

# CHAPTER 3

## WHY SO MUCH FAILURE?

*This chapter gives an overview of the problems that seem to be causing development failure. The problem of too many people. The problem of not enough development resources. The problems of the development process. The problem of information in development. This chapter starts to move beyond the symptoms of the problems to understand the root causes that are the underlying reasons for development failure. This chapter starts to identify systemic factors. A start is made to go beyond the NORTH's perceptions of development problems as commonly portrayed in the media to a view that reflects more of the SOUTH's view. Being realistic about the why and how development has failed is very uncomfortable. It might even be dangerous. But the cost of failed development is huge, and will get worse.*

### Why Why is Never Asked?

#### **Because the answer is obscene**

Why development has failed is a questions that rarely get asked. This is very convenient. But it also begs the question of how to fix the problem.

*I was a problem solver in in my corporate career. My job was to help the company earn more profit. Describing the performance of the company was not enough. The question of how the company was performing was important and helped give some idea of how much better the performance could be. General accounting reports told us the performance of the company, but the analytical accounts started to give us some measures of how the company was performing. Why the company was performing as it was helped to identify what needed to be fixed.*

#### **What happens when why is asked?**

The culture of the ORDA community requires that the why is never asked. There is no career path for staff that ask these questions and no future for consultants that ask these questions.

*I was not good at adopting to this ORDA culture. I was described in the World Bank as a consultant who would give an honest report on an analysis of the situation and not necessarily the answer that the World Bank wanted. This was not good news for my career. Few World Bank staff members wanted to have to handle a result that they did not anticipate and could not control.*

Anyone that has worked closely with World Bank and other ORDA projects knows that there is a huge difference between what is written down and what really gets done on the ground.

*I never saw an ORDA project that followed the book and was successful. Almost all of them were, by my fairly high corporate standards, abysmal failures. They did not follow the book, because that would have made them even worse. Once in a while the ORDA resources were used well, and great results were achieved. But this was not done by following the book either.*

## **The problem**

So what is the problem. A quick look through what has been written about relief and development, or attending a conference on some aspect of relief and development will expose a zillion problems. It is not one problem, it is many. But because there seem to be a zillion problems, it is virtually impossible to figure which one of these problems is the most critical problem.

*I had plenty of opportunities over the years to assess performance in development. It took me a long time, however, to realize that almost everything implemented in the ORDA world cost a lot and a lot of it was a complete waste of time, money and effort.*

That is not to say that there were no needs for relief and development assistance. It is merely saying that the design and implementation of ORDA initiatives was disastrous. It raised the question of how ORDA work could be done more effectively than what I was being routinely practiced.

## **Development performance ... a mess**

What has been done in the name of relief and development for the past forty years has been ineffective. Why ... and equally important ... how?

*The ways in which development is implemented, in particular the “project” form of organization that dominates official development assistance (ODA) are ineffective and result in “economic value destruction”.*

Most interventions in the past forty years have removed wealth from developing countries rather than creating wealth in these countries. How? Why?

Development resources are used ineffectively throughout the ODA community. How? Why?

The processes in development do not result in minimum cost and maximum outcome. The procedures and systems will not allow that to happen.

Good people are beaten by bad systems and bad processes and ineffective organizations.

Development has failed because of process. There are examples of success, of development excellence, but in the aggregate development has failed.

While the amount of money involved in “development” is small compared to the funding of the international oil industry, or the trade in illegal drugs, it is substantial. There have been some successes, but the total performance of development expenditure is terribly poor. The development situation would have been better served by putting development money into a savings account and just leaving it to accumulate than using it in the way we have, and now having to face an enormous debt overhang, that just will not go away.

Clearly something is wrong.

## **Why is development analysis so poor?**

### **Incompetent analysis**

The outcome of analysis suggests that the analysis has been incompetent ... but the problem is much more systemic than it is personal. If the questions being asked are wrong, then the analysis is likely to be wrong as well. I believe there is actually a lot of very good analysis ... but it is about the wrong things. Neither institutions nor the key leadership wants analysis that highlights what is wrong and needs to be fixed, rather, they want analysis that shows how good the performance has been.

### **Good analysis is dangerous**

The fund flows in development are huge ... with most of the money important to a whole chain of

beneficiaries to the process. The use of money to deliver value to the nominal beneficiaries of the fund flow is detrimental to those that are feeding from the process.

*The ORDA world is not much different from the corporate world. Independent objective analysis is not welcome anywhere ... the only analysis people want is analysis that shows what people want to share ... and people want to be in control of the analysis. So much for independence ... and so much for objectivity.*

### **Too much an academic exercise**

There is lots of analysis of development, but it is not very useful. Most describes the condition, in more or less detail. Almost none of the analysis results in action oriented information or management information. The mindset is research not management. Most analysts seem to have a mindset to have rigor no matter what the cost, rather than most useful at minimum cost. In one case a good outcome is to have data for a research agenda ... in the better case the outcome is to have better development progress.

