforts to make major structural reform in the relief and development sector have not worked. Reform has been “on the agenda” for as long as I can remember, at least 30 years, and nothing much has happened. There are too many competing interests, and major reform is potentially problematic. But evolutionary and incremental change, small steps, with a focus on performance ... results, that is, what is accomplished rather than how it is done ... might, just might, be the answer.

Sustained success in socio-economic development is going to be achieved when there is a different mindset and: (1) people in the “south” are seen as a resource and not a liability; (2) resources are used to achieve goals that are of value to people in the south and the communities they live in; (3) there is a publicly accessible flow of information about costs and activities and results of relief and

## Chapter 10 - Practical Framework for Success

development interventions; and (4) there is similar reporting about all economic interventions that impact communities.

None of this is particularly difficult in the abstract, but translating this from idea to practice is a challenge. It can be done, and I am encouraged by the experience of the dot.com entrepreneurs who took apparently outlandish ideas and made them commercial and valuable in a matter of a few years, sometimes just months.

The basic process that needs to be in place is one where there is an iterative cycle of: (1) initial facts; (2) planning; (3) organizing; (4) implementing; (5) measurement; (6) feedback; and, (7) action adjustment. In most management literature, this “process” is depicted as a circle. I think of the process as a wave on top of a time line.

In relief and development the process needs to be moving forward and progressing over time, and different elements need to get added into the plan from time to time as needed, and all the other stages as everything progresses ... and results need to be continuously measured and efficiency assessed. This process is not the old project cycle created 30 or more years ago by the World Bank and now widely used almost everywhere in the relief and development sector. The old project cycle is static, or worse, retrogressive, while the process needed for success is dynamic and continuous.

I like to think of the process which has measurement and decision making and operations tightly linked as being not much different from skiing.

### Water Skiing ... Skiing Moguls

The process dynamic that is needed has to have some of the characteristics of water skiing ... or skiing moguls. During these activities (implementation) there is rapid assessment of the situation (measurement) and almost instantaneous feedback and adjustment to stay stable and moving forward. Before setting out, some planning and getting organized. With a static project cycle like process, the skier would wipe out pretty quickly, just the way, it appears, that many World Bank projects have.

I have not been a surfer, but I think that the same dynamic applies. Success is all about knowing what is going on, and reacting in real time to everything that is happening!

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In other words, the process needs to be information based, be iterative and with fast response.

### There is no one best way

Where there are hundreds of things to do, and all sorts of people and organizations engaged in doing things, there is chaos. I do not pretend to understand chaos theory, but have some appreciation of the problems of organizing for good results in complex and chaotic conditions. Understanding chaos theory might well be a good way to understand socio-economic progress.

#### Getting Good Results When There is Chaos

I was a participant in an Organization and Management Conference in the early 1990s. One of the sessions was about managing in chaos. I forget exactly how the game was played, but I think we all had numbers, and a number of balls circulating in the group. If a ball was sent to a person number 10, the ball then had to be sent to number 11 ... but where was number 11?

When the game started it was absolute chaos, and balls were all over the place. In a few minutes people figured out where to stand so that they were next to the person with a number different by 1 from ones own. And then the rules were changed ... for example 10 had to send to 20, 11 to 21 and so on ... another period of chaos, but fairly quickly everyone figured out where best to stand.

There is a powerful capacity for human beings to problem solve. In complex chaotic conditions many small decisions can get a workable answer far more quickly than the academic planners , no matter how big their computers.

### Avoid impossible goals

The problem has to be approached in a very different way. The problem needs to be approached in ways that can work. The constraints that have been stopping progress have to be avoided.

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### Maginot Line

When Germany attacked France at the beginning of the Second World War, it attacked round the Maginot Line, rather than through the Maginot Line. The Maginot Line was heavily fortified, and difficult to penetrate. Instead, Germany chose a strategy that made the Maginot Line irrelevant.

Improving performance in the relief and development sector needs to be done with a similar mindset. Success can be achieved by going round the obstacles, rather than going at them head on and wasting all the resources accomplishing very little.

### Not an easy fix

In the relief and development sector there are huge opportunities. The key is to take advantage of the opportunities. It is not easy. If it was easy it would have been done a long time ago. In fact some things are east to accomplish, but they have to be approached in ways that will work, rather than using purely theoretical constructs.

### An Easy Fix

I used to argue that it was easier to fix something that was seriously broken and get it working than the improve something from 95% efficiency to 99% efficiency. If this is a valid premise, then improving performance in the relief and development sector ought to be easy.

Since relief and development performance has not been significantly improved over a period of many years ... it is surely time to try something else

Most people who have spent time working in the relief and development sector in the field know that there are possibilities, but there is no structure to do the most valuable things. There are a huge number of good people ... but progress is not being made. There is a catastrophic failure of the system. But the potential to do a lot is still very much present.

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## **Elements of Strategy**

### What is the potential for performance improvement?

Before progress can be made in unlocking latent potential for community improvement, it must be identified.

Community level performance can be improved enormously simply by good people having a look at what is going on and arranging support for critical improvements. Removing constraints can make it possible to get a lot more performance out of existing initiatives and projects and programs. A modest input of practical experience can go a long way to improving performance.

Many key resources have potential to be utilized more effectively including: (1) all sorts of people; (2) all sorts of natural resources; (3) a multitude of community organizations and initiatives; (4) small, medium and big business, local and international; (5) all the official relief and development sector organizations; (6) the government initiatives, “north” and “south”; (7) a vast array of non-governmental initiatives; and (8) a huge body of knowledge, both local indigenous knowledge and international knowledge.

Where is the potential? The failure in relief and development has largely occurred because too much of disbursed funds have never touched the “south”. Better performance will be achieved when there is a maximum of funds used in support activities that reach people. Improvement in relief and development performance starts when improvement takes place anywhere and everywhere.

Many resources have potential to be used in ways that generate value for the “south” ... sustainable value that all the people and families and communities can get benefit from. However, there must be value analysis to ensure that there is value adding reaching people in the “south” and their communities.

### Existing organizations and their initiatives

There is a lot of “know-how” and capacity in existing organizations and initiatives. There is a lot of knowledge in the traditional society of the “south” that is not much recognized.

## Chapter 10 - Practical Framework for Success

What might work well within 50 miles of Wall Street may not work at all in the very different environment to be found in areas hundreds of miles from modern infrastructure. What works in these areas is of critical value in making a success of development. People with experience can help, and especially local people.

Maximizing results by supporting existing initiatives is possible. Everyone seems to want to start a new initiative, but instead of starting a new initiative, people should find something that is going in the same direction and join forces. This is easier said than done ... but the scale of most new initiatives dooms them to failure. A lot of the initiatives started do not have the management sophistication needed to enable them to move beyond being a very small scale operation.

### Do the most with what is available

Better results are going to be achieved when the available resources are used to the maximum to get the best possible results.

This is a new mindset for planners in the relief and development sector. What is available? What is the best use that can be made of these things? Often, something of considerable value can be created when available assets are used in the most creative way. Children do it all the time. They find things, and create games around what they find. Adults need to do the same, but in the serious matter of living life.

But in the relief and development sector absolutely everything that is done should be looked at with the “cost value” question in mind ... that is: (1) what is the cost? (2) What are the values resulting? and, (3) Is this the best that is possible?).

But there also ought to be the additional questions about available assets and what they are being used for. What are available assets, especially local people? Are they being used in the most advantageous way for socio-economic progress?

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## Making the Most of What You Have

When I go to the cupboard or refrigerator to find something to cook, I blank out unless there are some simple things like eggs and sausages. When my wife goes into the same raw food collection, she finds all sorts of things to cook, and a five-star meal results. I am not a good cook. My wife is.

There is a similar situation with relief and development planning. To get the best results, there need to be people that understand how to combine the various resources available to get some good results.

Just doing something, especially big projects, has proved to be expensive and unproductive, in other words, value destroying. We need to be doing things that generate value that exceeds the cost, and especially any external cost. The value does not to be MY version of value, but something that is valuable in the context of the community in the “south”.

Every community has things that need to be done. Many of these things have a very high return in terms of value to the community. Arrangements need to be made so that things that are priority get done ... not just in a few communities, but in practically all communities.

## Getting rid of constraints

There are plenty of constraints. Constraints on good performance are everywhere. Some of the big constraints are: (1) deteriorated infrastructure; (2) dysfunctional government services; (3) conflicts of various sorts; and, (4) lack of money and access to financial services. Roads are impassable whenever it rains, the electricity doesn't work when it is needed, the telephone line is down, the school does not have enough teachers, the clinic does not have enough medicine, there are no spare parts for the cars ... the list goes on and on.

Some of the constraints need big investments, but a lot of improvement can be made with modest initiatives, local and international. So many things in developing countries do not work because some critical thing is missing. Identify what the critical things are that are constraining progress and put effort into getting them fixed.



### Removing Constraints

Most people prefer to be working than waiting, but most operational systems have people waiting a lot more than is needed. Henry Ford and his production line attempted to solve this problem and did it pretty well. Most factories cannot have production lines of that sort, but even so, there should not be excessive wait time.

I have already mentioned my work as VP Manufacturing at Southern States Inc. in Georgia. We reduced wait time in final assembly by changing around how we handled our inventory and picked components. With no more waiting for parts, production almost doubled. Theoretically it should have improved more than this, but other constraints emerged and then they had to be addressed. But it was progress.

If there are systemic efforts to get constraints removed, then there will be rapid progress.

### Risk Reduction

There is a perception of high risk associated with working in most countries in the “south”. But risk goes way beyond the simple perception. For people with limited experience of the “south” there are a lot of unknowns ... it is a different culture, a different history, a different framework for social and economic activities. Therefore risk reduction, and risk management is a very critical element for success.

Knowledge is one of the best tools to reduce risk. If people know what they are doing, the risk is tremendously reduced.

### Strategic design

The design of organizations and the design of activities can go a long way to ensuring success. What I refer to as strategic design takes into account a variety of issues including: (1) having alternative paths for success; (2) having parallel paths to success; (3) ways to minimize the impact of anything going wrong; (4) avoiding the constraints; and (5) reducing risks.

The reason for strategic design is that plans are never perfect, in fact are often seriously flawed, yet we still want to have success. By designing in ways to succeed even when we have planned imperfectly, there is a greater potential for success.

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## Know more of local and indigenous knowledge

The experts have ignored the value of indigenous knowledge. While much of this knowledge might be of the most interest to anthropologists and people interested in cultural aspects of society, indigenous knowledge also has a big value in helping to plan and support activities that are priority in a community. Local people know what is going on in their communities and what is most valuable in their society. Local people know best what would help the community. This indigenous knowledge is substantial and not much used by international relief and development experts.

There is value in people knowing more. This is not just about educating people in the “south” which is a widely accepted “north” priority, but also about getting people in the “north” to be better educated about the “south” and to do things that have a value for the “south”. This is very much about making all the actors in the relief and development sector know a lot more ... it is about data, information and knowledge.

Practically everything that is worthwhile in the “south” could do more with more money. More money is a top priority. But why is money not being allocated to good things. Why are worthwhile things not getting much financial help? The limited amount of financial help is not reaching the most worthwhile ... just getting used in some activity that satisfies some arbitrary relief and development criteria developed in the “north”. This needs to be fixed. A part of fixing this is to have the required information.

Nobody seems to really know who and what organizations are doing good worthwhile activities. Who can trust a little organization on the other side of the world? Nobody. Why should anyone trust them. This is a key issue that needs to be urgently addressed. Up to now the relief and development sector, the governments. The multilaterals, the NGOs and everyone else have a zero track record of credible and verifiable reporting of their activities. There are lots of reports ... there is some general accounting ... but little or nothing credible about performance. Why would I want to give money to any NGO when the information they can provide me about their work and their accomplishments is minimum and unverifiable?

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### International knowledge

International knowledge can be very helpful. It can come from the “north” or it can be relevant experience and solutions from other parts of the “south”.

Technology is very powerful and can be used to do all sorts of good things, but in the poor “south” there is very little evidence that technology is powerful and good, but that it is powerful and bad. There is too much of gun and greed and not so much of grain and good. A lot is possible because of very high performance science and technology, but the results do not show it. This has to be changed.

### Get the scale right

Getting the scale right is important. Some things need to be done small and some things are better at a larger size.

#### What is the Best Scale?

Almost any economic activity has a point of “least cost”. For a factory it is probably at about 95% of capacity. By the time production reaches 110% of capacity, costs are usually soaring and out of control.

For a bridge it is when it is big enough to carry all the traffic easily, with some margin for future growth, but not massively larger.

For fisheries it depends on the resource.

For a cargo vessel, mostly bigger is better.

When there is wrong scale, there is economic distortion, and almost invariably with economic distortion there is economic waste.

### Economic distortion

Avoiding economic distortion is a way to get better performance from limited resources. A huge project in a small community marginalizes local people and makes for a lot of unproductive tension. Donor driven development has usually resulted in big projects out of scale with their social and economic surroundings.

Big fund flows have devastating Keynesian repercussions. A large amount of external money flowing into a small economy does damage to local economic activity that is not associated with the big project. Prices go up. Infrastructure is overused. The gap between the haves

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and the have-nots increases. Worse, when a big project goes away, all the Keynesian benefits reverse and there are negative multiplier effects.

The lesson is that appropriate scale should be carefully considered, and programs structured so that there are community interventions that are of practical tangible value to the community.

### Do the most with the least

If there are limited resources it is irresponsible to do anything other than to work at doing things the very best possible way, and in the most efficient manner. A relief and development sector culture that spends the minimum and gets the most value for money is going to get more socio-economic progress than one that spends without regard to the results being achieved.

The relief and development sector should be put under pressure to have easily accessible data about how much things cost. The corporate world knows what things cost, and does not expect to be paying more than it should. The same level of information needs to be accessible and used in the relief and development sector so that the most is done with the least.

#### A Study in New York City

A study in New York City in the early 1990s showed that when corporate standards were applied to the cost of activities carried out by the City Administration, city costs were often 10 times what they should have been. The study showed that most of this high cost was caused by petty procedural constraints and lack of attention to cost issues rather than being blatant corruption. A lack of accounting and effective reporting was a part of the problem, as well as a system where knowing someone was more important than being able to do the job well.

A lot has changed in the last few years, and New York City has become a lot more cost effective than it was in the past.

## Ownership

The idea of ownership is very powerful, and is one of the underlying drivers of the capitalist enterprise economy. But there are many different “things” that need to have ownership including not only physical goods and real property, but also intellectual property and on

## Chapter 10 - Practical Framework for Success

to ownership in common property, ownership in government, ownership of society and ownership of the environment.

The last types of “ownership” are being increasingly recognized, but the understanding is incomplete, and the practice somewhat incoherent.

Nevertheless the idea has importance, because it helps to design an organizational framework that can be sustainable. As we have noted elsewhere (see page ) successful sustainable socio-economic progress requires both a public and private sector that is stable and capable together of socio-economic value creation.

### Less planning, more organization

Getting the best results in a chaotic world is not something that is practical for academic planners to do. The record shows that formal academic planning almost always fails. The “gosplan” type economy of the Soviet Union is one example, and I will argue that the “project” planning of the World Bank is another example.

#### Principles of Physics 1

Physics was my favorite subject at school, and it natural led me to doing engineering at college. Subsequently it has helped me to understand various complex systems in the real world.

- A small force does not make much of an impression on a big object.

How does this play out in the relief and development sector?

In the relief and development sector, the well known organizations like the World Bank, the bilateral donors and the UN are all “big objects”. By contrast the groups seeking to be agents of change are very small forces. Ergo ... nothing is going to change.

The advocacy movement (a small force) has no hope of getting the World Bank and the relief and development establishment (big objects) to move. It is a waste of time and energy to try merely by frontal assault.

The relief and development process has to move from failed centralized planning where a bureaucratic planning team defines how resources are to be used to some process that better reflects local priorities and the capacity of local entities to take advantage of opportunities.

## Revolutionary Change

The mindset of money being the dominant constraint needs to get changed to one where all available resources are used to maximum potential. The focus is on people and community and getting rid of organizational and process restrictions.

### Focus on community

People make decisions, and the best decisions are usually those that are made with the best information, and as near the action as possible ... in other words, people from the community.

It is essential that people are reasonably informed in order for them to be able to participate in priority setting and decision making. Local knowledge is a missing element from most of the relief and development effort of the past 40 years.

The local community needs to be the center of development. When the local community is made the center of development and activities are integrated with the routines of the community, then development can be successful and sustainable.

### Reform of big institutions

The reform of big institutions is not easy. The principles of physics apply just as much in the field of organizational theory just as they do in the natural sciences.

There needs to be reform in the big institutions of the relief and development sector in order to have higher performance, but this is unlikely unless there are changes in the internal systems that make performance a critical component in their management information. This ought to happen, but it probably will not happen because most of the incentives constrain effective change.

## Chapter 11

# Support What is Already There

### Support Existing Initiatives

#### What value analysis shows

It is expensive to start something. It is expensive to close something down. The most efficient time is when something is operating just fine. What this suggests is that relief and development performance would be improved if good existing activities were kept going longer ... if resources could be applied to keeping existing activities going.

#### Most Efficient Operations

My own experience in operations has been that the most efficient time is when there is continuing operations and some growth. The growth helps to optimize use of staff without the difficulty of having to change staff and let people go.

This is, of course, almost the exact opposite of the main thrust of the relief and development sector which does not like to keep a project going beyond, say, five years, or preferably less.

#### Huge inventory of existing initiatives

All over the world there are good things going on in a variety of sectors and in many different forms. The existing activities need support, sometimes technical, most often, financial.

## Revolutionary Change

These are activities that are already ongoing. They might not amount to much in the big picture where it is fashionable ... and valueless ... to talk about \$millions and \$billions, but in the local places where they operate they are very important and very valuable.

Because they already exist and a lot of the expensive stuff associated with getting started is over and done with, support results in 100% incremental value ... and the value adding is enormous. Where money is a significant constraint, a small amount of money can leverage all sort of extra activity and have a result that is out of all proportion to the amount involved.

### What form should support take?

Support can take many different forms. The most valuable support is usually associated with a reasonable level of knowledge about what is needed. Support that removes a constraint and allows all sorts of other resources or strengths to be used to best effect is the best. The least valuable support is support where there is a lot of donor conditionality and the cost of the conditionality is higher than the value of the support. This is also, sadly, the most common form of support that is offered.

The key forms of desirable support are: (1) incremental money; (2) appropriate gifts in kind; (3) help with negotiating the operating environment; (4) help with relevant and appropriate learning; and (5) friendly help.

### Incremental money

Most worthwhile activities in the relief and development sector are constrained in some way. Often the constraint is money. A small amount of incremental money in an organization already doing good work can be very valuable. I am comfortable arguing that there can be real tangible value that is ten times the money provided. It is a crying shame that the norm of management information in the relief and development sector cannot show this and prove it to be so in a systematic way ... but my personal observations make me comfortable with the statement.

### Appropriate gifts in kind

Gifts in kind can be very helpful, but sometimes this is problematic. The cost of ocean shipping around the world is extremely high, the



## Chapter 11 - Support for What is Already There

problems of handling import procedures, and the problems of local transport. And then there is the problem of setting up, and discovering that all sorts of thing just do not quite fit. Money is a lot easier.

### Help with negotiating the operating environment

Sometimes it is possible for an outsider to be helpful in getting something going that cannot be done by a local team. Most of the time local people can get things done more effectively than an outsider, but from time to time there are situations where an outsider can help.

### Help with relevant and appropriate learning

Help with relevant and appropriate learning can be of enormous value. Education is helpful, but it becomes most valuable with experience, and sometimes local experience has been constrained and is out of date relative to what is now possible. People to people contact in a technical or professional sharing of learning is potentially very useful.

### Being friends

And there are plenty of situations where just being friendly can be helpful. As an accountant, I am not sure how to value friendship ... but that does not mean it does not have value. Maybe the word to use is “priceless”. Friendship is certainly one of the important driving forces of human society ... and this dimension of support should be encouraged as much as practical.

## **A Host of Existing Initiatives**

### Tens of thousands of opportunities

There are a host of opportunities in all sorts of locations and in a variety of activities. They are a good place to provide support. Many of the initiatives are extremely worthwhile and doing amazing things with very limited resources.

### Orphans

There are people and organizations already doing amazing work looking after orphans. Are they doing it well? Are they doing it in the

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best possible way? Probably not. But does it really matter. The VALUE of what they are doing is huge. It really does not matter if it is not the most “efficient” because the most efficient will probably never get done. So let us just praise the fact that these initiatives are going on.

It would be great if they could grow.

It would be great if they could be replicated.

It would be great if they could become more “efficient”

But most of all it is already great because some people have chosen to do something of huge value.

## Hospice care

With millions of people malnourished and at risk of AIDS, tuberculosis, malaria and other chronic diseases, hospice care is a tremendous need. Almost every family in the poor 50% of the world has to handle the crisis of premature death; whether it is children, women in childbirth, young adults or older vulnerable adults.

Care is often given by members of the family ... a terrible disruption to the already fragile family economy. And if the burden is too onerous, the family gets hungrier and hungrier and less and less able to cope. The results are hideous. These results are, however, common.

Helping a community with its needs for hospice care are incredibly valuable. There are emerging vehicles to get modest amounts of money from donors to community based care givers.

## Schools

Schools in the “south” are places of enormous hope, but they are struggling with very limited resources. Children in the “south” want to have the opportunity of school. Parents, who themselves have had no chance for education, will struggle to make it possible for their children to go to school.

Schools are short of everything except students ... most government budgets are inadequate to supply all that is desirable, and parents are mostly poor and unable to help very much. School buildings are often very basic, and terribly overcrowded. There are shortages of desks and chairs, textbooks, paper and pencils, blackboards and chalk.

## Chapter 11 - Support for What is Already There

Teachers improvise in all sorts of ways ... and of course, there is a shortage of teachers, especially of trained and experienced teachers.

Resources that get to teachers and to the schools is of enormous value. Some teachers need something as basic as chalk ... students need a chalkboard, or just paper and pencil. The class needs “a textbook”.

Yes ... there is a shortage of schools and classroom space ... but there are a lot of places where classroom space is not the constraint ... it is the availability of a little bit of resource to pay for a teacher and to pay for some supplies.

Again, there are organizations emerging that are working to get resources to teachers and schools in communities all over the world.

### Churches and faith based organizations

Churches and faith based organizations are very important in a lot of communities in the “south”. Some of these organizations have long histories of doing very valuable work, and are increasingly joined by new faith based organizations seeking to be helpful.

One of the strengths of the churches, mosques and other faith based organizations is that they have membership in a lot of communities ... probably more than any other organization except national political organizations.

The work that has been done by these organizations is enormous, but not as widely known as it should be. And to the extent that the activities are not as socio-economically desirable as one might wish, or there is a political opposition to the activity, there is some level of opaqueness to what has been going on.

There is a potential for friends of these churches, mosques and other faith based organizations to help fund and expand the activities. Some of this is happening, but it is far from the scale that it could be.

### Telecenters

Helping to establish and sustain telecenters is potentially very valuable.

The poor “south” has a serious deficit in telecommunications infrastructure for telephone and Internet access. There are a growing number of telecenters that serve poor communities ... but they do not

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have an easy time: (1) they are serving poor communities; (2) the government has imposed a lot of regulation; and (3) international service is only accessible over high cost links.

There are possibilities ... and eventually telecenters will become part of an important communications infrastructure. Some initiatives are progressing, but it is clear that not all will achieve success. Those that are able to survive economically can be used to help inform interested stakeholders about the socio-economic status of the community, and to communicate the sort of management information discussed in various parts of this book.

Telecenters can help do for the remote poor “south” what free public libraries did for the “north” quite early in the industrial revolution.

### Professional groups

The professional community in the “south” has huge potential, but is practically ignored by the official relief and development sector and the global community of international corporations. There are “south” professionals in many fields and they can be engaged in a much more substantive way than they have been in the past.

The emergence of technology professionals in India as a driver of India's international standing in technology shows what is possible.

Accountants from the “south” are as good as they get, but they need to have opportunity and to be engaged professionally in an appropriate way. Ghanaian accountants have had a very good professional reputation for a long time.

Involving “south” professional in a more substantive way can change the dynamic of the relief and development sector significantly and rapidly and provide a very solid foundation for better performance.

### Professionals in the “South”

India has shown what a local professional class can do, but there are good local professionals almost everywhere in the “south”.

In the area of accounting, there is no reason whatsoever for local accounting to be anything but first class. In my experience as a corporate CFO with offices in many countries in the “south”, the accounting was excellent. As in anything where excellence is the goal, there was appropriate training, supervision and oversight.

The Global Fund created a system of Local Fund Agents and contracted with high profile international professional firms to serve as its eyes and ears on the ground. It did not work very well and was expensive. It would have been so much better to engage local professionals to serve as the eyes and ears ... and perhaps then get some useful information about what was going on.

Experience is an issue ... but competence and potential are not. The “south” will get a lot more success when its professionals rather than its politicians are center stage of development.

### Universities

There are many universities in the “south”, most of them doing a lot with not very much. These universities can benefit a lot from appropriate help. There are many ways in which there can be valuable help ranging from simply money to support the institution's budget, to working with specific faculty and researchers on projects, to joint “north” / “south” institutional collaboration, to scholarships for the students, to scholarships for the graduating students for further studies. The universities are very much in place and the potential of the people associated with the universities is huge and the potential of these institutions as an access point for local knowledge is also huge.

### ODA organizations

The Official Development Assistance (ODA) organizations, or as I prefer, the Official Relief and Development Assistance (ORDA) organizations handle a very large annual fund flow. The aggregate amount is something more than \$50 billion a year, and maybe soon to reach \$100 billion a year. There is some question about the amount, and how important it is in relation the other big fund flows: (1) private sector capital market fund flows; and, (2) the flow of migrants' remittances.

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With fund flows of this magnitude, performance improvement should be a top priority. ORDA organizations should be aggressively engaged so that they are encouraged to focus on performance improvement, and supported in every way possible. More than anything else they should be encouraged in every way possible to: (1) be transparent about their performance; and, (2) be held to account so that there is positive reinforcement for good performance and accountability for poor performance.

Alternative and extra funding for the ORDA organizations from the private sector or through private philanthropic grants should not be the main thrust of support, but rather, helping to make better use of the existing fund flows. The whole value chain from origination of the funds with “north” governments and the capital market (in the case of the World Bank and the regional development banks) to the eventual final beneficiary should be the subject of aggressive value analysis and public scrutiny.

While more information is being made available to the public by posting information to websites ... it is voluminous and not at all easy to use analytically. While it is a step in the right direction, it is not yet by any means the quality of information that is needed and reasonable to expect from organizations of the stature of the World Bank or the UN.

# Chapter 12

## Management

### Management ... the Process

#### Has Almost Universal Application

The process works almost everywhere. It really does not matter what sort of structure is involved, the same basic approach will help to optimize performance.

We choose to think that the best performance is one where the resources consumed are the least, and the socio-economic benefit is the most.

The basic measure is change in socio-economic status ... the value of the situation at time one relative to the same situation at a later time two ... compared to the resource use over the time interval. It is a technique that has been applied for ever in the analysis of thermodynamic systems, it is a technique used in corporate accounting and financial analysis, and it works very well for the relief and development sector.

In order to get to the best results there is a multi-part process that involves: (1) getting facts, understanding the current situation; (2) doing some planning; (3) getting organized; (4) implementing the activities; (5) measuring performance; (6) providing feedback; and, (7) making improvements.

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In management literature, this process is usually depicted as a circle, but I see it as an iterative process that changes over time. The process works the best when it works as a “feedback” loop that has continuing impact of the ongoing works.

<b>Get facts</b>	Organize relevant data
<b>Plan and Budget</b>	Think through the proposed intervention Put into numerical format
<b>Organize and Implement</b>	Mobilize the resources needed Buy things ... do things ... create value
<b>Measure</b>	Do the accounting, collect statistics, do analysis, do reports
<b>Feedback</b>	Dialog about improvement and plan improvement
<b>Action</b>	Make changes

## Get Facts

Facts should be easy, but in spite a huge amount of data, rather little of decision making value is available. In order to make good decisions, it is necessary to mobilize and organize the relevant data. If this does not get done, then the planning is merely a blind activity.

## Plan ... and budget

Planning is an iterative process with a lot of thought about what is the best way to achieve results.

And plans need to be translated into a budget for the resources that are needed. By putting the proposed actions into numerical form with costs and results quantified, there is a realism that does not exist with just simply descriptive text.

## Organize and Implement

Getting organized is the first reality check, and then the work of implementation. If the plans will not work, this is going to start to become apparent as the organization takes place, and then it will be very clear by the time there is implementation activity.

Without resources, very little is going to happen. Though it might give the appearance of doing something, more and more planning is



not a good way of covering for the lack of resources. Mobilizing resources is not easy, but without resources nothing happens.

Buy things ... do things ... create value. This is the heart of implementation and key to success.

### Measure

But if there is no measurement, who will know what works and what does not. Do the accounting, collect statistics, do analysis, do reports. This is the central tool of management and good decision making.

### Feedback

And feedback is a way for good information to get back into system so that there can be an informed dialog about ways to make improvements and get the best possible performance.

### Action

And to the extent that there are improvements to be made ... get them made. This is the most important step, and almost totally missing in the relief and development sector. The sector is forced to be less than optimally effective because its underlying structure and modus operandi eschews long term interventions that have a chance to become optimized.

## **Management ... the Function**

### Management is not administration

The relief and development sector is not managed, at best it is administered, and frequently it is mal-administered. Nobody is bothered much by this because the system lacks even basic accounting and management information systems.

Administration and bureaucracy is really a hangover from a long gone era when hierarchy was king ... and the peons in the lower echelons of the organization were expected to follow procedures and their superior's instruction without question. This is really what prevails in the big multilateral organizations and in government bureaucracies worldwide, and especially in the "south".

There are a number of techniques that are useful in making management effective. These include the following:

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<b>Financial Control</b>	Boring ... but essential
<b>Management Information</b>	Interesting ... and very valuable
<b>Distributed Decisions</b>	Great way to get good performance - automatically
<b>Decision Processes</b>	Decisions ... a controllable constraint
<b>Oversight</b>	Critical for any responsible management team
<b>Ethics</b>	Oops ... making it an asset, not a liability.

## Management performance makes a difference

Management performance makes a tremendous difference. Management is about making decisions, and seeing to it that they are effectively executed. Management is an art, but it is driven by what is possible ... and what is possible is, more than anything else, driven by science, technology, knowledge and know-how.

The biggest differentiator between organizations in the same industry segment is management. This is sometimes used to justify the very high remuneration paid to senior management in the corporate sector ... and it certainly justifies considerable reward, though not the obscene pay packages that are now commonplace, even for quite mediocre management staff.

### Management Makes a Difference

Performance shows up in a lot of places. For example: why is it that one company gets better results than another company in the same industry? How did General Electric in the USA flourish and Blaw-Knox, Westinghouse and others in the same industry essentially disappear? The answer appears to be that General Electric made better management decisions and deployed its resources better, and over time, of course had more resources to deploy and then drew further and further ahead.

General Electric's management seems to have organized better, adopting a better strategy and executing better.

Simply ... General Electric had better management.

### Procedures are a crutch

When the issue of fund flows and misappropriation of funds is raised with officials of the World Bank, the UN organizations and others in the relief and development sector, it is usual for them to refer to the procedures that they have that define what must happen.

#### Procedures Get in the Way

As an accountant I have done my fair share of analysis of procedures ... and I have probably discontinued and thrown away more bad procedures than most. Unless they are very well done, which is rare, big books of procedures get in the way and people are unable to do their best work.

Of course there are some things that have to be done in a routine manner ... accounting is all about doing routine rigorously. But most things can be improved when people simply do their best, and do it right.

What I refer to as “management by procedure” never works. The totally erroneous assumption is that people are going to follow the procedures, while the reality is that people will work the procedures so that they get the results they want that serves their own self interest. I do not know how many times the well known relief and development organizations have “strengthened” their procedures in the aftermath of some publicity about their fund flows going wrong ... and it does not take long for the “bad guys” who are many to figure out how to beat the new and stronger procedures.

People should be expected to do what is right. Most people know the difference between right and wrong, and procedures are not needed for this. Of course, not all people will do right, and the system of accounting, internal check and performance measurement should find these people relatively easily.

### Knowing is not enough

When people know something is not working right, something should be done about it. An organization should be structured so that it is easy for everyone to be part of the solution. Some of the rapid growth successes of recent years have embraced this.

But this is not the way the relief and development sector works. There are many excuses. People often choose not to know, even when they

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do. People define their job responsibility so problems are clearly not in their area of responsibility. People point fingers at others. The list goes on.

To get performance, people have got to know and have got to do something about it. This is a culture change for the relief and development sector organizations, and also most under-performing organizations everywhere.

### Make best use

In almost any organization there are some people that know how to improve performance, either because, for example, they have long experience or they have good analytical abilities or they can bring in some relevant knowledge not presently being exploited.

Good management will figure out how to use this improvement potential in a practical way ... either by some form of ad-hoc effort or by some systemic change in the organization. But it will get done. Procedure, rules and regulations will not get in the way of doing something that is worthwhile.

### Getting the Most for the Least

I was responsible for running a factory at one point in my career. There was a serious capacity constraint in the foundry, and something significant had to be done quickly and at modest cost.

The first step was to use some high end corporate consultants to advise on the problem ... they charged a big fee and recommended a \$5 million capital expenditure project. The second step was a rather less prestigious consulting firm ... who had rather more modest fees and recommended a rather more modest capital expenditure program. My third step was to figure out myself what would be best to do, consulting with the experienced staff in our organization, some of whom were not at all academically trained.

The local factory workers and supervisors knew what would work, and what would increase production enormously, at a very modest cost. Instead of investing millions and waiting for perhaps 2 years, we invested around \$150,000 in some incremental equipment, and also two weekends of maintenance overtime installing and making changes ... and got the same results that the first consultants were projecting at an investment that would have exceeded \$5 million.

## Chapter 13 - Get Facts

## Chapter 13

### Get Facts

#### Get Facts

#### Before you plan ... get the facts

The relief and development sector projects often include “baseline studies” as the first phase of the project. But getting the facts needs to be a step before the project is designed.

This writer advocates for a process that looks like this:

- FACTS ---> PLAN -----> IMPLEMENT ---> SUCCESS

rather than a process that can perhaps be described like this:

- PLAN ----> 1<sup>st</sup> Phase Implement ---> FACTS -----> OOPS

There are a lot of facts, but they are not easily accessible, nor are they very well organized.

Before there is any planning, there needs to be information. This is obtained by measuring. Broadly speaking the more measurements the better. Some of the key information that is always needed: (1) How much do things cost? (2) What do they do? and (3) What results will be achieved?

This same set of questions need to be answered for almost everything that is done. It is the foundation of results based planning. There can

be more information, but without these three elements of data, everything else is practically useless.

Getting facts for planning is a legitimate activity ... but only to the extent that the effort is going to result in a plan. And the planning is only a legitimate activity if there is a reasonable possibility that it will result in a funded initiative. Getting good facts is valuable if it enables the plans developed to be the best possible.

It is also very valuable to have facts before resources are consumed in bad investments. Spending a modest amount of money on getting facts so that a lot of money is NOT spent in a way that would fail and be wasted is very valuable. It needs to be common practice rather than unusual.

### No Investment is Sometimes the Better Answer

Some years ago, I did a fisheries investment plan and evaluation in West Africa for IFC. When I proposed the project I had limited facts, and suggested a small study to see whether the plan might possibly be viable. I thought a field visit of about one week for one person would be enough. If there was potential, then it would make sense to do a full scale investment proposal.

But no, that is not the way the IFC worked. Instead of one person for one week, it had to be four people and take several man-months. All the people had to have high level qualifications and experience (that is they were going to be expensive) and the report needed to be done to a presentation quality.

Eventually, the study money is spent, the facts analyzed and it is apparent that my proposal was only half right. The fishery would support a project, but the enabling governance in the country was going to be catastrophic. The conclusion was that the proposed project should not go forward.

Of course by now the IFC had spent a lot of money in the pre-project mode. IFC was embarrassed. I was pressured to change the conclusions, and then became unpopular because I refused to do so. It was not good for my consulting career!

This shows the value of getting some preliminary data at low cost before going on to bigger things.

I was professionally justified in our team's conclusions when two years later the World Bank chose to withdraw from the country for all the reasons we had identified as potential problems for the project.

You only need to measure enough to be able to understand the difference between progress and regression ... and to have enough

## Revolutionary Change

information so that the best possible decisions can be made. Getting extra facts and making plans that are never used is a value destroying activity. There are costs and no value.

There can be substantial improvement in the performance of the relief and development sector if the reports and studies that are commissioned are only ones that are going to be used. The donor community is far too comfortable doing studies that have absolutely no relief and development value, but serve simply to employ nationals of the donor country. The academic community is happy to oblige, and during the summer break academics are to be found all over the “south” doing research and studies that rarely have much relief and development value.

### Getting facts ought to be easy

Getting facts ought to be easy, but it is not. The management information needed is just not easily accessible, even if it exists at all.

There are a number of problems that need to be addressed, including: (1) the academic practice of being secretive about the data; (2) the basic lack of relevant data collection; (3) the practice of doing very small samples and using statistical method for analysis; (4)

The academic practice of being secretive about the data, though promoting the conclusions derived from the data, may be something to do with the way in which academic credentials are evaluated and awards made. The effect of the practice is to make use of data much more difficult, and to reduce the socio-economic value of the academic efforts.

The basic lack of relevant data collection is systemic.

The practice of doing very small samples and using statistical method for analysis is academically satisfying, but in terms of management information tells decision makers very little. There is a

### Need logical organization of management data

There is no logical organization of management data for relief and development sector decision making being used. Nobody knows where to look for the data. There is no universal metadata system so that the data are comparable.

There is text ... a lot of it. There are few numbers, and the numbers are difficult to understand.



### Nothing here is new

There is nothing being suggested here that is new. The quest for more data has been on the agenda for a long time. The difference is that we are looking for decision making data, and not merely data that can be analyzed and included in some ad-hoc or annual publication.

## Chapter 14

### Plan ... and Budget

#### Plan ... Some Strategic Elements

##### Getting facts is not planning

Getting facts is not planning, though a very large proportion of the work done and called “planning” is nothing more than the collection and marshaling of data. As data become more and more abundant, this process can consume more and more of the time that ought to be used in doing the analysis associated with planning.

