BETTER THAN BUDGETARY:
THE ROLE OF THE MILLENNIUM PROJECT REPORT IN
SUPPORTING BEST PRACTICES FOR AID EFFICIENCY

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By

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Better than Budgetary: The Role of the Millennium Development Goals in Supporting Best Practices for Aid Efficiency

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Abstract

This thesis examines the Millennium Development Goals as outlined in the Millennium Project report for the use of general budgetary support as the primary means of foreign aid delivery. Following a review of the recommendations inherent in these Goals, an extensive literature review of best practices is provided and discussed. The general consensus of available literature, scholarly study and experience is established: budgetary support is not an effective means of economic and human development. More specifically, budget support creates moral hazards; decreases quality of governance; taxes and often exceeds institutional and absorptive capacities; encourages ineffective top-down methodologies and practices; imposes ex-ante conditionalities on recipients; and threatens to leave behind some of the world’s neediest people and countries due to failure of governments to adhere to Westernized notions of good governance and societal structure. To examine whether the suboptimal methodologies advocated by the Report have indeed been adopted, analysis of data from 1995-2009 is undertaken, showing an overall decrease in budget support commitments as a percentage of overall aid, but an increase in disbursal given commitment. At best, these results suggest that donors have acquiesced to requests for decreased conditionality but have ignored calls to increase the share of aid budgets designated as general budget support. Regardless, actual dollar amounts disbursed as budget support are still increasing. Therefore, not only does the Millennium Project Report fail to promote best practices towards fulfillment of the
Millennium Development Goals, its advocacy of a sub-optimal aid delivery mechanism -- general budget support -- can be seen to have materially worsened the overall quality of foreign aid.

Acknowledgments

This thesis would not have reached completion without the invaluable support and advice of Eric Langenbacher, James Vreeland, Kent Weaver, Brian Hirsch, Zaven Gabriel, Margaret Densmore, and my parents Grace and Alan Janiszewski. Your assistance, advice, patience and support have been invaluable to me during this time.

Dedicated to Kiron Skinner, without whom I may never have realized my passion for foreign relations, let alone pursued a post-graduate education in international development management.
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Glossary of Acronyms

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<thead>
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<th>Description</th>
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<tbody>
<tr>
<td>CRS</td>
<td>Creditor Reporting System</td>
</tr>
<tr>
<td>CPIA</td>
<td>Country Policy and Institutional Assessment</td>
</tr>
<tr>
<td>DAC</td>
<td>Development Assistance Committee (of the OECD)</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GNP</td>
<td>Gross National Product</td>
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<tr>
<td>HIV/AIDS</td>
<td>Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome</td>
</tr>
<tr>
<td>ICRG</td>
<td>International Country Risk Guide</td>
</tr>
<tr>
<td>INGO</td>
<td>International Non-governmental Organization</td>
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<tr>
<td>LDC</td>
<td>Least Developed Country</td>
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<td>MCA</td>
<td>Millennium Challenge Account</td>
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<td>MDBS</td>
<td>Multi-Donor Budgetary Support agreement</td>
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<td>MDG</td>
<td>Millennium Development Goal</td>
</tr>
<tr>
<td>MPR</td>
<td>Millennium Project Report</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
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<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<tr>
<td>PEPFAR</td>
<td>The United States President’s Emergency Plan for Aids Relief</td>
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<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
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<tr>
<td>UN</td>
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<td>USSR</td>
<td>Union of Soviet Socialist Republics</td>
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Chapter 1: Introduction

Since their adoption at the close of the United Nations Millennium Summit on September 8, 2000, the Millennium Development Goals (MDGs) have monopolized efforts made by more well-to-do nations to improve the lives of the hundreds of millions of people living in crushing poverty. The Goals were established at a critical time in the history of modern development assistance: after sixty years and trillions of dollars, critics question whether foreign aid accomplishes anything worthwhile, while policymakers and their constituencies alike are demonstrating ever-growing aid fatigue. The journey toward MDG attainment is being led by the Millennium Project: “a global effort, in the service of a great global cause.”\footnote{UN Millennium Project. *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals.* Millennium Project (2005), New York} If Millennium Project Chair Jeffrey Sachs and the broader Millennium Project cannot lead the world to the Utopian results foretold, the future of not only aid but of the countless communities, families, men, women and children whose lives it stands to improve is uncertain; as is the future of foreign aid in a growingly risk-averse world, at best. Expectations that we can “make poverty history” shorten time horizons for stakeholders, increasing the chance that support for foreign development assistance could reach historic lows. These expectations, then, significantly jeopardize our chances to make the lives of the impoverished even nominally better, be it on a short-term or long-term basis. This is obviously a dangerous gamble to make.

Given the high stakes involved in calling for a “Decade of Bold Ambition,” it stands to reason that the architects of such a plan would carefully consider all evidence from past experience and scholarly analysis in order to advocate the use of only the very best practices and highest standards in foreign aid allocation, delivery and evaluation.
Careful examination, however, reveals that the Big Push theory originated, not with Jeffrey Sachs and the Millennium Development Goals, but fifty years prior, in the earliest days of modern foreign aid. The theory was based on patently flawed and oversimplified models of growth that assumed very few inputs and variables and ignored clear evidence of the diminishing returns of aid. The Millennium Development Goals admonish donors for giving aid “conditionally”, contingent upon the commitment to adopt policies donors prefer, usually including some combination of political democratization, privatization and economic liberalization. The Report suggests, instead, a policy of “selectivity,” setting high political and economic standards for recipient governments to be eligible, which they believe will foster a closer partnership between donor and recipient. At second glance, this shift from conditionality to selectivity appears to signal little more than a change in rhetoric, simply changing conditionality from ex-post to ex-ante, meaning that the so-called partnership between donors and recipients is just as patronizing, but with better public relations.

Selectivity on the part of donor nations is necessary due to the method of aid delivery – general budgetary support – recommended for success in reaching the overly ambitious Goals. Touting the complex, overlapping conditionalities imposed by a multiplicity of donors as a fundamental cause for the ineffectiveness of the foreign aid of the 1980s and ‘90s, the Millennium Project Report suggests that donors give the recipient governments full control over their aid moneys, after completion and ratification of an MDG-based Poverty Reduction Strategy Paper.

“Poverty Reduction Strategy Papers (PRSPs) are prepared by member countries through a participatory process involving domestic stakeholders as well as development partners, including the World Bank and International Monetary Fund. Updated every three years with annual progress reports, PRSPs describe the
country’s macroeconomic, structural and social policies and programs over a three year or longer horizon to promote broad-based growth and reduce poverty, as well as associated financing needs and major sources of financing. Interim PRSPs (I-PRSPs) summarize the current knowledge and analysis of a country’s poverty situation, describe the existing poverty reduction strategy, and lay out the process for producing a fully developed PRSP in a participatory fashion.  

These PRSPs are to serve as country-specific road maps to development, designed collaboratively by all stakeholders. These stakeholders include the recipient government, civil society groups, and all donors. At first look, this sounds like a well thought-out model for development assistance, and one that encourages less supply-driven, more needs-based aid. Of course, if the donors do not feel that the PRSP fits their definitions of good governance, sound fiscal policy and effective development programming, the MDP compels them to withhold assistance. Not surprisingly, then, the final PRSP documents tend to look very much as though they had been drafted by the donors alone. Nevertheless, the effectiveness of conditionalities (as selectivity can only be seen as repackaged conditionality) is determined first by whether the recipient government is likely to follow an agreement, and second, by a donor’s willingness and ability to withhold support for lack of compliance. Accordingly, even if the aid applicant says exactly what the donors would like most to hear, it would behoove these donors to withhold assistance, unless a recipient is in very good favor with potential donors.

As a result, the conclusion that the PRSP-based budgetary support described here has manifold negative consequences would be a significant understatement. The baby-with-the-bathwater attitude inherent to selective conditionality leaves many of the countries most in need of assistance out in the cold. To deny deeply impoverished people of the resources by which their basic human needs might be met hardly seems

\(^2\) IMF website, accessed February 26, 2011.
compassionate, and also seems like a fairly counter-productive way to halve global poverty in ten years. More importantly, there is a large body of literature dedicated to the study (both empirical and theoretical) of budgetary support that almost unanimously discounts it as a substandard method of aid delivery. In short, most of the problems with foreign aid are worsened by its delivery and allocation using the methods advocated by the Report. The Report advocates budgetary support due to the low transaction cost for donors, the increased donor coordination believed to result from its use, and the improved public image, both domestically and in recipient countries, gained by “partnership,” whether actual or hypothetical. Nevertheless, in the process, budgetary support increases moral hazards, fails to take into account issues of absorptive capacity, decreases the quality of governance, encourages top-down unspecific planning and decision-making, makes conditionality ex-ante and leaves behind some of the world’s most impoverished people.

This thesis intends to show evidence that the Millennium Project Report fails to use best practices in aid allocation and delivery towards the attainment of the Millennium Development Goals, taking the use of PRSP-backed general budgetary support as an example. First, the prominence of this method in MDP and MDG literature will be shown. Then, an extensive review of existing academic literature will show an overwhelming consensus regarding the problems inherent in conditionality and general budget support. The support of ineffective methodology is only problematic, however, if this support leads to a significant change in donor behavior. To this end, data gathered from the Creditor Reporting System (CRS) database of the Organization for Economic Co-operation and Development will be analyzed to ascertain whether budgetary support
has increased, both nominally and in percentage of aid terms, since the establishment of the Millennium Development Goals and since the publication in 2005 of the Report. Ultimately, the data will show an increase in budgetary support, providing evidence that the Millennium Project Report has resulted in the neglect of best practices in aid allocation and delivery towards the attainment of the Millennium Development Goals.
Chapter 2: A Brief History of Modern Foreign Aid

2.1 Post-War and Bretton Woods

Development assistance has been a key foreign policy tool and humanitarian priority of developed nations for almost sixty years. The modern era of foreign aid began with the formation of the Bretton Woods institutions (the modern-day World Bank and International Monetary Fund) in 1944 in order to foster the rebuilding of war-torn Europe and prevent a global economic crisis. The Bretton Woods institutions were indeed successful, and the renaissance in Europe was accompanied by a post-War economic boom in the United States. Once the main objective of these organizations had been successful in their primary ambition, the eyes of the now-rich Western world turned southward. The nations of Latin America, Asia and Africa presented opportunities to expand markets, increase wealth and power, and pull billions of lives out of misery in the process. In the past sixty years, trillions of dollars have flowed from donor nations to recipients in Africa, Latin America, Asia and Eastern Europe...yet billions of human beings continue to live in conditions of abject poverty.

2.2 The first Big Push and Cold War

The effectiveness of aid has been debated and questioned through empirical and theoretical research over the course of this era, and aid has changed to meet theoretical standards set by economists and political scientists for decades. In the 1950s and 1960s, under-development was seen as a problem caused by a poverty trap – a level of GDP insufficient to allow for the sorts of investments required to fuel a take-off into economic development. Large sums of money were invested in infrastructure, technology, and
industrialization to facilitate this growth. This movement coincided with the beginning of the Cold War in the 1950s, during which time financial assistance was given to countries that pledged their loyalty to the United States and the economic liberalism in America represented. Foreign aid bought military bases, votes in the United Nations, and other strategic, security-based considerations.\(^3\) For this reason, developing countries strategically competed for assistance from both the United States and Soviet Union, assistance for which poverty was not the central determinant. This period was also marked by a rash of independence events through Africa; thirty-one African states became independent of their colonial rule between 1956 and 1966.\(^4\) Most of these countries were left without functional physical or bureaucratic infrastructure, and faced immediate and significant basic need. Foreign donors thus believed that physical infrastructure and manufacturing capacity were critical to build state capacity and lead to economic development.

