



MULTI DIMENSION IMPACT ACCOUNTING (MDIA)

FOR DISCUSSION

COMMUNITY ACCOUNTANCY

THE CRISIS OF SYSTEMIC FAILURE

Peter Burgess (2008)

Background Note

The following was prepared in 2008. This paper was written while a book length analysis of development assistance was being prepared, and the focus is largely on the systemic failure of this segment of the global socio-economic system.

Subsequently it has become clear that there are also major systemic issues in other segments of the global society and economy.



The Tr-Ac-Net Organization
Transparency and Accountability Network

URL: www.tr-ac-net.org Email: peterbnyc@tr-ac-net.org
Mobile: +1 212 772 6918, Landline: +1 917 432 1191

Community Accountancy

**PUTTING ACCOUNTANCY TO
WORK FOR ALL OF SOCIETY**

THE CRISIS OF SYSTEMIC FAILURE

DRAFT FOR DISCUSSION
Peter Burgess
The Tr-Ac-Net Organization

July 2008

THE CRISIS OF SYSTEMIC FAILURE

HISTORY

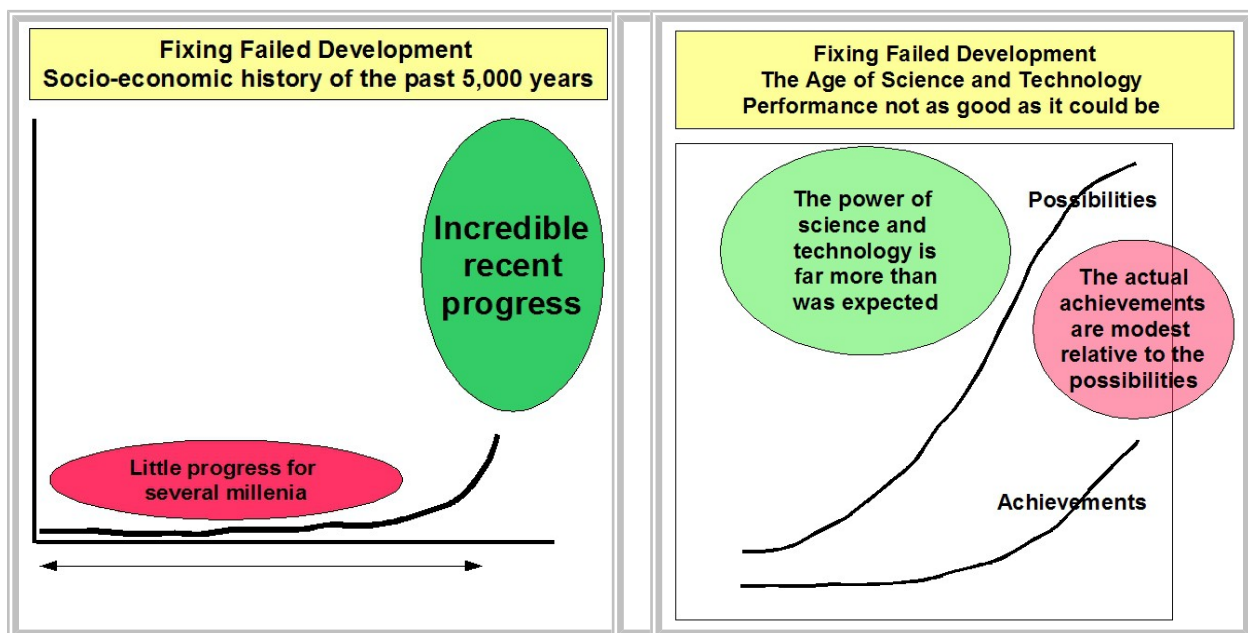
5000 years of very slow progress ... until very recently There was very little change for several millennia, but in the recent past incredible change.

We are no longer in a world where shortage and hunger are endemic ... and insoluble. Rather we have a planet where there is the possibility for everyone to be out of poverty and enjoying a reasonable standard of living ... but there are systemic issues that make progress impossible for as much as half the world's population.

Though some take pride in the progress as measured by stock market valuations and personal money wealth ... others are looking at the continued high levels of poverty, hunger and disease, and the vast amount of waste that characterizes modern society.

Recent performance ... huge missed opportunities

Achievement over the past fifty years has been pathetic compared to what they could have been ... what should have been!



Why is this? How is this? The progress and 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. Achievement is so much less than what might have been expected ... there is something terribly wrong and it is not clear what it is that is wrong. There is a systemic failure of some sort ... and one bit of this failure is the lack of suitable metrics that show what is being successful and what is not.

PAST EXPECTATIONS

50 years ago ... great expectations

50 years ago, in the 1960s, development expectations were very positive.

A lot was changing ... the economic power of the United States was at a peak ... WWII had been won ... Europe was rebuilding.

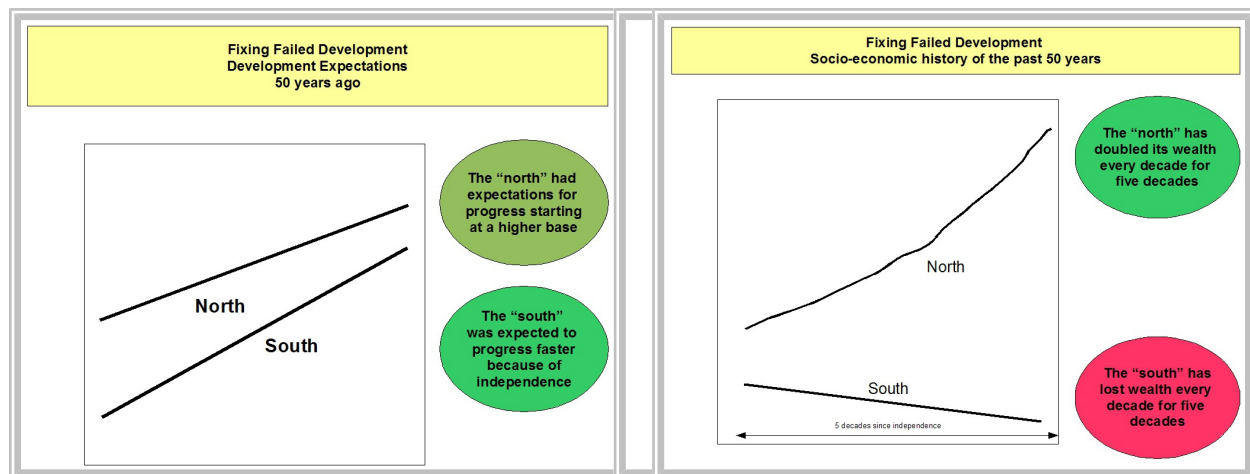
The European colonial empires were ending ... in good part because the old European powers no longer had the financial resources to sustain them. But the prevailing view was that independence was going to result in a new a better global society.