Planning can be a lot more valuable when it is done with good management information easily available. Management information, as I define it, is the least amount of information that enables good decisions to be made with high reliability. It is not simply more and more data, but a set of data that informs in the most efficient way possible.

##### Planning is an iterative exercise

Planning should be a learning process, and the first attempt at a plan is unlikely to be the best one. Good planning is an iterative activity where different options are considered and the best is selected.

Good planning is heavily influenced by data ... by the facts ... by realities. I see good planning as being heavily influenced by results and performance ... that is the relationship between costs incurred and the value of the results achieved. Good planning also reflects the best

practice from anywhere and everywhere. Good planning also draws on lessons learned in other places and with other organizations.

### To Plan, or Not to Plan?

It is usually better to plan than not to plan. But I will always choose a good implementer over a good planner if I want to have real success. Plans are never right. Good plans are just less wrong than bad plans. Plans should be sufficient to get started and finalized as late as possible with the best available information.

I have characterized the relief and development sector as doing the first phase, that is planning, over and over again rather than spending the available funds doing a bit of planning, a bit of implementing, and a bit of ex-post analysis. Planning gives “jobs for the boys” but does not get the real work done.

A lot of the best information is not going to be available until implementation is in process, so do not waste too much time and resource on attempting to prepare the perfect plan. It will still need to be modified when the plan lands in the real world. More than anything else the plan should define what we are trying to accomplish. Do as much planning as possible, but do not plan beyond the facts that are available ... easily available.

### Who does the planning?

Planning should be going on everywhere ... with a constant focus on using the available resources in the best possible way. The best value in planning is the planning associated with optimizing the ongoing implementation of an activity, rather than the one time planning prior to the start of an activity.

At the national and international level, there is a lot of politics but not very much of planning. There is a lot of negotiation, and dialog about funding and lack of funding. One of the ways that national level planning will be improved is when more of it is done by local professional groups who have a deep interest in the success of their community, their country and their people.

Within organizations there is planning to design projects and programs for funding and implementation. A lot of this planning is driven by what organizations know the funding agencies want and

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therefore can be funded. This may or may not be what would be best for beneficiaries. It is clearly “the tail wagging the dog” ... but if there is no funding there is nothing, and for the organizations that would be a very bad outcome. No funding ... no projects ... no organization ... no jobs.

Steps need to be taken so that communities are included in the planning process and community priorities, and family priorities included in project formulation. This is a big and important change that will improve relief and development performance substantially. Local people know about their communities, and local professionals who know the communities can help develop appropriate priorities for community progress.

One day, when there is something like a FaceBook or MySpace on the Internet for community plans and priorities, and something like E-Bay to match resources and plans, and an Internet accountability site ... community level socio-economic progress will move onto the fast track.

### **... and Budget**

#### Developing a budget

The budget step is used to convert activity plans into financial numbers about what everything is going to cost, and how everything is going to be paid for. The budget step also should be used to identify the value of results that are anticipated.

The process of pulling together the numbers into a budget should be used to ensure that the most “value for money” is being achieved. The budget should show cost results that are best practice, and where costs are not the norm there should be clear explanation of the reasons for the differences.

The budget is a very powerful shorthand way of describing activities and results in ways that are simple and clear.

The budget also serves to act as a base for comparison during implementation.

### Revisions to plans and budgets

The management process includes a feedback step. The feedback step results in changes being made to the plans so that performance can be as good as it can be. Without this step, performance is always going to be less than it should be.

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## Chapter 15

# Organize ... and Implement

### Organize

#### Has almost universal application

The organize step is the first reality check. We know what we want to accomplish, but in a real world, how can we do it and how to organize to do it. What resources are needed to do what needs to be done, and are they available? What needs to be done to make resources available. Are people available? Are they trained and experienced and how best to organize so that they will work effectively. Are we allowed to do what needs to be done? How to organize in order to satisfy laws, rules and regulations.

Implementation is where all the resources come together in a way that produces results. People, organization, infrastructure, natural resources; machinery & equipment; working capital; money; and, knowledge all come together to make progress. Getting all of these things optimized to get the best results is not a simple matter, and trying to make progress when some of the important elements are missing or in very short supply is a big challenge.

And no matter how well the planning has been and the organization, when the implementation takes place there will still be glitches. Good performance comes from addressed problems rapidly as they arise and fixing them so that they do not adversely affect the results.

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Nothing is accomplished until there is organization and implementation. Plans and designs are interesting, but not very valuable on their own. Someone has to pour concrete and do practical things so that value is created and progress made. People who are ill need to get treated to make them better. Students need to be in school and being taught. People need to go to work, get paid and do productive work.

As soon as the work is started, watch closely and see what happens. In my experience more gets learned about everything we really need to know in the early days of implementation, and often things that would never come up in planning, almost no matter how well done. Good implementation managers know a lot of what needs to be known ... it is called experience.

## People, knowledge and money

Amazing things can happen when people and knowledge and money are put together and there are common goals. When there is a culture of problem solving and of optimizing results the impact can be spectacular. It is surprising and of great concern that such spectacular results have not been achieved in the relief and development sector. There are important assets available:

- Good local people are many and they have local knowledge.
- Good international people have other knowledge that can be useful.
- And the world has money, though not yet mobilized to do much of international socio-economic good.

When these three come together the results can be spectacular.

Small activities can easily be done with very little organization and management and be very efficient. Other things needs to be done at a larger scale and with more planning and oversight. Some things are best organized on an even bigger scale at the national level. Everything should be done in the manner that is best for the particular effort.

It is not only scale that varies. The mix of resources also changes from one situation to another. In order to get the best possible results, available resources should be used in the most efficient way.



## Chapter 15 - Organize ... and Implement

Human resources and natural resources are two key resources that should be used as effectively as possible for success in development. They are more abundant in the “south” than money and machinery, and should therefore be used in preference to money and machinery wherever possible. Money and machinery should be used to the minimum and to compliment locally available resources to achieve maximum value adding.

What this suggests is that we should organize to empower a lot of people and organizations to make decisions, and then encourage people and organizations that seem to be getting it right and getting good results. This presupposes, of course, that there are metrics to identify good performance.

### Resources

Performance depends on both process and resources. It is possible to get good results or bad results from available resources, but if there are no resources, there can be no results. The critical challenge for the relief and development sector is to understand what resources there are, and to use them in the best possible way. The main resource groups are described briefly below: (1) people; (2) organizations; (3) infrastructure; (4) natural resources; (5) knowledge; and, (6) money. Constraints must also be identified, understood and steps taken to mitigate their impact.

### People ... who need opportunities

In almost all economic activity, people are a critical resources. But people are rather infrequently identified as an important resources, and in most developing countries, many people is seen as a problem rather than being an important abundant resource.

There is a challenge is to make it possible for people to be an asset rather than a liability, both in their local community and for the larger economy, because there are all sorts of shortages or constraints.

Opportunity and jobs are a key to prosperity. Many people who are poor are engaged in subsistence activities. People work hard and at the end of it are just surviving. Their productivity is as low as it can be. With lower productivity they would be dead. Jobs that help people move from subsistence to paid work is progress, even if the job is menial and not very inspiring.

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## Infrastructure

In the “south” the problems of infrastructure are widespread, and the pace of infrastructure improvement has been pathetic. Business must operate with what infrastructure there is rather than what it would be nice to have. Infrastructure helps to make a society productive, and helps to improve quality of life. In the “south” the lack of infrastructure is a serious constraint whether it is national scale infrastructure or local community infrastructure.

- What about roads, and railways, shipping and air transport. What about the vehicles and the services?
- What about electrical power, telecommunications and Internet?
- What about water and sewage?
- What about the education system, the schools and the knowhow?
- What about health system; the local clinics, the district hospitals, the trauma centers and teaching hospitals?

### The Challenge of Infrastructure

I was involved in the building of a fish and shrimp processing plant in Nigeria at one point in my career. In the initial planning circa 1972 our company was going to be a tenant at the Koko port where the port infrastructure was excellent, and we merely had to install some refrigeration and processing equipment in existing buildings. Koko port needed our business and it was a good plan for everyone. But all this changed in 1973 with the oil crisis and a new world order. Koko port was taken back and we had to plan around a greenfield site with absolutely no infrastructure.

I will not going into detail about getting title to a suitable site ... it was interesting. After that we had to put in docking facilities ... a quay in deep enough water for our trawlers to dock at all states of the tide, and build the cold stores and processing plant, and water treatment and effluent treatment facilities, and an electric generating plant ... absolutely everything we needed. To make it a bigger challenge, everything we needed had to be imported from half way round the world, which in itself is not too difficult if there are accessible ports, and the banking system works for letters of credit, and the customs authorities function effectively.

Bottom line ... in the “south”, what should be easy is very challenging. But it can be done, and it is worth it.

### Organization

The organization of society is complex and important. It also varies a lot from community to community. What seems to be the best way to organize for a company like Wal-Mart or McDonalds may well be absolutely the worst for an organization in the middle of Africa or South Asia.

Organization and organizations in a community are very definitely assets. Things get done because of organization and organizations. Most substantial work requires a group of people, and groups have to be organized in some way. The organizations and institutions are an important aspect of socio-economic performance. They help determine how well an economy can operate.

Factories and their machinery and equipment are important assets, and should be included in the understanding of resources. Business machinery and equipment is an essential for business employment, and business growth is frequently constrained because there is not enough machinery and equipment.

Working capital is another important asset, and one that frequently constrains business growth. In order to grow a business needs adequate inventory and it often needs the ability to finance accounts receivable. If there are banking services, a business can cooperate with the bank to finance working capital, otherwise this has to be funded by the business owners.

### Natural Resources

Natural resources ought to be a source of local wealth, but too often it appears that natural resources merely serve to enrich others. Local people give up very valuable rights for token payments simply because they have absolutely no understanding of what is at stake.

What natural resources are in the neighborhood?

What are the prevailing laws, rules and regulations concerning natural resources?

What are the property rights associated with natural resources. Who owns them?

When the facts about natural resources are available it becomes much clearer about who is benefiting from natural resource exploitation.

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Too often the local people are not seeing much value creation in their communities.

What is the best way of creating value from natural resources? It is important to evaluate what the local resources are that can be used as an economic driver for the area. Unfortunately, far too often the natural resources are exploited in ways that make them a local liability and only an asset to foreign stakeholders. They are usually depleted without adequate thought to the future. The key is to find resources that can help improve the local economy in a way that is sustainable over the long-term.

### Knowledge.

Without knowledge very little can get done. There is a huge pool of knowledge that has accumulated over the years, and it new knowledge is accumulating at a record pace. Relatively little of this knowledge is about matters that affect relief and development performance.

Accordingly, there needs to be a focus on getting together knowledge that is of importance for success in socio-economic development, and especially knowledge that is useful in the community setting, whatever that is.

### Money

Money is often identified as the constraint on socio-economic progress. There is a lot of talk about “not enough money” but from all I know about relief and development, the amount of money is not the problem, it is much more a problem of getting the money to the right place and doing the right things.

Lack of money is both a cause of business failure and also a reason why business was never able to start. Money is a limiting factor in business and almost all economic activity, but it is not the most important determining factor for success. Money is needed to fund things like infrastructure, or machinery and equipment, or working capital, or payrolls ... all things that make it possible to carry on economic activities and for value creation to take place.

But a lot more can be done with available money if there is a complete optimization of the use of all available resources and there is the best possible organization of all the resources.

### Constraints

Constraints are the lack of any of these resources or anything else that gets in the way of progress. Understanding constraints is very important. Simply by removing a critical constraint, sometimes relatively easy and not very expensive, it is possible to release economic possibilities that are substantial.

The same economic logic that works for profit planning in the corporate world also works in the economic dynamic of a community. A small bridge over a stream that cuts down everyone's travel to a market can be very valuable to everyone in the community ... not a really big investment, but a tremendous socio-economic value.

## Chapter 16

### Measure

#### Make Measurements

##### Measure, collect data

Measure results. Start talking about what is accomplished and at what cost. Measure costs and results over the most suitable time period, but tend to the shortest time period that yields meaningful results. With a rapid iteration of information and related feedback it is possible to optimize performance more rapidly and get the best possible results at least cost.

Even the best of implementation managers will do better when there is a good system of measurement. Measurement should happen every day or at whatever time interval makes the most practical sense. Usually the shorter the time interval the better. Measurement should be done in ways that are easy, practical and reliable.

Measurement should result in information about costs, what was done and the results arising from the activities. In a mature measurement environment it should be possible to compare costs and results in a coherent way over activities in various different places and at different times.

Making a lot of measurements and getting a lot of information is interesting but not valuable. The purpose of management information is to use it to get the best possible results.

### Measure ... make it easy

The best information is often the easiest information ... but it does require discipline. The following information should be very easy to obtain in most practical situations:

- What was done today ... how much was spent today.
- What is the cumulative accomplishment for the month ... what is the cumulative cost for the month.
- What is the cumulative accomplishment for the year ... what is the cumulative cost for the year.

### Distributed analysis

Some value can be immediately derived from local information, before it is every communicated and consolidated at another level. For example:

- How do the measures of today compare with prior results ... this month compared to last month ... this month this year with the same month last year ... this year with prior years ... etc., etc.

Distributed data analysis makes it possible for local decisions to be made quickly prior to analysis work being done in some remote place. This has been described as the democratization of organization, with data and performance and decisions all being fully integrated and accessible at the local level. This is, of course, consistent with the community focus described later.

### Organize the data

There are many works for information to be organized. The organization is to some extent science and to some extent art. The goal is for the organization to be easy to do and for it to be powerful so that analysis is easy.

The basic rule is to analyze and code the data once well, and then use the data multiple times after that ... this is much more powerful than hoping that random analysis will provide useful results. That is not to say that searching for the unseen connections is not useful, but only that it organized data are best used for management purposes.

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## Communicate and consolidate the data

The locally collected data should be communicated to a system that facilitates consolidation of data and its comparison, for example:

- How the measures in one place compare with similar measures for people in other places doing the same sort of work. What can we learn so that we can do things better?

With data all sorts of things are possible.

## Result of measurement

The result of measurement should be for the immediate area operators to know much more about cost and results, and be in a better position to improve their work. The culture of doing the most for the least should start to be the norm rather than the exception.

The broader dialog about the operations can start to be a dialog about costs and benefits, about trends, about behavior of cost and benefit under different circumstances.





## **Chapter 17**

# **Feedback ... and Make Improvements**

### **Feedback**

#### Feedback and adjustment

There is no point in measuring if there is not going to be any feedback. There is no point in feedback unless it is used for some form of decision making that is going to improve performance.

Without feedback, any activity is out of control. Results needs to be part of a feedback loop so that there is more and better action. Merely measuring results and talking about them is not sufficient.

The feedback process is perhaps the most important part of management of anything. It is the mechanism by which a learning organization uses its accumulating knowledge and turns it into something of value. The process is very powerful.

But feedback must also be used with understanding. A reaction to information should result in improvement, but knowledge can also be used in a way that makes performance worse. This is apparent in much of the ill-informed and heavy handed policy guidance meted out by the relief and development organizations as a component of “conditionality” for their help

Nothing really works very well unless the feedback system is working in the right way. I learned something about control theory when I was

## Chapter 17 - Feedback ... and Make Improvements

an engineering student. It is everywhere in engineering, and needs to be everywhere in the management of resources.

### Feedback and Control Theory

It does not happen as often as it used to. But loudspeaker systems used to let you know what was going on in the feedback loop. If there were screeches and whistles there was positive feedback and the system was out of control, and when the feedback was working right, in this case some negative feedback, there would be a nice stable output and everything under control.

To have control, there absolutely has to be feedback, and the feedback has to be geared to the changes that are needed. None of this is going on in the relief and development sector, and the system is totally out of control. Money is going in and noting much is coming out, and nobody seems to have a clue about what is going on.

One issue of importance is the timeliness of the feedback. Control theory is not usually as much as it should be in management, though it can be very effective. The following is an example of what can be accomplished by effective and timely use of feedback.

### Performance Reporting and Feedback

At one time in my career I ran a manufacturing facility. There were several departments and about 3,000 employees. The factory produced a wide range of products, almost all with custom engineering.

When I arrived there was a daily production report that was reproduced and circulated about 10.00 am on the next day. It was a routine, and not much happened.

I changed the daily production report to get it prepared at 8.00 am the same day. It did not list what had happened the day before, but described what was going to happen today ... just 30 minutes into the day's work. This report told management what problems existed today and would impact the production of the day. By 8.30 am the whole of the management team was helping to address the problems and getting them fixed.

Production more than doubled ... it might have increased even more, but other constraints started coming into play.

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It does not matter how good the measurements and the information, if the organization has no way of making use of it to improve performance or, perhaps, no ability or no intention of using it.

## Two Contrasting Experiences

Early in my career I was a division controller at Aerosol Techniques Inc. The division president had an accounting background and had been the division controller before me. I prepared much analysis after analysis of our manufacturing operations that needed major reorganization ... but very little ever actually got done to change anything. No decisions and division performance simply drifted worse and worse.

Some years later I was the CFO of Continental Seafoods Inc. The president had a long track record of operating trawlers and marketing seafood. I did a lot of detailed analysis of operations, marketing, risk, etc. which were used by the president ... who would tick off what my analysis said should be done with what he had already done ... and anywhere I came up with something additional, he checked out the analysis, and if it was right and worth doing, it was done. In a period of a few months, the company's performance went from pathetic to pretty profitable ... a lot was changed and most of the changes were right.

The costs of management have value when put to good use. Two weeks of analytical work helped me to save some \$100 million in cost overruns on a big factory construction project.

### Measure ... Feedback ...Action

Early in my career I worked for H.A.Simons, the Canadian pulp and paper mill consultants. I was the field accountant at a greenfield pulp and paper mill construction site in Texas. As part of my work I was monitoring the project costs, and evaluating progress. I was also carrying out an ongoing cost audit to verify the cost information. As a result of this work, I concluded that the contractors, Brown & Root, now part of the Halliburton Group, had spent 2% of the budget money but only done 1% of the budget work. I thought this was serious, since the cost overrun projected out to the end of the work would be well over \$100 million.

I showed my work to the head of our consulting team, an experienced engineer. He checked my work thoroughly, staying in the office until late in the evening. It was Thursday. Around 10 pm, he called the contractor's project manager and arranged an early morning meeting for the next day.

Next day we went over my work again, with the contractor's project manager and some key supervisors. The decision was made to reduce the contractor's staff on the job from over 1,400 to around 700 people. On Monday, only 700 people were on the payroll. Two years later the work was completed ... on time ... and within 2% of the projected budget.

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## Chapter 18

# Financial Control

### Accounting

#### The central core of financial control

Accounting is at the core of financial control. Accounting is also needed for a variety of other management activities including: (1) measuring performance; (2) reporting to stakeholders; and, (3) planning improvements.

Financial control is an important thing for an organization to have. It does not need to be sophisticated and complex. There are two benefits from good financial control: (1) the money and assets do not get stolen; and, (2) the money and other resources of the organization are used without a lot of waste. In the first case the result of stealing is 100% value destruction ... and in the second case there is less value creation than the maximum.

Decision makers need to know how much things are costing and what is being done with the money. In general in the modern corporate world the decision makers are pretty clear about the fund flows in the organization, but in the relief and development sector there is nothing like the same level of understanding, and a lot of the financial issues are out of control. This makes it easy for people who want to misappropriate funds to do so, almost at will.

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## Oversight and accounting

Accounting facilitates oversight. Good accounting will help to identify areas where problems might exist. Oversight helps to move from identifying problems to fixing them. Sometimes the fix requires aggressive tactics.

### Financial Control

In my corporate career we changed our internal control techniques frequently so that the staff would never know exactly how control was being implemented.

Very early on in my career I was faced with a “mafia” run scam where people in our organization and people in a big client's organization were collaborating to have truckloads of product shipped to their own warehouses rather than the client's warehouses. I found the scam simply by doing thorough accounting reconciliations with client accounts ... and then learned all the detail aspects of the scam by having FBI agents work undercover in our shipping department.

This was not petty thievery ... it involved collusion to steal a lot of valuable product worth \$millions.

It is generally accepted that accounting on its own is not very powerful, but accounting within a management system provides a level of control that cannot be bettered. With control, moneys are not misappropriated, and with control the best possible performance can be achieved.

## Making information accurate

Information that is actively used is rarely wrong. But accounting information that is merely a documentation of financial transactions and prepared by rote is often inaccurate, perhaps just plain wrong. But information that is actively used in the management of real activities may be wrong when first used, but is quickly corrected in most material aspects.

If the information is wrong, the operating people will criticize it, and poke fun at the accountants who prepared the data. But if the accountants are smart, they will learn where there are errors and then correct them and the systemic issue that created the errors. Soon the



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information is error free and now is simply measuring performance ... and the operating people now can only criticize themselves.

### Control through measuring performance

Measuring performance is another dimension to financial control. If money goes missing it does nothing to deliver outputs, and if there is measurement of performance, then the money missing is quickly identified. This is not rocket science, but it is very powerful.

And measuring performance shows up all sorts of useful information that can be used to manage resources. Some people use resources well and get good performance. Others do not do it as well ... either because they are not as well trained and experienced, they cannot do the work or they are doing inappropriate things with the resources. Performance measurement helps sort out the various possibilities. Sometimes the decisions have been wrong ... and no matter how well the people work, the results cannot be good. Performance measurement highlights issues like this.

### Getting improvement that sticks

Another are of use of accounting information is the area of planning improvement and getting it to stick. Good accounting helps to make changes that improve, rather than merely doing changes that change and make no change in real performance.

#### Balloons and Wrenches

There are two types of managers ... those that use accounting and those that don't.

What happens when you squeeze a balloon and let go? It goes back to where it was before. That is what happens in organizations when there is no accounting control and performance measurement.

What happens when you use a wrench on a bolt? It gets tightened and stays there. That is what happens in an organization when there is change and there is accounting control and performance measurement ... and management oversight.

Accounting is powerful. When it is part of a management system, the performance can be optimized. Without accounting and the

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management system resources get used, but good results may or may not be realized.

### Reporting to stakeholders

There are many stakeholders.

The beneficiaries in communities deserve to get what has been allocated to them, and there should be reporting that shows this.

Staff in organizations should get meaningful information about what is going on, and they should have suitable reports.

Donors and funding agencies should also get information about how their moneys have been used, and what results have been achieved.

Finally the public at large should be able to feel good about what is going on, and see relevant reports that show this.

#### Less is More

I met the Accountant General of India some years ago. In India there were a lot of accounting reports that had to be produced because of the law, and in total these reports were incredibly voluminous ... thousands of pages ... and not very valuable. But the law did not preclude the Accountant General from also producing a brief report about the finances of the Government of India, and so this was prepared in addition to all the reports required by law. It was about 10 pages long. Thousands of copies were called for. It was read by everyone in government, and was largely read by the public as well.

### The accounting foundation.

It is a very solid and logical framework for reporting on economic transactions in an efficient way. It is a system that served well in the old mercantile era 400 years ago, served well as huge industrial organizations emerged in the industrial revolution, and has carried forward very well into the computer era.

It could have done better. Some basic accounting principles have been weakened by a growing focus on legal constructs and the tax implications of the accounting. The profession of accounting has morphed more than it should have into the business of accounting.

### Rules Versus Principles

Some of the accounting that has been allowed under US Generally Accepted Accounting Principles (GAAP) and the FASB (Financial Accounting Standards Board) rules absolutely flaunt common sense and my idea of the basic principles of accounting.

The idea that contracted liabilities about future health and pensions for employees should not been on the books and included in corporate liabilities makes no sense ... but FASB and the US accounting profession has allowed it. Ridiculous.

Meanwhile, leased aircraft operated by an airline that are owned by a third party are required to be included in the assets of the airline. Yes, analysts should know the capital value of the aircrafts being leased, but the airline does not own these aircraft and they are not airline assets and do not belong on the balance sheet of the airline but in the notes.

In the field of relief and development, management information and accounting needs to be principled and it needs to be simple and understandable. The need is for good basic accounting that is easy to understand and communicates operational realities, and especially operational performance.

### Transactions

All economic or financial transactions of an entity are recorded in an accounting system, and then analyzed and organized according to some basic principles. Some transactions relate to the acquisition of assets and are balance sheet transactions, and some relate to payments related to activities, and they are part of the operating statement or profit and loss account.

There are many ways to record the information. I like to think of basic accounting as little more than a series of lists that show key information about every transaction. Accountants call these lists by names like: sales journal, invoice register, day books, cash books, etc. but essentially they are just lists of the transactions, listed chronologically.

Typical information needed for any single transactions are things like: date, who is the transaction with, amount of the transaction, description of the transaction. Usually there is also a way of referencing the transaction to further documentation about the transaction.

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## Balance sheet and operating statement

Some transactions change the balance sheet. The idea of a balance sheet is very helpful. It is integral to corporate style financial reporting, but is missing in government accounting and in many not for profit accounting systems.

If money is spent, and is used to buy some asset, the purchase is reported in the balance sheet. If money is spent, and is used for some operational activity, the cost is reported in the “operating statement” or “profit and loss account”.

ALL disbursements are recorded in the accounts. Every penny of spending is accounted for. This is an important concept and very powerful for keeping “control” of the entities resources.

A balance sheet report shows assets, and it shows liabilities and an analysis of the difference. A balance sheet is a status report at a particular point in time.

The comparison of two balance sheets for the entity ... one taken at the beginning of a period (a year, say) and one taken at the end of the period ... shows progress or regression. This is a very simple way of creating a reportable metric for any entity of interest.

## Purposes of financial and operational reporting

There are many reasons for reporting, some of which are: (1) to circulate operational performance information internal to the organization; (2) to satisfy external regulatory reporting requirements; (3) to satisfy the requirement for reporting to donors; (4) to inform the public at large about activities and performance; (5) to advise beneficiaries of the program performance; and, (6) to contribute to management knowledge and performance information that is in the public domain.

## Complete report sets

The best financial reports are those that have operating information, balance sheet information and cash flow information, together with enough supplementary information for readers to be able to understand the information presented.

The problem with much public sector reporting is that the underlying accounts are “cash based” and there is no formal accounting for assets and liabilities integrated into the accounting system. While

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accounting of this sort has been banned from the corporate world for around 150 years, it is still the norm in government, and ought to be banned for government as well. Reports that are derived from cash based accounting do not have the “double entry” check that is so vital and powerful in mainstream corporate accounting systems, and any good performance oriented accounting and management information system.

### Reporting can have different formats

The aim of any report is to show what is important in as clear a way as is possible. Sometimes reporting is defined by some statute or regulations and this defines the format.

But whatever the reporting format, all accounting reports reflect the underlying transactions. Reports are usually prepared in some sort of hierarchy so that it is possible to track summary information back to more detailed information, and eventually the underlying transaction information.

The format is often different based on language and local rules. The words may be different but the concepts remain the same. The convention for format is all that substantively changes. The report may look quite different depending on the conventions used, but they still faithfully reflect the underlying transactions.

### Reports

Over the years I have worked in a lot of different parts of the world. I learned my accounting in the UK and my starting point is how reporting would be done in the UK. But different countries have different conventions and ways they like to see accounting reports.

Everywhere an accounting transactions has the same form, because it is the same thing. The reports can be in any number of formats, depending on the custom The UK and the USA use a different convention in the presentation of a balance sheet ... it does not change the numbers. The French have a different convention about how they report depreciation and report the operating statement (Compte d'Exploitation). The Soviets used to have (before 1991) a reporting system that had a totally different focus reflecting their concern about the analysis of capital, and little focus at all on operating activities. But in all these different places the underlying transactions were accounted for in the same way. It was only the reporting conventions that were different.

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## Chapter 19

# Management Information

### Management Information

Without it, anything goes

Every successful organization has good management information. In these organizations every knows that management information is important, and the decision making responds.

Did you ever go to a sporting event where they did not keep score, and do measurements? Did you ever see a coach that was not trying to improve the team's performance?

#### Sports Performance

There is performance measurement in all serious sports whether it is football or baseball or track and field. Performance is measured because it enables different performers to be compared, and it enables coaches and the athletes themselves to keep track of progress. I contend that anything worth doing is worth measuring.

But in the serious matter of relief and development we do not keep score.

In less performance oriented organizations, which are prevalent in the relief and development sector, management information is weak and few people in the organization want good management information.



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Good management information would change the dynamic of these organizations, and make results more important than the “bull-shit” of PR. Without management information, the staff of an organization can do what they want when they want and not be held accountable for anything.

All the staff have to do is to be able to tell a good story and sound convincing. Without management information, the person with the best story and the best presentation of opinion wins. For people with the gift of the gab, an organization without management is ideal. Performance really does not matter, just enough of activity to be able to have a story and run the PR machine.

### Key characteristic of management information.

You only get high performance by doing measurements and figuring out how to do it better. This is what management information should do.

The key characteristic of management information is that it is the least amount of information that gives decision makers the best possible basis for decision making. Good management information does not cost a lot but is very valuable.

Nothing additional is achieved by having lots and lots of the same information. All that is needed is enough data so that the information is reliable enough and accurate enough for good decision making, no need for perfection.

This is not the place to go into a lot of detail about management information and accounting (see companion book “Management Information in the Relief and Development Sector”) but it is appropriate to summarize some of the key points.

### KISS

Keep It Short and Simple (KISS) is a useful idea to keep in mind. Good accounting is always simple enough to be 100% clear. If it is not simple and clear it is not good accounting.

Accounting is not a sophisticated construct. But it is a very powerful way of getting control of and keeping control an organization's activities.

Management information is best when it is simple.

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## What information is needed?

The data that exist are not what are needed for a valuable management information system. Most of the data in the relief and development have been prepared using statistical methods, frequently anonymous, usually late and rarely precise enough for good decision making. They rarely have the precision that can be obtained from good accounting. They also do not address issues of performance in the way that is needed.

What is needed is: (1) a full set of community metrics; and (2) for all activities information about cost, the nature of the activity, the results achieved and the value of these results.

## Start by measuring and collecting data

There is a lot of evidence that performance improves merely by measuring it.

### Measuring Performance

I have been interested in performance and its measurement for most of my life ... in athletics ... in motor sports ... in engineering systems ... in corporate profit performance ... and in relief and development performance.

In order to make progress, there performance has to improve, and the starting point is to do some measurements.

We should start by measuring easy things, and then logically progress to things that are more difficult. We should start by measuring things that are somewhat obvious, especially to those close to the activity.

Once upon a time, I was told that the line supervisors in a factory I was running could not understand production and performance statistics. I disagreed, mainly because I knew they were all better than I was at sports statistics. We started a dialog about how to do statistics in their various departments, and very soon (within an hour or two) we had identified dozens of useful datasets that would enable them to know how well their respective departments were performing. In many cases they already had the data in some desk drawer in their department because they absolutely needed it to do a decent job.

We built a company-wide performance dataset on top of data the individual department supervisors already were using ... and then we combined this with a little bit of accounting information to have a very powerful, very relevant data foundation for our factory.

With this information ... decision making improved immensely ... and then performance. The factory produced more ... at lower cost and better quality and more quickly than ever before.

It is part of the broader experience that performance improves when something is changed ... anything. When factory lighting is increased, production goes up. When factory lighting is reduced, production goes up. Perhaps it is something about showing interest. Who knows?

When performance is measured ... there are two factors at work: (1) the simple act of showing interest; and (2) the possibility of learning something valuable about the way the performance can be improved.

And of course, information without any use for it is simply value destruction. On the other hand a small amount of low cost information that facilitates substantial performance improvement is net value addition.

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## Low cost

Information should be as low cost as feasibly possible. The techniques for getting this information should have almost zero incremental cost to society. The information system should be always a net value adding activity.

## Improve the management information

Improving management information need not be done as a big “project”. Rather, it is better done in a more “organic” fashion, in a series of many steps. What is needed is a little bit of relevant information everywhere it is needed. Less is more ... but best if the right amount is everywhere.

And also get management information where somebody can do something with it. Having information that is never used is not very valuable.

## **Performance Measurement**

### Accounting is a part

Accounting information is part of performance measurement, but only a part. Accounting is a good way to compile information about costs, and about all financial transactions. It can also be used to compile useful information about activities that have a quantity and unit of measure (UOM) that is relatively simple. But accounting has to be supplemented by other information that has a meaning in the operational context.

### Performance - resources in, value out

The idea of performance being the relationship between resources in and value out is both simple and relevant. It is the basis thermodynamic idea of efficiency, and is just as useful for management and in economics as in engineering.

### The Thermodynamic Idea of Efficiency

I got a jump start on how to measure performance as a student engineer doing thermodynamics ... measuring the efficiency of various ways of converting energy to work ... and learned the practical and simple idea that we measure inputs and we measure outputs and compare the relationship. We can easily measure efficiency or performance without having to know all the details of what happens in between. The measurement of performance that works for a steam boiler or an internal combustion engine can be applied in the analysis of business and economic performance.

Accounting needs to be supplemented when the question of socio-economic value is being measured. There are some useful techniques that can be modified to use, notably the concept of standard costing where all activities are assigned a standard cost, and actual experience can be related to the standard. Using a similar concept of “standard value” for various aspects of progress and regression in relief and development gives a very powerful technique for measuring performance ... and is one reason why my overall assessment of relief and development performance is “failure”.

### Operating costs – activity costs - variances

Accounts are the foundation for a lot of useful analysis. The cost of any activity should be easily available. It should be expected that the cost of any activity is more or less the same everywhere, and if not there should be some good reasons for the difference.

A lot of financial numbers are incorporated in plans, and used to prepare budgets. Plans and budgets are not accounts. But it is good to compare what is in the plans and budgets with what actually happens. In a well managed entity, plans, budget and actual tend to be quite close together. In entities where the operation is out of control there usually are wide divergences.

There is a lot of utility in relating costs to the activities in ways that permit unit costs of various activities to be determined.

Management information that contains clear information about how much was spent, how much things cost and what was done is very useful.

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## Results and realized values

But management information that contains also clear information about the results and the realized values is even more useful.

### Costs, Activities, Results and Value

The fact that the State Senator drove at 50 mph for three hours to get to Albany, and spent \$4.30 on gas and \$2.00 on tolls is of rather little interest. But it is more interesting when you also know that he made a critical speech in Albany in support of some new legislation, voted for it and it was passed. The new legislation made it possible for senior citizens to have easier access to medication under the Medicare Program.

Cost and activity is not particularly useful, but when related to results and the resultant value, then there is something very useful.

The activities ... driving a car and making a speech are interesting, but not very important until they are related to the legislation that was passed and the value of this legislation to senior citizens. The cost is not significant, though it is easy to get these numbers. The value is very important, and getting a reasonable estimate of what this value might be is not at all easy.

This is the challenge we have to face in getting management information in the relief and development sector.

## Integrating key items and accounting

The logic of accounting can be expanded to include any number of key items. There can be accounting for key items using a transaction logic, or it can be quite simplified. Key item information makes it possible to move beyond just the accounting numbers. How much something cost is not very interesting unless one knows something about what is being paid for, what activities are being paid for and what results are to be expected.

## Different ways to compare performance

Comparison is one of the most useful techniques for accountants and for managers. When making comparison it is always important to remember not to compare “apples” with “oranges” in order to get meaningful results.

### Time series

The time series of very powerful. One piece of information is not very valuable. It needs to be put into context. The cost this year compared to the cost last year is much more interesting. A time series of costs can be very informative. When a time series is related to “events” it gets to be even more interesting.

#### Shrimp Prices by Month 1945 to Present

Almost immediately after I was appointed CFO of Continental Seafoods I learned of the importance of shrimp prices on our business and its profit performance. I tracked prices in the New York market by month from 1945 to the present (at that time 1974) a period of 29 years. The graph showed three distinct periods ... the first when prices stayed stable for about 15 years ... the second where prices steadily increased year after year ... and the third when prices increased dramatically, and then started oscillating violently.

In the first period, supply was increasing year by year with no (shrimp) resource constraints. In the second period new shrimp resources were becoming less easy to find, and costs were increasing. In the third period no more new shrimp resources were found ... and then the oil shock made it unclear what would happen to the industry, costs were up and customer demand went down, and then companies went out of business, and then more demand, and less supply and ... etc.

In a subsequent period the role of shrimp aquaculture in increasing supply has stabilized prices, in spite increased costs and stable supply from the capture shrimp fishery.

### Consistency – enabling comparisons

Comparison from year to year or from place to place or from organization is only valid if the data are compiled using consistent rules. This is one of the great values of accountancy, because, in the main, good accountants add up transactions in more or less the same way, and tend to produce similar analysis, no matter where in the world the accounting is being done.

### Budgets

Budget are part of the management toolset. They serve to help plan, and to help control implementation. There are two perspectives of a budget: (1) is the idea that a budget authorizes expenditures; and, (2) that a budget guides expenditures.

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Both these views have some validity. Under the law, in many places, the government budget is, in fact, the instrument that authorizes expenditures of the government.

But when a budget is used as a planning tool in the operations mode it is better to think of a budget as a guide, with the goal always to do “better” than the budget. Typically a budget will have a certain amount of expenditure related to some level of activity and some expectation of results. “Better” performance will be when less money is used to get more results.

## **Management Accounting**

### Accounting to analyze performance

Accounting to have financial control, and to provide reports to various stakeholders does not have the same dynamic as accounting that is used to analyze and understand operations. The French refer to this a “comptabilite analytique”, while Anglo-Saxons tend to refer to cost accounting or management accounting. What is important is the use of analysis to get an understanding of the behavior of costs and value creation as a result of the activities that are going on.

### Cost accounting

Cost accounting answers the question “How much did something cost?”. In order to have this information in an operation where thousands of different things are being produced, there is a lot of detail and the analysis is prone to error. But without knowing how much something costs, there is rather little basis for anything. Of course, where a factory produces on single product, the analysis is quite simple ... but when there are multiple products the analysis rapidly becomes complex.

### Standard cost accounting

Standard cost accounting is one accounting techniques that can be used to simplify the analysis. In my view it is one of the most powerful tools in analytical accounting. When standard cost methodology is made an integral part of the relief and development sector framework of management information, accounting and accountability, there will be a very big improvement in performance, and overall accountability.



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In its simple form, standard cost accounting is based on the idea that everything has a calculated standard cost. When actual performance is compared to the standard there will be a difference, favorable or unfavorable. Management attention can be focused on the differences (usually called variances) so that the reasons for the variances are understood. If there is a favorable variance, it may be a clerical mistake, or it might be an opportunity that should be exploited. Where the variances are unfavorable, it might be that the standards are wrong, or it might be that

### Improve Profits by Understanding Cost Behavior

Cost accounting combined with operational research is very powerful. When I was working as the Division Controller of one of the Aerosol Technique Inc. units we did some thinking about why our cost accounting showed that factory operations in Connecticut had labor costs almost double what they were in a plant in California. Wage rates were the same. It was something to do with how we were operating the plant and the work that they were doing.

