



DRAFT MANUSCRIPT  
INCOMPLETE

**MANAGEMENT  
INFORMATION**

**for the**

**Relief and Development Sector**



# Transparency and Accountability Network

# **MANAGEMENT INFORMATION**

**for the  
Relief and Development Sector**

**Simple ... but very powerful**

**By Peter Burgess**

**Published by  
Tr-Ac-Net Inc.**



Copyright 2006 by Peter Burgess

All rights reserved. No part of this book may be used or reproduced in any manner whatsoever without written permission, except in the case of brief quotations embodied in critical articles or reviews.

Published 2006

Printed by LuLu.com in the United States of America

ISBN X-XXX-XXXXX-X

Dedicated to my family and friends.



# TABLE OF CONTENTS

## **SECTION 1**

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

Failure  
Who Cares?  
How and Why  
So Many Things Are Wrong

## **SECTION 2**

### **A Way Forward.**

#### **Evolutionary Solutions**

Unlocking Latent Potential  
Organization: Management Information, Planning and Process  
People  
Communities  
Organizations  
Projects  
Sectors  
Functions  
Networks and Movements  
What Success Will Look Like

# **CONTENTS**

## **SECTION 1**

### **A Way Forward.**

### **Evolutionary Solutions**

## **Management Information,**

Management Information. Information. Documenting success. Coherent framework of analysis. Balance Sheet. Resources. Constraints. Statistics. Measuring efficiency. Fund raising information. Walking, not just talking. [Box: ActionAid and my own experience]. Managing information for effectiveness and security. Characteristics of good management information. Metrics for community progress. [Box: Okehampton, my home town]. Keeping score. Cost accounting. [Box: Cost analysis as foundation for strategic decisions]. Standard costing. Budget and cost control. [Box: Cost analysis and cost control] Management by Objective (MBO). Change. Explaining organizational performance. Ignorance had consequences. [Box: Bad costing in heavy engineering in the UK]. [Box: Bad costing in a foundry in the USA]. You don't know what you don't know. [Box: Doing the most with the least]. Accounting and accountability. Value adding or value destruction. Value chain. Data architecture. Easily accessible from anywhere. Management reports. Transparency. Transparency and accountability. Oversight. Community based metrics. [Box: Community metrics].

## **Planning and Process**

Planning and Process. Linkages. People, organization and money. [Box: Rebuilding Europe after World War II]. Too much planning, not enough organization. Removing constraints. [Box: Removing constraints]. Monitoring and evaluation. Resources. People. Organization. Infrastructure. Natural resources. Machinery and equipment. Working capital. Knowledge. Money. Constraints. Creating value from natural resources. Who makes decisions/ Make knowledge a key driver. Make community the focus of development. Jobs. Ownership. Deploying best practices. Ethical standards. Standards for workplace safety. [Box: Workplace safety]. Organizing in the face of poor infrastructure. [Box: The Challenge of Infrastructure]. Creating trust. Oversight.





## **Section 1**

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



# Transparency and Accountability Network



## **Chapter 3**

### **How and Why**



## Lack of decent accounting

Decent accounting is one of the key tools of management, but accounting plays very little role in the management of the relief and development process. Without good accounting, anything goes and that essentially is what has happened.

### Delayed accounting is no accounting

I remember trying to get some financial information within the UN system some years ago, and being told that this information would not be available for another 12 months or so. I was given some explanation about the accounting information having 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, I had imposed a requirement that every operation around the world submitted their complete monthly accounts two business days after the end of the period closing. If our head office did not have the information (sent by telex) at the end of 48 hours, the next day we looked for telephone contact, and a day after that 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 almost no financial controls to accept and 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.

## Abdication of the accountants

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.

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. As already notes, the accounting is mainly cash based rather than 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 offices 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.

I have made the case that the only complete form of accounting is an accrual based system with balance sheet, operating statement and cash flow, but my efforts have fallen on deaf ears. There are very few professionally qualified accountants in the employ of the relief and development sector, including big government agencies ... and hardly anybody, almost nobody, understands the basic concepts.

In the accountancy community it is often said: "Show me weak accounting, and I will show you a weak organization, and weak performance". Using this concept the relief and development sector has tremendous weakness.

## No space for measurement, analysis and review

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 organizational setting it was impossible to get similar results. Decision making had a very different dynamic, with the idea of cost effectiveness almost totally ignored. The use of good "management information" for decision making is almost totally absent, and nobody in the system wants to change.



## 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.

I believe that fund flow accounting in the relief and development sector is one of the most obvious places to make substantial improvement (see page nnn)

## 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.

## 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 found myself consulting in the relief and development sector it was a real shock. Most of the controls are onerous, but totally useless. They serve to stop good people from doing a good job, and are virtually no deterrent to the rich and powerful crooks.

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

It was also a shock to find how little attention anyone in the relief and development sector was paying to fund flows and their control. Everyone seemed to have fallen into the trap that if the subject was talked about and there was a plan, then that would be good enough. For many things that may be so, but when it is the accounting for and control of money it is totally inadequate.

## When good people meet bad systems

Good people need to get paid, they need their salaries. They 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. But good people are also stuck with whatever system and culture there is, and can do little to change them. 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.



## 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.

In general I see the problem of corruption as being as much an ethical problem from the side of the payer as the payee. In other words, an oil company executive paying out is as ethically compromised as the government official receiving the bribe.



## More 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.

It one looks closely, it is fairly easy to figure out the various ways that money or value is removed from the system for private benefit. But it is much more 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”.



## 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 is much more use than profit from fishing that would accrue to PPFC.

When I started looking more closely at the fuel storage facilities I noted that almost every flange on 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.



## Debt

If there is so little investment ... so little infrastructure ... 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; and, (2) the money has been used badly by the borrowers, with the borrowing governments and their crony's the worst.

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 restructure 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”.

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.

## Debt cancellation, restructuring ... whatever

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 the poor people in poor countries it is all invisible. The 2005 G8 Summit hosted by Prime Minister Tony Blair



highlighted commitments about debt reduction, but for all practical purposes not very much can be seen from the perspective of the poor communities. It gets headlines in the “north” and does practically nothing in the “south”.

The whole debt discussion is a cruel hoax on the world's poor and vulnerable. Without other interventions these people remain poor and vulnerable.

## An experience in Namibia

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.



# Transparency and Accountability Network



## Value destruction

Development ought to be about building value. In fact development expenditure does more of value destruction. In the course of the last three decades as much as \$2 trillion has flowed into the relief and development sector, but the results are minimal. 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 the results are not achieved.

It is actually worse. Additionally the value destruction has created an enormous third world debt. The only thing “for sure” in a World Bank project is that the disbursements will result in debt, nothing is for sure about the benefits that will arise.

