

# CHAPTER 10

## COMMUNITY PRODUCTIVITY

*The chapter describes the management dimension of implementation. A good plan helps, but the management of implementation is far more important for success.*

### Activities ... process

### Systems approach

*The chapter describes the essentials of the process ... a systems approach:*

- ◆ *Plan: Use available information and knowledge to determine priority needs and figure out the best way to satisfy these needs based on available people and resources.*
- ◆ *Organize: Get the resources lined up to do the work. Organize is not just in terms of human resources, but in terms of all resources including the mobilization of financial and other material resources.*
- ◆ *Implement: Do the work. Generate the benefits. Pay the bills. Do the accounting.*
- ◆ *Measure: Measure what was used and what was done and what was accomplished. Measure so that excellence can be seen and used to attract more resources.*
- ◆ *Feedback: Use the measurements. Figure out how to do better. What went wrong? What went right? Get the information to decision makers that can change performance.*

A systems approach built on top of a community centric mindset can deliver a dynamic process with multiple parallel tracks all progressing to success in the best possible way. It is not one single dumbing down of a process to one average for the whole world that makes no practical sense for anyone. It is process built on engineering and accounting rather than policy and economics. It is a process that respects individuals and family and community, and tries to make community better, one community at a time, but bringing to bear everything that might be helpful.

## About Implementation

### Not the usual model

The implementation model that is needed is one where ALL the citizenry can be engaged, see results and GET durable benefits.

#### **The American Opportunity Model**

In most regards, the American economy is the most productive in all of history mainly because it is built on the idea that

ordinary people are able to work productively and benefit from their own efforts and the efforts of the whole of the society.

The American economy could be better ... but it has more great stories about rags to riches than anywhere else.

The quality of life all over the world would be substantially better if the opportunity model for economic development was universal, rather than being limited to just a very small proportion of the world's population.

The challenge is to find a way to have all the population engaged in a process that delivers socio-economic progress and development. It can be done, but it requires a rather different mindset than is commonplace in the present national and international leadership, and among the experts of the military and the relief and development sector.

## **Problems with process**

*How the process for development over the past forty years has ended up as development failure. How is it that economic value destruction has become the prevailing development process. How is it that development interventions and investment have removed wealth from developing countries rather than creating wealth in these countries. Why did the "project" form of organization come to dominate ORDA interventions. What is wrong with the conventional ways for implementing relief and development. Why is it that there has been more economic value destruction than value adding? Why is so much of the poor world in catastrophic shortage in a world that has potential for surplus in almost everything? Relief and development has been anti-developmental. How can the process be made to work for people and be done by people and deliver on sustainable development and improved quality of life. How can process must make best use of available resources. How can economic value adding help create development success out of everything that is done.*

## **Enabling Environment**

### **Iraq has potential to be a good business environment**

The private sector needs to be the driving force behind success of the Iraq economy and peace. This is probably a widely held belief in the business community in Iraq.

Though the oil industry is big in Iraq, and generates huge fund flows for the country and the government, the climate for business investment is not good because of the government's instability and widespread insecurity.

The legal structure and the rules and regulations could be improved, and the rule of law is subject to a constitution that is a long way from being finalized. Foreign business people want clear and favorable rules and regulations, and want to be sure about the way they are enforced.

And even though the law, policies, rules and regulations may be written to encourage trade and investment, it is also important that the operating systems and processes at the bureaucratic level also function to encourage trade and investment.

Trade and investment promotion for the area should be initiated in neighboring countries as well as in other key centers around the world.

## **Improve infrastructure and services**

Sustained expansion of trade and investment requires that telephone, fax and Internet communications are improved. They need to be efficient and available at internationally acceptable prices.

In addition the transport services need to be efficient both in terms of frequency, reliability and cost. Logistics today has become one of the most important components of competitive advantage.

## **Institutional constraints**

*Often good people are beaten by bad systems and bad processes and ineffective organizations. Institutional constraints are normal, but can be resolved with new organizations and competitive pressure. Large scale World Bank, UN and donor initiatives need to be scaled down and replaced with a new organizational structures. Instead of approaching development by reaching down from Washington or London or Paris, start by working up from the community wherever it is. Instead of putting more and more resources at the disposal of governments, put more in the hands of people, and families and communities.*

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## **Economic Linkages and Surplus Production**

I wrote the following section almost twenty years ago. It was written in South Sudan at a time when I was working with drought and famine and civil war and refugees mainly in Africa, and also working on industrial development in several oil rich countries.

### ***Economic linkages (from 1987)***

*The importance of economic linkages in the success of economic development has received growing attention during the past several years. The dynamic mechanism of economic development that was the subject of intense study by economists during the Great Depression in the industrialized countries of the world during the 1930's has continuing relevance to the process of development in LDC's .*

*It became clear in the analysis of economic growth and study of the business cycle that there was a very complex set of linkages between all the different components of the economy. Keynes, among other eminent economists, taught that the level of savings and investment in an economy were critical in determining the rate of economic growth, and indeed, that if the level of savings and investment was inadequate there would be negative growth.*

*The aggregate level of savings and investment in most LDC's is very low and it is not surprising from a macro-economic perspective that the LDC's have failed to achieve a satisfactory level of self-sustaining economic growth.*

*However, it is also clear that making broad generalizations about economic behavior and economic linkages is not very helpful, particularly when there are substantial differences in the economic structures of the society.*

