

CHAPTER 12

SECTOR PERSPECTIVE

A sector perspective should not be ignored ... though a single sector approach should not become the preferred way to address development performance

The Sector Perspective

Sector expertise ... specialization

Sector expertise is very important. Each sector uses a range of technologies that require considerable knowledge, training and experience to use well. All products and services should be accessible everywhere they are needed. Expertise in any sector should be accessible if needed. However, in the poor “south” only a limited amount of sector expertise is available, and a lot of things that ought to be easy to do never get done. From a community perspective there needs to be the sector expertise that is needed to improve the community. There are many sectors that might be needed ... very much depending on the nature of the community and what the community wants to make as a priority.

Hundreds of sectors and sub-sectors

There are hundreds of sectors and sub-sectors. Many organizations that have been associated with international relief and development are organized along sector lines and have a single sector focus which is good for the organization and has been welcomed by donors and governments ... but a poor use of resources for successful sustainable development.

Most governments have ministries that are responsible for sectors: Ministry of Education, Ministry of Health, Ministry of Transport, etc.

The United Nations has established a range of organizations to focus on different sectors: FAO for agriculture and fisheries, WHO for health and UNICEF that has a focus on children's health, UNIDO for the industrial sector and UNESCO for education, science and culture. There are hundreds of UN agencies and offices with focus on specific parts of the global economy and society.

Each sector has its own technologies and best practices. But in the developing “south” the success of one sector is often constrained by the limits of some other sector. This argues, therefore, for a relief and development approach that ensure that there is a multi-sector involvement. There is little consensus about what is the best approach to making relief and development more effective and getting more rapid progress.

A sector is not tied to any location, though what is best in a sector can change from place to place. My experience has been that single sector intervention in almost any community is likely to fail, simply because critical constraints are being addressed. One

sector can improve, but all the other constraints remain in place. Nothing is optimum until all the constraints have been addressed.

Overview listing of main sectors

This is perhaps not a complete list of sectors, but it is enough to give an idea of how many sectors are involved in making society work in a reasonable manner. The relief and development sector will succeed when all the sectors are able to function appropriately in any place in the world. The following list is in alphabetical order.

Table – Sector Overview

Sector	Note
Academic sector	Potentially a source of a lot of knowledge, but much of the work is academic without being valuable.
Agriculture sector.	Not widely acknowledged any more, but a key driver of prosperity in the “north” and very efficient. In the “south” in contrast, too much of agriculture remains little better than subsistence.
Banking and finance sector.	Hugely profitable, but services essential to the “south” are not available because the profits not big enough.
Construction sector.	Local construction companies ought to be a driver of local economic performance, but they are often displaced by foreign contractors. Quality needs to be professionally controlled.
Education sector.	The education sector is critical to the future performance of the economy, but badly underfunded and good education is far from being accessible to all.
Employment or jobs.	Create employment and jobs, and a lot of relief and development problems go away. This ought to be a major priority.
Energy sector.	The supply of energy to the “south” is poor and a constraint, while raw energy sources in the “south” are tremendously rich and exploited almost totally for foreign benefit and some small local elite.
Enterprise sector.	A simple way to describe the private for profit organizations that can be the driver of sustainable socio-economic progress.
Fisheries sector.	A potentially valuable sector in the “south”, but often the bulk of the value is exported by commercial fisheries agreements that are bad for the “south”
Governance and administration sector.	This ought to be facilitating socio-economic progress, but too much is constraining progress. Not enough accounting and accountability.
Health sector.	The health sector is critical to the health of the population, and seriously underfunded in the face of some pandemic health issues.
Housing sector.	Housing is a sector that can be a useful driver of economic progress.

Sector	Note
	There is a big need for affordable housing, especially in urban areas.
Infrastructure sector.	Getting infrastructure upgraded can be a driver of the economy, but only if it is done with some understanding of the dynamics of development and the damage caused by economic distortion.
International trade sector.	There needs to be a lot more of fair (equitable) trade than merely free trade.
Legal and justice sector.	Too often underfunded and unable to function well. Not well integrated with traditional systems of justice.
Luxury sector.	This sector has a high profit derived from the huge disposable income of people with great wealth. Mainly involved with obscenely expensive baubles and toys.
Manufacturing sector.	The sector can be a valuable part of the economic mix. It is not going to be success except in places that commit to an efficient economic environment.
Military and security sector.	More sunlight is needed in connection with military equipment and supplies and how they are used.
Mining sector.	A sector that ought to produce huge value for the “south”, but it needs work to allow it to achieve value for the “south”
Natural resources sector.	Natural resources of all sorts are abundant in the “south” but not exploited much for the benefit of the “south” but mainly for the benefit of foreign investors and their foreign staff.
Productive sector.	These sectors include mining, manufacturing, agriculture, fisheries, etc. that make things needed for society locally or internationally.
Professional sector.	The professional sector is not central to relief and development efforts, yet it is one of the key ways that an economy becomes self-sufficient.
Public sector, private sector.	If it is government it is the public sector, if it is not, it is the private sector.
Relief and development sector.	A shorthand to cover all the activities of the official relief and development organizations, governments, NGOs, etc. that work on disaster relief and socio-economic progress.
Retail sector.	Look at the retail sector and a lot can be learned about the state of socio-economic progress.
Social sectors.	These sectors include health, education, etc. that are needed to improve the status of the population.
Telecom sector.	The telecom sector has evolved a lot in the recent years, and change continues. Getting relief and development friendly telecom is critical to success.
Tourism sector.	Tourism has great potential for the “south” but it needs management and

Sector	Note
	development of destinations.
Transport sector.	Transport is part of the infrastructure that is in great disrepair in the “south” and costly to the society.
Wholesale and distribution sector.	Wholesale and distribution is highly efficient in the “north” and a tremendous constrain in the “south”.

Multi-sector mix

A community needs a multi-sector mix. This mix of sectors is important. People have said over and over again that they will not work in remote rural areas because something they need is not available. It can be health services, or schooling or the social situation ... but it emphasizes starkly the importance of the totality of sector and function in order to have success.

Linkages between sectors

Development succeeds when all the key linkages are in place. It is possible to understand the failure of development through an understanding of inter-sector linkages. This program has been designed to take advantage of the potential of the economy with the appropriate linkages in place. There are therefore initiatives in a variety of sectors, short term, medium term and long term, and through a variety of implementing mechanisms.

When I was first engaged to work in relief and development planning I worked with “projects” and I worked with “sectors”. With relief and development results so bad, it is clear that not just one but many things needs to be fixed, that a single sector approach to project design is insufficient. Even if a single sector project is well designed, a project needs performance in many other sectors in order to be successful.

Multi-Sector Linkage

My own experience operating in the “south” showed me very tangibly how much inter-sectoral dependence there is.

In the “north”, when something goes wrong, the solution is easy. Use the telephone to call up a supplier, pay money and almost instantly get the goods or services. Someone operating fishing trawlers in the USA could get all the maintenance needed simply by telephoning. Spare parts are easy to get, and do not have to be sourced from half way round the world.

I did not realize how much this is taken for granted until I became involved with running fishing trawlers based around the world in the “south” ... in Africa, the Middle East and Latin America ... and frequently a long way from the big cities. We needed to be able to do everything for ourselves. We had water wells for water, electric generators for electricity, maintenance technicians and spare parts for everything electronic or mechanical, and took care of absolutely everything ourselves. When a trawler needed maintenance, we did it all ourselves.

But while our main operations were the fisheries sector, keeping ourselves operating required support from every other sector.

II ... Infrastructure

	Systems and Processes	Training	Organization	Employment	Materials and supplies	Equipment	Financial resources	Know-how
INFRASTRUCTURE								
Water	X	X	X	X	X	X	X	X
Roads	X	X	X	X	X	X	X	X
Cargo and fishing ports	X	X	X	X	X	X	X	X
Airports	X	X	X	X	X	X	X	X
Housing	X	X	X	X	X	X	X	X
De-Mining	X	X	X	X	X	X	X	X
Energy	X	X	X	X	X	X	X	X
Environment	X	X	X	X	X	X	X	X
Communications	X	X	X	X	X	X	X	X
Banking and financial services	X	X	X	X	X	X	X	X
Knowledge dimension of development	X	X	X	X	X	X	X	X

III ... Income generation and employment

	Systems and Processes	Training	Organization	Employment	Materials and supplies	Equipment	Financial resources	Know-how
INCOME GENERATION AND EMPLOYMENT								
Private professional sector	X	X	X	X	X	X	X	X
Livestock and range management	X	X	X	X	X	X	X	X
Crops and other agriculture	X	X	X	X	X	X	X	X
Fisheries	X	X	X	X	X	X	X	X
Construction	X	X	X	X	X	X	X	X
Maintenance workshops	X	X	X	X	X	X	X	X
Agro-Industry and Manufacturing	X	X	X	X	X	X	X	X
Minerals and Mining	X	X	X	X	X	X	X	X
Transport	X	X	X	X	X	X	X	X
Wholesale trade	X	X	X	X	X	X	X	X
Services, retail and petty trade	X	X	X	X	X	X	X	X
Hotels and restaurants	X	X	X	X	X	X	X	X
Tourism	X	X	X	X	X	X	X	X

The previous tables show how many sectors and linkages there are. Because of complexity in the linkages it is difficult to optimize with formal “planning”. The process is simply too complex, and the variables too many. The invisible hand of the market mechanism will make order out of this apparent chaos and complexity. Every

community in the area knows what it needs to better the community. This knowledge will drive the process if it is allowed to. The program has embraced the concept of “participation” because participation allows families and communities to decide themselves how resources can best be used.