### **Highly aggregated reports**

The World Bank, UN agencies and others produce a plethora of highly aggregated reports. One of these is the World Bank's World Development Report. Most of the UN specialized agencies produce something similar with respect to their own sector. Over and over again ... year after year ... these reports show that development has failed, and quantifies the scale of the failure.

The key information that I would like to see is the relationship between resources used and results achieved.

*In my corporate career we knew a lot about how much things cost. I spent a lot of time understanding not only how much things cost in a static situation, but how costs varied as various production conditions changed. It was not always easy, but it was vital to making the company as profitable as it could be. It was the foundation for strategy and action plans that would work and deliver results.*

When I started working in the ORDA world this sort of information was not being used at all. Nobody knew what I was talking about when I wanted to know about costs and the behavior of costs under different project scenarios. That is not to say that there was little numerical analysis. The World Bank has used numerical analysis to support its decision making process. But the World Bank does a lot of economic analysis, and almost no accounting analysis.

### **No accountants in the mainstream**

The ORDA world is dominated by economists, and political and social science experts. There are also some technical specialists in agriculture and engineering. But there are almost no accountants that have anything to do with operations.

There are accountants who handle expense reports and travel advances. At the World Bank there are accountants that handle the financing side of the Bank's work. But accountants are not deployed in the analysis of development performance. There is almost nothing that addresses how to do accounting so that there is management information for development.

*I used to think that the ethics of professional accountancy would make a difference ... but incidents over a little more than fifteen years suggest that the ethics of the professional accountant are as compromised as almost every other group.*

The system of analysis I learned in accountancy is very powerful, and when used in an independent and objective way is a great foundation of decision making and solving problems.

### **Weakness in accounting**

I have always been struck by the weakness of accounting and management oversight in development. It

is difficult to understand how the World Bank and the other donor organizations allowed accounting to become one of the weak links in development. My view of the problem in the 1980s was quite simple. At the time I wrote:

*I have concluded that it was essentially a “racist” thing. How can we (whites) in the NORTH possibly ask these ignorant (black) natives in the SOUTH to do good accounting?*

But later on I realised that the issue was partly this but also even more serious and deeply ingrained in the ORDA culture. In another situation I wrote:

*Or it might be because the World Bank and the donor community never had any good accountants on their staff and in their leadership. They never understood the value of good accounting, and just ignored it.*

The real reason that accounting is so bad is probably both of these. But it may also be more sinister. I am horrified that accounting is one of the failures in development, when it could so easily have been one of the great successes of development. But the advantage of weak accounting is that huge amounts of money have been able to be diverted to all sorts of personal benefit, at the expense of development performance.

Every accountant knows that without transparency and accountability there will be problems. So the question of how ORDA funds disappear is not difficult to answer. ORDA funds disappear very easily, because there is a terrible lack of accounting, transparency and accountability throughout the ORDA community.

When from time to time some information suggests that there is a problem, it is rare for there to be suitable and visible accountability. The whole culture of accountability, with people taking real responsibility for decision making and the outcomes is virtually non-existent.

*I made a proposal to the Administrator's Office in UNDP on “Responsibility Accounting” for management in development early in the 1990s. After the presentation I was advised by a friend that UNDP saw no need and had no understanding of the key words that I had been using throughout my presentation ... analytical accounting, responsibility, management, performance, etc. Sad. But I should have known.*

How can huge amounts of funds disappear? Very easily when the accounting system is as deficient as it is throughout the ORDA community. The system in place would work quite well for a small, simple organization where the culture of ethical behavior was to a high standard. But the ORDA institutions are huge, are complex, are spread around the world, and the internal culture is complicated by multiple nationalities, backgrounds and professional agendas. Missing funds is no surprise. The system supports losing funds.

*More than anything else, the ORDA world is driven by the correctness of individual transactions, a system that is common in government organizations and has transferred naturally to the ORDA world. What this means is that each individual voucher gets approved, but the totality of the vouchers can end up being quite dramatically wrong and nobody pays much attention. It also means that properly authorized wrong vouchers can go through the system and create inappropriate fund flows.*

How can so much bad accounting take place and not cause much concern? The ORDA world does not have very much expertise in accounting and analysis. In fact it is almost better to say simply that the ORDA community has none.

*UNDP is a good example. Budgets are prepared for a project. After many meetings, a project budget is approved based on a justification for objectives and activities and outcomes. When the project has been funded and implementation is complete the system*

*used to be for the budget to be adjusted to reflect actual disbursements. It was also common for a project revision to be processed so that the projects objectives, activities and outcomes would be the same as what was actually accomplished. In this process projects were always perfectly performed. The ridiculousness of this process is obvious to any reasonably professional accountant or manager, but was the accepted way of doing things at UNDP for years.*

It really is no wonder that funds are badly used, and funds cannot be found.