### 2.3 Human development through Structural Adjustment

The 1970s saw a humanistic movement in foreign aid, where not just GDP but human development indicators including health and education were supported by foreign assistance funds and programming. Human development can be defined as “a process of enlarging people’s choices.”\(^5\) This shift can partially be explained as the “MacNamara Revolution,” the response by the aid community to a speech given by then World Bank President Robert MacNamara in Nairobi in 1973. In this speech, he put forth a plan to

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\(^3\) Kapstein, pp. 36-37.


alleviate poverty in real terms over five years. He explained the forthcoming shift in foreign assistance motivations quite eloquently: “There are of course, many grounds for development assistance: among others, the expansion of trade, the strengthening of international stability, and the reduction of social tensions. But in my view the fundamental case for development assistance is the moral one. The whole of human history has recognized the principle - at least in the abstract - that the rich and the powerful have a moral obligation to assist the poor and the weak.”

Despite the patronizing language of the last part of this sentiment -- wording that fits well into the conceptualization of the White Man’s Burden argument often made by economist William Easterly -- MacNamara called for a shift towards rural infrastructure and poverty alleviation that did have some stunning successes in the form of the Green Revolution. The oft-cited and possibly greatest example of this success is the case of dwarf wheat cultivation in India. After barely avoiding a famine in 1967, India became self-sufficient in five years, tripling their wheat production between 1961 and 1980. In short, the 1970s saw aid motivated more by poverty alleviation, and successes measured not only in terms of Gross National Product (GNP) but also human development indicators such as infant mortality, malnutrition and literacy.

By the 1980s, however, the apparent lack of overall success experienced through the use of development assistance began to generate concern within the international community. The debt burden of low income countries had clearly reached unsustainable levels, even without the sharp interest hikes inspired by the oil shock of 1979, and despite

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some standout exceptions (such as dwarf wheat in India or the eradication of Smallpox in the late 1970s). Neither the state capacity and infrastructure targeted in the 1950s and 1960s nor the human development indicators favored in the 1970s had seen dramatic improvement. Using the success of market-based development in Asia, aid donors latched onto the idea that economic development was hindered by governmental intercession in market economics and sought to liberalize and privatize the developing world. As *Dead Aid* author Dambisa Moyo describes it, “Poor governments received cash in the form of budgetary support, and in return agreed to embrace the free-market solutions to development.”

As opposed to the project aid often given before this era, budget support was aid in the form of financial assistance infused into a government’s budget, intended to increase state capacity. In exchange, aid was provided conditionally: aid agreements required recipient governments to adopt a number of liberal political and economic policies. Structural adjustment loans made by the World Bank assumed these resulting policy changes would create dividends sufficient to allow recipient governments to repay loans. In the process, past recipients would graduate from the program and free up loan funds for other countries and programs. However, partly due to the ineffective nature of conditionality, the structural adjustment loans were overwhelmingly unsuccessful, recipient governments did not change their policies, and the greatest predictor for a future structural adjustment agreement was whether a country had already signed a structural adjustment agreement in the past. Because aid contracts

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8 Moyo, p. 21.
9 For many accounts of one example in which structural adjustment actually worsened poverty, see *Coping with Austerity: poverty and inequality in Latin America* edited by Nora Lustig (1995).
cannot be enforced and are rarely well coordinated, the potential to achieve meaningful change is diminished.\textsuperscript{10}

\section*{2.4 Governance and the Renaissance of the Big Push}

In the face of further lackluster results achieved through aid dollars, Western economists, policy analysts and aid professionals were anxious to discover the reason the neoliberal economic policies suggested in the 1980s did not achieve expected benefits. This sentiment found resonance as the Cold War ended at the end of the 1980s. A new wave of democratization swept the world, and Western donors no longer had strategic reasons to give aid to rulers who were often corrupt and even despotic, especially on the African continent. With this new fervor for democracy came a flush of academic and theoretical material regarding the importance of governance, and more specifically democracy, in economic development. Improving governance became paramount, with donors pushing recipient governments towards “building a better bureaucracy, increasing adherence to the rule of law, reducing corruption, and managing expenditure and revenue generation in a sustainable manner.”\textsuperscript{11} In response to the crushing debt only impacted by Structural Adjustment Loans in the 1980s, the 1990s saw development assistance shifting from the predominance of concessionary loans to grants, choosing to attach policy concessions rather than ask for repayment.

Conditionality has not proven to be a “silver bullet” – neither for democratization and economic liberalization, nor for economic development for the world’s poorest


people. At the turn of the century, critics were once again questioning the efficacy of foreign aid as an implement of economic and human development, and the aid community became desperate to justify its existence. Paul Collier wrote his world-famous book about the “Bottom Billion,” contending that despite aid’s efforts, the gap between the performance of the wealthiest 80% of countries and the bottom 20% was growing.\textsuperscript{12} He explains this phenomenon by positing that these poorest 58 countries are stuck in development traps, using methodology that has been criticized for using correlation to imply and even substantiate causation.\textsuperscript{13} Nevertheless, the book and its theories became instantly popular, perhaps in part because of the emotional moral imperative they created, and in part because of the fact that at least some of the development traps outlined could be solved – we could actually “make poverty history.”

Enter Jeffrey Sachs, a charismatic economist with connections to Columbia and Harvard Universities, as well as to the disastrous shock therapy programs intended to recover post-Soviet Eastern Europe. According to his 1997 book \textit{Development Economics}, the reason for aid’s lackluster performance had come from an unwillingness to invest capital sufficient to trigger the take-off hypothesized by “Big Push” theorists of the 1960s, along with the conditionalities imposed by Western nations in their aid allocations. This message could not have been delivered to a more receptive audience, or in a more appealing package.

\textsuperscript{12} Collier, Paul. \textit{The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It}. Oxford University Press (2007).

2.5 **The Millennium Development Goals and Millennium Project Report**

In September of 2000, the United Nations held a Millennium Summit at which the Millennium Declaration was signed by the leaders of 189 member nations, pledging their support of the Millennium Development Goals towards the eradication of extreme poverty by 2015, worldwide. The Millennium Development Goals (MDGs) are eight broad, sweepingly ambitious goals to be reached through the commitment by developed nations to give no less than 0.7% of their GDP to international development efforts. The Millennium Summit was followed by the Millennium Project, a think tank designed to identify the best practical steps and methods to reach the 2015 deadline. This culminated in the publication of the Millennium Project Report in 2005, a pilot program of Millennium Villages in Africa, and the creation of new national development agencies such as the Millennium Challenge Account of the United States.

According to Tim Unwin, the MDGs “now act as the key drivers by which many donors and recipient governments seek to measure their success.”14 Through worldwide ratification, staggering financial support, celebrity endorsement and some of the most sophisticated public relations of the new century, the Millennium Development Goals have become synonymous with international development and foreign aid, and the Western world is once again satisfied that “The Answer” to poverty has finally been found. This, of course, means that the stakes are high for the Millennium Development Goals, in a world in which aid fatigue and concerns about the efficacy of foreign assistance have been growing for decades. Sachs himself warns, failure to meet the

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Millennium Development Goals would result in a “maelstrom of recrimination.”  In short, not only would a neglect of best practices to ensure the best possible return on aid investments fail to lift countless millions from meeting their basic human needs, it could significantly damage the prospect for development assistance and foreign aid for years to come.

The Report, published in 2005, outlines suggested methodologies and tactics that, if employed, should lead to the fulfillment of the Millennium Development Goals by the intended completion date. Critics attack not only these methods but the goals themselves, the timeline in which they are meant to be completed, and the cultural revolutions that these goals have spurred. Although any of these critiques warrants further attention, the method of aid delivery espoused by the MDG think tank in the 2005 report demonstrates the representative lack of attention paid by the Millennium Development Goals to best practices, as determined by past experience and scholarly study. According to the Report, and secondary to the contention of Jeffrey Sachs that donor-imposed conditionality is the reason for aid’s lack of success, aid is to be distributed via general budgetary support. This means that rather than attach conditions to aid, grants are given to recipient governments to use at their discretion, conditional upon the creation and ratification of a country-wide Poverty Reduction Strategy Paper (PRSP). A PRSP is meant to be created with the input of all interested stakeholders, including the recipient government, civil society groups and all donors. Donors are encouraged only to enter agreements with governments that demonstrate good governance and sound economic policy, replacing “conditionality” with “selectivity.” Though the donor coordination that

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such an endeavor hopes to provide is certainly a requisite improvement to aid effectiveness, this rhetorical distinction is not a practical one, nor are the contents of the policy recommendations different from the Washington Consensus of the 1980s and 1990s. Not only will this method fall prey to the same problems faced by conditional aid, but its failure threatens to worsen aid fatigue and, therefore, willingness to invest in poverty reduction in the future. Existing literature will show an almost unanimous dismissal of budgetary support as an effective and appropriate method for aid delivery, especially on the scale proposed by the United Nations Millennium Development Goals. This thesis hypothesizes that empirical evidence will show that the advocacy of budgetary support is strongly associated with an increase in its use, both in terms of constant dollars and as a percentage of aid disbursal worldwide. Accordingly, this thesis will show that the methods advocated by the UN are contrary to known best practices, and their advocacy has lead to an increased use of ineffective methods, thereby decreasing the effectiveness and value of international development assistance.
Chapter 3: The Millennium Development Goals

The Millennium Project Report to the United Nations Secretary-General defines the Millennium Development Goals as “the world’s time-bound and quantified targets for addressing extreme poverty in its many dimensions -- income poverty, hunger, disease, lack of adequate shelter, and exclusion -- while promoting gender equality, education, and environmental sustainability.”\(^{16}\) Likewise, the UN defines extreme poverty “as ‘poverty that kills,’ depriving individuals of the means to stay alive in the face of hunger, disease, and environmental hazards.”\(^{17}\) The goals include reducing by half the proportion of people who suffer from hunger whose income is less than $1 a day, achieving universal primary education, reducing maternal mortality by three-quarters and child (under-five) mortality by two-thirds, and halting and beginning to reverse the incidence of HIV/AIDS, malaria, and other major diseases.\(^{18}\) For a complete list of the eight goals and their eighteen component targets, see Appendix A.

The idea that these goals can be met by 2015 stems from Big Push theory, which suggests that impoverished nations are caught in “poverty traps” with zero or even negative growth, from which they can only escape through the infusion of a big push of foreign aid to increase capital investment so that the country can “take off” into self-sustainable economic growth.\(^{19}\) The UN justifies the MDGs by saying, “(t)he key to escaping the poverty trap is to raise the economy’s capital stock to the point where the downward spiral ends and self-sustaining economic growth takes over. This requires a big push of basic investments between now and 2015 in public administration, human

\(^{16}\)UN (2005), p. 1  
\(^{17}\)UN (2005), p. 4.  
\(^{18}\)UN (2005), p. xiii  
capital (nutrition, health, education), and key infrastructure (roads, electricity, ports, water and sanitation, accessible land for affordable housing, environmental management).”

This idea contradicts John Q. Wilson’s contention that to increase efficiency, more incentives and flexibility should be given to ground-level workers and bureaucrats, rather than changing policies or funding from above. But this idea did not originate with the Millennium Development Goals nor even with its pioneer Jeffrey Sachs. On the contrary, Big Push theory predates the MDGs by almost fifty years.

3.1 The Big Push and its flaws


His work was based on the Harrod-Domar model of development economics, which explains economic growth as a function of capital and labor. To experience growth, an economy must increase either the quantity or productivity of one or both of these factors of production. Labor is plentiful in most developing countries but physical capital is not, slowing or even preventing economic growth. By increasing physical capital and increasing investment, this low-level equilibrium is broken, and countries can experience sustainable growth. The theory is obviously and fundamentally flawed, and was theoretically surpassed the very year in which it was published. The exogenous growth model was also introduced in 1956. Though far from perfect itself, this model fixes some glaring problems with the Harrod-Domar model, such as its assumption that labor and

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20 UN, p. 19
capital do not experience diminishing returns. Indeed, as Clemens and Radelet exhibit, there is a great body of empirical evidence to show that “for each incremental dollar of aid provided, the positive relationship between aid and growth becomes smaller.”