Different Sector Views

Public and Private Sectors

Private sector

The private sector has proven to be a powerful engine for wealth creation, for innovation and for economic efficiency. On its own, however, the private sector can succumb to a culture of greed, arrogance and entitlement.

The private sector and its associated enterprise and “can do” attitude is a critical element in making relief and development a success. Private enterprise can organize and run production sectors so that there is the maximum of value adding ... the public in the broadest sense must see to it that the value adding is used in a fair, equitable and just manner.

The private sector is everything else ... and especially the corporate for profit sector, private philanthropic organizations, and not for profit organizations. Some health and education establishments are in the private sector.

Public sector

The public sector is owned and operated by the government. In many countries a lot of social services are operated by the government, including education and health services. In countries embracing socialism, the government also nationalized major production industries and operated them in the public sector.

Enterprise Sector ... Employment

Enterprise sector

The “for profit” organizations are sometimes referred to as the enterprise sector. These organizations have been vitally important in the “north”, and especially in the United States, in building wealth. The incentives in the enterprise sector are all favoring the use of least resources for maximum revenue ... the least cost most value idea that is essential to economic value creation.

The enterprise sector in the “south” is also very important and accounts for almost all value adding activity. Because the “south” economies are weak, and failing, if not failed, the enterprise sector is struggling. Where most of the financial resources are controlled by government and indirectly by donors and the international financial community, the enterprise sector is sidelined.

Getting the enterprise sector to grow and be profitable has multiple benefits including the multiplier impact of more jobs and the impact of tangible value adding in the community. A healthy enterprise sector attracts other investment, and encourages other entrepreneurs to become involved.

Employment

Employment ... jobs is a critical component of socio-economic success. More jobs usually means a more successful economic situation.

Jobs can be in both the formal and the informal sector. A larger number of wage paying jobs are in the formal sector. Formal employment is possible in both the private and public sector, in the productive sectors and in the social sectors.

A job is the most value to the economy when the cost to the employer is lower than the value accruing

to the organization, and more valuable again when the work is of value to society as a whole.

Formal and Informal Sectors

Formal Sectors

The formal sector is probably most easily described as everything that is incorporated or registered, as well as what is in the public sector, the government organizations, agencies and structures.

The formal sector is, generally speaking, fully monetized and is included in most of the economic statistics that are compiled. The formal sector has payrolls, pays taxes, and buys products and services in a regular manner recognized by law.

Many people only think in terms of the formal sector.

Informal Sector

But there is an informal sector as well. In poor parts of the “south” the informal sector is the only sector that operates ... it is everyone doing just a little to make the local economy function as best it can. Often the best is not very good. In the informal sector nothing is incorporated and nothing is registered. There may be some exchange of cash, but there is also simple barter and the exchange of goods and services in kind.

In the poor “south” the informal sector can be bigger than the formal sector, not only in terms of the number of people engaged in it, but in terms of the economic product associated with it. Even so, the informal sector does not usually appear in the economic statistics that are compiled, and to the extent that it does, the methodology for assessing its scale and its value may not be particularly well conceived.

Productive and Social Sectors

Productive sectors

There are many sectors that make up the productive sector: agriculture, fisheries, manufacturing, mining, energy exploitation, forestry, tourism, transport, etc.

All of the activities in the productive sector transform input resources into something of more value ... when this is done in a for-profit organization the outputs are goods and services that are sold and a profit for the organization.

These are value creating operations ... and to the extent that there is tangible value creation in the productive sector, there is value that can be used for social value creation on the social sector.

Social sectors

The social sector comprises activities like education, health, support services for the vulnerable, and so forth. Social services have been a major focus for the relief and development sector, as well as for left leaning governments that have a commitment to social justice.

Expenditures in the social sectors are very valuable because they contribute significantly to quality of life, and they also serve as an investment in the future. But success in the social sectors does not translate directly into economic progress ... it merely removes a major constraint to economic progress. Without opportunity in the productive sector success in the social sector is for nought.

Relief and Development Sector

Humanitarian relief

Official Development Assistance (ODA)

The relief and development sector is the subject of this book. But success in the performance of the relief and development sector depends as much as anything on the relief and development sector doing less, and all the other sectors doing more. We have argued in this book that the relief and development sector has performed badly, and cannot reform itself to be successful ... and that therefore there needs to be improvement in other sectors to improve socio-economic progress.

But when that happens, there are very valuable roles for many of the institutions of the relief and development sector.

The World Bank, for example, is an organization that can easily focus on rebuilding the “Public Finance” sector in the “south”. The World Bank is well suited to doing this work, and could do it easily within its present mandate. The World Bank could also be a useful financial partner in helping large scale public works projects for infrastructure improvement get funded. Broadly speaking, I would like to see much less policy intervention coming from the World Bank, but a strong commitment to being engaged with universal public accounting and accountability.

The UN needs to maintain its critical role in convening meetings and encouraging dialog, but should deemphasize providing finance and technical assistance. I would like to see the UN also committed to the idea of universal public accounting and accountability.

Central Banks around the world should be much more engaged in the relief and development sector representing the financial interests of their respective countries. They ought to be much more central stage than they have been in the past, and should be at the forefront of efforts to ensure that there is universal public accounting and accountability.

Luxury Sector

A very profitable sector

The luxury sector is a driver of a lot of the apparent wealth creation in the “north”. The value chains associated with the luxury sector are unusual ... and while profits are real in an accounting sense, the value associated with the profit makes little sense.

When a fashionable pair of shoes is priced at over \$2,000, or a handbag a similar amount ... there is a huge profit in being the supplier and being in the supply chain.

But at the end of the chain a person only gets a pair of shoes or a handbag ... and a basic pair of shoes or a handbag would be more correctly priced at something like \$50.

The same thing is going on in the automobile industry. Various types of automobile are being built and then being priced at luxury prices from \$50,000 to \$250,000 and up. Basic transport can be priced at (say) \$20,000 and be perfectly functional. The “phantom value” in the supply chain is not real value at all, but merely a process of value destruction subsidized by the very wealthy.

Concentrated wealth and huge personal fortunes is very good for the luxury sector, whether it is for the sale of jewelry or the sale of luxury yachts ... neither of which have very much socio-economic value ... but the wealthy still buy them. The bubble of the luxury sector may go on for a long time. The

capital markets have concentrated a lot of wealth into relatively few hands, and these people may sustain the luxury market for a long time ... but not for ever.

Agriculture, fisheries and food

Infrastructure

Food security is enhanced if it is possible to move food stocks easily and at relatively low cost. Food security is also enhanced if it is possible to store food stocks with minimal loss in places where food stocks are needed, or likely to be needed. As part of the overall area proposals there will be significant improvement in the storage infrastructure. Food security is improved when there is an efficient transport system.

Industrial sectors

Energy - Oil and Gas

Minerals and Mining

Summary overview

Mining and the exploitation of minerals in the “south” ought to be generating a lot of wealth for the “south”. It will do so when the agreements are fully understood by all parties, especially the signers for the “south” and there is a solid framework for value analysis.

It is not clear what role bribery and corruption plays in the sector, but it is probably significant. It is likely that substantial fund flows do not benefit the country but only benefit individuals. This is difficult to address, because the amounts involved are huge. Without addressing this, however, the wealth creation that is possible will never materialize.

The international mining companies are at an interesting stage, and they are likely to have some advantage when they are seen to be of benefit to the local communities where they operate. This is not an easy balance to achieve, because large scale mining causes a lot of change ... but it is possible, and could result in mining being pulled to communities rather than having to be pushed into the communities by the mining companies and a small elite.

There is every reason to expect that Iraq has mineral deposits that could be exploited on a more commercial basis. The knowledge about the mineral deposits in Iraq is not well substantiated. Much of the information is old and not supported by verifiable geological reports. There has been little exploitation of the mineral resources in Iraq.

Iraq has little capacity to do the work needed to provide a basis for a rational exploitation of the mineral wealth of the country.

The administration in Iraq should be supported so that better knowledge about the mineral resources in the area can be obtained. The knowledge gap should be closed as soon as possible with thorough geological analysis of the main mineral deposits.

Policy about mineral resource exploitation

The administration should be supported in work to establish a policy framework so that the exploitation of mineral resources is fair to all concerned and contributes to peace, security and economic development rather than having a destabilizing influence.

Training in mining skills

In order for the minerals and mining sector to succeed there needs to be basic skills training on a substantial scale. If there are exploitable minerals then there should be skills training to complement the other resources needs for successful industry development.