### **No system**

There is no system for doing development accounting and producing development performance reports. Instead of having a management information system that gives the performance information that is needed, the ORDA world does exercises that suggest that they are being responsible, but in fact does nothing to help them have control.

### **No use of value analysis methodologies**

Value analysis methods have been used as long as I have known anything about accounting (more than 40 years). They became fashionable in the corporate financial analysis world in the mid-1990s with the promotion of the EVA methodology by Bear Sterns (to check this). But value analysis is missing from the ORDA world completely.

### **No management information**

And nobody in the ORDA world uses management information. The ORDA process precludes management in the form that produces efficiency for the corporate world.

### **No transparency**

Lots of talk ... not much walk

The lack of transparency and the lack of accountability is one of the great shortcomings of modern governance. In the last two decades there has been a great deal of talk about transparency and its importance, but very little action to make transparency the norm rather than the exception.

Instead of reasonable transparency that would allow an interested public to be able to understand how things are being done and what is being accomplished, there is instead a growing amount of selective information ... arguable pure spin and misinformation ... that serves the interest of the people of the organization and not the interests of the public. This “public relations” driven transparency is not at all what is needed.

Relief and development fund flows are substantial. In resource rich countries there are other huge fund flows. It is absolutely imperative for there to be a high degree of transparency so that the public can be informed about the use of these resources. Senior people are playing for high stakes, and when the stakes are this big, it is “hard ball” and not smart to get in the way.

### **No basis for accountability**

The great news for the ORDA community is that with no transparency and a weak analysis capability there is no basis for accountability. Performance does not have to be good, because nobody is going to be accountable.

There is strong accountability in the corporate world where failure to live up to profit performance expectations has quick consequences. In a political structure loyalty more than performance has a higher value ... and at the limit, there are many who are involved in governance structures who have loyalty and are held to account for nothing.

More generally, it would be valuable if there is an expectation that there should be an accountability to the public. The public should expect that resources are being used in ways that are effective and

appropriate.

### **The US General Accountability Office**

The US General Accountability Office (GAO) is a watchdog agency in the US Government structure, and there are other oversight agencies that have been charged with looking into the accounting and performance issues in connection with US fund flows to Iraq ... but nothing much of substance seems to have been produced. There is a lot wrong about this, and someday there should be an accounting about this. From what appears in the press it is multiple \$ billions that are unaccounted for.

## **Implementing arrangements**

Governments are the implementing partner for ORDA. Some \$50 billion a year are channeled to governments as part of the ORDA process. It is enough to make a big difference if it was used productively. But governments are not good at using resources productively.

*As one of my English friends said early in my career – the government could not organize a “piss-up” in a brewery.*

Governments have a terrible track record in production and efficiency. This is not just a “south” phenomenon. A study prepared during Mayor Koch's administration in New York by a business group compared the costs of a whole range of city operations with the equivalent activities in the private sector. The results were laughable if they were not so serious. Government costs were frequently 10 times what the equivalent was in business.

The reason why government is the implementing partner goes back to the origins of development assistance. The core structures engaged in international official development assistance were all created around the time of World War II or immediately afterwards ... and these organizations were created with an expectation that governments would be taking a big role in the development process and were given the mandate to work with governments. The ORDA system was designed to use government as the key implementing partner. That is the mandate that there is!

Why does it not get changed? Because most of the key decision makers in the ORDA community is quite happy with the status quo. The status quo facilitates all sorts of inappropriate uses for funds, and the system is so dysfunctional that nobody is ever going to be held accountable.

### **Why do a few mega-NGOs dominate the aid fund flows?**

The emergence of the NGO has something to do with the perception that government is not an efficient implementing agency ... so a non-governmental organization, an NGO would be a better solution.

Certainly a private sector organization ... together with a market driven decision framework and funding ... is likely to do a far better job of almost anything than a government agency and a bureaucracy, but many, if not most, NGOs are not really private sector at all. They get the bulk of their funding from government aid agencies ... they serve as contractors for beneficiary governments agencies ... and a good number of their key staff have been government employees.

Success is when the implementing NGO satisfies the funding institution that the money has been disbursed well. This leads to sustainability for the NGO that remains in a favored position to get more funding. But of course this type of success has nothing to do with actual success in development.

Success in development requires that there is tangible value delivered to the beneficiaries. The critical things for a community are related to economic value adding, whether in the form of more productivity from their local labors, or more jobs created by outside investors, or better water, or health services or education opportunities, or water or electricity or telephone or Internet. In some communities the

priorities may have to be related to security and safety and staying alive.