It was expected that the North would progress and that the South would start to catch up.

Success and failure

NORTH SUCCESS AND SOUTH FAILURE

What has happened has been very different ...



The north has doubled its wealth every decade for the past five decades. Rich get richer ... poor get poorer. 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, hungry and diseased.

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.

Compared to where we could be ... where we should be ... we have failed. There is an obscene amount of poverty, hunger and disease and leadership does not seem to be much capable of making material improvements.

IS THIS THE FUTURE?

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.

As population increases and as aspirations are dashed and hopelessness increases there will be more and more instability and insecurity.

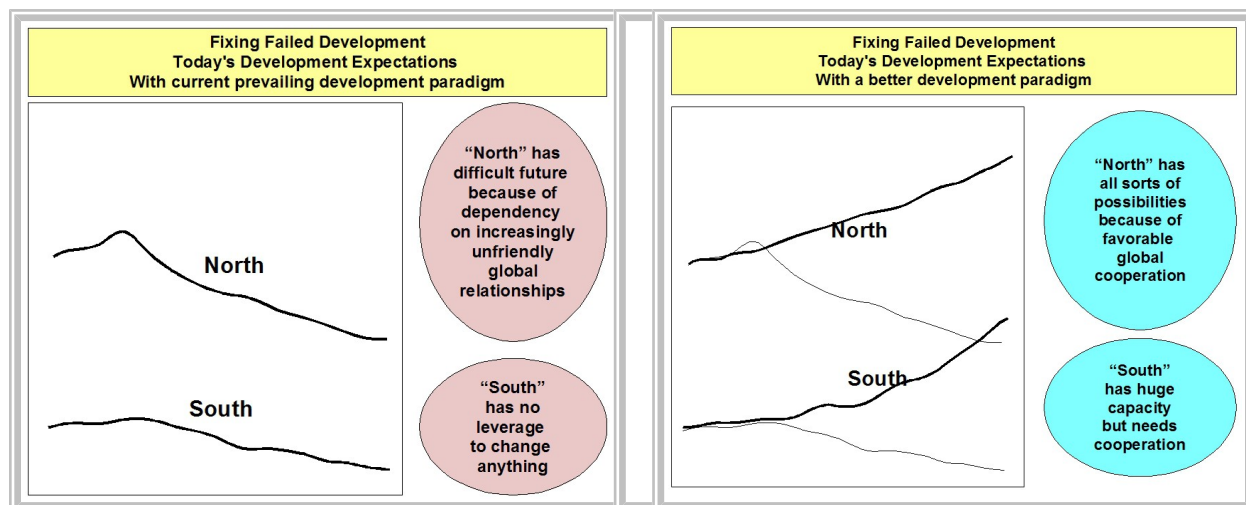
Or is there a better way ...?

With a better development paradigm ...

IS THIS THE FUTURE?

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.

Science and technology have huge potential. But this knowledge needs to be mobilized for social good and not merely for a rather limited profit goal.

People have a huge potential for doing good ... but the framework for this must be established.

WHAT IS WRONG?

SYSTEMIC DYSFUNCTION

Taken as a whole ... there is systemic dysfunction

The background to development of Community Accountancy is that experience suggests that there are many things wrong ... and a portfolio of possible interventions to improve what is being accomplished.

While there is very good science and technology that could be deployed for the benefit of society to achieve better socio-economic performance this is not being done. Why not and what to do about it?

The progress of development has been much less than was expected 50 years ago ... not because science and technology does not exist ... not because the world is short of wealth and knowhow ... but because there are constraints.

The constraints to success and rapid progress are many ... institutional, traditional, cultural, governmental, etc., etc.

Community Accountancy identifies some of these and helps get them addressed.

Progress and performance has been constrained by something ... or many things ... that add up to systemic dysfunction.

Community Accountancy aims to put data about community economics into a balance sheet ... and see what are the constraining factors ... and how they can be removed so that the community progresses.

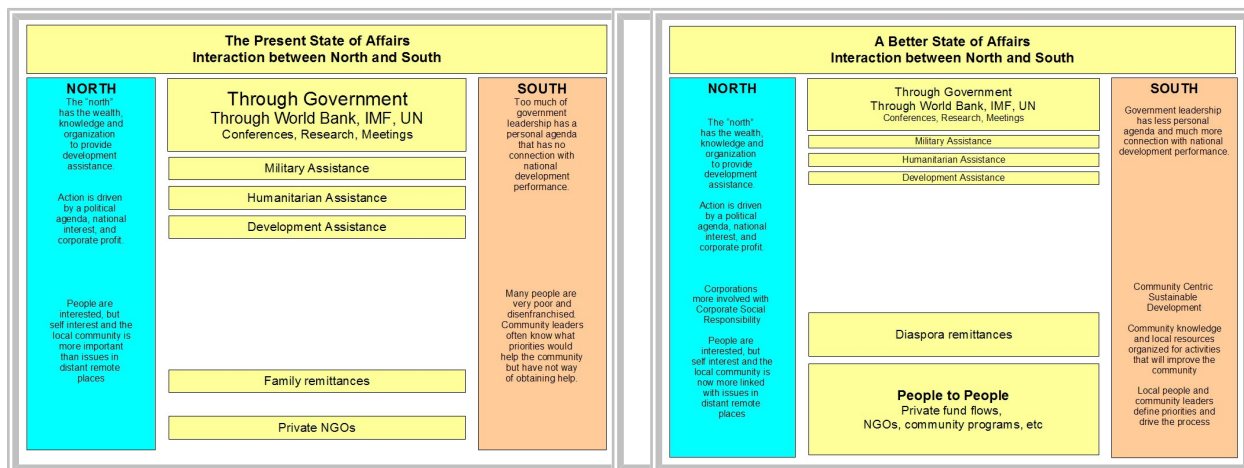
The problems are many. No one silver bullet will make much of a difference on its own. Some of the easily recognized problems include:

- Wrong modes of interaction
- Wrong way information flows
- Inaccessible data
- Complex structure
- Complex world
- Fund flow problems
- Value questions
- Importance ... wrong priorities
- Materiality ... do not sweat the little things!
- Wrong priorities
- Wrong metrics
- Wrong development structures
- Embezzlement ... corruption

WRONG MODES OF INTERACTION

Interaction between the north and south ...

