

# CHAPTER 9

## ENABLING ENVIRONMENT

*What is the enabling environment of law and regulation? Is it a facilitating environment or a constraint on success? What would help the community to progress? What are the ways forward so that peace and prosperity wins over war and mayhem?*

### **A lot goes into this**

The enabling environment incorporates everything needed to make a community productive. There are several core elements: (1) those that relate to governance; (2) those that relate to the physical infrastructure; (3) social services like health; (4) social services like education; and (5) economic services like banking and insurance.

### **Governance**

A good enabling environment has been largely absent during the past few decades.

The enabling environment is usually looked at from a perspective of the “north” and is usually measured by comparison with the prevailing enabling environment in the home base country of the “north”.

How does the law and regulatory environment compare with the law back home. The degree of difference usually determines how the enabling environment is evaluated.

### **Subsidy**

Subsidy is one way in which an enabling environment can operate to favor one group at the expense of others. The distortion of markets is catastrophic through the massive subsidy programs of north countries. This was written in June 2003.

*The scandal is that the money required to write off the debts of the whole of sub-Saharan Africa is, in global terms, barely significant. It has been costed at little over \$6.4bn spread over five years. Compare that with the \$350bn that rich countries use to subsidize their farmers every year.*

*Julian Filochowski writing in the Independent, June 1, 2003*

This is an enormous cost to taxpayers. Subsidy is not usually designed to reduce prices to the consumers, but to increase the wealth flow to farmers, and often not the small family farmer but the corporate farmer who oftentimes is paid NOT to grow a crop to reduce production.

It really is very sad. Money to do good things is never available. But to do not so good things is easy.

### **Governance**

#### **System and processes**

In Iraq, there are administrative systems and processes that are long standing. Whether or not they are adequate to satisfy all the needs of the government at the present time needs to be assessed. In general it is likely that the systems and processes that carry over from the autocratic regime of the past will be

effective, though needing change to reflect new leadership priorities.

While government goals and policies have been changed very substantially, the systems and processes can be effective without much change. There is a need to review these systems and processes and revise the way the work is done so that they are easier to operate and more effective from a financial and administrative perspective.

## **Administrative capacity**

Administrative capacity in Iraq substantial. Some new administrative offices have been established and some modest progress made towards building a framework of good governance. The administrative system to sustain the initiatives for good governance has to be established, preferably by taking as much of the present system as the foundation.

## **Technical planning**

The capability of the Iraq administration to do planning is untried. There are some staff with good knowledge and capability, and there are staff with substantial knowledge about the region and the technical subject matter. But to what extent these people are engaged in the present planning process is unknown, and the extent of cooperation with the international experts and the local experts is also unknown.

## **Planning and budgeting**

The capability of the Iraqi staff to do financial planning and budgeting is unknown, but I would expect it to be good. There are many educated Iraqis who can easily take technical plans and convert them into financial plans and budgets. It is more likely that the planning constraint is more to do with language and the international experts than it is to do with Iraqi competence.

## **Policy framework**

The policy framework needs to be strengthened by adding substantial new areas of policy that have not yet been formalized.

## **Training staff**

The administrative capacity should be strengthened for the long term with a continuing program of training. Training should be carried out so that all of the staff have access to training, and are able to learn skills that are of practical use in their work. The training should be organized expecting that a large number of staff who benefit from the training will choose to use their new skills in other organizations. While this does not strengthen the organization, it is of value and importance to the community at large, and should be part of the national plan for human resource development.

## **Upgrading available equipment**

Government offices are sometimes short of needed equipment. The staff should have access to the equipment that they need to do their work. There should also be a good system for tracking office equipment, furniture, fixtures and fittings.

## **Governance and administration sector**

The essential activities of governance and administration are supportive in nature, and only result in tangible economic benefit when there are also productive activities in the economy. Bad governance and administration can be a huge constraint on success, and improvement or diminution of the bad activities in governance and administration can be very favorable.

Getting rid of corruption is the obvious big issue, but there are a lot of other smaller issues that can be addressed. For example, reducing the complexity of procedures to do routine administrative activities,

and shortening the time to do these things all helps.

The public sector's most important job is governance and administration. It is important, but it does not in itself create wealth, and is an “overhead” of society and socio-economic development.

These functions facilitate success in a society, and bad governance and bad administration can be a huge constraint on the performance of society and the progress of socio-economic development.

There are a whole host of activities that “government” is expected to provide for the citizens. In the “south” the government has often found itself in a financial bind, and the delivery of services is impossible because of the funding constraints.

A lot of services are best delivered at the local government level rather than by an organization controlled and funded by a remote central government, such as local public works such as street repair and waste removal.

## **Government Accounting**

### **A basic system of governance**

Government accounting is one of the most important tools for establishing strong and fair governance.

### **Government accounting**

In Iraq, it is likely that the government accounting systems are reasonably good, though obviously done in Arabic. Most international experts do not have much accounting expertise and even less Arabic expertise ... yet it is important to know how effective the government accounting systems are for both budgetary control and for project control.

### **Planning and budget process**

Government accounting is usually part of a planning and budget process ... with the budget giving the organizations of government the authority to use government resources.

### **Budget execution**

Sometimes the process of operating the government agencies and organizations is referred to as budget execution. In essence, though, this is the process of implementation and the accounting associated with the implementation.

### **Reporting**

In some jurisdictions the government accounts are placed before the legislative branch of government monthly ... but in too many places the accounts of government are not reported on in a timely way.

Where there is timely reporting, there are fewer problems.

### **Audit**

In some jurisdictions there is a requirement that there is an audit office in the government, and that this office carries out both ongoing checks of the financial transactions and periodic checking of the accounts and the reports. In many places this is an effective way of validating the accounts of government, but in some cases the audit is totally ineffective.

### **Weakness**

Most government accounting is done on the cash basis, with little attention paid to the accrual component of the accounts. Cash basis accounting is a weak compared to accrual accounting, and it is very much preferable to have accrual accounting.

Government accounting is also weak as an analytical tool. It serves to control expenditures relative to a

budget authorization, but it does little to measure performance against an ideal set of standards or some broader benchmarks.

## **System and process improvement**

There is a need to review the government systems and processes and revise the way the work is done so that they are easier to operate and more effective from the technical planning, budgeting, financial and administrative perspectives.

## **Government Revenue and Public Finance**

### **Sources of government revenue**

In Iraq a large part of the government revenue is derived from the oil sector.

### **Government borrowing**

The government has borrowed substantially from the international community in the past and Iraq is going to be expected to make good on these loans even though most of the benefit accrued to contractors and the ruling elite.

### **Grant finance**

Iraq may be benefiting now from considerable fund flows that are in grant form. aid, but a large part has been as a result of emergency and humanitarian

### **Improving government revenue base**

The government revenue base is substantial because of oil, but arrangements need to be made so that this fund flow is sustained after oil is consumed.

### **Customs, export taxes and port fees**

Customs duties, export taxes and port fees are additional sources of public sector revenue. The basis systems for collection and accounting for these revenues are sound, but it is likely that there are some losses due to inappropriate practices by some of the more prominent traders and businessmen.

### **Creating a formal public finance capability**

It would be appropriate to create a formal public finance borrowing program to tap the available resources both in the country and in the Diaspora. A system of short term treasury bills and longer term notes could be implemented.

### **Establishing a development fund**

A development fund could be established for use as a mechanism to loan funds to communities. The advantage of such a facility is that all transactions would be in local currency and the impact of exchange rate fluctuations would be minimized.

### **Public finance**

In Iraq, there should be very little development constraint caused by a public finance constraint. The essential services of government should be easy to fund, as well as a lot of development essentials.

The potential economic growth and the general wealth building in the economy can build a solid tax base to fund government in a sustainable way.

### **Pay scales in the civil service**

The pay scales in the civil service should be sufficient to attract good staff who are qualified and experienced enough to do the work that they need to do.

## **Policy Framework**

### **Huge need for critical controls**

I used to think that less government was absolutely the best government until I watched corporate and societal behavior when regulations were removed and unfettered economic behavior was allowed. This made me change my mind, and has convinced me that enterprise and opportunity and the behavior of markets are better drivers of economic progress than anything else ... but that there also has to be official oversight and regulation so that abusive excesses can be controlled.

The natural order of things is for excellence to lead to success and for success to lead to abusive excesses. It is seen in behavior in the multi-billion dollar corporate world, in politics everywhere, and in petty market traders and middlemen in remote markets in poor countries.

### **Natural resource policy framework**

The oil resources of Iraq dominate the economy. It is of critical importance for the future peace and stability of Iraq that there are appropriate agreements about how this wealth is to be managed, and specifically for whose benefit.

One strategy is to keep information about the oil wealth secret and use the resources for the benefit of a powerful corporate and private elite, or the wealth can be managed in the open with the wealth used for the benefit of the country, and to support the future prosperity of the country.