At the start of the 3<sup>rd</sup> millennium, socio-economic conditions in SOUTH are horrendous. From a purely financial perspective most of the governments are essentially bankrupt. Something has gone dramatically wrong. There are enough people. There are enough resources. There is enough technology. Why is it that it does not come together to deliver success.

For Africa its even worse. There is a population of around 800 million people who are amongst the world's poorest. Yet the resources of Africa are enormous. The wealth of Africa is drawn down every year as financial and material resources are shipped out of Africa to pay debt or to satisfy foreign investors' claims. The process of development used for most of the period since independence has failed.

I responded with some additional observations. I thought that Claudio's set of data showed results, and there is general agreement that results are awful. But the data I want to see is the transaction data that will show why we have these very unsatisfactory results. It will show not just that the results are terrible, but that the process does not function.

Year after year the development experts report on the disaster of development. The macro-numbers are reported, and some heart-rending individual stories about the human dimension to the crisis. But that is about as far as it goes. I have responded to these reports over and over again. This was written several years ago.

*The development data about Africa are serious. The numbers highlight the RESULTS of a failed paradigm for development that has been used for several decades.*

I have tried to draw attention to the need for change and the possibilities that change can result in success. I have tried to draw attention to the many dimensions of the development process that are of great importance, but not being addressed in any meaningful way. This was written in 2003:

*Solutions are possible, but not until people who have control of policy and control of resources allow changes to be made.*

*When I first started working on development issues in Africa in the early 1970s, guns were far less widespread..... where do all the guns come from? Who pays for them?*

*What development value do they have?*

*What about refugees and internally displaced people? ICARA I and II in the early 1980s highlighted the problem. Why so many? What are the root causes?*

*What about hunger? Is the problem food production or food trade or food aid? Or is it poverty?*

*What about oil and minerals? Is foreign direct investment (FDI) a blessing or a curse? Are the oil companies creating economic value adding in Africa, or is it just for corporate stockholder added value? What about foreign mining companies?*

*What about diamonds and gems and gold..... and civil war..... and timber..... and guns and landmines? Where is the economic value adding for the people of Africa?*

*What about the health and HIV-AIDS crisis? Is this just another excuse for investors to avoid business and development investment in Africa..... it certainly is having a devastating impact on economic value adding in Africa.*

I have been trying to ask meaningful question about the why and how of development failure. I have been trying to get people to think about "value adding" and "value destruction" This was also written in 2003:

*The prevailing development process flows almost all the available resources into activities that do very little economic value adding in Africa. Worse, this has been going on for decades. Under the prevailing development paradigm economic value is being*

*systematically removed from Africa..... with benefit accruing to others.... but not Africa.*

But nobody is going to pay any attention because the information about development is voluminous but essentially useless. More from 2003:

*There is a terrible shortage in information that can help pinpoint what is good and bad about development, and get resources allocated to expanding the good activities. What is clear is that most of the available resources do NOT produce significant economic value adding in Africa. (If I am wrong... give me the facts... and I will be as outspoken about success as I am trying to be with respect to failure.)*

*These main characteristics of failed development in Africa are rarely talked about by the leading spokespeople on Africa's economic crisis, especially this associated with the official development assistance (ODA) community (World Bank, IMF, UN, USAID, DFID et al.). And ways forward to address these issues do not seem to be forthcoming from our ODA leadership.*

Because the high profile academics and development experts don't understand the reasons why and how development has failed, it does not mean that the why and how is not known. This was written in 2003:

*I sense that my African professional friends understand the issues very clearly, and would be delighted to see new ways for development resources to be mobilized for use in activities that will address priority development and investment needs in their communities. This is NOT about more welfare handouts, but making it possible to create new opportunities and create economic value in Africa's back yard using new resource flows outside the prevailing FDI and development cartel.*

## **Institutional constraints**

In my assessment, the biggest set of problems were the constraints that were self-imposed by the World Bank, the UN and its specialized agencies and all of the other ODA organizations that were doing the funding. And over the years, as development performance got worse and worse, the solutions were to go more and more into solving the problem by strengthening the framework of constraints. It was a feedback loop gone mad.

*For some time in the late 1980s I did a number of supervision and evaluations assignments for the World Bank and UNDP. The Terms of Reference always called for identification of the "constraints" or in French the "goulots d'etirements" and, of course, it was understood that the constraints would be ones that were "acceptable" to institution that was hiring the consultant.*

## **Why so many bad decisions?**

How has ORDA failed? Bluntly put, the wrong people have been in charge. Too much of the decision making has been made with a political agenda, and rather little of the ORDA decision making has been made by people with the interest of the poor and needy foremost in mind.