Most cost analysts think that making the best use of your equipment is a good strategy to optimize efficiency ... but it turned out in our situation, that by having equipment idle, we could reduce our unit labor cost in the product and increase profit.

Getting the company to make this change paid my salary many times over.

### Cost centers and profit centers

Every part of an organization should have a purpose. There will certainly be costs, and there will also be values that are derived from the costs. The analysis of this is fundamental to have a low cost high performance organization. None of this is particularly well developed in the relief and development sector, where most of the costing has been developed to satisfy the needs of project management and the information needed by donors.

Good management control probably requires better understanding of the costs of operating units and the behavior of these costs. Knowing how costs behaves will argue, almost certainly, in longer deployments so that the impact of start-up and close down is minimized.

Knowing more about costs and performance will also highlight the need to make the best use of staff ... not only expatriate staff, but also local staff.

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## Value accounting

The value realized is the most important component ... but what is it. Value is not as easy a concept as cost, but it is even more important. How much is my life worth? An attorney would argue that it has value in the case of my accidental death ... and would ask for substantial money award because I am dead. Something of the same argument should be made for all the deaths that are going on around the world because relief and development has been such a failure.

How much is the value of averting a death ... or delaying a death by one year, or two or ten years? The value is substantial, even though it is difficult to say exactly what the money number should be.

What is the value of better nutrition ... and better health? Well ... substantial since they extend life.

And education ... because education helps someone get a higher paying job that goes on for 20 or 30 years.

And what is the value of the community ... or the incremental value as it goes from a place where all the farmers cannot feed their families and pay their bills to a more prosperous place where families are no longer absolutely destitute?

Value is not easy ... but it can be estimated and a value assigned. If the value is patently wrong, then the value can be changed. The assigned value is then available for use in calculations just as a standard cost is available for use in standard cost calculations. Simply by using the assigned values, it will become clear that values are reasonably right, and what values are obviously wrong.

There is a lot of power in the use of “standard” computations in management analysis ... applying the technique to value in relief and development can help reform performance and make improvement value centric.

## Chapter 20

# Distributed Decisions

### Letting Go

#### The best way to progress

There seems to be a pattern about success ... it is that people who know about the problem and know about the solution get to make decisions that solve the problems, and get to make them quickly. This is the empowerment that is needed to help make success in the relief and development sector.

This is not easy, especially for people who have been trained to be managers in their formal education, and have gained their career experience in organizations where all problems are pushed “upstairs” in the hierarchy and the solutions are expected to descend from above and be implemented mindlessly by the peons.

This was the corporate mindset at the start of my career in the 1960s. Europe was way behind the United States and Canada in changing to a distributed decision making structure, and I was in the middle of this with the first wave of corporate computers and electronic data processing (EDP). At first EDP further centralized decision making and management information, but it did not take very long for this to change to a distributed environment both for the information and for the decision making.

We used to make a big effort to ensure that decisions were good, that is they served the goals of the company, and were effective. We used

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the phrase “NIH” to refer to “not invented here” because we found that if the idea and the decision was “owned” by the people concerned, the results were far better than when the decision was “owned” by the management hierarchy.

This is not rocket science. It is basic common sense and acceptance of human nature.

But “letting go” in the framework of the World Bank or the United Nations, or most government organizations, and a lot of large organizations is very difficult. It is also especially difficult in a lot of organizations that have a “south” culture rather than the modernized performance culture of the corporate “north”.

The best way to let go is to have a multiple step effort: (1) establish some way to measure the financial aspects of the activities and to measure the results on a short time frame; (2) allow people to attempt to improve the results ... that is to get more result for the same or less money; (3) have some oversight so that a failing situation is recognized very quickly; and (4) have a control that ensures that failure is stopped before it does much damage. Of course, if the performance is improving, there can and should be positive reinforcement and success should be expanded and replicated.

Letting go can never work if the management information framework is weak and compromised in any way. In that circumstance, letting go is irresponsible and bound to lead to some form of unacceptable behavior and unacceptable results.

## Keeping Track

Good management information is needed to support letting go. Having a strong management information framework is a good foundation for distributed decision making, and “letting go”.

The management information does not have to be a lot ... it just needs to be enough so that all concerned know what is happening in terms of costs, activities and results. The decisions are not a concern ... only performance. Hopefully there will be a lot of decisions and the performance will be excellent.

If the information suggests that things are going wrong, then it is time to step in and help improve the decisions, and figure out what went wrong. This should happen quickly ... in days or at the most a few weeks after things are not working out.

### Community

Where can community fit in? Community is a natural focal point for relief and development planning and incremental support. Clearly something different from the Gosplan type World Bank style centralized development planning and decision making is needed. A planning framework that is community centric may well be the answer.

Decentralizing to the “south” government is a step in the right direction, but really not enough. There are some things that work well at the national planning level, but many more that optimize around plans done at the community level.

In my work over the years I have always been struck by both the similarities and the differences between different communities. Different communities had different problems, different resources and different thinking about how best to move forward. There were different ways of organizing and providing community governance, and different relationships with the national organizations and the political structure. With so much difference, any common solution for all communities was much more likely to be wrong than ever to be right.

The priorities of the communities is a very good way to change the key drivers of relief and development sector performance. Much can be accomplished very quickly as soon as small practical activities are supported. But this can only be done if the right sort of information that is relevant at the community level is available.

### Oversight

The oversight structure is also a part of making success of distributed decision making. With oversight, it is possible to know what is being accomplished, and then to make judgment about performance and the need for intervention. If things are going well, leave well alone. If things are not working out, then it is time to become pro-active. In many cases something that is struggling can be put back “on-track” with the intervention of outsiders with some additional external experience.

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## **Chapter 21**

# **Public Accountability**

## **Accountability**

### What is it?

Accountability is a commonly used word ... but exactly what does it mean. The US government's General Accounting Office has changed its name to the General Accountability Office ... but I am not really sure why. It was never an accounting office, but more an audit office, and now it describes itself as doing accountability, whatever that is.

The public is not a priority stakeholder in the present structure of government and public sector accounting and reporting. Yet the public is the biggest stakeholder in terms of government performance and the use of public funds.

And the public is not a stakeholder in the activities of the corporate private sector and the private NGO community. Though these organizations have control of most of the economic resources, and impact the public in all sorts of ways, they are not in any way expected to account to the public as a stakeholder.

Even in cases where the community is very much a stakeholder in terms of socio-economic impact, the relationship is rarely raised to the level of stakeholder ... in other words, community does not really count.

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## Accountability to whom?

The idea of “public accounting” needs to be developed so that the public can be better informed about economic activities, both government and private, that influence society.

There is a patchwork of reporting requirements, but most do not have a focus on the public, but on specific stakeholders. The reports are difficult to use for rigorous, logical analysis. They can be characterized as general accounting reports, rather than analytical accounting reports. They report facts, but nothing very useful.

In too many cases reporting is not timely. By the time the public knows what is going on, the damage is done ... the funds that have been misappropriated have long gone.

There needs to be a new form of accounting where the public is informed of what is being done with the funds in any governmental organization, or any organization where government funds are being used, or any activities that are going to have a material impact on a community. The system should require public reporting where any economic entity's economic activity has a material socio-economic impact on a community. This requirement would enable a community that is host to large scale FDI to be informed of what is going on, and to be able to respond if needed.

## Public accounting

A transparency and accountability network for public accounting is needed to address the question “Accountable to whom?”. Any fund flow that has impact on a public or the society at large should be accounted for in the public space so that it can be seen to be doing public good, or at any rate, not doing public harm.

There is very little technical challenge in putting together the sort of information that is needed. The accounting principles were developed several centuries ago, and the technology to manage data in huge volumes and in world wide organizations is now available.

The challenge is much more to do with the human dimension, the organizational changes that are required and some very legitimate concerns about public access to private information, and potential abuse of this information in anti-social ways.



### The accountancy profession

The accountancy profession does most of its work in the private sector being paid to “sign off” on the financial reports prepared by management for the owners. They are paid for this by management. While it has worked most of the time, it has not worked all of the time, and there have been periodic professional scandals. The integrity of financial reporting has been significantly weakened over the past 25 years by the growing importance of consulting done by professional accountancy firms, and the need to keep the client happy and the assignments safe. It is difficult to assess the damage done by conflict of interest before the accounting firms divested their consultancy practices. We will never know.

Accounting in the relief and development sector is terrible. The accounting is usually cash based rather than being done on an accrual based, and there is very little of balance sheet analysis and the checks and balances that are integral to best practice corporate accounting. Accounting clerks in UN system offices and other relief and development organizations process vouchers and disburse cash, pay salaries, and that's about it. They do not usually do cost accounting related to projects, and certainly do not do project performance analysis as a priority part of their work.

Because there are very few professionally qualified accountants in the employ of the relief and development sector, including big government agencies ... hardly anybody, almost nobody, understands the important difference between accounting using an accrual based system with balance sheet, operating statement and cash flow and the simple, and error prone, cash based system used by most of the public sector. In the corporate accountancy community it is often said: “Show me weak accounting, and I will show you a weak organization, and weak performance”. On this basis, the relief and development sector has tremendous weakness.

### **A Public Accounting Utility**

#### The main elements

The main elements of a public accounting utility are: (1) information; (2) a communication network; (3) an information storage capacity; (4) a data mining or data analysis capacity; and, (5) users.

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## Information

A database of information can be built relatively easily. The relational database that originated with Cobb in 1978 made organizing data a lot more efficient than it had been previously. The relational database is the foundation for almost all modern accounting systems, and any large body of organized data.

The relational database can be deployed in: (1) a private computer center; (2) at the desktop; or, (3) in the Internet space. All variants have their place. The private computer center has the advantage of security, the desktop the advantage of being accessible in the community and the Internet of being accessible from anywhere. I have not yet embraced the idea of the database on a mobile I/O device, but it can also be envisioned.

### Database of Community Information

Getting a database of community information built is something that is priority for the Transparency and Accountability Network (Tr-Ac-Net). A start has been made, but the work is far from complete, and it does not have any value unless there are also other initiatives working so that the information can be maintained and effective use made of the data.

In a first phase, a lot of data was compiled using a Wiki ... it was a success in terms of demonstrating that information could be collected in a reasonably disciplined manner. But it was useless for analysis.

In the next phase an Internet based relational database was used to pull together data about various aspects of relief and development, including community information. This showed a lot of potential. It was not very elegant, but it worked.

In the next phases, the community information will be combined with various sets of organization information, project information, and fund flow information to provide a community view of the whole of the relief and development sector, and especially funds disbursed contrasted against the aggregate of community level activities and the value of these activities. It could get interesting.

The meta data for information needed for public accounting is already well defined, but not presently conveniently presented. Rather, different bits are in a variety of different places.

### A communication network

A communications network used to be a very expensive proposition, but that changed with the deployment of the Internet. Sadly the Internet is still difficult to access for most of the poor “south” and to the extent that it is available it is expensive. Access availability and expense are constraints, but the underlying Internet technology can be deployed at affordable costs.

### An information storage capacity

Modern information storage technology is now making it possible for enormous quantities of electronic digital data to be stored economically. The technology is available. The challenge is to get it deployed in a useful manner.

### A data mining or data analysis capacity

Again, modern technology is available. The challenge is to bring suitable technology together with the information and the storage so that useful results can be easily obtained.

### Users

What is the point of anything, unless there are users. In the case of public accounting, the users are eventually the people and the representatives of the people, and those that advocate for the people, and the 4<sup>th</sup> estate, the media, that reports on anything and everything to inform the people.

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## Chapter 22

# Ethics, Culture and Religion

### Ethics ... Is it Right or Wrong?

#### Is it legal?

The rich modern world is dominated by a culture that has embraced “rule of law”. And while this may work within the rather limited arena of corporate contracts and personal property, it is very much more difficult to have one complete framework of law that is fair and just for everyone, everywhere and in all situations.

More dangerous ... if it is legal, does not make something right. Things can be legal and not be either ethical, moral or just.

#### Whatever happened to right and wrong?

My recollection of childhood was very much the learning of right from wrong. The concepts seem to be quite basic, and quite reasonable. As I grew up and got more experience, it seemed that most of the things that were right were supported almost universally in spite of different cultures and religions, and that things that were wrong were condemned in whatever society it was with whatever culture or religion. The universality of decency and friendship and family seems to be a very positive thing about what is right in the world and what is right with the world.

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It is not easy to define right and wrong and good and bad in a legal construct ... but these ideas are still around, and they are still critical to civilization.

Ethical standards should be applied everywhere. There are some trade-offs that are appropriate, but some that are not. The universal application of “the end justifies the means” is a formula for disaster, and should not be embraced.

## Different systems of law

The system of law that has been embraced by the United States seems to work quite well for the United States ... though many would argue that the system has one standard for the rich and one for the poor ... that it is not very long since the law was applied quite differently to Black Americans than to White Americans, and the law did little to fix the problem.

I am not trained in law, but what I understand is that the differences between British Law and US Law are significant ... in the the USA, there are differences between Federal Law and the laws of the various States.

And in Europe there are differences in law between those of France and Germany, or Sweden or Italy or Spain. In other words, law seems to come in a whole range of flavors ... which suggests that a single Rule of Law is not a very meaningful idea.

Rather, a single framework of ethics, and concepts of justice is really what should be center stage ... with the various rules of law working to help make ethics and justice universal.

I have had the chance to see traditional law at work in various parts of the world, and though it does not look the same as in the British Court or a US Court, there underlying ideas of fairness and the rules of society are very much in play. And while British and US courts think of their long history, traditional courts around the world probably go back much further. While traditional systems have areas where modernization would be advantageous, it needs to be done with respect for the past and the relevance to the society.

## Corporate responsibility

Mining companies that put poisonous effluent that kills people into rivers used as the communal drinking water source should be stopped

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and held to account. Oil companies that spew oil into fishing waters and kill the fishery should be stopped and held to account ... not only when it happens in Alaska but also when it happens in Nigeria.

Generally speaking, the international corporate community has demonstrated a willingness to invest and profit without taking in consideration very much the responsibilities of good community citizenship. It can be said that “anything goes” when it is a long way from any prying eyes. Bad behavior is only deemed unacceptable when there is high possibility of “getting caught”, and, of course, it become totally unacceptable when you are caught.

### The Crime is “Getting Caught”

I had a number of jobs of varying responsibility in the corporate world. One of my jobs was “budget manager” of a company with around 30 subsidiary operations. At one budget meeting at a subsidiary plant we did a plant tour and I noticed effluent and trash going into the river behind the plant. The year before there had been an investment made in an incinerator for effluent treatment, but it was not working.

When I inquired in the budget meetings about the effluent, trash and non-functioning incinerator, I was told with a straight face that I had not allowed money in the budget for this. This was a surprise ... I had never expected that well paid respectable senior managers would behave so glibly and so irresponsibly when it came to a basic community responsibility ... but I was wrong. When it came to trying to make the numbers, anything goes.

That was in the United States where the environmental regulations are fairly clear ... it is many times worse when the company is operating in the “south”.

## Culture

### The value of culture

Quality of life depends a lot on culture, and what is culturally appropriate in one place is not necessarily the same everywhere.

Civilization puts value on culture ... on art, and music and dance ... but culture reaches into every aspect of society and gives a lot of depth and flavor to a society.

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There are differences ... and differences can be very important. They can be differences that create friction or merely differences that create interest. It all depends.

## Respect

Cultures may be different, but there should be respect. I may be most comfortable with my own culture, but I should respect someone else's culture, and be understanding of the differences.

## Learn

It behooves us all to learn about other cultures, and to understand how other cultures can have a big impact on the behavior of society. I have had the good fortune to be able to work in a number of different societies around the world, and while the culture was often quite different from my own, there were always two things that were on my mind: (1) what are the differences and why? and, (2) what impact does culture have on the way the society and the economy works?

I cannot pretend to have learned enough, but I seemed to learn that cultures around the globe tended to work for the people in the local society ... just as US culture worked in the United States, Somali culture worked in Somaliland. I seemed to learn that an alien culture produced strains in society that required a lot of management, and could easily end up being a destroyer of local culture and local values. I learned that most of the fundamental values I associate with good and bad, and right and wrong, and family values were present in all the different cultural settings I worked in.

I learned that the concept of responsibility is as strong in cultures that I do not know well as they are in my own culture ... in fact, in many ways even more so. I learned that trust is as much valued in other cultures as in my own ... in fact more so.

## Bottom line

Culture can be a key part of moving global society forward. Some things need to have global scale and uniformity ... like intermodal transport containers ... but culture can be different and beautiful and a catalyst for local success and not a constraint at all on making local socio-economic progress.



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But it would be good to know a lot more about culture before setting in motion forces that destroy local culture and replace it with something that is neither relevant locally nor remotely better.

### **Religion**

#### A power ... for what?

I prefer to interact with a person that has some respect for religion, even when the religion is not my own. I usually find that people who have some respect for religion also have some respect for societal values ... and that this can be the basis for dialog and for agreement on a lot of things of importance.

Religion, in my view, is powerful because it has a big place in the life of many people and their families. Religion has also been used as an excuse for a lot of war and violence. There have been big arguments about theology ... that have resulted in war and violence ... and at the end of the day have done little to improve the lot of ordinary people.

But religion has also served to add a dimension to life so that people who have nothing material can have something that is of other value ... of spiritual value. In many situation as I have worked where there has been famine, and disease and violence ... the value of the help delivered simply from a person's faith ... has been amazing, and not to be taken lightly. Spiritual sustenance may not solve the problem of malnutrition, but it does makes a terrible life more bearable.

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### Easter in Addis Ababa

I was in Addis Ababa one year when Easter Sunday was on Sunday and May Day was on Monday ... an interesting juxtaposition of Christianity and communism. Of course, in the communist era in Ethiopia, Christianity was supplanted by Communism according to the State rules ... but in spite of this Ethiopians turned out by thousands to celebrate Easter. Trinity Church, I believe, is on a hillside ... and during the Easter Vigil the church and the grounds were full ... crowded ... with worshipers. They were all dressed in traditional clothes ... white ... and all, it seemed, were seriously malnourished ... but full spiritually. It was very moving.

Next day, the Government had a May Day parade. The spectators were marched under guard from all over the city to be present to see the parade. The army and police faced to crowd to control any potential disturbance. The political leadership gave speeches ... the military marched ... some citizen groups were marched by the reviewing stand. There was no clapping. No cheering. Nothing.

An amazing contrast ... the lessons is that the value of religion and spirituality should not be underestimated.

### Religious organizations and their communities

The potential of religious organizations and communities to have a much bigger role in making relief and development successful can be exploited. People like to work together and to do so in their own community, and people like to see success. Helping religions communities to be successful is a natural opportunity.

But as in so much else, the opportunity to help any single group needs to be done in ways that does not create local economic distortion nor become an excuse for disruption and a catalyst for violence.

## Chapter 23

# Oversight

### **Absolutely Needed**

#### No oversight is an abdication of responsibility

No oversight is a serious abdication of responsibility. Oversight is needed in any organization. People behave well when they know that they are being watched, and behave in pretty bad ways when they think they can get away with it.

This is especially true with money and other valuable. If there is money around and no oversight and control, it is going to disappear. This is as sure as gravity, and any organization that does not understand this and act in an appropriate way is going to lose money and have it diverted inappropriately.

Again, this is not rocket science, just a common sense interpretation of human nature. This argues, therefore, for a strengthening of oversight in everything that is being done.

#### Oversight is powerful

A system of oversight forces people to do the right thing. With a proper oversight system people doing good work get positive reinforcement, and people doing bad things will be caught, and appropriate measures can be taken. Oversight is very expensive when it is done without a decent management information system, but it is not at all costly when there is good management information.

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Management information and oversight go naturally together. They are natural partners. With a good management information system, oversight can be simple low cost “desk review” when the system shows good performance. But when management information shows problems, then oversight should be heavy and hard, and this has costs. But the costs of oversight are low compared to the cost of bad performance. Net net, management information and an oversight function add value to an organization rather than being just a cost.

My experience at Continental Seafoods Inc. showed how powerful the oversight function can be.

### Management Information and Oversight Works

In my own career I have used the monthly reporting technique over and over again, always with success. In one company (Continental Seafoods Inc.) we required the monthly reports from all over the world to be fed back to the head office by the end of the second business day after the month end.

If the results were not what we expected we took action. If the reports were delayed beyond about 36 hours we took action. Either the President of the company or myself (CFO) were on a plane and less than 7 days after the month end we were in the office of the problem operation.

This approach was very effective. Everyone knew that the feedback of information was not just an exercise that was a big effort and a waste of time ... they knew there would be consequences. But they also knew that we all had the same goal ... to get good performance from the company. Most times when there were performance problems the issues could not be resolved simply by the local office, but needed the intervention of more senior “management”.

I am still amazed how rapidly performance in this company improved. There was distributed decision making, good management information and active oversight.

Though the goals were corporate goals, there is no legitimate reason why this cannot work for most relief and development activities.

There is little or no effective oversight in the relief and development sector, and this has had terrible consequences.

### Implementing good oversight

In my experience oversight works very well when it is flexible and unpredictable. It is much less valuable when the oversight is just routine and can be anticipated.

How many project or program sites around the world get any visits at all from senior staff or an oversight officer during the course of the project. Is it 1% or 5% or 90%? In my view, EVERY site should get a visit not just once, but several times. And every site should be sending some sort of activity report back to the oversight office every month, and just a day or two after the end of the month. This is not a long time consuming study ... just something to advise what is going on and confirm things are going according to plan.

Who should make the visits? It does not really matter ... as long as the person has a reasonable understanding of the project or program, and understands that they are just making sure that everything seems to be working OK. If the project site is big enough to have an accounting office, they should listen not only to the head person at the site, but also hear from the accountant. They should usually have some check list of questions worth asking, and return with a good appreciation of the activities of the site. When everything is going well, oversight can be handled by someone with rather little experience ... it is valuable training and experience, and serves perfectly well.

If something does not seem to be going well, then oversight has to be handled by someone with more experience. If an oversight visit results in some unanswered questions, then a more experienced person should make a visit ... and this might result in either some decisions that the project staff are not good enough, or that the project work is more difficult than expected and more resources are needed. If the problem is that funds are going missing this also can be addressed appropriately.

The same sort of oversight process should be in place in a sort of reverse cascade to the origin of the funding. There should also be management information that follows the fund flow from funding source to the eventual use of the money and the value received.

### The importance of timeliness

Oversight action is so much more effective when it happens quickly. What is the point of oversight action years after the money has been

## Revolutionary Change

stolen. If the money goes missing on Tuesday, it would be good if there can be oversight action that day or the next. Most good accounting systems can identify the loss of money very rapidly ... but the relief and development sector, and most governments have chosen not to have good accounting systems.

For performance, monthly information is a good interval. If reports about monthly performance are available within two weeks of the end of the month it is possible to track performance without too much of a delay, and issues can be addressed while they are still fresh.

### Audit is not an oversight tool

Audit is often used in the relief and development sector, but the value of these audits is questionable. Where there is weak accounting, audit is little more than window dressing and a cover up. For me, it is also a sign that the organizational management is inadequate and organizational performance questionable.

Audit is not a very useful tool. It adds nothing to what managers should already know. If an audit is needed, there is a problem, and the problem is not going to be fixed by the audit. Lack of information or lack of internal control is solved by fixing the underlying accounting and the performance of the staff. The powerful tool is accounting. Audit can help ascertain whether the accounting is good enough and whether the reporting reasonably reflects what is going. But by the time an audit has been done, so also the damage done, and the culprits long gone.

Any time I hear that an audit has been called for, I know there is a problem, I can be pretty certain the accounting is inadequate, probably that there have been misappropriated funds, and there is a mess. I also know that the audit will do very little to correct any of this, and that it will serve to protect the establishment from the sort of embarrassment that they should be facing.

Instead of doing audits, there should be independent oversight teams that represent the public and are on the look-out for both lost funds and low effectiveness.

### Monitoring and evaluation is not oversight

Monitoring and evaluation (M&E) is a very widespread technique in the relief and development sector, but it is not effective oversight the way it is normally carried out.

If M&E is used only at the end of a project, it costs a lot and does little to make the project performance optimum. Its value is limited to being feedback to donors, which is important, but not oversight. A better feedback to donors is simply by having a well functioning management information system that makes it possible to provide donors with all the information that they want.

Monitoring and evaluation (M&E) is usually too little, too late. It has been used as one of the main tools for “managing” in the relief and development sector. But M&E is a poor management tool since it is usually not done at the right time, and the information that is obtained cannot be easily used as part of a “management process” and be routinely available not just when an M&E exercise is carried out, but all the time.

In M&E work, an independent analyst will attempt to determine how well an organization has done in meeting its objectives. This analysis is usually done at the completion of a “project” and is frequently a requirement of the organization that funded the project. But this form of M&E is expensive, and the information has limited value compared to getting similar information as a routine part of a “management process” where the information is being used to improve performance and get the optimal results.

There is no point in measurement if it is not used. There must be feedback, that is, ways to get the measurement and its analysis into the system so that people learn and better decisions can be made.

### Keeping people honest and on the right track

Oversight is absolutely essential in order to keep people honest and on the right track. Hardly anyone does the right thing unless there is a system in place that helps people to make the right decisions. No oversight, and the worst of people will come out. Good oversight, and most people do the right thing and everything works smoothly.

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## Chapter 24

### Issues that Constrain

#### Understanding Constraints

What a mess ... there are reasons

It is not enough to do one thing right, when all that happens is that some other constraint makes the effort worthless.

There are all sorts of constraints, and success requires that activities that are worth doing also avoid the constraining issues.

There are many issues that constrain including. Over three hundred different issues that impact performance have been identified in a separate publication “Hundreds of Issues that Impact Relief and Development Performance”. Obviously, some of the issues are more important than others, but overall it is pretty clear that addressing just one issue is not going to make much of a difference.

A few of the big issues are described in more detail in the following chapters.

#### Trust

Lack of trust means that it is very difficult for any major economic or financial transaction to go forward efficiently. We ought to be at a point in time where trust can be managed to everyone's benefit, but instead it is a constraint ... and described in more detail in a subsequent chapter.

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## Security, violence, terrorism

The whole are of security and violence and terrorism is a great failure of modern global society ... and described in more detail in a subsequent chapter. .

## The migration problem

Migration has been a fact of history, but now increasingly constrained at the same time that it is physically easier, and arguable to great benefit than ever ... and described in more detail in a subsequent chapter.

## Drugs, sex, ... making money

If we really believe in a global market economy, then drugs and sex would be traded in the economic market place and there would be a market driven equilibrium ... but that is not what is going on. Instead there is legalized scarcity, and illegal super-high profits that encourage production ... and described in more detail in a subsequent chapter. .

## What else?

What we teaching our children?

### What We are Teaching Children

I was asked at one point what was the most dangerous thing on the planet. The question was posed by a professor at a college in Africa. He taught the equivalent of global studies, and I believe he expected me to talk about nuclear proliferation and the nuclear standoff between the USA and the Soviet Union.

My considered reply was that what we are teaching our children is the most dangerous thing on the planet. I had recently been working in Kuwait, where I had learned a little about what young children in the schools were being taught about Israel and the world's religions. More than anything else the children were being taught to hate others. And in my work in different parts of Africa I had learned something about how children were learning about how the “whites” were responsible for the failed African economy ... albeit independence now almost two generations removed. Overall, it was hate and blame for others that was driving the education, rather than building a world of students that are learning to live together, and to work together and to prosper together.

And reflecting more, it is obvious that children in the “north” are also being badly informed about the real world that they will have to live in.

### Productivity

In a world where people make their own decisions, why would anyone buy anything that is not as good and as cheap as it can be? And in a world of this sort, what about production in the “south”. So much of the “south” cannot produce good and cheap, and is bound to be marginalized and fail in the global economy. But some things needed in the “south” do not need to be of international quality ... they can be cheap ... and then affordable and valuable for their communities.

As time goes on improved infrastructure, and then improved education and training, and then investment in improved productivity will produce results ... but it will take time. And the process will be never happen if there is huge value destruction caused by high cost infrastructure and high cost financing on top of a poor and unproductive economy.

### Scale

The scale of relief and development initiatives needs to be right. Sometimes this is big, but mainly it is small. The “north” does not work well with small because the profit is not enough ... but the

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“south” does not work well with big, because it is usually out of scale with the economy and the stage of development. The issue needs to be addressed so that financing from the “north” is done at optimum (large) scale, and implementation in the “south” is done at optimum (small) scale.

# Chapter 24 - Issues that Constrain

## Chapter 25

### Trust

#### **Lack of Trust is a Huge Constraint**

#### Impossible to trust something you don't know

It is impossible to trust something that you do not know ... and since almost nothing is known by the general public of the “south” except what is promulgated by the media and the various controllers of communications ... it is no wonder that there is a lack of trust.

If media stories about the “south” are going to be the basis for trust, then there will never be any. Something else needs to be done ... and that is the building of reliable information end-to-end about the relief and development sector. With good information, it is possible to start a process of trust building.

#### What is trust?

Trust is not a legal construct, but more a moral and ethical idea. If a person agrees to do something, will they do it? If a group agrees to do something, will they do it?

The whole of the global economic system operates relatively smoothly because of this trust ... and has operated on a basis of trust for centuries.

Trust is an incredibly important component of any society, and that includes both the modern urban society embracing technology as well

as rural societies where there is little or nothing that is modern or technological.

Nothing very much happens if there is no trust ... and the global economy and the relief and development sector are dysfunctional in part because there are insufficient mechanisms to create a trust full world.

### Can rule of law substitute for trust?

In my book, trust is far more important than rule of law. If there is no trust, then the rule of law merely gives a basis for litigating, and in most litigation, nobody wins, except the lawyers.

The rule of law has been of great value in the creation of value constructs that have help build wealth in the “north”, and for this the rule of law deserves considerable respect.

But the rule of law has also been used to trick people out of what would reasonably seem to be their legitimate rights.

Rule of law can easily be used to make wrong things legal ... because something is legal, it does not make it right, or ethical or moral. It might be, but it does not have to be.

And anyone round the world that “trusts” the rule of law, is likely to be in trouble ... Better rather to have trust in people, and to have real agreement about what the economic transaction means, not a mere piece of paper called a contract, and no framework to enforce it.

### End to end trust

In New York, or London, or Paris there is a well established rule of law, and most people doing business in these places know and understand the laws that apply and can act accordingly.

There is also applicable law in a poor community hundreds of miles from electricity and the telephone and professionals ... the applicable law may well be a combination of local traditional law and the law of the country and a mix of accommodations to handle the multiple conflicts that apply. In this evolving legal situation, trust becomes important, and agreement and understanding. Trust and agreement and understanding are going to be further complicated by the differences in culture, in language and experiences. Trust is possible when there is clarity about what everyone is trying to achieve, and it is clear that the economics are fair to all concerned.

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There is the need for an organization that can handle both ends of this. That can be trusted by those that understand the New York rule of law, and those that understand the applicable rules in the remote “south” situation.

### Building trust

Building trust takes time. It is really a matter of generations, rather than weeks, months or a few years.

But maybe it can be accelerated as everything else in the world seems to be accelerating. Maybe the information needed can be put together on “Internet” time rather a normal relief and development sector timeline ... and maybe a younger generation can embrace global trust in a way that older generations cannot. Maybe ... but the essentials will not change. Good information showing good behavior and a pattern of good behavior that looks like it is absolutely reliable ... even when there are opportunities for bad reaction.

### Wrecking trust

It is very easy to lose trust, to wreck it, and it is very difficult to build trust.

#### Revoking Irrevocable Letters of Credit

In 1975, or maybe it was 1976, the Nigerian Central Bank revoked irrevocable letters of credit. They had good reason. However, in five minutes the Board of Directors damaged the essential trust in the Nigerian financial community that will take five decades or more to rebuild.

In the 1975 and 1976 Nigeria had a huge cement shortage, and terribly congested ports. There were more than 400 ships waiting to get into the Lagos/Apapa port, and delays of months to land cargo. This was exploited by unscrupulous foreign cement suppliers who better understood the terms of the contracts, and the shipping rules, than the Nigerian buyers. Eventually Nigerians were paying more for the freight charters than for the cement ... and the cement by the time it arrived was useless after months at sea. It was a terrible scandal ... and a terrible rip off of legitimate Nigerian buyers.

All of these payments were being made under the terms of irrevocable letters of credit ... and the Central Bank chose to solve the problem by revoking the letters of credit and not making further payments. Good decision in itself, but the repercussions have been bad and very long lasting.



### Deserving trust

The world's financial community depends to a large extent on trust. The “south” has not built a good feeling of trust within the world's financial community.

Nor has the “north” built much goodwill in the “south” either.

There is a lot of work to be done by everyone. But without trust and goodwill it is difficult to make progress. There is a critical need for appropriate intermediaries and workable structures.

### Honesty

Sadly, my experience is that rich people do not give people who are poor and live in poor communities much credit for honesty.

And the good news is that my experience has been that people in poor societies are often a lot more honest than their counterparts in rich places. This is borne out by the experience of microfinance organizations in lending to the poor. Repayment rates were almost 100%, unheard of in lending to a richer part of the population.

### How to facilitate end-to-end trust

If there is a deficit in trust, then there will be an ongoing and insurmountable constraint on relief and development performance. Somehow, structures have to be created that will help for trust to be created, or at least, the risk associated with this to be managed.

A foundation of good accounting and management information and a framework of public accounting and accountability will help, but it is not enough. There need to be people involved who are able to demonstrate without a shadow of doubt that what is, is ... without any possibility of being wrong. This can be done efficiently with good people and good technology, and at a reasonable cost.

End-to-end there cannot be any missing links ... or places where funds will leak and not be accounted for.

In order for relief and development resources to flow smoothly to where they are needed, there has to be “end to end” trust. This can be achieved within a single organizational setting, or it can be built using a public accounting infrastructure and associated organizations.

Up to now, integrated organizations that have this internal trust, have been “top down” and very rigid, and rarely get to reach deep into the

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community level and grass roots activities. Organizations that have originated in the “south” have rarely been able to establish a high level of trust in the “north” though this is starting to happen with a few examples such as the Grameen Bank being successful, but not many.

Another way using a public accounting infrastructure and an independent network of organizations that use information and networked oversight that makes it possible to validate the credentials of any organization has a lot of potential. The network role is something like the “accrediting” that a professional organization does for its members so that there is some protection to the public. Members of the network have to be operating at a sufficient level of performance to be accredited members.

Some organizations have already started to provide services to help philanthropic donors connect with reliable charities, and some to do a rating exercise on charities. At the moment these organizations are working well but on a small scale relative to the vastness of the relief and development sector as a whole.

### The old confirming house

In the days before electronic communication ... before telegrams when physical delivery of mail was the only means of communication ... global commerce took place with the assistance of the confirming house. This system made it possible for someone to take on a financial risk and enter into commercial transactions with people who did not know each other, but in the middle was an organization, the confirming house, that knew both parties to the transaction.

This was a very practical way of going about global commerce, and it worked very well.

The modern banks have kept some small part of the old confirming house system, and still talk about “confirmed” irrevocable letters of credit, meaning that only banks known to each other are involved in the transaction.

A modern version of this, or something similar is needed to make it possible for the new flat global world to be able to progress unconstrained by the problem of lack of trust.

## Misplaced trust

The well known organizations in the relief and development sector are “trusted” by the public, even though it is not at all clear that the trust is justified.

Enough information that has been published over the years that suggests that very few of the well known organizations have adequate control over their financial and material resources. There are periodical news stories about the inappropriate use of resources.

### Where Did the Money Go?

After 9/11, a lot of money was donated to benefit the families of the 9/11 victims ... stories have emerged about how the American Red Cross lost control of resources in the aftermath of this disaster. It seems that something similar again happened in the aftermath of the Katrina and Rita hurricanes.

In the case of the South Asian tsunami, there was as much as \$4 billion mobilized for rescue, relief and rebuilding ... but the use of that money is not at all easy to follow. There is not question that a lot of funding was used to help established organizations pay salaries and expenses for tsunami assistance personnel, though it is not quite clear if any of the activity that was funded actually produced value for the victims of the disaster.

As in so much relief and development, white Land Cruisers built by Toyota proliferated, courtesy of relief funding for the tsunami.

## Chapter 26

# Security, Violence and Terror

### Doing Something About Weapons

What a mess

The world seems to be more dangerous today (2006) than it was years ago. Is this true, or is it merely a perception? Is the apparent presence of danger more a reflection of changes in the way information moves around the world than a change in the underlying reality of danger?

Maybe these questions are important. Maybe these questions do not matter.

The biggest single issue is the prevalence of weapons of all sorts, from hand guns to nuclear missiles, all of which are designed to do damage either in the prosecution of a legitimate war or as a tool for terror and anti-social action.

### Guns

The proliferation of guns makes very little sense. They used to be few, and mostly in the hands of the army ... but all of this changed at some point in the last 30 plus years. Why is not totally clear, maybe part to do with the cold war, part simply a process of destabilizing regimes, part something to do with profit seeking. None really good reasons.

And in the USA a very strong lobby in favor of guns ... the NRA, that seems to be able to control votes in the US Congress almost at will.

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Surely people who want to have sporting guns can do so without there being a gun in every house on the planet. Some laws are not helpful, but laws to control guns seems to be a very different matter.

### Guns - 1975

It was 1975 when I was first alerted to the huge influx of guns into Africa. Around the same time there was a similar influx of guns into the Caribbean. It is not clear where the guns came from, but the CIA is frequently referred to as the source.

I was in Liberia in August 1975. Our local manager cautioned me not to go out in the evening alone. On previous visits I had spent the evenings looking around Monrovia without much concern for my safety. This time I was told the “rogues” had guns, and were using them. The same story was repeated in several other countries in West Africa on this same trip.

Before this, it was only soldiers that had guns, rarely anyone in the general population.

Just before he died, Prime Minister Michael Manley of Jamaica recalled the influx of guns into Jamaica, supplied, he said, by the CIA who were trying to destabilize his left leaning administration.

Guns do nothing to help a poor family have a happier life. But guns can terrify people ... and do.

The US position on guns is, in the view of this writer, reprehensible.

### Landmines

The killing and maiming of people by landmines is a horror. Putting them down is easy. Pulling them up is tedious and very dangerous.

The poor “south” has seen more than its fair share of war in the last 50 years, and in that time landmines have been put down literally by the millions. Many have been recovered, but there are hundreds of thousand still in the ground and lethal. A lot of animals and children will be killed or maimed, as well as many adults.