### **Corporate wealth policy framework**

Merely knowing about the value chain and having the information easily available will have a substantial impact on corporate behavior. As long as the corporate world can profit and remain in the shadows and anonymous, bad things will happen as long as there is profit in it. But big companies do not like well informed bad publicity.

Corporate wealth is largely created because a corporation is able to mobilize financial, material and human resources in ways that are better than the competition, and give benefit to its customers at a profit. This is a key source of modern world wealth and explains how and why this segment of the world is wealthy. To the extent that low costs are achieved by abusive economic behavior, or high prices are achieved by abusive market control, a corporation deserves to be held accountable ... but not for being efficient and highly productive.

## **Military**

### **National defense and emergency assistance**

The main reason for the military is national defense. Few would argue that this is a legitimate goal of government and reasonable that the military are maintained for this purpose.

A good army is a national asset ... and can prove to be very valuable in an emergency. The US Army has been of help from time to time in US natural disasters ... for example Hurricane Andrew in Florida in the early 1990s. More recently, the performance of the Indian army in connection with recovery after the South Asia tsunami disaster of December 2004 was valuable, and the Indian army has conducted itself well in many other situations of this type. So also, the performance of the Pakistan army in the aftermath of the earthquake in remote areas of Pakistan.

### **National politics**

But the army does not always produce good results, as for example when it becomes the

dominant political power and serves to empower strong man regimes that have little interest in the wellbeing of the people. In many countries over the past many years the military has also been a player in national politics, either because of coups and the establishment of military governments, or because of alliance between the military and the head of government or head of state.

## **US military in Iraq**

The US military in Iraq is a huge constraint on success. The US military were very successful in defeating the military forces of Iraq, taking Baghdad and forcing the end of the Saddam Hussein regime. They are not the organization that should be tasked with the rebuilding of Iraq or policing the population.

## **The Iraq military**

The Iraq military should be reestablished to have the ability to serve as a national defense force. There are major borders, and the Iraq military should have the capacity to defend these borders.

## **The difference between the military and the police**

The big difference between the military and the police is that the military win in one move ... and the police are required to win using a judicial process that gives some appropriate protection to the public. The military have no role in internal governance, except from time to time when there is a state of emergency and martial law is declared.

### **Good Reasons for the US Model**

There are good reasons for the US constitutional system which precludes the US national military from carrying out any activity in any State in the Union without the specific request of the State.

While “security” is a legitimate concern, the military should not be engaged in protecting privilege or maintaining illegitimate power. The military is often used to these ends. Building back the power of the military in Iraq is not a good idea ... rather there should be a broader set of organizations that work together to achieve security, but would not easily subvert the civilian nature of government.

### **Worry About the Power of a Big Army**

I was in on an assignment in West Africa when the Falklands war was in progress. I was surprised that my African colleagues were supportive of the British response to the Argentinian takeover of the islands ... until they explained that they were all worried that a “big army” should not have any right to come into a nearby country and take it over. They were from a variety of African countries, and big armies were everywhere.

Making sure that the military use their power in an appropriate way depends more than anything else of the quality of the leadership and the training of the soldiers. There is a lot of good military leadership, but it is not universal.

Getting a high professional standard for all soldiers around the world is a valuable thing to do.

## **Demobilized soldiers**

Some of the demobilized soldiers are still loyal to the regime of Saddam Hussein. The former

combatants are a security threat in part because they had a strong loyalty to the deposed Saddam Hussein and they had a good training. These people need to be given the opportunity to participate in the new economy. They should get training and they should be helped to get employment and get started on a life that has a future.

## **Police**

### **Police**

Police are NOT soldiers dressed in blue. The work of the police is fundamentally different and the techniques for success totally dissimilar. The British police have a good reputation, and it is not by accident that they do their work unarmed. It is but rarely that police work requires armed confrontation.

The police in Iraq should be recruited and trained and their salaries funded so that they are able to do the sort of work that a good police force should do. They should be organized so that they know what is going on in the community ... this might mean community organization rather than national organization. The police should also trained so that they understand the issues of their own society and can work in ways that has respect for the way communities have lived for hundreds of years.

### **The New York Experience**

Some years ago the New York Police were not highly regarded by the populace ... but today things are very different. The police force now is highly trained, and professional, and there is a level of management that gives the community a lot of confidence in the police.

Behind the scenes there is a lot of hard work and technology deployed so that criminals are apprehended and the community at large is not bothered too much by the criminal element.

Is the system perfect? No ... but it is very good, and trying to be better all the time.

20 years ago, nobody would have thought it possible that NYPD would be one of the most highly regarded police forces in the world.

## **Community police**

Community police have the advantage that they know the community and some of the good aspects of community policing can be achieved. But a community police force also has the potential to be diverted to working for the local elite rather than the people as a whole.

## **National police**

National police can be better or they can be worse than community police forces. They can have better resources and be better trained. They can also be subverted to a national agenda that is not in the best interest of local communities.

## **Local and national police in combination**

Some countries have adopted a combination of police systems, with both community police forces and national police forces. This results in a balance of power between community interests and national interests that can serve for the good of society.

## **Handling sectarian violence**

A police force is not going to be successful merely by force of arms. Force is likely to add another front to the fighting and add complexity and another level of violence rather than bringing peace. The police should bring police knowledge to the community ... and police knowledge should support moves that result in judicial proceedings against those engaged in unlawful activities.

## **Gun control**

There was a time when the only guns in society were controlled by the army and the army kept its guns under tight security in an armory. The global world market in guns is a feature of modern society that is nothing but obscene for a civil society, and something that makes it very easy for guns to be obtained for anti-social purposes, and makes it very difficult for police and law enforcement to be effective without themselves having to resort to lethal arms.

## **Preventing police abuse**

The prevention of police abuse needs to be at the top of the police agenda, as well as the oversight authorities. If there is no oversight authority or the oversight is weak or ineffective, it must be expected that there will be police abuse.

## **Judicial System**

### **Legal and justice system MUST be functional**

A legal and justice system needs to be in place. This can be either a central system or a local system, but it must have a functioning and have enough people and money to operate. It does not matter so much whether the system has a modern or traditional form ... what does matter is that it functions and that there is a socially acceptable ethical foundation for the society.

There are a lot of pieces in a fully functioning legal and justice system including (1) police; (2) courts; (3) prisons; (4) lawyers; and (5) legislators. The system is labor intensive and only works when there is sufficient reach for the criminal and illegal elements in society to have a reasonable expectation of being caught and convicted.

The rule of law needs to be fair, and justice needs to be universal. There is a lot of work that needs to be done so that everyone has some of the benefits of fair laws and equal justice. There are too many situations where the law serves to make something unethical, immoral or unjust, legal. This is particularly true in a lot of areas of commercial law, real property law and intellectual property law. In the case of Iraq, the whole question of fund flows related to oil has the potential to escalate into some form of violent power struggle.

Justice at the end of a gun is far too common around the world. Guns are bad news and guns are not a good part of a system of justice.

The judiciary should be trained and their salaries funded so that they are able to build an enabling environment for the local communities, for international trade and investment, and assure security. They need to be trained and the framework established so that the government judiciary is compatible with traditional local law and its procedures.

## **Customary Law**

Places where there is social tranquility usually have a system of local, traditional or customary law that is functioning well. In my experience, even where there is no visible presence of “modern” law, a society still functions on an ethical basis that is for all practical purposes universally acceptable.

Iraq seems to be in chaos without very much respect for law ... but at the personal level and the family there is a lot of respect for law, both secular and religious. The fact that there are factions with guns and bombs and no respect for law and civil behavior does not translate into anything like a majority of the people being in favor of this kind of behavior.

The role of traditional law should be taken into consideration. The role of clan law needs to be better understood by those seeking to give advice and assistance in development, economic management and governance. Good governance in countries with poor economies and weak public finance requires a

clever combination of what is good from traditional law and governance and what is generally accepted in the modern context.

### **Costs for a legal and justice system**

I have helped prepare government budgets and plans in various parts of the “south” and have been faced with the need for legal and justice activities to be paid for through the budget. A modern legal and justice system along the lines of the systems used in the “north” is beyond the financial capacity of most “south” governments. When staff are very lowly paid, or paid late or intermittently, then all sorts of petty corruption starts, but when there is only a small reasonably paid staff it only reaches as small part of the population.

Increasingly communities in the “south” have had to address the issue of a working legal and justice system by reverting to traditional systems ... in many cases with excellent results.

During my work in Somaliland, I was able to learn something of the traditional system of clan justice, and was impressed with its reach to every single member of the clan. The fact that all of the society was part of the same system of traditional law made it more useful than the modern law, that had little impact on daily life for anyone except a very few.

In Mozambique, after its long civil war, it was impractical for the government to go through lengthy modern legal processes for all the young soldiers who had committed various forms of atrocity in connection with the war. They did not have the money nor the people to do it. Instead they reverted to community level traditional systems to punish and reintegrate everyone into their society. The system made it possible for the country to become a lot more stable and reintegrated than would have been possible using a more modern formal “north” approach.