*I was really disappointed when I attended a program of Bread for the World in New York and the presenter made it very clear that we should advocate for more development assistance in part because very little of it actually left the country, and it was very good for the US economy to have more ORDA resources. This is a ridiculous argument that*



*suggests little or no understanding of the crisis and what needs to be done.*

In the beneficiary countries the people in charge are the country's leadership which would work if the leadership agenda was primarily the efficient use of relief and development resources. This is far from the case. Resources are allocated for local priorities and there is very little that donors can do about it. Donors and funding organizations are faced with legitimate questions of "sovereignty" and they have caved in for years over the equally legitimate question of transparency and accountability.

People that truly have the interests of needy people in poor communities have rarely been part of the mainstream of ORDA programs and fund flows. It is apparent that very little ORDA funding finds its way to remote poor communities, or even to nearby poor urban communities.

Few have much interest in getting resources to poor communities where the resources are needed and can do a lot of good.

### **Colonial overhang**

When "development" first started in its modern form, that is after independence of the former colonies in what I am referring to as the SOUTH, there were a lot of experienced former "colonial" civil servants who were able to do a career change and become "development" experts and advisers. To the extent that they knew something of the geography, and the culture and the problems and the potentials, these people were an enormously valuable resource. And they made a significant contribution, especially when they were appointed to appropriate positions in the UN and the World Bank and the bilateral development agencies. But they did not succeed as well as they might have, and the reasons for this are many. And of course, much easier to see now with the benefit of hindsight than at the time.

*One of the issues that these former colonial officers had to contend with was the whole issue of "colonialism". A lot of younger professionals in the development arena had the view that the SOUTH's economic circumstances were a result of "colonialism" and that with the colonial issue out of the way development would now be easy. This view was also popular in government circles in the SOUTH, and development was going to be easy. Essentially a simple equation: money in results in development out. If only it had been that simple.*

*In the 1980s, there have been lots and lots of times when I have tried to address the issue of development performance with World Bank and UN staff, and the response has been couched in terms that it was a problem carrying over from the "colonial" era. This was used as an excuse for everything. This happened in Nigeria. This happened in Madagascar, This happened in Ghana. This happened almost everywhere I worked. And it was not long before the dialog between beneficiary government and the donor organizations picked up on this and created a universally acceptable excuse for failing projects*

### **Wrong scale**

There was a realization during the 1980s that scale was an issue. But it seemed that the scale had to be big, because the problems were so huge.

*When I started to write "privately" about performance of development early in the 1980s one of the issues that I wanted to see addressed was the question of scale. Schumaker wrote his classic "Small is Beautiful" and he made the case very well for "appropriate scale"*

In my view Schumaker got it wrong in the second part of his book where he advocates for "government" solutions. When was government ever the "appropriate" scale? Especially when the

solution is that scale should be “small”!

In the 1980s and the 1990s big projects were failing. There were references to White Elephant projects reflecting not only the inappropriateness of the project but also the scale. But the projects were not only failures in themselves, they were also creating economic side effects that were damaging. In the 1980s I wrote

*I am convinced that “big” projects are failing because of size, and the distortion that this size was bringing to the economy, the society, the private and government institutions. I have tried talking about “distortion” with the experts but have never found any of the UN staff or the World Bank staff I have worked with having any interest or understanding of this issue.*

But it was worse. I started to realize that the World Bank economists were very much committed to the idea of economy of scale, and did not understand much about underlying technical and management realities.

In the fisheries sector in Yemen (PDRY) there were several World Bank financed fisheries projects.

*One in particular was a fish meal factory in Markala. It was started as a pilot with two fishing vessels and a rather small fish meal production plant. After a year the fishing vessels failed to catch an adequate amount of fish, and the plant was losing money rather dramatically. The World Bank experts solved the problem by increasing the number of fishing vessels and increasing the size of the fish meal plant at very considerable capital cost expecting everything now to be OK because of economies of scale. Of course more fishing vessels cost more to run, and caught far less fish per vessel than when there were just two vessels. The big fish meal plant was still only able to operate at a fraction of its capacity. Net net the project now had a very much bigger capacity to lose money, and that is what it did.*

The consultants and the World Bank experts got it wrong. Big is not best in all circumstances, and certainly not in the fishing industry where natural resource constraints should be the determining factor.

Project management does not scale simply. Typical World Bank projects are totally unmanageable because they are big and complex.