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

## Value destroying projects

The relief and development sector operates largely through projects. Not many of them are value adding, rather they are value destroying. At one point in my career I was retained by UNDP to evaluate (desk review) their project portfolio. I was not asked to repeat the exercise, and my work was probably totally ignored. But the overriding theme was disbursement of money for work that sounded worth doing, but beyond that could not and would not do very much.

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.

It is this lack of substance in things being done that is one of the many issues in the performance of the relief and development sector.



## 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.

## Cost and value of 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 a quite visible way of showing that there is some activity actually going on that is tangible and can be used in support of public relations efforts to feed the media and other stakeholders.



Using metrics that measure relief and development progress, the majority of workshops and conferences do rather little in relation to their cost and the effort expended.

### Cost and value of 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.

### 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.

## The project and the project cycle

The project form of organization and the project cycle are key reasons 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” 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 cycle the following elements: (1) Identification; (2) Preparation; (3) Appraisal; (4) Negotiation; (5) Implementation; and, (6) Evaluation.

In the course of my career I have been involved with all the different parts of the project cycle, and 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.

The project rarely has any life after the funding. This makes anything that a project does almost certain not to be sustained. The project form of organization adds another constraint to an already difficult situation.

Over the years I have worked with many World Bank projects. Almost all of them are designed in such a way as to be 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.

The project approach to development has been the dominant mode for development since the very early days. 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 avoids problems, rather than



solving them. After multiple generations of "projects" the problems still remain, and may well have been aggravated.

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.

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 local "project" to being part of the international elite in the relief and development sector.

## 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.



## No oversight

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

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.

### Internal Audit and Oversight

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.

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

In my experience oversight works very well when it is flexible and unpredictable, and is pretty much a waste of time when oversight can



be anticipated. But the relief and development sector has hardly anything that I would consider to be effective oversight.

## Oversight and Control

In my corporate career we changed our oversight and control techniques frequently so that the staff would never know exactly how oversight was going to be carried out.

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 some rather basic reconciliation work with client accounts ... and learned all the aspects of the scam by having FBI agents work undercover in our shipping department.

## Performance oversight

And oversight has little meaning when it merely looks at costs and activities and avoids the question of what is being achieved.

## 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.

## Whistle blowers

Whistle blowers have been an important source of 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.

## 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 an their decisions stay in the old place.

### 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 basic 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.

Who wants good accounting? Almost nobody. One would expect the corrupt and inefficient people in an organization not to want good strong accounting but it is even opposed by good and efficient people. Presumably 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 is decades of operation without very much management accounting.

## 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 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.

## Foreign direct investment

Foreign direct investment (FDI) is a two edged sword when it comes to socio-economic development. It 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 people, the host communities and even the country ... though there is usually an elite group that is able to profit mightily from foreign direct investment.

## The value chain and value destruction

Value analysis will show a lot about the impact of corruption on the economy, and especially on the economy in the host community. The value chain from mine to consumer is not usually published and

---

1 John Perkins. Confessions of an Economic Hit Man



easily accessible, but it seems that there are huge value problems in many host communities and great value additions where the mining companies and oil companies have their tax shelters and home offices.

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.

## Complexity

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.

## Globalization

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”.

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

## 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 they 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).

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.



## Chapter 5

# Unlocking Latent Potential

# Optimizing What There Is

### Starting point

In the relief and development sector there are huge opportunities but limited resources and ineffective organization.

We need to know much more about both opportunities and available resources, and get organized so that the resources are used most effectively.

### Small steps

A strategy of major structural reform is unlikely to work. It has been “on the agenda” for as long as I have been associated with the relief and development sector, more than 30 years, and nothing much has happened. There are too many other competing interests and reform is too risky and potentially problematic. But evolutionary and incremental change with a focus on performance ... results, what is accomplished rather than how it is done ... might, just might be the answer.



## 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.

### Getting good results when there is chaos

I was a participant in a Organization and Management Conference in the early 1990s run by OSI. 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.

Getting the best results out of chaos is not something academic planners do very well ... in fact the record shows that they do it very badly. 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.

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.

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.

## Process

The basic process that needs to be in place is one where there is: (1) planning; (2) organizing; (3) implementing; (4) measurement; (5) feedback; and, (6) adjustment.

In most management literature, the “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 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 project cycle is static, 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, and it seems that many World Bank projects have, in fact, done just that.

In other words, the process needs to be iterative and it needs to be fast response.

## Before you can plan ... measure

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.

## Planning

Good planning is an iterative activity where different options are considered and the best is selected. I see planning as being heavily influenced by data ... by the facts ... by realities. I see planning as being heavily influenced by results and performance ... that is the relationship between costs incurred and the value of the results achieved.

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.



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.

## Organize

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.

## Implement

Action!

Nothing is accomplished until there is action. 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.

This is the real reality check. Start doing the work 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.

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.



## Measurement

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.

## Feedback

But measuring results and talking about them is not sufficient. The information about results needs to be part of a feedback loop so that there is more and better action. The process is a continuing iteration.

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.

## Adjustment

Action!

And there must be use of the feedback in the implementation so that performance is made to be as good as it can be.

## Who does planning?

Everyone does planning. Planning is part of a public local dialog. Planning is no longer dominated by either the Soviet style Gosplan or the World Bank and IMF equivalents. Instead planning is done in a “distributed mode” where people close to the activities and the needs plan to optimize and get the most result for the least use of resources.



The best planning will be done in communities, and then the plans will filter into sector and organizational plans and be visible as a basis for funding decisions and the optimal allocation of resources.

## How does this get coordinated?

Coordination is accomplished using data about performance that is practical and public. 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.

This can be systematized so that it is low cost and results in a meaningful coordinated response.

## 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.

## Do the most with what is available

An even better result is going to be achieved by a relief and development culture that uses the available resources to get the best possible results.



## 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.

## Performance

I have been interested in performance and its measurement for most of my life ... in athletics ... in motor sports ... in corporate profit performance ... and in relief and development performance.

Nearly everyone seems to know how to measure performance in sport, and understand the statistics, but when it comes to the more serious areas for measurement, people suddenly do not understand anything.

In order to make progress, there has to be a way to get better performance, and the starting point is to start measuring it.

We should start by measuring easy things, and then logically progress to things that are more difficult.



## 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.

## Organizational differences

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 deployed its resources better, and over time, of course had more resources to deploy and then drew further and further ahead.

General Electric seems to have organized better, adopting a better strategy and executing its implementation better.