And of course, the Truth and Reconciliation Commission in South Africa broke tremendously valuable new ground in bringing together people who had been sworn enemies and committing atrocities for years in a reasonable length of time and at a manageable cost.

## **Prisons**

### **A prison service**

A prison service is needed in addition to police and courts. The prison service is needed so that there can be punishment and people can be incarcerated where the courts have determined that there is a breach of law and incarceration is called for.

### **Handling violent offenders**

A prison service is a specialized activity that requires considerable expertise and it also requires a substantial budget.

### **Handling petty crime**

Petty crime should be taken seriously, but it should not be handled in a way that encourages petty offenders to move on to more serious crime. Rather, a first offense should be handled in a way so that a first offense is also a last offense.

## **Prisons**

Prisons need to be improved in terms of their physical facilities and the recurrent costs associated with their operations. These establishments are not nice places. Some work on rehabilitating inmates needs to be available as well as resources for their general operation.

The prisons in Iraq are terrible. Prisons are needed in almost any society, but they ought to be able to meet certain minimum standards of human dignity. Neither system at the present time comes up to the minimum standards that one would hope to see.

# Physical Infrastructure

Infrastructure. What is there? What is the best way to improve the infrastructure so that it can support the highest level of activity? What is the status of the roads, the communications, the clinics and hospitals, the transport systems, etc, etc? What is the best way to improve the infrastructure so that the society and the economy is the most productive.

## Physical infrastructure

How long does it take to travel 100 hundred miles in the United States? 90 minutes, more or less. Say 2 hours with the local traffic at both ends. The road network is impressive. And the same goes for most countries in the NORTH. And yes, the roads are becoming more and more congested, and it is recognized that this is a growing problem that will be needing attention.

But in the SOUTH. How long does it take to travel 100 miles in most places in the SOUTH. 3 hours if you are lucky, and it may be half a day, or a day and a half. If it is the wet season, it may not be possible at all.

*In the late 1980s I worked on trying to find an alternative route out of South Sudan to the Indian Ocean through Zaire (now the DRC) rather than through either Uganda or Kenya. We needed a route that would allow fully loaded trucks to travel safely if not comfortably. It was impossible. The road was totally impassable. Our Land Rovers could not negotiate the mud and ruts and broken bridges. The roads had not been particularly well constructed when they were built some decades before, but no maintenance and heavier trucks had ruined what was meant to be there. Essentially transport infrastructure was non-existent.*

Physical infrastructure makes an enormous difference to the productivity of a country. The transport infrastructure is probably the most visible, especially roads, railways, airports and seaports. But it is also the water and sewerage systems, the telephone and communications systems, and the health facilities and the schools and universities, and the housing stock and the commercial and industrial buildings.

*I still remember my first visits to California and Texas in the late 1950s when the US Interstate Highway System was being built, and seeing the multilevel highway interchanges being built. I had been taught about the military value of the German autobahns, and now I was seeing infrastructure efficiency thinking being applied to the new US Interstate Highway System, this time for good economic reasons.*

While the NORTH has made major investments in infrastructure, and continues to do so, most of the countries in the SOUTH have made limited investments in infrastructure, and many have not even had the resources to maintain existing infrastructure in good condition. Without good infrastructure the cost of business goes up, and the performance of the economy is badly affected

To the extent that there has been investment in infrastructure, it has not always been cost effective investment. It has often been badly managed with low quality and high costs. Frequently the large projects have been funded by organizations like the World Bank or the European Union, both of which have contracting procedures that result in far higher cost projects than would be called for under a strategy with a focus on maximizing economic value adding.

Some large scale projects that were implemented more than thirty years ago are having ongoing

economic value adding in their regions, such as for example the Kariba Dam project in Zimbabwe and the Volta River project in Ghana.

*I helped work the numbers on the Kariba dam project when I was a trainee with Coopers and Lybrand (C&L) in London in the early 1960s. I already had had some experience with big project engineering and I knew some economics as well as accounting. It was my view that the initial cost estimate that we were being asked to confirm was in fact around 50% of what would be needed to complete the project. To their credit C&L and the World Bank revised their cost estimates in line with our recommendations and I understand the project was completed more or less on budget.*

The original costing was based on simple assumptions about quantities and prices, without taking into consideration very much the impact of a big project on local prices for everything, and especially things that were going to be needed in great quantities. By the time all the costings were revised using some thinking about market economics, and how business might respond to these dynamics, there were substantially higher prices and a much bigger investment.

### **Transport infrastructure - Roads**

Road infrastructure is needed all over the SOUTH. Very few countries in the SOUTH have roads to suit their needs.

But sadly, most countries in the SOUTH have spent a lot more on the roads that they have than they should have, simply because the roads have been built using the priorities of the NORTH and often with funding from the NORTH.

*The international competitive bidding process mandated by the World Bank and the main Regional Development Banks does not result in best value construction, and in terms of economic value adding potential, the process is exceedingly wasteful. The excuse for the process is to reduce corruption, but in fact it replaces one sort of economic waste with another.*

Look at a detail map of anywhere in the NORTH, in Europe, or the United States or Japan and there are roads everywhere. It is rare to go more than a few miles before there is some sort of road that can be used by any sort of automobile or truck.

But this is not so in the SOUTH. There are hundreds of miles of country where there is not road of any sort, where it is difficult or impossible for an automobile or truck to travel unless it is equipped for “off-the-road” work. And in this context we are not talking about the off-road capabilities of a typical suburban SUV. This is “off-the-road” because there is no road, because the flattest ground is a dried up river bed. This is “off-the-road” because there are no bridges over the river, and getting across means driving down into the river bed and climbing up the other side.

There are places where one can look for a hundred miles over a plain, and there are no roads anywhere except the one you are on. This can happen in the Rockies in the United States, but the difference is that in the United States there is no population. In my scene from the SOUTH, the whole area is heavily populated. But there is no investment in a road infrastructure. The economy is still based on animal power. (Europe circa 1850 maybe). The economy cannot use modern transport equipment because the infrastructure just is not built, even in a rudimentary stage.

*When I was doing planning work in Ethiopia and Somalia in the late 1990s, the local Somali consultants asked that our plans included a lot of road work. But they specifically asked that they were not built to “European” standards. What were needed were roads that were relatively cheap, easily maintained and were usable safely after rains.*

In the SOUTH, most of the building of infrastructure has been driven by poor priority planning. Good economics and good business has rarely been the driving force.

*In the late 1980s in Juba in South Sudan there was just a small amount of tarmac road. Tarmac road was something of a luxury. Good gravel road and well maintained laterite roads work well. But it was telling where the tarmac roads existed. One road went from the airport to the head of government's residence and had been built using Kuwaiti funds just prior to a brief visit to Juba by the Emir of Kuwait (I believe to attend the opening of a Mosque funded also by Kuwait). The other tarmac roads were inside the USAID compound and included the parking lots. I am not quite sure how this happened, but it gave a good luxury look to the compound.*

## **Railways**

## **Sea**

## **Air**

## **The Centrality of Infrastructure**

Enormous catch is needed to get infrastructure in the “south” up to an acceptable basic level of performance. There needs to be investment not only to build new needed infrastructure, but also to catch up on maintenance.

There are many facets to infrastructure including (1) Roads; (2) Railroads; (3) Seaports; (4) Airports; (5) Housing; (6) Water; (6) Sewage and sanitation; (8) Hotels and restaurants; (9) Tourism destinations; (10) Public buildings; (11) Schools; (12) Health facilities; (13) Telephone and Internet; and, (14) Electricity.

The investment needed to upgrade infrastructure to “north” standards is not sustainable in the “south”. There needs to be incremental upgrading so that constraints caused by infrastructure are reduced. As economic performance improves, more upgrading becomes possible.

## **Construction Strategy**

Most of the construction associated with infrastructure ought to be done by local construction enterprises ... and the planning of infrastructure initiatives should be based on the idea of creating the most value adding in the community as the infrastructure is built, and as much longer term benefit for the community when it is in use. The aim should also be to build infrastructure using the minimum of external resources, and the maximum of the resources that are available in the community.

Building infrastructure in the “south” should not be a totally uncontrolled profit bonanza for multinational construction corporations, with additional debt the only certainty from the projects.

Large scale modern infrastructure is expensive, and it is only in rich countries that the economy can justify making these very expensive investments. High cost infrastructure in a low productivity economy is a formula for financial crisis. Infrastructure investment to upgrade needs to be done in an incremental fashion.

This can be done working from the community level. When infrastructure is looked at from a community perspective, what is the most important to the community can easily be identified, and there can be an investment focus on what gets the best results for the community. This has the potential to increase the socio-economic return from infrastructure investment from something that will not justify investment to something that is gives an attractive socio-economic investment yield.

## **Housing**

### **Urban housing**

Much of the housing stock in Baghdad and some other urban areas of Iraq has been badly damaged in the past few years. There has been damage and complete destruction in some cases and there has been damage caused by looters. Many houses have been rebuilt using private financial resources and funding from the US programs, but a lot still remains to be done.

