Community Impact

Accountancy

(CIA)

WHY CIA IS NEEDED

Some of the socio-economic background
based on a slide presentation – April 2008

CAVEAT

A work in progress – rapid multiple changes are being made

Peter Burgess
The Tr-Ac-Net Organization

April 2008
Community Impact Accountancy (CIA)
WHY CIA IS NEEDED

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WHAT, HOW AND WHY.

For the past 5000 years ...
Slow progress for several millennia and now incredible recent progress.
No longer a world where shortage and hunger are endemic ... rather a planet where there is the possibility for everyone to be out of poverty and enjoying a reasonable standard of living.

Recent performance ...
Achievements are pathetic compared to what they could have been! Why is this? How is this?
The power of science and technology has been far more than expected ... it is amazing ... it is accelerating ... it offers huge potential ...
But why has science and technology not translated into a much better quality of life, not only for a relatively few, but for the multi-billions that still live in abject poverty around the world.
PAST ... FAILED DEVELOPMENT

Development expectations 50 years ago
A lot was changing ... the economic power of the United States was at a peak ... the Axis powers had been defeated and the Allies were economically and spiritually exhausted.
The European colonial empires were ending ... the old European powers no longer had the financial resources to sustain them, and the global clamor for colonial independence was a chance to move into a better new way.
The North would progress. The South would progress faster and start to catch up.

What has happened has been very different ...
The north has doubled its wealth every decade for the past five decades.
The south has lost wealth every decade for five decades.
There are some successes ... and the lesson from this is that there could have been much wider success if the governance, the leadership and the system had been tolerably effective.
The result is failed development with about half the population of the planet in poverty and hungry.

Development expectations and actual ...
The north has done better than the expectation due to amazing scientific and technological progress.
The south reflects the tragic impact of failed development.
We know enough to have had a success ... the fact of failure suggests something is terribly wrong.
FUTURE ... TWO POSSIBILITIES

Today's development expectations ...

The north is going to have a difficult future because of an approach that depends on unsustainable consumerism and unfriendly global partnerships.

The south has no leverage to change anything.

This will play out with a new geopolitical balance of power where the old economic predominance of the United States and Western Europe is overtaken by China, India, Russia and powerful new alliances involving raw materials and energy producers.

With a better development paradigm ...

The north has all sorts of possibilities with well intentioned global cooperation ...

The south has huge capacity in terms of human resources and raw materials but needs well intentioned global cooperation to make these abundant resources productive and valuable.

A better development paradigm is not more money spent the same old way ... it is one where the legitimate hopes and aspirations of the multi-billion people in poverty can start to be fulfilled.
**NORTH SOUTH INTERACTION**

The main interaction between north and south over the past several decades has been “official” through government and institutions like the World Bank, the IMF, UN, bilateral government agencies, etc.

Private NGOs and family remittances were small.

This did not work well ... the structure has been dysfunctional and the result has been failed development.

### A Better State of Affairs

Less official interaction and much more private and people to people interaction.

There have been changes ... but there is resistance by established organizations that do not want to have a diminished role.

And there is the role that grand corruption has had on progress facilitated by the large official flows of relief and development assistance and the benefits arising from favored official treatments.
WHERE IS THE VALUE ADDING?

Where is cost incurred and value arising? ... 
Over the past decades a very large proportion of the international official development assistance has been disbursed in the north, doing not much for intended beneficiaries in the south. 
Where funds have been disbursed in the south, there is direct benefit and there are associated multiplier effects.

A much better way ... 
When funds are disbursed in the south, the impact of international official development assistance is very good. 
Local disbursement in beneficiary communities not only has a direct benefit, but delivers other economic improvement through the multiplier effect. 
A better way is not simply glowing more money ... it is making much better use of the available money.
Community focus...

Community centric development will improve development performance in very practical ways and impact the quality of life of individuals and families.

This graphic shows the community “balance sheet” at the beginning (State 1) and at the end of a period (State 2) ... and shows the activities of the community that go on and move the community from State 1 to State 2.

In this case the value stays the same. The community lives, but does not progress.

Progress ...

In this case the value at the end of the period is more than at the beginning of the period. There is surplus production ... this is progress.

Going backwards ...

And in this case the activities for the period used more resources than they created value and the community value declined. There is a production deficit ... the community is going backwards.

When this continues over a number of years, the people of the community are in trouble.
DEVELOPMENT IN THE COMMUNITY