Looking at business performance, it becomes clear that performance has a lot to do with how the company is organized, how the various pieces fit together and work in harmony, and how it runs itself. The absolute amount of resources is not as important as having the right amount of a variety of resources, and using them together in the best possible way.



## 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. An organizational culture that spends the minimum and gets value for money is going to get far more results than one that spends without regard to the results being achieved.



## Chapter 6

# Organization: Management Information, Planning and Process

### Management information, planning and process

The relief and development sector has a lot of data, but very little of it is “management information”. Without management information it is not easy to make good decisions. One of the priorities has got to be to improve management information in the relief and development sector.

The relief and development sector has a lot of planning, but it is not the sort of planning that results in very much getting done. Another priority is to get planning so that it does help to get things done.

The relief and development sector has little “process” that “connects the dots” ... that helps to convert resources into the values that are the most needed by people and the society at large. An effective process needs to be put in place so that sustainable socio-economic progress can be made.

Management information and planning do not have much value in a free standing state, but need to be integrated into a process. Together they are very valuable.



# Transparency and Accountability Network



## Management Information

### Information.

A public program for management information about the relief and development can be set up with a rather modest financial investment. The cost of the technology is rather low compared with the cost of the information. In terms of Tr-Ac-Net value analysis, we consider management information for the relief and development sector to be of enormous value.

### Documenting Success

The relief and development sector has been responsible for around \$50 billion annually of fund flow for relief and development. Recently the number is bigger, and if fund flows associated with reconstruction in places like Afghanistan, Iraq and Lebanon are included the numbers are “off the charts”.

At the present time there is little believable and verifiable reporting of the use of funds and the value of the various interventions. At the end of the day nobody seems to have any idea what the money was used for and what results have been achieved. It certainly is not “a click away” and easily accessible on the Internet.

This absolutely has to change.

There needs to be systematic, verifiable documenting of the disbursement of funds, the use of the funds and the results being achieved, short and long term. This is very basic accounting, and without it, there will never be an accountable relief and development sector. It is totally reasonable for people with funds to be unwilling to fund any situation with inadequate accounting, but conversely, a good system and good information should facilitate the mobilization of resources.

Nobody knows what proportion of the relief and development sector fund flows are used responsibly and what is totally ineffective. With management information, it should be possible for resources that are being used inefficiently in the existing relief and development sector programs and organizations to be diverted to more efficient use, and for incremental private fund flows to be added into the activities that are demonstrated to be effective.



## Coherent Framework of Analysis

I have three perspectives on measuring performance from engineering, economics and accountancy. They all have their place, and together they are very powerful. Any one technique can give some information, but together they serve to give a fairly good comprehensive picture.

## Balance Sheet

One of the most powerful ideas from accountancy is the idea of a balance sheet. It is central to corporate accounting but also works as well in the field of relief and development. There are assets and there are liabilities ... resources and constraints. Net assets is assets less liabilities. Net resources is resources less constraints.

Progress is when a community increases its net resources over a time period. This is very similar to the idea in corporate accountancy that a profit is the difference between two balance sheets.

## Resources

In the relief and development sector, there is a critical need to deploy resources in the best possible way. There are at least eight critical resources. These are: (1) People; (2) Organization; (3) Infrastructure; (4) Natural Resources; (5) Machinery & Equipment; (6) Working Capital; (7) Money; and, (8) Knowledge.

The first step is to have a very good understanding of the resources that are available, and in what ways they can be used.

## Constraints

A lot of the time constraints are the lack of a specific resource, as defined above.

But constraints can also be active intervention from outside. For example: regulations imposed on imports from the “south” into markets in the “north” can make it impossible for a local business to maximize success.

## Statistics

Economists use statistics a lot more than accountants (who rarely have any use for statistics). This can help expand information beyond



where an accountant would be comfortable to go. But statistics should never be used to manage and control fun flows and the management of valuable assets.

## Measuring efficiency

Engineering thermodynamics pays a lot of attention to the concept of process efficiency, and its ideas are very relevant to the analysis of relief and development performance. Efficiency is the ration of what comes out to what goes in expressed in the same units ... thermodynamics is usually concerned with engineering matters like how much gas is used to drive a car so many miles, while socio-economic performance is concerned with matters like how much money to achieve an improvement in health. In both case there are measurements of inputs and measurements of outputs ... and performance is obtained by comparing the two.

## Fund raising information

Fund raising outside of the existing relief and development sector framework needs to be established and the right sort of information made available so that it can be scaled up to millions and billions. This is entirely possible with the effective use of information.

## Walking, not just talking

The reason for a public program is that up to now transparency and accountability are on the relief and development sector agenda only as discussion points. This program moves the issue of transparency and accountability into action ... essentially asking for old fashioned accounting, but in the public space. It responds to the question "Accountable to whom?" with the answer simply "The public".

The meta data, or the data about the data needed for management information for the relief and development sector has been developed based on past experience (but is not adequately tested yet, and not ready to be included in a publication).

A MySQL database has been set up using third party hosting and some preliminary information has been uploaded into the database. In a pre-Beta test, it appears that this will work for a first phase.

The network of contributors is needed that will compile information about their communities, and put into a form that can be uploaded



# Transparency and Accountability Network

into the database. Local spreadsheet computing can be used to help organize data locally and be the basis for uploading information into the database.

Another network of contributors is needed to supply information about the activities of organizations, including projects. Any organization that professes a commitment to “transparency” should be willing to supply the key management information needed. The basic elements are (1) money used; (2) where used; (3) activities funded (money amounts and where); (3) resultant durable value realized as a result of the activities and where. In addition the total of money used should be related to total of money received, with an analysis of where money came from.

None of the organization information should be difficult to report. The challenge is relating the money information with the where. This information exists at the detail level in almost all organizations, but I am not sure to what extent it has been organized into a reportable form.

A key validation is going to be the reconciliation of what organizations think and say they are doing with what communities see they are doing. This is a key issues, and should be put into the public debate as fast as possible.

## Phantom Aid

In 2005 ActionAid described aid flows as “Phantom Aid” with more than perhaps 30% not reaching beneficiaries. My own experience suggests that the problem is far worse, with many situations where no money reaches the beneficiaries that need assistance.

This is not the place to go into detail, but I did an assignment in aid coordination with the Government of Mozambique in the early 1990s and similar work in Namibia just after its independence.

I reviewed hundreds of project proposals prepared by potential donors. Very few addressed the priority needs of the beneficiary country, even though these needs had been studied and documented over and over again.

Neither donors nor NGOs are particularly interested in seeing hard analysis of their work ... but until this is done the relief and development sector will perpetuate “Phantom Aid”.