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.



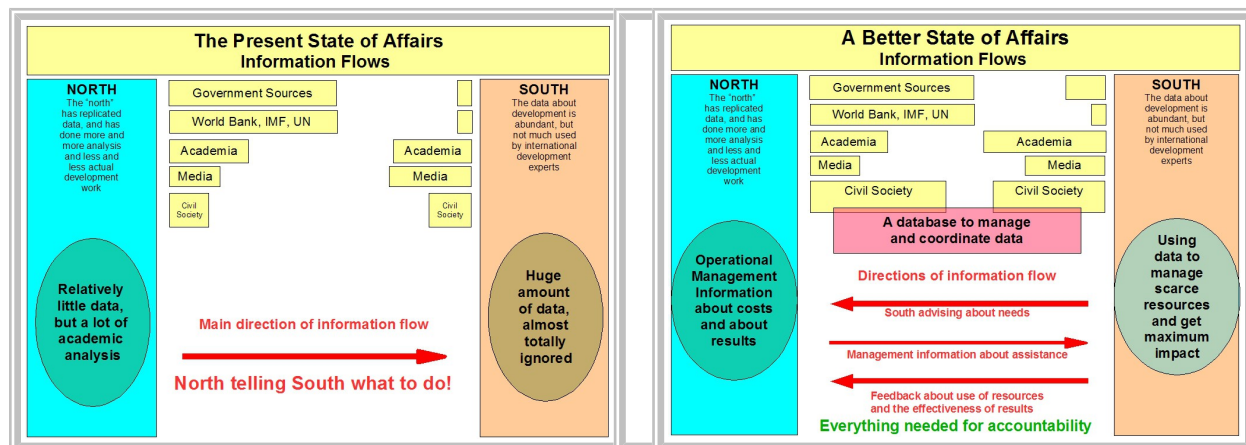
A better situation ...

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.

WRONG WAY INFORMATION FLOWS

Information flows ... too much North to South

The present state of affairs is for a vast effort to flow information 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.



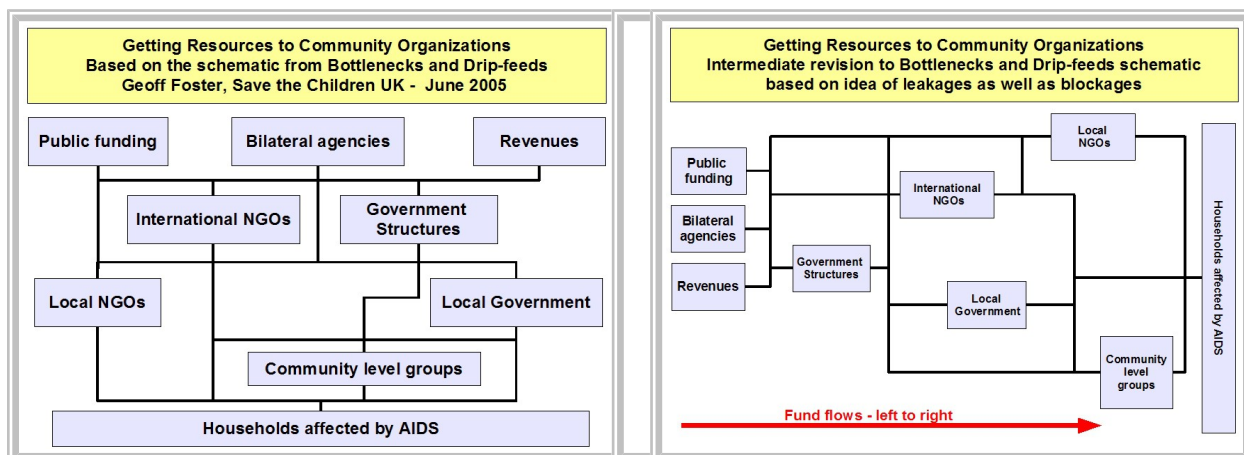
A better state of affairs would be for the North to get much more data from the South ... and to get the information into an organized form where it can be easily used for analysis. The North can add value to the data by adding in what the North knows in terms of science and technology and access to financial resources ... And the South can add further value by giving feedback about use of resources and the results being achieved.