<table>
<thead>
<tr>
<th>Community Centric Sustainable Development</th>
<th>Community without development activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>STATE 1</td>
<td>ACTIVITIES</td>
</tr>
<tr>
<td>In a stable community ...</td>
<td></td>
</tr>
<tr>
<td>In this graphic the normal activities of the community merely maintain the status quo ... this is what happens in most of the world most of the time.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Community Centric Sustainable Development</th>
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<tr>
<td>STATE 1</td>
<td>ACTIVITIES / IMPACT</td>
</tr>
<tr>
<td>With development assistance ...</td>
<td></td>
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<tr>
<td>With development assistance there can be progress.</td>
<td></td>
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<tr>
<td>But perhaps even better is the fact that a small amount of resources used to remove constraints and improve systemic problems can have huge leverage and get results that have a value many times what they have cost in terms of resources consumed.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Community Centric Sustainable Development</th>
<th>Community with value destroying development activity</th>
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<tbody>
<tr>
<td>STATE 1</td>
<td>ACTIVITIES / IMPACT</td>
</tr>
<tr>
<td>But there are also value destroying activities ...</td>
<td></td>
</tr>
<tr>
<td>Value destroying activities are common ... with many origins.</td>
<td></td>
</tr>
<tr>
<td>Local rivalries and socio-economic control by factions ... or economic control by predatory traders and middlemen ... are problems.</td>
<td></td>
</tr>
<tr>
<td>International and external assistance that does more harm than good is more common than well wishers would expect ... in fact it is a large part of the problem and off the table for dialog.</td>
<td></td>
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</tbody>
</table>
Cost, price and value ... Understanding these three numbers makes everything fall into place.

When value is greater than cost there is value adding.

When cost is greater than value there is value destruction.

Price has nothing to do with value ... price merely defines how items get transferred from one party to another.

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Cost, price and value in development ...

There ought to be massive added value in development activities ... low costs getting huge value increments.

But in the main, the costs are high and the value is low for two main reasons:

1. The salaries and almost all external costs are being paid for based on north rates, and
2. The benefits arising are valued at the values prevailing in the local economy ... and benefit priority not usually taken into consideration by international analysts anyway.

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### Cost, Price and Value – The Basic Idea

<table>
<thead>
<tr>
<th>Economic Value Adding</th>
<th>Value Destruction</th>
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</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
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</tr>
<tr>
<td><strong>Profit margin</strong></td>
<td><strong>Loss</strong></td>
</tr>
<tr>
<td><strong>Price</strong></td>
<td><strong>Price</strong></td>
</tr>
<tr>
<td><strong>Value adding relative to cost</strong></td>
<td><strong>Value destruction</strong></td>
</tr>
<tr>
<td><strong>Value for community</strong></td>
<td><strong>Value</strong></td>
</tr>
</tbody>
</table>

Looking after orphans has real value.
Care giving has real value.
Infrastructure construction has real value.

Studies that never get implemented have zero value.
Education with no jobs has little value.

Many projects have value destruction characteristics:
Almost all studies and consultancies:
Most big international procurement contracts:

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### Cost, Price and Value – Nearer reality

<table>
<thead>
<tr>
<th>Economic Value Adding using CCS methodology</th>
<th>Value Destruction The conventional paradigm</th>
</tr>
</thead>
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CCSDF has a primary focus on value, and therefore value adding.
Almost all the measures are about spending.
Virtually none are about results.
Cost, value and the multiplier ...

The multiplier is one of the tools for economic optimization that has been sidelined by the experts of the international development assistance community ...

Because of this almost all the initiatives over the past 40 years have had limited benefit, when they could have and should have had huge impact.

I learned about the multiplier is a college class ... I have observed it working all over the world. However, rarely where development experts were involved.

Cost value and the multiplier effect ...

This is not a theoretical construct. In my experience modest fund flows into a community produce all sorts of favorable impact.

Big projects with foreign contractors and experts get $1 of value for each $1 disbursed.

Little community activities seem to be getting a dollars worth of value over and over again ... multiple times ... one loses count! Much better!

Lesson ... get a community started and it will never stop!
Information flows ...

The present state of affairs of for the vast effort on information flow to be to educate and inform the south ... based on the idea that north knows and south does not.

In fact the north has relatively data, even though a vast amount of analysis is done ... with conclusions that may well be without merit.

And a large pool of data in the south is almost totally ignored ... even though it would be very useful to inform decision making.

A better state of affairs ...

The north needs to get much more data from the south ... and needs to get the information into an organized form where it can be easily used for analysis.

The north can add value to the data by adding in what the north knows in terms of science and technology and access to financial resources ...

And the south can add further value by giving feedback about use of resources and the results being achieved.

Management information for development ...

The first step is getting the data ...

The second step is getting the data organized and into a data store where it can easily be accessed ...

The north has wealth ... and the resources to be enormously helpful.

The south has needs that are urgent.

Management information is the missing element that is needed to bring the north and the south together for global benefit.
Getting resources to community organizations..

This graphic is based on a picture prepared by Save the Children to show how complex the fund flow was from funding sources to those in need.

And while the point they were making was valid ... my view of the situation was that it was actually very much worse.

My attempt to clarify this ...

First step was to take the same entities and make the graphic flow from left to right with donor sources on the left and the ultimate beneficiaries on the right.

It does not look very complex at all ...

My next step ...

This step is to fill in the blanks with all the institutions, agencies, etc. that are involved in the structure on the donor side ... and the space fills up very quickly.

And to fill in the structure on the south side ... and the space fills up very quickly again.

Every organization only has a small overhead ... perhaps 15% of the fund flow ... but when there are 5 or 6 or 7 steps between the original funding and the eventual beneficiary there is not much real value left for them.