REAL RELIEF FOR THE WORLD'S POOR: THE MILLENNIUM CHALLENGE CORPORATION

By
Adam Lerrick

No one can fail to be moved by the sight of a starving child, but when it comes to the causes and cures for that hunger, those who think about development aid are sharply divided. Self-styled "Friends of the Poor" say that embarrassingly rich nations should dust off their checkbooks and that only our stinginess stands in the way of fulfilling a clear moral imperative.[1] Critics, often derided as "Enemies of the Poor", are angered that there is next to nothing to show for what has been a massive flow of contributions from the industrialized world and demand a revolution in the ways aid is given and received.

Leaders of the development aid establishment are now embracing the US administration's demands for performance and measured results with a show of false affection. But behind the scenes, the President's 2001 proposal to transform 50% of World Bank aid to the poorest countries from loans to performance-based grants was long opposed by multilateral aid agencies, recipient nations and even other donor governments.

Now we have another chance for change. The President has proposed the Millennium Challenge Corporation which, by 2006, will provide an extra $5 billion annual flow of grant funding. This important 50% increase in US bilateral assistance is equivalent to the total aid that the World Bank sends each year to the 2.5 billion people in the globe's 79 poorest countries. The first appropriation request of $1.7 billion will be submitted to Congress in early 2003.

At the risk of being labeled as unilateral with what is a major commitment of taxpayer money, the US can pioneer a prototype that will make aid work. Calls for international consensus can be shrugged off. Corruption can be confronted. The stringent ways of doing business that are routine in the real world can be applied to the never-never land of aid.

[1] The United States is allegedly the worst offender. Our $10 billion in official assistance, though the largest in absolute terms, is, as a percentage of national income, the lowest in the industrialized world. However, this ignores private donations that measure three and one half times official assistance and dwarf those of other rich countries that give almost exclusively through government channels.

I. Development Aid: Past Failures; Present Pressures

There were high hopes at the founding of the World Bank at Bretton Woods, much fanfare for John Kennedy's Decade of Development and more promises for the United Nations' 1970's Second Decade of Development. But, after 50 years and an outpouring of over $1 trillion, development aid has clearly failed. Benefits have long fallen short of costs for 2/3 of World Bank projects in the poorest countries, this by the Bank's own optimistic evaluation. Forty-two nations at the lowest end of the economic spectrum have suffered a 25% decline in their standard of living since 1980 while aid monies have been transformed into a giant $200 billion debt they can never hope to repay.

Default has been routinely camouflaged by rolling over loans and adding enough to cover interest, thus compounding unsustainable payment burdens. The debt forgiveness, that was paraded with much millennial celebration, has already come up billions of dollars short: the World Bank has confessed that the initiative was based on foolish assumptions of 6-10% annual growth for the weak and largely stagnant HIPC economies.[2]

World Bank president Wolfensohn and United Nations secretary general Annan are undeterred. They demand a doubling of aid flows to $100 billion per year which they guarantee will halve global poverty by 2015. There are 63,000 aid projects world-wide and Mr. Wolfensohn wants all of them centralized under the Bank's umbrella. The outcomes will be unknown for the Bank continues to oppose an independent external performance review. Finally, we are told that the war on terrorism is bound up with the war on poverty and that epidemics have no geographic boundaries. Aid, without stint, is no longer charity but in the self-interest of the industrialized world.

Developing nations have been quick to sense their new leverage. They have united to insist that they set the conditions on aid and investment and to call for a louder voice in the direction of the multilateral institutions. They demand that the G7 provide unmonitored funds first, to encourage consideration of reform later. They find the conditions for measured performance, agreed upon at the 2002 United Nations conference in Monterrey, too onerous and ask that they be rescinded.

But the demographics do not add up. Eight hundred million people in 17 rich countries are being asked to do the heavy lifting for the 2.5 billion in the countries where the per capita income is less than $2 per day and populations are growing five times as fast. The seven pennies out of every $10 of national income that aid proponents say will transform the world is just the first installment. At current levels of theft, waste and diversion from productive ends, there will never be enough disposable funds in industrialized budgets to elevate the world's masses.