### Nuclear weapons ... mutually assured destruction

The stockpiles of nuclear weapons are huge, but how secure are these stocks? If the accounting and accountability for these stocks is anything like the record keeping for most other things done by government, one has to be concerned.

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Proliferation is also going to happen. Instead of most of the warheads being in the USA and Russia, a growing number of warheads are going to exist in other countries and pose a threat to someone ... some country ... that warhead owners would like not to exist.

This seems like a good reason to be a friendly country.

### Gas – biological weapons

They were banned under an international treaty after the First World War ... but the relevance of international treaties has been called into question since the events of 9/11 2001. Now it is more likely rather than less likely old treaty obligations will be respected. Not a good trend.

It is easy to tear apart agreements ... much more difficult to put them back together.

### The business of weapons

The business of weapons is generally bad news. It is a profitable business and many in the “north” might be prepared to argue that the profits produce jobs. They might also argue that weapons give the country a strong military and therefore security.

But the death that comes from the use of weapons seems to me to be too big a price to be paying for some profits and some jobs.

And while it might be good for good governments to have powerful military ... what is the rule going to be about bad governments having a powerful military.

The business of weapons has a big downside, and explains a lot of the horror of failed development in many parts of the world.

### Making the community safe

Everyone should be able to go to sleep at night and feel safe and be safe. A community should be at ease with itself, and with everyone in the community. A community should be making progress, and not be frustrated with itself and with the world.

Too many communities seem to have issues, with no solution in sight. People with no solution, no hope, seem to migrate rather easily to violence ... and it is easy for this violence to get out of hand.

## Chapter 26 - Security, Violence and Terror

I do not like violence ... it does damage not only in the immediate physical sense ... but also serves to leverage deterioration in economic performance that is very detrimental. And today's violence sets the stage for tomorrow's retaliation and revenge and more violence.

I like religion ... all the major religions seem to have a worthwhile message, including the idea that there is right and wrong, and that life is special, and that people should be treated fairly and with respect. I do not understand how religion has been used as an excuse for violence over the years ... so much so that people say that religion has been the cause of more death through history than even the great plagues. So we need to be careful about religion, because, while it has a potential for great good, it can also be used as an excuse for great violence and mayhem.

I like freedom ... but I do not believe that everyone has the right to do just what they want, when they want, and the rest of the world be damned. I think it was John Stuart Mill that said that people needed to respect others' right to the same freedom that I want for myself. This limits my freedom to something that works for the greater society.

### Who is funding everything?

Nobody really knows, or at any rate, the public is not allowed to know what is known ... and there is probably a lot that, in fact, nobody knows.

Clearly funds come from places where there is money ... and military gear comes from places where these things are made or are stocked. The more one learns about these fund flows and military gear flows, the more anti-social it appears that global leadership has been, and in fact, continues to be.

A lot of money is involved ... and only justified if the return is going to be huge. The rich and powerful corporate and state actors are keeping a lot hidden, but it is clear that many things are not the way they should be.

Because most military business transactions are secret, it is difficult to find out very much ... but what one can see does not give much confidence that the just and right things are being done.

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## Friends everywhere

The people of the world need to be friends to everyone everywhere. This is not at all far-fetched as most people who have traveled a lot know well.

People may look different, and have different culture, be in a different religion, speak a different language ... but people do laugh and do cry over a lot of the same things wherever in the world it is.

People have a lot of dreams that are the same ... a lot of the same hopes and aspirations ... but rather few have much of an opportunity to make these come to reality.

If the “north” shares a bit, then a lot of people in the “south” are going to have the opportunities they need to work at making their dreams come a little bit closer.

## Safety of the Open Society

Violence takes place in the shadows ... much more than in the bright sunlight and in front of the cameras.

Knowing what is going on keeps people safe and secure ... more than in a world where nothing is known. Secret societies seem to do a lot more violence than open societies.

And secret agencies in open societies seem also to be prone to inappropriate violence.

### Safety Through Communications

A small international NGO working in Eastern Sudan set up radio communications between some remote rural villages and an office in Nairobi in Kenya. With these radios the villagers were able to inform the office when there were aircraft overhead, and whenever there was bombing.

In turn the Nairobi office was able to inform the world.

Since the radio links were set up there has been a lot less bombing ... maybe coincidence, maybe not.

## Knowledge ... removing inequities

The challenge of having a fair world with value creation going on for the poor people of the “south” as well as for the rich people of the



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“north” needs to get addressed ... and this can be done using a system of value analysis, and getting more accounting and accountability into the public space.

At the moment there is a deluge of information churning round the public space, and nobody can really do much with it ... but when these data are organized into a management information framework, there can be progress and much more of leadership held to account for their part in the failure of relief and development performance.

## Chapter 27

# Solving the Migration Problem

### Immigration Has Become Unpopular

Foreigners ... immigrants are unpopular

Europe is struggling with immigration. The United States is struggling with immigration. Migration has become a choice for millions.

But immigrants are unpopular and being blamed for all sorts of woes in society ... mostly unfairly.

This is not new, but it is still a very potent source of societal discontent. And worse, this discontent will also have an impact on international affairs, relief and development assistance, trade agreements and international alliances.

### Economic migration

With extreme poverty in a large part of the world, and stupendous economic opportunity in other parts, it is not surprising that there are massive migrations going on. Economic migration is not new. It has probably been going on since prehistoric times ... but it is aggravated now by the terrible failure of the relief and development sector in the “south”, and the amazing recent wealth creation in the “north”. Laws to limit migration imposed by the “north” can slow the flows but not reduce the pressure. The pressure to migrate will not be reduced until

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there is progress in making a success of socio-economic performance in the “south”.

People will take huge risks when life is already pretty much impossible, and everything is hopeless.

### Escaping from Ethiopia

Ethiopia under President Mengishdu was not easy ... and for some ethnic groups it was especially bad ... and worse for people identified as being against the regime.

I knew a teacher who had this profile. In Europe or the USA, she would have been on the fast track, and an asset to the educational establishment. But in Ethiopia she was facing no job ... no money ... no future.

She had determined that she absolutely had to leave Ethiopia. She tried to get a passport, but her money was stolen by the officials ... all of it. She was left with no money and no passport.

With nothing, she decided to walk out of Addis Ababa over the mountains to Sudan ... to the refugee camps on the Sudan side of the border. I know she left. I don't think she arrived. Hardly anybody did.

People with potential don't have a chance in far too much of the “south”. The domination of peoples by the corrupt and powerful is a feature of modern governance and global society that is an absolute abomination ... and widespread.

### Why migrate?

Unless I am much mistaken, individuals and families migrate to “have a better life”. It seems to make sense.

Though European countries, the United States do not really welcome migrants, and leave most of them at the bottom of the economic and social heap, the socio-economic conditions and quality of life is a whole lot better than where the migrants came from.

The great migrations in North America from Europe in the 19<sup>th</sup> century and early part of the 20<sup>th</sup> century were a lot to do with improving the economic quality of life.

Other migrations in history have been to do with religious persecution. The United States, at its founding, to its credit, made freedom of religion a basic building block of its society.

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## Fleeing violence

Refugees and internally displaced people (IDPs) are mainly fleeing from violence. The violence has all sorts of different underlying causes, but the impact of people is devastating.

### Refugees and IDPs

I have worked a lot in refugee and IDP affected areas. It is not a pretty picture ... and the fact that refugee and IDP problems are widespread is a terrible measure of failure of the relief and development community, the governance authorities and our international community of leaders.

People rarely want to leave their homes ... but when they do it is usually because they will die or be killed if they do not. This is not at all acceptable in a civilized world ... but it is common in too many places.

## Brain drain

A flow of intelligent educated people from poor places in the “south” with little opportunity for economic success to rich places in the “north” where there are huge economic opportunities is normal ... it is the way a market economy works. Laws can be passed to stop the brain drain, and people can be coerced to stay where they are ... but again, the pressure to move is not reduced.

## Human trafficking

Money is being made by all sorts of unsavory middlemen who engage in human trafficking. There is human trafficking associated with prostitution and the porn industry in its many forms. Though it is usually illegal, it is also profitable, and there is money also to be made from “protection”. There is also human trafficking associated with economic migration ... getting people into Europe ... getting people into the USA. The activities are usually illegal, but the rewards are substantial.

## Constraining migration

Now that physical movement around the world is so quick and easy, migration is now controlled by money and regulation. Getting into the United States costs money for transport ... and perhaps help in getting negotiating the system to get the right paperwork and approvals.

## Chapter 27 - Solving the Migration Problem

Thousands try to do an end run round the paperwork and regulations by trying to get into the United States or Europe by boat or over some border clandestinely. A large number are dying trying to do this.

In the poor “south” a lot of people are trying to emigrate. People want to ... need to ... leave their homes because the living conditions are catastrophically bad. What is better ... dying at home, or dying trying to reach somewhere that offers some hope for a better quality of life?

### Bad solution

There are different ways to control and manage the immigration problem.

More and more rules and regulations, and higher and higher walls around the rich “north” is a bad solution ... if it is a solution at all.

The problem is not so much people wanting to come into the rich “north” but wanting to ... needing to ... leave the poor “south”.

### Good solution

Some people should migrate ... it is good for all. But most people should be better off staying at home than migrating.

A much better solution to migration is to put an end to the poverty and hunger and dysfunction of the economy in the poor “south”.

I know that the World Bank has been “fighting” poverty for the past two decades, and they have made little progress. But that does not mean that addressing poverty and hunger cannot be done ... merely that the World Bank cannot do it.

Every community in the poor “south” should be helped to keep its people at home, and to improve their living standards and quality of life. No blanket solution for everyone ... but multiple individual solutions for each community.

And if there is hope and prospect for progress in a community that is remote and rural, then also the migration from rural to urban might also slow, if not reverse.

## Chapter 28

### Drugs, Sex, Gambling, etc.

#### Big Businesses ... Making Money

With huge profits

Some of the highest profit business activities in the world are those that are illegal and involving drugs, sex and gambling.

Many countries in the rich “north” have made drug use, that is recreational use of drugs as opposed to medical use of drugs, illegal. Prostitution is also illegal in most of the rich “north”.

Gambling is illegal in some places ... but gambling is a big industry and heavily taxed in other places. There is an objection to gambling by some and an enthusiasm for gambling by others.

Making things illegal does not automatically reduce the demand. There is a high demand for illegal drugs, prostitution and gambling ... and with demand, economic behavior results in supply.

#### Illegal drugs

Illegal drugs are in high demand ... most of the drugs result in addiction, and this builds demand, and the illegal nature of the business constrains supply. Not surprisingly the profits are huge.

There is no framework of law to control the trade in illegal drugs, and it is violence that provides the control framework, together with protection. The scale is huge and all sorts of people are implicated.

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Farmers who grow the raw materials, whether it is coca for cocaine in Columbia or poppy for heroine in Afghanistan, make a lot more money growing raw materials for illegal drugs than they can ever make growing regular food crops ... and with this money they can take care of their families and give their children a chance at an education.

Illegal commerce in drugs ... drugs that are illegal in most of the “north” being processed, transported and distributed to the market. The profits are huge, and the people engaged in trafficking drugs have large risks and large rewards. Killing is common. Multi-million dollar remuneration is also common. Money talks, and the international illegal drug business is not much different in scale from trade in textiles or in petroleum. Law enforcement is puny compared to the scale of the trade.

### Prostitution

Prostitution is, sadly, a lot more profitable for women and girls than other work that they can do. In most places it is illegal, though carried on with the protection of the authorities. Protection is a cost of doing business for the prostitutes, and reduces their earnings dramatically.

#### Bangkok 1982

I did an assignment in Thailand in 1982. It was to do with the enabling environment and the framework of law and banking institutions to facilitate investment.

My formal work showed that the enabling environment was not conducive to foreign investment ... law, language, culture, practice, etc., etc.. None of the formal structure was good enough to encourage investment.

But there was foreign investment ... a lot of it. The investment was in brothels, and all the support structure for a vibrant sex tourism industry. Foreign investment was coming in, and the financial success of these investments showed that money could be made. The formal framework was not good enough to encourage investment, but was not enough to stop profitable investment.

The bad news is that this sector was sex ... the good news is that the fund flows and profits from the sex industry helped Thailand to move forward to being a strong economic performer over the next 25 years.

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Illegal commerce in people ... people are being moved around the world to work in the sex industry, often against their will, or as a result of being duped in some way. It is a disgrace, and international law enforcement has failed partly because of the profit potential in protection, and partly because there is little or no global outcry about the trade.

## Gambling

Gambling is a major industry, serving all strata of society from the super-rich to the very poor. Gambling related tourism is big business ... and gambling is a big and growing factor in Internet commerce, even though it is considered illegal in many jurisdictions.

Gambling is the main contributor to the wealth of many cities that are associated with gambling, from Atlantic City and Las Vegas in the USA to Monte Carlo in Europe and Macau in the Orient.

Taxes on gambling pay for education and health services ...

Gamblers win and lose, and the other vices of recreational drugs and sex are not far way.

## Addiction

Addiction is an unfortunate human frailty. It is widespread, and a driver of drug use, and out of control gambling. Addiction is not easily constrained and law that makes the behavior illegal does little to help solve the underlying problem of addiction. Rather there is a need for more understanding and more treatment.

There are many double standards with drug use and with gambling, and these add to the appearance of hypocrisy in the management of these problems.

## Tobacco

Seriously addictive ... a cancer causing pleasure, and hugely profitable for tobacco growers and cigarette manufacturers, as well as legitimate taxing authorities. Why is tobacco legal and a not very different product, marijuana, illegal? Why is there controls of nicotine content in the “north” and not in the “south” ... where the same company is producing the cigarettes? Lots of questions, and the same answer all the time ... it is all about money.



### Alcohol

The consumption of alcohol is controlled in most of the “north” ... but it remains a problem. Drunk drivers main and kill on the roads, in spite the threat of heavy penalty. Some cultures ban alcohol, for good reason. An attempted ban on alcohol in the USA in the 1930s ... “prohibition”... did not stop drinking, just made it illegal and profitable and arguably more dangerous.

### Are there any lessons

The big lesson is that addiction is a big problem, and needs to be addressed one person at a time. Society can help, but not simply by political bluster and clumsy lawmaking ... it must help though values, through education, through health services and through family and friends. With multiple coherent interventions, a lot of progress can be made. But no progress is made when society has instant gratification as a prime driver of societal decisions.

## Chapter 29

# Emergency Rescue and Relief

### Humanitarian Relief is Big Business

#### Relief is much bigger than development

The relief and development sector has become more relief than development. This is a very bad outcome, and one of the reasons why so little in the relief and development sector is sustainable, and so little has durable value.

In a humanitarian crisis, it is difficult to back away from “saving lives” to doing those things that will set the stage for progress in the future. This is understandable, and laudable ... but still a reason why development has become lower priority in so many places faced with crisis.

Donors are able to avoid soft questions about why so little is being done for development, but are much less able to avoid the hard questions associated with fund crisis response when major newspapers and the TV news have death and destruction in the headlines.

#### Rescue and relief versus development

Relief and development are two very different activities. Relief is clearly needed when there has been a disaster, but it is NOT development. It merely helps to keep people alive and to some extent mitigate the value destruction that has taken place. Development is

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about making progress from a rather unsatisfactory socio-economic status quo to something better, using resources in ways that create incremental socio-economic value.

### Natural disasters

There are four types of natural disaster that have been in the news in recent years: (1) famine; (2) tsunami; (3) earthquake; and, (4) weather. The international community has created humanitarian response mechanisms to respond to natural disaster and mitigate the effects. This book refers to the relief and development sector rather than the development sector, because in large part relief gets more attention than development, to the detriment of sustainable socio-economic progress.

The growth of relief as a component of the relief and development sector is a symptom of failure. In all but the most severe situations, natural events should be capable of being handled by local resources, with modest international intervention, but that is not how things have developed.

### And there are man-made disasters

Man made disasters are also in the news. There are many, many examples with war and violence heading the list. War and violence causes chain reactions that impact people in all sorts of ways. In my own case, I have seen a lot of the results of population displacement both into refugee status and also as internally displaced people (IDPs), and I am disgusted that this can happen to human beings. Why are these horrible results allowed to happen in a world that we like to call civilized. But when we look at the cause of war and violence, it is largely caused by greed, and the rich and powerful exerting their might to have even more and to diminish the possibilities of others to challenge their situation.

It should be noted that violence is very widespread, and facilitated by easy access to weaponry of all sorts and ammunition. Violence is a part of too many political systems, and too much of economic activity as well, especially activities that have been made illegal such as the illegal drug trade, prostitution and human trafficking.

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## Planning for emergency relief

The international relief and development sector probably does better planning in the emergency relief mode that it does for development. In an emergency people are dying and the procedural red tape becomes less of a problem. Much more effort can go into planning physical activities and getting the resources in the right place to do things that are useful.

There are amazing stories of incredible performance by emergency workers. There is a lot to learn from the performance of the organizations engaged in emergency response.

### Identify, Budget, Do, Account

The High Commission for Refugees (UNHCR) is probably my favorite UN agency. They do a lot of good things very quickly and with some outstanding results. They have some excellent staff that know what they are doing, and are able to identify what needs to be done almost instantly, get a basic budget to get going, do critical things to keep people alive, and then account for the way funds were used.

On one assignment, I was asked to critique the UNHCR way of doing things. The expectation was that I would propose that UNHCR used a more effective (cumbersome) planning process more in keeping with the other UN agencies. Rather I suggested that the UNHCR process would be better applied into the other agencies.

Someone pointed out to me that UNHCR had purchased gas at some \$2.00 a gallon, and that UNDP was in the process of procuring gas at \$1.25 a gallon, considerably cheaper. The key fact missing was that UNHCR had arranged to have their gas available 24 hours into the crisis, and UNDP still had not got any gas into the area almost four months later. For fully four months UNDP had been using UNHCR gas because UNHCR gas was the only gas available.

Needless to say, UNHCR is not perfect. They have been challenged by all sorts of pressures from the local and international system, but in spite of everything, I consider them to be an amazing organization.

## Accounting and accountability

The accounting and accountability in the relief arena ranges from pretty good to very bad. When I was working closely with UNHCR, the systems they were using had many of the characteristics that I

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look for in good management information systems, including strong feedback and processes to quickly learn from experience.

But most of the other organizations seem to have weak accounting and almost no meaningful accountability, and little capacity for institutional learning.

Three major natural disasters that have taken place in the past three years: (1) the tsunami in South Asia; (2) the Katrina and Rita hurricanes in the USA; and, (3) the earthquake in Pakistan. In all three cases the global public responded with great generosity, especially in the case of the tsunami. An enormous amount of money flowed into the relief and development sector ... into all sorts of organizations, and in very large amounts.

Nobody knows how much or how little flowed out to do the work needed to provide help to needy beneficiaries.

### Tsunami Accounting and Accountability

People who reported back to me from various places in the tsunami affected area were angry at how so much money could do so little ... they reported on the number of new white Toyota Land Cruisers that quickly arrived on the scene, and relief visitors doing surveys and preparing reports ... but actual fund flows to beneficiaries were not so much to be seen.

Friends told me of how effective the Indian army seems to have been in all sorts of remote areas ... and doing very worthwhile practical work ... army engineers rebuilding bridges and helping to fix fishing boats.

But I was also told of how funds intended for tsunami affected areas in Sri Lanka were allocated to projects in Colombo. Money is fungible ... and without good accounting and a system for accountability, essentially anything goes.

I have not been able to find out much about how several billion dollars that were paid into the relief and development sector organizations in connection with the tsunami were actually used ... nobody is doing the overall accounting. After some very public announcements, I thought that PriceWaterhouseCoopers was going to help with this, but I was wrong about that ... seems it was more PR than serious help.

There does not seem to be a single major organization that has the sort of information that allows for a full accounting for expenditures, the activities funded, and the results achieved.

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## Value destruction in disaster

The socio-economic impact of natural disaster is huge. The value of the relief assistance that comes in after a disaster is substantial, but tiny relative to the terrible value destruction that takes place as a result of major natural disaster. Putting things back together consumes a vast amount of scarce resources, and slows down the progress that otherwise would be made.

I have visited a number of places where natural disasters have struck ... years later the scars are everywhere. Some buildings get rebuilt, but many do not. Each building that is not rebuilt probably has a family financial disaster, or worse, associated with it. Much of this never gets into the record, and is forgotten.

But it does not appear that important lessons are drawn from disaster. We are more and more living in areas prone to disaster ... we live closer to the coast ... we live more and more on flood plains ... we have major cities growing on earthquake fault lines ... and so on.

## And we have man-made disasters

War is a terrible man-made disaster, and associated with tremendous value destruction. Value destruction takes place at all levels, both in the destruction of physical infrastructure and in the killing and maiming of people and families.

When the value analysis is done, man-made disasters like war destroy value for a huge part of society ... but not every part of society. There is enough fortune making in war for the value of war to be propagated and believed ... enough to make rational analysis about war seem wimpy.

There is a need to stop bad things ... but offensive war is rarely the best way to do it. I am reminded of the efforts of Mohatma Ghandi in India that eventually ended the British rule over India, and the impact of Martin Luther King in the USA that helped make progress in US Civil Rights.

And I think that we can do a lot to stop bad things by being active in supporting good things. People do not kill themselves in suicide bombings because they are seeing good things happening all around them ... but because there is a lot of stuff that has made them mad. Sectarian violence does not happen because society is happy ... but for some other reason. Somewhere there is greed ... and somewhere

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somebody, or some group, is going to become rich and powerful because of the mayhem.

But Ghandi and Martin Luther King were bigger than guns and bullets ... and they won.

We have to do the same in the face of war, violence and insecurity, and stop man-made disasters.

### How to do emergency relief better

The first stage of disaster is rescue. In this first stage, it is reasonable to mobilize at the very fastest pace possible, and to do everything that is possible to save life, and minimize human injury and trauma.

But this stage does not last long ... just hours or at most a couple of days. After the immediate rescue phase, the work should be managed so that it is done in the best possible way ... and at least cost. This is possible, up to a point, using the back of an envelope and prior experience, but it is much better done with decent information ... management information.

Some steps have to be taken so that the idea of good accounting in the relief and emergency environment is not outright opposed by experienced staff in the field. They complain noisily, and quite reasonably, when they do not have enough resources to do what needs to be done, but the basics of management information needed so that resources are allocated optimally is not done.

I argue that the failure to have decent accounting and a good understanding of what things cost is a part of the reason that they do not have the resources needed ... there are links between the accounting and the allocation of resources both this time round and the next time round.

### How to mitigate value destruction from disaster

As a society we are building and living more and more in places that are prone to disaster ... on flood plains, along unprotected coastlines, in areas prone to forest fires, and so forth. Doing less of this would be sensible.

Being prepared is also a sensible thing to do ... at the family level, and at the community level, area level and national level. Having quick access to immediately needed resources is a big help.

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## Some disasters should never happen

There are a lot of disasters that should never happen. Most important of these are disasters associated with war and violence, and those associated with famine.

War and violence is a result of societal failure ... local, national and international. War and violence is an unacceptable outcome, a failure of the relief and development sector and leadership at all levels. Much more thought should be given to why war and violence might happen, and steps taken to change the underlying societal situation. This is not “conflict resolution” but conflict avoidance. It is sadly missing in what one can see of present day international geopolitical dialog.

Conflict avoidance is not easy ... but it is important. Conflict can arise very rapidly and it is tough to keep in check. I have seen arising conflict in a number of situations over a long period of time.

### Madagascar

In 1978 around 2,500 immigrants from the Comores working in Madagascar had their throats slit. This all took place in one night, around Majunga.

I was in Madagascar some years later. An Asian trader killed a Malagache child who was getting in the way in the store ... and almost instantly riots broke out all over the country. Asian properties were burned. People feared a repeat of the 1978 massacre. Asian women and children left the country. France coordinated an evacuation of the expatriate community. Police and army deployed and were assisted logistically by the Asian traders ...

And calm eventually returned.

The lesson learned is that terrible outcomes can happen very quickly ... that people need to be paying attention to societies grievances and seeing to it that there is some semblance of fairness.

Crop failures are going to happen, but famine should never happen. The world has food resources that are embarrassingly large, yet global leadership has not been able to figure out how famine can be avoided. Both national and international leadership must take blame ... and the global public should not be tolerant of this abysmal failure of the international system.



### Failed Food Security

I was in Ethiopia and around the Sahel in the famine of the 1980s. It was not pleasant ... it is something one does not easily erase from memory. How to avoid a recurrence of famine was very much on the relief and development agenda, and food security was a priority.

Some progress was made in getting information that would alert the relief and development community to potential famine risks ... the Famine Early Warning System (FEWS) is part of this initiative ... but relatively little was done in a tangible practical way to make it easy to move from knowing about the problem to doing something about it.

“I know I am hungry ... but please, help me to get something to eat”. The relief and development sector, national and international has done a rather poor job of solving the hunger and malnutrition problem. We know there is famine and hunger, but most of the time, practical and timely help is not on the agenda.

The food and agriculture sector in the “north” has been a great success over a very long time, but agricultural progress has not helped everyone everywhere to eat enough. Some places in the “south” have more productive agriculture because of the so-called “green revolution”, but there are still very many millions (perhaps nearly 2 billion people) who are poor and hungry. This is a systemic problem with multiple dimensions, but it should be possible to solve in modern times ... except that powerful interests could well prefer that the present status quo is maintained because, simply, this is a very profitable situation.

It should not be too difficult to get a lot more management information about agricultural performance and food flows ... and to identify what it is that is making it so difficult to get meaningful food security. Without having the hard facts, I would expect the constraints are largely due to the critical failure of community level economics, and an inability of “south” government to be of material assistance, and an unwillingness of the “north” to be engaged in an effective way prior to it being “politically” advantageous ... that is until after there are images of dying people on the TV.

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## Military resources in disaster situations

Military resources are of great value in disaster situation. The military are better equipped than most civilian agencies to do physical work in very difficult circumstances, and they have a command and control structure that enables them to do the work in an organized manner.

### Military in Disaster Situations

In the South Asian tsunami disaster, the performance of the Indian Army in helping coastal communities was very effective, including a lot of temporary bridge building and repairing and moving fishing boats. In the Pakistan earthquake, the Pakistan Army mobilized resources and provide physical help rapidly in remote areas. In refugee camps in Africa, the US Army has been deployed to get water organized.

The military are good at doing physical things ... the army engineers routinely do amazing things in difficult conditions. They are excellent in crisis, and they can mitigate disaster effectively.

But the army is too costly for development building.

## **Chapter 30**

# **Sustainable Development**

### **Sustainable Initiatives**

#### What criteria to use?

It is rare for national level development planning to be done around making the country sustainable. Where it is done, it makes a difference. Sadly not many countries are being facilitated to do planning for sustainable development by the local leadership or the donor community. Rather there are disjointed projects based on thematic ideas that may or may not fit with local national development strategy and plans.

Making a development project sustainable is impossible unless the country has some level of sustainability itself, which is not really true in any of the very poor “south”. For a development project to be sustainable it needs to be value adding, and it needs to be providing benefits that have value that exceeds the cost. Where development projects are funded by loans, a project must be very valuable in order to be able to service the debt.

There has not been enough arguing about how to make projects sustainable and value adding ... and rather too much of facilitating approval of loans for financing by fudging the numbers. Where I have been involved with project supervision it is too much evident that the project planning and appraisal was seriously flawed, and therefore could not be sustainable. This needs to be fixed so that poor countries get valuable projects funded, and not value destroying boondoggles.

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## Multi-sector dynamics

By moving from donor centric development to community centric development, the performance of the relief and development sector can be improved substantially. A community centric development focus is a better way to approach development. It puts community needs as the priority and power into the hands of local people.

In a community there are usually a number of different sectors at various stages of development. Some sectors have potential, others do not. Some sectors are needed to support other sectors ... development of one sector is a prerequisite to success in another sector. It is not rocket science, but simply advanced common sense. Planning should take into consideration the considerable interplay and linkages between the sectors. A key sector that is non-performing can be a severe constraint on the overall success of the community.

There are many sectors involved in a successful community development, these include: (1) Agriculture (2) Manufacturing; (3) Infrastructure; (4) Construction; (5) Education; (6) Health; (7) Water; (8) Sanitation (10) Transport; (11) Wholesale; (12) Retail; (13) Banking (14) Religion (15) Administration; (16) Services.

Infrastructure includes (1) Roads and bridges (2) Electricity (3) Communications (including Internet access) (4) Housing; (5) Public buildings.

The FAO fisheries community development project in Shenge, Sierra Leone is one of my favorite projects ... it is multi-sector and was implemented with continuous performance improvement for the community, and would have created durable value for the community if the country itself had been able to maintain its socio-economic viability. This project worked on the basis of doing what is best for the community ... using scarce resources in the best possible way, and the results were remarkable.

## Linkages

There are more or less important linkages between people, communities, organizations, projects, sectors and functions

It is said that “All politics is local” and I like to say the “All life is local”. Quality of life is something that is determined as much as anything by what goes on in our own community. What goes on at any distance from my community may be interesting, and may have

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an indirect impact, but is nowhere as near as important as what goes on in my community.

And within the community, my family is far and away the most important. To the extent that people are interested in far away places, it is often because a family member is there.

Organizations have a role in society, but it is an artificial role, or a role that is needed for efficiency, rather than being something of inherent importance to society.

Sectors also are a somewhat artificial construct. They serve to help organize thinking and the specialized expertise needed in that area of socio-economic activity.

Within a community, an organization and a sector there are a number of common functions. Functions are the activities that are needed in a community, organization or sector that have common characteristics. Accounting for example is a function that exists in communities, organizations and sectors. Marketing is a function. Transport is a function, as well as being a sector. Thus, an ambulance is part of the transport function in the health sector. The success of relief and development and socio-economic progress depends on how all of this comes together.

Do as much organizing as possible but only do what is essential. Do what is easy, and do not waste time and money trying to do things that cannot be done reasonably easily. Move on to the next stage, and come back later to do more organizing.

The process needs to be iterative. In the organize stage, identify who or what organization is doing things and where the resources are going to come from.

### Planning with a community focus

A community focus results in a very different dynamic for development than what has prevailed in the past. When planning is community centric, the priorities are much more likely to be of socio-economic value to the community. Plans that originate in the community have the possibility of “ownership” by the community, and there is a strong correlation between what is priority and what is done. Plans with community focus can be simple and understandable, and at the same time can be totally suitable for the community. Small is efficient and allows for the optimization of plans within a

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community without the compromise inherent in super-scale projects intended to satisfy everyone, and ending up satisfying no-one.

### The FAO Project in Shenge, Sierra Leone

I had the good fortune to do the evaluation of a wonderful FAO project in Shenge, Sierra Leone some years ago (around 1989 I think). This project used its rather limited resources and created community benefit that was perhaps as much as 100 times more than was anticipated for the project. How was this achieved? Two very competent Chief Technical Officers (CTOs) controlled the money and used it to do what would deliver a lot of value in the community ... and people paid for it. Economics 101 says, if I remember well, that price is determined by supply and demand. If you offer something that has a good value, people will pay for it, if they possibly can. So everything done by the project had a price, and to the extent that it was valuable people paid for it.

The project had a valuable inventory of spare parts for fishing boats and outboard motors, and fishing gear. These were not given away, but sold at the local market prices with the money flowing back into the project. The project bought more inventory, and expanded to have a fuel store with a substantial inventory. The fisherfolk went fishing much more rather than having to spend valuable time hunting for fuel, gear and spare parts. The project trained a mechanic to fix outboard motors, and in turn this mechanic started to train other young men to be mechanics. His salary was paid for by small fees paid by the students, and all of them (teacher and students) made money being paid to service the outboard motors in the community.

The same dynamic took place in the fish smoking area. The project was meant to teach six local women about fish smoking, but an initial six had expanded into a group of 60 who were learning new skills and applying them in the market, and prospering. More fish were being caught. More fish were being processed for the market. The community was on its way.

But the community needed to expand its horizon. The road was impassable in the wet season, and the government was not maintaining the road. The government had a road crew in the area, but not paid all the time and never with any material for repairs. Courtesy of the project resources, some modest amount of gravel and cement was obtained, culverts were installed and the road was made functional. The fisherfolk and traders later paid back the project.

What else could the project do? The IDA school built some years before and idle for years because of government budget constraints had great facilities, but no operating funds. The project started to run evening courses at the school using the facilities including electric generators, carpentry and metal working shops, sewing equipment, etc. with people in the village learning and earning at the same time, and the project being paid so that the project could pay ... and never have to stop.

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Central planning ... Gosplan, as it was known in the Soviet Union ... is a system that makes decisions and allocates resources based on what the government thinks. A community focus puts the community first, and it is the community that drives the allocation of resources and the priorities for socio-economic development. In the past and at the present most relief and development resources are sourced and controlled within governments and public sector institutions including the World Bank and UN and by donors. All the planning is essentially a high level academic or theoretical exercise with little or no contact with the community where people live and activities are going to make a difference.

The component stages of a community planning the same as for an organization or a project and are: (1) Get facts; (2) Plan; (3) Organize; (4) Implement; (5) Measure; (6) Feedback; and, (7) Adjustments.

People in the community may not be academic. Some who know the most may not be literate, but that does not mean they do not know their community. In practical terms, they will know a lot more about the facts of their community than outsiders. They may have plans to make things better but not the resources, and they may have a rather limited appreciation of what is truly possible.

## Sustainable organizations

While development project sustainability is important for relief and development sector success, it is less important in practical terms than the sustainability of the various organizations. Organizational sustainability is what pays salaries and keeps people employed, and though rarely articulated as the top priority of the organization, in fact it is.

Organizations rarely measure their performance in terms of how well they are delivering relief and development value to beneficiaries, but rather how the organization is faring in terms of its size, its income and the number of its staff. If these metrics are getting bigger, the organization considers itself to be doing well. This is organizational sustainability and has little to do with relief and development sector performance.



### Removing critical constraints

Financial resources are usually a dominant constraint. Lack of cash money is aggravated by the lack of banking and financial services that can be of help in the community situation. Local self help groups can help a bit, but their resources are limited. Helping to access financial resources, even in quite modest amounts, can be a great help in catalyzing progress.

Infrastructure is another likely area of constraint. How does the village get its produce to market when the roads are absolutely impassable in the rain? Where does the village get water? What about shelter, and schools and clinics? What about electricity, and telephone and Internet? Most poor communities in the “south” are constrained by deficits in most of these things.

People are a resource and a constraint. How can they be mobilized in a way that enables them to be of maximum value to themselves and to the community? When a family can feed itself it is not a burden on the community, but when it cannot, then there is a problem. People within the community can help each other up to a point and share, but can never share when there is nothing to share. A family should normally be able to earn a surplus over its consumption, but this does not happen when there is drought and famine, nor does it happen when there are epidemics of sickness. When there are both, the community has a problem, and a lot of assistance becomes necessary. If there is no assistance, which is the normal situation, then there is premature death ... first the vulnerable children and old people, then the others. When the situation is dire, the people in a community will try to migrate to more favorable conditions, but it is often too little and too late.

AIDS and malnutrition are making people more and more a burden on the community and are stretching communities beyond the breaking point. This is humanitarian emergency and crisis, and needs to be addressed as such.

## **Chapter 31**

### **Money**

#### **Importance of Money**

##### **A critical resource**

Performance in the relief and development sector and progress in socio-economic development is not going to be solved by money alone. But without money, the potential for progress is whole lot smaller.

Money may be identified as the root of all evil, but money can also be the catalyst for all sorts of good things to be accomplished. I see this as one of the roles of accounting and accountancy, though not very much in evidence in the today's relief and development sector.

##### **Keeping control of the money**

Accounting is the best tool for keeping control of the money, and making sure that the money does not get misappropriated and misapplied. Techniques for keeping control of the money are many, but hardly ever applied in the relief and development sector ... and not surprisingly money seems to go missing all the time.

The first line of defense is decent accounting, and basic timely reports. A second line of defense is performance accounting which gets answers to the basic question about performance ... this amount of money was spent ... this amount of activity was done ... and this amount of value was derived from these activities.

Of course, when money goes missing, there is little or no activity and little or no value derived. It really is quite simple, but it is very powerful.

This contrasts to the World Bank's preferred strategy which is to focus on more and more procedural control of contracts ... in my view almost irrelevant in the control of money going missing ... instead of always asking to know the relationship between money paid out and value realized.

### Knowing what is done with the money

The accounting role of making sure that money is not misappropriated is only part of the job. In addition there needs to be a good understanding and accounting for what is done with the money, and what is accomplished.

There needs to be an end to the waste of money in the relief and development sector because what is proposed as a great solution just does not work. Good accounting and an effective management information environment can stop poor performance very quickly ... and it will go on for ever if the accounting and management information is missing.

### Mobilizing money

The business of mobilizing money has become very specialized, and many not for profit organizations that depend on grants and philanthropic donations have recruited fund raising experts into very high profile positions. The results have been impressive ... but of course, only possible because there is a huge pool of discretionary wealth available in the "north" available to be mobilized for worthwhile organizations and causes.

### Raising money from official sources

Funding raising is a critical component of the modern relief and development sector, but it really needs reform. Developing countries have a huge need for capital investment for development, but they have no access to capital markets, other than through the ineffective official sources such as the World Bank, IDA and regional development banks. Increasingly the European Union is also a source of funding.

## Revolutionary Change

Bilateral funding (from USAID, DFID, CIDA, SIDA etc.) is mainly grant form which is good, but in only rather modest amounts totally insufficient for what needs to be done.

All the official sources fund the “south” according to their respective priorities and almost totally without regard to local needs and priorities.

### Capital markets

The relief and development sector has not been able to access the capital markets in ways that have been universally beneficial. The capital markets have an ability to fund anything, but they limit their funding to activities that give a large return to the investors. This is a good way to optimize performance for investors, but not a good way to achieve the best possible global result for socio-economic progress.

Better accounting and value chain analysis of how profits are generated for investors and a routine public accounting of the socio-economic impact of investment will make some difference ... but probably not very much in the short term.

Europe and North America have a global advantage in the strength and versatility of their capital markets, but it is being eroded by the wealth creation and financial reserves now held in the big emerging markets ... Russia, China, Japan and India as well as South Korea, Taiwan and Singapore in East Asia / Pacific and oil exporting countries around the world. The agenda of the relief and development sector for the “south” at some point is not going to be controlled any more by Europe and North America but by others.