Manufacturing

The state of manufacturing

Iraq is not known for its modern manufacturing, with the exception of its production and export of crude oil.

There are parts of Iraq that have a history of handcraft ... but this is small scale and artisanal, of historic value but not of great economic value as a driver of modern Iraq.

The manufacturing sector is usually an important area for job creation ... but in Iraq more of the jobs are in the services sector.

Many things need to be brought together in order for manufacturing to be successful: (1) availability of materials; (2) availability of productive low cost labor; (3) a reasonable enabling environment ... that is laws, regulations, culture, etc.; (4) working infrastructure including transport and energy; and, (5) markets and profit potential. Of these it is the markets and profit potential that are missing. Most of the market needs can be satisfied by products from other places at lower cost and more profit than from local manufacturing in Iraq.

My Experience in Madagascar

For some years I was a consultant to a manufacturing group in Madagascar. I have described this group as one of the best managed companies that I had ever seen, in large part because of their commitment to training their staff. Even though Madagascar had tremendous socio-economic problems, and was faced with terrible foreign exchange shortages, this company still put its staff training as a top priority.

As a result, the company was able to produce world standard quality and was able to participate in the global market on an equal basis with other world class producers.

The company invested in good production equipment, and the staff were able to use this equipment to make the very best quality product at very competitive costs.

But all of this took time.

Banking and Financial Services

An important sector for success

A broad range of banking and financial services help socio-economic development progress. While these services are readily available to the rich and in wealthy communities, they are not universally accessible, and the poor at the bottom of the socio-economic pyramid are not well served at all.

In fact, the mainstream banking and financial service companies have either retreated from service to the poorer segments of society, or have increased the pricing of services that are used by poorer people. To add insult to injury interest rates are high and fees are also high making the total cost of service more like loan sharking than mainstream banking.

Community needs

In the last four decades rural banking has stagnated and in many places has disappeared. Perhaps for the last 25 years there has been some growth in microfinance, but this is a very limited subset of banking and arguable not an important subset. The growth of micro finance is progress, but it is not the single silver bullet that is going to solve all the socio-economic development problems of the south. In any community, there is a need for at least three main financing components: (1) micro finance that serves the individual and micro-business; (2) mini finance to satisfy the needs of the small and medium sized businesses; and, (3) muni finance that provides financing for economically desirable community projects.

Commercial banking for enterprise

The Commercial Bank sector in Iraq either through national banks or in association international banks has the ability to provide a full range of financial services to major business enterprises. The challenge is to expand the service to included smaller businesses and those that have the potential to grow, but not the financial strength to grow.

Informal systems for financial services

Where the formal commercial banking and financial services sector is weak, a range of informal systems for financial services are available. These systems are very important to the local economy, especially the informal sector and the small business. Some of the informal systems, however, while providing a needed service, also exploit the poor in a very aggressive manner.

Public finance

The mainstream banking sector should be in a position to assist with the financing of the public sector and be available to make funds more easily available in areas distant from Baghdad.

Communications

Telephone

The telephone service in Iraq has become much more wireless in the past few years. The technology is insufficient and service leaves much to be desired. Urban areas are being targeted, but remote areas are not being served. Getting a good telecom infrastructure is a good basis for other progress.

Internet

In Iraq the Internet is available through a variety of services, none are cheap. The Internet ought to be

working on top of a good local infrastructure and be accessible easily and at low cost.

Private sector

The most effective strategy is going to be to make sure that the development of communications is handled by the private sector, with the public sector authorities having a regulatory role that ensures a quality service and pricing and service agreements that are reasonable.

Logistical Services

Transport

The transport systems in Europe, in North America, in Japan are incredibly efficient. Transport is a very innovative sector in terms of the adoption of technology. This needs to be applied to the “south” where transport infrastructure, roads, rail, ports, have not been developed to the optimum. There is the need for a huge investment by both the public and private sector. Some valuable progress can be made by doing as much work as possible on a small scale in and around communities.

Truck fleets

The truck fleets in Iraq have expanded based on the profits of the private operators. The financing associated with the truck fleets is likely a huge cash cow for those that are engaged in the financing.

Truck maintenance is handled by a large a competent workshop sub-sector. Parts are not a problem as long as funds are available. The fuel situation that is often a problem is not a problem in Iraq where refined products are widely available.

Air transport

Air transport service operators can be in the private sector. There can be financial support from the government to facilitate the funding.

Airport fuel and service

Baghdad airport is international standard and all fuels and services from an international airport are available.

Port operations

Port operations are going to be a major issue in the future success of Iraq, and especially the oil and gas sector. A modern port capacity is going to be vital in the handling of energy products exporting product using the largest of the modern supertankers.

Pipelines

Pipelines are the main means of transporting petroleum products. They are an easy target for bombers and have not been adequately protected so are not all presently in service.

Warehouses

Warehouses are now a critical part of logistics operations. They serve much more than merely to keep stock in a safe place out of the weather. They are now fully equipped so that information about stock movements is facilitated in real time.

The old era warehouse is still needed at the community level ... while the 21st century warehouse and integrated logistics system starts to operate in the country.

Maintenance

Repair shops, welding and machine shops

There is an ongoing need to strengthen the national capacity to maintain equipment and do welding and machining. Much equipment, especially in small enterprises, is old, and needs ongoing maintenance. There are a lot of small facilities that do work at a basic level, but few that have the capability to do the higher end work.

Access to training

Training will help improve the sector, and help increase jobs and employment while also providing value for the community. It should be possible and easy for people to upgrade their skills. All maintenance and machine shops of good standing should be encouraged to train people to a higher level of skill.

Media

Radio and Television

Radio and television have been under government control in Iraq. However private channels can be picked up from satellites and from broadcasts originating from other countries.

These are powerful ways of spreading news, entertaining people, spreading propaganda and influencing people.

While the English language is used to some extent, the primary language in the country is Arabic. While programs in English reach the international community in Iraq, it is the Arabic programming that reaches the population at large.

Print media

There are a variety of newspapers in Iraq. A lot of material printed in the media has originated from some official source. Newspapers are an important communications medium and should be used not only for entertainment but also for serious news and analysis.

New media ... Internet

The Internet must be thought of as a major component of the media sector. The Internet has a combination of characteristics that have never been seen before ... it can be extremely fast ... combine digital video, audio, text and interaction in a bewildering range of combinations. It can be private or it can be very public, depending on how the user chooses to interact with the Internet and the Internet community.

Professional Sector

Professional sector situation

The professional sector includes professions like accountancy, law, medicine, teaching, engineering, architecture, accountancy, the religious, etc. These professional people have standards for their work that enable society to rely on what they do. They serve to improve productivity in enterprise and in society and in so doing create tangible value in society.

As long as there is instability and a lot of violence professionals are going to move themselves and their families to safe places. The professional is a great value to the society and to the economy, and emigration constrains success.

The private professional sector is very important for sustained development. The government is able to set a legal and policy framework for civil society and development, but there also needs to be the

private professional community that can provide a technical input so that the laws, regulations and policy are compatible with global professional principles.

Professional employment is not a large number, but is an area where higher incomes may be earned.

National professionals should be recruited to do professional work that is required to strengthen the national frameworks for development. The state of knowledge about development, about the law, about the society, etc. all need to be improved, and this can and should be done by funding work to be done by national professionals.

There should be active cooperation between local professional societies and equivalent professional societies in other countries. Many professional societies have active international programs and are looking to expand their global connections. These links should be actively encouraged, in particular as a way to facilitate world class training for the leading members of the professional community.

Tourism

High economic value

Tourism is a sector with huge potential economic value. But tourism, like everything else, requires planning and investment to be successful. Some places have developed tourism very effectively and have made it an important part of their economic success, but in many places the opportunities of tourism are totally ignored.

In Iraq, there were few visitors during the Saddam Hussein era. Visitors since the 2003 Iraq war started have been mainly soldiers intent on making peace and some international contractors engaged in making money. There have also been lawmakers and journalists who have been able to see Iraq from the Green Zone and a few other “safe” places in the country.

Destinations ... What To Do?

I have traveled a lot almost always on work assignments ... and I am amazed at how many places have wonderful destination activities that nobody knows about.

Iraq has an interesting and very long history ... places in Iraq were determinants of history in Biblical times. The rivers in Iraq are part of Biblical history. The archeology of Iraq is fascinating.

Iraq ought to be one of the must see tourist destinations ... one day ... maybe.

But building back a tourism industry is important. Tourism is successful when safety is sure, there are good places to see, good transport, good hotels, good food and good entertainment.

Hotels, restaurants and entertainment

Hotels, restaurants and entertainment that serves local business does not attract the international tourist community. For upscale international tourists there needs to be a higher class of hotel and restaurant. International tourists look for air-conditioning, spotless bathroom facilities and their own style of food. For this they are willing to pay. There also needs to be entertainment value as, for example, in various forms of destination that show of local history, culture and sights.

Trade

International trade

International trade has been a key driver in making some countries prosperous. It was the driving force behind a lot of wealth creation during the mercantile and colonial era, and it remains important today.