*Some of the features of the dynamic logic of development are fundamental to economic analysis. The economic behavior and the productive performance of the individual is the most important building block for economic analysis. Economic planning which focuses*

*on the individual and programs on this basis has a greater potential for success than any other planning process.*

*This human approach to development justifies social service investment such as health and education as developmental priorities. Better health is justified not only on humanistic grounds but also because healthy people can be more productive people. Better education is justified because educated students can grow up to be more productive adults.*

*But healthy educated adults can only realize their economic value if the environment permits them to exploit their potential. Unless there are suitable linkages from health and education into productive economic activities, the economic value of the healthy educated adult cannot be realized.*

*Productive economic activities are surplus producing activities. In most LDC economies there are many work activities that take a lot of time and effort, but produce output at a very low rate. For many people the aggregate output from their time and effort is less than the basic requirements for survival. With economic activity of this type, the economy has no potential to create surplus and become a wealthier economy. There are lots of examples:*

- ◆ *Collecting water (walking, headloads)*
- ◆ *Collecting firewood (walking, headloads)*
- ◆ *Urban commuting to work (many miles on foot)*
- ◆ *Going to school (many miles on foot)*
- ◆ *Taking goods to market (headload)*
- ◆ *Building wells (hand digging)*
- ◆ *Tilling the land (manual work)*
- ◆ *Cutting grass (manual work)*
- ◆ *etc.*

## **Surplus production (from 1987)**

This section was also written almost twenty years ago and reflects my realization that the economics I had learned and experienced most of my life had been in a “surplus” setting. And that most development was being done in a “shortage” setting with rather different economic behaviors..

*Economic results are the sum of all the activities in the economy. Even if there are activities which produce surplus, the economy as a whole may not be surplus producing if the unproductive activities of the economy consume the surplus. A subsistence economy has very little surplus to support the "overhead" costs associated with a modern economy, and the productive enterprises of the modern economy have difficulty being profitable and surplus producing because demand in the economy is too small. The generation of a net surplus, an important precondition for self-sustaining economic growth, cannot take place in countries where subsistence activities make up a large part of the economy.*

*There is a problem with migration from rural to urban communities. Efforts to create better rural subsistence agriculture is doomed to failure. This has been the thrust of World Bank and government in many countries. The solution is to do something high profit in rural areas and make the rural community more attractive economically.*

*If the dynamic mechanism of development is clearly understood, it is possible to plan developmental investment in a way that helps to increase the surplus generating capabilities of the people, and reduce the overhead costs in the economy associated with making this surplus generation possible. Investments that make a direct contribution to*



Implementation is not ... or should not be ... limited or constrained by the implementation structure, but is constrained by resources and by people, their knowledge, their initiative and their culture.

## **Structure**

### **Structure can be anything**

There is no need to have structure ... at any rate not a formal structure. What is needed is anything that can function to take resources and use them so that the results are of value to the community. The activities are valuable and value creating when the resources used have less value than the results being achieved.

Structure can be informal. Formal organizations are not a requirement ... what is needed is getting results and getting socio-economic value created. All sorts of organizations can provide the structure, including private organizations, faith based organizations and not-for-profit organizations.

### **Informal initiative and formal entities**

The structure for implementation needs to take into consideration the enormous value of informal initiatives and not focus only on formal entities. The structure should make it possible for good informal activities to expand and replicate, and not be a constraint on their success. Formal entities should be assisted, but only to the extent that they are doing things of value.

## **Projects**

Projects are widely used to implement relief and development activities ... and there is no reason why the project framework should not be used to handle the administration of resources including the approval, control and disbursement of funds. But a project should not be used to “push” activities into the community, but to help the community get activities it wants and needs into the community. The project should get its priorities by listening to the community and learning from the community about the priorities and what would really be helpful in the community.

### **Oversight ... accountability to the public**

There needs to be a well recognized structure, process or system to ensure that there is oversight and accountability to the public. Many different groups should be doing oversight including (1) the community itself; (2) the central governing authorities; (3) the funding organizations; and, (4) representatives of the public. Oversight should not be onerous and should not “get in the way” of success, but it should be clear that oversight that turns up unsatisfactory performance will attract consequences.

Oversight helps to make activities more effective ... people do better work when there is someone paying attention. And oversight helps to get feedback about help and improvement needed. Oversight also helps to get the information that is needed so that the public can be informed.

## **Reaching the community**

The community is the primary place for implementation. There are all sorts of community organizations that make a community what it is. All of these organizations should be assisted in appropriate ways to improve the socio-economic condition of the community. Within a community there are some organizations that benefit because, for example, something is built, and other organizations that benefit because they are doing the building. The catalyst for both of these benefits is money that is being deployed to facilitate the development process.

A typical example of this might be a hospital that is being upgraded in some way, and a local contractor that is being paid to do the work.

## **Getting the Facts**

### **Getting the facts ... getting reliable facts**

Facts ought to be easy to access, but in general there is very little baseline fact that can be used without considerable effort. Effort is needed to compile data so that that can be used for analysis and planning ... and care has to be taken that the data are not compromised because of misinformation and spin.

### **Some facts ... not all the facts**

Some facts are needed in order to start anything, but all the facts are not needed.