## Managing information for effectiveness and security

This problem has already been faced in a lot of corporate information systems including the banking industry and health institutions. In these cases there is a legitimate interest in keeping some information private and confidential and at the same time easily accessible to those who have a need to know and are allowed to know.

An individual wants to be able to get access to information about his/her bank account, and wants the bank officer to be able to see it when it is going to be helpful to facilitate a banking transaction. But the information should not be accessible to others. This is a reasonable privacy framework, and has been implemented by the banking industry.

An individual wants a doctor to be able to access his/her medical history so that the doctor can do a good job, especially in an emergency, but does not want the world at large to have access to this information. It has taken the health sector longer than the banks to implement effective systems to handle this and a lot of information still cannot be accessed easily and electronically when it is needed, but it is improving.

So the idea that a system of “public accounting” can be private and secure, as well as being easily accessible to authorized users, is not too difficult to envision.

The issue of security of the information is being addressed. The intent is to have local community information fully accessible to the data collection team in the community. Only a limited number of database administrators and authorized researchers will have access to this information in its totality.

The community information will be available in an “accounting” form to build up a matrix of fund flow information, and a related matrix of value adding.

A similar security framework will be used for information about organizations. The contributors that provide information about organizations will have access to that information, as will database



administrators and authorized researchers. Otherwise this information will only be accessible within the accounting framework and the management information derived from this.

----- ///

## Characteristics of good management information

I think of management information as being the least amount of information that will enable good decisions to be made reliably. There is a dynamic to management information that is different from the data that is used, for example, in scientific research where one is trying to confirm a theoretical hypothesis.

Management information is not complex. In fact, good management information is simple and clear. Management information can be described as “the least amount of information that enables the best possible decisions to be made reliably”.

Management information is best when it is timely. Getting information late when the damage is done, has little or no value. Management information is built on lessons learned well before a crisis has developed.

In the relief and development sector, there is virtually no “management information”. The data are voluminous, but seem to merely exist to support an organizational set-up that has become powerful but ineffective, and with no plans to change in the ways needed. Simply getting systematic information in response to the questions: (1) What does it cost? (2) What is being done? and, (3) What is the value being generated? would result in a major new subset of data that addresses performance.

## Mere measurement improves performance

In my experience, people do much better work when it is not taken for granted. Making measurements shows interest and demonstrates that the work has some importance. Not surprisingly the measurements often document performance improvement, which can be rewarded and also stimulate self-starting improvement initiatives.



## Mere measurement improves performance

My experience as an accountant working with management information has convinced me that mere measurement makes a huge difference to performance. All sports measure performance, and have done for a very long time. The corporate world did a big upgrade in their approach to measurement and management information with computerization in the 1960s and 1970s ... and productivity improved (based on what I observed in my work).

When I explored this more, I found that it was possible to get better performance with very simple measures that were not necessarily part of a big system.

One accounting supervisor I worked with (she had more than 50 years with the company) had a “beat yesterday” book that had daily sales for the company tabulated for decades. Her goal was simply that the company shipped out more today than yesterday ... and she had been pushing for this for decades ... and it worked. It was the first accounting information that came out of the department every day, and everyone took notice from most junior worker to the CEO!



## Metrics for community progress

Tr-Ac-Net has pioneered some of the ideas of socio-economic performance reporting. Specifically Tr-Ac-Net has been an advocate for using the community as the key focus for socio-economic performance metrics. An organization may be here today and gone tomorrow, so also a project, but the community stays in the same location for ever.

### 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.

## Keeping Score

One of the components that has been missing in development is an accurate score card of wins and losses. A winning team is always going to look at a defeat and learn from it. A winning mindset takes a setback and knows that they will come back stronger next time. The relief and development sector has not embraced such a mindset, and thus there has been little analysis of and accountability for failure.

There has been a substantial fund flow for relief and development for around 50 years. After this length of time, it is still difficult to get any sort of answers to the simple questions of how much things have cost, what was done with the money and what results were achieved.



These are not difficult questions, but the leadership and the majority of the staff in the relief and development sector organizations are uncomfortable when they are asked.

## Cost Accounting

Cost accounting or cost and management accounting is a subset of accounting that provides the basic information needed for management decision making.

One of the most basic management needs is to know how much things cost. If managers do not know how much things cost, then decisions cannot be based on reality but on something else. What that “something else” is may well be anti-social and inappropriate.

Cost accounting does not have much value when it is a purely clerical effort. It needs to be an integral part of the organization's thinking, and part of decision making. This is now almost taken for granted in good for profit organizations, but not at all common in the public sector and the NGO not-for-profit sector.

An organization needs to have information about what things cost, not in a single simple and historic way, but in a dynamic manner so that cost “behavior” is understood. Almost every cost has a behavior that makes it possible to make good decisions and reduce cost, while at the same time optimizing the activity and the value being generated.

And lowest cost is not necessarily the best cost. So cost needs to be related to other aspects of the organization. A cheap low quality component in a complex expensive assembly can end up being very costly ... this is not a simple issue, but it is very much a cost accounting issue.



## Cost analysis as foundation for strategic decisions

At one point in my career (in the early 1970s) I worked for a technology company. One of its product lines were rechargeable batteries ... at the time mainly used in the aerospace industry, and increasingly for the IT industry. We were trying to make inroads into the consumer market, but our battery technology and manufacturing process had costs that made us uncompetitive compared to our major competitors in this market segment.

I learned everything I could about the engineering technology and the manufacturing process ... and the cost of everything. With the cost facts our company was able to think through what to do, and how to address this problem and make profit. What might be thought of as “grunt” work is not. Because we knew a lot about the costs of this segment of the business, we were able to create a strategy that stopped our losses, and to refocus our future with a leap-frog of technology so that our next generation products would be low cost and competitive.

The cost accounting done at the time was very detailed ... but the results of this analysis are visible 25 years later in the structure of the global battery business.



## Standard costing

Standard costing is a widely used technique in the corporate world for managing cost performance. It helps focus attention on what needs to be fixed, rather than merely tabulating a lot of information that is difficult to understand.

In a standing costing environment, everything that is made or done has a “standard cost”, that is, what one might reasonable expect something to cost under normal circumstances. When the item is produced, the actual costs are computed and the difference reported as a variance. Management can then focus on the items with a large variance, and see what needs to be fixed. It might be that the standard is wrong, or it might be something wrong, or right, in the manufacturing process.

Standard costs can be validated by comparing the total activity cost, that is the activities in the department or unit times the standard cost for each activity with the total costs of the department or unit recorded in the department accounts. If there is a big discrepancy, then management can do some analysis to find out what is going on.

Standard costing can be used in many ways to get an understanding of costs and performance. It is widely used in corporate accounting and operational analysis, but is not present at all in the relief and development sector (as far as I know).