---

[2] The US contribution to the HIPC initiative was the forgiveness of 100% of $7 billion in bilateral debt and a commitment of $600 million to finance the relief provided by multilateral institutions. At the time of the commitment in 2000, the IMF and World Bank claimed that these funds, along with those committed by other donor nations, would be sufficient to finance all necessary debt relief programs.

II. The Millennium Challenge Corporation

The Millennium Challenge Corporation means to reconcile this imbalance by example. Intensive funding will accelerate results and competition will purge the system of the perverse incentives that plague every aspect of present giving and taking. The new model is designed to propel donors, recipients and contractors along a path to productive results.

Corporation is the word to note for it will be built on a business model--with a small staff and a CEO who reports at cabinet level to a board chaired by the Secretary of State--and will be deliberately independent of traditional aid channels. A small number of stringently screened poor nations will be the beneficiaries. The Corporation will demand measurable results.

Funding will reach $5 billion annually by 2006, starting with $1.7 billion in 2004 and moving to $3.3 billion in 2005. Recipient countries will compete to qualify: in 2004 and 2005, only the poorest countries with a per capita income below $1,435; in 2006, lower middle income countries will be added, lifting the qualifying income level to $2,975. Each income category will be judged in comparison with its peers.

“Challenge” is central to the concept, for countries must receive high marks for sound policy environments that foster growth. Sixteen statistical measures drawn from World Bank, United Nations, IMF and private sector sources will grade nations in three crucial areas:

- good governance that protects people and their property and attracts private capital through the rule of law and control of corruption ;
- investment in education and health to create a productive labor force; and
- sound economic policies that reward work and investment through stable monetary and fiscal conditions, open trade, fair taxes and minimal regulatory burdens.

Successful candidates must score well in all three areas. However, corruption above the norm means disqualification.

Institutions will be forced to move from a culture of spending to a culture of impact. Advancement will no longer depend on the amount of other people’s money that is shoveled out the door or on high profile projects that play well on media cameras. Bureaucrats will stand up and be counted for the measured benefits to the well-being of the poor and for careful stewardship of cost.

Poor countries will be forced to move from a culture of entitlement to a culture of performance if bad governance is no longer reinforced by uninterrupted flows of funds. The controlling classes will soon learn that investment in a healthy and educated labor force and a commitment to the rule of law and fair tax systems to attract private capital will deliver both national growth and personal profit. A smaller slice of a bigger pie will be the only option.

III. A Business Model for Development Aid

Each doubling of effectiveness is mathematically equivalent to a doubling of aid. Working with countries where environments are already conducive to productivity and investment is a smart first step but the right model must build on the best management techniques and suggestions from those on the ground:

- Command attention with substantial sums. Concentrate funding on a small group of economies and put countries in competition to win and to retain places in the Challenge Corporation. Let countries choose their projects.

- Focus on outputs rather than inputs--not the cost of building a school but on how many children can read, not the cost of a water supply plant but on the number of gallons of potable water that reach households.

- Abandon the outdated Soviet model where experts in a vacuum determine project solutions and rely instead on the innovation of private sector contractors and the insights of local experience.

- Establish benchmarks for costs per unit of output for each sector and each country.

- Recruit the best private sector managers for whom measured results and lowest possible cost are primal needs.

- Compare performance on output, cost and speed of execution continuously--across sectors and across countries.

- Reward savings by leaving unspent monies for more projects and matching these with more grants. Punish excess costs by fewer funds next year.

- Place countries in competition for awards from a bonus pool for top performers that matches the total savings on all projects.

- Reduce the incentive to cheat with audits by independent experts and publish the results.

IV. Summing Up

Effectiveness has its enemies. It is demanding and intrusive. It blocks the spoils system in the developing world that, for years, has annexed aid money for personal gain, to reward family and friends and to shore up a political base. Recipient governments may go on strike without regard for the plight of their people. Public outcry will follow. But, we cannot be more desperate to give than the regimes of needy nations are desperate to receive.

Development aid should be a business not a popularity contest. The output is healthy, productive people. Profit rates are measured by the number of people helped per dollar of aid. If resources reach constructive ends, capital will be attracted from investors who are the hard-working taxpayers of the developed world. Otherwise, the present spotlight on poverty will fade, the rich will lose patience and the world's poorest will be relegated once more to token aid without real relief.