At the outset, enough facts are needed so that a strong strategic plan can be formulated ... something being done in part in the writing of this book. There are some facts known that have enabled this book to be written, and perhaps serve as part of a strategic blueprint.

More information would enable a strategic plan to be improved ... and corrected where it has major flaws. But the value of more information is to start to get action plans formulated where activities can be implemented that will deliver value to people and communities around the country.

### **More information about more things**

Information has costs, and more information should be about more things rather than being merely more information about something where there is already adequate information.

I consider I have enough information to write this book at this level of strategic abstraction ... but I do not have enough information to do a good plan for any community in Iraq ... or any specific organization in Iraq. Getting this information in a systematic manner is something that will facilitate success ... trying to operate with inadequate information makes socio-economic progress much more difficult.

## **Planning a Strategy**

### **Planning with a lighter touch**

Planning is needed, but it needs to be something that facilitates and improves rather than being a part of a process that ends up being simply authoritarian.

Planning needs to have a strategic component so that the overall concept for progress is articulated. Arguably this should be done at a national level, but it should be done with a light touch, and not have a strong hierarchical element. Rather it should serve more to guide than anything else, and be a framework to help move things in a progressive direction.

### **More than anything else ... the American way**

The purpose of planning at a strategic level is simply to get implementation on the right track ... and to get something moving that might be successful.

#### **The American Way**

Soon after I first crossed the Atlantic from the UK to the USA in the 1960s I realized that Americans optimized their business and economic activities far more rapidly than was the norm in Europe. The Americans did the least amount of planning before they built something and made money with it. Of course, in the 1960s Europe had embraced planning almost as much as the Soviets, and was moving rapidly towards economic stagnation and inflation (stagflation) and was losing wealth rapidly.

But for me the lesson was clear. It was doing something that mattered ... you plan simply so that you can do something, and do it now. If it works the plan was good, and you do more of it. If not ... fix it and try again. For decades this

strategy worked very well for Americans and gave the Americans a dominant position in a lot of industries.

Eventually some other countries understood, and for some years now others are now doing this better than the Americans.

In the context of Iraq, the aim of the exercise is to get people in Iraq to do things that are going to be of value to them as individuals, as families and as communities. The goal is to help this to happen as quickly as possible and with the minimum of death and disruption.

## **Planning ... how this is to be done**

The planning that is needed more than anything else is actually how to enable others to do it all ... without too many false starts and failures.

How does one structure something so that the structure does not get in the way but simply facilitates someone making a success?

And at the same time, how does one use money as a catalyst, as a major resource, and concurrently maintain a high level of accountability?

None of these questions are easy to answer, but in practice they have been answered many times over by successful corporate executives over the years. High performance corporations have figured out how to get people throughout the organization to make good decisions with rather little interference from the top, and they have a system of management information so that when things are going well, the top has no need to interfere and get in the way.

This is not a result of democratic process ... but it is how management has evolved so as to use economic resources efficiently. More management information flows in this management environment in one day than flows in a typical government setup in years. Something like this needs to guide the use of resources in the context of rebuilding Iraq and moving Iraq forward to a prosperous and peaceful future.

## **Planning Activities**

### **Distributed planning**

The aim is to have socio-economic development initiatives that are the main priorities of each community. Part of planning process at the community level is to encourage leaders of the community to articulate what they would like if there were no constraints. This can be pulled together into some form of community master plan. It does not have to be perfect, but it should give a strong sense of the direction the community wants to go.

After local authorities and traditional leaders have determined priorities, rapid plans need to be made about how this can be done and what resources are needed. This should be done as fast as possible, but no faster than a pace that suits the community. Getting local community consensus about development investment priority might well have a bigger impact on peace and security than any number of tanks and soldiers with guns.

How is something going to be done should be answered locally, and constraints identified. It is easy if everything is available except money, but usually there will be any number of other constraints that need to be addressed. Mainly these constraints need to be solved at the local level with local people ... and as needed with interaction with people in the Iraq system of governance and control.

The process is important as well as the outcome ...

And the plans must ensure that there is an adequate level of transparency and accountability so that the results of the socio-economic development interventions are on the record and accessible to the public stakeholders.

## **Mobilizing Resources**

### **Getting funds for priority activities**

In most circumstances, getting funds for priority activities is not at all easy. All the donors have their own processes for project planning, appraisal, approval, implementation, reporting and evaluation. From the beneficiary country's perspective each donor has a very different procedure. A single beneficiary country has to follow the procedures of each and every one of the donors in order to get assistance, and the result is very unsatisfactory.

#### **My Experience as Acting Aid Coordinator**

I was called in to help with aid coordination in Namibia soon after its Independence. A UN pledging conference attracted more than \$700 million in pledges, but converting pledges into useful development assistance was a big challenge. Every single donor had a unique set of procedures ... and priorities ... and understanding of what they had pledged. The process was totally determined by the donors and totally ignored all of the beneficiary country's priorities, planning and its financial control processes.

To add insult to injury, the issues of currency and language had to be taken into consideration ... and when it came time to report on project performance ... each country had its own way of requiring the reports.

Looked at from the point of view of the beneficiary country ... a chaotic mess.

In addition to the problem or procedure there are people problems. Most funding is controlled in ways that rarely have much to do with using the funds in the best possible way for the public and society at large, but more to do with a narrow agenda that gives benefit to decision makers and their cronies.