### **Capacity to build houses**

There is a good construction capacity in Iraq which can grow to build more houses. It is constrained by the economic conditions, the lack of security and the state of the housing sector overall.

### **House construction is employment**

House construction is employment as well as being a valuable addition to the community. New housing and upgrade building can be used to contribute to total employment and to the reintegration of returnees into the economy.

### **Strengthening the capacity to build houses**

Workmen to build houses to an improved standard need training in either a formal setting and while on the job working in a training capacity.

### **Housing sector**

The housing sector has not kept pace with the growth in population, and the quality of shelter for many in the poor “south” is less than satisfactory. Urban slums are common, and rural shelter is poor reflecting the poor state of the local economy.

The solution to housing should be one that involves both the private sector, government and the financial sector. With thoughtful planning, the housing sector can be a valuable component of economic activity and serve to upgrade the housing sector and the employment sector at the same time.

## **Seaports and Airports**

### **Seaports**

There has been a productivity revolution in modern ports, with almost total containerization and using powerful materials handling equipment. Modern cargo vessels are highly automated requiring small crews, and their cost is remarkably low, but they can only use ports with modern equipment. There is no reason why Iraq ports should not be to a very high international standard.

Iraq also must have terminals to handle its oil exports. These need to be world class, and there is no reason why they should not be.

### **Airports**

Iraq needs to have a world class international airport, and there is no reason at all what it should not have one.

The country also needs to have a network of local airports to facilitate local air service development. Though air transport is expensive relative to land, there are times when speed is a priority, and there should be the infrastructure to handle this.

## **Roads**

### **Arterial roads**

The main roads are a major factor in national productivity. The road network is very important for trade. The roads should not constrain trade, but serve to help it. Roads are important for all sorts of product shipment including livestock shipments

### **Community roads**

Every community I have visited has always made reference to the need for easier transport in the rainy season. All weather roads are valuable, but they need not be to European or US standards. They just need to be usable when it is raining, instead of totally stalling traffic.

### **Construction and maintenance**

There are some major contractors with the capacity for major construction and major maintenance of roads. There needs to be a strategy to upgrade and maintain the whole system and not just a privileged little bit of the system.

It would be best to make many small interventions rather than a few large interventions. The country needs to have balanced development all over the country, not just in a single area or corridor. The country needs employment opportunity everywhere, not only on a single axis of the country. Furthermore, the country's internal capacity is better suited to doing small works successfully than single large projects.

### **Employment**

The road sector has the potential to be a major employment source for the next several years. This can be done not only by using "labor intensive work methods" but merely by doing the work using local capacity to the maximum extent possible. Employment is needed not only at the laborer level but also among trained engineers and local contractors, some of whom have had important international experience.

## **Telecom and Internet**

### **Telecom**

In general terms, the telecommunications infrastructure in the global "south" is poor.

Iraq should embrace the idea of very low cost communications as a way to encourage development, but Iraq has not yet embraced the telecom sector in this way.

### **Internet**

An Internet infrastructure can be built in coordination with the telecom ... the underlying Internet backbone uses much that in common.

## **Water**

### **Importance of water**

Water is more important than anything else. When water is abundant, this is not obvious. But in places where there is very little rainfall, the importance of water becomes very evident. Without water, everything ends. With water, a lot is possible. Water is essential to human life, and is essential also to animal life and growing food crops. Water is also important since it is also a contributing cause of violence, injury and death. There is a lot at stake in the water sector.

## **Knowledge about water**

Knowledge about water is spread about a lot of organizations and should be systematically consolidated into a complete database that can be accessed easily by people with a legitimate interest. The database should be operated by a national institution, private or public. The data should be available easily from a number of access points. The data should be accessible for technical planning, and is also a part of the knowledge needed to have informed community dialog about what priorities are needed.

## **Competing demands for water**

Where there is limited water in the area, and several competing uses, there is the potential for conflict. People need water for drinking and personal hygiene. Animals need water for drinking. The rangeland fodder and agricultural crops need water to grow. The interrelationships among water, range, animals and humans, both nomadic groups and settled groups, rural and urban, etc. are complicated and not well understood.

## **Sources of water**

Iraq does not have a lot of rainfall, but it is blessed with two major rivers that have been a source of water for thousands of years. The average rainfall numbers are not a good indication of the way the rainfall is experienced. Often when there is rain, it is torrential, and a lot of rain falls in a very short time. Nearby, there may be no rain at all.

## **Quality of water**

The availability of water is the first issue, but after that there is an issue of quality. Much of the available water has high salinity. In many rural areas the water quality is low and often has high bacteria content, and by most standards is unfit for human or animal consumption. Water quality is one of the most important issue in the health condition of both humans and animals in Iraq.

## **Community water sources and water storage**

Remote communities have several different ways of obtaining water:

- From the rivers, with water treated at water treatment facilities.
- Boreholes, which often must be very deep and still then with low production. They are expensive and steel linings do not last long in the corrosive conditions of the area,
- Shallow wells, which serve both people and animals in many communities,
- Birkas, a swimming pool like structure, usually about 3 m deep, 3 m wide and 20m long lined with concrete that is used to catch and store water, often owned by an entrepreneur who sells the water,
- Hafir Dams, a dug out area with earth dam structure on the downhill side used to catch runoff during the rains, and mainly used to water animals

## **Urban water systems**

Urban water systems are essential for the health of any urban community. Not all of the main towns in Iraq have enough water available. The systems are not sufficient to satisfy the present need, and certainly do will not satisfy the demand of longer run economic growth. Urban water systems need to be upgraded in various urban centers in the area. There are shortages of water in some urban areas, and sanitation is not sufficient. There needs to be both study and expansion of the urban water capacity.

## **Plans for water supply improvement**

Plans for water supply improvement need to be prepared based on what is best for the local community, and what uses the least of money and other resources.

There are many contractors capable of doing work in the water sector. These contractors need to have the opportunity to gain more experience and improve their skills. Professional water engineers need to be encouraged to take a leadership role in the planning and management of water resources in the area.

## **Determinant of productivity**

*And the SOUTH does not have a good efficient physical infrastructure. Usually the NORTH's solution to the infrastructure deficit is a high capital cost big infrastructure project rather than the lower profile upgrade to infrastructure that removes the critical constraints*

*When I was working in Somaliland in 1999, the first feedback for our planning for transport was simply that they did not need high cost "European" style roads. What they wanted was a road network that would allow trucks to move safely in both wet and dry season. They did not want expensive 100 mph roads and smooth tarmac surfaces. Just the basics.*

# **Social Services: Healthcare**

# **Social Services: Education**

# Economic Services: Banking and Insurance

## Financial services

*What money and finance is available? How can salaries and suppliers be paid? What is the business model to generate positive cash flow? What are revenues? Is it market driven? Is it government budget? Is it grant based? Is it fee based? Is it mixed? Many of the problems of development are blamed on lack of money and financial resources. What ways can money and liquidity be created to support development progress. How can money get where it is needed in the best possible way. What about transparency and accountability?*

### **Money: Not enough of it!**

Of course there is not enough money. There never is. But that is not serious analysis, just lazy knee jerk response. Sadly, it has been a driver of a lot of debate and policy deliberation, when it has had nothing much at all to do with the problems and their solution.

### **Microfinance**

It is working capital that microfinance often aims to fund. But usually only for the very small enterprise, and in these cases surplus of the enterprise may not translate into a surplus for the family.

Though microfinance has done some good things, for some reason it has not been expanded to satisfy anything like the need that exists.

One reason for this is that the organizations involved with microfinance are poorly run, and do not have a business model that allows them to get financing to support the growth that is needed

### **Money**

The world is not short of financial capital, but capital is concentrated where the perception of risk is low and the opportunities for gain are maximum. We need real alternatives to the World Bank and the IMF. Having these institutions and their clones as the dominant financial institutions in global development is no longer the best way.

*Why is it that the IMF and the World Bank have become so important in development, and why is it that there are no alternatives to these institutions to drive development in developing countries? The IMF and the World Bank have their supporters, and in development career terms, working for the World Bank or the IMF is success. But a number of things have happened over the years that is cause for alarm. Other institutions have "cloned" the procedures and the processes of the World Bank and the IMF so that almost exactly the same results are being achieved by other international financial institutions (IFIs). Copying good procedures and high performance processes would be good. But copying procedures and processes that are ineffective is a problem. But the problem is bigger than this. A lot of organizations want the World Bank and the IMF to be engaged in a country before they will become engaged themselves. So not only do the IMF and the World Bank have a direct role in a developing country's development, they also add leverage to the situation. The IMF and the World Bank sit*

*on top of the world as an imperial monopoly. And monopoly is rarely good for all the stakeholders.*

## **Capital markets**

Financial capital is very mobile, and very conservative. But capital is put at risk where the potential for rewards are high. Though capital may be highly regulated, it is very much market driven and offers great possibilities for reform of financing for development.