### Philanthropic sources of money

There is more philanthropic funding available than at any time in the past, and a great potential for it to be used very effectively. But it will only be used well if there are management information available that shows costs and results. While every philanthropic organization will talk the talk about performance and accountability, it is less likely that there will be really effective management information along the whole of the fund flow from the original disbursement to the eventual use of funds for benefit to beneficiaries.

### Monetizing assistance in kind

There are circumstances where assistance in kind can be available, but not money. In many cases money can be many times more useful than the “in kind” resource. The legal constraints on using donations of, for example, food products in the best possible way in the beneficiary country are sad, and difficult to address. The US PL480 program is large, but its impact diminished because of the way in which the resources must be used. The World Food Program (WFP) also uses its food resources in ways that are often a lot less effective than they could be and should be.

Efforts to help relief and development using various forms of “used” goods from the “north” have delivered mixed results. While used clothing may have helped some, the competition has also put some local tailors out of business. Used computers shipped to the “south” may have benefited repair shops more than computer users ... though some users may well have benefited a lot. There are many stories, but effectively no accounting.

### Remittances

Remittances from the “north” to the “south” have taken on a great importance over the past 20 years. While many local poor “south” economies have deteriorated, remittances have increased and helped enormously. The funds have gone directly from senders to the recipients with a minimum of intermediary leakage ... except for the scandalously high fees of the dominant remittance agency Western Union.

Various initiatives are in play for these remittances to be controlled ... and likely taxed by the authorities in the “south”. While this is attractive for the authorities is is not good news for the current participants in the remittance arena either as senders or receivers. It essentially would serve to move fund flows from poor families and communities into the central urban system and its powerful elite.

Rather than taxing remittance, a better initiative would be to arrange to leverage the remittances so that a modest flow of remittances each month could be used to support bigger investments needed by families and communities in the “south”. The legal constructs for this would not be too difficult to create, if good professional experience was brought to bear on the challenge.

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## Using the Internet

A growing number of initiatives to use the Internet to raise funds are emerging. They have a lot of potential, but they have not yet “taken off” to anything like their full potential in support of the relief and development sector. While the technology to have success in web based fund raising exists, the information to support such an initiative does not and there is very low “trust” that relief and development sector fund flows will be used correctly. People, quite reasonably have considerable concerns that funds donated using the Internet are going to be used for little results ... so why bother.

Clearly this book suggests that management information covering the relief and development sector can be instrumental in changing this particular concern ... and provide the accountability that any contributor deserves.

## Investment clubs

Investment clubs were the origin of the investment movement that eventually expanded and morphed into the Unit Trust and Mutual Fund industry. Now is probably the time for a new era of investment clubs that this time focus on global social value investing and socio-economic performance rather than only corporate stock prices and profits.

### Investment Clubs

I was introduced to investment clubs in the early 1960s in the UK. They were an interesting idea imported from the USA and a way for ordinary people to learn about the stock market. I ran a small investment club, and also did the accounting for one of the largest investment clubs in the country. This subsequently became one of the first Unit Trusts in the UK, a financial vehicle somewhat similar to a Mutual Fund in the USA.

The Unit Trust and the Mutual Fund industry has had its fair share of scandals and inappropriate behavior over the years and has become quite highly regulated. But the underlying idea of the institutional structure is interesting and valuable.

The same sort of idea is emerging around the USA today, where people are having small group meetings to choose ways to do “philanthropy” and to make a real difference.

### New mechanisms to access capital markets

The financing of socio-economic progress in the “south” should be as broad and diverse as the capital markets and the securities industry. When this is accomplished the money constraint on relief and development performance will be largely solved.

The availability of capital in the world's capital markets, and in various philanthropic funds is at record levels. But these funds are not yet accessible for relief and development investment where it is most needed.

New classes of intermediary organizations are needed that will make it possible for low cost funds to be mobilized at low risk for the lending institution and be available for investment in community projects at a higher risk and at a higher price.

The intellect of the banking and financial securities industry can easily do this ... if they want to. The selection of community projects should be done not using “north” type MBA analysis based on number crunching spreadsheets, but using analysis that links the investment to community needs and the value to the community of making the investment. This is the same value logic to be found in an MBA type spreadsheet except that the entity is the community and its people, rather than a simple legally constituted corporate organization.

### Private sector fundable programs

There are a lot of things that need to be done in the “social” sectors of the “south”. Most social sector funding should come from the local economy, but this is not practical at the present time. Accordingly there needs to be programs to address social needs that can access available funds.

One such program is being developed to address the malaria crisis in the “south”, mainly in Africa. This program will make it possible to provide all the support needed to implement an integrated mosquito and malaria control (IMMC) program in Africa. The program is being organized by The IMMC Consortium which brings together world class experienced malariologists. The program can be paid for either by local communities, the local government, funding organizations like the Global Fund for AIDS, Malaria and Tuberculosis (GFATM) or philanthropic foundations, or by corporate investors. The IMMC

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program has two main dimensions: (1) information and analysis; and (2) multiple area programs.



## Chapter 32

# Technology, Information and Networks

### Technology ... the Enabler

#### Enabled by new technology

The development and deployment of social network software has changed a lot about what is possible in developing networks, and what might be possible as they morph into other uses.

The very rapid growth in the community engaged in these social networks is quite amazing ... and a challenge to society that understands how things used to be done.

There are some parallels with the 1960s. I consider the 1960s to be unique in part because it was the time when more student age people were educated than the parent group. The balance of power ... in knowledge ... shifted from the 40 plus group to the 20 something group, and society, in the “north” has never been the same. Now, 40 years later, there is an energetic population of young people who are very technically savvy and comfortable with electronic social interaction that the older population has difficulty relating to. The social networking community is a young community ... and older people have not yet grasped what it is all about. Maybe they will ... maybe not.

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## What an opportunity

I am not sure how big the opportunity ... it depends an awful lot on the way older people and younger people figure out how to cooperate. Maybe it will be a very positive collaboration, and create something remarkable ... or perhaps it will turn into nothing much of substance.

At the moment social networking is mostly social. It is not much more than an easy way to connect with people, and call them friends. Looked at from the perspective of a young person, this is great ... from my older perspective it is not that big a deal.

But the idea that this level of connection can be built in a matter of months, and some might argue days is absolutely phenomenal. This sort of network building used to take years, and now it can be done at the speed of light. The challenge is not the connection any more, it is now a question of what to do with the connection.

For this writer the answer is simple. We should use this ability to connect to empower the management information dimension of the relief and development sector.

MySpace and FaceBook have information about many millions of individual people ... similar software would facilitate information about millions of places, about little communities where social progress ought to be happening and is not.

The technology lets us do something like this ... except that the underlying Internet infrastructure does not reach half the world, and that world is therefore not going to get included ... unless something is done about it.

## Moore's Law and missing productivity

The idea that the power of technology would double and the cost would halve every 18 months ought to be an amazing driver of productivity ... especially the sort of productivity that appeals to an accountant.

While the productivity of technology itself has improved in a very impressive way, its application within the totality of the economy has been slow, and not very impressive. My impression is that the improvement in economic productivity is tiny relative to the improvement in the underlying science and technology. This is

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explained to a large extent by the lack of productivity in the financial sector and in “markets”.

Markets can be run very efficiently using computer technology, but this is not passed on to users of the markets when the markets are controlled by brokers who charge commission fees that are the same percent today as they were when steam trains were invented. The financial community of Wall Street and the other financial and commodity markets earn enormous salaries and bonuses ... a huge cost to the global economy, though profit to the financial services sector. It is conceivable that in due time the technology that has increased profits for the financial services industry may eventually serve to enable many valuable services to be delivered without the intermediation of the financial service companies ... making them more or less redundant.

In the manufacturing sector, digital control of manufacturing processes in a fully integrated manner has produced major cost reductions and improved quality and performance ... the potential for this is only just started.

In the health sector ... the science is amazing ... but the administration and the application of science is a dismal mess. It is a mess in the United States where some of the best medical science is available and where some of most obscene cost:price relationships exist. It is a mess in the “south” where the science to solve problems of disease exist, but financial resources are missing.

### Infrastructure

Infrastructure is a constraint on the performance of technology. In parts of the “north” the infrastructure is old, deteriorated and obsolete ... which serves to constrain innovation and rapid progress. In the “south” essential infrastructure has never been deployed, with a huge constraining effect on the use of technology in society.

The science and technology has been successfully developed so that amazing things can be done ... but the infrastructure needs to be deployed. This has to be done in a way that does not favor only the investors, but leaves a share of value for the service providers and the users. A policy framework that is dominated by a political model suited to the old fixed wire technology is not going to be the best way forward.

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Distributed technology that works at the community level, and links seamlessly to an international network seems to have a lot of potential.

### **Information ... the Value**

#### The nature of information

There are many stages related to information: (1) data; (2) information; (3) “intel”; (4) knowledge; and (5) wisdom.

I think of data as being the raw material.

I think of information as being the result of doing analysis of data. Information is a component of the “management information” referred to throughout this book.

I think of “intel” as being something military people talk about ... and now, increasingly, also those connected with the international war on terror. I think of it as the act of trying to connect the dots, a process that puts a modest amount of information into a much bigger framework.

I think of knowledge as being the integration of information into what someone knows.

I think of wisdom as the distillation of knowledge so that there is a good interpretation of information and knowledge.

One of the key characteristics of information is that when it is shared, rather than being diminished, it is increased ... that is, it is replicated. When two sets of information are combined, there can be an increase in value either because the information becomes more reliable, or because the information becomes more extensive. These behaviors of information are important, because an efficient information system need not have the structure of, for example, a farm or a manufacturing facility, but can be designed simply to organize information and make useful, reliable, and therefore, valuable.

#### Information media

At this time in history a large part of thinking about information is related to digital information and electronic data processing. But there are still valuable roles for paper, and personal communication. Visual aids have their place, and this may well be puppet shows as well as Power-Point slide presentations. Maps printed on paper may well be more efficient than maps stored in some electronic archive and not at all easy to access, view or print.

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## Information flows

The conventional wisdom is that information should be flowing from the “north” to the “south”. After all, the “north” is more advanced in its knowledge of science and in the wealth of the society.

But the big need is for information to be flowing much more efficiently from the “south” to the “north”, and for this information to be efficient and structured so that it can be used in the management of relief and development resources.

Bottom line ... the relief and development sector knows very little about the impact of any of its efforts on the communities where people live. This information is critical, and without it, relief and development will never succeed.

## The value of information

The value of information that is never used approximates to zero. The vast bulk of the information compiled by the organizations in the relief and development sector falls into the “never used” category, even though the costs associated with getting the information has been quite substantial.

Information that makes good decision making possible is very valuable. How valuable, is difficult to quantify, but in my own experience using information to make decisions has helped to create opportunities for enormous business profits to be made, and in the relief and development sector, costs to be saved, and lives to be saved.

The key is not to have a lot of information, but to have all the reliable and accurate information that is needed so that good decisions can be made.

## **Networks ... the Connections**

### The network effect

Information that is good, being used by one person is a lot better than by nobody. Good information being used by 2 people is better, and again better when it is being used by 4 people, 8 people, or 16 people. When good information is being used by 256 people or 512 people ... it is even more efficient.

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Networks all this to happen.

### But it is better!

Technology is increasingly allowing people to interact and to have an ability to have feedback, and to share experience.

When good information is shared and used in a distributed network manner, there is one level of value. But when the users of information are able to update and improve the information, and push into back into the network as feedback, the information gains a whole new dynamic.

If information shows something works well ... there is a case for doing more of it. Where information shows that something does not work very well, then there is a case for doing something else.

A modern technology based network, can put this sort of information into play.

And combining modern technology with some of the basics of organizing data enables the performance measurement for the relief and development sector to be dragged into the 21<sup>st</sup> century ... hopefully with favorable results.

## Chapter 33

### People

#### People ... Human Resource

##### Make people an asset

The best way to make a person valuable is to organize so that they have something valuable to do, and they can do it efficiently. People who are educated and healthy and unemployed doing nothing are of little socio-economic value ... but give people like these an opportunity to work in a good organization and get paid for it, then there is a value.

#### Rebuilding Europe after World War II

The success of the Marshal Plan in helping to rebuild Europe after World War II is explained in large part by the ability of the people to do a lot of the work. Provided there was some money, some food and some materials, people could put the society back together.

There was a lot of red tape, but it was not doing planning as much as it was trying to be reasonable about the allocation of scarce resources. The speed of Europe's recovery, and especially Germany, was frequently referred to as a miracle.



### The world is full of good people

Most of the people I know seem to be “good” people. Wherever I have worked (something like 60 countries) I have found people are good.

But global society as a whole and the socio-economic situation is a disaster. There has to be a reason why good people do not have a more livable global society. Good people need income to pay their bills. To support their family, good people have to work and are constrained by the opportunities available. People often need to work in economic organizations where people have to do not so good things.

Ethics and social responsibility are not the priority of most corporate enterprises. Their dominant stakeholders are the stockholders and a management elite that has much more interest in profit performance than anything else.

In the relief and development sector, there are a lot of good, ordinary people who work hard and would willingly put themselves on the line to get good outcomes in an emergency. These people do get into the news from time to time as they work against all odds to mitigate the impact of disaster.

I have become convinced that most people are good people at heart, in spite of outward appearances to the contrary, and some aberrant behavior from time to time. If people can be as successful being good as being obnoxious then there would be more people looking good, but sadly, being obnoxious is often the best way to get ahead.

The challenge, then, is to give good people more of a shot at doing well.

The possibilities for a person developing their full potential are severely constrained by a global system that puts little value on activities at the bottom of the pyramid that do not directly generate wealth for corporate stockholders.

### When good people meet bad systems

Most of the people I know seem to be “good” people. Wherever I have worked (something like 60 countries) I have found people are good.

## Revolutionary Change

But these good people are also stuck with systems and organizational cultures that they can do little to change. Good people get beaten by bad systems, bad processes, and ineffective organizations. They work in institutions that make it very difficult for them to perform well and get the best possible results. When it comes to day to day work these institutions are huge bureaucracies with all the problems associated with a big and clumsy bureaucracy.

At the end of the day, people have to follow the organization's rules or lose their jobs.

### Developing opportunity

People need opportunity, and not to be constrained by everything around them. The “south” needs to think through what its people are doing, can be doing and should be doing.

Opportunity development is multi-faceted, and includes health, education and work opportunities. More resources need to reach people so that there is better health, better education and better jobs.

There has been a lot of talk about empowerment, but it is not much about productive work that generates income and tangible socio-economic progress in the local community. Rather it is to do with political and organizational leadership which does not quickly or easily translate into food for the family.

It is difficult to have constructive connections with people unless there is some organization, network or community to serve as a focus. The idea of “people to people” contact is good, but difficult to organize and manage. But it becomes more practical when there is community, network or organization also involved. There is considerable experience with networks and organizations, but rather less with communities, yet it is communities that are likely to be the most effective.

### Jobs ... gainful employment

People need places to work where they get paid and do something of value. They need jobs. They need profitable ways of using their time.

People have all sorts of skills ... there needs to be some sensible matching of skills with needs. Education can help, but it is the vocational rather than the academic that is probably the most use ... the practical rather than the theoretical.

Though one of the biggest successes in relief and development over the past 40 years has been the increase in the number of the “educated” in the “south”, this has not been matched by an increase in the number of jobs.

Because of better education, things are possible today in the “south” that could not have been reasonably contemplated a generation ago. But the number of people who are gainfully and productively employed is not enough. There are very large numbers of people who are either unemployed or underemployed ... and there are also people who are employed but unpaid.

Making better use of people is a huge opportunity. Local people need opportunities to go to work and do something useful. Getting people in the “south” to do things that are needed by the “south” and valuable is, almost certainly, the biggest opportunity for the future.

What someone does is not important, merely that what someone is doing should be of value to the family and the community.

### Workplace ethics

There are ethical standards that needed to be remembered. Some trade-offs are appropriate, but some are not. For example: low wages can be a good thing, in so far as international investment might be attracted to areas where low wage rates apply, and therefore there are new jobs and a step further towards economic progress. High wages are better than low wages as long as the jobs are created. High wages and no jobs is not a better alternative.

Bad and abusive working conditions ... especially unsafe working conditions are universally wrong. Jobs where employees are being injured, or are getting killed are worse than no jobs, and should be condemned.

# Revolutionary Change

## Workplace Safety

Early in my career I saw the problem of workplace safety. I was working in heavy engineering and the iron and steel industry and when things went wrong, somebody was frequently killed. It was a very unpleasant reality. Some years later I was working in large scale pulp and paper mill construction, and again, the unpleasant reality that accidents do happen and people do get killed.

A constant effort to improve workplace safety has been very successful, and today safety is many times better than it was 30 or 40 years ago ... but accidents still do happen, and without constant vigilance the workplace could easily become much more dangerous again.

In the “south” workplace safety is an issue. Improvement is needed, and there should be pressure for improvement, but pressure that reflects not only universal standards but also local community priorities and preferences.

## People organizations

People organizations like trade unions have had a very important role in getting some balance between the greed of capital in the 19<sup>th</sup> century and the dignity and value of the worker. Eventually a strong middle class emerged in the “north” and the role of collective bargaining and the union diminished.

There is still a huge role for organizations to advocate for better conditions for workers around the world.

## Respect for different skills

One of the things I learned early in my working life was that it pays to have some respect for different skills and knowledge. People who do manual work deserve respect just as people who work in the executive suite. Anyone doing honest work deserves respect ... and deserves decent pay for the work.

### When I Worked in an Open Hearth Steel Shop

Some things never change. When I was young and knew it all, I was treated to a dose of reality that I still remember well.

I had recently graduated with an engineering degree and was going through one of those management training programs that exposed you to all the activities of the company and the industry. I was working on the shop floor of an open hearth steel shop. I was given a shovel, and the simple task of shoveling a pile of manganese and a pile of chromium into the furnace. No big deal. The piles weren't very big. I soon finished the task. The old timers were clearly amused ... and in due course it was the end of the shift and everyone left for the day.

That evening my left hand blew up like a balloon. It had been nicely roasted in the furnace cooking a little bit every time I threw the shovel at the furnace. The old timers knew to keep their left hand (I am right handed) away from the furnace, but I had no idea about this. My degree had its value, but it had not been enough to keep me out of trouble in the real world of making steel.

The little experience taught me to look hard at what people are doing, and to respect other people's work and experience. I never take manual labor for granted. I learned that arrogance is not a valuable attribute, and can get you in a lot of trouble. This has a lot of relevance when one is trying to work in a foreign society with a different culture and way of doing things.

### Getting people organized - teamwork.

People can do a lot when they are organized, and all pulling in the same direction. There is a lot of people energy wasted on disagreement and conflict. People will not put a lot of energy into doing something that they oppose ... but will put a huge amount of effort and energy into doing things that they want to be done.

This is not a complex idea ... we see it everywhere.

# Revolutionary Change

## Rebuilding a Refugee Camp in Malawi

A refugee camp with a population of around 50,000 people was destroyed by an accidental fire. UNHCR, an organization I admire a lot, was faced with a challenge to get this population once again under shelter.

The camp was already somewhat organized with section heads, and so forth. They immediately set about planning what to do about the crisis. Within 24 hours everyone was at work doing what they could towards a common effort. There was clean up after the fire. Collecting materials for the new houses (local wood, leaves for thatch, etc) and putting it all together.

UNHCR was asked to provide a few things they could not provide for themselves ... mainly things like nails.

In three weeks the camp was back to normal. Tiny cost to the external agency (UNHCR), a lot of local input and a huge value at the end of the effort.

If this can happen in a refugee situation, I argue it can happen in any functioning community.

When people have opportunity, they usually make good use of their abilities. But the most value usually comes when people are part of a team and the team acts together to do something of value. This leads to the question of how teams can be established and how people can organize to get things bigger done.

How do you build teams?

The better question is how do teams get built ... because a team that works is going to be one that has a natural birth. They can be encouraged, but they cannot be created from the exterior.

## People are the key engine for development

People need ways to do what is essential for themselves and their family in an efficient way. If they have to, they will walk miles to get water, but why should they if, for example, the community can get itself organized with a well in the middle of the community.

People will work long and hard to make just one dollar ... they would prefer to work long and hard for five dollars. This is a function of the efficiency of the work and the buying power of the community.

People will walk long distances to get health care. They would prefer to walk a short distance, and not lose so much working time.

People will have their children walk long distances to go to school, but would prefer it if the children could go to a school that is close by.

People are often constrained by a lack of education and experience. Don't try to get people to do what they cannot reasonably be expected to do, but figure out what it is that they can do that is valuable, needs to be done and is worth paying for.

### Look for capability

There are many competent people around the world who are not able to do very much of value because present organizational structures do not embrace merit very much. Competent people are doing good work, but at nothing like their full potential.

#### People and Opportunity - Benin

I did a UN project evaluation in Benin, West Africa, in the late 1980s. I was assisted by a local consultant, and we were assigned a secretary. My French is solid working French, not very elegant, especially in a written form. My local colleague was helpful, but, frankly, not very strong. The secretary took our draft work in a mixture of English and French and turned it into a very professional piece of work. This lady was absolutely first class. She even made sense of a lot of numerical data and tables. She had a high school education, and had learned a lot by being interested in what was going on around her, but her “opportunities” were limited by the lack of “certificates” and, bluntly, her gender.

If she had been in the United States she would have been at the top of a prestigious MBA class, and not doing a rather mundane secretarial job.

In the Benin context she was doing well. She had a job and was being paid a reasonable wage in the international relief and development arena, but it was a fragile situation, with rather little security or mobility.

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People are a powerful latent force, but there has to be a framework for them to utilize their potential. Up to now there has not been much effort to think of people as the most valuable resources.

## Functional expertise

Some of the many functions in an organization are: (1) management; (2) marketing; (3) accounting; (4) oversight; (5) internal audit; (6) audit; (7) risk management; (8) research; (9) human resources; (10) training; (11) fund raising; and, (12) program management.

The departments of an organization are usually broken down along functional lines. There is a need for functional expertise in all areas so that organizations can operate well. In the “south” there is an increased amount of general education than in earlier times, but there is a lack of functional expertise and experience.

In some cases, expertise may be of a technical nature and be applicable in only one sector, but in other cases expertise can be used in many sectors. Accounting ought to be present in every organization, no matter what type of organization or which sector. Many organizations in different sectors need people to drive trucks ... the trucking function is also part of the transport sector in its own right. An ambulance ... which is a functional operation in the health sector is also part of the transport sector.



### About Functions ... Professions

I started to think in terms of functions when I was preparing data for a relational database that could be used for national planning and aid coordination in Namibia. I had already done a substantial amount of work on government accounting, data for national statistic and the like, as well as a considerable amount of project planning and project evaluation.

In the corporate world, an organization's costs are usually broken down by department, and a department usually handles one of the functions of the organization ... manufacturing, sales and marketing, distribution, human relations, accounting, etc. I expected that doing the same in the relief and development sector, and in organization and projects working in the sector would be very interesting.

There is very little material that has an explicitly functional focus ... it is subsumed into sectors, which works for engineering, and to some extent health, but does not work for professional activities like accounting and law. Few accountants consider themselves accountants to just one sector ... the professional of accounting applies with almost equal weight in every sector.

### How everyone can help ... a little bit

There is a need for everyone to help. A small amount of help many times over works very well. Everybody should be doing something to help.

Everyone can be a part of this. Planning becomes local and is not dominated simply by Soviet style Gosplan or the World Bank style equivalents. Planning is done in a “distributed mode” where people close to the problems identify priorities and how progress can be made. And people who are remote from the problems and can help have opportunities to build linkages that can assist in a practical manner.

It is understandable that there are busy people who are fully committed to their work, their families and their social activities ... and already do more than their fair share in their own communities ... so cannot reasonably become engaged in helping the “south”. But they can help by ensuring in their day to day activities that they are not supportive of anything that is fundamentally wrong and doing socio-economic damage in the “south”.

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## Unwillingness to Stand Up and Be Counted

I was a member of the Africa Action Study Group (AASG) at St. James' Episcopal Church in New York for some few years. The church has been involved from time to time in substantial support to the church around the world, and especially in Africa, but compared to the wealth of New York, the help is still rather modest.

At one point "action" was going to be writing to an oil company about its role in exploiting oil in Sudan, and its cooperation with the authorities in Khartoum who were also involved with a developing disaster in Darfur. Getting the letter drafted was relatively easy, but then getting someone to sign it was another matter ... there was the possibility that it might have repercussions on "business".

Professionals and business leaders, it seems to me, have to be willing to stand up so that what is wrong on Sunday at church, mosque, temple or synagogue stays wrong on the executive floors of business on Monday.

People do everything, and the management information framework enables good value adding programs to flourish and those that destroy value to be identified and the responsible parties held accountable.

Ordinary people can have an important impact wherever they are. When everyone is intolerant of global bad behavior, and is prepared to make just some modest action to make things right, there can be a sea change in relief and development performance.

And the best brains of society and the business and financial community can also help. If the economic and financial crisis of the poor "south" was close to New York, or London or Paris, there would be a huge effort by the best and the brightest to solve the problem. These brains need to help figure out how latent opportunities in "south" communities can be exploited so that there are large sustainable socio-economic benefits.

## How does this get coordinated?

Broadly speaking ... the less coordination the better. Sustainable development will perpetuate itself as soon as there are incentives that pull development, and decisions are made automatically ... organically, if you will ... by community groups. It is a distributed decision model.

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Data about performance should show progress, and alert the interested public about success and failure. To the extent that there are possibilities to improve outcomes, an oversight capability helps to get things back on course, or keep things on course.

The data are made coherent by having a focus on people and community, and how all the other interactions result in making progress for people and for community. When there is good information about a community, it becomes reasonably clear what mix of activities are likely to be priority, and it is then possible to help a community based on priorities that are meaningful for the community, and then other communities and then more and more communities.

## Chapter 34

# Community

### **Community is the Center of Everything**

Where do people live?

It is said that “All politics is local”, and I would extend that to say that “All life is local”.

People live in communities. If the community is working, being successful and progressing, then people are going to be progressing as well. The community appears to be the best place to put the main focus for development.

The idea of community being the center of anything has all but disappeared in the analysis of the modern economy. Everything but community seems to be of importance ... national politics ... national economics ... national security ... the global organization ... all sorts of macro-information ... but nothing much about the community.

Community is for ever

People live somewhere. That somewhere is the community. The place where one lives, where one has been born, where the ancestors are buried has a unique character in human history. While it is not anymore in the forefront of thinking in the “north” it is still very important in the “south”.

One of the questions asked in accounting exams is to identify the reasons for adopting the corporate form of organization. One of the

reasons is that the corporation has perpetual existence. But it is not as permanent as a geographic community.

Maps that are hundreds of years old, in fact thousands of years old make reference to the same communities that exist today. And historians ask what it is that has changed over the years. My home town in the UK is a good example.

### Okehampton, My Home Town

Okehampton is a small town in Devon, England. My family moved to Okehampton when I was five, at the end of the Second World War. At that time it had a population of about 4,000 people, slightly up from a pre-war AA book listing that reported around (as I recall) 3,800 people.

It was a small farming town. Nothing really special. In fact it was rather less important in 1945 than it has been almost 900 years before. William the Conqueror came to England in the UK, and almost immediately documented what was in England in the Domesday Book. Information about Okehampton is in the Domesday Book, and to consolidate the western frontier a Norman castle was built to fortify the village.

I learn from this that a geographic community has a near perpetual existence that is very valuable when developing management information. People, organizations, projects, and governments come and go, but the place is for ever.

### Do powerful people want community focus?

Though local people might be delighted to be part of a world that embraces community knowledge ... there are elements of leadership that do not want information to be a freely accessible good but something that is tightly controlled.

Many powerful people in the “south” and the “north” do not want community focus ... or at any rate universal application of community focus. Political people the world over favor their own communities rather than ALL communities, and I am not sure that there is an easy solution to this problem. Community focus is a big shift in the balance of power in society, good for a majority of the people, but probably not appreciated as being good for the incumbent elites.

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## Development Strategy

### Community centric programming

Community should be made the focal point of development. Most organizations in the community can benefit from assistance but it should be in a form that translates into tangible help for people and value adding for the community.

### Community focus is practical.

Community focused development is probably the best modality to facilitate development. It is more practical than a single person. A community has a scale that is perhaps optimum for progress. Resources that are available can be used in the best possible way. Local people often know what they need, but don't have all the resources to do what needs to be done. It is up to the community to lead development and use outside support to facilitate its priority works.

But it should be for all communities and not just for a select few. The idea of outsiders selecting communities to support seems to me to be totally inappropriate.

### Focal Point for Development – A Wrong Idea

I am reminded of a discussion in Ethiopia some years ago with (I think) the UNDP Deputy Resident Representative who was explaining that because of a shortage of development resources that the UNDP was recommending that there be focal points of development, that is the scarce development resources would be concentrated in just a few locations in the country, leaving the rest of the country unserved by the international relief and development community. I was horrified by the idea ... the development experts essentially choosing to play God in terms of who deserved assistance.

In a place of chronic resource scarcity, this was a potential death sentence for people in the unserved areas ... but a convenient rationalization.

### Getting to know about a community

It is vital to get to know a lot more about communities. There is nothing particularly difficult about getting to know about a community. Basic information about any community in the world should be reasonably easy to find. But the fact that information about

communities is very difficult to find suggests that there are some important constraints.

There are several levels of information: (1) data; (2) information; (3) Intel.; (4) knowledge; (5) wisdom. They are all part of a family, and the best results are achieved when all are in play together.

### Village People Know About Their Communities

I learned a long time ago that village people, and especially some of the old people in the village had amazing knowledge about the community, its history, its people, its problems and its opportunities.

I made visits to villages over several years and in many countries, and often with a female colleague from Ethiopia. Together, we learned a lot more than I would have on my own, especially about women and the community from their perspective. One thing that became clear was the need to design development initiatives so that they were what the village needed, and not merely to do things that would satisfy our own, the donors', prejudices. Almost everywhere we went there were some modest and very tangible things identified that would have improved the village situation significantly

After one visit to a village ... it was in Mali in the late 1980s ... I was able to learn an enormous amount about the history of rainfall in the area, going back to the 1930s. I started saying to myself after this experience that "the fact that I do not know something does not mean that it is not known".

I learned from this that one of the big opportunities to improve the process of relief and development is to incorporate community information into the planning process, and use community priorities to drive the decisions.

## Information

In order to be supportive of community activities, information about local community and country organizations needs to be very good.

But information not only needs to be good, it also needs to be accessible, and it needs to be current and reliable.

Modern technology would allow community information to be updated in real time. What is happening today in the community, and how can the community do better? When we go about asking this question and insisting on answers that make sense, we will start to see some sustainable progress. Up to now remote rural communities that are also poor do not have access to much information, and it is a big

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challenge to bring them into a process that delivers desirable socio-economic development.

Much is possible, but it requires a new framework for the management of management. Such a framework is technically feasible, and some organization should commit to making this possible, sooner rather than later. But such a framework also needs people who understand the potential and are also committed to the concept.

### Good place for performance metrics

The community is a good place to see socio-economic progress ... or regression. It is very obvious what is happening, and how it is happening. Sometimes it is less obvious why it is happening. The community is where the measurement of relief and development progress should be taking place, and where incremental resources should be used.

I have always enjoyed visiting new places. Within a very short time it is possible to get an impression of what sort of a place it is. This is a function of geography, of people, of history, of culture ... it is a big mix, and almost every place has a different feel to it. This seems to suggest that “progress” is going to be optimized by different approaches and priorities in different places. It suggests that a universal standard “silver bullet” approach is never going to work, and it also suggests that this is a good place to do performance and progress measurements.

We also know that the infrastructure to facilitate the free and easy flow of information is a problem in many poor parts of the world, and especially in the global “south”.

And we also know that there is some corporate operating information in remote communities in the “south” that is better not easily accessible to the general public and those who want to monitor and assist in community progress.

So while community information should be easy ... it is not as easy as all that.

The relief and development sector data collectors have done a lot of data collection, but almost none of it is about community nor organized in a useful way for relief and development performance analysis. Sometimes there is a focus on individuals and households,



or some aspect of sector activity, such as health, but nothing that is about the performance of the community and the impact therefore on people and families.

The leaders of the community probably know what to do to make the socio-economic conditions better, and they also know the constraints they have to face.

### Collecting community information

A lot of information about communities is known, but it is often in forms that are difficult or impossible to access using any form of modern technology. Old people know lots about their communities, but it is in their heads. It needs to be collected and put into some sort of record. And some of the information then needs to be put into some sort of electronic record. This is easier said than done, but I believe it is both worthwhile and quite possible.

Probably the best way to do this is to encourage it to be done by community people for their own information and guidance ... and to get it put into a form that can also be used as a component of a universal system of public accounting.

It is worth noting that some of the best information about communities is contained in travel books. The information included in travel books is information that the authors consider will be useful for people who are visiting, mainly for their own amusement and pleasure. Much of this information is also of considerable value for understanding the socio-economic status of the community and what the community should be doing as a priority to improve its socio-economic situation. Travel books are often improved by feedback from travelers. Community economics information can be improved by anyone with better or more information.

Of course, there is a lot of information about communities in various military information systems. This information is not usually easily accessible by the public at large.

And there is probably a lot of interesting information compiled in various political party data systems. This information also is not usually easily accessible to the public at large.

It is possible to learn about a community, but sadly, in our modern world, more is probably known about communities around the world so that they can be bombed than is known so that they can be helped.

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This should be changed. The technology to do it is quite easy, but it is not yet organized to be used in this manner.

## Metrics of community progress

But to the extent that powerful people may not want management information that shows performance ... or lack of it ... relief and development performance at the community level has never been on the agenda.

The metrics of community progress can be quite simple ... or very detailed and complicated.

If the resources and situation in a community are documented at a point in time, and then the same documentation is done a some time later, for example the beginning and the end of a year, then the difference shows what has happened over this time.

There is “progress” if a year later the same set of information shows there has been an “improvement”. There is regression if the information shows that there has been a “deterioration”.

In most communities to stay the same requires a year of hard work from everyone. If the rains are good, and the harvest is plentiful, then the work for the year may show a situation that is significantly improved over the prior year situation.

On the other hand if there is drought, then the crops fail and the situation will deteriorate over the prior year situation.

Progress can be measured looking at the change in the status of the community over time, and without having to know very much about the activities of the community in the time. But if there is also some measurement of the activities, it then becomes possible to see why the community has performed in the way it has. When this is understood it is possible to design development interventions that are the least cost way of improving the communities performance.

The community has many benefits that make it an ideal entity for planning and tracking development progress. Every community has a unique combination of resources and potentials and constraints. Each community has reached a unique place in the process of development and has a certain unique standard of living and social structure. A community can benefit the most when the planning and development

actions are optimized for the specific community and its unique conditions.

### Establishment of trust

Most poor, small or remote communities do not have an incorporated structure and any global visibility that is “trustable” by the “north” ... and this has to be addressed. Without an acceptable level of “trust” it is impossible to get external funding assistance to a community in an efficient way. The issue of trust can be addressed with a combination of information and organization as discussed elsewhere.

## Financing

### Types of financing

There are smaller informal organizations at the community level that can be used to fund small and very small enterprise activities. Microfinance and self help groups are useful in the community setting, but they are not sufficient on their own for a community to make meaningful progress.

There also needs to be financing accessible in the community that will help small and medium sized enterprise of all types to grow and be able to employ more people and pay more wages. I refer to this as mini-finance.

There also needs to be financing accessible to the community that will help the community have local contractors supply or build things the community needs. I refer to this as muni-finance. Municipal finance is a very big component of the capital markets in the “north” ... a micro-community version of this is needed for the “south”.

### Local financing

Most poor communities finance themselves. It is the only way. There is usually little money in the community, and there is no formal banking and financial service access. People in communities do the best they can.

A lot of communities have self help groups (SHGs) and various traditional ways of mobilizing money to do things together that an individual cannot do on their own. These have been of critical

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importance over the years, and should probably be a part of future success.

Communities impose taxes and levies to raise money for things that are wanted by the community. Some of these are substantial efforts, and can serve as important sources of funds for community needs. The story of Yei in South Sudan is an example of this.

## My Yei Experience in South Sudan

Yei is a small agricultural town in South Sudan to the west, about 150 miles from Juba. When I was in Yei in the 1980s there were about (as far as I can remember) 150,000 refugees in the area, all engaged in small scale agriculture, and assisted in the first instance by UNHCR. With decent agricultural land, good weather and hard work, Yei had become a thriving little town with a good surplus of food.

I knew the “administrator” of the town of Yei ... a friend of a friend of a friend of my wife's from college days who was interested to find an accountant in the middle of a UN refugee review. He showed me with a lot of pride the “books” of the town that documented all the financial transactions of the town, and showed in summary form the monthly history of the town finances over the past several years.

The refugees were generating a lot of agricultural produce and the petty taxes collected at the local level to pay for local needs had increased with the success of the refugees. Now the town had some money for some of its priority needs. The school got a locally paid teacher, and the electric generator got some fuel. All of this carefully recorded in the books, just as it should be.

What is the lesson? Local success can be used to generate some local revenue that can be used for some local priorities. Sustainability that is real.

Some of the big cities in the “south” have structures so that they are able to raise money through existing formal channels, though not as much as they need. In large part they are constrained from borrowing substantial amounts because they do not have the economic base and the tax revenues to support external formal finance.

Small communities do not have formal mechanisms to obtain external finance. Some small communities, like Yei, have potential to be prosperous, while others do not have much potential. A big step forward will be made when fund flows are allocated to places where

there is potential, and resources used for value creation rather than wasted on value destruction.

### Community ... and the municipality

The community, and the leadership of the community or municipality are potential links in facilitating end to end relief and development support. They are not the only links with the community that should be active, but they are ones that can be very well suited to the handling of public works activities for the improvement of common property for the benefit of the community.

Some top level financial thinking is needed. When New York City was in a financial crisis in the early 1970s, Wall Street was able to create a workable solution. The best of financial brains were pulled into making a viable solution for the crisis.

#### When New York was in Financial Trouble

But the communities referred to are not large, nor are they corporate entities. But they do have something in common with New York City back in the 1970s. New York was out of cash, its tax revenues had diminished dramatically as the “Go-Go” years of the late 1960s were replaced by Wall Street cut backs, and New York was in dire financial straights. Felix Rohatyn, a senior partner at Lazard Freres, was seconded to the city to help put the fiscal house in order. In a matter of weeks and new structure was created that made it possible to New York City not to go bankrupt, not to disburse money it did not have to its bond holders, and to get a substantial infusion of new cash using a new type of financing through the Municipal Assistance Corporation (MAC). Bottom line, New York City probably did have a future, there was cash in the overall economic system, and what was needed was a way to bridge the gulf without anyone losing and everyone a potential winner.