The public knows a lot about where they would like resources to go, but the process of getting available resources in the right place is much more based on politics and power than equity and performance. While there are a lot of fund flows that ought to be going to the best possible activities for socio-economic progress, virtually nobody knows what these might be ... a lack good of information and a preponderance of misinformation, some of it approaching the level of fraud.

### **The unusual situation in Iraq**

Far more than usual there is the opportunity now to get available resources in the right place in Iraq. At high levels, resources are available ... the challenge is simply to make it possible for these resources to get to places where the resources can be used in a valuable manner.

One has to expect a lot of powerful organizations to try to maintain a dysfunctional status quo so that the "leaks" in the fund flows can be exploited to their advantage ... that is, business as usual. This is not what should be allowed to happen.

## **Structure for Managing Management structure**

Management cannot happen in a vacuum and it needs people. Management is a key component of success ... it helps turn resources and energy, that is people energy, into valuable results.

## **My View of Management**

I think of management like being the driver of a fast car ... perhaps a Ferrari. All the performance is built into the car, but it still needs the driver to get that power and performance going in the right direction and doing it safely.

The activities that deliver socio-economic progress do not happen in a vacuum either ... they deliver in a community. The role of management is to help, through oversight to ensure that everything stays on track and through accounting to ensure that resources are used in appropriate ways.

### **Caveat**

Management is not merely getting studies made and having meetings and workshops. Management is an integral component of the implementation process that helps get implementation to be cost effective and valuable.

### **Local experts and consultants**

Local experts and consultants are the best people to be involved in the management functions. The cost of international experts and consultants is not at all justified unless there are very difficult situations that need experience over and beyond what is available locally.

### **Information should be easy and drive decisions**

Getting information ought to be easy, but it is not. The management information needed is just not easily accessible, even if it exists at all. There needs to be an information structure so that information is easily accessible. There are many problems that need to be addressed, including: (1) the academic practice of being secretive about the data; (2) the basic lack of relevant data collection, especially simple, basic accounting information; (3) the practice of doing very small samples and using statistical method for analysis; (4) the lack of any systemic framework for logical storage of data in the public domain and easy access to this information.

### **Nothing here is new**

There is nothing being suggested here that is new. The need for better management of the relief and development process has been on the agenda for a long time. What might be new is that in this strategy there is an integrated process from the bottom of the pyramid to the top ... comprising activities that are value producing in the community with a management structure and information that helps ensure resources are used to the best effect, and be supplemented with additional resources as needed.

### **Mobilizing Data ... Getting Started**

#### **Getting data should be easy**

Getting data should be easy, but it usually is not. Most of the data that are compiled are not easily accessible, and to the extent that they are accessible are not in a form that is easy to use and suited to rapid management analysis.

#### **Data for management information**

The best data for management information are easy, quick and cheap ... and of course relevant to the activities. If the data are not easy to obtain, they are unlikely to be quick and cheap. Data that are not quick are often of little value when they become available. And if data are too costly, then the advantage of the data is diminished. But when there are data that are easy, quick, cheap and relevant ... management can function, and performance can be optimized.

## **Getting the Easy Data**

My work in the international relief and development sector has always been driven by data, and I have always been working with very limited time. The way I was able to operate more effectively than many was by making the most possible use of what I referred to as “easy data”. Rather than me developing an optimum dataset to be requested from respondents, I collected such data that were already available in the area of interest.

Frequently there was no data available in the format of the optimum dataset, but there were huge amounts of data in some other format ... sometimes already containing a lot of additional data that would be of additional interest, though not directly needed for the initial data analysis.

Working with a focus on the “easy data” cut data collection time down significantly and improved respondent willingness to be involved at the same time. Win ... win.

## **Organizing the data**

Organizing the data and cleaning the data are always required, and not easy to do unless people have some understanding of the analysis that is to be done. The use of simple software like a spreadsheet or a simple database table can be of enormous value ... but it requires an understanding of the data and an understanding of how the software can handle the data in a logical manner. With data understanding a lot of data can be organized and cleaned rapidly, and then it can be used for analysis.

## **Validating the data**

Using invalid data is going to make any analysis useless. Data that are not validated in an appropriate way should be avoided ... but the validation used throughout the relief and development arena is almost universally very weak.

If data that are used one time are validated well, it is very costly ... but data that are used many times can be validated and the cost spread over many uses. In addition multiple use of data results in bad data starting to surface as sources of inexplicable results. These data can then be corrected ... or the system that produced the bad data can be corrected.

Use of data tends to result in improved data ... and multiple use of data gives ongoing improvement of data until the data are very reliable.

## **Unwillingness to share data**

Unwillingness to share data is very common ... in fact just about universal. The good news is that there is enough information already in the public domain that a lot of analysis can be done that suggests a result ... without being able to show the results are conclusively reliable. The analysis can be shown to be without foundation IF A FULL dataset is used for the analysis ... but without the full dataset the results are the best available. Now the onus is on the organization that possesses the data to make a determination about whether to be cooperative or not.

Analysis does not have to be all logic ... some of it can reasonably be common sense. Common sense is still a good way of “connecting the dots”.

## **Planning ... As a Management Function**

### **Not Gosplan ... something different**

Planning in the context of a community focus on development and socio-economic progress is not as much about planning, but setting the stage so that the appropriate planning is done.

This is an interesting challenge since leadership in a lot of communities does not have academic

training in planning ... though they may well have a lot of knowledge and local respect.