*I did a review of a big education project in Latin America. I tried to draw a corporate style management schema and organization chart to do the management accounting for the project. It was hopelessly complex. The project read well because everything imaginable was going to be addressed. In reality nothing was going to get done well. Funds were going to disappear into the project account, disbursements were going to be made against approved vouchers, and nothing would ever be reported in a way that allowed anyone to see what was going on.*

*I knew this project had the potential for huge rip-off. It was beautifully designed to leak everywhere. The World Bank staff had no idea how the design had evolved into a disaster waiting to happen. Needless to say when I raised the possibilities, I was treated with contempt and ignored. How could I know anything. I did not work for the World Bank!*

## **A profit maximizing enterprise agenda**

The capital market profit maximizing system has a long history of facilitating progress ... but at what cost. If we look at what the enterprise system has done well, it is remarkable. There has been enormous progress over the past fifty years or so, and in the process many fortunes have been made. According to

this system, and the rules of this game, the people with fortunes are winners.

But a game that only makes part of the world ... less than 50% of the global population successful ... is too narrow. The game should have a broader base. It is not good enough to have an economic system that makes money by “conning” the clients and earning for one group at the expense of another.

A profit maximizing enterprise agenda is not good enough. There has to be value creation ... and the key stakeholders are customers and clients as much as managers and owners.

The global profit maximizing enterprise sector and the financial markets have invested heavily where they have seen opportunity to invest for high profit ... but in the process they have created bubble and bust cycles that have not served to optimize socio-economic progress.

If the PME sector sees opportunities to earn profits, there will be investment. There is a lot of money flowing through the capital markets that will invest for high return, even where there is substantial risk. Much of this capital will invest for high profit, and not concern itself too much with how the profit is earned.

*I remember doing work in Thailand in the early 1980s. Part of the work concerned an assessment of the investment potential of Thailand and the enabling environment of law and culture and institutions that would make Thailand a good place to invest. Of course the analysis of law and the banking sector and the regulatory environment and everything else made one draw the conclusion that Thailand was not going to be a good place to invest. Not to mention that very few people spoke English and the language and even the alphabet was incomprehensible. But before I concluded my work, I asked another simple question. Why was it that money was being invested in Thailand? And of course it turned out that a lot of money could be made in Thailand if it was invested in profitable enterprise. Money flow was not constrained by things that I had been studying. It was all about economic value adding and earning profit. Brothels, tourism were profitable. End of analysis.*

Development will never be successful as long as the financing of development is limited to the initiatives of the official development assistance (ODA) community. Most of their decisions are driven by a social dimension that has little to do with economic value adding and profit. And after forty or more years of this, the flow of funding for ODA work is miniscule.

*I was in Thailand again in the early 1990s ... in fact 1992. I was struck by the amount of new construction and leisure facilities like golf courses that stretched for miles in every direction around Bangkok. As I traveled around I noted how few of the houses were occupied and how much of the construction was not totally completed and ready for use. Clearly there was something of a mismatch between what had been financed and built ... and what needed to be sold ... and probably be financed. The banks were not yet reporting problems ... but clearly they were heading towards a crisis. And of course it eventually came. In 1997, the Asian financial crisis hit as the banks realized that they had over-lent to developers and it would take time for the market to absorb the inventory.*

And something else has been going on. As the failure of development became a pandemic, which probably happened in the late 1970s, the financial community has sought to limit its losses, more often than not by tightening the terms and in fact making failure more certain. What was bad in 1980 had become horrendous by 2000. But almost all was due to bad lending into economic value losing propositions, and a bad problem was made even more serious by the financial community's strategy.

And as this was going on the major financial organizations created communities of interest to ensure that the borrowing nations were even more limited in their options. The UN Round Tables and the

Paris Club negotiations ensure that fifty big institutions are able to gang up on a small developing country and get it to do whatever they call for. In any other field of trade or commerce this would be called a cartel, and would be the subject of great criticism, but I do not think I have seen anything in the NORTH press that sees this as an undesirable feature of the international financing scene.

Actually, this would not be too bad a way to move forward if the financial community was asking for economic value adding initiatives. But in fact the international financial community rarely has this on the agenda, and the outcomes are frequently very damaging to the SOUTH country.

*Over the years I have had assignments where I have been collaborating with IMF and World Bank teams, and I have seen some of the work they do. And some of it is very bad. Not only is the work done too fast, it is done with too little understanding of the problems. The agenda is from the NORTH, and the SOUTH country has little of no say in the negotiation or the conclusions. It is a terrible process. It is worth commenting that the IMF and the World Bank have some great and experienced staff, but they are likely to be working on the big high profile problems, while the staff working on the boring problems of any of 100 or so poor SOUTH countries are not so likely to be of this caliber, and even if they are good, do not they have the seniority to get policy changes made when they are needed. This is a terrible process.*

The basic financial flows do not serve development well. The World Bank and the other Regional Development Banks (RDBs) are able to borrow money from the capital markets. They then onlend to SOUTH governments who onlend to programs. The repayment flow is essentially SOUTH people fund SOUTH government to repay WB and RDBs. The missing link is that program should benefit people so that people are able to repay without it being a problem. But this missing link has been missing for decades. In theory the programs benefit people, but it is pretty apparent from the ODA publications that most programs have resulted in rather little benefit for the people and their is a growing debt arising year after year with little development progress.