It is possible to do a similar thing for the world's small communities so that nobody loses and everyone is a potential winner. But in order to do this there has to be experienced financial expertise, and not mere political spin and talk.

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## **Organizations in the Community**

### Governance

A community, no matter how small, is likely to have an organization of some sort that is the governing body. It might be quite informal, or quite organized. In many communities, the organizing body in some ways represents the community, and holds office with the assent of the people. Some of the traditions of these governing units go back a very long time. The organizations have a value in helping with community development.

In some places there may be local organizations that are affiliated in some ways with national organizations. Local political organizations can have this characteristic.

In some places there may be a revenue department that arranges for taxes to be levied. Taxes can be raised in many different ways, often on trade and the movement of goods. The amounts can be sufficient to provide for many local needs.

### Religious organizations

Religious organizations of some sort exist in communities. They are one of the stronger links between local organization and organization that spreads nationally and internationally. Local religious groups can be a valuable resources for local activities.

### Business organizations

While most economic activity is likely to be in the informal sector, it is possible that there will be activity undertaken by a larger business organization. A larger business organization should be engaged with development activities in the community. The contribution of a larger business entity to the community should be the subject of value analysis so that there is some equity between the value created and the value shared with the community.

### Self Help Groups (SHGs)

The community probably has organized itself to have Self Help Groups (SHGs) that do collectively what individuals cannot do on their own. This applies in the area of microfinance, and also other informal economic activities.

### Health Organizations

Some health organizations are likely to be in the area ... perhaps a health clinic, but perhaps some distance from the community ... perhaps just a nurse who lives in the community.

In areas affected by malaria, it would be advantageous to have some local organization coordinating information about malaria and mobilizing all available interventions.

### Schools

Perhaps there are schools in the community ... perhaps there are schools in the area, but some distance from the community. Perhaps the only education is provided by parents.

It is possible that a school can cooperate in order to have a telecenter in the community and access to communications through the Internet. Alternatively there can be a single telecenter or more operating independently.

### Water Committees

Perhaps there is water committee to manage and maintain the water supply for the community ... maybe this is done by the community as a whole.

## **Other Elements**

### Networking between communities

Communities that are totally on their own and not going to progress in modern terms. Whether or not a community wants to “progress” is a judgment call, and one has to hope that some communities will choose to remain closer to their traditions and old values, rather than “progressing” into a more modern world where crude materialism is the driving value.

Communities should have the opportunity to choose, and to do what they want to and when they want to. This is facilitated by a community centric approach. The priorities are driven by dialog and decisions in the local community, subject perhaps to an override where fundamental human rights are at stake.

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## Informal and formal linkages

Networking has two dimensions: (1) a rather informal set of linkages that make it possible for people to share knowledge and learn from each other; and (2) a rather more formal way of sharing data so that a management information framework can be established. Neither form of networking on its own can optimize community development progress, but together they are very powerful.

The value of informal linkages is that people relate to each other very well when there is common ground and the learning can be very fast and relevant.

The value of the more formal data management is that it makes it possible for quite diverse communities to be brought into a global economy where it is the data that derives decisions, and there is nothing personal about anything.



## **Chapter 35**

# **Organizational View, Part 1 Introduction**

### **Introduction**

#### The main vehicle for economic activity

Almost all socio-economic activity is carried out using some form of organization. The corporate form is the standard for “for profit” activities. A not for profit corporate form is common for “non-profit” activities. But all organizations that use resource should be looking for best possible performance.

For a number of years a socialist economic model was used with “government” being the key economic operator. This did not work well, arguably because an imperfect market system is substantially better than even the best system administered by even the most benevolent bureaucrats.

#### Improving organization performance

Every organization can improve performance.

In the corporate for profit sector the driver of performance improvement is the corporate profit, and not much else. The corporate community has been very creative in building “value” for its stakeholders, some of which is truly value creation and some of which is merely transfer of wealth from one group in global society to another. Getting the corporate wealth creating engine working in a

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way that reflects a more equitable sharing of wealth is critical to a stable world.

In the not for profit or social value organizations, the driver of performance improvement is social value adding. But mostly the metric that is used is merely the size of the organization in terms of the income and the disbursements and the number of the staff. Size has very little to do with performance, though it is a measure.

Up to now, no metrics to measure an organization's performance relative to the goal of relief and development progress have been used. As soon as an organization's contribution to a community's performance is measured, it will be possible to get a much better idea of an organization's true performance. At some level this is already being done with respect to “projects”, but this is a poor measure to be using ... the metric has to be at the community level.

Performance is very much a function of the relief and development sector “value chain”. If people and community are the “reason” for socio-economic development assistance, then activities that do not have any connection with people and communities cannot have any “value” ascribed to them.

Thus, under this metric of relief and development performance, a lot of academic activity that is incurring costs and getting funded will not have associated international relief and development value. This means they will be categorized as value destroying organizations.

## Organizations in the “north”

Most organizations that have emerged in the countries of the “north” have evolved in response to a market oriented capitalist system that has a substantial amount of law and regulation to facilitate its success and control its excesses. In terms of wealth creation the organizations and the organizational framework works well ... but it does have its flaws.

## Organizations in the “south”

The organizations and the organizational framework that drives socio-economic progress in the “south” has really not worked. There has been some success, but overall the results as a whole are poor. A wide range of different organizations are needed in order for international socio-economic development to be successful. Up to

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now there has not been much attention paid to this, and there are gaps.

Some of the organizations that are needed at the community level do exist, but few people know about them, and they are not organized in ways that can attract substantial incremental fund flows for development. In most communities, the local organizations are often informal, and unlikely to be “registered” in any formal way, and unlikely to have presentable accounts. It would be advantageous to have some organization in the community that has links to the “north” either directly or through some appropriate intermediary organizations.

Government and government entities are major organizations in the relief and development sector. In the “north” government has a donor relationship in the relief and development sector, and in the “south” the government and the government entities are recipients of aid or beneficiaries. While these organizations are responsible for a huge aggregate fund flow, it is not easy to find out where the money originates, what it is used for, and what results are being achieved.

### Organizations that are in “north” and “south”

The organizations that are in the “north” and “south” fall into several groups: (1) government organizations ... bilateral aid agencies and embassies; (2) multilateral organizations like the UN, the World Bank, etc.; (3) international NGOs; (4) large multinational corporations like Shell, BP, Exxon Mobil, Newmont Mining, Cargill, Vodaphone, etc.; and (5) small closely held international companies.

Almost all of these organizations are “north” organizations reaching into the “south”. Rarely are the “south” organizations reaching into the “north”.

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## The Kuwait Fund

I worked in Kuwait in the early 1980s. One of the things that impressed me about Kuwait was the operation of The Kuwait Fund ... an organization that was investing Kuwait's oil wealth around the world. Already, in the early 1980s, the fund was providing earnings for Kuwait of the same order of magnitude as oil revenues.

This was done by reaching from the “south” into the “north” and being a full participant in the institutional wealth creation normal in the “north”.

The Emirates are now doing similar global investing, using a similar model ... and reaching beyond passive investing to direct investment in international operating companies.

## Some new organizations are needed

There are many places in the relief and development sector where needed organizations are missing. Some of the organizations need to emerge in the “north”, some organizations need to emerge in the “south”, and some new organizations are needed to join the “north” and the “south” in an efficient way.

One set of organizations needed will help to bring more efficient activities into communities, and help to build value in these communities.

Another set of organizations will help to make management information about the relief and development sector more universally available, and help to bring enough information into play so that it is possible to have end to end trust.

## Virtual organizations, networks, etc.

The idea of network and connections has been around for a long time, but the idea of virtual organizations is relatively new. Modern technology has now made it possible to have a very active and powerful organization that does not have a lot of physical presence in any one place.

## Chapter 36

# Organizational View, Part 2 Official Organizations

### Introduction – Official Organizations

What are the official organizations?

The official organizations are the various multilateral organizations established by international treaties to provide some modest level of global governance and international relief and development assistance.

The public probably thinks of the official organizations as being the single biggest factor in international relief and development, mainly because of media attention that the official organizations command and their public relations activities.

The official organizations include: (1) the multilateral organizations; (2) the “south” government entities; and (3) the “north” government entities.

Multilateral organizations include the entities of the United Nations system, the Breton Woods Institutions, and a number of other intergovernmental organizations. The Inter-Governmental Agency for Development (IGAD) is an example of an intergovernmental organization.

Government entities include the ministries of government, government agencies and parastatal organizations . For example, the

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Ministry of Health, Ministry of Education, US Agency for International Development (USAID), Liberia Produce Marketing Corporation (LPMC).

## **Multilateral Organizations**

### Need for reform

There has been a groundswell of criticism about the performance of the multilateral institutions for many years ... it started with a vengeance in the early 1980s. But even though multilateral organizations like the United Nations, the Breton Woods Institutions and others have been in need of reform for a very long time, very little has been accomplished.

In fact it is worse ... because the management dimension of the official relief and development sector is so weak, reform initiatives usually end up adding costs and deteriorating performance.

### Power of PR

These organizations will get the message when the public sees more and more how ineffective their work is, and starts to demand performance in exchange for ongoing funding. It is only when the organizations are forced to have substantive performance to feed into their public relations because the public is calling for performance information that there will be reform to improve performance.

Until there is a way to “see” performance, nothing is going to happen. The organizations will be able to say what they want through their public relations spokespeople and press releases and go on their merry way for ever. But if the public is totally outraged ... and the money gets stopped, then there will be performance reform.

The way to accelerate performance reform in these organizations is to accelerate the deployment of a management information framework and public accounting for the relief and development sector.

### The United Nations System

The United Nations System is made up of literally hundreds of organizations, each with some special mandate. The core of the system is the UN Secretariat located in New York. The General Assembly of the UN is also in New York as well as the Security

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Council. The United Nations Development Programme (UNDP) has its headquarters in New York, as does the UN Children's Fund (UNICEF).

Many of the UN systems specialized agencies are based in Geneva, Switzerland. Among them are the High Commission for Refugees (UNHCR) and the World Health Organization (WHO). The UN Industrial Development Organization (UNIDO) is based in Vienna, the UN Food and Agriculture Organization (FAO) and the World Food Programme (WFP) are based in Rome. The UN Education, Science and Culture Organization (UNESCO) is based in Paris. The UN Economic Commission for Africa (ECA) is based in Addis Ababa.

These organizations all have big headquarters staff ... and create huge paper and information flows. In terms of value adding, the work needs evaluation.

### United Nations Development Programme (UNDP)

Over the years I have done a considerable amount of work with UNDP.

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## Impressions of UNDP

I have tried on several occasions to get historical information about project performance within UNDP ... and was struck by the almost total absence of institutional memory. The system did not facilitate feedback about lessons learned, and in the end, failure was repeated over and over again.

The biggest strength of UNDP is its network of offices around the world. The UNDP Resident Representative (RR) in each country is the coordinator of UN activities in the country, but the systems to do this effectively have been unusually weak. Some of the RRs have been people of great courage and capability, but by no means all.

The role of procedure in the UNDP (and the UN) is distressing. I was in Juba, South Sudan when the UN mandated a security evacuation for its staff. Several UNV's (United Nation's Volunteers) had their wives with them at the UNV's expense. The UN required the UNVs to leave and put up at an hotel in Nairobi, but had no provision for the wives to leave as well. Not surprisingly the UNVs were unhappy ... and they refused to leave. A senior human resources office traveled from New York to Juba to intervene, but offered nothing but a detailed knowledge of every HR rule in the UN manuals. The UNVs did not evacuate ... fortunately the security crisis resolved. I was disgusted by the whole performance.

Nor is the UN very culturally sensitive. The UN Resident Representative of Namibia died during his tenure in the position. He was of Nigerian nationality, and a number of the UNDP staff in Namibia were also African. Death is an important event in most cultures, but especially in African cultures. The UN system seemed to have no protocol to handle this persons situation. One of the African staff took it upon himself to handle the repatriation and funeral arrangements in an appropriate way with the reasonable expectation that the expenses would be covered by the UN ... sorry ... mistake. While the UN failed this culture test ... Namibia did the right thing without a second thought.

I have always hoped that UNDP could really become a driver of a value adding relief and development agenda ... it has much of the structure that would make it a formidable force for good, but this has never happened. Specifically, UNDP has offices in almost every country in the “south” and could be a valuable link between the “north” and the “south”. For some reason, this has never happened ... probably because the information links have been dysfunctional.

My hopes for performance improvement driven by the work if UNDP were diminished when they discontinued the Development Cooperation Reports (DCRs) and the Development Cooperation Analysis System (DCAS). The DCR and the DCAS information was



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detailed enough to be of tremendous analytical value ... but it also drew attention to the irrelevance of official development assistance in truly helping the “south” to become successful. Instead, UNDP supported the development of the Human Development Report, another collection of economic statistics about the failure of relief and development, without enough information to be the basis for solution oriented interventions.

### The Breton Woods Institutions

The World Bank, that is the International Bank for Reconstruction and Development (IBRD) is the central organization of the Breton Woods Group. Created originally to help with European reconstruction after the Second World War, it has evolved into the main funding agency for “south” development.

The International Monetary Fund (IMF) is another organization in the Breton Woods Group with a mandate to help countries through periodic financial hard times.

### The World Bank Group

The World Bank Group has been responsible for major fund flows into relief and development. They have also been responsible for projects that have added to debt without adding much to socio-economic progress.

The World Bank Group includes the World Bank (also known as the International Bank for Reconstruction and Development), the International Development Agency (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Association (MIGA)

These organizations ought to be a power for progress, but they are unlikely to achieve much progress until they put a lot more emphasis on project performance and especially the control of financial resources.

Once upon a time, a long time ago, I thought that the World Bank was a high performance organization able to drive development forward and solve the problems of the post-colonial world's underdevelopment.

Later, rather than sooner, I learned better.

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## World Bank Cannot Change

I have tried to be pro-active in the World Bank context about project performance and how it could be improved. I did not make much of an impression.

Way back I worked on checking a costing for a World Bank hydro-electric project. My conclusion was that the cost estimate was understated by some 50% ... a pretty serious problem. I did not think about this experience until almost 20 years later when I was more closely involved with the World Bank, and realized that the World Bank is dominated by economists, and very few accountants are engaged in the management process.

I later developed the impression that there were some 10,000 well educated staff striving mightily to give the impression that the World Bank's one idea was right. If the facts do not support this ... then we need to get facts changed. Of course, this is easier to do in economics than in accounting, which perhaps explains why accountants are not particularly welcome.

The preoccupation with simplistic measures of World Bank performance, like value of loans approved, or amount of funds disbursed, is a formula for disaster ... subsequently realized on a grand scale.

The World Bank cannot change ... it has several different sets of stakeholders that ensure that nothing of substance changes very much. These are (1) the staff; (2) the Executive Directors; and, (3) the biggest funder ... the US Congress. Only when these three groups are in agreement can there be significant change, and that is not going to happen any time soon.

The World Bank should be one of the key relief and development intermediaries. The World Bank has huge potential as a builder of financial stability for the “south” rather than being a huge and amorphous programming monster that does thousands of things in every single sector, and hardly any of them well.

### World Bank for Public Finance

The World Bank was meant to be a relief and development sector financial intermediary. Over the years it has become the dominant supplier of funds to the poor “south”, as well as being the controller of the financing agenda for each of its client countries and a determinant of the policy options.

The World Bank can be, once again, an important and effective part of a high performance relief and development sector, if it takes a bigger role in financing and a reduced role in policy determination.

Wall Street is already comfortable financing the World Bank, but the World Bank has disbursed the monies raised in ways that have resulted in value destruction in the beneficiary countries, and too much debt that is highly onerous for the beneficiary societies. The reasons for this have been already discussed at some length in earlier chapters.

But the World Bank is an ideal intermediary for the rebuilding of the “Public Finance” sector of the “south”. This is one of the areas where World Bank scale is appropriate.

In some ways this is what Structural Adjustment should have been able to do, but never did. But a World Bank program that funds the “Public Finance” sector and insists on just three basic things: (1) excellence in accounting and financial reporting; (2) management information about socio-economic progress; and, (3) a high standard of fiscal responsibility.

### International Monetary Fund (IMF)

The International Monetary Fund (IMF) has a lot of power and influence. But its role in support of success in relief and development is not at all clear. I have participated a number of times in work being done by IMF teams in various places including Kazakhstan, Afghanistan, Liberia and Burundi ... and in all these cases I was totally in disagreement with the conclusions reached by the IMF experts.

I can understand to some extent why the IMF gets things wrong ... they seem to be ignoring the level of development of the economy in the “south” and using thinking that has been developed assuming economic models and the productivity of the “north”. Like almost everything done by experts in the relief and development sector, the thinking is “economics” rather than the more basic fundamentals of accounting and production ... or costs, revenues and value.

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## **Governments in the “South”**

### Difficult, if not impossible, goals

Governments in the poor “south” have a very difficult job. In combination with political leadership, the job becomes almost impossible. Adding in the influence of guidance and conditionality from the international donors and funding agencies and the job becomes absolutely impossible.

Some of the things that government does in the “south” with almost no money are quite amazing. Some of the people on the government payroll do an enormous amount of good work with little pay, and little recognition. In the course of my work, the efforts of nurses in hospitals and clinics to be helpful has earned my admiration ... especially when their pay would be delayed for many, many months.

### **Nurses, Teachers ... Soldiers**

I have worked on various aspects of government finance over the years, and seen a lot of government operations on the ground. The situation with nurses and teachers is really sad ... they do very valuable work as the foundation for socio-economic progress, but their pay is small, and very often comes late ... not by an hour or two, nor a day or two ... but sometimes months late.

But it really doesn't matter to the top leadership of government ... after all, what are nurses and teachers going to do about it.

I had an audience with a Head of State in Africa some years back to discuss the catastrophic state of his country's economy. After the meeting I summed up the crisis with the phrase “When the nurses and teachers are not being paid, there is an economic problem ... but when the soldiers are not being paid, it is over.” Within three months there was a coup and the President was assassinated.

The catastrophic state of public finance in the poor “south” has created a terrible instability, that will only get worse over time unless there is a public finance strategy that makes sense.

The governments in the “south” need a lot of help. Some of the political leadership has attempted to change the direction of development and move to more sustainable practices, but it is difficult, and essentially impossible without meaningful help.

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Some things in government work ... but are merely constrained with limited money. Other things do not work for a variety of reasons, and no amount of incremental money will make a difference. There needs to be careful distinguishing between the two. Where there is corruption and money is being stolen from the system, more money does not help at all. Where the money is simply too little to do the work needed, more money will help. This ought to be easy to find out from a working government accounting system and active management information system. Every country should have these ... in most cases the foundation is in place, but it does not work because there is little professional supervision and oversight.

### Central Banks

Central banks have a significant role in the success of an economy, but in most countries in the “south” the central bank has become very weak, and has little role in anything. This has to change, and central banks have to be assisted in taking on the role of facilitator of the monetization of the economy. In much of the “south” the exchange rate for the local currency against the “hard” currencies has been a disaster, with the central banks unable or unwilling to take control, and the international banking sector not much involved.

### Ministry of Finance / Treasury Department

The Ministry of Finance and the Treasury Department (under whatever exact name they operate) have a key role to play in the improved management of government resources, and especially those associated with international funding and relief and development funding.

#### My Experience in Barbados

I did some work in the Treasury Department of the Government of Barbados some years ago. Almost the first thing I learned is that the Treasury Department balanced the accounting books of the government every day, and they produced reports to Parliament of month and year to date revenues and expenditures compared to budget every month.

I was not expecting this level of rigor in the accounting system, and did a little test of the system to prove to myself that it was as good as it seemed to be. I was able to track my own \$10 license fee paid into a remote police station all the way through the system until it got into the treasury bank account.

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There is some excellent accounting going on in government in the “south” but it has not been the subject of ongoing international attention, even though it is a critical area of concern. While some excellent accounting is going on, this excellence does not translate into excellence in the area of budget allocation and the use of funds. Though there is some good accounting, the government reporting of fund use and the control of fund use is generally poor.

One of the most powerful areas of assistance for “south” government would be for the government accounting to be absolutely 100% reliable. As we see in Barbados, it can be done ... and as I know from working with clerical staff in dozens of places around the world, it can be done. The only problem is that the leadership in the relief and development sector ... “north” and “south” does not have it as a priority, and without that it will not get done.

## Government accounting and budget control

Government accounting ought to be a very important component of relief and development sector information. Serious mistakes have been made in setting up accounting and accountability in the relief and development sector, with government accounting relegated to a very inferior position. As a result, far too often, the accounting and accountability for fund flow control in government is compromised ... much to the benefit of the corrupt.

Government accounting can be very well done. Accounting is not difficult and many people in the “south” have been trained to do accounting.

Numbers that are used in budgets are not accounting, but are plans or projections, sometimes based on prior year actual accounting results, or based on a combination of actual and estimate for prior period.

Budget control where expenditures are required to be less than the budget amount are common in government. In the corporate world the budget for expenditures may be more flexible, with the budget for profit performance being much more important. Spending to increase profit performance is normal in the corporate world, but rare in the relief and development sector.

The government budget would be a more meaningful document if it got more public and professional exposure, both in the planning

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phases and in the execution phase. It would be very powerful to be able for donors to fund modest parts of the budget, rather than trying to come up with projects that are not included in the budget. Some donors seem to have the misconception that items in the budget are already funded, when in fact, in the “south”, the revenue side of the budget often cannot support even the most critical of the budgeted expenditures. Accordingly, a line item ability to get donor funding would be very advantageous.

### Planning development at the national level

The planning of development at the national level is a balancing act between a variety of pressures including: political priorities, economic and social priorities, available resources and donor priorities. Priorities at one level of funding are different from those that apply at another level of funding.

The quality of projects determines a lot what results are achieved. Project quality can be improved a lot when needs of the beneficiaries are truly taken into account rather than merely the desires of the donors, which may or may not be relevant to the situation in the host area (See Box).

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## Aid Coordination ... The Quality of Projects

I helped to prepare the first development plan after Namibia's independence. Based on this, some \$700 million was pledged at the UN Secretary General's donor conference for Namibia in New York. Donors were very slow in honoring their pledges and I was asked to help with aid coordination and the mobilization of the pledges.

As I helped develop an aid coordination process it became very clear that the donors were honoring their commitment by sector, but were not doing so in a way that reflected the country's plan, but in ways that only suited the donors. For example, even though three very comprehensive and expensive (and good) plans for the health sector had been prepared 16 donors made proposals that included doing health sector studies. The sector needed funding or gifts in kind of medicine and medical supplies, of transport equipment (ambulances), of X-Ray equipment and money that could be used to recruit and pay for more nurses, doctors and other staff. The last thing needed was more studies.

Another priority sector was agriculture and fisheries. The big challenge was to modernize these sectors and in the case of fisheries to improve the income from the fishery. The UK's Overseas Development Agency proposed a project to study the fishery that had 3 expatriate man-months of time being spent in Namibia to collect data and 24 man-months of time in the UK's fisheries lab at Lowestoft in the UK.

Almost all the proposals were donor driven designs not at all responsive to the needs of the country, and not very much in conformity with the plans presented at the donor conference. I wrote many "memo to file" documents describing the inappropriateness of the proposals, and, to their credit, a good number of donors responded favorable to the critiques ... but I don't think many people in my position would have been as outspoken as I chose to be.

## Projections

Projections are only as good as the people making them. Since most people are not very good at "numbers", it is unreasonable to expect that projections are going to be very good.

Too many projections are purely arithmetic with little basis in reality. Using a spreadsheet it is easy to calculate the results of exponential growth, and results can look phenomenal.

But if an organization has never done exponential growth in the past, why would they be able to do it in the future?



### Budget execution and control

There are many different names associated with the processes used to control expenditure, but the results are similar. The goal is for the elected government to control the government's money, and to do this nothing can be disbursed without the approval of the legislature. This is usually the budget and appropriations legislation.

Expenditures can be incurred within the budget limits sets by the law. Many ways of controlling this exist, some giving very detailed control, and some almost no control at all.

In government, budget control can be very effective. The systems have evolved over a very long time, and work very well when they are respected by political leadership.

### Project accounting

One of the problems with budget control in the “south” has been the practice of donors and financing organizations, including the World Bank, of insisting on a separate accounting procedure for their “projects”. This has had the effect of weakening the basic controls of the Ministry of Finance over all the public sector fund flows.

There are many examples of donors doing “accounting” that makes it appear that their contribution to development is much bigger than it is in fact. One example of this is the valuation of gifts of grain using pricing that was more than three times the world market prices. Another example is the pricing of “used” equipment at highly inflated prices ... and the valuing of “north” nationals at their “north” salary scales when they are doing work that locals could do for one hundredths the cost ... there are lots of others.

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## Project Accounting Outside the Government System

I have discussed the financial control of donor funded projects many times around the world, and in every case the local Treasury Ministry officials have always brought up the problem of doing project accounting outside the central government control system.

For many years the World Bank staff ... usually with limited financial accounting expertise ... have seen independent as better. An absolute mistake that has enabled corrupt project staff to operate with almost no local oversight and get away with millions.

There has been widespread adoption of a system referred to as the single treasury account. The idea of a single treasury account goes back hundreds of years. The aim is for the representatives of the people to decide on how the money is spent, that is the elected legislative body, and not the Monarch or Head of State. It is a standard control practice in almost all governments around the world ... though not now applied very well in a large number of countries in the “south” where a dominant political executive controls everything.

## Single Treasury Account

The structure of government, and the management and control of government's resources has evolved over many centuries. One of the key control concepts that has been used for a very long time is the idea that the spending of government should be authorized by an elected body, and not be simply in the hands of an absolute monarch. To this end all the financing of government flows into a “Single Treasury Account” and all disbursements are made from this account under the authority of legislature, primarily through the budget. This has been an evolving control mechanism that has worked relatively well in both the “north” and the “south”, except that most relief and development sector funding flows outside this control framework through a variety of ad-hoc project financing mechanisms almost totally lacking in any sort of formal internal control.

### Audit

Audit in the government context can be useful, but it is normally too little and too late. It seems that people in senior positions often think that audit is going to solve problems of accounting, and provide cover for administrative and control failure. In fact, audit only confirms that an accounting system is working, or is not, and whether reports being prepared are in conformity with the underlying records. Audit is an important tool to confirm that the accounting system is working, but only that.

Of course, accountants can do more work, and investigate problems. This is not standard audit work, but much more, and the work depends on the mandate given in the terms of reference.

### **Governments in the “North”**

#### What does the public know?

In most countries in the “north” the public thinks that the government budget provides a lot of funding for relief and development sector support. Surveys suggest that people often think that in the US the relief and development budget is about the same as the military budget, or the agriculture budget. It is not. Relief and development support from the budget is small, and in relation to the size of the economy almost infinitesimal ... less than one half of 1%. The size relative to the economy as a whole tends to be a little bigger in Europe, but in most countries is still less than 1%.

The public does not know much about international trade in military equipment and supplies. This trade has a big impact on the “south” and on the balance of power in different parts of the world. Worse, the reasons for doing it are often not clear, and the idea that it is “good” when “we” do it and “bad” when “they” do it is a formula for continuing global instability and a catalyst for the ongoing growth of terrorism.

Meanwhile, not very much is known about the impact of “north” government support for relief and development in the beneficiary communities round the world. How much is disbursed is known. What incremental value is created by these resources is almost always not known.

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Government organizations comprising bilateral aid agencies and embassies are widely distributed all over the world. They know a lot, but not much of this knowledge is designed for public use, and rather little of it has benefit for the “south”. The work of bilateral aid agencies ought to be of significant benefit for the “south” but it easily is diverted to geopolitical ends that are counterproductive for “south” progress.

## What the public deserves to know

The public deserves an accounting of the fund flows that originate with the government and what these fund flows accomplish. The accounting has to go a lot further than a description of the contracting process, or the relationship between money that is going to be disbursed and the benefits that are going to be realized ... but needs to get down to what actually happens with money disbursed. What is needed is information about: (1) How much money and when; (2) Who got the money, and what they did with the money; (3) Who got some benefits and what value can be ascribed to these benefits.

None of this is rocket science, but the power of this information is considerable. Government does too much of “management by procedure” which does not work very well and instead there needs to be more accountability that is determined by the relationship between money used and benefits realized.

While this is sometimes complicated ... most of the time it is not. If an individual buys something and does not get value for the money, there is an immediate complaint. What makes it so different when the government buys something?

## Bilateral aid agencies

Bilateral aid agencies are a major source of funding for countries in the “south”. The most important stakeholder for these agencies is, however, the funding source, rather than any of the beneficiaries. These agencies do what the political leadership wants them to do, rather than what would be best for needy beneficiaries ... the bilateral aid agencies are driven by a domestic political agenda more than they are by development optimization.

This can change to some degree if there were to be publicly available management information about the relief and development sector.

### Trade issues

Most “north” countries have a dependency on trade, and all do everything that they can to ensure that the terms of trade are favorable. Between “north” and “north” the negotiations are more or less among equals in terms of economic power and the outcomes are reasonably fair. But in the case of trade between “north” to “south”, the negotiations are anything but between equals and the end result is usually something that has benefit to the most powerful.

### Subsidies

Subsidies are a big source of economic distortion. There are big agricultural subsidies in many “north” countries because of the powerful agriculture lobby which has profited enormously without alienating customers with high prices. North America has big subsidies and so do many of the European countries.

### Policies and relief and development

Government in the “north” defines what it is going to do in support of relief and development. A lot of the allocation of resources results from aggressive lobbying efforts and international political priorities ... with the result that a very large proportion of the USAID funding has been allocated to Israel and Egypt for almost 30 years.

Government in the “north” define the programs they want to support. To a considerable extent projects are planned around capabilities that are friendly to government with rather little regard to the effectiveness in delivery to beneficiaries.

### International treaties

International treaties have an important role in defining the way the global economy works, the responsibilities of countries with respect to international issues and the relationship between countries. But most treaties give benefit to countries in the “north” without giving a lot of thought to the impact of the agreements to people in the “south”.

It would be interesting to evaluate all treaties to understand the impact on the “south” ... rather than assuming that what happens in the “south” does not matter.

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## **Chapter 37**

# **Organizational View, Part 3 Private Sector**

### **Private Sector**

#### Make-up of the private sector

The private sector comprises both for-profit and not-for-profit organizations and includes the following segments: (1) international NGOs; (2) “south” NGOs; (3) public multinational corporations; (4) private multinational corporations; (5) the “south's” enterprise sector; (6) academic institutions; (7) professional firms and organizations; (8) banking and financing organizations; (9) advocacy groups; (10) public private partnerships; (11) cooperatives; (12) private schools; (13) private health care facilities.

### **International NGOs**

#### The backbone of “north” intervention

Some people refer to NGOs as Not-For-Profit (NFP) organizations. I prefer calling them “Social Value Organizations (SVO)” but this has not been widely adopted. The “for profit” corporate world is clear about the goal ... it is profit. An SVO can be quite clear that it is aiming to maximize “social value”. These organizations have become the backbone of the “north's” relief and development interventions.



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One of the issues with large NGOs is that their funding is largely from government, and much of their work is done on government's agenda. It would be nice to think of them as being uninvolved with government, but they have to be tightly involved otherwise the funding ends. NGOs have to compete for available resources, and the driver of their success and reputation is their fund raising or fund attracting capability. Some NGOs have an inside track to bilateral funding (USAID, DANIDA, DFID, etc.). Some NGOs have the inside track to faith based philanthropy (World Vision, etc.). Some NGOs have an appeal directly to the public (Oxfam, ActionAID, etc.) . At the end of the day, the work that gets done is what donors are willing to fund and not very much what people and communities most need.

### What Donors Want

I wish the donors wanted solid management information about socio-economic performance, but it seems that a good little story with nice visuals told over and over again is better. What is good for PR seems to be good for donors.

Full information about a program that does thousands of pieces of work, some of which are a great success, some not so good and some plain bad does not work as well as some good photo-ops around a little very expensive initiative.

The sooner that the donors can be helped to change from PR and photo-ops to serious analysis of management information, the sooner there can be sustainable success in development.

The NGOs have responsibility for implementing programs agreed by their funding partners, whether a bilateral donor, a multilateral financial institution or philanthropic funding. To survive, these organizations need to maintain the fund flow into their organizations, and do whatever it takes with the donors to accomplish this. Obviously they have to do something on the ground, but doing the most on the ground is less of a priority than ensuring the donors like what is being done. Good things that are difficult to describe, or difficult to get into feedback to the donors are less important than works that the donors like.

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### Information about “north” NGOs is limited.

Many “north” NGOs do very good work, and some waste relief and development resources. It is not easy to tell the difference based on easily accessible verifiable “facts”. Only limited financial information is published, and what this shows is little more than the aggregate general accounting financials with some very limited information about how spending is allocated between “program” and “administration and overhead”. This helps a bit, but not very much. There is almost nothing anywhere about an NGOs performance in using program resources to get sustainable results of value to the beneficiaries.

While most NGOs will happily talk about transparency and accountability, almost none is very much interested in actually doing transparency and accountability. It is not at all clear whether they know what these words mean ... and I am fairly sure that if they really did, I am not sure they would even want to talk about them.

#### What Determines? ... Performance or Policy

Donors are wonderful because they have money ... but they are a menace because they usually want things done their way or not at all. In a world of surplus fund flows, this would not be a big issue, but when the resources are very limited relative to the work that needs to be done it is serious.

In the case of malaria programs ... long lasting insecticide treated bednets (ITN) became the preferred intervention for donor funding, even though interior residual spraying (IRS) was a much lower cost way of reducing the impact of malaria in the community.

Some of my work suggests that an integrated mosquito and malaria control (IMMC) program could be even lower cost again ... but nobody is really looking with any seriousness into these cost performance issues. The result is that the money spent does far less than it could if used in the best possible way.

### Making “north” NGOs more effective

The potential of international NGOs in the relief and development sector to do valuable work is significant, but cannot be realized unless there is rigorous value analysis going on internally. It would be nice if program performance was visible to the interested public, but it is

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more important that program performance is improved internally so that better results are seen by the beneficiaries.

Good people have got to take substantially more responsibility for ensuring that the organizations do the best that they can.

### Mobilizing what “north” NGOs know

There is a lot of latent value in the knowledge of the “north” NGOs. The big international NGOs have a lot of knowledge ... rather little of this knowledge is used to the extent that it could be. It would be great if there were some ways for the big NGOs to share their knowledge in some useful and valuable ways.

#### Changing the Mindset

At a small exposition in 2004, I asked several well known international NGOs if they knew of any local NGOs that were doing good programs ... the answer was “yes”.

I asked whether these programs were being done with funding from the international NGO ... the answer was “yes”.

I asked whether the local NGOs were getting as much funding as they really needed ... the answer was “no”.

I asked whether the international NGO was considering helping the local NGOs to expand their fund raising capability ... the answer was “no”.

As I see it ... this is a big lost opportunity. The international NGO has some valuable experience with the local NGOs, knows something about their strengths and weaknesses and could be invaluable in helping to channel more resources to good local NGOs.

But building on the opportunity requires changing the mindset ... easier said than done.

Many of the international NGOs are very good at what they do. Some of them do work much more efficiently than anyone else ... their costs doing the work are lower than others by a significant amount ... but who knows? This sort of information is not getting into the public space where it can be found. Instead fund flows are based on all sorts of other decision factors, some of which are not in the least bit appropriate. I always think of Oxfam's work with water as a good example of an NGO that knows what it is doing in this domain.

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International NGOs and their local partners also have a huge knowledge about places. They have a network of offices and a staff that they have built up and have useful experience and knowledge about all the places where they have been working. This knowledge would be amazingly helpful in understanding better the dynamic of development and how relief and development interventions have performed at the community level.

Just imagine if the knowledge of the international NGOs could be mobilized to be the foundation for supporting the very best possible interventions for community development all across the “south”. Rather than having fund flows that arguable do only more or less value destruction, there could be fund flows that produce high multiples of socio-economic development value. The possibilities are exciting.

### Big “north” NGOs with short reach

There are “north” NGOs of all sorts that are well known in the “north” but have little or no reach into the communities in the “south” where relief and development work needs to be done. These NGOs know their way around the corridors of power and the places where funding decisions are made, but have rather little meaningful presence in the “south”.

These organizations get funding, but do not do very much with it. They would be very easily identified if there was universal value analysis reporting about organizations engaged in using relief and development fund flows.

These organizations need to be highlighted and helped so that they deliver more value to beneficiaries in the “south”. The resources are available, but they are not used very well.

### Small “north” NGOs

There are thousands of small “north” NGOs engaged in various ways with the relief and development sector. Many of these NGOs do valuable work, but there are also many that cannot get enough traction to do things of value. They need more operational support and services than they can afford to be effective. Some have a very valuable contribution to make, perhaps some very useful expertise, but they cannot do much with it without “reach” into the “south”. They could benefit enormously from different sorts of help ranging

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from professional help with fund raising, help with administrative matters, help with reach into the “south”, and all sorts of other areas.

These organizations do not have the scale needed to be able to operate efficiently beyond a very limited scope. They can be helped by working in a cooperative way with others. More ways to work cooperatively need to be established.

### **“South” NGOs**

#### Many entities ... but how much potential?

There are millions of “south” NGOs, many doing amazing work with quite small resources. Most get no external financial or material support at all. If they had access to the support they need, the change in the socio-economic status of communities in the poor “south” would be tremendous. If all the small NGOs in the “south” doing good work were funded to allow them to do all they can do, much of the problem of modern development would be solved.

#### Community organizations

There has been a growth in the dialog about community, and community centric development, but reliable easily accessible information about what is actually happening in communities is very limited. That is not to say that the information does not exist, merely that it is not accessible easily. At the moment there are no good methods for getting reliable information about communities, and the activities and organizations involved.

This information is critical to improving community level relief and development sector performance. Local people know this information, but do not have the resources to use the information to do things of substance, and the international donors and supporters to not have the information and cannot therefore allocate resources in the most useful way.

When this is fixed ... community level performance is likely to improve substantially and quickly.

#### Registered NGOs

Many “south” countries have systems for “registering” NGOs. This has both good and bad sides. The fact that an organization is

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“registered” tells one absolutely nothing about its performance and its potential. The registration helps a little to understand the structure of the sector, which is positive, but it also helps to enable constraints on their performance by the authorities, which may not be positive.