The success of Japan, and then South Korea and now China and others are based on international trade. India's success has been more trade in services than in manufactured goods, but it is still very much international trade.

In the case of Iraq, crude oil is very much a component of Iraq's international trade.

Wholesale trade

There are parts of the economy where the wholesale functions are still provided by independent organizations. For example, spare parts for automobile maintenance are carried in inventory by wholesalers who provide rapid delivery to auto repair shops in their service area. It is a very efficient sharing of roles.

In Iraq and many countries in the global “south” wholesale is often linked to import / export. Wholesale is also associated with traders and middlemen. Wholesale and distribution in the “south” is often high margin, but it is also often high cost and profits are not as large as they might superficially appear.

The wholesale trade, and import/export are less important in the modern global economy because of a growing tendency of global companies to handle all the logistics from original manufacture on one country to retail marketing in another.

The wholesale trade may not have the same structure that it has had in the past, but the functions of transport, distribution, warehousing, break-bulk, etc. still have to be done. Though a larger part of the modern retail trade goes direct from the manufacturer to the retailer, all the intermediate distribution and wholesale functions are still done, but done in-house.

Wall**Mart* is a very good example of a modern corporate organization that has brought all the functions from manufacturing through final sale to the customer under its control. While many operational activities are subcontracted, the overall operation is controlled by the Wall**Mart* logistics system.

WallMart***

What is Wal**Mart*? Is it a retailer, a wholesaler or a distribution company? Perhaps the best answer is that Wal**Mart* is a success. It is also perhaps the best example ever of an organization that has used management information to optimize what it is doing to supply its customers with what they want.

It has been one of the world's leading users of management information for a very long time. It deployed mainframe computers for data analysis long before it was fashionable. They have been ahead of the curve in understanding customer behavior in their stores for years, as well as understanding the detail operations of their organization. They know their business and they know the data associated with their business.

As they grew it was not analytical genius that made them decide to integrate their supply chain backwards to the manufacturers of their products. But they were among the early adopters of integration of operational data near real time into every aspect of the supply chain so that inventory availability to customers at the stores went up and inventory investment as a whole went down.

I thought it was interesting on the second day after the 9/11 disaster to learn in the media that Wal**Mart* knew its customer buying activity hour by hour at all its thousands of locations and knew precisely what was being bought by a population in panic. Milk and bread, then guns and ammunition as the hours progressed.

And Wal**Mart* was able to divert hundreds of truckloads of supplies to hurricane affected areas in the aftermath of Katrina days more quickly than government organizations like FEMA.

There is a lot to learn from Wal**Mart*. Excellence in the use of management information has been one of its key strengths.

Retail sector

When I was growing up in the UK, the country was referred to as a nation of t is nevertheless a very important part of the economy, and one that can play a great role in establishing sustainable socio-economic progress.

Informal trade

The informal trade in all sorts of merchandise all over the world is remarkable keep everyone fed, and everyone clothed. They do better when the community is prospering than when it is not.

An important sector for income generation

The services, retail and petty trade sector is one of the largest sources of income for the poor and for women. For many, it is also the starting point for more substantial business enterprise.

Regulations ... some are needed, most are not.

There are few formal regulations that apply to this sector. The sector thrives with a minimum of regulation. In circumstances where the trade is made illegal, as it was in the former communist regimes, the informal trade disappears, and with it a very large part of the foundation of the economy. Though the sector is untidy, it is where most larger businesses start.

Education

Education sector

Education is, more than anything else, the investment that will facilitate a successful future. Education is a prerequisite for jobs and opportunities and to be able to have valuable lives. The value of education is not a “certificate” but the training of body and mind so that a person can do valuable things. Education needs to move from basic to higher levels where a person is not only challenged academically, but also is prepared for a productive life. Accordingly there needs to be not only primary, secondary and tertiary education, but also vocational and professional education.

Education does not need to be done in traditional or old-fashioned ways, but in any way that works and is cost effective, including using electronic resources of various sorts. In the future, the education sector is likely to include activities related to the use of Internet resources.

Educational policy

Some appropriate goals of an education policy in Iraq might be the following. No specific goals have been included here. Thus:

- Expand primary education
- Address priority needs in secondary, technical and vocational education
- Improve quality and equitable distribution
- Extend new curriculum to all levels,
- Increase the number of certified primary teachers
- Lower textbook ratio
- Achieve more efficient use of teachers,
- Raise female participation
- Increase the proportion of female teachers
- Rehabilitate all schools damaged by wartime activities

Under-served areas

Iraq has some areas that are under-served regions. The literacy rate in Iraq is very variable depending on the place. In the main urban centers literacy is around 80%, while in remote rural areas it is more likely to be 20%. Literacy among women is 50% of the literacy rate for men.

Curriculum and text books

Iraq has a well developed curriculum of education. A laudable effort has been made to revise the curriculum and prepare textbooks and teaching materials. A lot remains to be done to improve the curriculum and the teaching materials.

Textbooks are also needed for the schools and training centers. The program will support the preparation and the purchase of textbooks for schools and training centers.

Teachers

The number of teachers in secondary schools in particular is less than optimum. The proportion of female teachers in primary school is low and there are almost no female teachers in secondary schools. New teachers need to be found, and most important, new teachers need to be trained. Iraq needs capacity to teach teachers. The teaching of teachers is needed for primary grades and secondary grades, but also for skills training and the non-formal basic education initiative.

Planning and management

Planning and management capacity at every level is very weak. The decentralization process implies that a lot more is expected from regional and local government. There are a lot of vacant posts in the regional education bureau and almost all the zonal offices are a one man offices. Most people in responsible position at all levels lack the required qualification and experience.

Women and girls

The situation of women and girls in education in the area should be addressed by the program in a practical way. There are ways in which women can expand on skills they already have to become of very much more value to themselves and to the community. Health skills training, for example, already known at an artisanal level can be upgraded so that health skills can be used for the benefit of the community at large. Informal, but nevertheless real, knowledge can be mobilized so that it forms the basis for teaching in the non-formal educational environment.

Skills training

Skills training for mature adults is critical for the growth of the economy and to of their capabilities.

Skills training is needed for all, young and old, male and female. There is, however, an important need to address the skills training of young adults, many of whom have lost many years of education and are now uneducated, unskilled, unemployed and potentially a source of future difficulties.

Employment of jobs

Jobs is not really a sector or sub-sector ... but employment and jobs are very important. The effort to creating self-employment opportunities that require a lot of labor for very little return needs to be supplemented by much more effort to make it possible for small employers to become bigger employers, and for employees to self-improve so that they can do bigger and better paying work. The jobs that are created need to be profitable, that is value adding, in order to be sustainable. Where the value is social, as in health

and education, there also needs to be jobs in productive sectors that generate the cash flows to pay all the wages.

Health

Health situation

The health status of Iraq has deteriorated relatively in the past years. Health and health related services are limited because of shortages arising during the economic sanctions and the war conditions. Coverage is low with the distribution biased towards the urban population. Most health facilities in Iraq are understaffed and the quality of training of some of the current health workers is poor. Moral is low because of the state of chaos.

Management capacity at all levels is very limited and whatever management information system existed previously has almost ceased to function.

Rehabilitation of health sector

The rehabilitation of health sector is a priority. Funding is needed for the necessary construction work that needs to be done to rebuild and expand the infrastructure. There is also a need to rehabilitate equipment and funding is needed for this. The infrastructure includes both urban hospitals and health clinics in smaller communities.

Many of the projects are an integral part of the Health Ministry's program and are designed to facilitate their integration into the mainstream of the health development of the region.

Education and training

Training nurse is a very high priority. There are not enough nurses. The need for nurses is very high. Furthermore, nursing is a training and employment opportunity for women. Training of nurses should be encouraged through all means.

Training doctors and medical professionals is a long (and expensive process). However, the long terms success of the area economy depends on having trained professionals from the area in the area. Funding long term professional training should be a part of the ongoing development strategy for the area.

Mother and child health programs

Mother and child programs should remain a priority in the health sector, with continuing efforts to reach the mothers and children of pastoral families.

Immunization programs for children should remain a priority in the health sector, with continuing efforts to reach the children of pastoral families.

Mental health

Mental health is a problem that is not enough of a priority. Mental health practices are ones that became unacceptable in industrialized societies several decades ago. The traumatic experience of the area in the last twenty years (or more) has created a serious mental health problem.

The Sectors

A Sector View

Multi-sector linkage

When I was first engaged to work in relief and development planning I worked with “projects” and I worked with “sectors”. With relief and development results so bad, it is clear that not just one but many things needs to be fixed, that a single sector approach to project design is insufficient. Even if a single sector project is well designed, a project needs performance in many other sectors in order to be successful.

Multi-Sector Linkage - The Power of the Telephone

My own experience operating in the “south” showed me very tangibly how much inter-sectoral dependence there is.

In the “north”, when something goes wrong, the solution is easy. Use the telephone to call up a supplier, pay money and almost instantly get the goods or services. Someone operating trawlers in the USA could get all the maintenance needed simply by telephoning. Spare parts are easy to get, and do not have to be sourced from half way round the world.