As has often been the case, the almost immediate empirical rebuttal of an appealing theory did not prevent its enthusiastic acceptance as development dogma. It’s an interesting phenomenon, and not one unique to aid agencies. Institutions are generally inclined to accept information that reinforces their organizational culture and justifies their existence, and reject information that does not.

The theory of low-level equilibrium traps fueled the intensive capital and infrastructure infusions of the 1950s and ‘60s, transfers that proved to be ineffective. Rather than be dissuaded by this history of failure, however, Sachs has repeatedly maintained that the reason that the capital transfers of earlier decades failed is that the transfers were not significant enough. As the majority of the dissent surrounding Big Push theory stems precisely from the amount of aid being too high, Sach’s argument hardly stands up to scrutiny. There are two major criticisms of Big Push theory. First, there is a question of absorptive capacity, or how much aid a recipient government can reasonably be expected to manage, and second, there is the question of the impact of a Big Push on governance.

### 3.1.1 Absorptive Capacity

As of 2005, almost half of the low-income countries in the world had a budget in which Official Development Assistance (ODA) accounted for more than fifty percent, and for many, ODA made up more than seventy-five percent.

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24 For examples of this, read Huntington’s *Political Order in Changing Societies*.
Table 1: Countries in which aid is >50% of government expenditure

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<tr>
<th>Country</th>
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<td>54</td>
<td>Sierra Leone</td>
<td>128</td>
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<tr>
<td>Guinea-Bissau</td>
<td>170</td>
<td>Solomon</td>
<td>70</td>
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<td>Haiti</td>
<td>56</td>
<td>Islands</td>
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<td>Lau PDR</td>
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<td>Tajikistan</td>
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<td>Mauritania</td>
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<td>Tanzania</td>
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<td>Uganda</td>
<td>64</td>
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</tbody>
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Data from author’s calculations

Official Development Assistance can be defined here as “the sum of grants and sub-market-rate loans made to developing countries to promote economic development and welfare.” ODA includes grants and loans with a grant element of more than 25%. Should donors meet the standards for giving outlined by the Millennium Development Goals, a full two-thirds of low-income countries would be above the fifty percent water mark, and a third would exceed seventy-five percent. Clemens and Radelet posit that every country has a saturation point when it comes to foreign aid, based on their absorptive and institutional capacities. “If there is such a saturation point,” they theorize, “it should vary by country, depending on the quality of the country’s institutions and development policies, the way in which aid is delivered (e.g., program aid versus project aid), the degree of harmonization across aid donors, the requirements imposed by donors,

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the precise activities that aid is financing, and the strength and depth of the nongovernmental institutions (NGOs) that may receive some aid."  

This is a highly sophisticated and complex calculation, and one apparently steamrolled by the Millennium Project Report. "Our core operational recommendation is that each developing country with extreme poverty should adopt and implement a national development strategy ambitious enough to reach the Goals," they say, whether such a plan is tenable or not. Many countries have already developed a Poverty Reduction Strategy Paper designed with considerations such as absorptive and institutional capacity in mind. To this, the Millennium Project Report responds, "If countries already have a Poverty Reduction Strategy Paper (PRSP), it should be revised so that it is ambitious enough to achieve the Goals."  

The project insists that donors assume the Goals can be met with the proper PRSP and adequate funding until it is proven that they cannot, and questions of absorptive capacity are swept aside. This is bad news to Clemens and Radelet, who warn that "(a)bsorptive capacity problems manifest themselves through higher costs and weaker results for new projects and programs relative to stated goals. This, in turn, points to the importance of monitoring and evaluating programs in ensuring that aid funds are used as productively as possible."  

If they are right, as the literature on the diminishing returns to aid certainly suggests, ignoring issues of capacity may well prove a very expensive mistake.

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30 Clemens and Radelet, p. 134.
31 UN, p. 24
32 Clemens and Radelet, p. 137.
3.1.2 Governance

Wasting large sums of aid money that exceed institutional and absorptive capacities is not even the worst result of the scaling up the Big Push theory calls for. Far more detrimental is the effect large cash transfers have on governance. As Brautigam and Knack so eloquently put it, “colonialism did little to develop strong, indigenously rooted institutions that could tackle the development demands of modern states.” Not surprising, then, that higher aid levels and larger increases in Official Development Assistance are associated with larger declines in the quality of governance as operationalized by Transparency International. This is partially due to the fact that “(l)arger public sectors create more opportunities for corruption,” but is also the result of the fact that ODA, when delivered through general budgetary support, creates a “soft budget constraint” that acts as a “resource curse” that removes incentives to make responsible fiscal and political choices. In other words, much in the same way that oil states have little incentive to increase efficiency and minimize graft, recipient countries come to assume that aid will always make up the gap between generated revenue and budgetary necessities. But the criticisms do not stop there. William Easterly, noted economist and staunch critic of Sachs and the MDGs, tested the segregable pieces of the Big Push narrative, and found shockingly little evidence of any part. No poverty traps, characterized by 0% growth, were seen, and there was no pattern of negative growth for the countries in the bottom quintile of GDP per capita. The growth of these countries

33Brautigam and Knack, p. 255.
34Brautigam and Knack, p. 256.
35Knack, p. 313.
36Brautigam and Knack, p. 263.
was not statistically different than other quintiles, and takeoffs were seen to be rare, and not associated with aid, investment, or education.\textsuperscript{38} European countries and the United States did experience takeoffs, such as the Industrial Revolution, so it seems that the Big Push theory makes sense in the context of Western history. Nevertheless, trying to fabricate in ten years what took decades to occur in a completely different environment seems short-sighted, at best.

### 3.2 Pros and Cons

These theoretical issues with the Big Push theory linked to the Millennium Development Goals are accompanied by a myriad of complaints about the Goals themselves. Critics such as Jeffrey James point out that the MDGs call for the provision of services, rather than attainments by target populations\textsuperscript{39} and that most measure means rather than ends.\textsuperscript{40} He uses the following examples: number of years in school doesn’t guarantee skill attainment, and merely providing access to drugs doesn’t improve health without correct diagnosis, correct prescription and dosage, and correct use.\textsuperscript{41} The formulation of these targets and goals did not occur in a vacuum, however, and the reality is that reporting universal access to primary education is much less complicated and work-intensive than testing for universal literacy and numeracy, which is what James would propose in its stead. Regardless of the imperfect measure of human development the MDGs provide and the fact that they call for aggregate data that fail to capture the

\textsuperscript{38}Easterly 2006, p. 289.
\textsuperscript{40}James, p. 456.
\textsuperscript{41}James, pp. 453-454.
size of the gains achieved by the poorest and most vulnerable within a society, however could argue that the attainment of these Goals would be a huge net gain for humanity.

There are other benefits to the Millennium Development Goals, as well. According to Haines and Cassels, these include keeping both groups (donors and recipients) accountable, highlighting the role of health in development, focusing and prioritizing efforts, and demonstrating the need for action. Of course, each of these is a double-edged sword. As James pointed out, accountability is limited to inputs rather than results, which also results in a disbursal focus in MDG-based programming. The hierarchical prioritization of targets significantly reduces support for those important endeavors not explicitly listed by the Goals. The health sector provides a fitting example -- the focus on communicable diseases such as HIV/AIDS and malaria has lowered support for other health issues, including injury and non-communicable disease. Finally, where it is clear that the millions dying needlessly and living in abject poverty “demonstrates the need for action,” the MDGs have undeniably increased the visibility of issues of global poverty. With this increased visibility, of course, comes a responsibility to meet the Goals, as Sachs himself acknowledges that the failure to do so would bring a “maelstrom of recrimination.” Moss and Subramanian agree, positing that “(b)uilding long-term constituencies for aid will likely depend on showing results for the aid being

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43Haines and Cassels, pp. 395-396.
spent now -- a dicey prospect given the excessive promises and heightened expectations being promulgated in the international arena.\textsuperscript{46}

\subsection*{3.3 Donor Coordination}

Haines and Cassels fail to mention what is arguably the most important and least controversial benefit of the Millennium Development Goals: they address the long-felt problems caused by lack of donor coordination. There is a tremendous administrative burden caused by the duplication of the efforts and aims of aid donors, complicated by the fact that each donor requires recipient governments to report the outcome of aid moneys in disparate ways.\textsuperscript{47} When one considers that a given recipient nation can have thousands of projects funded by dozens of donors, it is easily believed that, as Birdsall, Rodrik and Subramanian suggest, multiplicity taxes institutional capacity excessively.\textsuperscript{48} In fact, Easterly provides empirical evidence to suggest that “countries with more donor fragmentation have lower quality bureaucracy as measured by international comparative measures.”\textsuperscript{49} Easterly finds that Africa has the most fragmented donor base, supporting the position of Tony Blair’s 2005 Commission for Africa in saying:

\begin{quote}
the system for allocating aid to African countries remains haphazard, uncoordinated and unfocused. Some donors continue to commit errors that, at best, reduce the effectiveness of aid. At worst, they undermine the long-term development prospects of those they are supposed to be helping.\textsuperscript{50}
\end{quote}

In response, the Millennium Project Report correctly asserts that “(a)chieving the Millennium Development Goals will require a global partnership suited for an

\textsuperscript{46}Moss and Subramanian, p. 9
\textsuperscript{50}Blair’s Commission For Africa Report, p. 58.
interconnected world.” The Report calls for donors to simplify aid giving and receipt by taking a sectoral view (looking at health overall) rather than focusing on individual projects (providing malaria nets to a specific village), and financing multilaterally through international organizations rather than bilaterally. It is worth pointing out here that taking a sectoral as opposed to a project-level view makes aid more top-down and less detail oriented by nature, and that as a multilateral international organization, the United Nations (from which the Millennium Report originated) is likely biased towards such groups. These asides notwithstanding, the MPR seeks to “bring all partners of the country together to deliberate with the government on how to support its development agenda or programmes” in order to increase the sense of ownership a recipient nation feels for the development plans put into place. More specifically, the process calls for the governments of developing countries to design and implement MDG-based PRSPs with the inclusive participation of donors, civil society and the domestic private sector. These strategies attempt to time review processes and aid disbursements to align with existing cycles in recipient governments. One of the characteristics of a comprehensive development framework as described by an MDG-based PRSP (such as the Multi-Donor Budgetary Support agreement in Ghana) is that most decisions are centralized, therefore more top-down in nature. In Ghana, the MDBS led to most decisions, including but not limited to procurement allotments, shifting to the nation’s capital in Accra. Somewhat ironically, then, the MPR suggests (rather than explains how) PRSPs should coordinate

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51 UN, p. viii.
52 UN, p. 45.
54 UN, p. xv
55 Unwin, p. 1508.
56 Quartey, p. 5.
efforts on a national level, but should include a strategy for “decentralizing target-setting, decision-making, budgeting, and implementation responsibilities to the level of local governments.”

In his case study of the MDBS program, Hyden postulates that the plan could work, “but it would need a well-designed, coordinated effort on the part of the government of Ghana and its development partners.” Hyden is correct to have doubts about the possibility of the level of capacity and commitment the process would need to succeed. Cornwall and Brock report that MDG-based PRSPs are not as participatory as the UN’s rhetoric would have us believe: “implementation the consultative process designed to create social ownership have conceptualized participation narrowly, and often run on timetables that disregard the rhythm of the domestic policy process. They have usually offered limited spaces for engagement to invited (Civil Society Organizations), whose views beyond the consensus, if they are expressed at all, seldom find their way into final documents.”

Despite intentions to the contrary, the United Nations still experiences an inability to track results effectively. There is still a confluence of methodologies for data collection, analysis and reporting, and a hesitance by donors to learn from the mistakes of others. None of this is exclusive to the MDGs, though - despite frequent calls for greater donor coordination throughout the modern foreign assistance period, “there is no sign of learning to specialize in order to lesson coordination problems.”