INACCESSIBLE DATA

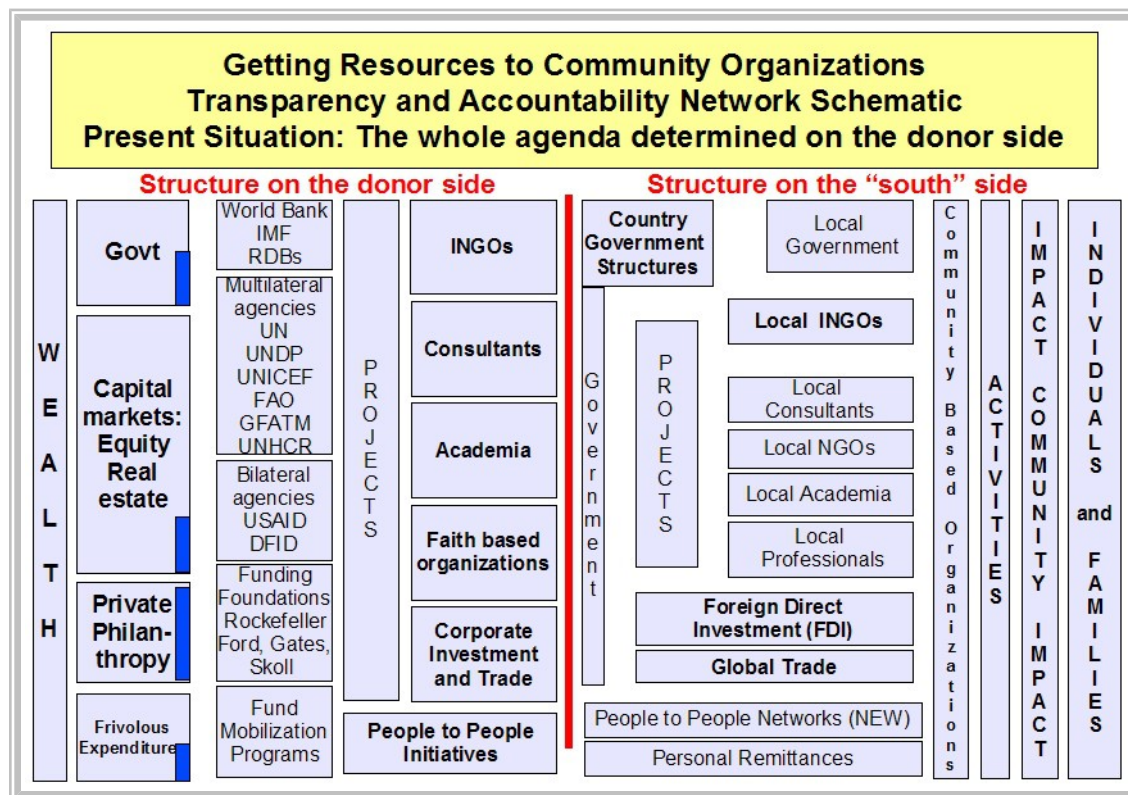
Organization type: What data and what they do with data	How accessible to the public
Projects Collect data to justify the project and get funding. Collect data for M&E and a report to funders. At the end of the project the data is archived ... and effectively lost for ever.	Very low No data put into the public space ... why bother ... worse, it may serve to show the project made little of value even though it cost a lot.
NGOs Collect data and write reports and proposals to attract funding. Publish financial reports required by regulatory agencies ... typical a minimum requirement that shows very little beyond very broad classification.	Very low No data flows into the public space ... none of the data accessible for analysis. Data used to strengthen position in the industry.
Government Agencies – South Most data collected in the country goes to the government in one form or another ... but is rarely used in a productive manner, and is not usually easily accessible ... if it is accessible at all.	Very low No data flows into the public space ... none of the data accessible for analysis. Much data treated as secret.
Scientific Research Institutions Data collected circulates within the scientific elite, but rarely outside academic circles. Reports are prepared that help maintain grant flows and satisfy donors.	Very low No data flows into the public space ... none of the data easily accessible for analysis.
Academic Institutions Some academic institutions are well funded for data collection, but the data collected seems to be used for limited goals including PhD production and for analysis that supports career development and grant flow maintenance.	Very low No data flows into the public space ... none of the data accessible for analysis.
Individuals Data collected and used for work being done by the individual, whether this is work being done in an individual capacity, or for a project or organization.	Very low No data flowing into the public space ... however, many individuals would like to share the data so that it becomes public access data but no easy low cost vehicle for this.
Corporations Data collected is used by the corporate staff to do analysis and internal reports that show performance and progress. Used by the corporation to show how much of social value is being done, even where what is being done is very tiny relative to the scale of the main corporate operations.	Very low No data flows into the public space ... none of the data accessible for analysis, but some material used for public relations by the corporations.
Government Agencies - North Government agencies have collections of data ... but most of the data are protected from public access . When data are made accessible to the public there are usually major deletions that make the data worthless.	Very low Almost no data flow into the public space ... and almost impossible to access for independent analysis.
Multilateral Agencies UN, World Bank and all multilateral agencies have huge collections of data, but little of the data are able to be used in effective ways for analysis except within the system.	Very low No data accessible in the public space ... but huge amount of material is published, most of which cannot be independently validated.

COMPLEX STRUCTURE

In 2005, Save the Children UK highlighted the complex structure of the relief and development industry and showed how complex the fund flow was from funding sources to those in need. While they made a good point, the situation was really very much worse, as shown below. In the first graphic there are 9 sets of organizations or structures between the funding and the community level households. The first graphic has the flow from top to bottom. The second graphic has the same entities organized 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 ...



The graphic below is an enhancement of the left to right image ... with many more of the institutions, agencies, etc. included. The structure on the donor side has hundreds of organizations ... with functions that overlap, work in parallel and work in series. The structure on the south side is also complex.

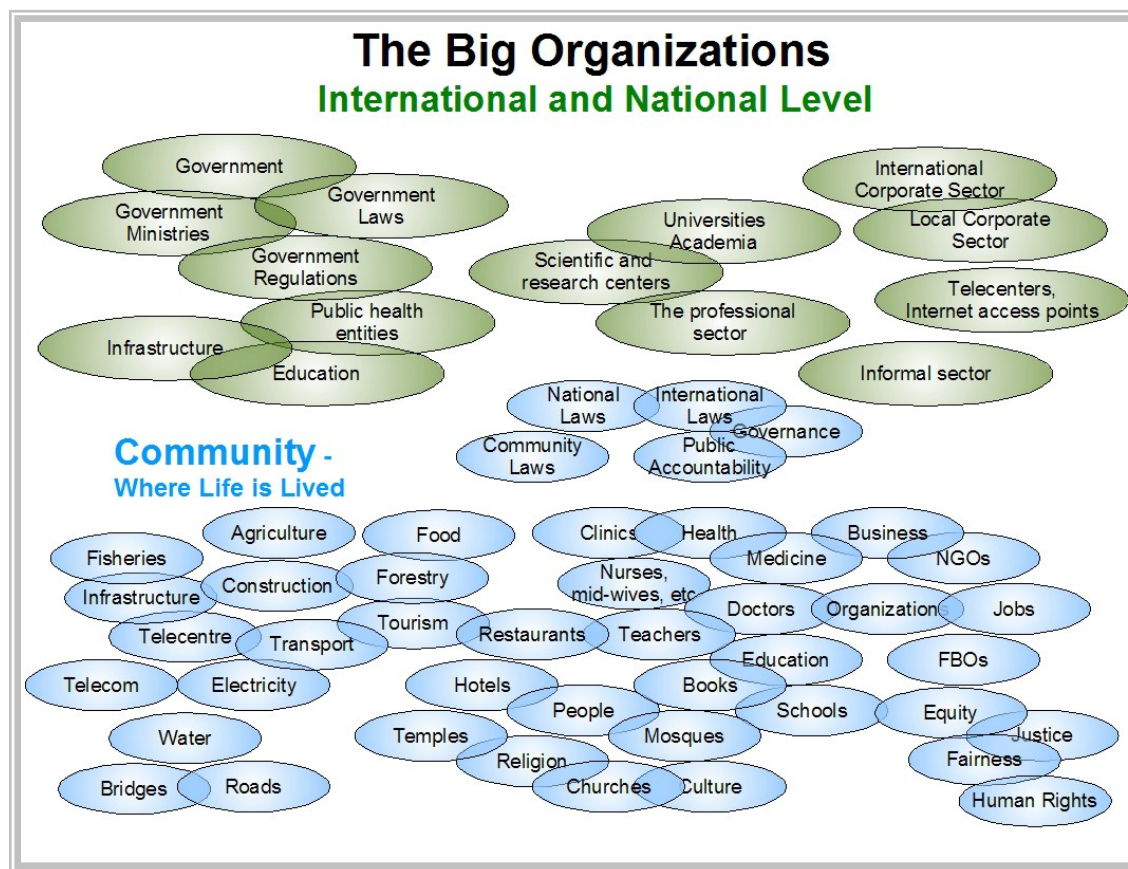


COMPLEX CHAOTIC WORLD

It's complex and chaotic

Every organization has some function that has costs and uses resources ... but not always producing anything of value. With a complex structure and multiple steps the eventual beneficiary does not get anything like the full value of the money allocated.