Above all else, the aim is to have positive socio-economic progress with the least of collateral tension.

## **Planning with a community focus**

Planning at the community level can be very effective. The phrase “the devil is in the detail” is the truth, and planning that is done without a good understanding of the implementing location has a lot of the critical detail missing.

A community focus results in a very different dynamic for development than what has prevailed in the past. When planning is community centric, the priorities are much more likely to be of socio-economic value to the community. Plans that originate in the community have the possibility of “ownership” by the community, and there is a strong correlation between what is priority and what is done. Plans with community focus can be simple and understandable, and at the same time can be totally suitable for the community. Small is efficient and allows for the optimization of plans within a community without the compromise inherent in super-scale projects intended to satisfy everyone, and ending up satisfying no-one.

## **Components of planning**

The components of planning are the same wherever they are used: (1) Get facts; (2) Analyze and optimize; (3) Organize; (4) Implement; (5) Measure; (6) Feedback; and, (7) Analyze and adjust.

But in the context of distributed responsibility for the performance of the economy and socio-economic progress, then the role of management is more to ensure that appropriate planning is being done than actually doing it.

## **Coordination, optimization, assistance**

Coordination may be a good way to think of the management role with respect to distributed planning. In other cases it might be optimization that needs to be improved ... in my experience people in remote communities know what they want to do, but wider experience would suggest that there are actually much better ways to do things. Maybe some assistance would be helpful in order to achieve some reasonable progress in the community.

Maybe the assistance, more than anything else is helping to get the funding and the resources needed in a timely way.

## **Accounts ... Accounting**

### **Good accounts ... strong accounting**

Basic good accounts based on old fashioned bookkeeping can make a huge difference to the way in which fund flows are accounted for, and the ability of society to have an improved level of accountability.

Accounts ... old fashioned bookkeeping ... is not a highly intellectual activity. Rather it is basic and boring, and puts absolutely every financial transaction on the record, and in a way that is logical and easy to understand. The basic system of double entry bookkeeping helps to make accounts 100% accurate. When the books are balanced and all the transactions are recorded, the accuracy of the accounting is likely to be good. When this is coupled with other fairly simple controls and

reconciliations, then the accuracy can be even better than just good ... very good.

## **Accounting for implementation activities**

Accounting is part of implementation. It should be an integral part of the implementation process, and not an add-on or after-thought. Accounting is the most basic management tool and one of the most powerful. All the implementation activities are expected to keep a record of expenditures and progress and implement quality bookkeeping procedures. They are expected to provide clear, complete and timely financial reports in an appropriate format.

## **Control of money**

One of the primary jobs that accounting should be doing is to keep control of the money. All the money that is received should be put on the record and included in the accounts. All the money that is disbursed should be put on the record and included in the accounts. The difference between what is received and what is paid out is the increment or decrement in the cash balance ... and the cash balance can be counted and verified at any point in time. No money transaction should be missing from the accounts ... NONE.

## **Control of inventory**

A similar mindset is needed for inventory. Inventory can be stolen and sold for money, and the money can be used for whatever. Good control of inventory is required to stop this behavior. Inventory accounting requires a lot of discipline, but is a critical part of any system of resource control, and is missing in many large governmental systems.

Inventory accounting has the same basic “in-out-balance” logic that is everywhere in accounting. And the balance can be checked by a physical count at any time.

All receipts of items should be recorded (ins) ... all use or shipment of items should be recorded (outs) ... and the balance calculated. This is a lot of detail work because it has to be done for each inventory item, and there may be many thousands of them. This used to be done successfully in big companies in the days when all accounting was done manually in pen and ink on paper in the “books of account” ... and there is no reason that it cannot be done today either manually or using computer electronic data processing (EDP).

There is also no reason why computerized accounts should not be very accurate ... with errors and sloppiness not tolerated.

## **Control of all the other assets ... and liabilities**

Accounting provides ways to put on the record all the assets of an organization, and to account for them in the reports, and to provide ways to keep track of assets over time. This is very easy to do using the tools of accountancy, but sadly is not done very well most of the time by public entities and government accountants, in part because the government accountants are trained in government accounting that is a cash based system, rather than an accrual system.

Under cash based systems there is no integral control of assets ... either inventory or fixed assets ... and it is easy to ignore them and lose control. Oftentimes this is politically convenient ... though an outrageous tactic.

Under cash based systems there is also no integrated control of liabilities. Under a cash based government accounting system the receipt of moneys is a good event, and it is not required that there is a corresponding addition to liabilities when the receipt is associated with borrowing and the creation of a debt. In part this made the build up of global government debt easy ... and ignored until it reached crisis levels.

There is considerable confusion in Iraq today about the state of the government accounts and the assets and liabilities of government. With a cash based system of accounting it is likely that the amount of debt will be determined more based on politics than on accounting ... which is highly undesirable, but very common.

## **Internal control ... internal check**

Good accounting always has an adequate amount of internal control and internal check. I think of the former as a systemic way of making sure that the data are being handled correctly, and the latter as a specific check to see that a statistically significant number of random checks shows that the transactions are being handled correctly. There is room for slight difference in the way these definitions are phrased ... but there is no room for having accounting information that is anything but absolutely correct.

## **Budget ... Budgeting**

### **Good management tool**

The budget is a powerful management tool when it is used by good people with operational understanding.