I did not realize how much this is taken for granted until I became involved with running fishing trawlers based around the world in the “south”, and frequently not even in a urban setting. We needed to be able to do everything for ourselves. We had water wells for water, electric generators for electricity, maintenance technicians and spare parts for everything electronic or mechanical, and took care of absolutely everything ourselves. When a trawler needed maintenance, we did it all ourselves.

But while this was the fisheries sector, keeping ourselves operating required support from every other sector.

The issue is pervasive. I have been told over and over again that people will not come to the remote rural area to work because something they need is not available. It can be health services, or schooling or the social situation ... but it emphasizes again the importance of the totality of sector and function in order to have success.

A sector is not tied to any location, though what is best in a sector can change from place to place. There has been a lot of thinking about development in a sector, but it has not been universally successful. My experience has been that single sector intervention in a resource constrained community is likely to fail, simply because not all the constraints are being addressed. All the other constraints remain in place. Nothing is optimum until all the constraints have been addressed.

More on Sectors

More ... but Still Not Much

Introduction

This chapter describes a number of sectors in a little bit of detail, but still not very much. For relief and development to be successful. All sectors must be optimized and at least cost.

The following are in alphabetical order. There is some overlap because of the value of looking at set of sectors as a group.

Academic sector

The academic sector has several important impacts on relief and development performance including: (1) substantial use of relief and development funds; (2) a substantial influence on thinking and public perception about relief and development; (3) a big role in “teaching” relief and development to students and future policy makers; and (4) being controllers of information about relief and development.

The academic community has a challenge to show that its work in the relief and development area is net value adding. There is some evidence that relief and development resources are being used to a considerable extent to fund academic programs while there is little tangible benefit at the community level in the “south” where needy beneficiaries live.

Agriculture sector

Part of the productive sector, and of huge importance in the global scheme of things. Without food, there is no life. The revolution in agricultural productivity set the stage for the “north” to become wealthy a long time ago, and it is often overlooked that “north” agriculture remains amazingly productive. Under 5% of the “north” population is engaged in agriculture and there are embarrassingly large surpluses.

In contrast poor “south” countries might well have 80% of the population engaged in rural agriculture and associated support activities, and the country is hungry because there is not enough food. This is all about productivity, and a terrible failure of the relief and development community.

Banking and finance sector

The “south” needs a broad range of banking and financial services that help each segment of the economy and the population to progress.

In the last four decades rural banking has stagnated and in many places has disappeared. Perhaps for the last 25 years there has been some growth in microfinance, but this is a very limited subset of banking and arguable not an important subset. The growth of micro finance is progress, but it is not the single silver bullet that is going to solve all the socio-economic development problems of the south. In any community, there is a need for at least three main financing components: (1) micro finance that serves the individual and micro-business; (2) mini finance to satisfy the needs of the small and medium sized businesses; and, (3) muni finance that provides financing for economically desirable community projects.

We need to figure out how to do this, and I will argue that it is not very difficult. All it needs is for some financial brain power to address the problem, combine it with some ICT brainpower and some solid practical knowledge flowing from remote rural communities that need community financing, and

the problem will soon solve.

Construction

Almost all construction in the “south” be undertaken by organizations based in the “south” and using professionals in the “south”. Performance may be enhanced in some cases with technical input from the “north”, but it should be limited and relevant to the issues at hand. However, almost all of the infrastructure building that is needed can be done by organizations in the “south” with little or no technical assistance from the “north”.

The quality of the work in the “south” should be ensured in the “south” just as it is in the “north” by independent professionals and quality control organizations like independent testing labs.

The goal should be to construct infrastructure of an adequate quality at the lowest possible cost so that the economy can be more productive.

Tarmac Roads in Equatoria, Sudan

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

I have had an interest in the transport sector since my student days as an engineer. So I took some interest in the transport situation in the Equatoria Region. The most important local highway was the road between Juba and Yei, a very unpleasant ride in dry weather and practically impossible when there was rain. This was not an “all weather” tarmac road but a deeply rutted laterite road in need of a lot of maintenance. There were very few trucks (except those owned or contracted for by UNHCR) and a heavily loaded pickup would usually get stuck. A surplus of agricultural produce in Yei did not easily move to Juba, a government city with food shortage.

As I recall the Canadians had brought road construction equipment into the area. It was in a yard in Juba, and had been for some years. Apparently it had been donated by Canada, but was used equipment without spare parts. USAID had also done some road construction, but their beautiful tarmac roads were limited to the confines of the USAID compound. Kuwait had done a few miles of tarmac road construction, basically from the airport to the Government Buildings, past a new mosque that Kuwait had financed and just a few weeks before the Emir of Kuwait made a visit to Juba.

Value analysis of the road from Yei to Juba suggested that improving the road to a reasonable all weather standard so that the separate markets of Yei and Juba could interact without a transport constraint would give a payback measured in just a few months. Instead the international relief and development sector had really done absolutely nothing.

Education sector

Education is, more than anything else, the investment that will facilitate a successful future. As noted already, education is merely an enabler. Educated people need jobs and opportunities to be able to have valuable lives, but this is impossible when people have not had education.

The value of education is not a “certificate” but the training of body and mind so that a person can do valuable things. Education needs to move from basic to higher levels where a person is not only challenged academically, but also is prepared for a productive life. Accordingly there needs to be not only primary, secondary and tertiary education, but also vocational and professional education.

Education does not need to be done in traditional or old-fashioned ways, but in any way that works and is cost effective, including using electronic resources of various sorts. The education sector is likely to include activities related to the use of Internet resources.

Employment or jobs

Jobs is not really a sector ... but employment and jobs are very important. The effort to creating self-employment opportunities that require a lot of labor for very little return needs to be supplemented by much more effort to make it possible for small employers to become bigger employers, and for employees to self-improve so that they can do bigger and better paying work. The jobs that are created need to be profitable, that is value adding, in order to be sustainable. Where the value is social, as in health and education, there also needs to be jobs in productive sectors that generate the cash flows to pay all the wages.

Productivity

Productivity of employments and jobs is a key issue. People in poor societies work very hard, but at the end of the day, they have merely survived for another day, and that is about as much as they can hope for. A women and the girl children spend hours every day collecting water for the family. It is unproductive work, terribly inefficient, though at the same time of critical importance. People in the “north” get upset when the water turns on and it takes just 15 seconds for the hot water to arrive! What on earth would happen in a “north” city like New York if the water took hours for everyone to collect every day. It is unimaginable. But half the world's women are employed in this way.

The key is not merely to have a lot of people at work, the goal is to have a lot of people doing efficient productive work that has value.

Energy sector

The energy sector has two very different dimensions in the “south”. There are huge energy resources that can be exploited, and there is a shortage of energy that constrains development.

At one level there are abundant fossil fuel resources, especially oil and gas, and also coal, and on the other end of the scale, there is a dramatic shortage of fuelwood and charcoal for household cooking.

Better management of the energy resources would yield substantially more wealth for the “south”. This is something that should be a priority, but it is not easy to do. Big energy is an “extreme” area of hardball business. The stakes are very high, and the wealth flows associated with it unimaginable.

The energy arena is not getting easier, but a lot more difficult. The oil and gas industry is not just big “western” companies, but also companies from Russia and China.

Companies from other countries like Venezuela, Mexico and India are going to change the energy sector landscape. Whether this will make the sector more beneficial to people at the “bottom of the pyramid” is not at all clear ... but there are interesting possibilities.

There is an opportunity for wealthy oil and gas enterprises to embrace the moral high ground and start doing a lot more for communities in places where they operate. Though politics is often controlled by the gun, people power can have an enormous impact. Guns did not get the British out of India, but people power with Mohatma Ghandi in the

vanguard. Martin Luther King did not catalyze progress in racial relation with the gun, but by mobilizing people peacefully.

The lack of electricity in poor places is a chronic problem. The technology exists to have adequate electricity supplies, and to distribute electricity to where it is needed. It takes investment, and it takes a reasonable approach to profit expectations. The key requirement is that electricity investment and electricity management and operations are done efficiently, ethically and without being dominated by greed and corruption from any quarter. This is possible, but it cannot be achieved simply by “privatizing” the sector and moving initiatives from an incompetent ineffective “public” sector arena to a totally unconstrained profit maximizing arena. One is as bad as the other. Good management in an enterprise that aims to maximize the public good is entirely possible ... and a good way forward.

Enterprise sector

I sometimes refer to “for profit” organizations as the enterprise sector. These organizations have been vitally important in the “north”, and especially in the United States, in building wealth. The incentives in the enterprise sector are all favoring the use of least resources for maximum revenue ... the least cost most value idea that is essential to economic value creation.

The enterprise sector in the “south” accounts for almost all value adding activity, and is struggling within failed economies where most of the financial resources are controlled by government and indirectly also by donors and the international financial community.

Getting the enterprise sector to grow and be profitable has multiple benefits including the multiplier impact of more jobs and the impact of tangible value adding in the community. A healthy enterprise sector attracts other investment, and encourages other entrepreneurs to become involved.