Nobody is accountable for anything the way things are presently organized ... everything relies in the “market” creating balance, the media providing transparency and government providing a workable legal framework! But it does not work ... and most of the world's population is paying a high price for this chaotic dysfunctionality.



There is no systemic dataflow from community up ... and for all practical purposes the system of management in the relief and development industry has all the power of “pushing on a piece of string”.

Chaos ... cover for crooks

But who would want the chaos to be managed. The chaos has proved to be a goldmine for the participants in the industry ... with little or no concern for performance and near zero accountability. The “do-gooder” mindset made accounting and accountability activities that got in the way of doing “good work” ... never mind that in reality it also served as a cover for gross corruption, incompetence and thievery of all sorts.

Chaos can be managed but it needs to be done with commitment and the system has to be complete ... there can be no holes in an accounting system any more than a bucket with holes is any good for carrying water!

DECLINE OF PROFESSIONALISM

Accountancy

The decline in professionalism might be the most pronounced in the accountancy area. Fifty years ago there was a professional pride, especially among Chartered Accountants, that seemed to transcend everything. Getting the numbers right according to sound principles of accountancy was all that mattered. The idea that the client could change the numbers to suit themselves was not part of the equation.

It was not much after this that I realized that accountancy was going down a steep slippery slope. Rather than having a simple set of principles the profession was migrating to rules ... and these rules could help turn one set of numbers into a better set of numbers. The rules would have been a good idea to help clarify the principles ... but as an alternative to the principles, they were a disaster waiting to happen. Rules superseding basic fundamental principles are not a good idea ... but that is what drives accountancy today.

What is especially disturbing is that the accountancy perspective is so muted in the public policy debates over important issues ... yet keeping score is fundamental to performance. If there is nobody keeping score, there is not much point in being in the game ... and society more and more has been excluded.

Legal

A framework of law is essential to a functioning society ... but it does not need to be statutory law. There has been law since ancient times ... a most good law has a long history.

But the legal profession seems to have become both a solution and a problem. Much of the abuse in society is not unlawful, though it is clearly not right ... and this distinction has become more and more blurred over the years. Many lawyers are good people doing good things for their clients so that justice is served ... but not all lawyers are in this mode. Lawyers are well paid to figure out how the corporate world can get round society's laws with the single objective of avoiding cost and increasing profit ... and at the expense of society.

Banking Laws to protect credit card users were enacted by New York State at the urging of Banking Commissioner Muriel Siebert during the 1980s. Twenty years later there is no credit card company in the United States that is covered by these laws ... because there are ways round them so that credit card users can be abused with hardly any limits. Its not unlawful!

The legal profession may be concerned about the state of the profession ... but their voice is very muted. Every legislative session, the law gets bigger ... but does not much get better.

Education

Education ... learning is critical for a successful tomorrow ... but the profession of education has been replaced by the business of education, much to the chagrin of the professionals of education. The emergence of “fast food” was unpopular among gourmets ... and now there is a similar “fast learn” segment in the education sector. It will serve for a little while ... but it will be useless for the longer term.

Professional educators understand the complexity of teaching and learning ... but they have been sidelined. The metrics are not working ... and to a large extent the money and the resources are being used ineffectively.

Health

The science is amazing ... but the economics are a disaster. Health is another sector where the business of health has taken over from the professionals ... but this has been possible because this has suited the professionals. What has emerged in an essential sector where performance is so much inferior to what is possible.

Banking

Banking was a profession ... or a near profession two generations back. There were less law governing the way banks operated, but there was more clarity and understanding of the important role the bank and the banker played in the functioning of the community and the broader society. Banking had a responsibility to be sound ... more than it had a responsibility to be profitable.

Ministry

Ministry should not be overlooked ... the spiritual dimension of the human condition is powerful and really is central to optimizing the quality of life. But the professional aspect has become weak ... too weak. The professional ministry that brings spiritual value back into the quality of life equation is something that has importance.

Military

In much of history the military have been in possession of great power ... and have used this to provide security for society ... and provided a professional service. But not always. From time to time the military have used their power to take over the governance of society, almost always with bad consequences. There has often been justification for the military becoming the supreme power in a country ... but without checks and balances it has almost always ended up with bad outcomes.

FUND FLOW PROBLEMS

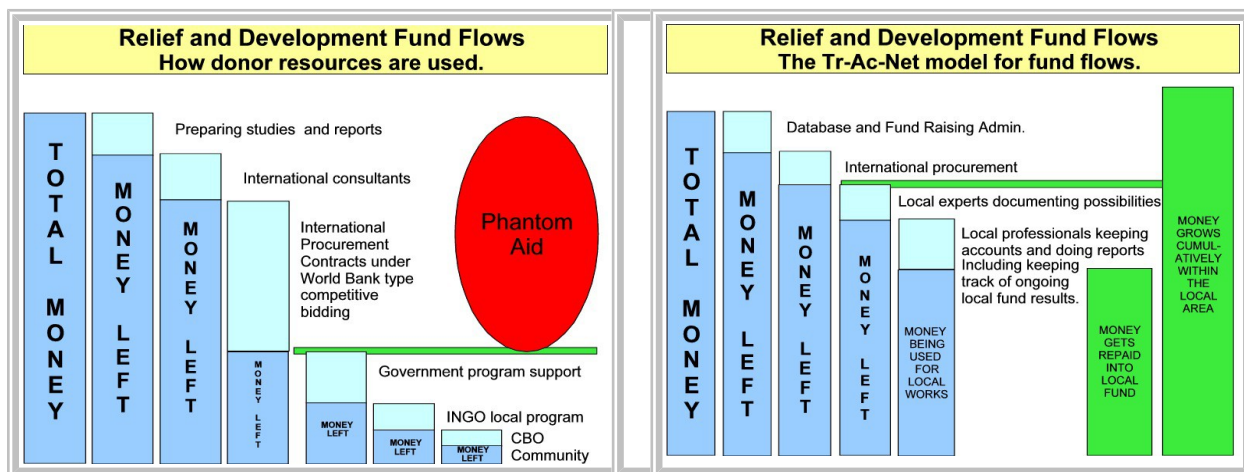
Phantom Aid

The amount of money being raised for international relief and development assistance is huge.