In its essence, a budget is a financial representation of an operational reality. It is used to show how much something is going to cost, and the way the money is going to be spent. In a corporate budget, a link is made between costs and revenues so that profit performance, cash flow and a balance sheet can be projected. In a government budget the amount of money to be spent is usually linked rather weakly with the activities that are expected and the value of results anticipated.

In my version of good budgeting there is a projection of costs, a projection of activities and how each of these will cost, and information about the results to be achieved and what value these have. These are the data needed for good decision making, and for holding people responsible for decisions and implementation performance.

### **Authority to spend**

Much too often a budget is considered nothing more than a license to spend. This has its origins in the government concept that the budget law and budget resolutions are the authority for government departments to disburse government funds ... something that is very important, but it does not, in my view, give the departments license to waste money.

### **Budget more of a benchmark**

In most cases where there is no statutory requirement for the budget process, I see the budget as a management tool, where it is a financial representation of what is expected and a framework for the limit for expenditure. The budget then serves as a benchmark against which performance can be measured. I look to see performance that is better than in the budget, in other words, I look for more output from the expenditure of the funds than was anticipated in the budget planning exercise.

## **Measurement of Performance**

### **Basics**

Performance can be measured in many ways. In anything involving economic activities money is usually part of the performance metric.

Cost, price and value is one key set of data. With this information is easy to identify whether or not something is value adding and worth doing or not.

Performance should be measured “relative to what?”. Some of the possibilities are: (1) compared to a

prior period or previous performance; (2) compared to a different place or a different organization; (3) compared to the best ever; (4) compared to the plan or to the budget; and so on. Comparison gives perspective to the measurement.

Some measurements are useful without any reference to a money unit. Fuel consumption can be measured in miles per gallon, and this gives a better measure of engine performance than when the measure is converted to cents per miles which will vary whenever the price of fuel changes.

The idea of profit in a corporate business organization is common. Its equivalent in the not for profit organization should be value adding associated with any activity and the organization as a whole, but this is rarely computed. Most not for profit accounting systems are not set up with this sort of analysis in mind.

## **Early rapid measurement of progress**

Early and rapid measurement of progress results in early rectification of problems. Problems fall into different classes, those resulting from bad plans, those that reflect a need for some technical support intervention, and those that reflect bad implementation performance and bad implementation management. Early measurement of progress permits intervention in a timely manner to eliminate problems that have been identified.

## **Benchmarks**

Benchmarks can be used as part of the management process to measure progress towards visions that have been identified. The goals of a plan can be expressed in terms of socio-economic benchmarks that can be measured in some way. The corporate world uses a variety of benchmarks to control performance and get improved results. Again, the benchmark process does not substitute for hard decisions and the reality of costs and values.

## **Monitoring and Evaluation**

### **Beyond traditional monitoring and evaluation**

The traditional process of monitoring and evaluation is very labor intensive and expensive. Rather than having a good management system with information that covers 100% of all activities, traditional monitoring and evaluation is a process that usually only covers a very small proportion of all the activities, in many situations under 5% of the fund flows, and is done usually at the end of activities.

Rather, there should be management information that covers 100% of all activities, and based on desk review of this material, a sample of these activities will be the subject of further analysis and assessment. This might be considered to be monitoring and evaluation, but it is fundamentally different since it is triggered by a mechanism that is designed by management to get the most cost effective incremental value into the oversight function.

## **Oversight**

### **A critical way of maintaining performance**

Oversight is an essential part of the management structure. When oversight is missing, anything goes. With oversight, the organization is motivated to maintain an acceptable level of performance.

Oversight need not be expensive in order to be effective. People in the organization need to be paying attention and seeing enough so that if something is going wrong, then there can be action to fix the problem.

## **Enough Rope**

When I have been designing organizational structures the idea of oversight has always been a part of the structure. The goal has been to do oversight in a way that enables people who know what they are doing to do what they have to do in the best possible way, and at the same time to have enough control so that in the event that something bad happens, the unit does not hang itself and drag down the rest of the organization as well.

Enough rope to give reasonable freedom, but not enough to hang yourself.

Oversight does not need to be formal, but it does need to exist. It is part of the feedback that any system needs in order to be stable and efficient.

In part, it is possible to exercise oversight through the management information system and the reports that are flowing through the structure ... but reports that are never checked are worthless, so some physical oversight is a needed supplement to just desk review.

Good oversight is also timely ... and it can also be really valuable.

## **The Horse Has Gone**

There is no point in doing oversight and reporting back that the horse has gone ... it is better to do the work in time so that the feedback is to fix the barn before the horse gets out.

A stitch in time saves nine.

## **Transparency**

### **The prevalence of secrecy**

There are some things that should, arguably, be private and be secret. But most of the things that have an impact on society should be open and be available to an interested public.

When there is secrecy, the natural oversight that the public provides is missing. This should not be a problem, but, in fact, it usually is. When there is no chance that others will see “behavior”, it is a fact of the human condition that anything goes. Greed and self-gratification are powerful drivers of decision making ... and possible without limit when there is secrecy.

### **Transparency ... accounting to society**

In much of global society, a culture of secrecy that has emerged allows a lot of economic and political power to become highly concentrated without being very much accountable to anyone. This is absolutely wrong, especially when economic power has an impact on the public. There should be enough openness or transparency to ensure that the abuse of the public by the activities of the powerful is kept in check.