The history of cross border financing has been mixed. In the 19<sup>th</sup> century international finance was very important, and in fact played a key role in the industrialization of the United States and the prosperity of Europe prior to the First World War. It was only during WWI that the United States started to be a lending nation rather than a borrowing nation.

And while international investment did well, there were some notable problems. The problem of sovereign debt did not happen for the first time in the 1980s, but was already a problem more than 100 years before.

The problem is that financial capital is market driven, and markets are driven by expectations. In turn expectations are driven by what is seen to be possible because it has already happened, and what might now be possible because of potential. Sadly, the underlying assumption of economic behavior at the operational level tends often to be rather different from the capital manager's view.

But markets are best when the information is good. It will be possible to mobilize capital as soon as the information shows that capital is making money supporting development. And investment in development can be as rewarding as investment in a lot of other vehicles, but the investment must be seen to be successful, and the investment must not “crash” immediately the area of finance is no longer “fashionable”

Financing development must not be complex. But financing development must be secure.

Everything that relates the financing and the use of funds must be well organized, and the systems for accounting and accountability must be first class.

In order for capital to be attracted to development, there has to be prior success, and this success must be visible.

Showing success in financial terms is not about economic data and economic reports, but about financial reports, and respected audits and audit reports.

In order for capital to be mobilized there is a need for intermediary institutions and organizations. Organizations like the World Bank and the regional development banks serve as intermediaries for transfer of global capital from the capital markets to development. Instead of proposing reform of their processes which is very difficult, a new series of intermediary organizations is needed.

These new organizations will be technology based so as to be low cost in operation, but very efficient in terms of financial accounting, accountability and analysis.

And these new organizations should be able to focus so as to facilitate a clear understanding of what works and what does not. In development, scarce resources should not be allocated to activities that do not work, and do not add economic value.

## **Public Finance in Africa**

I have not been quiet about the need for better financing for government in developing countries such as the following posted to the AFRO-NETS list in October 2002

*AFRO-NETS: HIV/AIDS through Unsafe Medical Care (8)*

*Dear AFRO-NETS colleagues,*

*Thank you Agnes Moses for your reference to labour wards. When I first got concerned about the HIV/AIDS crisis in Africa and started to try to understand the issues..... one of my friends.... who sadly has full blown AIDS.... told me of her concern about the procedures that are commonplace in labour wards in Africa including not only the re-use of "single use disposable" syringes but also the use of latex gloves over and over again during the birthing of infants.*

*All of these practices are easy to correct..... BUT ONLY IF THERE ARE THE RESOURCES TO DO IT RIGHT.*

*BUT..... there is not a health ministry in Africa that has the resources to do it right. Public finance is in complete chaos after 40 years of international assistance and prioritization of African economies and now more than 20 years of structural adjustment. The human capacity to do much better exists. The financial capacity in the SOUTH to do much better does not.*

*Sincerely,*

*Peter Burgess*

## **Money is Important**

Money is important, but mere money does not solve the problems of society. Money needs to be used in a constructive manner.

Money and greed can easily end up making a good situation intolerable. Money, it is said, can buy anything ... and in situations where there is secrecy about financial transactions and no transparency whatsoever, then money is used in all sorts of inappropriate ways.

Reference has already been made to the idea of "small is beautiful" and this has application with money as well. Big money doing bad things in secret almost inevitably ends up with a bad outcome.

The success of the United States had a lot to do with great natural resources, an entrepreneurial spirit and adequate money derived from creative financing. In time it became possible to get the country organized with a government that was too its liking ... but only after a revolutionary war and years of arguing about how the government should be organized.

In Iraq the problem is not the lack of money, but what the money is being used to do. It is not at all clear what money is being used for ... neither the local money derived from the oil industry, nor the funds that are coming from the outside to fund the deployment of coalition forces, rebuilding and development.

## **Money ... should not be a gift**

Money is not a gift, but something that is being used to facilitate socio-economic progress. What this means in practical terms is that money is loaned and not given to the communities to facilitate their socio-economic progress.

Some of the organizations that are engaged in the international relief and development sector consider the accounting for small loans to be an excessive burden and have decided to use their resources as grants rather than loans. This is, in my view, a mistake, and encourages a culture of dependence that has all sorts of undesirable consequences.

## **Requirements for Money**

### **Many needs**

There are many needs including: (1) funds for public purposes; (2) funds for private investment; and, (3) funds to invest for future generations.

Public purposes includes funding the programs of government and funding investment in the national infrastructure.

Programs of government include the funding of the army and the police, and the funding of development initiatives.

### **Financing development initiatives**

The argument has already been made that development initiatives are best implemented at the community level, with pull from community leadership rather than push from a central planning authority.

Many types of development financing are required to support community centric development including: (1) financing to help at the individual level – micro-finance; (2) financing to help the small to medium sized enterprise; and (3) financing to help the community itself. The three financing components work together to facilitate the economic activities needed for a vibrant community.

### **Financing infrastructure**

The building of infrastructure has two components: (1) the money to pay for the work; and (2) the capacity to do the work. In Iraq, there is capacity to do most, if not all, the work needed for infrastructure construction, and there is money to buy whatever equipment is needed from anywhere in the world. To the extent that there is not enough current cash, Iraq should be able to raise finance with relative ease on financial markets.

But in fact, Iraq may not be in such a good position. It is not at all clear to what extent the regime of Saddam Hussein mortgaged the future and borrowed and spent in quite profligate ways.

It is also not clear how much physical damage was done to the infrastructure in Iraq in the course of the initial military operations that led to the fall of the regime and the fall of Baghdad.

## **Control of the Money**

### **Control of the Money**

An absolutely rock solid system for accounting for the money is needed ... and with accounting there can be control.

### **Secret systems for money control**

There are systems for control of money that are complex and secret. The systems are not widely known about. This may be as it should be ... but it also facilitates grand scale diversion of funds and nobody any the wiser.

#### **Cabin Trunks of \$100 Bills**

I have seen cabin trunks with millions of dollars worth of \$100 bills that I was told were stolen from a banking institution in the middle of a civil war. Each of the bills was stamped with a mark that made these bills easy to identify ... and I was shown a chemical process that removes the mark from the bills to enable them to be circulated openly.

I have seen airtight packages in army green containing large amounts of US currency ... chemically treated to

disintegrate when exposed to air unless the treatment is nullified by another chemical cleansing.

These funds were in the possession of people who probably had no business whatsoever having them. They seemed to know how the system works, and I have little doubt that they would find a way to use these funds in spite the advanced chemical systems being used to protect the US currency.

This experience predates the Afghanistan and Iraq war where people talk a lot about the huge bundles of US currency that were being used all over the place with little or no oversight, accounting and accountability.

These secret systems for the control of money are useful for the funding of war and funding in an emergency crisis. They are not, however, a reasonable way of funding a program of national rebuilding and controlling the money. Secrecy is a characteristic that correlates strongly with inappropriate use of money. It would be very much better to have much more public knowledge about fund flows. From this it starts to be possible to have some reasonable knowledge about what is going on and to be able to establish accountability.

## **Accounting for fund flows**

The accounting for fund flows should have two main dimensions: (1) the accounting within an organization; and, (2) the accounting between organizations. At the present time it seems that both of these are inadequate, and given the scale of the fund flows this is absolutely inexcusable.

It should be quick and easy to follow money ... fund flows ... from the origin as a budget authorization, through the responsible agency of the donor government to each of the recipients of disbursed funds ... and then to track the use of these funds through program activities and eventually to the results being achieved.

None of this is anything more than lists of transactions with a certain amount of key data ... and added up in a logical manner. If the organizations involved cannot do this, then they should be held to account for incompetence.

## **Check the spending ...**

Spending needs not only to be authorized ... but it also needs to be worth doing. A good way to verify this is to check the spending so that all the disbursements result in something of value.

Checking a proposal about a future disbursement is a step, and an important step in ensuring that spending money results in valuable outcomes ... in fact all it does is to authorize the spending and pretty much hopes that there will be a good outcome.

Checking that the actual disbursement actually produced something of value is a true reality check. Where this checking is routine results are usually very good ... and where this checking is infrequent or never, results are frequently terrible.

## **Actual Far More Important than Plan**

I was once told that if the company added up all the cost savings that would result from proposals we would be making all our production for nothing.

In fact the company was totally out of control ... and it was not until there was strong measurement of actual that things got under control.

And as soon as there was control ... there was improvement.

## **Micro-Credit ... for the Individual**

### **Financing for the individual**

Micro-credit has been popularized over the past 30 years by Mohammed Yunus, founder of the Grameen Bank in Bangladesh. Though informal credit schemes can be tracked back a long time in history, they were not embraced by development experts until after the Grameen Bank had come on the scene.

The Grameen Bank experience showed, inter alia, that poor people could make valuable use of small amounts of money, and that they could be trusted to pay it back. The conventional wisdom in the commercial banking community is that borrowers cannot be trusted and therefore all lending should be heavily secured ... and the corollary, no security, no loan.