The prevailing systems used to try to regulate and control the operation of small NGOs needs improvement. In a good number of countries, activities in the informal sector, while be economically important, are not considered “legal” activities which opens up all sorts of opportunities for graft and corruption. In order to maximize what can be done, all informal activities that are “good” need to have all the opportunity that is possible and not to be constrained by inefficient controlling regulation.

### Information about “south” NGOs

The information needed about “south” NGOs is key item reporting based on a robust set of management information, together with an oversight and validation dimension so that the information reported is reliable.

The public stakeholders should be able to tell whether an organization is doing useful work or not, and whether the results being achieved are reasonably good relative to the resources being used. The public should be able to identify organizations that have created a public reputation that does not in any way reflect what they are actually doing ... and avoid them. These NGOs are sometimes referred to in Africa as “Briefcase NGOs”.

### Some “south” NGOs are linked to “north” NGOs

Some, perhaps many, “south” NGOs are associated with “north” NGOs and get their funding doing work that is on the agenda of the “north” NGOs and their donors. This is a good model ... up to a point. It could be improved substantially if there was accessible management information about what is being accomplished and how much everything is costing.

The value chain is probably very much capable of being improved. The “north” NGO probably absorbs a substantial amount of the fund flow paying for its administrative and overhead expenditures. The work done by the “south” NGO may well be quite effective ... low cost and high value ... but not as much as would be possible in an optimized environment.

### Briefcase NGOs

Some “south” NGOs are referred to as “Briefcase NGOs” meaning that they have paperwork and presentations, but absolutely no presence on the ground. These NGOs have an ability to convince “north” NGOs and donors that they are capable, but in fact they are not. They get funded, and they probably even satisfy all the reporting and feedback requirements ... all paperwork ... when in fact they do absolutely nothing on the ground.

The type of community level accountability already frequently referred to in this book guards against this type of organization and helps protect the donor from misuse of their funds.

### Conference centric NGOs

There are also “south” NGOs that have high visibility because of their presence at conferences. A tiny presence in a community becomes more and more overblown the further the organization moves up the food chain.

## **Public Multinational Corporations**

### About stockholder value and profit above all else

The large multinational corporations like Shell, BP, Exxon Mobil, Newmont Mining, Nestles, Cargill, Vodaphone, etc. are bigger than most of the countries in the “south” where they operate.

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### BP ... Beyond Petroleum

I was curious. BP promotes itself as a company pushing into the future “Beyond Petroleum” and a supporter of sustainable development, but when you look at their corporate information one finds a \$100 million annual worldwide commitment to this compared to a profit for the year of \$22,600 million and a distribution to stockholders of \$8,000 million.

In one of their documents I thought there was \$500 million of support for sustainable development ... but then saw that this was a cumulative five year planned spend!

BP and the other oil companies make the point that they pay a lot to governments in income taxes, royalties and production taxes ... perhaps more than they pay stockholders ... but they cannot say much about the scale of their efforts in support of sustainable development and impact on community.

And the way oil industry money finds its way into government and is then lost to any form of public accounting is another huge issue needing attention.

There are many corporate organizations of international stature and highly respected in the “north” that have operations in communities around the world. Among these are oil companies, mining companies, timber exploiting companies, and others. However, these organizations hardly focus at all on the socio-economic progress of the communities in the country, but only on the effectiveness of the activities in contributing to corporate performance ... that is profits. These companies have earned respect in the “north” because of profit performance and not at all because of their focus on social responsibility and contribution to society as a whole.

The power of the capital markets requires that major corporate organizations produce huge profits “or else”. This is not a good model for global socio-economic equity, but it is the single and only important driver of modern corporate strategy. There is a little bit of talk about corporate social responsibility, but it is talk, and not much else. In the bigger scheme of things the talk is totally immaterial.

The modern multinational company has been the most efficient value creator in all of history ... but the methods have not been universally moral and ethical. In the future there is likely to be an accounting, and it seems to be prudent to start to do things to mitigate the eventual outcome of such an accountability analysis.



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Corporate organizations should focus on their primary mission, but organizations that have social goals in support of communities should be funded from corporate profit flows on a scale that is meaningful. The value chain of the modern multinational is not much different from the old colonial set up of yesteryear ... perhaps it is more favorable to the modern corporate owners than the old colonials. Many major corporations have started their own foundations that serve as channels for such initiatives, but there is little information yet that facilitates an analysis of their performance.

### Associations of big corporations

Corporate organizations have also become more active in creating vehicles to address common interests. The World Economic Forum (WEF) based in Switzerland is one such association, and in the USA there is the Corporate Council for Africa (CCA). These organizations can help coordinate programs that can be of value for society in the “south” that goes way beyond what any individual company might have the capacity to do.

Engaging these organizations in supporting work that is needed for relief and development success, and yet perhaps not appropriate for an individual company to support, has potential to be valuable.

### Corporate social responsibility

Good corporate citizenship requires a high level of social responsibility, but this has not been a big part of corporate thinking until quite recently. Even now, it is not clear that social responsibility applies much beyond where the corporate oversight rules require it. Clearly this has to change.

Change will come much more quickly if a “management information” dimension of the relief and development sector is implemented that shows what is being done everywhere there is corporate engagement. On balance this will be beneficial for good companies.

## **Private Multinational Corporations**

### Some big companies, and growing

The global economy is now very much impacted by very large private corporations that do business everywhere and are accountable

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nowhere. This is a rapidly growing group, and accelerating as publicly traded corporations get more and more attention from regulators.

Some of these companies help with economic performance in the “south” but it is less and less clear what the value chain look like. Some of these companies have almost global control of industry sectors like, for example, the international trade in rice and grain, some parts of the shipping industry, and some parts of global wholesale and retail trade.

It is going to be a challenge to hold these corporate entities accountable and to understand whether or not they are operating a decent citizens, both at the local level and in global terms.

### Caisse Noire

I was helping a colleague analyze some company accounts in Africa and noted that a good number of the expenditure lines had a notation “CN” against them. My first reaction was Credit Note ... except that the accounts were in French and it made no sense anyway. I soon learned that it actually stood for Caisse Noire ... a set of totally fictitious accounting lines that served to move moneys earned into expenditures without every having to be accounted for in the profit of the company. I then learned that these monies were remitted offshore to the account of one of the principal stockholders who just happened to be the Head of State.

This type of accounting is a lot more common than it should be ... but who really cares. This company was able to profit mightily from government construction contracts at huge profit margins, and everyone was happy.

Except, of course, it had a bad impact on the economy and the society ... and rather soon afterwards this President was ousted by a very unhappy populace.

## Smaller closely held companies

Smaller closely held companies operate very much out of the eye of the general public. They are responsible for some very good economic performance, as well as some serious abuse of the norms for ethical business.

In terms of potential for support for sustainable development modest scale international business holds the most promise. Companies operating profitably do not have a sustainability problem, and they can make profit by doing good ... a win win proposition.

Companies can operate in an honest mode and be successful ... but it gets to be very difficult when the governance environment includes organized corruption and enforcement. Local leadership has to address this problem. It is not easy. Good, honest people can end up dead.

### **The “South's” Enterprise Sector**

In addition to the “south's” NGOs described above, and the multinational corporate sector, there are a number of other types of organizations in the “south's” enterprise sector, or could be in the sector.

#### **Social entrepreneurs**

The social entrepreneur has emerged as a force for good in a number of places around the world in the “south”. These entrepreneurs are doing work that has a lot of social value, and more or less profit. The profit permits the organization to be sustainable ... but it is the social value that justifies the organizations activities and its *raison d'etre*.

The social entrepreneur is a subset of the local entrepreneurs. In terms of value adding, in most cases, local entrepreneurs are creating local net economic value adding more than the local operations of global operations funded through FDI. One must be cautious about thinking solely about social entrepreneurs as the local enterprise sector.

The local entrepreneur is not always “nice”. In many places, especially in remote rural areas, a local entrepreneur can be operating in monopoly situation, and in that circumstance, a market driven entrepreneur is going to try to profit to the maximum. An entrepreneur is also likely to behave with what appears to be an anti-social attitude in a shortage economy. This is the normal entrepreneurial behavior, and the expected market behavior. This behavior is less possible when there is no shortage in the market.

#### **Cooperatives**

There have been successes and failures with cooperatives. In some cases big cooperatives have been created as a way to exercise control over part of the value chain, and to extract value from the value chain for the benefit of outsiders or the elite. In other cases, farmers have

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formed cooperatives and have been able work cooperatively to gain better market advantage.

In theory a cooperative form of organization is attractive because it makes the people directly concerned with the organization the owners of the organization. There is one less stakeholder. But a cooperative is still no better than what is possible within the value chain for the products and services. In many agricultural situations an agricultural cooperative is no better than the underlying economics of agriculture ... and in so many crops in the “south”, like coffee, cocoa and tea, the value chain is very much loss near the farm gate and profit overseas as the processed product is marketed to the consumer.

## Public Private Partnership (PPP)

Public Private Partnership (PPP) has proved to be a very good way of combining the need for common good with private sector resources and initiative. Such an organizational structure has been facilitated in some jurisdictions by changes in the law so that there is as much fairness in the way a PPP runs as possible. For example, in the event that the PPP calls for a levy on all businesses in the community, and 60% of the businesses agree, then the 40% that do not agree will still have to pay the levy since all will benefit from the work that is to be done.

### Public Private Partnerships in New York

Public Private Partnerships (PPPs) have been used to fund the clean up and maintenance of a lot of different parts of the City ... for example: Bryant Park, Central Park, Times Square, Grand Central Station, etc. Each PPP does things differently to suit the characteristics of the neighborhood, making use of both paid help and volunteers in the most productive way. All of these areas were badly maintained and deteriorating under City oversight ... but with a community based PPP, there has been wonderful rejuvenation and at a low cost to the general taxpayer.

## Informal sector

The informal sector in the “south” is very important, and at the same time is almost totally ignored and marginalized. Bluntly put, almost all the value adding in the economy takes place in the informal

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economy ... in contrast to the public sector and the formal sector where value destruction is too much the norm.

Self employment in small scale business, and work in subsistence agriculture are parts of the informal economy. A lot of caring social work is being done by ordinary people and unregistered small organizations. This is really what an enterprise economy is all about. Removing constraints on the informal sector will help it to be more productive and will be very advantageous for ordinary people, the community economy and eventually the country economy

### **Academic Institutions**

#### Academic institutions in the “north”

Academic institutions in the “north” are presently substantial recipients of relief and development sector fund flows. It is not entirely clear that these funds are used in ways that are delivering tangible benefit to the “south” though it is clear that they are a useful part of the income of the institution.

There is a need for internal management to review the value adding associated with the use of academic resources, not only from the perspective of an individual's education and the value to the academic institution, but also to the performance of relief and development in the “south”.

This analysis should be done within the organization and be also done with a view to transparent public accounting.

#### Academic institutions in the “south”

Academic institutions in the “south” have a lot more constraints than those in the “north”, and especially financial and material constraints. Faculty members of universities in the “south” should be able to identify ways in which their own knowledge and the institution's knowledge can be applied in a valuable way in support of the performance of relief and development in the “south”. But to some extent like the academic institutions in the “north” these institutions have some element of “ivory tower” in their views and the way in which their work is applied. Perhaps too much, there is a gap between the learning and the practical world that could use intellectual input that is familiar with local realities.

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## Cooperation

There are all sorts of ways in which academic institutions in the “north” could cooperate with those in the “south”, and vice versa. Increasingly, the institutions in the “south” should be engaged in work that is needed not only in connection with teaching local students, but also helping to research critical local issues.

## **Professional Firms and Organizations**

### A critical part of society

Professional firms and organizations are a critical part of society. Professionals are many and include: accountants, lawyers, medical professionals, financial professionals, business professionals, business consultants, engineers, architects, scientists, educators, civil service professionals, journalists, management consultants and so on.

Professionals like lawyers and accountants serve as links between laws, rules and regulations and the business world that is engaged in economic activities. Professionals like engineers and architects serve as a link between science and technology and business. Professional firms and individuals are fully integrated into the fabric of a productive society.

### In the “south”

The professional sector in the “south” is one of the most critical for enabling relief and development progress. Professionals have an important role in bring balance to the power of the local politician and the abuse of the local rich elite. This is not an easy challenge, but it is tremendously important.

Professionals in the “south” also have another challenge. They need to organize their affairs in order to be an effective counterbalance to the professionals and other experts from the “north” who operate in the “south” and only collaborate to a minimum with the “south”.

There is a big need for professionalism in the “south”, and it would be a lot better if this professionalism is local rather than imported. To the extent that international experience is needed, then the collaboration can be initiated, but from the “south” to the “north” rather than the other way round.

### Mobilizing the accountancy profession

Whatever happened to the accountancy profession? I would have thought that the accountancy profession would have been vocal about the weak accounting and lack of systems and accountability in the relief and development sector, but it has never happened. Hopefully accountants will become more engaged in ensuring that management information that is suited to decision making in the relief and development sector is organized, and will take a role in establishing end-to-end trust in the information that is available both within projects and organizations and to the public at large.

### The legal profession

The legal profession in the “south” is important in the context of local socio-economic activity. It needs to be very much more understood and respected both in the local context and in terms of international activities. It can be argued that the legal profession in the “south” needs to have reach into the “north” and for there to be international links that not only facilitate activities by the “north” in the “south”, but also facilitate much broader cooperation on all sorts of issues.

The legal profession has a valuable role to play in building trust between the “south” and the “north” so that commerce and finance operate on a more nearly level playing field.

At the moment, who knows much about the work being done by the legal profession in the “south” ... not very many. This needs to be easily accessible common knowledge.

### Engineers and architects

In order for the “south” to be more successful, there needs to be more building and construction. This requires professional engineers, architects and others so that quality is sound and safe. “South” professionals have got to take a bigger role in making sure that quality of good and that there is the best possible value from the way things are done.

Building professional reputation takes time, and professional organizations need to take a pro-active role in making the quality of local professional firms well recognized.

Professionals in the engineering field need to make sure that all aspects of quality and professionalism are improved, including, for

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example, the reputation and integrity of engineering testing laboratories in the “south”.

## **Banking and Finance Organizations**

### Microfinance organizations

Microfinance is considered a big success. There is no question that microfinance has grown rapidly over the past 20 years, and in the last five years has been able to attract substantial new money. The microfinance sector is maturing and there is a substantial framework of organizations from the community to the capital markets. The dialog about expansion has become professional combining expertise in the banking area with expertise in the development area.

The majority of the metrics associated with microfinance are from the perspective of the organizations administering microfinance programs, with not very much about the impact of the programs on the beneficiary and the community.

Organizations that offer mini-finance and muni-finance to community organizations are not yet established. It appears that for community progress to be accelerated, there is a requirement for financing that has a larger loan level than is usual in the microfinance. Mini-finance is needed to enable small and medium sized enterprises in the community to expand and create jobs. Muni-finance is needed so that the community can enter into contracts with local contractors and pay them to do construction that is for the common community good.

### Investment clubs

Investment clubs in the 1950s and 1960s expanded to be the Unit Trust and Mutual Fund movements. The clubs that are organizing today to talk about and support philanthropic causes should be encouraged to grow and perhaps morph into Social Investment Funds to support high performance community level activities. In order for this to happen, there needs to be not only the ability to transact an investment, but also the ability to get good reliable information easily. There also needs to be a growing range of alternative social investment funds so that people have choice and can also diversify their activities and their risks.



### Community finance

There is a need for locally well respected intermediaries to be responsible for community finance. This is going to be an entity that is most trusted in the community, and understands the role of “trust” both with respect to the community and to the funding stakeholders.

In the “north” it is possible to bring investment funds into a community in many different ways. For example: (1) a municipality can float municipal bonds; (2) it can attract developers to build in the community; (3) it can attract a company to open a business in the community, maybe a factory, maybe a store; and, (4) it can attract a bank to open in the community. Something similar should be possible in the “south”. The scale may be different, but the financial and economic concepts are the same.

For the socio-economic progress of the community, it does not really matter whether the funds flow through public or private entities, but it matters very much what they do. There needs to be enough accessible public accounting information so that it is absolutely clear how money is being spend and what is being accomplished.

### Community currency organizations

The value of monetizing an economy is apparent from economic history. There have been many efforts to implement systems of community currency that monetize economic activity around a community under the authority of the community rather than a remote monetary control organization. Various techniques have been used to create “credit” for use in community activities, of which the credit card is but one example. Without some way to monetize or securitize the values in a community, it is difficult to move beyond community financing constraints.

## **Networks**

### Unlimited potential

The concept of network has become especially dynamic in the past few years. While there have been networks identified for a long time, the growth of new networks has been very rapid in the recent past, and facilitated very much by the Internet and new technology. I have routine contact using the Internet with people all over the world. It is

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my own personal network and bigger than anything I could possibly have imagined when I was growing up.

## Clubs and Networks

After I had made my first visit to Canada and the United States from the UK as a student in 1960 I wrote about some of the difference between the two countries. I noted that the UK as a society was like a club, an exclusive club that was good for its limited membership, but everyone else was excluded, while society in North America operated as a network, where some simple common thread was used to expand connections and bring more and more into being connected, quite often for a good common purpose.

The network idea of society fits well with the way the world has evolved, and needs to evolve. And it works especially well in the modern era with the tools of technology that help with getting connected.

Like so much else, a tool that can be a power for good, can also be a power for evil. The challenge is to network so that the good are connected, and as a large networked community have power to be an influence for good

## Network for knowledge sharing

There are all sorts of ways the Internet is already being used to share knowledge. In fact the sharing of knowledge may now have become counterproductive. There is just too much of it. But it will evolve in due course and become easier and more efficient. Probably sooner than later.

One of the critical challenges is to make it possible for the poor and disenfranchised to get access to information that is useful for them. There are two parts to this: (1) is the question of access where the infrastructure is limited or non-existent; (2) is the relevance of the information that can be accessed.

## Network for getting data inputs

In order to build and maintain management information that has ongoing value for relief and development, the contributing network needs to be strong. To some extent, volunteer help can be used, but there also needs to be a growing number of paid professionals employed managing the network and continuing the process of making the information as valuable as it can be.

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The World Bank and the various regional development banks, with or without the IMF ought to be the key organizations for financing government and the public sector. It should not be necessary to create new institutions to handle this work.

But new organizations are needed to serve as financial intermediaries between the relief and development activities and the funding organizations. To some extent this is being done by NGOs, and to some extent by other organizations like the Micro Finance Institutions (MFIs). Their efforts need to be complemented in two areas: (1) community level organizations; and (2) capital market financial intermediaries.

Also there needs to be improvement of the information access organizations so that there is not only information about “north” focused philanthropy, but also philanthropic organizations and their performance doing work in the “south”. There has been a lot of growth in this area over the past five years, but the coverage is only a tiny proportion of what is needed.

### The value of a network

The value of a network is not simple a function of how many people are in the network, but what it is able to do, and what value can be attached to the results. There are a growing number of software applications and web based systems that make it possible to build a network and be in touch. They are popular, and to the extent that people like them they must be delivering something of value to the participants.

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## The Value Potential of Networks

I am reminded of the early days of laser light and fiber optics. I was present at one of the first scientific demonstrations of the laser at the Royal Institution in London ... and then watched fiber optics emerge as a decoration for the living room ... before it eventually morphed into a replacement for copper in wired telephony.

Social networking on the Internet with MySpace, FaceBook and YouTube is the network equivalent of the decorative lighting for the living room ... amusing ... pretty ... but without much substance. One day, similar technology is going to be used to connect serious material about what is good for society, and also to identify and apprehend those that are engaged in ripping off society.

It can be a truly “new world order” ... and the challenge is for this new world order to have good winning out over bad.

Network technology has not yet moved to the stage where it is powerful enough to make the world a significantly different place. The idea of network is powerful and one day there is going to be either significant value adding from the network idea or there is going to be something dramatically negative. The possibility of software to help make a great contribution is present, and hopefully will be embraced.

The challenge is to use the power of network for something more than mere amusement and social entertainment. The Internet and social networking has been proven to be an amazing use of modern technology ... but its value is rather modest compared to what is possible.

## An obscene reality

Social networks like MySpace, or FaceBook, or YouTube come together very fast, and are considered to have enormous value by the “north's” financial community ... and indeed they do have value because the users on these networks are potential buyers for everything under the sun, and the advertising community needs to get their attention.

Meanwhile, the networks that are needed to get important information flowing about the performance of the relief and development sector

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and the use of relief and development fund flows have no “value” in the eyes of the capital markets.

This is a reality ... and though it might be obscene ... it is unlikely to change any time soon ... unless ...

When the value of success in development is demonstrated beyond a shadow of doubt, and the viability of a network is demonstrated, and the very successful philanthropic community understands the dynamic of relief and development success, then value will be appreciated and things will change.

### **Advocacy Groups**

#### Advocacy for relief and development sector reform

Advocacy movements have been active for many years now ... at least for 20 years. There has been advocacy about making changes in the relief and development sector but rather little has been achieved. Based on results one has to conclude that advocacy has not been effective.

A substantial component of the advocacy effort has been for reform at the World Bank, the IMF, and the UN including the WTO. And for just as long, there has been almost no change in these organizations and the relief and development institutions as a whole. There are too many people with a vested interest in the status quo.

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## Principles of Physics 1

Physics was my favorite subject at school, and it led me to doing engineering at college. Subsequently it has helped me to understand various complex systems in the real world.

- A small force does not make much of an impression on a big object.

How does this play out in the relief and development sector?

In the relief and development sector, the well known organizations like the World Bank, the bilateral donors and the UN are all “big objects”. By contrast the groups seeking to be agents of change are very small forces. Ergo ... nothing is going to change.

The advocacy movement (a small force) has no hope of getting the World Bank and the relief and development establishment (big objects) to move. It is a waste of time and energy to try merely by frontal assault.

## Advocacy for debt relief

There has been a lot of advocacy effort for debt relief. It has been going on for decades, and the problem of debt is still around, and new debt is being added all the time. The advocacy is pushing against a symptom of the problem, rather than the problem itself. The advocacy community involved with this is strong, well organized and highly motivated, but at the end of the day, not doing very much.

## Advocacy for transparency

There has been a big growth in the dialog about transparency over the past 20 years, but dialog about transparency does not improve the practice of good accounting. Getting value from “transparency” in big and complex organizations needs quite sophisticated management information and organizational structures so that what one gets to see has any meaning.

The transparency movement is not strong in its accounting dimension. The words are persuasive, but the substance is not much. There are many papers, workshops and conferences ... there are press releases ... but it is rather more difficult to get a sense of what of durable value has been accomplished. Communities in the “south” seem to be faced with ongoing failure of the relief and development sector, and the fund flows still seem to be at risk.

### Letter writing ... and more

The advocacy movement can do very well in getting letters written.

#### Bread for the World

Bread for the World is a big organization and proud of how long it has been in existence and how big it is. They are able to get lots and lots of people to contact Congress ... but at the end of the day ... for what result.

They have not been able to change the behavior of Congress very much at all ... but the power of their organization has a huge potential to do something much more valuable than merely sending letters to legislators.

But it is not really clear how much politicians modify their views, and make legislation that reflects the theme of the letter writing campaign. If the goal is to have an impact on the performance of relief and development then something different is needed that goes beyond just writing letters.

#### Principles of physics 2

There are lots of principles of physics that can be applied in real world situation.

- A little force applied to the long arm of a lever can move a very big object ... a little bit at a time ... all that is needed is a lever and a solid place to rest the fulcrum of the lever.
- Or an alternative ... a small movement at the little end of a level produces a big movement at the long end of the lever.

How can this be applied in the relief and development sector?

The advocacy movement can get the big objects to move by finding where they might be vulnerable, and leveraging that. I have concluded that they are very vulnerable in the area of performance, lack of management information and willingness to be transparent ... and their need for perpetual funding support.

The media is powerful and capable of taking over the information agenda, but this will be less possible where there are strong sources of good information that are easily accessible. With a relatively small amount of effort, a system of credible management information can be built to help the media tell stories that are of relevance to the relief and development sector.

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The advocacy movement is a key part of a healthy society. The advocacy associated with the relief and development sector has been active but not effective. This needs to change, and it is entirely possible.

The advocacy movement has the potential to be very valuable. It knows how to get people's attention and communicate a message.

But after that ... what?

There needs to be a natural next step in all advocacy so that people who get the message can do something of value.

## **Other Structures**

### New structures are needed

Many of the existing relief and development sector structures are very well suited to their core activities, and would respond well to a regime of good management information. But some new structures are needed. These new structures will fill gaps in the relief and development sector and serve to catalyze some new high performance activities.

### Community Development Finance Organizations

There is a need for a structure that: (1) has a form that donors like; (2) a form that beneficiaries like; and, (3) a form that is operationally effective and limits risk to all concerned.

In most cases, the beneficiaries that need to benefit are ones that live and work in communities. Socio-economic value is rarely generated in any other position in the relief and development value chain.

The financial and economic realities must be addressed in a way that is acceptable to the key stakeholders: (1) the donors; and, (2) the beneficiaries.

The critical realities are: (1) there is latent potential in a lot of communities in the “south” but no cash; (2) there is a lot of cash in the capital markets and corporate organizations in the “north”; and, (3) no organization that effectively bridges the gulf between the two.

In the event that it is difficult, if not impossible, to create a single organization that has the dual personality needed, then there needs to



be a chain of organizations that link end to end from community to funding and from funding to community.

### Universal Public Accountability Consortium

There is a need for a group to come together to implement a universal public accountability program. Some group is going to have to take a role in championing the establishment of public accountability. A group of existing organizations could form a consortium to take on this challenge, and to establish and maintain the necessary technology infrastructure to make it functional.

## **Chapter 38**

# **Improving Projects and Programs**

### **Projects**

A critically important modality for implementation

Projects are the dominant modus operandi in the relief and development sector. My experience suggests that projects have had a big role in constraining the relief and development progress, but they still remain the dominant way in which all the major organizations in the sector operate.

There is not going to be an end to the use of “projects” in the immediate future, but there can be a big improvement in the performance of projects. Improving the performance of “projects” can have a big role in improving the overall performance of the relief and development sector.

The project cycle can be tweaked

The project cycle can be improved in a few modest ways that will substantially improve performance. Perhaps the most critical is to put more emphasis on the implementation stage, and building into this step, much more oversight with measurement, analysis, feedback and adjustment. The basic World Bank project cycle is: (1) Identification; (2) Preparation; (3) Appraisal; (4) Negotiation; (5) Implementation;

## Chapter 38 - Improving Projects and Programs

and, (6) Evaluation. What needs to be done is to ensure that implementation is optimized around the realities that have to be faced operationally.

### Oversight and measurement

The idea of oversight and measurement needs to be made an integral part of the project operations. The sort of measurement needed is simple normal rigorous accounting and timely reporting. The specifics will change from project to project. Just as they do from department to department in the corporate world ... but there should be timely accounting for all economic, that is financial, transactions.

Every month, the oversight managers should get a simple report about what has been spent and what it has been used for ... basic management accounts. From time to time there should be reporting against key performance benchmarks ... whatever is appropriate.

None of this is a change in project cycle and project design ... but it is a change in the way things have been done. Much more attention needs to be paid to accounting, to the professionals in accountancy and to the information that the accountants are presenting. Rather than being an unusual part of the oversight team, a professional accountant should be right in the middle of most of the oversight process.

### Mitigating shortcomings of the project cycle

Some steps can be taken to mitigate the shortcomings of the project form of organization. Some of the issues include: (1) a short life; (2) issues of starting up; (2) issues of closing down; (4) an impermanent artificial structure; (5) all sorts of economic distortions, not least of which relate to personnel are pay scales; and, (6) excessive complexity.

Some of the easy changes to make are: (1) make projects go on for a much longer period of time, especially extending the duration of existing projects that are demonstrating success (2) reorganize existing projects so that the implementation is within the main framework of the government organizations and civil service; and, (3) break down big complex projects into multiple simpler projects where the organization and the activities can be much better aligned.

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## Terminate non-performing projects

There are some great projects and some dogs. On average, relief and development has failed, and this is because there have been too many dogs.

With decent oversight and accounting it is possible to identify the dogs, and do something about it. There are two ways to go: (1) fix the problem, which will often be a major change in personnel and maybe project design; or, (2) eliminate the problem, that is terminate the project. Neither are good options, but they are far better than continuing to use good money to do nothing or worse than nothing.

## Build on success

Some projects do very well. If the project is going well ... learn from it and if possible extend it and replicate the model in other suitable places. When a project is designed right, and the staff are good, the scale of success is significant .. the socio-economic value is multiples of the cost.

### Replication of Success ... or Failure

The Shenge Project (see Box page nnn) was a great success. But it ended because the relief and development sector has a narrow view of sustainability and does not have good projects that go on for ever. Everything closes down when the time is up.

When I was asked if the Shenge Project was sustainable my response was absolutely yes at the community level, and no at the country level because nothing in Sierra Leone was sustainable if it required any foreign exchange or government funding at all.

The FAO and the UNDP allowed this project to close even though its contribution to the community and the area was amazingly good ... I had the facts and the operational costs and the economic benefits well presented. But this was NOT a factor. Decisions were not going to be confused with these data about excellent performance.

Around the same time a project that was failing ... costing more than expected, and doing much less than expected and totally falling behind in attaining its objectives ... was extended and allocated more money.

The simplistic argument was that there was no need to extend a project where the objectives had been met ... perfect bureaucratic nonsense.

## Chapter 38 - Improving Projects and Programs

In almost every project, there are things that are going well and adding to socio-economic development value, and elements that are not doing so well. By doing value analysis it is possible to improve implementation so that good things are replicated, and bad things terminated. This is not being done enough, and it has had devastating effect on performance over the years.

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## Oversight of the development project portfolio

Many countries in the “south” have development project portfolios that are funded in part by the government budget and in part by development grants and loans. The oversight of these projects can make a significant difference to socio-economic performance.

### Analysis of a Development Portfolio

Some years ago (around 1994) I set up a PC database system to provide oversight to the development project portfolio of a “south” government. I was instructed to focus on the 10 largest projects, and not to bother much about the 2,000 odd other projects that were in progress. But, of course, a database system enables one to do simple analysis of everything in the dataset rather efficiently while it does not do very well with “deep” information about just a few items.

We were able to get quite a lot of simple information about all the projects, and do this quite quickly based on various reports that the headquarters had asked of the projects and were in the files.

There were all sorts of reports about the big projects ... favorable and unfavorable.

We had a lot of data.

Sadly the government did not have much money ... the big projects were consuming all the money and more, and were being driven by external donors (World Bank and bilateral lenders). There were cost overruns on the big projects and this was pulling funds from the small projects ... but our little Project Administration Office had absolutely no clout with anyone that mattered. The big projects were out of control, but the World Bank and the bilaterals did not have systems to take control or intervene in failing projects.

Almost all the 2,000 smaller projects were cut back in funding to levels that allowed them to stay active, but ensured that they would take a very long time, if ever, to complete. Every one had senior staff on the payroll, even if there was little or no activity. Projects that were nearly completed were cut back the same as ones that were just starting ... so the value was delayed. The big driver was senior staff on the payroll and not how to get the most value from best use of resources.

It was an interesting piece of work. I worked with two government officers who were academically bright and with considerable experience. They understood the analysis and the conclusions that were emerging ... and while I saw no impact of my efforts while I was working in the country, I think there will be prudent use of the analysis as time goes on.

## Chapter 38 - Improving Projects and Programs

With strong value analysis and the database of project information referred to above, a better use of scarce resources could have been accomplished. Some projects generate value during their implementation, for example, a project to provide educational supplies, but a project to build a bridge only has value when the bridge is complete and can be used. In this portfolio value could have been maximized by completing almost complete projects and cutting back on projects that were still in the study stage. This can be tough ... because politics and allegiances are involved as well as just simple financial analysis and economics.

Multi-year planning can be helpful in optimizing value. Rather than canceling a project, adjusting the scheduling of projects can result in more value sooner, and more cost later. This is usually advantageous, and result in very much better results.

### Project accounting and accountability

There also needs to be a strong framework of accounting and management information for the project and for the government of the country. The area of accounting has been a low priority, but it is the strongest tool available to address the epidemic of corruption that pervades almost all areas of economic activity. All projects funded and implemented through government should be integrated into the national accounting mechanisms ... usually a single treasury account system and be supplemented by good analytical accounting for project performance.

The process of integrating projects into government structures and civil services cadres will reduce the distortion caused by “projects” recruiting good people out of the permanent government system.

### Project financing

The rules of financing need to be made a lot more balanced, especially as regards exchange risks. The practice of only financing in a basket of currencies like the US dollar, the Canadian dollar, the UK pound sterling, Swiss franc, etc. should be changed so that repayment is based on the local currency value of the hard currency at time of negotiation. In this arrangement the economic performance in the “south” and the value of local currencies then becomes a matter of major concern to the lenders. This then becomes an incentive for

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really constructive engagement so that there is overall economic performance in the “south”.

### Action plan to improve project performance

My immediate reaction to project performance was to advocate for a change to a different implementing modality that did not use the project structure. Reflection suggests that there will be more progress more rapidly merely by having rather modest incremental changes. In fact, the changes are not revolutionary at all, but merely practical application of what is often talked about.

There needs to be improvement in the accounting so that all the stakeholders in project performance can have a factual base for dialog and decision making. Every good corporation can easily produce meaningful monthly accounts, and relief and development sector projects should be able to do the same.

There needs to be improvement in the metrics about activities and results so that it is possible to tell how much the various activities are costing and the value of the results.

To the extent that there are questions about what value to assign to value, that is, for example, what dollar value to assign to a child not dying from malaria, there needs to be a public dialog and eventually a set of “standard values” that anyone can use.

Where it is apparent that a project is not performing to an acceptable standard, whether it is in respect of the accounting or relative to performance, then the project should be terminated with the least possible cost.

There also needs to be much more ability to change a project to improve its performance. Every plan can be improved based on what one learns during implementation, but this requires both a learning cultures and an action culture.



## Chapter 39 - The Sectors

## **Chapter 39**

### **The Sectors**

#### **A Sector View**

##### **Hundreds of sectors**

There are dozens of sectors and sub-sectors. This is just a small part of a comprehensive review of sectors, but needed because sector thinking has become commonplace in the relief and development sector, and a lot of organizations are organized along sector lines and have a single sector focus.

Most governments have ministries that are responsible for sectors: Ministry of Education, Ministry of Health, Ministry of Transport, etc.

The United Nations has established a range of organizations to focus on different sectors: FAO for agriculture and fisheries, WHO for health and UNICEF that has a focus on children's health, UNIDO for the industrial sector and UNESCO for education, science and culture.

Each sector has its own technologies and best practices. But in the developing “south” the success of one sector is often constrained by the limits of some other sector. This argues, therefore, for a relief and development approach that ensure that there is a multi-sector involvement.

##### **Multi-sector linkage**

When I was first engaged to work in relief and development planning I worked with “projects” and I worked with “sectors”. With relief and

development results so bad, it is clear that not just one but many things needs to be fixed, that a single sector approach to project design is insufficient. Even if a single sector project is well designed, a project needs performance in many other sectors in order to be successful.

### Multi-Sector Linkage - The Power of the Telephone

My own experience operating in the “south” showed me very tangibly how much inter-sectoral dependence there is.

In the “north”, when something goes wrong, the solution is easy. Use the telephone to call up a supplier, pay money and almost instantly get the goods or services. Someone operating trawlers in the USA could get all the maintenance needed simply by telephoning. Spare parts are easy to get, and do not have to be sourced from half way round the world.

I did not realize how much this is taken for granted until I became involved with running fishing trawlers based around the world in the “south”, and frequently not even in a urban setting. We needed to be able to do everything for ourselves. We had water wells for water, electric generators for electricity, maintenance technicians and spare parts for everything electronic or mechanical, and took care of absolutely everything ourselves. When a trawler needed maintenance, we did it all ourselves.

But while this was the fisheries sector, keeping ourselves operating required support from every other sector.

The issue is pervasive. I have been told over and over again that people will not come to the remote rural area to work because something they need is not available. It can be health services, or schooling or the social situation ... but it emphasizes again the importance of the totality of sector and function in order to have success.

A sector is not tied to any location, though what is best in a sector can change from place to place. There has been a lot of thinking about development in a sector, but it has not been universally successful. My experience has been that single sector intervention in a resource constrained community is likely to fail, simply because not all the constraints are being addressed. All the other constraints remain in place. Nothing is optimum until all the constraints have been addressed.

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## Sector expertise

Sector expertise is very important, and the products and services associated with all the sectors should be accessible everywhere they are needed. In the poor “south” only a limited amount of sector expertise is available, and a lot of things that ought to be easy to fix never get done.

The relief and development community has responded to this in some measure. Instead of agriculture projects, the World Bank morphed into rural development projects, which was a reasonable response to the problem within the construct embraced by the World Bank.

From a community perspective there needs to be the sector expertise that is needed to improve the community. There are many sectors that might be needed ... very much depending on the nature of the community and what the community wants to make as a priority.

## Sectors

This is perhaps not a complete list of sectors, but it is enough to give an idea of how many sectors are involved in making society work in a reasonable manner. The relief and development sector will succeed when all the sectors are able to function appropriately in any place in the world.

A more comprehensive view of sectors is being developed for publication in a companion book “A Sector Perspective on Relief and Development Performance”. The following list is in alphabetical order.

Table – Sector Overview

Sector	Note
Academic sector	Potentially a source of a lot of knowledge, but much of the work is academic without being valuable.
Agriculture sector.	Not widely acknowledged any more, but a key driver of prosperity in the “north” and very efficient. In the “south” in contrast, too much of agriculture remains little better than subsistence.

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Sector	Note
Banking and finance sector.	Hugely profitable, but services essential to the “south” are not available because the profits not big enough.
Construction sector.	Local construction companies ought to be a driver of local economic performance, but they are often displaced by foreign contractors. Quality needs to be professionally controlled.
Education sector.	The education sector is critical to the future performance of the economy, but badly underfunded and good education is far from being accessible to all.
Employment or jobs.	Create employment and jobs, and a lot of relief and development problems go away. This ought to be a major priority.
Energy sector.	The supply of energy to the “south” is poor and a constraint, while raw energy sources in the “south” are tremendously rich and exploited almost totally for foreign benefit and some small local elite.
Enterprise sector.	A simple way to describe the private for profit organizations that can be the driver of sustainable socio-economic progress.
Fisheries sector.	A potentially valuable sector in the “south”, but often the bulk of the value is exported by commercial fisheries agreements that are bad for the “south”
Governance and administration sector.	This ought to be facilitating socio-economic progress, but too much is constraining progress. Not enough accounting and accountability.
Health sector.	The health sector is critical to the health of the population, and seriously underfunded in the face of some pandemic health issues.
Housing sector.	Housing is a sector that can be a useful driver of economic progress. There is a big need for affordable housing, especially in urban areas.