Fisheries sector

Fisheries is another component of the productive sector. The dynamics of fisheries are very different from agriculture, with best performance not achieved with maximum investment, but usually with less. The relief and development sector experts have often got it wrong, and there is far too much over-exploitation of the resources.

The “south” has opportunities in the fisheries sector, but they need to be better at negotiating how fishing resources are exploited. Local investment is needed rather than foreign investment, and access to major markets should be negotiated so that there is reasonable benefit for the “south”.

Value chain analysis in the fisheries sector will show that many fisheries agreements can be improved significantly if the agreements were reasonably fair, rather than being totally in favor of the foreign parties.

Governance and administration sector

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

Getting rid of corruption is the obvious big issue, but there are a lot of other smaller issues that can be

addressed. For example, reducing the complexity of procedures to do routine administrative activities, and shortening the time to do these things all helps.

Costs for a legal and justice system

I have helped 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.

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.

Health sector

The health sector in the “south” is very challenged. Sickness is aggravated by poor water and malnutrition almost everywhere in the “south”, and resources for care and cure are very limited. Almost everything is in short supply, and even though there is a health crisis throughout most of the “south”, there are substantial financial abuses both in terms of the misuse of resources and profiteering by suppliers of medications and equipment.

Even though there is crisis in the “south” health sector, some of the staff do amazing work with very little. The tardy payment of nurses is common.

But health sector performance is unsatisfactory in the “north” as well. Though scientific developments in health have been amazing, the cost and the inefficiency of modern medicine is mind boggling. In some places in the “north” the high costs and profiteering now makes good medical attention

unaffordable for many of the poor and middle class.

Good management information and public accountability has the potential to be of substantial value to help performance improvement.

Housing sector

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

Few houses in poor areas of the “south” have adequate services. Water and latrines are generally unsatisfactory, and contribute to poor health in these places. There is little access to electricity. Not surprisingly, there is little access to telephone and Internet. Living conditions are bad, and the crowding is contributing to the increase in diseases like tuberculosis.

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

Infrastructure sector

There is enormous catch up to do in order to get the infrastructure in the “south” up to enough basic levels of performance. There needs to be investment to catch up on maintenance and to put in needed infrastructure, especially around communities.

There are many dimensions to infrastructure including (1) Roads and bridges; (2) Seaports; (3) Airports; (4) Housing; (5) Water; (6) Sewage and sanitation; (7) Hotels; (8) Tourism destinations; (9) Public buildings; (10) Schools; (11) Health facilities; (12) Telephone and Internet; and, (13) Electricity.

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

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

The amount of investment needed to upgrade infrastructure to “north” standards cannot be universally sustainable in the “south”. There needs to be incremental upgrading so that constraints caused by infrastructure are reduced. As economic performance improves, more upgrading can be justified.

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

Any visitor to the “south” from the “north” quickly notices the problems with electricity. The status of electricity infrastructure is abysmal. Major upgrading is needed. There is no reason why investment cannot come from the private sector, except that the cost of international private financing is very high. The problem is exacerbated when government reserves to itself a monopoly position, and does not have a satisfactory level of expertise and oversight on the activities.

In the “south” the telecommunications infrastructure is poor, with little access to the Internet. Only high cost options for Internet access seem to function. The “south” has not yet embraced the idea of very low cost communications as a way to encourage development, but still uses the telecom sector merely as a vehicle for extracting maximum economic rent.

The railroads has a big part in the modernization of the economy in Europe and North America in the 19th century, and there was some railroad building in the “south” almost a century ago. Rather little has been done in the last fifty years, and mostly to support corporate minerals exploitation. A rail infrastructure is a valuable component of the economy, and helps to keep transport services low cost.

There has been a productivity revolution in modern ports, with almost total containerization and using powerful materials handling equipment. Modern bulk carriers are highly automated requiring small crews, and their cost is remarkably low. But not much of the “south” is able to take advantage of all of this. Most of the ports are antiquated with little modern materials handling equipment, and the costs are very high. Shipping costs in and out of Africa are very high, perhaps the highest in the world, and the service is the worst.

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

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

International trade sector

International trade has been a key driver in making some parts of the “south” prosperous. It was the driving force behind a lot of wealth creation in the “north” during the mercantile and colonial era, and it remains important today. The success of Japan, and then South Korea and now China are based on international trade. India's success has been more based on trade in services than in manufactured goods, but it is still very much international trade.

The poor “south” has little to trade that it can produce on its own. While there are some success stories about the “south” exporting to the “north” they are not very large in the bigger scheme of things. And in almost all cases, the real value is being generated in the “north” and not much gets to stay in the “south”.

There are constraints on exporting from the “south” to the “north”. It would be helpful if these constraints were easier to learn about.

Where is Ghanaian Chocolate?

Why is it that we never see retail chocolate “Made in Ghana” when Ghana is one of the largest producers of raw cacao, the primary ingredient of chocolate.

Ghana makes some good chocolate, but it is not at all easy to penetrate the markets of the “north” and profit from them. In some cases duties get in the way, in some cases it is rules about packaging and labeling, in some cases it is about factory inspections and health certification ... lots of things that make it difficult.

The international coffee and cocoa business is very profitable, but hardly any of the profit reaches the farmer in the “south”. The value chain from farm to consumer is long, and nothing much is left for the farmer, even though retail prices are pretty high. The situation for the farmer is so bad that conditions for the children on coffee and cocoa farms are not much above slave levels. In fact in some places, there is servitude that might just as well be called slavery.

The “Fair Trade” movement can be a step towards getting more money into the hands of farmers and into the communities where coffee and cocoa is grown, but the movement needs to ensure that it has an appropriate level of accountability and transparency in order to be credible. Value analysis needs to be well done, and the impact assessed taking into account any adverse unintended consequences. One that is already emerging it seems is that a favorable price for certain product is being offset by a reduced price and reduced market access for the non-favored product ... a classic situation when there is a market situation in play.

Legal and justice

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

There are a lot of pieces in a fully functioning legal and justice system including (1) police; (2) courts; (3) prisons; (4) lawyers; and (5) legislators. The system is labor intensive and only works when there is sufficient reach for the criminal and illegal elements in society to have a reasonable expectation of being caught and convicted. In the “south” these functions are so underfunded that they may as well not exist for the vast majority of the society.

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

An issue in many places is that the “executive” dominates the political space, including control of the budget. In this situation there is frequently far too little budget allocation to the legal and justice sector.

The rule of law needs to be fair, and justice needs to be universal. There is a lot of work that needs to be done so that everyone has some of the benefits of fair laws and equal justice.

There are too many situations where the law serves to make something unethical, immoral or unjust, legal. This is particularly true in a lot of areas of commercial law, real property law and intellectual property law.

Traditional law is often better suited to local society than more modern statutory law that has been introduced by academic lawyers from the other side of the world. One of the issues in poor communities is the cost of justice, and traditional law is often far more cost effective and the only affordable justice.

Justice at the end of a gun is far too common around the world. Guns are bad news.

Luxury sector

The luxury sector is a driver of a lot of the apparent wealth creation in the “north”. The value chains associated with the luxury sector are unusual ... and while profits are real in an accounting sense, the value associated with the profit makes little sense.

When a fashionable pair of shoes is priced at over \$2,000, or a handbag a similar amount ... there is a huge profit in being the supplier and being in the supply chain.

But at the end of the chain a person only gets a pair of shoes or a handbag ... and a basic pair of shoes or a handbag would be more correctly priced at something like \$50.

The same thing is going on in the automobile industry. Various types of automobile are being built and then being priced at luxury prices from \$50,000 to \$250,000 and up. Basic transport can be priced at (say) \$20,000 and be perfectly functional. The “phantom value” in the supply chain is not real value at

all, but merely a process of value destruction subsidized by the very wealthy.

Concentrated wealth and huge personal fortunes is very good for the luxury sector, whether it is for the sale of jewelery or the sale of luxury yachts ... neither of which have very much socio-economic value ... but the wealthy still buy them. The bubble of the luxury sector may go on for a long time. The capital markets have concentrated a lot of wealth into relatively few hands, and these people may sustain the luxury market for a long time ... but not for ever.

Manufacturing

The manufacturing sector is the economically failed “south” has not been at all successful, but in the emerging success stories from the “south”, manufacturing has been an important driver.

There are several things that need to be brought together in order for manufacturing to be successful: (1) availability of materials; (2) availability of productive low cost labor; (3) a reasonable enabling environment ... that is laws, regulations, culture, etc.; (4) working infrastructure including transport and energy; and, (5) markets and profit potential.

In the poor “south”, manufacturing is constrained by most of these elements. There are some exceptions, but profitability has always been compromised because of the need to carry out activities that would normally be part of the enabling environment and infrastructure.

But without manufacturing, socio-economic progress must be constrained. Jobs are going to be limited, and jobs are critical to success.

It is possible to be very successful in manufacturing in the “south” but it is not quick and it is not done by a singular focus on short term profit performance. It must almost be considered generational ... but there has to be a start, and now is as good a time as any to get started.