I also observed in my own work that small loans were able to be repaid more easily than big loans ... big loans held out the promise of bigger success or bigger failure, and when the failure happened, there was no way for the loan to get repaid.

I also observed that in the micro-credit space there are two types of lending ... there is social micro-credit and there is enterprise micro-credit. In the case of enterprise micro-credit the borrower makes money and the loan can be repaid without too much difficulty. In the case of social micro-credit ... lending because of personal or family difficulties ... there is much less capacity for repayment, and a higher proportion of the loans can never be repaid.

### **Community micro-credit**

Most communities can benefit from both enterprise and social micro-credit. In many communities there are already some form of self help group or other way of extending credit within the community. In some cases it is a "money lender" that is able to profit substantially, and many would say, excessively, from the unsatisfied need for money.

### **Funded from the development fund**

Community level micro-credit initiatives should be funded from a development fund, and there should loan administration and accounting so that the development fund can be sustainable.

## **Mini-Credit ... for the Business**

### **Financing the small and medium scale enterprise**

There is a need to have access to financing for the small and medium scale enterprise. These are the organizations that are best able to accelerate job creation, but they need access to financing for growth.

These organizations need finance for working capital ... they need to be able to buy inventory and pay salaries before they get paid for their products or their services. Growth requires working capital, and few small businesses have the working capital to grow.

These organizations also need finance to buy production equipment and vehicles, or to expand their space. The financing of this equipment needs to be available on terms that allow the business to prosper. Equipment leasing or rental might be the appropriate modality. Expansion of a building may need some form of real estate based financing.

These financing modalities are bigger than micro-finance and more sophisticated. I will argue for community based financing that has a component of trust and group responsibility over a strategy that simply relies on asset based security.

## **Muni-Credit ... for the Community**

### **The municipal finance equivalent**

There needs to be financing accessible to the community that will help the community have local contractors supply or build things the community needs. I refer to this as muni-finance. Municipal finance is a very big component of the capital markets in the “north” ... a micro-community version of this is needed for the “south”.

Most poor communities finance themselves. It is the only way. There is usually little money in the community, and there is no formal banking and financial service access. People in communities do the best they can. Communities impose taxes and levies to raise money for things that are wanted by the community. Some of these are substantial efforts, and can serve as important sources of funds for community needs. My experience in Yei in South Sudan is an example of this.

#### **My Experience in Yei, South Sudan**

Yei is a small agricultural town in South Sudan to the west, about 150 miles from Juba. When I was in Yei in the 1980s there were about (as far as I can remember) 150,000 refugees in the area, all engaged in small scale agriculture, and assisted in the first instance by UNHCR. With decent agricultural land, good weather and hard work, Yei had become a thriving little town with a good surplus of food.

I knew the “administrator” of the town of Yei ... a friend of a friend of a friend of my wife's from college days who was interested to find an accountant in the middle of a UN refugee review. He showed me with a lot of pride the “books” of the town that documented all the financial transactions of the town, and showed in summary form the monthly history of the town finances over the past several years.

The refugees were generating a lot of agricultural produce and the petty taxes collected at the local level to pay for local needs had increased with the success of the refugees. Now the town had some money for some of its priority needs. The school got a locally paid teacher, and the electric generator got some fuel. All of this carefully recorded in the books, just as it should be.

What is the lesson? Local success can be used to generate some local revenue that can be used for some local priorities. Sustainability that is real.

Few of the big cities in the global “south” have structures so that they are able to raise money through existing formal channels. Smaller communities are constrained from borrowing in the formal municipal finance markets because they do not have a formal sector economic base and the tax revenues to support external formal finance. Some small communities, like Yei, have potential to be prosperous, while others do not have much potential.

## **Organization ... at the Community Level**

### **Funding community activities**

Development funds can be the primary mechanism for delivering development resources into the community and engaging the private sector in ways that can encourage socio-economic progress. Growth of private sector activities is a powerful way for income generation and jobs to be created that engage a large part of the community. The private sector needs resources for expansion, but should use these for profitable expansion and increased earnings, from which the development fund should be paid back. Development funds can be used as an efficient modality for delivering incremental resources to the area economy.

There are to be many small development funds each with clear development objectives and areas of operation. A fund will be rewarded with additional resources if the performance of the fund in terms of

development benefit and in terms of timely repayment have been good. Keeping the funds separate will help in determining what funding areas should be supported on a continuing basis and which should not.

## **Many short term small loans**

The development funds will be used to provide financial support on a short term loan basis for activities that are requested by the community, either as micro-credit, as mini-credit or as muni-credit. The implementing group may purchase items that the group would not normally be able to afford and allow the group to go ahead with some works that they consider important. Typically the group will provide labor and local material, with the funds being used to purchase non-local material and possible rent equipment. The funds can be re-used by the community if the loans are repaid to the fund. As an incentive to repayment, funds will be augmented if the repayment track record is good. Groups that do not repay development fund loans will be penalized by the permanent diminution of the loan fund resources.

## **Fully commercial basis**

The management and operation of the development funds will be on a fully commercial basis with fees charged for the use of the money, the administration involved and loan losses. The development fund has many of the characteristics of the lending operations of a business bank. There is no reason why the development fund operations cannot evolve into a full banking operation, and become part of the much needed community level banking and financial services sector.

Though experience over the past 30 years with Development Banks established with a similar objective was not good, the primary reason for failure was misappropriation of the resources. There were usually very clear errors made in the management with too much grandiose lending to politically motivated ventures and failing public enterprises. The capacity for economic and financial analysis of proposals was poor with politics more important than financial analysis. On top of all of this, there was usually a complete lack of accounting, accountability and oversight management.

## **Central Bank and Government Treasury**

### **The purpose of a Central Bank**

A Central Bank serves as the anchor institution for the financial sector. But a Central Bank also serves as an active component of the national governance framework, and a controller of the economy.

The Central Bank is the treasury for the country.

The Central Bank also acts as the intermediary between the national currency and the currencies of other countries, including the US dollar and the European Euro.

### **The purpose of the Government Treasury**

The Government Treasury is a unit of government and is responsible for the moneys that are managed by government.

Most government treasury units around the world are organized around the principle of the single treasury account, a system where all receipts of government are deposited into the treasury account and become under the control of the treasury. The only disbursement from this account has to be under the authority of the government through legislation ... usually called the budget legislation.

What this means is that the government is responsible for the use of the funds received by government, and usually there is a requirement that the treasury prepare and publish periodic reports and the income and expenditure of government.

In some countries the treasury reports are prepared daily and distributed to key people in government, and then a full report is prepared monthly for presentation to the legislative assembly. Each year there is an audited report that is presented to the legislature and they are called upon to approve this report.

## **Informing the Public**

The Iraqi public is the primary stakeholder in the management of government and national resources, and they should be able to see and understand what is being done in connection with the resources of the country and the operations of the government.

This is an area where there is a need for huge improvement. The information that is easily available to the public about the national and the government accounts could be and should be very much better.

## **Investment Fund for Future Generations**

### **A mechanism to invest for the future**

Oil rich countries have an opportunity to convert their present income from exploitation of their oil and gas assets into a source of perpetual income for the future. Some oil rich countries have done this with great success, notably Kuwait and the United Arab Emirates.

The value proposition for Iraq is something of great moment. In the short run, there is a lot of oil, and it should be of huge value for the people of Iraq and of value to a world that is hungry for energy ... primarily oil.

But Iraq oil's potential has little meaning if it is squandered by doing nothing more than funding local chaos and mayhem. ... or it becomes hostage to anyone, including the global "north" and the international oil oligopoly.

More than anything else the financial dimension of the Iraq oil sector needs to be made visible to an interested public so that there is an equitable sharing of the value of these resources between Iraq's society and the investors and developers of these resources.

Possible models for a development fund have already been demonstrated in the investment funds of Kuwait and the UAE.

## **Third World Debt**

### **The Jubilee Movement**

The Jubilee Movement is one of the biggest with debt cancellation as its primary goal. They are worldwide and have a huge following and are very clear about the economic damage to development that has arisen because of the debt story.

### **The debt crisis**

If borrowed funds are being invested in projects that are not generating positive cash flow for government and the nation, it follows naturally that there is going to be a debt crisis. Walter Wriston when he was head of CitiBank in the late 1970s is reported to have said that lending to developing countries was good banking because they needed the money, they were paying good interest rates, and they could not go bankrupt. He was of course only half right with his last parameter. While it may be true that in law a sovereign nation cannot go bankrupt, the accounting or economic reality is that there is effective bankruptcy when the bills cannot be paid. Rotten lending by both commercial and ODA institutions for a period of several decades is going to create de facto bankruptcy, and it has done so.