57 UN, p. 25.
58 Quartey, abstract.
59 Cornwall and Brock, p. 1052.
60 Haines and Cassels, p. 394.
Easterly suggests that this specialization is the key to improving coordination. If each donor chose a country or countries to support, and took responsibilities for all sectors and aspects of the aid equation in that geographic region, recipients would only have one entity to whom they are held accountable. Different projects and sectors would be more eager to communicate if they were speaking the same organizational language and “playing for the same team,” there would only be one set of indicators, and one group could collect and analyze data across sectors to improve the efficiency and usability of data. Of course, sharing between donors might still be difficult in this arrangement, and it raises some questions about neo-colonialism, but perhaps other iterations of this idea exist. For example, instead of specialization by country, perhaps donors could choose to specialize by sector. One donor could head worldwide efforts to eradicate malaria across the entirety of the African continent, while another might focus on access to fertilizers for rural farmers. Another solution might be for international organizations such as the United Nations to stop acting as clearinghouses for multilateral aid and instead to facilitate better coordination between actors. The international arena is the perfect place to debate common standards for agricultural imports from developing countries, improving access to markets that could help developing economies to improve endogenously, much as the Doha round of the World Trade Organization is attempting to accomplish. Instead of setting unrealistic goals for health, the United Nations could spend its energies supporting the implementation of the internationally-recognized Health Metrics Network, established by the World Health Organization to improve the

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availability and usability of health-related data in developing countries.\textsuperscript{64} By spending more effort increasing coordination through the establishment of other such generalized standards and data collection mechanisms, the Millennium Development Goals could provide support for smaller and more specialized aid delivery groups that are often more successful, rather than advocating a shift to almost unanimously top-down bilateral and multilateral aid regimes.

3.4 Nongovernmental Organizations

The Millennium Development Goals all but ignore the existence of nongovernmental organizations (NGOs) as players in the aid game and providers of necessary services to the world’s poor. To wit, NGOs are not even mentioned in the Millennium Project Report until page 28, and then only in passing. This is surprising, at face value, due to the increasing size and importance of NGOs in aid delivery worldwide. International Non-Governmental Organizations (INGOS) quadrupled in number between 1970 and 2000 to 250,000; NGOs in former communist countries numbered at about 75,000;\textsuperscript{65} and while the number of grassroots organizations in the global South is immeasurable and ever growing, it is stated that there “are now probably several hundred thousand GROs in Asia, Africa and Latin America”\textsuperscript{66} The Christian Science Monitor reports that “in virtually every part of the world, these nongovernmental organizations (NGOs) are having a major impact on governments, corporations, official international

\textsuperscript{64}Haines and Cassels, p. 394 and http://www.who.int/healthmetrics/en/


organizations like the United Nations and the World Band, and – most importantly – the lives of people and the health of the planet.\textsuperscript{67}

The MDGs are not alone in discounting the role of nongovernmental organizations: the standard measure of aid in academic literature is Official Development Assistance despite this important privatizing shift in the aid regime. But the Millennium Project has a specific incentive to downplay this role. The MPR calls for all aid to be homogenized into a limited number of methods employed at the bilateral or multilateral level. This is not well served by a literature showing the strategic advantages to using grassroots NGOs (a summary of this information is included in the literature review to follow). This omission does not erase statistics showing that the negative effects of aid are worsened by homogeneity and positive impact of program diversification,\textsuperscript{68} meaning that the sort of streamlining of aid into clearer government-to-government relationships could decrease the positive impacts and increase the moral hazards of aid. Nor does the lack of mention of civil society and NGO work obfuscate the fact that a very strong literature base exists showing the comparative advantages of NGO use.

Official Development Assistance is delivered from one government to another, and as such it is very difficult to ensure that aid is delivered in a way that promotes pro-poor development. Nongovernmental organizations are being given increasing amounts of ODA to disburse as evidence continues to amass that NGOs are better at reaching the poor, although they still sometimes have difficulties to reach the poorest.\textsuperscript{69} The quantitative empirical research carried out by Roger Riddell provides the qualification to


\textsuperscript{68}Knack, p. 325.

\textsuperscript{69}Riddell, p. 309.
this result that while NGOs help the poor, they do not (yet) provide sufficient assistance to ensure an escape from poverty for their client populations. If NGOs do, in fact, have a comparative advantage in providing pro-poor programming, a reasonable solution would seem to be increasing financial support of NGOs, whether through ODA allotment or private donation, to increase their impact and ensure that their programs are strong enough to accomplish such an escape. Udaya Wagle believes that such an advantage exists, pointing out that “studies support the fact that NGOs are basically more focused in their targets, especially in servicing the poor, while government or other official aid agencies set a wide range of objectives.”\textsuperscript{70} This advantage could be due to the fact that ODA is subject to domestic support, and therefore tends to need Western-centric justification. Aid tying, due to which some eighty percent of the ODA budget of the United States is spent on American corporations, materials and personnel, is a natural result of the need for domestic justification for foreign aid.\textsuperscript{71} This phenomenon is called tied aid, defined as “project aid contracted by source to private firms in the donor country.”\textsuperscript{72} Elected officials have constituencies to support and serve, whereas NGOs appeal to altruists and ideologues whose primary demand is that good is done with their donations. Altruists, here, are “people who feel some moral obligation to help in the provision of charitable services and of jointly consumed goods not provided by the state,”\textsuperscript{73} and ideologues are people “with strong beliefs about the proper way to provide a


\textsuperscript{71}Kapstein, p. 39.

\textsuperscript{72}Svensson 2000 as quoted by Quartey, p. 6.

particular service.”74 As a result of these characteristics, countries with higher infant mortality receive more NGO aid per capita, a relationship not found with ODA funds.75 In addition, it is illegal to use a nonprofit for personal gain, so the public both domestically and in recipient nations have a higher intrinsic trust in NGOs.76 For this same reason, the employees of NGOs tend to attract more committed employees, as the profit margin of nonprofits is by definition very low.77

Not only is aid less strategically- and more needs-based when delivered by NGOs, it is often seen to be more productive. In addition to finding a correlation between need and allotment, Yasud and Montcheva also find that NGO aid lowers infant mortality, and found no equivalent effect on this human development indicator following ODA aid disbursement.78 Likewise, Gauri conducted a study comparing the effectiveness of ODA and NGO aid and found nongovernmental organizations to be far more successful in their programs and target acquisitions. For example, schools formed by nongovernmental organizations reported attendance rates approximating ninety percent, while corresponding attendance rates for government-built schools were only fifteen percent. One might hypothesize that this difference could be due to identification with the religious affiliation of religious NGOs, the location and culture specificity granted by the more grassroots nature of NGO work, or the higher level of trust NGOs tend to receive from the communities in which they work, often due in part to one of the above factors. Gauri tempers this statistic by wondering whether NGO presence hurts country ownership, asking if the government would upkeep and staff a school built by a

74Rose-Ackerman, p. 719.
75Masud and Yontcheva
76Rose-Ackerman, p. 716.
77Rose-Ackerman, p. 719.
78Masud and Yontcheva
nongovernmental organization after it was gone. On the other hand, however, it is hardly clear whether a government would continue to upkeep and staff a school it built with ODA aid should further funds not be provided by donors to those ends. It seems one would be hard pressed to sacrifice seventy-five percent efficiency of an education program based on an empirically-unjustified hunch that recipient governments would be more likely to continue funding schools built by ODA aid than their NGO-built counterparts.

In addition to often surpassing the efficiency of ODA-delivered aid, NGO funds have also been shown to increase total spending on important public goods in a much more reliable way. Steven Knack provides evidence that bilateral ODA does not change public expenditure on the health sector. This suggests that every dollar of aid a country receives conditional to its being spent on public health frees up a dollar that the government would otherwise have spent on health for some alternative use. This aid is then said to be perfectly fungible, meaning that it can be redirected, partially or completely, from the intended purpose by the recipient if it so wishes. 79 In this case, the donor cannot take credit for the health-related services funded by aid, as these services would still have been provided. 80 NGO expenditure on health does not change public expenditure either, but to the opposite effect. The fact that the existence of NGO programs and services does not change budgetary health spending means that the government still does exactly what they would have done without the presence of NGOs, making the aid that the NGOs give in excess of public spending is additive, as opposed to

the substitution effect experienced with ODA aid. In other words, NGO aid is not nearly as fungible as government-to-government aid, since the government should not have access to the funds used by NGOs or have much control over the programming that they choose to do. Perhaps it is due to the lack of control over the way or extent to which NGOs spend their funds, because of the non-fungibility and volatility of NGO aid, that governments do not change their spending habits in the presence of NGO aid. Of course, this can cause issues of accountability on the NGO side and questions of sovereignty with respect to government regulations, but increased voluntary transparency and oversight by the international community stands to temper these potential sources of contention.

As a whole, the literature strongly suggests that nongovernmental organizations are some of the best players in the foreign aid game. They are not without their own unique struggles – the multiplicity of private project aid often makes coordination efforts more acute. Nevertheless, their inherent and significant advantages ought to lead to a conversation about how the international community can improve project aid coordination, rather than an omission from the conversation about international development altogether. By all but excluding NGOs from plans to end global poverty, the international community (by way of the Millennium Development Goals) is keeping one of its best players on the bench in what has been established as aid’s most important game yet. This mind-boggling exclusion of best practices is not unique to the Millennium Project Report’s treatment of NGOs, either. Despite a respected literature on the comparative advantages of having a longer time horizon for policy change and development, Millennium Project proposals last only ten years at most, often preferring programs only 3-5 years in length, towards completion of all Goals by 2015.
3.5 Time horizons

A common criticism of the Millennium Development Goals is that they foster inappropriate time horizons for sustainable development. As Hughes and Irfan explain, the best way to meet goals such as the MDGs in the short-run is through direct transfers, which is exemplified by the Big Push methodology the MDGs employ. With a longer time horizon, however, it is better to invest in interventions that grow the economy, rather than just infusing the market with aid dollars. This infusion can be considered a positive exogenous shock, and empirical study shows that while negative exogenous shocks are persistent, positive shocks are not. In other words, even if the Goals are met, the positive changes will most likely be negated or reversed to some extent after termination of the programs. That said, it is far from certain that the Goals even can be met in the proposed timeline. The Millennium Project Report in 2005 stated that “only by acting now can sufficient number of doctors or engineers be trained, service delivery capacity be strengthened, and infrastructure improved to meet the Goals.” However, Masud and Yontcheva warn that “a 10-year period is too short for aid to have an impact on literacy.” If ten years isn’t enough time to ensure that aid can help teach children to read, one can only wonder how we’ll manage to train enough doctors to staff national health networks across the entirety of the developing world in only ten years.