Some places in the “south” have proved to be very efficient at factory production. The results are not uniform across the “south” for a variety of reasons. At one time Europe and North America manufactured and everyone else bought their manufactured goods. More recently Japan and the Asian Tigers started to be the source of manufactured goods and now it is China that is the biggest producer of manufactured goods of most types, and India is becoming increasingly competitive.

Manufacturing is an important part of economic security. Africa, with the exception of South Africa, does far too little manufacturing, and is not attracting investment capital into the manufacturing sector. In most places in Africa, manufacturing potential is low because there is a very low productivity. In Africa, too often wages are too high and production and quality too low. To add insult to injury in Africa, the infrastructure is also bad and that increases costs even further, and the availability of suitable raw materials another constraint. Where does one start?

My Experience in Madagascar

For some years I was a consultant to a manufacturing group in Madagascar. I have described this group as one of the best managed companies that I had ever seen, in large part because of their commitment to training their staff. Even though Madagascar had tremendous socio-economic problems, and was faced with terrible foreign exchange shortages, this company still put its staff training as a top priority.

As a result, the company was able to produce world standard quality and was able to participate in the global market on an equal basis with other world class producers.

The company invested in good production equipment, and the staff were able to use this equipment to make the very best quality product at very competitive costs.

But all of this took time.

Start somewhere. What is needed, and people can pay for? Can it be made and be profitable in the face of product already in the market? Africa has all sorts of shortages. Can any of these shortages be turned into a local manufacturing opportunity?

Military and security sector

The military and security sector is a source of great distortion in modern economies, not only in the “north” but also in the “south”. The fund flows associated with military equipment and supplies are substantial, and rarely have a good impact on the civil economy. Rather military fund flows tend to subtract from what is available for the civil economy.

While “security” is a legitimate concern, it should not be confused with the idea of protecting privilege or maintaining illegitimate power.

Worry About the Power of a Big Army

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

A good army is a national asset ... and can prove to be very valuable in an emergency. Of special note, I believe that the performance of the Indian army in a variety of natural disasters has been very good indeed.

But the use of the army does not always produce good results, as for example in support of local political and strong man regimes that have little interest in the wellbeing of the people.

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

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

Mining sector

Mining and the exploitation of minerals in the “south” ought to be generating a lot of wealth for the “south”. It will do so when the agreements are fully understood by all parties, especially the signers for the “south” and there is a solid framework for value analysis.

It is not clear what role bribery and corruption plays in the sector, but it is probably significant. It is likely that substantial fund flows do not benefit the country but only benefit individuals. This is difficult to address, because the amounts involved are huge. Without addressing this, however, the wealth creation that is possible will never materialize.

The international mining companies are at an interesting stage, and they are likely to have some advantage when they are seen to be of benefit to the local communities where they operate. This is not an easy balance to achieve, because large scale mining causes a lot of change ... but it is possible, and could result in mining being pulled to communities rather than having to be pushed into the communities by the mining companies and a small elite.

Natural resources

There are some resources in the “south” that everyone knows about ... gold, diamonds, copper, bauxite, iron ore. There are world class energy resources ... oil and gas, and coal. There is timber and amazing biodiversity. The potential for development of these resources is huge. But there is a big open question about who benefits from the development of big valuable resources in the “south”.

The “south” will probably benefit more by exploiting resources on a smaller scale, and in ways that enable the “south” to maintain a good measure of control over the distribution of the surplus to stakeholders. To have progress in the “south” it is critical for the “south” to earn value from the exploitation of its resources so that there is wealth creation in the “south” for further investment and to pay for essential social services like health and education.

Experience has shown that large scale foreign direct investment (FDI) is often good for corporate owners and those that benefit from profit, but that rather little of the value added of the enterprise actually gets to stay in host communities. Will ordinary people in the “south” be any better off if the major resources are developed and exploited in ways that are the same as the old colonial model under a different name. These “south” resources have huge potential, but is it a potential that can be of much value to the “south”?

Natural resources in the “south” are many. They include: (1) Petroleum; (2) Water; (3) Timber; (4) Fisheries; (5) Base minerals (iron ore, bauxite, copper pyrites, etc.); (6) High value minerals (gold, silver, diamonds and other gem stones, etc); and, (7) the natural fauna and flora. They have a huge latent or potential value, but experience has shown that the “south” has not been able to earn a fair share of the value associated with the exploitation of natural resources.

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

Productive sectors

There are many sectors that make up the productive sector: agriculture, fisheries, manufacturing, mining, energy exploitation, forestry, tourism, transport, etc.

All of the activities in the productive sector transform input resources into something of more value ... when this is done in a for-profit organization the outputs are goods and services that are sold and a profit for the organization.

These are value creating operations ... and to the extent that there is tangible value creation in the productive sector, there is value that can be used for social value creation on the social sector.

Professional sector

The professional sector includes professions like accountancy, law, medicine, teaching, engineering, architecture, the religious, etc. These professional people have standards for their work that enable people to rely on what they do. They serve to improve productivity in enterprise and in society and in so doing create tangible value in society.

By making better use of the professional sector in the “south” there can be substantial improvement in the productivity of the economy ... better decisions at lower cost.

Public sector, private sector

The public sector is owned and operated by the government. In many countries a lot of social services are operated by the government, including education and health services. In countries embracing socialism, the government also nationalized major production industries and operated them in the public sector.

The private sector is everything else ... and especially the corporate for profit sector, private philanthropic organizations, and not for profit organizations. Some health and education establishments are in the private sector.

Relief and development sector

The relief and development sector is the subject of this book. But success in the performance of the relief and development sector depends as much as anything on the relief and development sector doing less, and all the other sectors doing more. We have argued in this book that the relief and development sector has performance badly, and cannot reform itself to be successful ... and that therefore there needs to be improvement in other sectors to improve socio-economic progress.

But when that happens, there are very valuable roles for many of the institutions of the relief and development sector.

The World Bank, for example, is an organization that can easily focus on rebuilding the “Public Finance” sector in the “south”. The World Bank is well suited to doing this work, and could do it easily within its present mandate. The World Bank could also be a useful financial partner in helping large scale public works projects for infrastructure improvement get funded. Broadly speaking, I would like to see much less policy intervention coming from the World Bank, but a strong commitment to being engaged with universal public accounting and accountability.

The UN needs to maintain its critical role in convening meetings and encouraging dialog, but should deemphasize providing finance and technical assistance. I would like to see the UN also committed to the idea of universal public accounting and accountability.

Central Banks around the world should be much more engaged in the relief and development sector representing the financial interests of their respective countries. They ought to be much more central stage than they have been in the past, and should be at the forefront of efforts to ensure that there is universal public accounting and accountability.

Retail sector

When I was growing up in the UK, the country was referred to as a nation of shopkeepers ... a remark originating, I believe with Napoleon. At the time the UK was still very much a manufacturing country, but the quality of life was increasingly associated with consumption. The UK was probably behind the USA in embracing consumerism, but it was emerging. Today the retail trade ... shopping ... is a huge industry catering to the market in every way imaginable. In the USA, big box retailing epitomized by Wal-Mart is now the largest employer in the country. But the multi-store malls, department stores and urban shopping centers also are a huge part of the modern US economy.

Arguably shopping is the top entertainment in the rich societies of the world.

And in the “south” shopping is rather more of a challenge. There are much higher distribution costs because of poor transport infrastructure, there are few economies of scale, there are constraining import export and customs procedures and duties and the market demand is limited by peoples' buying power. It is nevertheless a very important part of the economy, and one that can play a great role in establishing sustainable socio-economic progress.

Social sectors

The social sector comprises activities like education, health, support services for the vulnerable, and so forth. Social services have been a major focus for the relief and development sector, as well as for left leaning governments that have a commitment to social justice.

Expenditures in the social sectors are very valuable because they contribute significantly to quality of life, and they also serve as an investment in the future. But success in the social sectors does not translate directly into economic progress ... it merely removes a major constraint to economic progress. Without opportunity in the productive sector success in the social sector is for nought.

Tourism sector

Tourism is a sector with huge economic potential. But tourism, like everything else, requires investment to support its development. Some places have developed tourism very effectively and have made it an important part of their economic success, but in many places tourism is totally undeveloped.

The “south” has all sorts of opportunities to develop its tourism potential, but, with some modest exceptions, it has not yet started to do anything like all that is needed. The infrastructure needed for major international tourism has been deteriorating for decades, and it will take time and investment to bring it back.

From London to Cape Town

My old school friend and flat mate traveled from London almost to Cape Town leaving London in August 1964 and reaching Salisbury, Rhodesia (now Harare, Zimbabwe) about a year later. He and 3 colleagues traveled in a 15 year old ex War Department Land Rover which eventually died on them when they got to Rhodesia.

Over many (more than 40) years the “south” has had young back-pack tourists learning about the world. While these tourists have a long term importance, because the learning is invaluable, they are NOT the sort of tourism that drives immediate socio-economic progress. The “south” needs to attract tourists that are spending money to do things and enjoy themselves.