## Budget and cost control

In cost accounting there are two common questions: (1) What is it costing? and (2) What should it be costing? Decisions are usually made based on what it should be costing, and results are a function of what it actually is costing.

A budget is usually put together using information about what it should be costing. The accuracy of a budget determines to a great extent how effective management oversight can be. My standard is that any world class organization should know with considerable accuracy what things are going to cost in a variety of situations.

### Cost analysis and cost control

At one time early in my career (around 1966) I was working for a well respected Canadian consulting engineering firm who knew almost everything there was to know about designing and building pulp and paper mills. My firm knew how much every element of a pulp and paper mill should cost, and we did project planning and project budgets based on a lot of knowledge of what items should cost. I was working as a field accountant, with several basic responsibilities including doing the cost accounting for the construction works. The general contractor had a lot of experience and a cost plus contract ... and we had a construction budget and considerable experience of what things should cost.

When around 1% of the construction work had been completed, by my calculations, our contractors had disbursed around 2% of the budget. This is a 100% cost overrun, and while only a small amount of the total money had been spent ... a 100% cost overrun is a potential disaster. The actual cost information was based on a combination of old fashioned cost accounting and some field analysis ... the budget was based on a lot of industry experience. The variance was simple arithmetic.

On Thursday afternoon I alerted our engineers and managers about my cost analysis and findings, and there were discussions on into the evening. On Friday morning our project manager had an urgent meeting with the contractors who were asked to explain themselves. That day, Friday, they had 1,400 workers on the site and on Monday morning there were only 700 workers and the same amount of work was being done. Two years later the job was completed on time and just 2% over the budget.

The contractor was Brown and Root, now a subsidiary of Halliburton.



# Transparency and Accountability Network



## Management by Objective (MBO)

Years ago the corporate world embraced “Management by Objective” or “MBO” as a valuable management tool, but almost as quickly gave up on it. They gave up on it because it was difficult to articulate in a simple way and by universally applicable. Something a lot more nuanced was needed. The corporate world recognized that achieving an objective had little value if the objective did not help the organization achieve the ultimate corporate objective of better profit performance.

However, almost 30 years later, objectives are still a big part of project documents, and achieving objectives a measure of accomplishment. The MBO style of management is still in vogue in the organizations of the relief and development sector rather than more powerful systems of management information and performance analysis. This would not be an issue if the objectives related closely to socio-economic progress, but usually they are merely completing activities with or without any tangible results.

## Change

Change is a results, and not an action. One does things and the result is change.

## Explaining Organizational Performance

I had the opportunity to become involved with understanding organizational performance in my first job which was in the heavy engineering industry and the building of integrated iron and steel mills. I was part of the first generation of university trained engineers, and part of what I had learned was to see things, and be interested in how they could be better. But I was also fortunate in that I had also been taught economics, and had a tutor that was interested in analysis and who encouraged me to get the data, do the analysis and draw my own conclusions. His position was that good data and good analysis might easily be better than much of what had gone before ... and he encouraged thorough analysis rather than mere parroting of what was in print and popular.



## Ignorance has consequences

The history of corporate performance shows the tremendous importance of good information. With good information it is much more likely that good decisions will be made. Data, and facts are a much better basis for decision making than mere opinion ... and the infamous “seat of the pants” decision making that prevails in organizations where management information is missing.

### Bad costing in heavy engineering in the UK

My first job after university was being a management trainee at Davy United Engineering Company in Sheffield, England. The company made heavy equipment for the nuclear, chemical and iron and steel industry: pressure vessels, rolling mills, blast furnaces and the like.

One of the issues that struck me in this company, which had an excellent reputation in the industry, was the complete isolation of the accountants from the production managers and marketing managers. By excluding the accountants, especially the cost accountants, the production managers and the marketing managers were making decisions that would soon kill the company.

What every good engineer knew was that technology was rapidly changing, but the management failed to understand that a marketing strategy to sell “tons” of equipment at a “price per ton” was very soon going to make nonsense of profits. The control technology that was being integrated into the new rolling mills did not weigh very much, but cost a lot to design, test and manufacture ... and for several years this technology was quoted on a “per ton” basis. For an educated “analyst” this was a no-brainer, even though I had no experience, but for the traditionalists of the time, from the Chairman and Managing Director down to the engineering apprentices, nobody got it. I saw the problem in 1961. A couple of years later the company was seeking bankruptcy protection. They had a huge backlog of work ... and they were losing money with every ton they shipped.

This example of “management” and decision makers not having a basic understanding of both the accounting and the operations has been evident over and over again in my career.

What I have learned is that when operating people have management control they rely on intuition to the exclusion of cost accounting, but it is just as bad when accountants have management control and use an excessive amount of analysis without really getting to grips with the operations. In high performance organization BOTH are groups are working together ... teamwork.



In another situation years later I was able to use basic cost accounting techniques so that the company would be better informed and make better decisions.

## Bad costing in a foundry in the USA

At one point in my career I was responsible for a foundry. For years the performance measurement for the foundry had been based on a simple formula ... total cost divided by the weight of castings produced to produce a “cost per pound”. At the same time individual castings were costed by multiplying the weight of the finished casting by the “cost per pound”. For years and years engineers had “cost reduced” the product by designing lighter and lighter castings ... and the foundry costs kept going up as the engineers made it more and more difficult to produce the castings. This was an absurd situation that had been in place for years. Engineers were not going to get dirty by understanding how the foundry operated, and foundry people were not going to be invited upstairs into the engineering offices. I learned a lot about foundry operations in a hurry, because it was clear that something pretty dumb was going on. Within days we started a “standard cost” system that costed each casting based on some simple criteria of which weight was just one. We added in parameters about complexity, the production equipment used, the length of the production run. We used the standard cost in our quoting procedures and we compared the actual production times standard cost with the actual cost of running the foundry. In the first week we were “off” by about 20%, but when we refined the standard cost elements we were able to come within less than 5% variance week after week after week.

This improved cost system changed the profile of the company's profit for each of its product lines. One part of the product line turned out to be much more costly to produce using the new approach than it had been before, and what was a low margin item before now looked like it was a loser. Our company had more than 50% of the market, and we used to price aggressively (low) to maintain market share. Now it was a loss maker, and we increased price to make an acceptable margin. Instead of losing market share, the competitors matched our price increases. As it turned out we were not doing our industry a favor by low-balling the prices, just helping everyone selling this product to lose money!

Of course the moral of the story is to use cost information to understand the way in which cost behave, and to make sure that all



## Transparency and Accountability Network

the departments understand cost behavior and use this knowledge to do their work.