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83 UN, p. 50
84 Masud and Yontcheva, p. 20.
Hughes and Irfan contend that change, whether political or in the state of development, is incremental and takes time. Policy analysis, then, needs not a shorter time horizon but a longer one. This does not equate to the efforts of the international community with regards to the Millennium Development Goals, which, as an example, “have continued to focus on transplanting institutional practices from the West with little attention to their fit in the African context and what timeline is suitable for such an approach.” As Hyden states, “(b)uilding bureaucracies through public sector reform or democracy through the rule of law are processes that, in a historical perspective, have taken generations to complete.” Regardless of this truth, the Millennium Project includes the stipulation that all three to five-year MDG strategies should hinge on “good governance,” admitting that “this will require political transformation to support an inclusive and egalitarian society and changes in the institutional political incentives that now undermine the performance of school systems.” To say that this is an astonishing expectation seems a gross understatement. This “good governance” emphasis is required by the method of aid delivery chosen by the architects of the Millennium Development Challenge. Accordingly, countries not already possessing Western-style governance and unable to make such watershed changes at such breakneck speeds may well find themselves ineligible to receive Millennium Development Goal-related aid funds. Were the Millennium Project’s designs on donor coordination realized, this would mean complete exclusion from assistance for many of the world’s poorest countries. It is this

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85 Hughes and Irfan
86 Hyden, p. 16752.
87 Hyden, p. 16752.
88 UN, p. 30.
critical flaw in the Millennium Project Report around which this thesis is centered, and this method, general budgetary support, that will now be examined and critiqued.
Chapter 4: General Budgetary Support, a Literature Review

This thesis intends to provide evidence that the Millennium Project Report fails to advocate the use of best practices as established by scholarly study and empirical research of historical aid flows. This question will be examined by illustrating the example of budgetary support, the primary method of aid delivery the Millennium Project has identified. In order to test this hypothesis, it must first be established that the Millennium Project, Jeffrey Sachs and the UN advocate for the use of general budgetary support; and then provide evidence of a strong consensus in the academic community, both theoretical and empirical in nature, against its general use. This chapter describes the relationship between budgetary analysis and the Millennium Development Goals, derives an operational definition of the phenomena to be studied based on that relationship, and then provides a review of available literature regarding the costs and benefits of general budgetary support use.

4.1 Establishing the operational definition and MDG support of budget support

4.1.1 Operational definition of general budget support

Budgetary support has existed as a method for the delivery of foreign aid for the entirety of the modern era of assistance development. As such, there exists a rich and varied literature about its theoretical and empirical implications, and subsequently a variety of definitions. Before providing an analysis of the existing data, it is important to identify an operational definition as is used by the Millennium Project Report. Definitions for budget support range in complexity from Unwin’s simple “any financial support mechanism whereby a donor provides financial assistance to a recipient
government’s budget”\textsuperscript{89} to Peter Quartey’s exceptionally complex definition. He defines budget support as:

“a financial aid programme, and may take two forms: (i) general budget support, and (ii) specific budget support, i.e., health and education. General budget support refers to financial assistance or contribution towards the overall budget and conditionality is directed towards policy measures which relate to the overall budget priorities... On the other hand, sector budget support comprises financial aid targeted at a discreet sector or sectors, with any conditionality relating to these sectors.”\textsuperscript{90}

Under this definition, the budgetary support suggested by the Millennium Project report is intended to be general budget support. Applying the important distinction made by Cordella and Del’Ariccia that budget support is “non-sector allocable program assistance whose provision is explicitly linked to agreed policy packages, we arrive at the following definition. General budget support as conceptualized by the Millennium Project Report to be managed through MDG-based PRSPs is non-sector allocable financial support explicitly linked to policy conditionalities relating to overall budget priorities, made largely in the form of grants and debt relief. Funds are said to be non-sector allocable when they are added to the general budget, rather than to a specific sector, line ministry or item.

In both the literature review examining the relative costs and benefits of general budgetary support and the forthcoming data analysis of trends in budgetary support use in development assistance, this definition should be assumed, unless otherwise noted.

\textsuperscript{89} Unwin, p. 1510.
\textsuperscript{90} Quartey, p. 8.
4.1.2 Advocacy for Budget Support with the Millennium Development Goals

In April of 2005, Jeffrey Sachs insisted that “(a) balanced and judicious aid program would provide both technical cooperation and budgetary support to countries that could use the money effectively.”\(^{91}\) This sentence sums up the attitude that the Millennium Project takes regarding the necessary steps to achieving the Millennium Development Goals in their Report to the UN Secretary-General. Direct budgetary support is listed as a “simplifying coordination mechanism” by the report, and is intended to be used in conjunction with the creation of MDG-based PRSPs by recipient governments in conjunction with civil society and donors. As Unwin states, “(c)urrently, (the Millennium Development Goals) dominate the rhetoric and reality of global development policy, with the expectation that they will be achieved through the PRSP process and supported by the appropriate allocation of ODA.”\(^{92}\) For this reason, “budget support programmes...are providing increasingly large amounts of financial assistance to governments in Africa.”\(^{93}\) As will be discussed in the chapter that follows on methodology, performance and progress in Africa is an important marker for MDG effectiveness.

4.2 Purported benefits of budget support

Unwin lists a set of benefits that could be attributed to the use of budgetary support. First, he points out that through the decreased aid variability intended to result from general budget support through the PRSP process, recipient governments can expand their time horizons with respect to resource allocation planning. As many pro-

\(^{91}\)Sachs, p. 83.
\(^{92}\)Unwin, p. 1504.
\(^{93}\)Unwin, pp. 1501-1502.
development tasks require reliable investment over the course of several contiguous years, budgetary aid could help recipient governments become more responsible for their development, and better equipped to help their populations. Second, he highlights the fact that general budget support is less conditional in nature: within the parameters established by their MDG-based PRSPs, recipient countries can determine for themselves what would best suit the situation on the ground. This not only provides an opportunity for more area-specific programming designed with distinct demographic and geographic differences taken into account but also decreases the concentration of tied aid. As previously mentioned, the PRSP process intends to integrate and coordinate donor efforts, to avoid wasted money through replication and decrease the costs associated with having multiple donors with multiple sets of criteria that must be reported on differing time schedules, often with little or no attention paid to the cycles of recipient government. Because only countries deemed to have a sufficiently high quality of governance are eligible to create PRSPs and the PRSPs themselves are designed to improve governance during the time in which budgetary support is offered, budgetary support is seen as a way to encourage economic liberalism and democracy. Finally, general budget support is seen to be more flexible and efficient, as it is meant to lower the transaction costs associated with following complicated conditionality agreements and the subsequent record keeping of that compliance, and can be used for “both capital and recurrent expenditure.”

These are all highly desirable ends. Time horizons have an important impact on the type of development-related projects undertaken as well as the methods used. There are indeed serious problems with aid tying and conditionality, as well as with donor

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94Unwin, p. 1511.
coordination. If Western-style governance is, indeed, a prerequisite for sustainable pro-poor development as aid dogma regarding democracy, civil society and economic liberalization purport, there may be some value to rewarding this type of governance when and where it exists. Certainly increased flexibility and efficiency have the potential to improve aid performance. One must ask, however, whether budgetary support is truly the best tool by which to achieve these goals, and even whether these goals are necessarily requisite for economic and human development. The exchange of “conditionality” for “selectivity” can be seen as a change more of rhetoric than reality, with the problems of conditionality continuing into the MDG-based PRSP era. Even if general budgetary support increases western-style governance in developing nations, “prevailing assumptions in the international development community about improved governance as a principle mechanism to reduce poverty in Africa rests more on faith than science.”95 There is also question about the institutional capacity of many developing country governments to properly handle aid in the amounts described by the MDGs and the Millennium Project Report, as well as the impact that this sort of scale-up, especially when given as general budgetary support, would have on governance.96 These and other problems of budgetary support will be discussed in the next section.

95 Hyden, p. 51.
4.3 Problems with budgetary support, a literature review

4.3.1 Moral hazards

Financial development assistance has long faced the criticism that it creates moral hazards for recipient governments. In other words, the knowledge that foreign donors will bridge the gap between the funds necessary to provide public goods to its constituency and the funds raised removes the incentive to fix inefficiencies or develop the means to raise sufficient funds without donor interference. This is also said to cause aid dependence -- for as long as aid is known to be available, key capacities will not be augmented to allow societies to "graduate" from foreign aid. Of course, this argument speaks of ODA given to governments as budget support, and in a predictable manner.

This predictability is heralded by the Millennium Project as one of the greatest benefits of budgetary support. Aid volatility is defined here as variability in the future supply of financial assistance due to issues including failure to adhere to conditionality arrangements, shifting objects or methodology in donor practices, and change in domestic support or economic standing. Many reasons for volatility exist, but the result is the same: the recipient government is prevented from planning on (or ‘banking on’) future assistance. Here a divide arises between the costs and benefits of aid volatility. As previously mentioned, many projects critical to sustainable human and economic development have long time horizons and cannot be planned for and completed without a reliable source of funds over the course of several contiguous years (indeed, often more years than would be possible with MDG-based programming. On the other hand,
however, would a written agreement outlining the aid disbursals for upcoming years not also intensify the problems associated with aid volatility, namely the creation of a moral hazard for recipient governments? Research indeed suggests that to be the case.

In describing Ghana's MDG-based PRSP, Quartey says budget support is "aimed at ensuring a continuous flow of aid to enable the government to finance its poverty related expenditures." And yet Knack counters this argument by hypothesizing that "if aid is highly variable over time within a country, dependence might be lessened in the sense that aid cannot be relied upon as a stable source of funds. This reduced reliance could diminish the harmful impact of aid on governance." Indeed, his study supports the idea that increased aid volatility improves governance, making budget support a very costly means of aid delivery. Unwin concurs, saying that "by implementing general budgetary support mechanisms of aid delivery, donors are in danger of reinforcing structures and balances of power that may not give sufficient priority even to the objectives that donors themselves have identified for such aid." Upon realizing the delitirious effects of budgetary support, one must ask if any method of aid delivery avoids the pitfalls while profiting from the benefits of decreased aid volatility. Of course an easy solution to the former conundrum is the use of nongovernmental organizations for aid delivery. Masud and Yontcheva show evidence that NGO aid does not affect social spending in the recipient country. In other words, that which is not given to a recipient government can neither be expected by that recipient nor misallocated by the same. Therefore, NGO aid does not cause nearly the moral hazard of budgetary assistance, nor is it nearly as

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97 Quartey, p. 2.
98 Knack, p. 323.
99 Unwin, p. 1515.
100 Masud and Yontcheva, p. 3.
fungible, which is key to aid success according to, among others, Kapstein, who asserts that "aid works when it is effectively targeted."\textsuperscript{101}

The use of NGO aid delivery fails to directly solve the problem of time horizons addressed by budgetary support and its claimed limited volatility. If the government does not have fore knowledge of extra funds, it cannot plan long-term development projects using those funds. One suggestion to overcome this hurdle is to increase ownership of projects. While this cannot be achieved through William Easterly's top-down approach to have donor countries specialize by donor country, or even through the adaptation of having donors, including NGOs, bilateral and multilateral actors, specialize by sector within a recipient region, a case could be made for single ownership for long-term development projects. After completing a needs assessment with all invested parties, one NGO, group, or donor would be solely responsible for all aspects of the project through its completion. This would provide recipient governments the ability to achieve longer-term goals without creating moral hazards and provide them a more active role in determining development objectives than might be possible with NGO delivery alone. Additionally, this ownership would increase incentives to handle projects in the most efficient way possible, as neither blame nor claim could be shared.

The moral hazard created by official development assistance is but one of many ways in which aid delivery can worsen governance in a recipient country. An example of another related effect would be the oft studied decrease in tax effort due to aid receipt.\textsuperscript{102} It is well worth mentioning the several negative impacts of aid receipts on governance. Political scientist Samuel Huntington distinguishes between two types of policies that

\textsuperscript{101}Kapstein, p. 35.
\textsuperscript{102}For a list of some of the more pertinent studies to this effect see Moss and Subramanian.
could be seen as using public resources to increase the monetary or political wealth of private individuals or groups. According to Huntington, corruption can be defined as “behaviour of public officials which deviates from accepted norms in order to serve private ends.”

The first, honest graft, is explained to be the concessions made to private interests in order to achieve public gain. Huntington explains that in the modernization process, behaviors that once existed within a system are translated outside of the realm of acceptable behaviour, and parties once in power may be displaced or subjugated by new institutions. This process is often lubricated by concessions made to traditional stakeholders regarding old norms and payouts, leading to a precedent of institutionalized or accepted corruption used to placate veto players. The more modern and democratic a system of government, the more veto players with different constituencies, and the more useful this “honest graft” will be in policy design and implementation. As these actions become accepted norms, Huntington does not consider them to be corruption, unlike scholars who would paint corruption in simpler terms, labelling any use of public resources for private gain as corruption.