I argue that when any individual or organization is rich enough or powerful enough to have an impact on society as a whole, then it should be obligatory for that person or organization to do accounting to the society. I argue that where an organization is using public funds, then there should be accounting to society as well as to the source of funds and the intended beneficiaries.

### **The privacy of accounting**

In the United States, a CPA is a Certified Public Accountant, but the accounting and audit that is done by CPAs is essentially the private accounting and audit within an organization rather than something

for the “public”. The accounting in the corporate world is to inform the owners, the primary stakeholder is the stockholder. In the relief and development arena the accounting is primarily fund accounting that does little more than keep track of the way the funds are accounted for inside the organization, and do next to nothing to inform the public about anything, and especially about performance and the efficient use of resources.

## **Accountability**

### **Accountability**

Accountability is normal in any well running organization. It is an imperative for good performance.

The concept of accountability is very basic. If the results are not good ... then the reason should be understood, and the organizations and individuals concerned should be held to account. What this also means is that there should be consequences.

If there is failure to achieve something of value, and the reason for failure is reasonable, that is OK ... once, maybe twice. But after that failure is incompetence or worse and changes should be made.

### **Internal accountability**

Most organizations have internal accountability. It may not be very rigorous, but in general there is measurement, there is feedback and analysis, and there are consequences.

### **External accountability**

In the for profit corporate world there is external accountability to the stockholders, or the owners, but rather little accountability to the public at large and to society. Whether or not there is any public good from corporate profit is of little consequence, unless there are legal issues that arise.

In most cases the law is not strong in respect of the public good ... probably wisely, but it still leaves an important open question about the accountability of an organization with respect to public good. One way forward is for an organization to be sufficiently transparent and reporting in a complete manner so that judgments can be made by the public about the performance of the organization with respect to public good. This is an accelerating trend for major corporations, though the value of this is still not proven, in part because there is only relatively small interest in getting analysis done that serves the needs of the public for this information.

In the case of organizations and activities that use public funds, there is a legitimate need for the public to be able to understand the performance of the organization with respect to the use of these resources. This ought to be a requirement that goes far beyond the periodic and rather infrequent inquiry of an Inspector General's department in the government or legislative oversight and committee hearings.

## **Human Resources**

### **People are central to everything**

People make the difference between things that work and things that don't. People need a reasonable organizational and societal framework, and can achieve all sorts of amazing things if they want to.

Management is, in part, making sure that everyone has the right incentives and therefore wants to do things of value. Sadly, a lot of the biggest incentives are fundamentally wrong, and a great temptation for anyone ... this is the root cause of corruption. The incentive and the reward are huge, and in our modern global system, it is rather rare for the rich and powerful to be held to account.

People can be of tremendous value in getting peace to win out over violence. I know of no good people who would prefer a violent solution when a peaceful solution is possible. But I fully understand good people being violent when there is little or no hope for a reasonable solution to a problem and the rich

and powerful refuse to pay any attention.

I am also aware of how many good ordinary people are prepared to take risks and put themselves in harms way because it will do some good, and some people will be helped. Many of the UN staff are like this, and many of the staff of the NGOs that are working in different parts of the world.

People need opportunity ... and people need to be able to satisfy the needs of their families. Good work, and being able to pay the family bills needs to be combined, because there is a need in a lot of places for good work to be done, and for bad works to be ended.

## **Audit**

### **Overview**

There are many variants of audit. Audit is very valuable when used in the right place and for the right reason. There are, inter alia: (1) internal audits; (2) external audits; and, (3) audit investigations.

An audit is absolutely no substitute for good accounting and any of the other components of a management system. Too often, non-financial executives seem to think that by having an audit on top of bad accounting, that an accounting problem will be solved and an issue will go away. It rarely happens that way. An audit, more than anything else is to confirm that reports generated from an accounting system reflect the accounts, and that the accounts have been completed correctly. An audit corrects nothing.

If there is an accounting problem, there needs to be some analysis of the problem and solutions applied in the accounting area. This is accounting, and it might also be systems work ... but it is not audit work.

### **Internal audit**

Internal audit helps internally to ensure that the accounting system is working right. An internal audit can result in the external audit being a lot less costly, as well as having value in the organization in its own right.

### **Independent certification**

An audit that provides an independent certification has important value in the corporate world. Not only is the independent professional audit certification required by law, but it confers reliability on the financial reports and makes analysis of these reports credible as well. This has big implications in the capital markets.

There is no equivalent analysis function in the not-for-profit area, though some small steps have been made. There are some organizations that do analysis using the financial reporting required by the Internal Revenue Service (IRS) in the USA but this is very limited in scope and quite inadequate to get an understanding of the underlying performance of the organization and the organization's activities.

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### **Process**

*It is process that makes progress possible. It is process that takes assesses needs and opportunities, mobilizes resources, allocates them to value adding development activities, uses them effectively and provides an accounting and feedback of performance. The elements all fit together as a coherent whole, and build on the success in economic and social progress that countries in the NORTH now take for granted.*

The reform of process is nothing earth shattering. Everything that needs to be done has already been

done, though not with the same goals

The process is a simple five step process:

- ◆ Plan
- ◆ Organize
- ◆ Implement
- ◆ Measure
- ◆ Feedback

This is a very different process from the process in general use at the present time. Even though the steps may have the same label, the work being done at each step is different. In this process, maybe as much as 90% of the effort and the resources are at the “implement” stage with just 10% of the effort and the resources for planning, organizing, measuring and feedback.

