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What Works

Behind the Curve

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Corrupt governments cash in on the Millennium Challenge Corporation's outdated metrics

By J. Peter Pham

President Abdoulaye Wade of Senegal—an MCC grantee—and his son Karim have been accused of corruption.

PHOTOGRAPH BY SEYLLOU/AFP/GETTY IMAGES

In 2004, the US. government-backed Millennium Challenge Corporation (MCC) certified the West African nation of Senegal as eligible to receive hundreds of millions of dollars in foreign aid. Initially, Senegal seemed like an excellent choice for a grant from the MCC, which targets aid to poor countries that are committed to good governance, free markets, and investments in people. Senegal is one of the few African states that has never had a coup d'état. And since the nation became independent from France in 1960, Senegal's leaders have peacefully transferred power two times—most recently in 2000, when citizens elected the current president, Abdoulaye Wade. In addition, the country has encouraged private sector-led development and has at least officially welcomed foreign companies.

Since Wade's election, however, Senegal's enthusiasm for economic freedom, poverty reduction, and sustainable growth seems to have flagged. For instance, after giving the French and Canadian consortium Hydro Québec International-Elyo a 34 percent stake in SENELEC, Senegal's monopoly electricity supplier, the Senegalese government would not allow the company to recoup its investment by raising prices. Frustrated in their attempts to turn a profit and to modernize the ramshackle power system, the investors were forced to accept a government buyout after less than 18 months.

Likewise, Luxembourg-based Millicom International Cellular has encountered problems with the Wade administration. Since receiving a 20-year license in 1998, Millicom, whose local subsidiary operates under the Tigo brand, has invested heavily in the Senegalese market (more than $90 million in 2008 alone) to grow a nationwide network of 1.8 million loyal subscribers—one-sixth of Senegal's population. Since Wade took office, however, the government has tried to pressure Millicom into renegotiating its license and paying an additional $200 million. In September 2008, the government issued a decree that purported to terminate Millicom's license and seize its holdings. The company is currently seeking arbitration through the World Bank's International Centre for Settlement of Investment Disputes (ICSID). Subsequently, the Senegalese government has threatened to charge the firm's general manager with illegal gambling because of a Tigo sales promotion that awarded prizes (such as a goat) to participating customers.

Senegal's commitment to good governance is also waning, with the Wade government following an all-too-familiar pattern of seeking to perpetuate itself indefinitely. Wade initially promised to serve only one seven-year term, but in 2007 he was reelected to a second five-year term. And since Wade came to power, some elections have been delayed up to one year. Meanwhile, in June, the Senegalese parliament created a presidentially appointed vice president post, which many speculate will go to the president's son, Karim. In his previous government posts, including oversight of the 2008 Organization of the Islamic Conference summit in Dakar, Karim Wade was criticized for cost overruns and accused of corruption.

Despite its departures from the MCC's selection criteria, Senegal is on track to receive major funding from the organization. In April 2009, the MCC even gave the Senegalese government a $13.39 million grant to help the latter get ready to sign a "compact," as the

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agency calls its multiyear funding agreements. The compact, which the MCC lists as its leading priority, would pour hundreds of millions into infrastructure projects—which Karim Wade would direct.

Although it is possible that the MCC's local administrators in Senegal are corrupt, a better explanation for the MCC's misguided investments is that bureaucrats in Washington are relying on out-of-date, inaccurate, third-party information. In turn, aid recipients, as rational economic actors, sense the weaknesses in MCC's selection and monitoring processes and then exploit them to their own advantage. This is happening not only in Senegal, but also in other countries eligible for MCC compacts. For example, after Mongolia received a five-year, $285 million grant in 2007, it turned against private investors, slapping a staggering 68 percent "windfall profits" tax on holders of copper- and gold-mining licenses. Yet Mongolia's decidedly antidevelopment actions did not affect its MCC funding.

If the granting of hundreds of millions of dollars to countries like Senegal is any indication, the MCC has a long way to go before it will truly revolutionize foreign aid.

For the MCC to achieve its mission of reducing global poverty through sustainable economic growth, it needs to consider its data more critically. It also needs more timely assessments of grantees.