The second form of “graft,” what he considers corruption, serves private interests with public resources without a parallel policy gain or social acceptance. He stipulates that corrupt parties either seek to trade economic power for political power or vice versa, and that corruptors will tend to “buy” the resource that is more scarce, and therefore more valuable in society. Hence, in developing countries where opportunities to improve ones economic standing are limited, one would be more likely to seek political power in order to extract financial rents, but in developed countries, parties with economic power are

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likely to try to “buy” political favours or, in some cases, control. Moss and Subramanian list six non-corruption distortions from aid, which are either honest graft or are negative effects that fit neither of Huntington’s distinctions:

1. Fuels internal systems of patronage
2. Sustains regimes that might not have survived otherwise
3. Creates an aid curse, similar to a resource curse
4. Has perverse effects on fiscal policy
5. Damages export competitiveness because of its effect on the exchange rate
6. Exceeds the absorptive and institutional capacities of recipient governments.¹⁰⁴

Of these, it would seem that five of the six listed manners in which governance is negatively impacted by aid receipts are more severe when that aid is given as budgetary support. The first four issues fall under the moral hazard trap described above. The first two are only possible when aid funds are fungible, which is to say, when the government has the ability to divert funds to fulfill their own aims. Given the extensive literature supporting this point, Bruce Bueno de Mesquita is confident in his research to take fungibility of ODA as a given: "Consistent with the literature, we assume bilateral aid is largely fungible such that the recipient leader can spend the resources as she sees fit."¹⁰⁵

The third speaks to a government’s lack of incentives to improve institutional capacity because of a confluence of aid moneys, which as demonstrated, is a much more significant issue when aid moneys are delivered reliably to recipient government budgets. This aid curse often leads to lack of propriety in fiscal matters, addressing the fourth item on the list. Finally, when it is left to line ministries and federal organizations to handle profuse aid funds in a manner desirable to multiple external principles, the institutional and absorptive capacities of the recipient are guaranteed to be taxed to a greater degree than if aid was not delivered to the budget.

¹⁰⁴Moss and Subramanian, p. 7.
¹⁰⁵Bueno de Mesquita and Smith, p. 316.
This last point warrants a brief detour into a conversation about absorptive and institutional capacities of aid recipient governments.

### 4.3.2 Issues of absorptive capacity

A brief discussion of issues of absorptive and institutional capacities was given as a strong criticism of the Big Push theory on which the Millennium Development Goals are based. Nevertheless, before addressing the larger issue of the impact of aid on governance in a recipient country, especially when delivered as direct budgetary support, it is important to highlight the role that absorptive capacity has on the prospects for governance in a Big Push scenario. It follows that governments that already spend more can absorb more, so the amount of aid given is increasing with the government’s share of GDP. In other words, countries with higher levels of public funds tend to have higher absorptive capacities, and therefore receive more aid funds. Bureaucracies with higher public funds tend to have more established systems for service delivery, but countries with less indigenous public funding tend to need more assistance in the provision of public goods and services. This leads to an incentive to focus sharp aid increases on governments with low initial spending, which translates (approximately) to lower absorptive capacity. This leads to the inevitable question: what is the best manner in which to increase absorptive capacity?

The Millennium Project Report addresses this question in two manners: first, decrease the complexity of donor/recipient relations through coordination, and second, focus attentions on countries with existing capacity to absorb funds. Again, donor

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106 Bueno de Mesquita and Smith, p. 313.
coordination is an admirable goal, as “multiplicity taxes capacity.” As previously discussed, however, the donor coordination fostered by the MDGs is imperfect at best and comes with a heavy burden of inherent costs. Clemens and Radelet assert that “(s)trong monitoring and evaluation mechanisms and the flexibility and willingness to redirect aid flows are the most important tools in assessing absorptive capacity issues,” but the Millennium Project Report skims over the importance of this evaluation, preferring to “select” countries more likely to succeed. The Millennium Challenge Account tackles the problem by giving recipient countries smaller aid amounts for the first two years in order to identify and deal with issues of absorption, then increasing aid amounts steeply, but again, this method is coupled with conditionality: “to qualify they have demonstrated a commitment to ruling justly, investing in their people, and establishing economic freedom.” This tactic creates a Catch 22 for many good intentioned governments, in which "aid would be disbursed if development expenditures were substantially increased, but developmental expenditures could not be increased if aid were not disbursed first.” It also starkly contrasts The Bottom Billion, where Collier argues that aid agencies must accept higher risk and focus aid on countries with poor governance in order to help them escape development traps.

This point may well be moot, however, in the face of evidence that the Millennium Development Goals, being disbursal-centric in their design, are far less conditional than they are purported to be. Jeffrey Sachs complains about the MCA because of how few funds have yet to be disbursed, and points out that PEPFAR is

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107 Birdsall, Rodrik and Subramanian, p. 142
108 Clemens and Radelet, p. 142.
109 Clemens and Radelet, p. 128.
111 Collier, The Bottom Billion.
budgeted to give an average of $3 Billion a year, but only gave $2.4 Billion in 2004. One is led to ask whether issues of capacity are truly being taken into account when programs that control for them are criticised for not disbursing funds fast enough. Many have demonstrated adamant opposition to the ignorance of capacity issues; Hyden argues that the Millennium Report “simply pumps in the money without attention to local capacity because of the belief its architect, Jeffrey Sachs, has in economic incentives.”\textsuperscript{112} Such a steep influx of funding with questionable attention paid to absorptive capacity could easily be assumed to create other issues for governance, an assumption supported by available evidence. Governance is seen to be a key factor in the achievement of the Millennium Development Goals, though the methods employed by the Millennium Project Report stand more chance of hurting the opportunities for such governance to exist.

4.3.3 The effect of budgetary support on governance

The Millennium Development Goals and the Project report both put a very high premium on governance as a precondition for development, following Burnside and Dollar’s 2000 publication. Not only does the Report insist that “scale-up cannot begin without political leadership and clear government commitment,”\textsuperscript{113} the report suggests that the bold programs required for reaching the MDGs cannot exist in countries with poor governance; and insists that all such programs include “a governance strategy to insure implementation of the program with minimized corruption, based on fundamental

\textsuperscript{112}Hyden, p. 16755.
\textsuperscript{113}UN, p. 31.
principles of human rights.”¹¹⁴ Indeed, of the four main excuses the Millennium Project Report lists for current delays in reaching MDG targets, two are related to governance. The first listed is “poor governance, marked by corruption, poor economic policy choices, and denial of human rights.”¹¹⁵ The other is more generically described as “areas of specific policy neglect.”

Certainly corruption and country malfeasance—anti-developmental, deleterious policies adopted by recipient governments—decrease the efficacy of official development assistance, which not only lessens its effects for target populations in the short-term but damages donor support for foreign aid. There is significant evidence, however, that the relationship between aid and governance espoused by the MPR is not necessarily causally correct, and is at best highly oversimple. Rather than needing good governance before aid can be used properly, a large literature exists to the effect that despite likely benefits, “continued over long periods of time, large amounts of aid and the way that it is delivered make it more difficult for good governance to develop.”¹¹⁶ Brautigam and Knack show a strong relationship between high levels of aid and declines in governance¹¹⁷, and Knack shows evidence that initial levels of governance are not significant in predicting the effect aid has on governance.¹¹⁸ In other words, whether a country scores well or poorly on a governance rubric at the beginning of a large influx of aid, quality of governance declines, and to the same extent. Nevertheless, some still maintain that “a crucial determinant of the feasibility and effectiveness of scaling up is the quality of public

¹¹⁴UN, p. 31.
¹¹⁵UN, p. 15.
¹¹⁶Brautigam and Knack, p. 255.
¹¹⁷Brautigam and Knack, p. 256.
¹¹⁸Knack, p. 325.
expenditure and of government planning and budgeting systems.”

Even de Renzio, to whom this quote is accredited, admits that there is a critical empirical paucity regarding these elements, and that scaling up through budgetary support is therefore an under-calculated and unwise risk.

The focus on governance could be seen as something of a risk in and of itself. Hyden asserts that "prevailing assumptions in the international development community about improved governance as a principle mechanism to reduce poverty in Africa rests more on faith than science," explaining that “governance remains an under-theorized area of research and that new sources of data collected with a more stringent and scientific approach are preferable.” The lack of scientific rigor applied to studies regarding governance is clearly observable in the study using World Governance Indicators that suggests there is a three hundred percent increase in Gross National Product per capita with one standard deviation increase in governance, a statistic quite literally too impressive believe. Calling into mind an example that can be used as an analogy: the IQ tests administered at the turn of the century that showed people with longer last names were less intelligent. In the case of this example, for most of the longer-named immigrants participating in the study, the IQ test was administered at Ellis Island in English, which means it was not administered in their first language, thus invalidating the results. This did not prevent the deportation of countless immigrants due

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120 Hyden, p. 51.
121 Hyden, p. 16753.
to reported mental deficiency. In the case of governance and GNP, the manner in which the terms are defined invalidates the empirical significance of results. Good governance is defined to be the way in which other countries with strong economic success behave (i.e. richer countries are bound to assume that their methods are the key to success. As these rich countries act more like themselves than other countries do, they are said to have “better governance.”)

The definition of good governance is fundamentally biased towards the experience of successful Western nations, and is not necessarily empirically significant. Hyden speaks to the "broad definition of governance" used by donor agencies, citing the six qualities of governance used by the World Bank Institute:

(i) voice and accountability
(ii) political stability and absence of violence
(iii) government effectiveness
(iv) regulatory quality
(v) rule of law, and
(vi) control of corruption

"These six dimensions, neither adequately delineated nor sprung from theory, are a loose assemblage that the authors assume are independent of each other and when operationalized really measure what they purport to measure."

There have, for example, been criticisms against using the absence of violence as a determinant of eligibility for foreign aid because the presence of violence is almost universally accompanied by pervasive humanitarian need. What’s more, as Cordella and Dell’Ariccia point out, “While recent empirical contributions have linked the effectiveness of aid programs to the soundness of the recipient government’s policies, to our knowledge no study has yet

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123 Hyden, p. 16753.
examined how such relationship is affected by the composition of aid flows." In other words, studies that show the impact on aid effectiveness by governance assume government-to-government budgetary assistance, a definition too narrow to be generalized to say that aid effectiveness depends on governance.

The Western-centric view of governance employed in this statement is especially incapable of comprehending the political culture in Sub-Saharan Africa, the region least likely to achieve the Millennium Development Goals. As Mkandawire explains "Africa is the most under governed region in the world." Many African societies have yet to transition to formal institutions, which makes the use of these institutions a highly inefficient means of pro-poor aid delivery. By Western standards this system is rife with corruption in the form, for example, of clientelism. Nevertheless, "There is no consensus among scholars as to what informal relations mean for the quality of governance in Africa." Donors could try to understand African cultures in order to foster situationally-relevant and context-appropriate institutions, seek out "pockets of productivity" and encourage dissemination of successful techniques, and work within the context of a locality to contain the more detrimental aspects of informal institutions. They have instead time and time again "continued to focus on transplanting institutional practices from the West with little attention to their fit in the African context."