## You don't know what you don't know

Often people don't know what information they are missing. It is important to look at the knowledge base that exists within a community. Then look to evaluate is everything known that needs to be known to positively direct the community and stimulate local business. This can include training or understanding about participation in the global information community. Then the other part of that equation is to make sure that the external partners know what they need to know and are as up to date as possible, so that all decisions are being made by informed parties.

### Doing the most with the least

For much of my corporate career I was an accountant, a planner, a CFO and not that much responsible for operations, but for two years I was running a manufacturing company as VP Manufacturing with a workforce of almost 3,000 in Georgia, USA.

We did not have a big budget for capital improvements so I was constrained from any "big" spending. I had the advantage of not knowing a lot about the factory and needing to listen to learn ... and I learned that there were all sorts of ways that quite small investments would increase the throughput of the factory with only minimal increase in costs. As an accountant I understood the impact this would have on company performance, but some of our company's management did not get it.

The factory included our own foundry which ran round the clock and supplied 90% of the castings we needed for our production. It was the key constraint on our production. A high end consulting firm was brought in to study our capacity constraints, and to make recommendations. They recommended an expensive investments and charged a big fee for making the recommendation. I thought it was a bad recommendation and looked for a second opinion. We got a second consulting company to come in, and after their study they recommended another solution, that was rather less costly, but still substantial. I then got the maintenance department manager and some of the old timers to get together and tell me what they would do, and they came up with something that was going to cost 1/10<sup>th</sup> of the cost of the big consultant's recommendations and do rather more in terms of capacity improvement and in much less time.

By using people who had real knowledge, and spending money carefully we got 10 times the value from our money.



# Transparency and Accountability Network



## Accounting and Accountability

Accounting and accountability are not the same. Accounting is a piece of management system and refers simply to activities associated with keeping track of the financial information. Accountability is holding a person or some unit responsible for performance, frequently performance in relation to the use of funds, and getting results.

There can be good accounting and still no accountability.

There is rarely good accountability where there is poor accounting.

There can be accountability, but still poor performance.

## Value Adding or Value Destruction

The idea of value adding or value destruction is a powerful way of analysis for the relief and development sector. It has not been commonplace in the past, and nothing has been done to ensure that relief and development activities are value adding. With little oversight, and no value analysis, the relief and development sector is dominated by value destruction activities

The rule of the game for development are: (1) Plan, (2) Organize, (3) Implement, (4) Measure, (5) Feedback and (6) Adjustments. This systems approach built on a community centric mindset can deliver a dynamic process with multiple parallel tracks all progressing to success in the best way possible. It is a process built on engineering and accounting rather than policy and economics. It is a process that respects individuals, family, community. It works to make community better, one community at a time, but brings to bear everything that might be helpful.

## Value chain

Using value analysis in a business value chain from original source to final consumer results in

## Data architecture



## Easily accessible from anywhere

Modern information and communications technology (ICT) can get information instantly anywhere in the world where there is Internet infrastructure. The next challenge then is how Internet infrastructure can become universally accessible. Community centric development and information about people and resources that can be communicated and responded to in a timely fashion will aid development progress a thousand-fold.

## Management Reports

A key to success is that information be made useful, independent, reliable, and universal. There are several strategies and tactics for using this information to create enormous value. It can be used to make good plans, to get well organized, to get funding, to implement well, and to provide excellence in transparency and accountability. However, as valuable as the information can be, it is also important to handle the problems or errors, insecurity, hackers, fraud, and incompetence.

## Transparency

I have never been very comfortable with the idea of “transparency”. I think if transparency as a quality that enables one to see through things, without having the view diminished. Glass is “transparent” and at its best, one cannot see the glass.

So I really do not like the idea of “transparency”.

I am engaging with transparency because others have taken the lead and made “transparency” an issue, and a solution to many of the ills of the relief and development sector, especially the problem of corruption. I see transparency as something that serves as a wonderful talking point, without actually having very much to see when it is applied.

Transparency emerged as an “issue” in the 1980s. Transparency International was founded in the late 1980s after Peter Eiger left the World Bank and popularized the transparency issue.



# Transparency and Accountability Network

The Transparency and Accountability Network (Tr-Ac-Net of which I am a part) has been trying to develop a way for organizations to engage in “transparency”, but it is not easy. We believe that a lot of an organization's information should reasonably be “private”, but we also believe that there is a public “right to know” where an organization is using public funds, or is having a material impact on socio-economic conditions.

Tr-Ac-Net has embraced the notion of “public accounting” which is the idea that any individual or organization that has had, is having or should have a material affect on socio-economic conditions should be making information about costs, activities and results public.

At the present time there are hardly any individuals or organizations that are making information about costs, activities and results public.

Many organizations in the not-for-profit sector are subject to reporting requirements to maintain their tax-exempt status, but the information contained in the financial filings they are obligated to make does rather little to satisfy the Tr-Ac-Net goal of getting information about costs, activities and results. Typically an organization does its accounting so that it can report expenses according to what is “program” and what is “marketing”, “fund raising” and “overhead” but nothing that systemically analyzes program so that there is cost, activities and results related clearly.

## Transparency and Accountability

The phrase “transparency and accountability” is used a lot in describing the way organizations run themselves. But the same organizations rarely operate in a way that deserves this description. Almost nothing of importance is available to the public and to all the stakeholders, and getting information about performance and the people who are accountable for performance is rarely easy.

Some organizations have taken steps to improve the flow of information into the public space, but it is usually insufficient and not easy to analyze to be of much value. Numbers, in particular seem to be suppressed so that performance is difficult to measure, and in some cases there are a lot of numbers but without a useful context.

The Global Fund is one organization that has tried to be “transparent” and a lot of information is publicly available about the process to



approve funding and disbursement, including specifics of the disbursements made by the fund to the primary recipients. But there is very little information available about how the funds were actually used and the results actually achieved. The transparency starts off very well, but disappears well before it is translated into results.

The World Bank has also moved to have more of its material accessible to the public, and operates AIDA, an interesting database about development projects. A quick look at AIDA, and it appears that this is a great example of transparency, but in fact the database is a rather limited subset and quite incomplete. I only discovered this when I downloaded the AIDA information using their spreadsheet download routine and tried to put this information into the Tr-Ac-Net database and use it for simple analysis. It seems that AIDA is, in fact, quite incomplete and not very useful for analysis. Like the Global Fund, the transparency is stronger in terms of amounts disbursed or to be disbursed and weak on the post implementation analysis of performance, and the idea of accountability is missing.

### Oversight

This piece on oversight is about how oversight uses management information and is part of the management process.