In many places in the “south” , the only visitors are the “development tourists” ... the staff of the relief

and development sector traveling on their missions, and the student back-pack crowd that are learning a lot but not spending very much.

From Berbera on the Red Sea to Addis Ababa

A few years ago I drove from Berbera on the Red Sea coast in Somaliland to Addis Ababa in Ethiopia. It is a distance of about 800 miles and spectacular.

I was doing this trip as part of a consulting assignment, but it would have been wonderful to do the trip as part of a tour in a luxury motor coach, and staying at (currently non-existent) comfortable air conditioned guest houses along the way, with some traditional local entertainment.

It is a fascinating journey with great tourist potential ... one day ... maybe.

Tourism is successful when there are good transport facilities, good hotels and good destinations. Success also depends on good security and the perception that security is good.

Transport

The transport systems in Europe, in North America, in Japan are incredibly efficient. Transport is a very innovative sectors in terms of the adoption of technology. This needs to be applied to the “south” where transport infrastructure, roads, rail, ports, have deteriorated almost everywhere.

There is the need for a huge investment by both the public and private sector. Some valuable progress can be made by doing as much work as possible on a small scale in and around communities.

Other cost effective progress can be made by rebuilding roads to a workable condition suited to the “south”. The most incremental value is achieved by going from impassable to passable using low cost road building methods, and there is probably value destruction on going from this level of construction to super-highway at high cost.

Wholesale sector

In the “south” wholesale is often linked to import / export. Wholesale is also associated with traders and middlemen. Wholesale and distribution in the “south” is often high margin, but it is also often high cost and profits are not as large as they might superficially appear.

There are parts of the economy where the wholesale functions are still provided by independent organizations. Spare parts for automobile maintenance are carried in inventory by wholesalers who provide rapid delivery to auto repair shops in their service area. It is a very efficient sharing of roles.

The wholesale trade may not have the same structure that it has had in the past, but the functions of transport, distribution, warehousing, break-bulk, etc. still have to be done. Though a larger part of the modern retail trade goes direct from the manufacturer to the retailer, all the intermediate distribution and wholesale functions are still done, but done in-house.

In fact every product and every channel of distribution is continuously evolving to respond to economics and market pressures.

Wal-Mart

What is Wal-Mart? Is it a retailer, a wholesaler or a distribution company? Perhaps the best answer is that Wal-Mart is a success. It is also perhaps the best example ever of an organization that has used management information to optimize

what it is doing to supply its customers with what they want.

It has been one of the world's leading users of management information for a very long time. It deployed mainframe computers for data analysis long before it was fashionable. They have been ahead of the curve in understanding customer behavior in their stores for years, as well as understanding the detail operations of their organization. They know their business and they know the data associated with their business.

As they grew it was not analytical genius that made them decide to integrate their supply chain backwards to the manufacturers of their products. But they were among the early adopters of integration of operational data near real time into every aspect of the supply chain so that inventory availability to customers at the stores went up and inventory investment as a whole went down.

I thought it was interesting on the second day after the 9/11 disaster to learn in the media that Wal-Mart knew its customer buying activity hour by hour at all its thousands of locations and knew precisely what was being bought by a population in panic. Milk and bread, then guns and ammunition as the hours progressed.

And Wal-Mart was able to divert hundreds of truckloads of supplies to hurricane affected areas in the aftermath of Katrina days more quickly than government organizations like FEMA.

There is a lot to learn from Wal-Mart. Excellence in the use of management information has been one of its key strengths.

Dozens of Sectors

Types of Sectors

Dozens of sectors and sub-sectors

There are dozens of sectors and sub-sectors. This is just a small part of a comprehensive review of sectors, but needed because sector thinking has become commonplace in the relief and development sector, and a lot of organizations are organized along sector lines and have a single sector focus.

Most governments have ministries that are responsible for sectors: Ministry of Education, Ministry of Health, Ministry of Transport, etc.

The United Nations has established a range of organizations to focus on different sectors: FAO for agriculture and fisheries, WHO for health and UNICEF that has a focus on children's health, UNIDO for the industrial sector and UNESCO for education, science and culture. There are hundreds of UN agencies and offices with focus on specific parts of the global economy and society.

Each sector has its own technologies and best practices. But in the developing “south” the success of one sector is often constrained by the limits of some other sector. This argues, therefore, for a relief and development approach that ensure that there is a multi-sector involvement. There is little consensus about what is the best approach to making relief and development more effective and getting more rapid progress.

Various Types of Sector

There are a series of commonly used ways of looking at sectors. They are useful ways to simplify the dialog.

Hundreds of Sectors and Sub-Sectors

This is perhaps not a complete list of sectors, but it is enough to give an idea of how many sectors are involved in making society work in a reasonable manner. The relief and development sector will succeed when all the sectors are able to function appropriately in any place in the world.

A more comprehensive view of sectors is being developed for publication in a companion book that will probably be titled: “A Sector Perspective on Relief and Development”. The following list is in alphabetical order.

Characteristics of sector

A comprehensive mix of sectors in any community is important. I have been told over and over again that people will not come to remote rural areas because something they need is not available. It can be health services, or schooling or the social situation ... but it emphasizes again the importance of the totality of sector and function in order to have success.

The previous tables show how many sectors and linkages there are. Because of complexity in the linkages it is difficult to optimize with formal “planning”. The process is simply too complex, and the variables too many. The invisible hand of the market mechanism will make order out of this apparent chaos and complexity. Every community in the area knows what it needs to better the community. This knowledge will drive the process if it is allowed to. The program has embraced the concept of “participation” because participation allows families and communities to decide themselves how resources can best be used.

A sector is not tied to any location, though what is best in a sector can change from place to place. My experience has been that single sector intervention in almost any community is likely to fail, simply because critical constraints are being addressed. One sector can improve, but all the other constraints remain in place. Nothing is optimum until all the constraints have been addressed.

Sector expertise

Sector expertise is very important, and the products and services associated with all the sectors should be accessible everywhere they are needed. In the poor “south” only a limited amount of sector expertise is available, and a lot of things that ought to be easy to fix never get done.

The relief and development community has responded to this in some measure. Instead of agriculture projects, the World Bank morphed into rural development projects, which was a reasonable response to the problem within the construct embraced by the World Bank.

From a community perspective there needs to be the sector expertise that is needed to improve the community. There are many sectors that might be needed ... very much depending on the nature of the community and what the community wants to make as a priority.

Public and Private Sectors

Private sector

The private sector has proven to be a powerful engine for wealth creation, for innovation and for economic efficiency. On its own, however, the private sector can succumb to a culture of greed, arrogance and entitlement.

The private sector and its associated enterprise and “can do” attitude is a critical element in making relief and development a success. Private enterprise can organize and run production sectors so that there is the maximum of value adding ... the public in the broadest sense must see to it that the value adding is used in a fair, equitable and just manner.

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Public sector

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Enterprise Sector ... Employment

Enterprise sector

The “for profit” organizations are sometimes referred to as the enterprise sector. These organizations have been vitally important in the “north”, and especially in the United States, in building wealth. The incentives in the enterprise sector are all favoring the use of least resources for maximum revenue ... the least cost most value idea that is essential to economic value creation.

The enterprise sector in the “south” is also very important and accounts for almost all value adding activity. Because the “south” economies are weak, and failing, if not failed, the enterprise sector is struggling. Where most of the financial resources are controlled by government and indirectly by donors and the international financial community, the enterprise sector is sidelined.

Getting the enterprise sector to grow and be profitable has multiple benefits including the multiplier impact of more jobs and the impact of tangible value adding in the community. A healthy enterprise sector attracts other investment, and encourages other entrepreneurs to become involved.

Employment

Employment ... jobs is a critical component of socio-economic success. More jobs usually means a more successful economic situation.

Jobs can be in both the formal and the informal sector. A larger number of wage paying jobs are in the formal sector. Formal employment is possible in both the private and public sector, in the productive sectors and in the social sectors.

A job is the most value to the economy when the cost to the employer is lower than the value accruing to the organization, and more valuable again when the work is of value to society as a whole.

Formal and Informal Sectors

Formal Sectors

The formal sector is probably most easily described as everything that is incorporated or registered, as well as what is in the public sector, the government organizations, agencies and structures.

The formal sector is, generally speaking, fully monetized and is included in most of the economic statistics that are compiled. The formal sector has payrolls, pays taxes, and buys products and services in a regular manner recognized by law.

Many people only think in terms of the formal sector.

Informal Sector

But there is an informal sector as well. In poor parts of the “south” the informal sector is the only sector that operates ... it is everyone doing just a little to make the local economy function as best it can. Often the best is not very good. In the informal sector nothing is incorporated and nothing is registered. There may be some exchange of cash, but there is also simple barter and the exchange of goods and services in kind.

In the poor “south” the informal sector can be bigger than the formal sector, not only in terms of the number of people engaged in it, but in terms of the economic product associated with it. Even so, the informal sector does not usually appear in the economic statistics that are compiled, and to the extent that it does, the methodology for assessing its scale and its value may not be particularly well conceived.

Productive and Social Sectors

Productive sectors

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A very profitable sector

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