Regardless of its cultural applicability, the Millennium Project calls for recipient governments to adhere to its notion of governance, and for donors to encourage this movement through conditionality: "The system for international development assistance

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124 Cordella and Dell’Ariccia, p. 15.
126 Hyden, p. 16755.
127 Hyden, p. 16752.
needs to consolidate its incentive for countries with weaker governance levels, showing
that good performance is indeed rewarded by financial support consistent with the
Goals."\textsuperscript{128} Yet this very reward stands to weaken governance, as higher aid has been
shown to decrease governance, regardless of a country's initial governance level. Indeed,
because of the resource curse created by significant aid-receipt, especially where aid is
delivered through budgetary support, "Aid diminishes the likelihood of the just
governance and democratic reforms it is supposed to motivate."\textsuperscript{129} The unfortunate fact
is that MDG-based programming is faced with opposing motivations: to disburse a Big
Push of ODA, while only giving to governments that start out measuring highly on a
Western rubric of good governance and proceed only to improve. According to
Transparency International, the neediest countries are most often those that score poorly
on a governance scale. To meet the Goals, then, funds must be dispersed to recipients
with poor histories of governance, in the manner most likely to cause a further decrease
in the quality of governance. As Clemens and Radelet show, “large amounts of aid can
overwhelm even a well-intentioned government’s capacity to use funds adequately.”\textsuperscript{130}
Donors must either fund corruption or fail to meet the standards of stability and
generosity required by the Millennium Project Report.\textsuperscript{131}

Income increase in the recipient country seems to be the only variable with a
sufficient empirical base of evidence that it improves governance. Knack finds that a
10\% increase in GDP per capita leads to an increase on the International Country Risk

\textsuperscript{128}UN, p. 53.
\textsuperscript{129}Bueno de Mesquita and Smith, p. 312.
\textsuperscript{130}Clemens and Radelet, p. 130.
\textsuperscript{131}Unwin, p. 1515.
Guide (ICRG) of 0.2 points. In contrast, a 15% increase in ODA lowers governance one full point on the scale, as does aid receipt exceeding 35% of a government's budget. In other words, budgetary assistance causes direct harm to governance, and aid should be targeted at increasing the economic power of a population in order to improve governance. As incomes increase, so do potential tax revenues, making it "More feasible and worthwhile to expand the tax base and set up more efficient tax administering procedures." With higher tax receipts, governments have greater incentives for the creation or improvement of institutions to handle and spend funds. This increase in government funding would not likely suffer the same moral hazard experienced by a recipient government under a Big Push of budgetary support. This occurs because once a population is paying taxes to its government in exchange for the supply of public goods and services, it will almost certainly become more demanding regarding the quality and quantity of those goods and services. By creating a middle class, aid could help to establish a principal-agent relationship between government and governed based on accountability, meaning that the government would become beholden to its middle class (the source of its funding), and would therefore work to promote and protect the interests of that middle class. This scenario is a much more likely precursor to good governance and democracy than the imposition of conditionalities. In all truth, this conditionality is most successful in less-democratic and more corrupt regimes. Bueno de Mesquita explains that under the current mechanism for foreign aid, "Aid is more likely to produce the primary ends sought by donors when recipients are free to divert assistance funds to

132 Knack, p. 317.
133 Brautigam and Knack, p. 269.
134 Knack, p. 316.
their personal accounts or those of their politically loyal cronies.”

If leaders have smaller coalitions, aid can be diverted to coalition members as compensation for policy changes. Therefore, conditional ODA may be more successful with corruption than in more democratic (read: “better governed”) regimes.

To malign the use of budgetary support as detrimental to governance would serve no purpose if a more amenable option did not exist. The Millennium Project Report would have readers believe that aid cannot cause growth in a poor policy environment; indeed: budgetary support has both failed to cause growth and succeeded at worsening governance in the process. The research of Cordella and Dell’Aricca, however, shows evidence that "The relationship between growth and budget support is more sensitive to the policy environment than that between growth and project financing.”

Perhaps more surprisingly given the established relationship between quantity of ODA aid and governance, project aid actually becomes less policy sensitive as it increases. Needless to say, this relationship was not witnessed with budgetary support. This policy insensitivity implies that project aid is capable of creating growth in even so-called poor policy environments, growth that could then spur improvement in governance. This is in sharp contrast to budgetary support, which requires a high initial level of governance, often degraded by that same budgetary support. Project financing can create growth even in the face of corruption, growth that often can provide the means by which to escape corruption.

This compelling argument in favor of project financing and opposed to budgetary support for governance reasons comes hand-in-hand with an argument supporting project

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135 Bueno de Mesquita and Smith, p. 313.
136 Cordella and Dell’Ariccia, pp. 3-4.
financing from the perspective of potential growth. If income growth leads to improved governance, project financing is often a more beneficial method of aid delivery. This is due to the bottom-up nature of project financing, in contrast to the top-down approach of budgetary support. Grass-roots endeavors have almost always proven more successful in development assistance measures.

### 4.3.4 The top-down nature of budgetary support

Over the past few decades, a literature has accumulated favoring more situation-specific assistance development over so-called top-down aid. Cordella and Dell'Ariccia advised that “in the presence of conflicts of interest between donors and recipients, aid policy should be tailored according to the recipient government's characteristics,” and Hughes and Irfan warn that if only due to geographical differences, the same interventions should not be used in different regions. International development movements have been often chastised for their lack of specificity. One critic of the Human Development Report asserts that "the reluctance to address the issue of social, economic and political divides within countries and across them seriously undermines the contribution of the report.”

Given the relative successes that specificity and condemnation that oversimplification have seen, it is no wonder the latter of these two schools of thought has received extensive support. As Birdsall et al point out, "almost all successful cases of development in the last fifty years have been based on creative- and heterodox- policy

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137 Cordella and Dell’Ariccia, p. 2.
138 Hughes and Irfan, p. 703.
innovations."\textsuperscript{140} This contention that aid's successes have been "narrowly targeted at specific objectives"\textsuperscript{141} resonates with Rose-Ackerman, who staunchly supports grass-roots efforts as the most effective means for pro-poor development. As quoted in Masud, "actions at the grass-roots level are seen as conducted at private sector levels of cost control and efficiency, while they achieve development objectives and serve the needs of many people."\textsuperscript{142}

With such an overwhelming consensus on the importance of specificity in development planning, it follows that the Millennium Project Report would be emphatic in its insistence that its methods are not decontextualized. "Since there is no 'one-size-fits-all' in meeting the Goals," the report insists, "the questions can be properly answered only through detailed needs-assessments that must be carried out at the country level."\textsuperscript{143} There is something ironic about this statement, as the Millennium Project is defending its sensitivity to context by highlighting its country-wide comprehensive development frameworks, the PRSPs. One such document, Ghana's Multi-Donor Budgetary Support agreement (MDBS), is used by Quartey to show that these frameworks centralize a vast majority of development decisions, thereby making aid more top-down by definition.\textsuperscript{144} The Report attempts to cover its tracks by making a foggy call for decentralizing target-setting, decision-making, budgeting, and implementation responsibilities to the levels of local governments.

The Millennium Development Goals call for the attainment of targets based on aggregate country-level data. Especially considering the fact that the most impoverished

\textsuperscript{140}Birdsall, Rodrik and Subramanian, p. 145.
\textsuperscript{141}Birdsall, Rodrik and Subramanian, p. 142.
\textsuperscript{142}Rose-Ackerman, as quoted by Masud, p. 5.
\textsuperscript{143}UN, p. 55.
\textsuperscript{144}Quartey, p. 5.
and vulnerable sections of a population are the least effectively captured by aggregate statistics even in highly-developed bureaucracies, the Goals— even if met— may not help the poorest as much, if at all. Cornwall and Brock provide an even more scathing review of the Millennium Development Goals: "As a set of time-bound, numerical targets, the MDGs imply, rather than direct, necessary policy change. In a sense they are the ultimate in compromise, the lowest common denominator of legitimate change, the price of international coherence and cooperation." But the Millennium Project, despite its protestation to the contrary, does very little to ameliorate misgivings about lack of specificity with its chosen delivery methodology. The use of budgetary support over project financing cements MDG-based aid into a top-down perspective.

Unwin explains that "...(a) focus on working primarily with African governments has meant that donors are now operating in an increasingly top-down mode and very largely at a distance from the poor people whom they are supposedly meant to be helping." Rose-Ackerman lists four reasons that individuals give to non-profits, and the very first is that non-profits are able to provide a more diverse array of services than the public sector. This diversification, demonized by the Millennium Project for its coordination issues, has been shown to have positive implications for the efficacy of aid. Knack's study shows that negative effects of aid are worse with higher homogeneity—better with increased with increased diversification. Thus budgetary support homogenizes aid programming, leaving it less capable of reaching disparate populations with differing needs, or, as Unwin says, "lack of attention in budget support to issues of

145 Haines and Cassels, p. 396.
146 Cornwall and Brock, p. 1050.
147 Unwin, p. 1518.
148 Rose-Ackerman, p. 716.
149 Knack, p. 325.
social equity, difference and place make it incapable of delivering the objectives claimed for it by its advocates.\textsuperscript{150}

This weakness of budgetary support calls into mind the main argument from William Easterly's \textit{The White Man's Burden}. Easterly divides aid givers into two groups: Planners and Seekers. Planners set goals about aid disbursement, delivery methods and aggregate outcomes from above, while Seekers identify problems at ground level, seek creative solutions, and then examine whether these solutions might have other practical applications to similar problems on the ground. The Millennium Project may attempt to convey a Seeker mentality, proudly exclaiming that they have undertaken the first ever bottom-up needs assessment on a global scale. Their support of country-level analysis, contention that "we already know how to solve all the problems," and their support of what they call "highly replicable service protocols" seem far more Planner-like in nature.

Perhaps the proponents of the Millennium Development Goals are right. Perhaps global poverty cannot be eradicated without a global plan of action. To this, Easterly would respond that global poverty cannot be eradicated \textit{with} a global plan of action, and to promote such expectations will undoubtedly create problems maintaining support for development assistance in the future. Perhaps more to the point however; such a plan is inevitably generic and an enemy to reasonable, context-specific programming. Cornwall and Brock go so far as to say that "Any way of world-making that gives us one-size-fits-all development recipes stripped of any engagement with context or culture, politics, power or difference, does violence to the very hope of a world without poverty."\textsuperscript{151} The Millennium Development Goals are top-down in nature, and the Millennium Project

\textsuperscript{150}Unwin p. 1502.
\textsuperscript{151}Cornwall and Brock, p. 1058.
Report advocates the use of a top-down methodology by embracing budgetary support secondary to MDG-based PRSPs. A willful ignorance of so thoroughly examined and widely consented best practices seems irresponsible on a nearly unbelievable scale, yet the Millennium Project Report can actually out-do itself in this regard. With the highly conclusive body of evidence that exists against the use of conditionality, the MPR has even more adamantly rejected the use of conditionality. However, the "selectivity" required by the use of budgetary support is very thinly veiled conditionality, and is bound to carry with it all of conditionality's flaws and exclude some of the world's neediest people in the process.

4.3.5 The conditionality of “selectivity”

Donors began attaching conditionalities to foreign aid dollars in earnest in the 1980s upon realizing the catastrophic effects of the large sums of budgetary support available to corrupt governments and their leaders. The Cold War placed strategic concerns foremost in the minds of major donors such as the USSR and the United States, both of which were very generous to countries in Africa and Latin America in exchange for alliances and primary resources. “What the rulers of these countries did with development funds was all too often a matter of indifference to donors, permitting dictators like Sese Seko Mobuto of Zaire to remain in power while pilaging their once-rich countries.”152 Reports of gross misconduct in the part of aid recipients led post-Cold War donors to increase their expectations, attaching aid dollars to whatever policy package or reforms they believed would ensure aid’s use for the betterment of recipient country finance and governance. But conditionality soon proved to be a treatment often

152Kapstein, p. 37.
worse than its disease. As Mkandawire describes it, conditionality led to “unbridled experimentation in which new ideas and institutional arrangements or projects were introduced and abandoned according to the dictates of fashion, with no consideration of what these changes might mean for existing institutions.”153 After the 1980s, donors realized the importance of country ownership and set out to transfer responsibility back to Africans. But “the policy that was returned was not indigenous but was prepackaged from donors.”154 Donors contracted papers they said reflected government opinions and congratulated them, or simply hand picked personnel who agreed with them. Donors also used technical assistance as a means to effect conditionality: “resident expatriate staffs have tried in vain to superimpose institutions and concepts on existing social and political norms and values.”155 Thus began the cycle of conditionality: restrictions are lightened in order to lower transaction costs for recipients, aid is either misallocated or proves ineffective, conditionality is reinstated in a practical sense under a new name, only to eventually face criticism as such and restart the process once more.