The key is to add transparency and accountability to the aid process where donor and community are both responsible for how money is spent and the value that is created by it. In terms of development success, businesses need to look at their business model and what support they need to generate positive cash flow. Economic development success that is sustainable means local business success.

Nothing works right unless there is some form of oversight. The oversight can be as simple as the work of a supervisor, or it can be the responsibility of a government regulatory agency.

Oversight has to be effective and timely.

Oversight has to be systemic



## Community based metrics

The community has a very different view of priorities than when they are identified from the donor's home office or the local central government.

And relief and development sector performance also has a very different view when it is done from a community perspective rather than that of an implementing organization or a donor.

### Community Metrics

The basic metrics needed to understand socio-economic development progress at the community level are best described as being: (1) information about the community at the beginning of the time period; (2) information about the normal activities of the community; (3) information about the incremental relief and development activities in the community; and (4) information about the community at the end of the time period. This information is a true public accounting of community level socio-economic progress.

The information needed is what is important in the context of the community. This is usually quite obvious in a small community, though it becomes a lot more difficult in a bigger and more complex community. In a complex situation the community analysis can be done in stages, breaking down the community into several affinity groups with similar activities, and then combining into a single spatial community.

The conceptual framework for community analysis is not very different from the system of financial accounting and analysis used in the corporate world with balance sheets and operating statements. In both cases resources are being used to improve the values appearing in the balance sheet.

Starting in 2003, Tr-Ac-Net started to develop a data management system to put public accounting of community level information into an easily accessible database or data warehouse.

What is the point? These data will show rather graphically: (1) how little of the relief and development resource actually gets into a community; and, (2) how valuable a small amount of incremental resource can be when applied correctly. When these data are used by financial analysts interested in global socio-economic progress they will recommend change to improve performance, just as they do with present day corporate and municipal equity and bond financing.



# Transparency and Accountability Network



## Planning and Process

In the Relief and Development Sector there are huge opportunities but limited resources. We need to know much more about both, and get organized so that the resources are used most effectively. The basic process that needs to be in place is one where there is: (1) planning; (2) organizing; (3) implementing; (4) measurement; (5) feedback; and, (6) adjustment.

## Linkages

There are 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 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.



## People, Organization and Money

Amazing things can happen when people and knowledge and money are put together and there are common goals.

### Rebuilding Europe after World War II

I am just old enough to remember the devastation in Europe in 1945 at the end of the Second World War. European cities were devastated. Everything was in short supply.

The United States launched the Marshall Plan to help with the rebuilding effort in Europe and it is amazing how much was accomplished in a very short period of time. The Marshall Plan delivered material resources, and local people and local knowledge and a common goal made rapid rebuilding possible.

External funding was a critical component of success, but there were many other resources available in Europe, not least, people and knowledge.

## Too much planning, not enough organization

But the funding of relief and development has never had the same dynamic as the Marshall Plan. Rather the relief and development strategy has been more like the failed Soviet Gosplan system where a centralized bureaucratic planning team defined how the relief and development resources would be used, no matter what the local priorities might be.

The secrets are that there is a new way to think about development that makes it practical and win-win. The mindset of money constraint is changed to one where all resources are used to maximum potential. The focus is on people and community and getting rid of organizational and process restrictions.

The secrets to success in economic development is three fold: (1) to see people in developing countries as a resource not a liability, (2) to make sure that all efforts have a measurable goal that is achievable with a budget and a plan, a flow of communication to ensure success, and a true evaluation of the outcome (3) all assigned resources,



## Transparency and Accountability Network

including money, are tracked and accounted for cooperatively in a way that fosters transparency and accountability by all parties.



## Removing constraints

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. The amount of this rapid progress will depend on the latent potential of the community referred to in Chapter 5.

## Monitoring and Evaluation

Monitoring and evaluation has been used up to now as one of the tools for “managing” in the relief and development sector. But monitoring and evaluation (M&E) is a poor management tool since it is usually too little and too late. The information that is obtained from an M&E exercise should be 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.

## 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

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.

## 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 Wall-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.

## Infrastructure



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 like trunk roads, ports and railways, or the little feeder roads around the community.

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?

What about the enabling environment of laws and rules and regulations..

## 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. Too often the local people are not seeing much value creation in their communities.

## Machinery & Equipment

Factories and their machinery and equipment are important assets, and should be included in the understanding of community 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

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.

## 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.

## 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.

## Who makes decisions?

People make decisions, and the best decisions are usually those that are made with the best information, and as near the action as possible.

It is essential to keep people informed so that they are able to participate in priority setting and decision making and making accountability a factor in development performance.

## Make local knowledge a key driver

Local knowledge is a missing element from most of the relief and development effort of the past 40 years. It is important to evaluate what the local resources are that can be used as an

## Make community the focus of development

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.

## Jobs

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.



## 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 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.

## Deploying best practices

Best practices are not universal. There can be a universal standard of quality for an “output”, whether it is a product or service, but not for the best way to achieve the output. There are many variables, and some of them are very important.



## Ethical standards

There are a lot of ethical standards that need to be supported.

## Standards for workplace safety.

I like to think that safety has a considerable level of universality, but, in fact, safety has a local face. In almost everything there are trade-offs. Work-place safety costs money, and a job that pays even with some level of risk is likely to be a better situation than a job that is perfectly safe and does not exist.

### 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.



## Organizing in the face of poor infrastructure

In the “south” the problems of infrastructure are widespread, and the pace of infrastructure improvement has been pathetic. Society has to organize around the reality. Business must operate with what infrastructure there is rather than what it would be nice to have.

### 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 out 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, but merely say 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 a building suitable for our cold stores and the processing plant, and build water treatment and effluent treatment facilities, and build an electric generating plant. In other words, absolutely everything we needed, we had to build for ourselves.

And at that time, everything 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.



## Creating trust

In order for relief and development to be successful, and in particular for resources to flow smoothly to where they are needed, there has to be “end to end” organizational trust.

A single integrated organization is one way to have this trust, but such organizations usually are “top down” and very rigid, and rarely actually reach the community level and grass roots activities.

Another way is to have independent organizations linked together in a network that makes it possible to validate the credentials of any organization. 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.

## Oversight

This section on oversight needs to be quite detailed and practical

The key is to add transparency and accountability to the aid process where donor and community are both responsible for how money is spent and the value that is created by it. In terms of development success, businesses need to look at their business model and what support they need to generate positive cash flow. Economic development success that is sustainable means local business success.

Nothing works right unless there is some form of oversight. The oversight can be as simple as the work of a supervisor, or it can be the responsibility of a government regulatory agency.

Oversight has to be effective and timely.