Fund raising in the aftermath of natural disaster is impressive, and shows how supportive many people are of development initiatives.

But sadly the relief and development industry is less than candid about how the resources are used and what is being accomplished.

In 2003 a well know UK based NGO named this Phantom Aid. Some years before the phenomenon had been described as “Black Hole Development” implying that no matter how much fund flow there was, the results would still be the same!



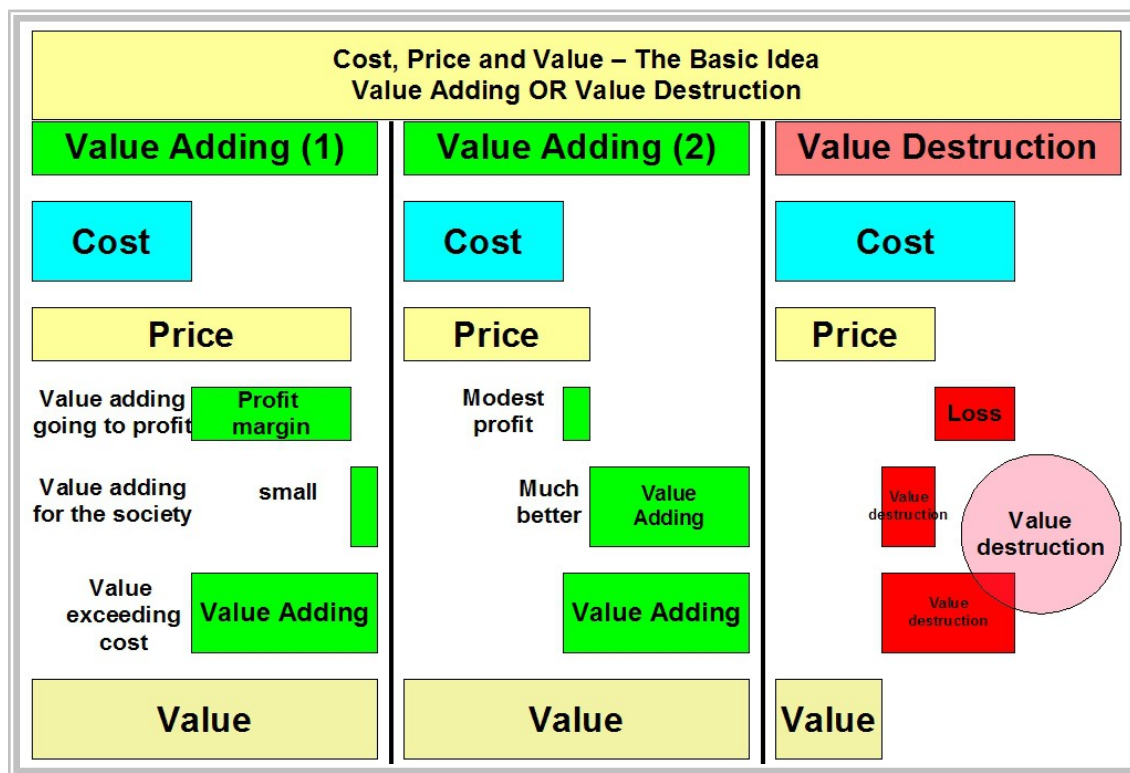
VALUE DESTRUCTION

Value destruction

The amount of money that gets spent and the amount of good that gets done seems to be more and more unrelated. Five decades or more of teaching MBA students about ways to maximize profit without teaching much about society has created a very large community of experts in profit maximization and hardly anyone that has a deep understanding of the social costs and value destruction associated with this economic paradigm.

The problem, however, is worse, because the relief and development industry has many people well trained in various other disciplines, but with rather little training in this dimension of economics ... and even less trained in accountancy..

Cost, price and value are the critical metrics of socio-economic activity. In corporate market based economic thinking cost and price are the dominant metrics because they determine profit which in turns determines market valuation ... but in society there needs to be attention paid to the relationship also between cost and value.

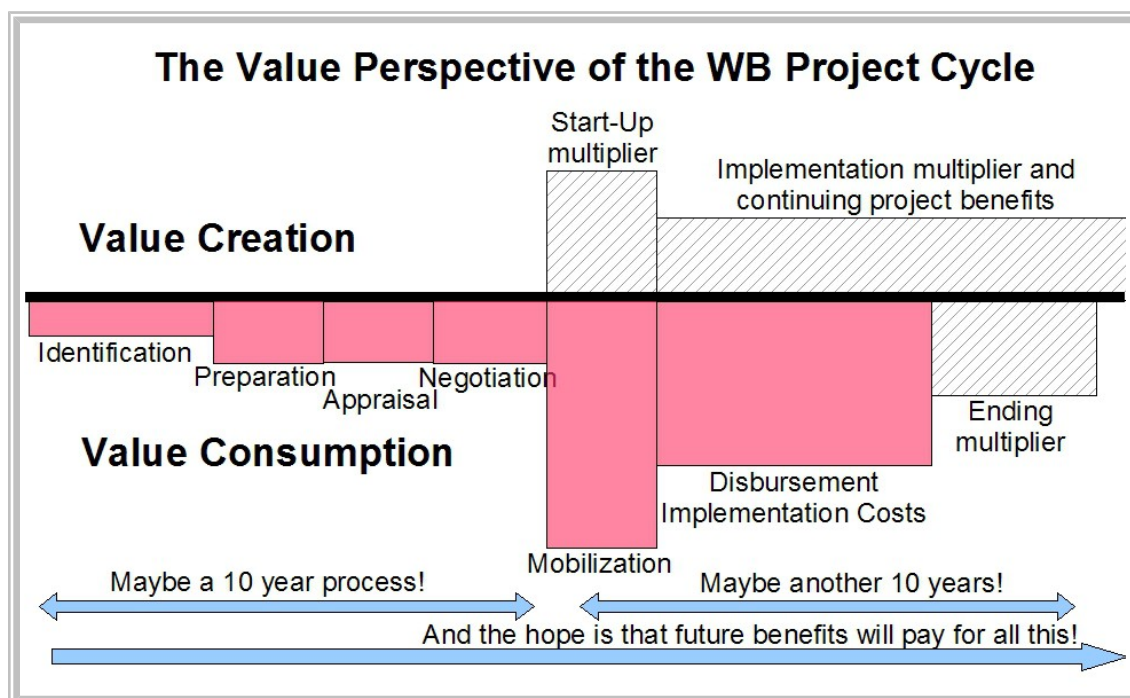


Cost is a determinant of productivity ... or is it productivity that determines cost. This is more than semantics and goes to the heart of the management of society and the effective use of science and technology for the benefit of society rather than only being used for proprietary wealth gain. A strategy that optimizes the former may well be different from one that maximizes the latter.