FAITH-BASED SCIENCE

Established in 2004, the MCC is arguably one of the most significant foreign policy legacies of George W. Bush's presidency. The MCC uses 17 third-party-generated policy indicators to select recipient nations for large, multiyear, flexible grants, called Millennium Challenge Compacts. These compacts allow recipients to define their greatest obstacles to sustainable development, and then to determine how to overcome these obstacles. Twenty of the 39 countries that are eligible for MCC funding are in Africa, and more than three-quarters of the funding committed so far has been destined for the continent.

Although initiated by a Republican administration, the MCC continues to enjoy broad bipartisan support. President Barack Obama himself requested an almost two-thirds increase in funding for the MCC for 2010, raising its budget to $1.43 billion.

Yet the very reason for the MCC's popularity—the program's use of "objective" selection criteria—actually undermines its broader goals. To shield its decision-making process from undue politicization, the MCC relies on third parties to generate the data it uses to select grantees. To assess countries' regard for civil liberties and human rights, for instance, the MCC consults Washington, D.C.-based Freedom House scores. Using a 1 to 7 scale (on which 1 is the highest rating and 7 is the lowest), the 2008 edition of Freedom House's *Freedom in the World* report gives Senegal a rating of 2 on political freedom and a 3 on civil liberties. These ratings designate Senegal a "free country"—one of fewer than a dozen African states.

These third parties, however, take a long time to gather and analyze their data. The most recent Freedom House scores, for example, come from the group's 2008 report, which is based on observations from the first part of 2007. By the time the MCC uses the third-party indicators to make decisions, some of the inputs are several years old and may no longer represent the facts on the ground.

Potential aid recipients seem to be aware of this loophole and time their backsliding accordingly. In the case of Senegal, the current MCC scorecard does not capture the country's increasingly unfriendly investment climate or the Wades' tightening grip on power, both of which will impact the country's economic prospects. Yet the U.S. State Department's most recent annual report on investment climate—a more subjective document—warns that "potential investors, and indeed all businesses, face obstacles, including non-transparent regulation and high factor costs" and that "court rulings can be inconsistent, arbitrary, and non-transparent."

In short, although the use of third-party indicators reassures observers that the MCC is practicing "smart aid," appearances can be deceiving. The notion that numerical indicators are more scientific than qualitative analysis is based more on conceit than on evidence.

BETTER AID TO AFRICA

Over the past 50 years, Africa has received more than $1 trillion in foreign assistance. After subtracting the $400 billion that these countries have paid back, the continent has received a net transfer of more than $600 billion. Yet donors and recipients have little to show for this unprecedented redistribution of wealth. Although a few African countries have recorded impressive economic growth in recent years, per capita income across the continent remains essentially where it was in 1960. In 2008, all 22 countries that the United Nations Development Programme (UNDP) characterized as having "low human development" were in sub-Saharan Africa.

This failure of foreign aid suggests that simply increasing assistance levels will not necessarily buy more development. Indeed, my conclusion is quite the opposite: Unless aid carefully avoids reinforcing flawed policies, supporting poor governance, weakening African institutions, and creating dependence, it will actually buy less development. I am not alone in this conclusion; New York University economics professor William Easterly and former World Bank consultant Dambisa Moyo have also indicted foreign aid. (For a review of Moyo's *Dead Aid*, see the summer 2009 issue of the *Stanford Social Innovation Review*.) Likewise, as Rwandan President Paul Kagame declared in the *Financial Times* this year, "The cycle of aid and poverty is durable: As long as poor countries are focused on receiving aid they will not work to improve their economies."

Yet many other African leaders are still willing to play on donors' lingering colonial guilt. And despite widespread criticisms of current practices, donor countries are unlikely to scale back their assistance anytime soon. If no one turns off the spigots of foreign aid, then donors must at least make aid more effective by adopting more strategic approaches. The MCC is a valiant attempt at this. But if the granting of hundreds of millions of dollars to countries like Senegal is any indication, it has a long way to go before it will truly revolutionize foreign assistance. Decisions about aid need to be not only well intentioned, but also well researched and well timed. ■