Oversight has to be systemic



# Transparency and Accountability Network



## 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 (both teachers and students) made money by being paid a small fee 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 built and the road was made functional. The fisherfolk and traders later paid back the project.

What else could the project do? The IDA school (that is a school built with World Bank money) built some years before and idle for years because of government budget constraints had great facilities, but no operating funds and no teachers. 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.



## Tr-Ac-Net for Public Accounting

A transparency and accountability network for public accounting is another intermediary that is required. This answers the question “Accountable to whom?”. Any fund flow that has impact on the 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 well established.

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 ways that are seriously anti-social.

## Community Finance Units

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.



# Transparency and Accountability Network



## Chapter 14

### Money

#### Money, catalyst for performance

I have left money to the end. Performance in the relief and development sector and progress in socio-economic development is not going to be solved by money, at any rate, money on its own. But without some money, the potential for progress will be constrained.

#### Money, the root of all evil

Money is often identified as the root of all evil, but I hope that money as a component of bad behavior can be controlled. This is one of the roles of accounting and accountancy profession, though not very much in evidence in the relief and development sector.

#### Building 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.

But with trust and goodwill it is difficult to make progress. There is a critical need for appropriate intermediaries and workable structures.



## Engaging the world's financial leaders

If the financial crisis and latent opportunities in the communities referred to above were in major US cities or big corporate entities located in the “north” or in a fashionable “emerging market”, the Wall Street community would very quickly find a way to release the latent potential and turn it into value, together with an exit strategy to turn this value into cash.

When it was New York City that was in a financial crisis in the early 1970s, Wall Street was able to create a workable solution (See Box). It is possible to do a similar thing for the world's small communities so that nobody loses and everyone is a potential winner.

### 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 straits. 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 a new structure was created that made it possible for 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.

## World Bank for Public Finance

The World Bank should be one of the key intermediaries, but it should be a builder of financial stability for the “south” rather than being a huge and amorphous programming monster that does thousands of things, and hardly any of them well. (See Box)



## World Bank for Public Finance

The World Bank was meant to be one of these key intermediaries, but it has really failed. The World Bank can be, once again, an important and effective part of a high performance relief and development sector.

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.

## Mutual Funds for Socio-Economic Investment

The financing of socio-economic progress in the “south” should be as broad and diverse as the mutual fund industry. This industry was very small 50 years ago, but now is a big part of the securities industry. The history of the investment clubs that expanded and morphed into the Unit Trust and Mutual Funds with professional management might soon be repeated, but this time the focus of investment or philanthropy being socio-economic performance rather than stock prices and profits. (See Box)



## 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.

## Mobilizing Money

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.

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 fundable programs that address social needs. 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 program has two main dimensions: (1) information and analysis; and (2) multiple area programs.

## Funding Raising

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 ineffective intermediaries that includes the World Bank and the IMF.

The availability of capital in the world's capital markets, and in various philanthropic funds has recently reached record levels. But these funds are not available for relief and development investment where it is most needed. What is needed is a new class of intermediary organizations that 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 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's spreadsheet except that the entity is the community and its people, rather than a simple legally constituted corporate organization.



## **TABLE OF CONTENTS**

### **SECTION 1**

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

##### **So Many Things Are Wrong**

A dialog about the dynamic of how and why many things are wrong

Lack of decent accounting. [Box: Delayed accounting is no accounting]. Abdication of the accountants. No space for measurement, analysis and review. There's a hole in the bucket. Very little of the funding gets to beneficiaries. Corruption. [Box: Corruption in Nigeria since the 1970s]. [Box: Losing trust in Nigeria in 1975]. [Box: Making corrupt money in fisheries in Burma]. Debt. Debt cancellation, restructuring ... whatever. [Box: An experience in Namibia]. Value destruction. Value destroying projects. [Box: Value destruction in South Sudan]. Cost and value of workshops and conferences. Cost and value of research and studies. [Box: A study of studies in Lesotho. No oversight. [Box: Internal audit and Oversight]. [Box: Oversight and control]. Performance oversight. [Box: Global Fund]. Whistle blowers. A system without accountability. [Box: Management Accounting for UNDP]. Economic hit men. Foreign direct investment. The value chain and value destruction. Complexity.

### **SECTION 2**

#### **A Way Forward. Evolutionary Solutions**

##### **Unlocking Latent Potential. Optimizing What There Is.**

Starting point. Small steps. There is no one best way. [Box: Getting good results when there is chaos]. Process. [Box: Water skiing ...



skiing moguls]. Planning. Organize. Implement. Measurement. Feedback. Adjustment. Who does all of this? How does this get coordinated? Do the most with the least. Do the most with what is available. [Box: Making the most of what you have]. [Box: Performance]. [Box: The thermodynamic idea of efficiency]. [Box: Organizational differences].

## Organization: Management Information, Planning and Process

Organization. Management Information. Information. Documenting success. Coherent framework of analysis. Balance Sheet. Resources. Constraints. Statistics. Measuring efficiency. Fund raising information. Walking, not just talking. [Box: ActionAid and my own experience]. Managing information for effectiveness and security. Characteristics of good management information. Metrics for community progress. [Box: Okehampton, my home town]. Keeping score. Cost accounting. [Box: Cost analysis as foundation for strategic decisions]. Standard costing. Budget and cost control. [Box: Cost analysis and cost control] Management by Objective (MBO). Change. Explaining organizational performance. Ignorance had consequences. [Box: Bad costing in heavy engineering in the UK]. [Box: Bad costing in a foundry in the USA]. You don't know what you don't know. [Box: Doing the most with the least]. Accounting and accountability. Value adding or value destruction. Value chain. Data architecture. Easily accessible from anywhere. Management reports. Transparency. Transparency and accountability. Oversight. Community based metrics. [Box: Community metrics]. Planning and Process. Linkages. People, organization and money. [Box: Rebuilding Europe after World War II]. Too much planning, not enough organization. Removing constraints. [Box: Removing constraints]. Monitoring and evaluation. Resources. People. Organization. Infrastructure. Natural resources. Machinery and equipment. Working capital. Knowledge. Money. Constraints. Creating value from natural resources. Who makes decisions/ Make knowledge a key driver. Make community the focus of development. Jobs. Ownership. Deploying best practices. Ethical standards. Standards for workplace safety. [Box: Workplace safety]. Organizing in the face of poor



infrastructure. [Box: The Challenge of Infrastructure]. Creating trust. Oversight.

## Money

Money, catalyst for performance. Money, the root of all evil. Building trust. Engaging the world's financial leaders. [Box: When New York was in financial trouble]. World Bank for public finance. [Box: World Bank for public finance]. Mutual funds for socio-economic investment. [Box: Investment Clubs]. Mobilizing money.