VALUE CHANGE IN THE PROJECT CYCLE

The timeline of a typical “development” project shows changes in value starting with value consumption as the project is prepared and starts implementation, followed by value benefits as the project continues. For big World Bank type projects the length of time is significant and the scale substantial ... with the costs of value consumption certain and the benefits much less certain. When the benefits do not materialize, the project creates massive value destruction ... and for many if not most World Bank projects this is the sad reality.

Community Accountancy looks at any and all economic activities from the perspective of value creation and value consumption. The problem with the WB project cycle is that there is substantial value consumption that is sure, and long term benefit that is uncertain. The following graphic is a simple depiction of the costs incurred over a long time before a project is funded and implemented. When a World Bank project does not generate benefits there is a long term loan repayment cash flow that keeps the project in a value consuming mode for many years.



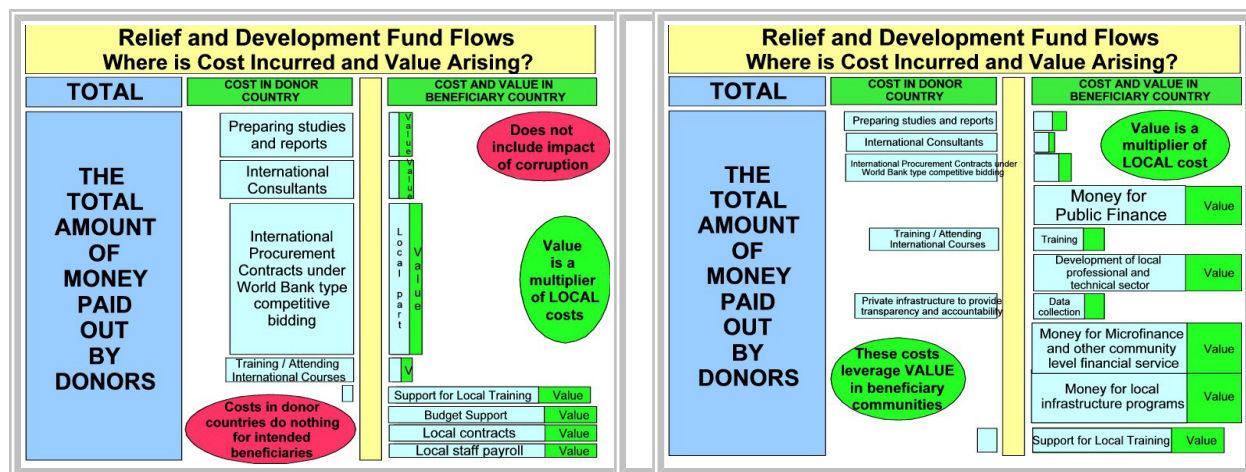
While this is obviously terribly bad for the community and the economy that serves the citizenry, this is less bad for those that have enriched themselves at various stages of the project ... no matter that the project is an economic disaster over the long term.

WHERE IS THE VALUE ADDING?

Where is the funding coming from? Where are the beneficiaries?

Over the past decades a very large proportion of the international official development assistance has been disbursed in the north, with the idea that it was going to beneficiaries in the south. But mostly this did not happen. Most funds have been disbursed in the north where there is benefit for the contracting organizations and rather little left that is of benefit for the south.

A much better way is to disburse more directly in the south where there are direct benefits and associated multiplier effects. 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.



The success of relief and development depends more than anything else on whether it is economic value adding or economic value destruction that is dominant. In economic value adding the value increment exceeds the cost. In economic value destruction the value increment is lower than the cost.

In the corporate environment the price of goods and services and the market serves to control cost and ensure that the clients get value for their money. No similar mechanism exists in the relief and development sector. Decisions are made based on a process that has no independent (market) checks and balances and it is easy to commit to make expenditures without the activities and outputs have much meaningful tangible value.

MEASUREMENT DISCONNECT

How do you measure?

In the introduction it was stated that it is very easy to know what to measure if the goals or objectives are known. A lot of times the goals and objectives are stated ... and from this there is immediately a lot to learn.

What Alma-Ata and the MDGs have in common

Bluntly put, it is wasting time working on the way out future while ignoring the many big things that are causing problems today ... but that is what world leadership loves to do..

The 1978 Alma Ata International Conference on Primary Health Care in the Soviet Union produced a declaration that set forth some key targets to be accomplished by the year 2000 ... some 20 years into the future.

And in 2000 the UN worked up another set of goals to be accomplished by 2015 ... some 15 years into the future.

If the international relief and development industry has its way ... there will be more and more long term goals and objectives that cover anything and everything and go off into the future while there will be the minimum of attention paid to why it is that there has been such poor past performance and what has to be fixed now.

Little data ... a lot of statistics

The measurement methodology that now dominates the global economy is based on statistical mathematics on top of very little data. There is a place for this ... but it needs to be balanced by a solid foundation of accounting data and the related data organization and reports. Statistics have no capacity to provide control and accounting of resources ... something that is essential for an effective society ... and yet statistics has been used to replace strong data almost everywhere in the relief and development industry for the past several decades.

IMPORTANCE ... MATERIALITY

MATERIALITY AND OBJECTIVITY

The donors fund most of the studies ... and pay most of the good salaries. Nobody who has career hopes is going to get ahead by doing analysis and writing reports that are aggressively critical of the donors.

But there is never going to be successful development until this is done and the donors are held to account for their own performance.

This is not a comfortable situation ... but it ensures that a dismal status quo will likely continue for ever, unless some way is found to break the Catch-22 crisis.