There is a debt dilemma. The financial sector in most developing countries is in a difficult situation, and the debt crisis does not make it any better. Solving the debt crisis is not best handled by getting tough about repayment and debt service, it is much more about getting tough about economic value adding in the debtor countries. This may to some extent be addressed by improved governance and better policy options from government, but it also needs to be addressed by improved financing modalities and focus on economic value adding activities.

The problem goes far beyond just corruption in SOUTH governments. It is also about the whole framework of economic value destruction that arises with much of the existing flows of investment and assistance to developing countries. Economic value destruction in developing countries is being aggravated by a lot of Foreign Direct Investment (FDI), by a lot of the rule making going on in the Geneva based international organizations such as the WTO and the ICU. It is not a pretty sight.

## **Lack of good governance**

Governance is a high profile issue, with some terrible examples of tyrannical regimes running roughshod over society.

There are three levels of governance: local, national and global.

For the past two centuries national government has been at the forefront of governance. And to some extent during the colonial era international was a mere extension of national so that national had a far longer reach from the home country to all the colonial possessions.

In the post independence world governance has remained focused on the national level, but another level of international governance has emerged. This new global reach of governance is delivered through the UN and its specialized agencies. The governance process is getting more and more complex, but the net impact is becoming institutionalized disadvantage to the SOUTH

The general view is that SOUTH has poor governance, and is corrupt and difficult to do business with. This is only part of the story.

The problems of SOUTH governance have been enormously aggravated by the behavior of most of the leading countries in the NORTH. During the cold war being “against” the Soviet Union was enough to make a government a “friend” of the United States. And a lot of wasteful and damaging fund flows and trade transactions took place in these “friendly” relationships. The US relationship with Mobuto in Zaire is one high profile example of a string of convenient and corrupt relationships.

The magnitude of the global damage to long term development and financial stability is difficult to assess, but it is almost certainly far bigger than the ODA fund flows that we know about.

The Soviet Union was in the same mode as the United States during the cold war.

*I have worked in a number of countries where the Soviet Union (as it then was) had a lock on government initiatives. The Soviet Union had helped fund their wars of independence and they expected something in return. Nobody seemed to know what they “owed” the Soviet Union in tangible financial terms. There did not seem to be a bill, but just the threat of a bill. And a big one. So, not surprisingly, the Soviet Union was able to set the terms of a lot of their “investments” and “joint ventures” in ways that (in my view) were very favorable to the SOUTH client. This tactic was being used to give the Soviet distant water fishing trawlers access to rich fishing grounds, with almost no benefit to the host country. Value destruction at its worse.*

But after independence there have been other forces at play. The role of big business collaborating with NORTH government to achieve local advantage in the SOUTH is a massive problem. And yes, there are many examples of high officials of SOUTH governments getting paid for to authorize some advantage, and that is considered corrupt. But the recipient of the advantage is a party to this same corruption. And yes, there is the argument that “If this beneficiary had not paid up, then some other organization would have, and we would have lost competitive advantage.” is probably true, but no more right.

*One day somebody will write a definitive story of corruption in Nigeria. The scale of this corruption is difficult to appreciate, but it is huge and the might even be legal. The big international oil companies are deeply implicated in Nigerian behavior but cannot easily be held accountable. The idea that the late President Abacha was able to accumulate a fortune alleged to be \$4 billion dollars in four years is remarkable. And while this is going on the peoples of the oil producing areas of Nigeria are as poor as almost anyone in the world. It makes no sense.*

Now all business is not as corrupt as the oil business. In fact most business, and especially small sized and medium sized small enterprises are just plain honest and hard working. They do not have the deep pockets needed to get heavily involved in grand corruption, and to the extent that they get “favors” it is more because of friendship than it is base corruption.

But while national level governance has had its problems, there are other aspects of governance that should not be ignored. Local government and community organizations are very important in the regulation of society. In the eyes of the official development assistance (ODA) community local governance is downplayed. But it is the quality of local government that determines how good the quality of life people can have. It is said that “all politics is local” but it is even truer to say that “all life

is local”.

In broad terms it can be said that “value adding” from the perspective of the individual associated with government is the highest at the community level. The national level is more involved with projects that have a value destroying characteristic

## **Health ... HIV-AIDS and other killer diseases**

The world was becoming in healthier place as a result of some amazing advances in medicine and some well organized international interventions to intervene to end some terrible diseases like smallpox and polio. But something appears now to be going wrong. Instead of further progress in eradicating disease and reducing mortality and morbidity, there is tremendous backsliding.