### **Plan**

I get the impression that there have been several generations of students of development who have been taught that it is better to plan than not to plan. Planning is not easy, and planning is not useful unless it is done well. And planning is a complete waste of resources when there is no follow up and no implementation. Planning without implementation is a fraud in development, and far too prevalent.

But good planning, that is based on practical feedback is valuable. Planning to improve performance is worth while Planning to avoid problems is valuable. There is a big role for planning, but only within a complete process.

Planning is needed so that good priorities can be identified and steps taken so that resources are accessible

And planning is needed so that all projects have an economic value adding characteristic. This is absolutely vital for success in development. Economic value adding is not a complex idea. All it means is that the value realized is higher than the efforts and the resources that were used.

*In this context it is useful to understand the difference between cost and price and value.  
Cost is the effort and the resources used to make the product or provide the service.  
Price is the amount paid to transfer the product or service from the provider to the client. And value is the amount the client considers the value to be. An economy works when value is higher than price and price is higher than cost.*

Planning should also focus on finding ways for an economy to be “surplus producing”. What this means is that the economy is productive enough so that the effort and the resources used generate enough production so that after what is needed for current use still leaves a surplus for the future or for current trade.

### **Organize**

Planning is analytical and to some extent academic. Organizing takes an intellectual exercise and converts it into people and resources and structure. When plans have been subject to organization they are ready to implement.

### **Implement**

This is the key. Almost all the resources should be used in implementation. As a goal, about 90% of all effort and resources should be used in the implementation phase. 90% may well be more than twice or even three times more than is the norm in modern development projects.

Good implementation usually has its own inbuilt process to manage performance.

*I learned about this initially in control engineering. I worked on “automatic gage control” for high speed hot strip mills. The aim was a uniform thickness of steel coming*





*These concepts are articulated very well in engineering thermodynamics. Development economics has a lot of the same characteristics*

Economic value adding is taking place in a community when the people and the resources available to the community generate a surplus over and beyond what the community consumes and what is needed to replenish the local resources. The concept is very simple.

But economic value destruction is more common in development. Economic value destruction comes in many forms.

And while there is a need for the flow of resources to be from the NORTH to the SOUTH (as we shall see later) development is going to work when this flow of resources produces “value” for the people of both the SOUTH and the NORTH.

Up to now, most development has been done on the basis that someone gets and someone gives. The thinking is zero-sum thinking. And it is entirely reasonable to ask why one should give and get nothing in return. And it is demeaning to have to be given and have nothing to repay the generosity.

As far as I am concerned, the idea of creating resource flows as a form of “reparations” for ancient wrongs, or even quite recent wrongs is not helpful. While it is very valuable to have an understanding of the wrongs of history and to learn from them, anything that strengthens old rivalries and past tensions should be avoided. The focus should be on doing what is best for today and the future.

In terms of “economic value adding” we know that \$50 in the right place in a developing country in the SOUTH is very valuable and will serve to improve the quality of life of a family enormously. We also know that \$50 deducted from the wealth of many, if not most families in the NORTH, will be hardly noticeable. The simple process of moving \$50 from the NORTH to the SOUTH increases global economic value. This is a value adding event and the process is a first step away from zero-sum thinking.

But go a little further. The benefit in the family in the SOUTH is very obvious. For a family that works from dawn to dusk seven days a week for a full year and earns less than a \$1 a day is going to be much better off with the extra \$50. But maybe there is some real benefit that the NORTH family can derive from the \$50 they are sending SOUTH. If the process of sending \$50 SOUTH is part of some organized effort that has a community and social dimension, then the \$50 not only does some good in the SOUTH but also has a “social value” in the ones own circle of friends. Getting to feel good has “value” and it makes a lot of sense to feel good when doing good.

But can we go further with the idea of economic value adding, and go beyond a value chain where the SOUTH has real tangible economic value added and the NORTH has exchanged its tangible economic value for just “feel good” value.

And we can.

Instead of \$50, we will work with \$1,000. Someone or some organization in the NORTH puts up \$1000. So instead of the money going to a family that will have an incremental \$50, the money is loaned to a business that now has an incremental \$1,000. This money can be of enormous value to a small business in the SOUTH. Small business is terribly constrained by a shortage of working capital and by very expensive local financial services, or effectively non-existent financial services. Small business stays small because it usually does not have the financial and material resources to grow. This is not unique to the SOUTH. But it is worse for small business in the SOUTH than it is in the NORTH. A lot worse. So a \$1,000 loan to a small business can be expected to create economic value adding of maybe as much as \$1,000 in maybe as little as six months, or even 3 months, but certainly not more than 12 months.

This is serious economic value adding. This is a return on incremental capital employed of 100%, or 200% or even 400%. So now the loan can be repaid, and interest or profit sharing can be done.

So the person or organization that put up the money is now able to get paid back, and get some return on the money. In value adding terms this is a win for everyone. For the SOUTH business there is high economic value adding, and an ability to use the money to create money and then pay the money back with a good return to the lender. For the NORTH lender there is added value in terms of the return that is earned. And in addition the “feel good” aspect of socially responsible investment. This is win win. This is truly sustainable development.

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- The Information Dimension