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Sector	Note
Infrastructure sector.	Getting infrastructure upgraded can be a driver of the economy, but only if it is done with some understanding of the dynamics of development and the damage caused by economic distortion.
International trade sector.	There needs to be a lot more of fair (equitable) trade than merely free trade.
Legal and justice sector.	Too often underfunded and unable to function well. Not well integrated with traditional systems of justice.
Luxury sector.	This sector has a high profit derived from the huge disposable income of people with great wealth. Mainly involved with obscenely expensive baubles and toys.
Manufacturing sector.	The sector can be a valuable part of the economic mix. It is not going to be success except in places that commit to an efficient economic environment.
Military and security sector.	More sunlight is needed in connection with military equipment and supplies and how they are used.
Mining sector.	A sector that ought to produce huge value for the “south”, but it needs work to allow it to achieve value for the “south”
Natural resources sector.	Natural resources of all sorts are abundant in the “south” but not exploited much for the benefit of the “south” but mainly for the benefit of foreign investors and their foreign staff.
Productive sector.	These sectors include mining, manufacturing, agriculture, fisheries, etc. that make things needed for society locally or internationally.
Professional sector.	The professional sector is not central to relief and development efforts, yet it is one of the key ways that an economy becomes self-sufficient.
Public sector, private sector.	If it is government it is the public sector, if it is not, it is the private sector.

## Chapter 39 - The Sectors

Sector	Note
Relief and development sector.	A shorthand to cover all the activities of the official relief and development organizations, governments, NGOs, etc. that work on disaster relief and socio-economic progress.
Retail sector.	Look at the retail sector and a lot can be learned about the state of socio-economic progress.
Social sectors.	These sectors include health, education, etc. that are needed to improve the status of the population.
Telecom sector.	The telecom sector has evolved a lot in the recent years, and change continues. Getting relief and development friendly telecom is critical to success.
Tourism sector.	Tourism has great potential for the “south” but it needs management and development of destinations.
Transport sector.	Transport is part of the infrastructure that is in great disrepair in the “south” and costly to the society.
Wholesale and distribution sector.	Wholesale and distribution is highly efficient in the “north” and a tremendous constrain in the “south”.

## Chapter 40

### More on Sectors

#### More ... but Still Not Much

##### Introduction

This chapter describes a number of sectors in a little bit of detail, but still not very much. For relief and development to be successful. All sectors must be optimized and at least cost.

The following are in alphabetical order. There is some overlap because of the value of looking at set of sectors as a group.

##### Academic sector

The academic sector has several important impacts on relief and development performance including: (1) substantial use of relief and development funds; (2) a substantial influence on thinking and public perception about relief and development; (3) a big role in “teaching” relief and development to students and future policy makers; and (4) being controllers of information about relief and development.

The academic community has a challenge to show that its work in the relief and development area is net value adding. There is some evidence that relief and development resources are being used to a considerable extent to fund academic programs while there is little tangible benefit at the community level in the “south” where needy beneficiaries live.



### Agriculture sector

Part of the productive sector, and of huge importance in the global scheme of things. Without food, there is no life. The revolution in agricultural productivity set the stage for the “north” to become wealthy a long time ago, and it is often overlooked that “north” agriculture remains amazingly productive. Under 5% of the “north” population is engaged in agriculture and there are embarrassingly large surpluses.

In contrast poor “south” countries might well have 80% of the population engaged in rural agriculture and associated support activities, and the country is hungry because there is not enough food. This is all about productivity, and a terrible failure of the relief and development community.

### Banking and finance sector

The “south” needs a broad range of banking and financial services that help each segment of the economy and the population to progress.

In the last four decades rural banking has stagnated and in many places has disappeared. Perhaps for the last 25 years there has been some growth in microfinance, but this is a very limited subset of banking and arguable not an important subset. The growth of micro finance is progress, but it is not the single silver bullet that is going to solve all the socio-economic development problems of the south. In any community, there is a need for at least three main financing components: (1) micro finance that serves the individual and micro-business; (2) mini finance to satisfy the needs of the small and medium sized businesses; and, (3) muni finance that provides financing for economically desirable community projects.

We need to figure out how to do this, and I will argue that it is not very difficult. All it needs is for some financial brain power to address the problem, combine it with some ICT brainpower and some solid practical knowledge flowing from remote rural communities that need community financing, and the problem will soon solve.

### Construction

Almost all construction in the “south” be undertaken by organizations based in the “south” and using professionals in the “south”.

# Revolutionary Change

Performance may be enhanced in some cases with technical input from the “north”, but it should be limited and relevant to the issues at hand. However, almost all of the infrastructure building that is needed can be done by organizations in the “south” with little or no technical assistance from the “north”.

The quality of the work in the “south” should be ensured in the “south” just as it is in the “north” by independent professionals and quality control organizations like independent testing labs.

The goal should be to construct infrastructure of an adequate quality at the lowest possible cost so that the economy can be more productive.

## Tarmac Roads in Equatoria, Sudan

I worked in the south of Sudan in the 1980s. It was an interesting learning experience, to say the least.

I have had an interest in the transport sector since my student days as an engineer. So I took some interest in the transport situation in the Equatoria Region. The most important local highway was the road between Juba and Yei, a very unpleasant ride in dry weather and practically impossible when there was rain. This was not an “all weather” tarmac road but a deeply rutted laterite road in need of a lot of maintenance. There were very few trucks (except those owned or contracted for by UNHCR) and a heavily loaded pickup would usually get stuck. A surplus of agricultural produce in Yei did not easily move to Juba, a government city with food shortage.

As I recall the Canadians had brought road construction equipment into the area. It was in a yard in Juba, and had been for some years. Apparently it had been donated by Canada, but was used equipment without spare parts. USAID had also done some road construction, but their beautiful tarmac roads were limited to the confines of the USAID compound. Kuwait had done a few miles of tarmac road construction, basically from the airport to the Government Buildings, past a new mosque that Kuwait had financed and just a few weeks before the Emir of Kuwait made a visit to Juba.

Value analysis of the road from Yei to Juba suggested that improving the road to a reasonable all weather standard so that the separate markets of Yei and Juba could interact without a transport constraint would give a payback measured in just a few months. Instead the international relief and development sector had really done absolutely nothing.

### Education sector

Education is, more than anything else, the investment that will facilitate a successful future. As noted already, education is merely an enabler. Educated people need jobs and opportunities to be able to have valuable lives, but this is impossible when people have not had education.

The value of education is not a “certificate” but the training of body and mind so that a person can do valuable things. Education needs to move from basic to higher levels where a person is not only challenged academically, but also is prepared for a productive life. Accordingly there needs to be not only primary, secondary and tertiary education, but also vocational and professional education.

Education does not need to be done in traditional or old-fashioned ways, but in any way that works and is cost effective, including using electronic resources of various sorts. The education sector is likely to include activities related to the use of Internet resources.

### Employment or jobs

Jobs is not really a sector ... but employment and jobs are very important. The effort to creating self-employment opportunities that require a lot of labor for very little return needs to be supplemented by much more effort to make it possible for small employers to become bigger employers, and for employees to self-improve so that they can do bigger and better paying work. The jobs that are created need to be profitable, that is value adding, in order to be sustainable. Where the value is social, as in health and education, there also needs to be jobs in productive sectors that generate the cash flows to pay all the wages.

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## Productivity

Productivity of employments and jobs is a key issue. People in poor societies work very hard, but at the end of the day, they have merely survived for another day, and that is about as much as they can hope for. A women and the girl children spend hours every day collecting water for the family. It is unproductive work, terribly inefficient, though at the same time of critical importance. People in the “north” get upset when the water turns on and it takes just 15 seconds for the hot water to arrive! What on earth would happen in a “north” city like New York if the water took hours for everyone to collect every day. It is unimaginable. But half the world's women are employed in this way.

The key is not merely to have a lot of people at work, the goal is to have a lot of people doing efficient productive work that has value.

## Energy sector

The energy sector has two very different dimensions in the “south”. There are huge energy resources that can be exploited, and there is a shortage of energy that constrains development.

At one level there are abundant fossil fuel resources, especially oil and gas, and also coal, and on the other end of the scale, there is a dramatic shortage of fuelwood and charcoal for household cooking.

Better management of the energy resources would yield substantially more wealth for the “south”. This is something that should be a priority, but it is not easy to do. Big energy is an “extreme” area of hardball business. The stakes are very high, and the wealth flows associated with it unimaginable.

The energy arena is not getting easier, but a lot more difficult. The oil and gas industry is not just big “western” companies, but also companies from Russia and China. Companies from other countries like Venezuela, Mexico and India are going to change the energy sector landscape. Whether this will make the sector more beneficial to people at the “bottom of the pyramid” is not at all clear ... but there are interesting possibilities.

There is an opportunity for wealthy oil and gas enterprises to embrace the moral high ground and start doing a lot more for communities in places where they operate. Though politics is often controlled by the gun, people power can have an enormous impact. Guns did not get

the British out of India, but people power with Mohatma Ghandi in the vanguard. Martin Luther King did not catalyze progress in racial relation with the gun, but by mobilizing people peacefully.

The lack of electricity in poor places is a chronic problem. The technology exists to have adequate electricity supplies, and to distribute electricity to where it is needed. It takes investment, and it takes a reasonable approach to profit expectations. The key requirement is that electricity investment and electricity management and operations are done efficiently, ethically and without being dominated by greed and corruption from any quarter. This is possible, but it cannot be achieved simply by “privatizing” the sector and moving initiatives from an incompetent ineffective “public” sector arena to a totally unconstrained profit maximizing arena. One is as bad as the other. Good management in an enterprise that aims to maximize the public good is entirely possible ... and a good way forward.

### Enterprise sector

I sometimes refer to “for profit” organizations as the enterprise sector. These organizations have been vitally important in the “north”, and especially in the United States, in building wealth. The incentives in the enterprise sector are all favoring the use of least resources for maximum revenue ... the least cost most value idea that is essential to economic value creation.

The enterprise sector in the “south” accounts for almost all value adding activity, and is struggling within failed economies where most of the financial resources are controlled by government and indirectly also by donors and the international financial community.

Getting the enterprise sector to grow and be profitable has multiple benefits including the multiplier impact of more jobs and the impact of tangible value adding in the community. A healthy enterprise sector attracts other investment, and encourages other entrepreneurs to become involved.

### Fisheries sector

Fisheries is another component of the productive sector. The dynamics of fisheries are very different from agriculture, with best performance not achieved with maximum investment, but usually

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with less. The relief and development sector experts have often got it wrong, and there is far too much over-exploitation of the resources.

The “south” has opportunities in the fisheries sector, but they need to be better at negotiating how fishing resources are exploited. Local investment is needed rather than foreign investment, and access to major markets should be negotiated so that there is reasonable benefit for the “south”.

Value chain analysis in the fisheries sector will show that many fisheries agreements can be improved significantly if the agreements were reasonably fair, rather than being totally in favor of the foreign parties.

### Governance and administration sector

The essential activities of governance and administration are supportive in nature, and only result in tangible economic benefit when there are also productive activities in the economy. Bad governance and administration can be a huge constraint on success, and improvement or diminution of the bad activities in governance and administration can be very favorable.

Getting rid of corruption is the obvious big issue, but there are a lot of other smaller issues that can be addressed. For example, reducing the complexity of procedures to do routine administrative activities, and shortening the time to do these things all helps.

### Costs for a legal and justice system

I have helped prepared government budgets and plans in various parts of the “south” and have been faced with the need for legal and justice activities to be paid for through the budget. A modern legal and justice system along the lines of the systems used in the “north” is beyond the financial capacity of most “south” governments. When staff are very lowly paid, or paid late or intermittently, then all sorts of petty corruption starts, but when there is only a small reasonably paid staff it only reaches as small part of the population.

Increasingly communities in the “south” have had to address the issue of a working legal and justice system by reverting to traditional systems ... in many cases with excellent results.

During my work in Somaliland, I was able to learn something of the traditional system of clan justice, and was impressed with its reach to every single member of the clan. The fact that all of the society was part of the same system of traditional law made it more useful than the modern law, that had little impact on daily life for anyone except a very few.

In Mozambique, after its long civil war, it was impractical for the government to go through lengthy modern legal processes for all the young soldiers who had committed various forms of atrocity in connection with the war. They did not have the money nor the people to do it. Instead they reverted to community level traditional systems to punish and reintegrate everyone into their society. The system made it possible for the country to become a lot more stable and reintegrated than would have been possible using a more modern formal “north” approach.

And of course, the Truth and Reconciliation Commission in South Africa broke tremendously valuable new ground in bringing together people who had been sworn enemies and committing atrocities for years in a reasonable length of time and at a manageable cost.

The public sector's most important job is governance and administration. It is important, but it does not in itself create wealth, and is an “overhead” of society and socio-economic development.

These functions facilitate success in a society, and bad governance and bad administration can be a huge constraint on the performance of society and the progress of socio-economic development.

There are a whole host of activities that “government” is expected to provide for the citizens. In the “south” the government has often found itself in a financial bind, and the delivery of services is impossible because of the funding constraints.

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A lot of services are best delivered at the local government level rather than by an organization controlled and funded by a remote central government, such as local public works such as street repair and waste removal.

## Health sector

The health sector in the “south” is very challenged. Sickness is aggravated by poor water and malnutrition almost everywhere in the “south”, and resources for care and cure are very limited. Almost everything is in short supply, and even though there is a health crisis throughout most of the “south”, there are substantial financial abuses both in terms of the misuse of resources and profiteering by suppliers of medications and equipment.

Even though there is crisis in the “south” health sector, some of the staff do amazing work with very little. The tardy payment of nurses is common.

But health sector performance is unsatisfactory in the “north” as well. Though scientific developments in health have been amazing, the cost and the inefficiency of modern medicine is mind boggling. In some places in the “north” the high costs and profiteering now makes good medical attention unaffordable for many of the poor and middle class.

Good management information and public accountability has the potential to be of substantial value to help performance improvement.

## Housing sector

The housing sector has not kept pace with the growth in population, and the quality of shelter for many in the poor “south” is less than satisfactory. Urban slums are common, and rural shelter is poor reflecting the poor state of the local economy.

Few houses in poor areas of the “south” have adequate services. Water and latrines are generally unsatisfactory, and contribute to poor health in these places. There is little access to electricity. Not surprisingly, there is little access to telephone and Internet. Living conditions are bad, and the crowding is contributing to the increase in diseases like tuberculosis.

The solution to housing should be one that involves both the private sector, government and the financial sector. With thoughtful



planning, the housing sector can be a valuable component of economic activity and serve to upgrade the housing sector and the employment sector at the same time.

### Infrastructure sector

There is enormous catch up to do in order to get the infrastructure in the “south” up to enough basic levels of performance. There needs to be investment to catch up on maintenance and to put in needed infrastructure, especially around communities.

There are many dimensions to infrastructure including (1) Roads and bridges; (2) Seaports; (3) Airports; (4) Housing; (5) Water; (6) Sewage and sanitation; (7) Hotels; (8) Tourism destinations; (9) Public buildings; (10) Schools; (11) Health facilities; (12) Telephone and Internet; and, (13) Electricity.

Most of the construction associated with infrastructure ought to be done by local construction enterprises ... and the planning of infrastructure initiatives should be based on the idea of creating the most value adding in the community as the infrastructure is built, and as much longer term benefit for the community when it is in use. The aim should also be to build infrastructure using the minimum of external resources, and the maximum of the resources that are available in the community.

Building infrastructure in the “south” should not be a totally uncontrolled profit bonanza for multinational construction corporations, with additional debt the only certainty from the projects.

The amount of investment needed to upgrade infrastructure to “north” standards cannot be universally sustainable in the “south”. There needs to be incremental upgrading so that constraints caused by infrastructure are reduced. As economic performance improves, more upgrading can be justified.

Every community I have visited has always made reference to the need for easier transport in the rainy season. All weather roads are valuable, but they need not be to European or US standards. They just need to be usable when it is raining, instead of totally stalling traffic.

Any visitor to the “south” from the “north” quickly notices the problems with electricity. The status of electricity infrastructure is abysmal. Major upgrading is needed. There is no reason why investment cannot come from the private sector, except that the cost

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of international private financing is very high. The problem is exacerbated when government reserves to itself a monopoly position, and does not have a satisfactory level of expertise and oversight on the activities.

In the “south” the telecommunications infrastructure is poor, with little access to the Internet. Only high cost options for Internet access seem to function. The “south” has not yet embraced the idea of very low cost communications as a way to encourage development, but still uses the telecom sector merely as a vehicle for extracting maximum economic rent.

The railroads has a big part in the modernization of the economy in Europe and North America in the 19<sup>th</sup> century, and there was some railroad building in the “south” almost a century ago. Rather little has been done in the last fifty years, and mostly to support corporate minerals exploitation. A rail infrastructure is a valuable component of the economy, and helps to keep transport services low cost.

There has been a productivity revolution in modern ports, with almost total containerization and using powerful materials handling equipment. Modern bulk carriers are highly automated requiring small crews, and their cost is remarkably low. But not much of the “south” is able to take advantage of all of this. Most of the ports are antiquated with little modern materials handling equipment, and the costs are very high. Shipping costs in and out of Africa are very high, perhaps the highest in the world, and the service is the worst.

Large scale modern infrastructure is expensive, and it is only in rich countries that the economy can justify making these very expensive investments. High cost infrastructure in a low productivity economy is a formula for financial crisis. Infrastructure investment to upgrade needs to be done in an incremental fashion.

This can be done working from the community level. When infrastructure is looked at from a community perspective, what is the most important to the community can easily be identified, and there can be an investment focus on what gets the best results for the community. This has the potential to increase the socio-economic return from infrastructure investment from something that will not justify investment to something that is gives an attractive socio-economic investment yield.

### International trade sector

International trade has been a key driver in making some parts of the “south” prosperous. It was the driving force behind a lot of wealth creation in the “north” during the mercantile and colonial era, and it remains important today. The success of Japan, and then South Korea and now China are based on international trade. India's success has been more based on trade in services than in manufactured goods, but it is still very much international trade.

The poor “south” has little to trade that it can produce on its own. While there are some success stories about the “south” exporting to the “north” they are not very large in the bigger scheme of things. And in almost all cases, the real value is being generated in the “north” and not much gets to stay in the “south”.

There are constraints on exporting from the “south” to the “north”. It would be helpful if these constraints were easier to learn about.

#### Where is Ghanaian Chocolate?

Why is it that we never see retail chocolate “Made in Ghana” when Ghana is one of the largest producers of raw cacao, the primary ingredient of chocolate.

Ghana makes some good chocolate, but it is not at all easy to penetrate the markets of the “north” and profit from them. In some cases duties get in the way, in some cases it is rules about packaging and labeling, in some cases it is about factory inspections and health certification ... lots of things that make it difficult.

The international coffee and cocoa business is very profitable, but hardly any of the profit reaches the farmer in the “south”. The value chain from farm to consumer is long, and nothing much is left for the farmer, even though retail prices are pretty high. The situation for the farmer is so bad that conditions for the children on coffee and cocoa farms are not much above slave levels. In fact in some places, there is servitude that might just as well be called slavery.

The “Fair Trade” movement can be a step towards getting more money into the hands of farmers and into the communities where coffee and cocoa is grown, but the movement needs to ensure that it has an appropriate level of accountability and transparency in order to be credible. Value analysis needs to be well done, and the impact

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assessed taking into account any adverse unintended consequences. One that is already emerging it seems is that a favorable price for certain product is being offset by a reduced price and reduced market access for the non-favored product ... a classic situation when there is a market situation in play.

## Legal and justice

A legal and justice system needs to be in place. This can be either a central system or a local system, but it must have a functioning and have enough people and money to operate. It does not matter so much whether the system has a modern or traditional form ... what does matter is that it functions and that there is a socially acceptable ethical foundation for the society.

There are a lot of pieces in a fully functioning legal and justice system including (1) police; (2) courts; (3) prisons; (4) lawyers; and (5) legislators. The system is labor intensive and only works when there is sufficient reach for the criminal and illegal elements in society to have a reasonable expectation of being caught and convicted. In the “south” these functions are so underfunded that they may as well not exist for the vast majority of the society.

Places where there is social tranquility usually have a system of local or traditional law that is functioning well. In my experience, even where there is no visible presence of “modern” law, a society still functions on an ethical basis that is for all practical purposes universally acceptable.

An issue in many places is that the “executive” dominates the political space, including control of the budget. In this situation there is frequently far too little budget allocation to the legal and justice sector.

The rule of law needs to be fair, and justice needs to be universal. There is a lot of work that needs to be done so that everyone has some of the benefits of fair laws and equal justice.

There are too many situations where the law serves to make something unethical, immoral or unjust, legal. This is particularly true in a lot of areas of commercial law, real property law and intellectual property law.

Traditional law is often better suited to local society than more modern statutory law that has been introduced by academic lawyers

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from the other side of the world. One of the issues in poor communities is the cost of justice, and traditional law is often far more cost effective and the only affordable justice.

Justice at the end of a gun is far too common around the world. Guns are bad news.

### Luxury sector

The luxury sector is a driver of a lot of the apparent wealth creation in the “north”. The value chains associated with the luxury sector are unusual ... and while profits are real in an accounting sense, the value associated with the profit makes little sense.

When a fashionable pair of shoes is priced at over \$2,000, or a handbag a similar amount ... there is a huge profit in being the supplier and being in the supply chain.

But at the end of the chain a person only gets a pair of shoes or a handbag ... and a basic pair of shoes or a handbag would be more correctly priced at something like \$50.

The same thing is going on in the automobile industry. Various types of automobile are being built and then being priced at luxury prices from \$50,000 to \$250,000 and up. Basic transport can be priced at (say) \$20,000 and be perfectly functional. The “phantom value” in the supply chain is not real value at all, but merely a process of value destruction subsidized by the very wealthy.

Concentrated wealth and huge personal fortunes is very good for the luxury sector, whether it is for the sale of jewelery or the sale of luxury yachts ... neither of which have very much socio-economic value ... but the wealthy still buy them. The bubble of the luxury sector may go on for a long time. The capital markets have concentrated a lot of wealth into relatively few hands, and these people may sustain the luxury market for a long time ... but not for ever.

### Manufacturing

The manufacturing sector is the economically failed “south” has not been at all successful, but in the emerging success stories from the “south”, manufacturing has been an important driver.

There are several things that need to be brought together in order for manufacturing to be successful: (1) availability of materials; (2)

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availability of productive low cost labor; (3) a reasonable enabling environment ... that is laws, regulations, culture, etc.; (4) working infrastructure including transport and energy; and, (5) markets and profit potential.

In the poor “south”, manufacturing is constrained by most of these elements. There are some exceptions, but profitability has always been compromised because of the need to carry out activities that would normally be part of the enabling environment and infrastructure.

But without manufacturing, socio-economic progress must be constrained. Jobs are going to be limited, and jobs are critical to success.

It is possible to be very successful in manufacturing in the “south” but it is not quick and it is not done by a singular focus on short term profit performance. It must almost be considered generational ... but there has to be a start, and now is as good a time as any to get started. Some places in the “south” have proved to be very efficient at factory production. The results are not uniform across the “south” for a variety of reasons. At one time Europe and North America manufactured and everyone else bought their manufactured goods. More recently Japan and the Asian Tigers started to be the source of manufactured goods and now it is China that is the biggest producer of manufactured goods of most types, and India is becoming increasingly competitive.

Manufacturing is an important part of economic security. Africa, with the exception of South Africa, does far too little manufacturing, and is not attracting investment capital into the manufacturing sector. In most places in Africa, manufacturing potential is low because there is a very low productivity. In Africa, too often wages are too high and production and quality too low. To add insult to injury in Africa, the infrastructure is also bad and that increases costs even further, and the availability of suitable raw materials another constraint. Where does one start?

### My Experience in Madagascar

For some years I was a consultant to a manufacturing group in Madagascar. I have described this group as one of the best managed companies that I had ever seen, in large part because of their commitment to training their staff. Even though Madagascar had tremendous socio-economic problems, and was faced with terrible foreign exchange shortages, this company still put its staff training as a top priority.

As a result, the company was able to produce world standard quality and was able to participate in the global market on an equal basis with other world class producers.

The company invested in good production equipment, and the staff were able to use this equipment to make the very best quality product at very competitive costs.

But all of this took time.

Start somewhere. What is needed, and people can pay for? Can it be made and be profitable in the face of product already in the market? Africa has all sorts of shortages. Can any of these shortages be turned into a local manufacturing opportunity?

### Military and security sector

The military and security sector is a source of great distortion in modern economies, not only in the “north” but also in the “south”. The fund flows associated with military equipment and supplies are substantial, and rarely have a good impact on the civil economy. Rather military fund flows tend to subtract from what is available for the civil economy.

While “security” is a legitimate concern, it should not be confused with the idea of protecting privilege or maintaining illegitimate power.

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## Worry About the Power of a Big Army

I was in on an assignment in West Africa when the Falklands war was in progress. I was surprised that my African colleagues were supportive of the British response to the Argentinian takeover of the islands ... until they explained that they were all worried that a “big army” should not have any right to come into a nearby country and take it over. They were from a variety of African countries, and big armies were everywhere.

A good army is a national asset ... and can prove to be very valuable in an emergency. Of special note, I believe that the performance of the Indian army in a variety of natural disasters has been very good indeed.

But the use of the army does not always produce good results, as for example in support of local political and strong man regimes that have little interest in the wellbeing of the people.

Making sure that the military use their power in an appropriate way depends more than anything else of the quality of the leadership and the training of the soldiers. There is a lot of good military leadership, but it is not universal.

Getting a high professional standard for all soldiers around the world is a valuable thing to do.

## Mining sector

Mining and the exploitation of minerals in the “south” ought to be generating a lot of wealth for the “south”. It will do so when the agreements are fully understood by all parties, especially the signers for the “south” and there is a solid framework for value analysis.

It is not clear what role bribery and corruption plays in the sector, but it is probably significant. It is likely that substantial fund flows do not benefit the country but only benefit individuals. This is difficult to address, because the amounts involved are huge. Without addressing this, however, the wealth creation that is possible will never materialize.

The international mining companies are at an interesting stage, and they are likely to have some advantage when they are seen to be of benefit to the local communities where they operate. This is not an easy balance to achieve, because large scale mining causes a lot of



change ... but it is possible, and could result in mining being pulled to communities rather than having to be pushed into the communities by the mining companies and a small elite.

### Natural resources

There are some resources in the “south” that everyone knows about ... gold, diamonds, copper, bauxite, iron ore. There are world class energy resources ... oil and gas, and coal. There is timber and amazing biodiversity. The potential for development of these resources is huge. But there is a big open question about who benefits from the development of big valuable resources in the “south”.

The “south” will probably benefit more by exploiting resources on a smaller scale, and in ways that enable the “south” to maintain a good measure of control over the distribution of the surplus to stakeholders. To have progress in the “south” it is critical for the “south” to earn value from the exploitation of its resources so that there is wealth creation in the “south” for further investment and to pay for essential social services like health and education.

Experience has shown that large scale foreign direct investment (FDI) is often good for corporate owners and those that benefit from profit, but that rather little of the value added of the enterprise actually gets to stay in host communities. Will ordinary people in the “south” be any better off if the major resources are developed and exploited in ways that are the same as the old colonial model under a different name. These “south” resources have huge potential, but is it a potential that can be of much value to the “south”?

Natural resources in the “south” are many. They include: (1) Petroleum; (2) Water; (3) Timber; (4) Fisheries; (5) Base minerals (iron ore, bauxite, copper pyrites, etc.); (6) High value minerals (gold, silver, diamonds and other gem stones, etc); and, (7) the natural fauna and flora. They have a huge latent or potential value, but experience has shown that the “south” has not been able to earn a fair share of the value associated with the exploitation of natural resources.

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Merely knowing about the value chain and having the information easily available will have a substantial impact on corporate behavior. As long as the corporate world can profit and remain in the shadows and anonymous, bad things will happen as long as there is profit in it. But big companies do not like well informed bad publicity.

## Productive sectors

There are many sectors that make up the productive sector: agriculture, fisheries, manufacturing, mining, energy exploitation, forestry, tourism, transport, etc.

All of the activities in the productive sector transform input resources into something of more value ... when this is done in a for-profit organization the outputs are goods and services that are sold and a profit for the organization.

These are value creating operations ... and to the extent that there is tangible value creation in the productive sector, there is value that can be used for social value creation on the social sector.

## Professional sector

The professional sector includes professions like accountancy, law, medicine, teaching, engineering, architecture, the religious, etc. These professional people have standards for their work that enable people to rely on what they do. They serve to improve productivity in enterprise and in society and in so doing create tangible value in society.

By making better use of the professional sector in the “south” there can be substantial improvement in the productivity of the economy ... better decisions at lower cost.

## Public sector, private sector

The public sector is owned and operated by the government. In many countries a lot of social services are operated by the government, including education and health services. In countries embracing socialism, the government also nationalized major production industries and operated them in the public sector.

The private sector is everything else ... and especially the corporate for profit sector, private philanthropic organizations, and not for

profit organizations. Some health and education establishments are in the private sector.

### Relief and development sector

The relief and development sector is the subject of this book. But success in the performance of the relief and development sector depends as much as anything on the relief and development sector doing less, and all the other sectors doing more. We have argued in this book that the relief and development sector has performance badly, and cannot reform itself to be successful ... and that therefore there needs to be improvement in other sectors to improve socio-economic progress.

But when that happens, there are very valuable roles for many of the institutions of the relief and development sector.

The World Bank, for example, is an organization that can easily focus on rebuilding the “Public Finance” sector in the “south”. The World Bank is well suited to doing this work, and could do it easily within its present mandate. The World Bank could also be a useful financial partner in helping large scale public works projects for infrastructure improvement get funded. Broadly speaking, I would like to see much less policy intervention coming from the World Bank, but a strong commitment to being engaged with universal public accounting and accountability.

The UN needs to maintain its critical role in convening meetings and encouraging dialog, but should deemphasize providing finance and technical assistance. I would like to see the UN also committed to the idea of universal public accounting and accountability.

Central Banks around the world should be much more engaged in the relief and development sector representing the financial interests of their respective countries. They ought to be much more central stage than they have been in the past, and should be at the forefront of efforts to ensure that there is universal public accounting and accountability.

### Retail sector

When I was growing up in the UK, the country was referred to as a nation of shopkeepers ... a remark originating, I believe with Napoleon. At the time the UK was still very much a manufacturing country, but the quality of life was increasingly associated with

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consumption. The UK was probably behind the USA in embracing consumerism, but it was emerging. Today the retail trade ... shopping ... is a huge industry catering to the market in every way imaginable. In the USA, big box retailing epitomized by Wal-Mart is now the largest employer in the country. But the multi-store malls, department stores and urban shopping centers also are a huge part of the modern US economy.

Arguably shopping is the top entertainment in the rich societies of the world.

And in the “south” shopping is rather more of a challenge. There are much higher distribution costs because of poor transport infrastructure, there are few economies of scale, there are constraining import export and customs procedures and duties and the market demand is limited by peoples' buying power. It is nevertheless a very important part of the economy, and one that can play a great role in establishing sustainable socio-economic progress.

### Social sectors

The social sector comprises activities like education, health, support services for the vulnerable, and so forth. Social services have been a major focus for the relief and development sector, as well as for left leaning governments that have a commitment to social justice.

Expenditures in the social sectors are very valuable because they contribute significantly to quality of life, and they also serve as an investment in the future. But success in the social sectors does not translate directly into economic progress ... it merely removes a major constraint to economic progress. Without opportunity in the productive sector success in the social sector is for nought.

### Tourism sector

Tourism is a sector with huge economic potential. But tourism, like everything else, requires investment to support its development. Some places have developed tourism very effectively and have made it an important part of their economic success, but in many places tourism is totally undeveloped.

The “south” has all sorts of opportunities to develop its tourism potential, but, with some modest exceptions, it has not yet started to do anything like all that is needed. The infrastructure needed for

major international tourism has been deteriorating for decades, and it will take time and investment to bring it back.

### From London to Cape Town

My old school friend and flat mate traveled from London almost to Cape Town leaving London in August 1964 and reaching Salisbury, Rhodesia (now Harare, Zimbabwe) about a year later. He and 3 colleagues traveled in a 15 year old ex War Department Land Rover which eventually died on them when they got to Rhodesia.

Over many (more than 40) years the “south” has had young back-pack tourists learning about the world. While these tourists have a long term importance, because the learning is invaluable, they are NOT the sort of tourism that drives immediate socio-economic progress. The “south” needs to attract tourists that are spending money to do things and enjoy themselves.

In many places in the “south” , the only visitors are the “development tourists” ... the staff of the relief and development sector traveling on their missions, and the student back-pack crowd that are learning a lot but not spending very much.

### From Berbera on the Red Sea to Addis Ababa

A few years ago I drove from Berbera on the Red Sea coast in Somaliland to Addis Ababa in Ethiopia. It is a distance of about 800 miles and spectacular.

I was doing this trip as part of a consulting assignment, but it would have been wonderful to do the trip as part of a tour in a luxury motor coach, and staying at (currently non-existent) comfortable air conditioned guest houses along the way, with some traditional local entertainment.

It is a fascinating journey with great tourist potential ... one day ... maybe.

Tourism is successful when there are good transport facilities, good hotels and good destinations. Success also depends on good security and the perception that security is good.

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## Transport

The transport systems in Europe, in North America, in Japan are incredibly efficient. Transport is a very innovative sectors in terms of the adoption of technology. This needs to be applied to the “south” where transport infrastructure, roads, rail, ports, have deteriorated almost everywhere.

There is the need for a huge investment by both the public and private sector. Some valuable progress can be made by doing as much work as possible on a small scale in and around communities.

Other cost effective progress can be made by rebuilding roads to a workable condition suited to the “south”. The most incremental value is achieved by going from impassable to passable using low cost road building methods, and there is probably value destruction on going from this level of construction to super-highway at high cost.

## Wholesale sector

In the “south” wholesale is often linked to import / export. Wholesale is also associated with traders and middlemen. Wholesale and distribution in the “south” is often high margin, but it is also often high cost and profits are not as large as they might superficially appear.

There are parts of the economy where the wholesale functions are still provided by independent organizations. Spare parts for automobile maintenance are carried in inventory by wholesalers who provide rapid delivery to auto repair shops in their service area. It is a very efficient sharing of roles.

The wholesale trade may not have the same structure that it has had in the past, but the functions of transport, distribution, warehousing, break-bulk, etc. still have to be done. Though a larger part of the modern retail trade goes direct from the manufacturer to the retailer, all the intermediate distribution and wholesale functions are still done, but done in-house.

In fact every product and every channel of distribution is continuously evolving to respond to economics and market pressures.

### Wal-Mart

What is Wal-Mart? Is it a retailer, a wholesaler or a distribution company? Perhaps the best answer is that Wal-Mart is a success. It is also perhaps the best example ever of an organization that has used management information to optimize what it is doing to supply its customers with what they want.

It has been one of the world's leading users of management information for a very long time. It deployed mainframe computers for data analysis long before it was fashionable. They have been ahead of the curve in understanding customer behavior in their stores for years, as well as understanding the detail operations of their organization. They know their business and they know the data associated with their business.

As they grew it was not analytical genius that made them decide to integrate their supply chain backwards to the manufacturers of their products. But they were among the early adopters of integration of operational data near real time into every aspect of the supply chain so that inventory availability to customers at the stores went up and inventory investment as a whole went down.

I thought it was interesting on the second day after the 9/11 disaster to learn in the media that Wal-Mart knew its customer buying activity hour by hour at all its thousands of locations and knew precisely what was being bought by a population in panic. Milk and bread, then guns and ammunition as the hours progressed.

And Wal-Mart was able to divert hundreds of truckloads of supplies to hurricane affected areas in the aftermath of Katrina days more quickly than government organizations like FEMA.

There is a lot to learn from Wal-Mart. Excellence in the use of management information has been one of its key strengths.

## Chapter 41

### What Success Will Look Like

#### A Lot Better than What We Have Now

It is personal ... it is what you make it

The look of success will depend very much on each individual.

Incremental changes is difficult to see, but when it goes on for a long time and goes on in a lot of places, people eventually notice and are happy about it.

My community is a better place

All life is local ... if my community is a better place, then there is progress. When everyone is living in a community that is a better place, then the progress is huge.

When my local friends think that the community is a better place, that is good. When friends around the globe think all of their communities are better places then there is success.

Better is NOT just about government and the big established organizations and the powerful elites, it is about every ordinary person engaged in their very important but ordinary lives.

Less of war and violence

The newspapers should be having a tough time finding news of war and violence. It has become so common around the world that most



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war and violence goes unreported. But success is going to be when there is less of war and violence.

### Less of human rights abuses

Human rights abuses should not be in my neighborhood, but nor should they be in anyone's neighborhood. Anybody, or group or organization involved with human rights abuses should be held accountable. Peers have a big job to do, but when many are involved it becomes possible.

### Less of poverty

There should be a lot more low level prosperity. Money goes a long way in a poor community, and opportunity to earn a modest income will significantly reduce poverty and be sustainable.

### Less of hunger

With less poverty, there will be less hunger. Where there is buying power, there is little hunger. The power of the market economy will work to bring food to where it is needed.

### Less of stress and anger

A community of friends helps reduce stress and anger. When people give back, there is comfort and reduction in stress and anger.

### Add it all up

When you add it all up, and there is less of all the bad things in global society, then there is success.

The preamble to the American Constitution says it well ... "Pursuit of Happiness" will be alive and well, but not just for some 5% of the world's population, but for all the world's population.

## Chapter 42

### Afterword

#### Can We Have Success?

Certainly ... but only if ...

Two things seem to be important: (1) that good people become informed and become active; and, (2) that a lot more is done to constrain bad ethics and remove gross inequity. These matters need to be addressed by everyone to the greatest extent possible.

What's in it for me?

The poverty and destitution of the “south” is going to have disastrous consequences for the “north” ... sooner or later. The “north” cannot maintain its wonderfully material and profligate standard of living unless it has access to energy supplies and raw materials that are only to be found in abundance and at low cost in the “south” ... and there are enough intelligent poor to understand that their poverty ought to be substantially alleviated by the exploitation of the “south's” resources.

Global security is going to be better or worse depending on the success of the relief and development sector, much more than it will depend on the unilateral military power of the “north”. Military power is valuable as a deterrent, but much less valuable operationally ... and in a development context usually a source of extreme value destruction.