Why do big issues get ignored. Take for example the following:

When will the World Bank address the big issues for its projects and their financing?

Nigeria borrows \$100 million from the World Bank with an official exchange rate \$/Naira of \$1.50 --> One Naira and gets the equivalent of Naira 67 million. Decades later Nigeria is repaying the loan and the exchange rate is now more than Naira 100 to \$1.00 ... and must repay the equivalent of Naira 10,000 million ... that is Naira 10 billion.

Please explain how this is a good way to fund development ... when the borrower gets Naira 67 million of value at the outset and then has to repay Naira 10 billion. Is it any wonder that development does not work!

NEGATIVE MULTIPLIER

The multiplier should be positive

The Keynesian multiplier is the economic mechanism whereby money spent by one person becomes money earned by another ... cost for one is income for another.

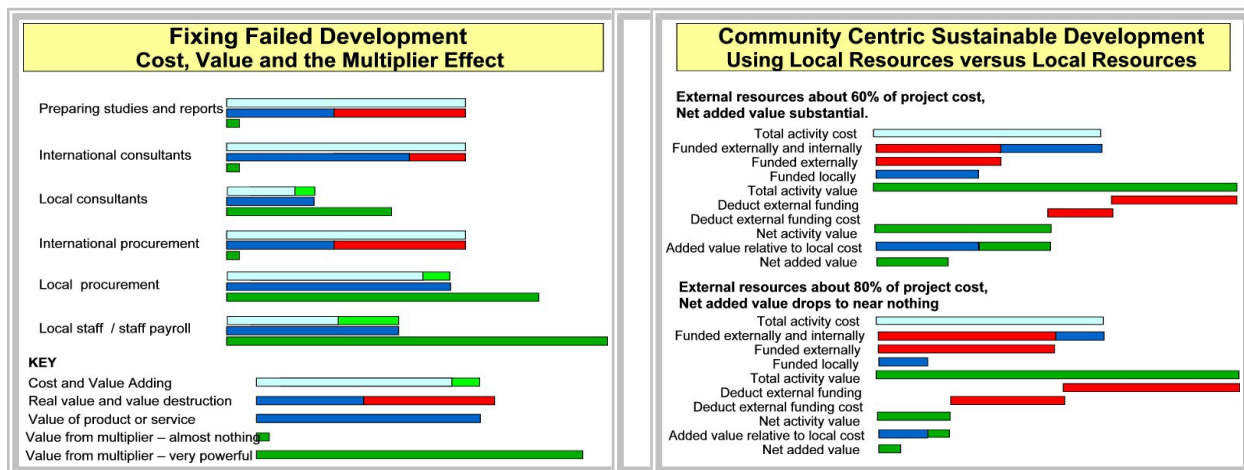
The multiplier effect is perhaps the most important mechanism in economic theory ... yet it is rarely talked about by development experts. But the multiplier effect makes it easier to understand the failure of community progress in the face of all the local and external economic activities. The multiplier is one of the tools for economic optimization that has been sidelined by the experts of the international development assistance community.

Community Accountancy takes into consideration the impact of the Keynesian multiplier in relating costs to value for the community. The multiplier effect changes the development dynamic and makes compounding community progress possible.

The multiplier effect helps to explain how many of the big initiatives over the past 40 years have had limited benefit. Big projects with foreign contractors and experts get only \$1 of value for each \$1 disbursed ... at best ... while small community activities get a dollars worth of value over and over again ... multiple times ... one loses count! Much better! The big projects should have had great impact, but often did very little.

I learned about the multiplier in a college class ... I have observed it working all over the world. However, rarely where development experts were involved. This is not a theoretical construct. In my experience modest fund flows into a community produce all sorts of favorable impact.

Lesson ... get a community started and it will never stop! Another lesson ... there is as much multiplier power as things get small as when things get bigger.



OTHER ISSUES

Focus on disbursement ... on activity

Metrics ought to serve the needs of society ... but the easy metric that has been important in the Breton Woods institutions and their development clones has been disbursement. While there are cases where disbursement is a useful proxy for results, this is not so when it is used to the exclusion of almost anything else. Disbursement serves as a fairly good proxy for activity ... but neither can stand in for result other than in a very controlled and stable environment. Development, when it is successful, is not stable, but progressing ... and the only metric worth having is a measure of the results.

Sovereignty ... anything goes

The idea of sovereignty that embraces the independence of a people from a foreign power is good ... but the use of the idea of sovereignty to allow a regime of “anything goes” is not. People are being treated abominably by governments and elite leaderships ... and external interference is constrained by the idea of sovereignty. At what point does doing right become the driver of meaningful action?

Weak financial controls

Weak financial controls has been endemic and as a result all sorts of resources have gone missing ... stolen money ... stolen inventory ... over invoicing ... under delivering. Embezzlement of all sorts ... petty corruption and grand corruption.

Table of Contents

HISTORY	3
Recent performance ... huge missed opportunities.....	3
PAST EXPECTATIONS.....	4
50 years ago ... great expectations.....	4
Success and failure.....	4
IS THIS THE FUTURE?	5
SYSTEMIC DYSFUNCTION.....	6
Taken as a whole ... there is systemic dysfunction.....	6
WRONG MODES OF INTERACTION.....	7
Interaction between the north and south	7
WRONG WAY INFORMATION FLOWS.....	8
Information flows ... too much North to South.....	8
INACCESSIBLE DATA.....	9
COMPLEX STRUCTURE.....	10
COMPLEX CHAOTIC WORLD.....	11
It's complex and chaotic.....	11
Chaos ... cover for crooks.....	11
DECLINE OF PROFESSIONALISM.....	12
Accountancy	12
Legal	12
Education.....	12
Health	13
Banking	13
Ministry	13
Military	13
FUND FLOW PROBLEMS.....	14
Phantom Aid.....	14
VALUE DESTRUCTION.....	15
Value destruction.....	15
VALUE CHANGE IN THE PROJECT CYCLE	16
WHERE IS THE VALUE ADDING?.....	17
MEASUREMENT DISCONNECT.....	18
How do you measure?	18
Little data ... a lot of statistics.....	18
IMPORTANCE ... MATERIALITY.....	19
MATERIALITY AND OBJECTIVITY.....	19
NEGATIVE MULTIPLIER.....	20
The multiplier should be positive.....	20
OTHER ISSUES.....	21
Focus on disbursement ... on activity.....	21
Sovereignty ... anything goes.....	21
Weak financial controls.....	21