## **Foreign Direct Investment – Is it really a good thing.**

When colonialism ended, newly independent countries took the opportunity to end the era of colonial direct investment. The results were generally unsatisfactory. The enterprises no longer produced “colonial” profits, but they did not produce local profits either. Most were not structured to be profitable in the real economics of a post-colonial economy.

But putting back cross border companies through foreign direct investment is seriously problematic. Equity capital is very expensive, and especially in situations where the investors assess the investment as risky. Investors in developing countries want a big return and want it now. They want an “exit” strategy, which really means that the value of the investment coming into the country at some point in the quite near future is going to result in a negative impact, and potentially the negative will be a log bigger than the positive.

*I have never been able to understand why “experts” in development economics are so enthusiastic about foreign direct investment. I have never been able to see much real value benefit in foreign direct investment. From my analytical perspective ... as an accountant ... I see investment by foreigners in a mine as having these characteristics: (1) An investment of \$100 million is going to be made (2) foreigners bring in \$100 million of mine machinery, almost certainly over-invoiced by a substantial amount, but that is not the main point; (3) foreigners get plum jobs at the mine and extract minerals from a big hole in the ground; (4) local people get low paid dangerous jobs; (5) local community totally disrupted by the mine and its activities, including quite possibly horrible pollution of water sources, bawdy behavior in the community, and so on; (6) valuable minerals exported, profits exonerated from local taxes as part of the “investment deal” (7) mine runs out of valuable minerals and is closed down; (8) mining equipment now old and broken down; (9) foreign investors go home and enjoy the wealth they have transferred out of the country; (10) local people left with a big hole devoid of mineral value, polluted environment and depressed community.*

At a more sophisticated level I found it ironic that the Ashanti Goldfields company in Ghana went bankrupt when the international price of gold went up. This happened in 2000 (I think).

*The company had struggled along for years and its productivity and profits were going up gradually. The company was getting top priced advice from London based experts, and was engaged in quite sophisticated financial hedging. The price of gold goes up. The company goes bankrupt. The shareholders of Ashanti Goldfields lost out big time .. at the time it represented 80% of the capitalization of the Ghana Stock Exchange. The London advisors who got everything wrong were protected. Local shareholders lost out and a new community of international investors came in and took over at a bargain price.*

## **Stakeholders**

The dominant stakeholders in any corporation are the owners. If the owners operate the company in a way that creates a financial crisis, then creditors may get to become the controlling stakeholder. If the owners operate the company in a businesslike way they may choose to include the customers as stakeholders

NORTH customers rarely choose to influence company behavior. As long as they get what they perceive to be good value, that is enough. Customer boycotts can influence company behavior considerably, but it hardly ever happens.

In good times company staff can influence company behavior, but when profits are in trouble, then staff are secondary and so are community oriented good works.

But for all practical purposes what might be a reasonably balanced set of stakeholders in the context of the NORTH, in the SOUTH this is far from being the case.

*My view of the situation is simple. The company has one stakeholder and that is the owner, and the owner wants the most profit and wants it now, and does not feel the need for any good corporate citizenship that detracts from profit. And anything goes in order to maximize profit, including activities that would be considered illegal and unethical in the NORTH. And if any corporate activities in the SOUTH are illegal or unethical, it does not matter. As long as the company can get away with it and it won't appear in the NORTH media, the company can get corners to maximise profit and return to the stockholders.*

I wrote the following for a corporate governance discussion group early in 2002.

[Profitinafrica@aol.com](mailto:Profitinafrica@aol.com)

*Fri Mar 29 2002 - 14:25:12 EST*

*My name is **Peter Burgess**. I am a long time development consultant, but also a former Chief Financial Officer of a US based international corporation.*

*The concept of a stakeholder is helpful in simplifying what is extremely complex, but it is also a simplification that can easily go badly wrong.*

*What has become absolutely clear to me in practice, after some time in corporate management, and a long time involved with industry on an international basis, is that there is really only ONE stakeholder, and that is the owner of the corporation. Every other stakeholder is NOT important in the ultimate decision making for the corporation. The OWNER stakeholder make choose to involve other stakeholders in the process of moving the the owner's agenda forward, but these other stakeholders are only "pawns" in the process. They are used as needed in the OWNER's grander strategy. The grand strategy is maximizing **value** adding from the OWNER's perspective. PERIOD.*

*In the United States, the people have considerable power because the success of a corporation depends almost entirely on the marketing dimension of the business. It is not easy to sell products into a market where the people have a low opinion of the company and its products. Even industrial companies are under pressure to be good citizens because of the adverse publicity that blossoms when corporate misbehavior comes to light. The same goes for all the NORTH. The public as a stakeholder in the NORTH has some importance. So do employees, because they have the power to adversely affect the **value** of the organization.*

*But in the SOUTH, it is a different story. There is no public of importance. People have no power whatsoever relative to corporate behavior. Employment conditions for people all over the SOUTH that produce raw materials for corporate organizations in the NORTH would not be tolerated for one day by the people (and the Unions) in the NORTH, but it is off the radar screen. Neither the public at large, nor the employees have any stakeholder power. Nor do corporate stakeholders (subsidiary level) have any influence on the OWNER stakeholder when the abuse is outside the immediate responsibility of the corporate entity.*

*The public of the NORTH in general do not have enough factual information to make the links about corporate responsibility and irresponsibility in a coherent way. Oil industry pollution in the SOUTH is acceptable, but pollution in the NORTH must be addressed ..... and as a public we are sold on the environmental performance of the oil industry by ads costing say \$5 million where the damage is maybe \$100 billion (orders of magnitude ..... I do not know actual figures).*

*And there is SPIN. We need to be very careful with corporate pronouncements from the top about how good the corporation is ..... when the top knows perfectly well that*

*there is nobody in the body of the corporation that is actually working on doing the good deeds .... they are all working on the agenda of the OWNER .... which is simply maximizing economic value adding of the corporation ..... a complex mix of agendas maybe, but high cost good deeds do not figure in the equation unless there is equally high value change associated with the good deeds or lack of good deeds.*

*What all this boils down to is quite simple. In order to socially responsible investment to have "teeth" and to become mainstream and push out socially irresponsible investment, it must have a "VALUE" impact on the OWNER(S) of the corporation. This is starting to happen, but it has a long way to go. And it is not well served by histrionics and the ambulance chasing approach that often emerges as soon as corporate irresponsibility is uncovered.*

*This is already too long a post ..... I hope these remarks will resonate with some of the participants in this discussion. There is a lot more to these matters. Maybe another time.*

## **Avoiding scams**

Scams are a huge problem. They have all sorts of manifestations.

At the top of the list are scams involving the ORDA community. It can be argued that ORDA organizations are operating a huge scam. They raise money for relief and development, and the need for relief and development goes on and on and on. Now, with the active support of luminaries like Professor Jeffrey Sachs, they now ask for massive increases in fund flows. Is this really to solve the problem, or to fund the scam?

Some time ago I got an e-mail message from someone running a local NGO in Africa. I thought the original message was interesting and I asked for some clarifying information. The reply was very well prepared, and I was very much in the mindset that it should be supported. In fact, however, I had nothing to confirm that this is a valid program that could not have been written easily by a good scam operator. It was because of this that Tr-Ac-Net started to seek out a reliable solution to this problem. Bottom line is that everything that worth funding should be "on the record" and have been validated in some effective way by an independent reliable entity.

*2003 Jun 1, 09:51*

*Dear Peter*

*Thank you very much for your message.*

*First you said you are interested to know how I come to learn about you. I have picked your e-mail among many others that pass through my computer. It looks like some body who know you and also know me passed a message to all of us. I have developed interest to chat with all I get their e-mail address on my computer. It is interesting because yours was picked among many I had received this time. This is how friendship begins. in case you visit Africa, we can meet. And also if I visit New York as I do so often we can also meet.*

*I was also happy to learn through your message that you are pro-peace, pro-SOUTH and also pro-community efforts at the local level because this is what we do.*

*I am interested on your services to offer an internet based funding system. Our motto has been the best accounting and accountability.*

*Let me share in brief who we are and what we need to carry on our activities.*

*Peace building, Healing and Reconciliation Programme (PHARP) started in 1994 after Rwanda genocide, with aim of helping people who were facing trauma, especially women and children. In 1996, PHARP held a regional consultation that recommended*

*the extension of its activities in other war torn countries in Africa. Since then, the programme meets the great need for peace, trauma healing and reconciliation in the Great Lakes Region of Africa and Horn of Africa.*

*Following the work done in various countries, there are people with increased level of awareness, and knowledge of peace building, healing reconciliation and development efforts to help others. Trust has been built between different groups or ethnic groups, leading to a decrease in the level of violent conflicts.*

*There has been a willingness of refugees and displaced persons to resettle in their former homes due to the work done in refugee camps and there has been the willingness of their neighbors to welcome them.*

*Our programmes are: capacity building, Women and Children, youth programme, refugee programme and relief and medical supply.*

*Our methodology:*

*In most of the conflicts on our continent, today the greatest need is not to be told what to do. We believe that the greatest contribution we may make is not telling people how to solve a conflict or how to trust or how to be reconciled, but it is a main means to bring about understanding and the determination to change.*