There are financial constraints in public health that are constraining everything in the health sector. The amount of money for public health in almost every country in the SOUTH is so limited that health services are bound to be inadequate. International official development assistance (ODA) is not enough either. ODA does not start to address the health funding deficit.

But beyond the financing issues, there appear to be medical and scientific issues as well. The HIV-AIDS pandemic has changed the population dynamics of the whole of Africa, and in the hardest hit countries the expectation of life has dropped by more than 10 years in less than 5 years. Instead of moving up into the 60s, and a continuation of thirty years of steady progress, expectation of life has started to drop dramatically. With more than 3 million dying prematurely of AIDS related disease in a single year, the people of Africa are having to face an incredible crisis.

But it is not the only health crisis. Malaria continues to be a tremendous killer, and where it does not kill it still has a debilitating impact on an individual. Children are badly impacted by malaria. And the easy curatives for malaria are becoming less effective as more and more malaria becomes resistant to medication.

And after years of progress with tuberculosis, TB infection is again growing and becoming more and more widespread. And again, the TB strain that is spreading is one that is resistant to easy and low cost medication.

While there are many views about why disease is growing so fast now after years of progress, it is highly likely that poor medical services and lack of hygiene are part of the problem. The writer is convinced that unsafe medical practices are feeding into the growing health crisis, especially unsafe injections and other procedures that result in blood contamination. The use of dirty needles is widespread, especially in the informal settings where people expect a health intervention to include getting an injection.

The Secretary General of the United Nations, Kofi Annan, to his credit, has raised the issue of the growing health crisis at the UN, and has been instrumental in having a Global Fund for HIV-AIDS, Tuberculosis and Malaria (GFATM) launched. In its inaugural year the GFATM was able to mobilize around \$3 billion, a substantial achievement, even though the requirements were for something more like \$10 billion.

But the health sector is a problem area. It is something of a symbol of failed development. Progress was made, but the progress has not been sustained, and now there is a high probability that poverty is going to be more and more accompanied by health crisis as well.

# The Project Form of Implementation

## **Where there is meant to be accounting**

I was under the impression that the project was the entity that permitted organizations like USAID, the UN and the World Bank to manage their assistance programs ... but rather than providing a foundation of information that helps to understand the use and value of fund disbursement, they seem, rather to add to the confusion.

## **Project cycle**

The standard project cycle is usually described as follows: (1) Identification; (2) Preparation; (3) Appraisal; (4) Negotiation; (5) Disbursement and Implementation; and (6) Evaluation.

The basic cycle is reasonable ... but when applied in most of the present relief and development organizations there is a lot of effort associated with the first four elements, and insufficient attention to the fifth. Within the disbursement and implementation part of the project cycle there is a totally inadequate amount of accounting and measurement of performance.

## **Where was the money disbursed?**

It should be relatively easy to get a listing of where the money has been disbursed ... that is a listing of the projects, the implementing organizations and the amounts of money disbursed.

The amount of money disbursed can be either in the form of a listing of disbursements together with dates, or a cumulative total with date of the cumulation.

A list of this sort is about as basic an accounting report that one can design ... it is lists of this sort that are the basic of good accounting control, and it is incomprehensible that such lists are not easy to access from the public space.

## **What was the money used for?**

It is also reasonable to expect to be able to have a listing of what each of the organizations used the money for ... the cost of the various activities carried out by the organization. Every well run organization has this sort of analytical or cost accounting data ... and if there is an organization that does not have this data, then one has to wonder why this organization was selected to be a project contractor.

With information about activities carried out by the organization, it should be possible to compare the work done under this project with similar work done by other contractors both in the same country and in other parts of the world. In an efficient relief and development sector one would expect the costs to be somewhat the same, with easily explained differences based on the special circumstances of each of the project ... in fact this information is not at all similar, mainly because few of the organizations are doing this sort of analysis and they merely spend the money without much attention to cost effectiveness and performance.

## **Did the project produce value?**

If the relief and development sector was serious about measuring performance there would be a requirement for projects to be evaluated based on the socio-economic value created. While this is a part of the appraisal at institutions like the World Bank, it is very much a theoretical construct at the time of the appraisal and not very much in evidence during the management of implementation and in the subsequent evaluation ... but this value creation is the central *raison d'etre* for the project ... and not having any metrics about this is nothing less than mind-boggling.

## **What about information?**

The situation in Iraq seems to be very much “business as usual” ... in other words no more and no less accounting than is normal in the international relief and development sector.

But there is a difference that should have caused accounting to be made a central feature of project management, and that is the scale of the fund flows that are involved. Having poor accounting in a project that is disbursing \$50,000 is bad enough ... but when the projects are disbursing perhaps as much as \$20 billion a year ... then not have excellence in the accounting area is absolutely scandalous.