*In our training we seek to initiate and facilitate dialog that promotes reflexion on the knowledge and experience that participants already have. We seek not so much to give new knowledge as to bring about new understanding which leads to new decisions, actions and relationships.*

*Our materials strive to accomplish some of the same things only in a more individually focused way. Our children's literature is not just to entertain, but to help child care givers the opportunity to begin a dialog about important issues in a way that a child can understand.*

*Mediation: Through dialog and encouragement we seek to provide an atmosphere where issues can be discussed and a way forward discovered.*

*Trauma healing: The feelings, thoughts and body sensations that people have been experiencing are entirely normal. They are natural, human, reaction to extreme stress. Through therapy you will come to understand how this happens, and you will learn ways of dealing with your up setting thoughts and feelings, and gaining perspective on the trauma and how it has affected you. This will help you to take the heat out your memories and to put the trauma in the past, where it belongs.*

*Development: There is no peace without development and no development without peace. This is why we should help communities work for self-reliance.*

*The needed resources to do the above in one year:*

- *Training: Conflict management, Trauma healing, Counseling and HIV/AIDS: at least train 100 people a year:  $100 \times \$25 \times 5 \text{ days} = \$12,500$   
(To train one person we need \$25 and this include accommodation and some materials)*
- *Facilitation:  $\$150 \times 4 \times 3 = \$1,800$*
- *Relief and medical supply: \$3,000 for about 30 families*
- *Production of materials: \$10,000 a year*
- *Community development work: \$ 4,000 for about 40 families.*
- *Administration: \$ 2,000 a year.*

*In case we do the above a year we believe we have done some thing in the community.*

*And if it is done for 5 years we believe there will be a tremendous change and transformation in the community.*

*In case your organization is willing to pick one of the items above and fund it, please let me know. In case you know some organization to fund the above, please let me know.*

*I hope the above shed some light on what we do and some of our needs.  
I am looking forward to hear from you.  
Felicien Nemeyimana  
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With the Tr-Ac-Net information system, it is possible to find out something more about an organization that just what an e-mail message says. In general, there needs to be information feedback from the local community.

But as we thought this through further, we realized that many projects were being written up with the mindset of the donor community. They were being written up from a donor and funding perspective and had a lot about what they were going to do, and how much value there was going to be ... but next to nothing about what funding had been received in the past and what had been accomplished with these funds.

What we really needed to know was missing.

As things have been in the past, this support opportunity would probably have gone no further. In order to validate this organization and this program it would have been just too much effort and too much hassle.

# Historical Note

## Public finance as constraint on development

Public finance has become a major constraint on development. Everyone is aware of the massive “need” for investment in infrastructure. Everyone is aware of the shortage of social services, particularly human resources development. But public sector financial resources are just not available. This is not a new problem. It has been a problem since before independence, but it has become even more difficult in recent years.

### The situation around independence

The public finance situation in the 1960s for most of the newly independent developing countries was difficult. The rhetoric about colonial exploitation and the promise of economic wealth with independence had little foundation on economic reality. The former colonial titans, Great Britain and France were financially near bankrupt and the ODA support was rather limited. The financial situation in developing countries was aggravated by the widespread commitment to public sector operation of economic activities, especially those that had previously been the drivers of the economy in the colonial investment model.

### Aggravated in the 1970s

By the early 1970s a dialog was evolving that encouraged more ODA support for developing countries. The World Bank stepped up its international assistance. The project form of organization became the standard for ODA supported projects. Then the oil shock created massive global economic disruption. Developing countries were faced with dramatically increased costs and declining demand for their products. The stage was set for great economic difficulty. The problem was delayed and aggravated in the mid to late 1970s by the major money center banks recycling their massive surplus liquidity arising from “petrodollar” deposits into developing country “sovereign” loans.

Institutions like Chase Manhattan and Citibank were in the forefront of recycling petrodollars. Walter Wriston, as head of Citibank had the philosophy that sovereign loans were good banking because the borrowers needed the money, paid high interest charges and could not go bankrupt. Much of the financing was used for prestige projects with little economic justification, and to a large extent the economies of Africa emerged from the 1970s worse than they had been at the end of the 1960s.

### Made worse in the 1980s

Private capital withdrew from developing country sovereign debt lending as soon as it was realized that the loans could not be repaid. In most developing countries the underlying economic performance could never support the debt service. And with reduced liquidity banks needed repayment and not perpetual roll-over. In the 1980s debt crisis had arrived and crisis management dominated development finance thinking for several years to the detriment of sustainable development solutions. Few economists in the early 1980s seemed to understand that the World Bank / IMF solutions, especially development investment and government retrenchment coupled with a major focus on declining export driven production sectors was a formula for socioeconomic disaster.

### Even worse in the 1990s

The 1990s saw the end of the cold war that had dominated the international agenda since the end of the Second World War. The peace “dividend” that was anticipated has never materialized, and a more complicated international arena has emerged. Development has been a casualty of the new world order. Development is no longer an important element of the “national interest” of most NORTH countries,

especially the United States. In the 1990s the public finance situation in most developing countries has been disastrous. There are a few notable exceptions, but mostly countries have had to face the situation where new funding is hard to get. Debt service, payment of interest and repayment of principal have become a significant part of the government's total expenditure, as well as being a significant part of the balance of payments and use of scarce foreign exchange. Though debt service has grown dramatically from the 1960s to the 1990s, the government revenue base has grown little and in many cases has even significantly declined. Official Development Assistance (ODA) declined in the 1990s and the least developed countries lost even further ground in global competitiveness. Development assistance no longer has a high priority for most taxpayers and donors reflect the position of their taxpayers. Major development institutions are losing their sources for funding as many governments in the "rich" countries are suffering from their own public finance crises.

### **Public finance for development**

There is little capacity to raise funds for development in less developed countries through the mechanisms of public finance and capital markets. While the available capital markets can raise substantial amounts for rich countries, these same markets are not able to raise funds for least developed country programs. Funds can be raised to flow through the development banks (African Development Bank, World Bank, etc.) but these funds are then subject to the development conditionality of these institutions.

END BOX

## **International competition**

The international economy is market driven and very competitive. Good products manufactured at low cost will achieve market share and poor products at high prices will lose market share. Technology also makes it possible for almost any natural product to be replaced by a synthetic substitute. Almost all primary products have declined in price compared to high added value manufactured products. Least developed countries with a preponderance of primary production have suffered a major deterioration in their international terms of trade. The Asian tigers invested in manufacturing and were able to convert their economies to take advantage of the US and European markets for low cost manufactured items. Only Mauritius among African countries made this transition.

## **Export driven development**

Most countries have followed a strategy of export driven development. This has resulted in expansion of export agricultural crops such as coffee, cocoa, etc. and broadly speaking a global surplus of these crops and declining prices. Meanwhile the agriculture sector has failed to keep up with the local demand for food for an expanding local population.

## **An alternative to export driven development**

There needs to be an alternative to export driven development. The United States is not based on an export driven model for economic development and growth, but is based on “confidence” and the willingness of the world to trust that the United States will eventually make good on its massive overseas debt which grows dramatically every month. Less developed countries need a development model that encourages them to do for themselves everything that they can do, and funds them so that they have the resources to satisfy their needs through their own

## **Politics not markets determine priorities**

Government is one institution that is always “outside” the market economy. This results in priorities being set by political and administrative processes rather than market driven processes. This is the way government should work. But economic priorities and the allocation of resources to business and economic activities should be driven by market forces with the least interference of government. To the extent that business abuses the consumer and the market, it is a legitimate role of government to exert a regulatory influence to achieve a common good.

## **Currency issues**

Currency exchange rates have had an important role in creating and sustaining socioeconomic crisis. Sadly, the World Bank and regional development banks (AfDB, AsDB, IADB, EBRD, etc.) and other major institutions engaged in sovereign lending all require loan repayment in hard currency (US dollars, German DM, French francs, Japanese Yen, etc.). Projects are financed at exchange rates of one time, and repayment must then be made at rates prevailing at another time. Failed projects in operational terms became dramatically more problematic when combined with deterioration in the currency exchange rates

## **Multilateral financial institutions**

The World Bank and IMF and the ODA community, in broad terms, are effectively constrained by their mandate from being successful in Africa. That is not to say that they do not have a very important role to play, but that role is not to be the leaders in socioeconomic development planning and the establishment of national policies and priorities, but to be an efficient source of financial resources for the public sector.

The IMF is another powerful institution, and its role in Africa has been to use monetary thinking and currency exchange rates as their foundation for policy formulation and macro-economic stabilization. In economic environments where most of the poverty is outside the monetary environment it would have been better for the World Bank and the IMF to have put more emphasis on engineering and

production economics rather than exchange rates adjustment policy and currency devaluation. For Africa, a large part of the debt burden arises from local currencies losing value dramatically against hard currencies.