The most recent iteration or redefinition of aid conditionality is the notion of “selectivity,” summarized by Target 13 of the eighth Millennium Development Goal: “more generous official development assistance for countries committed to poverty reduction.”156 The normative value judgment inherent here is worth highlighting. By this definition, the MDGs are explicitly opining that countries that don’t embody Western ideas of governance and embrace MDG philosophy with respect to development do not care about reducing poverty. In a publication from the same year, Jeffrey Sachs

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153Mkandawire, p. 15.
154Mkandawire, p. 17.
155Quartey, p. 7.
156UN, Goal 8, Target 13, p. xiii.
expresses the logic behind selectivity in a less culturally repugnant way, calling for increased technical cooperation and budgetary support to “countries that could use the money effectively.”\textsuperscript{157} The Millennium Project Report confuses effectiveness, need and strategic importance in their governance-based argument: “Donor governments need to distinguish among countries so that aid is focused where it will make a difference, and so that donors do not shortchange the countries that need the most help by focusing on those with greater geopolitical attention.”\textsuperscript{158} By ‘selecting’ countries more capable of handling aid funds, donors indeed shortchange the countries that need the most help, regardless of their strategic importance, which cannot be responsibly associated with the two relevant factors at hand. As to strategic importance, to quote Riddell, “governments will act first and foremost to further their interests... whatever they might say to the contrary.”\textsuperscript{159}

As a recipient government’s resources increase, the marginal value of aid decreases, therefore larger aid packages must be offered by donors in order to “buy” policy concessions. Consequently, aid increases as resources increase up to a point, followed by a decrease due to absorptive capacity and donor preferences to favor more impoverished countries.\textsuperscript{160} In other words, conditionality is more likely to be successful in countries that least need aid, and that are more likely to already have the core competencies conditionality seeks to create. Perhaps more to the point, countries with more initial resources are more likely to have institutions and practices in place to process and properly allocate funds. Therefore, countries without the means by which to provide public goods and services, those often most in need of development assistance, are not

\textsuperscript{157}Collier and Dollar, p. F249.
\textsuperscript{158}UN, p. 42.
\textsuperscript{159}Riddel, p. 328.
\textsuperscript{160}Bueno de Mesquita and Smith, pp. 321-330.
eligible for that assistance under the selectivity described by the Millennium Project Report. As has been illustrated, Collier and Dollar insist that the goal with selectivity should not be to avoid giving aid to governments without Western governance but to give them less... but a fundamental hypocrisy still remains. Selectivity insists that aid be given in a continuous flow without the bonds of conditionality, conditional to its being used in a manner donors feel is wise, by governments that donors believe to be just.

It is no small wonder that the Millennium Development Project and its notion of selectivity seek to distance themselves from the concept of “conditionality.” Firstly, it has been shown time and again that conditionality is simply not credible. As Hagen points out, “(a)id ‘contracts’ cannot be enforced in courts, and the generally poor record of conditionality demonstrates that such agreements have not been self-enforcing.” 161 This could be because donors are too altruistic for ex-post conditionality, “as to deny relief to countries with a bad track record but in desperate need of aid would constitute a non-credible threat.”162 At best, donor commitments are poorly coordinated and difficult to enforce,163 and without ownership, recipient governments are bound to evade commitments or simply fail to meet agreed-upon terms. It is this confluence of factors working against conditionality that leads Quartey to the belief that conditionality can achieve nothing if the conditions are not already desirable to a recipient willing to act.164 Collier and Dollar, condemning conditionality in favor of selectivity, assert that “(m)eaningful, sustained policy reform requires commitment and ‘ownership’ from the governments in question and some degree of acceptance by the wider society. So, it is

161Hagen, p. 3.
162Cordella and Dell-Ariccia, p. 23.
163Riddell, p. 317.
164Quartey, p. 12.
useful for donors to begin by looking at aid effectiveness on the assumption that they
have no influence on policy at all."165

At its most effective, conditionality can only be expected to be successful for the
duration of aid programming, with recipient governments reverting to their preferred
policies and methods once a program is terminated or all aid funds have been
dischursed.166 But countless studies show that conditionality has failed to change recipient
behavior.167 Certainly with the structural adjustment agreements of the 1980s leading
more often to further structural adjustment agreements requiring the same changes as
their predecessors than to the required changes themselves, history abounds with
evidence to the effect that conditionality is neither credible nor effective.168 The
staggering eight consecutive rounds of debt forgiveness between 1987 and 2005 mirror
this conclusion, but perhaps the most damning observation was made by Easterly
regarding the Washington Consensus. His research finds no shift in aid allocation after
1980 due to recipient policies.169 This means that even at the height of conditionality in
aid allocation, aid disbursal was not affected by recipient behavior in any statistically
observable way. When there are no credible consequences for defectors, game theory
compels actors to act in their own self interest. A recipient government is only likely to
do what a donor wants when its own preferences are similar.

At the end of the day, one is left to wonder what the practical difference is
between selectivity and conditionality. A donor withholding aid from countries that do
not meet their preferred recipient profile hardly seems distinguishable from one that only

165Collier and Dollar, p. 255.
166Cordella and Del-Ariccia, p. 16.
167For a brief overview of some of this research, see Knack (2001).
gives to countries that agree to play by its rules. One might argue that the difference lies in selectivity’s requirement that changes already be made, as opposed to conditionality’s faith in promises to change. Changes made in order to become eligible for selective aid would almost certainly be expected to be as temporary as those made during a conditional program, however; and altruistic donors are likely to acquiesce to governments that insist that the quantity and quality of their bureaucracy and development programming will improve once they have the funds to make this change. Conditionality, whether ex ante or ex post, “structures accountability as something between the executive branch of government and aid donors rather than between state and society, weakening this important aspect of governance.” The only effective difference between selectivity and conditionality may be the former’s proclivity to exclude some of the world’s poorest and most vulnerable people because their governments do not lend themselves to the singular methodology of aid delivery and assistance advocated by the Millennium Development Goals. The Millennium Project insists that it favors selectivity over conditionality so as to avoid shortchanging needy nations. It prefers to proscribe them altogether, instead.

4.3.6 Left behind

Perhaps the most devastating effect of a shift towards general budget support following the publication of the Millennium Project Report is the tendency it creates to not give financial assistance to countries whose governments do not meet the standards of governance assumed to be requisite for aid’s success, following the findings of Burnside

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and Dollar in their watershed publication of “Aid, Policies and Growth” in 2000.\textsuperscript{171} Their research, sponsored by the World Bank and dealing only with country-to-country ODA, suggested that aid positively effects GDP only in countries with “good” policies, therefore advocating for “selectivity” in aid allocation: aid should be systematically focused on countries that score well on western-designed international indicators of governance.\textsuperscript{172} Their findings have not proven to be robust, and even David Dollar himself, along with fellow World Bank economist Paul Collier, has tried to temper the policy shift that followed his earlier research, saying that “our recommendation is \textit{not} to give zero assistance to the poor policy countries. The main thrust of our analysis is that donors should be giving more assistance to those high-poverty countries in which policy is above average than to those in which policy is poor.”\textsuperscript{173}

Nevertheless, the impact of Burnside and Dollar’s 2000 work is being felt throughout the developing world, in ruinous ways.

The Millennium Development Report acknowledges the effect that selectivity may have on some developing countries, saying “we recognize that some countries will not qualify for increased aid because of their poor governance.”\textsuperscript{174} The statement fails to consider the possibility that donors would choose to relocate existing aid to MDG-approved countries, creating a net decrease in financial assistance to “poorly governed” countries. That potentially-decreased aid may actively save lives despite its impact on aggregate impact on GDP. Drazen is more straightforward with his reaction to Burnside

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\textsuperscript{172}Competing and more culturally-sensitive indicators do not seem to have been designed as of yet. One could easily argue that this fact is a reason to call for their design, rather than an excuse to use existing over-simplistic measures.
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\textsuperscript{173}Collier and Dollar, p. F249.
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\textsuperscript{174}UN, p. 56.
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and Dollar: “(i)f the cause of aid ineffectiveness is country malfeasance not affected by conditionality, optimal behaviour may be ‘selectivity,’ that is, cutting off aid to repeat poor performers.”

The Millennium Project justifies its policy of selectivity by saying that “the system for international development assistance needs to consolidate its incentives for countries with weaker governance levels, showing that good performance is indeed rewarded by financial support consistent with the Goals.” But one has to ask, first, if such a statement is productive, and then if there is no other way to eliminate aid dollars wasted through government malfeasance. A country’s response to this sort of bold shift is limited both by its capacity to effect rapid changes on a major scale and by its desire to do so. Cutting of aid to a country with governance problems may exacerbate those problems or, at the very least, decrease the ability of that government to manage reform, where the time horizons established by the Millennium Development Goals even allow for the possibility of such changes. Second, following the selectorate theory model, countries with smaller coalitions are less likely to react productively to the removal of pro-poor assistance, precisely because the support of the most disadvantaged is not required for the maintenance of political power. Therefore, the countries in which “government malfeasance” is most rampant are those least likely to respond to this sort of incentive. Nevertheless, donors have already shifted their allocations significantly in response to the Millennium Project Report: “(d)onors have been increasingly selective in

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176 UN, p. 53.
skewing aid towards countries thought to have institutional environments best able to utilize new funds.”

It is certainly destructive to the constituencies for foreign development assistance to continue giving aid dollars to corrupt leaders and inefficient bureaucracies that have repeatedly proven themselves unwilling or incapable to use foreign aid effectively to improve the lives of their poor. Nevertheless, the unproductive and in fact often destructive solution posed by the Millennium Project cannot be the only response to these development issues. Kapstein provides just such a solution, suggesting that official, ODA, budgetary aid should only go to demonstrated pro-development governments. Where such a government is not in place, “(aid) should be directed towards those projects and organizations - including churches and charities - that best promote the fortunes of vulnerable population groups.” It is here that the Millennium Project Report and indeed the MDGs show themselves to be catastrophically short-sighted. Despite briefly mentioning that “we recognize that in addition to MDG-based ODA, other forms of ODA will continue to be warranted,” the Millennium Project still fails to acknowledge non-ODA foreign assistance and barely begins to discuss the possibilities for non-MDG-based aid.

An analysis of the quantitative effects of this great “leaving behind” are beyond the scope of this thesis. To estimate the hypothetical allocations of donor nations over the course of the past two decades would be a great endeavor, and highly empirically difficult. This handicap notwithstanding, further research into the negative effects of aid selectivity would have a great and positive impact on the ways in which aid is delivered.

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177) Moss and Subramanian, p. 3.
178) Kapstein, p. 42.
This “leaving behind” is only one of many problems associated with budget assistance. These problems are bound to be pervasively destructive to the foreign assistance outlined by the MPR and MDGs, as budgetary support is the narrow means by which the Millennium Project compels donors to give aid, and one categorically prone to issues with governance bypassed by “selectivity.”

4.4 Summary
The preceding overview of general budgetary support highlights some of the main critiques of its use as a primary method by which to deliver development assistance funds. Budgetary support creates more moral hazard and increases the chance of aid dependence more than aid that does not directly supplement government finances. The Millennium Report ignores important issues of absorptive capacity, which are worse when access to assistance and potential for programming are limited to line ministries in recipient country bureaucracies. For both of these reasons, budgetary support has an overpoweringly negative effect on governance, more marked and detrimental than is experienced with program assistance. General budgetary support is also more top-down in nature than program assistance and NGO assistance, which makes it a less useful tool in achieving varied development objectives across disparate circumstances. The selectivity adopted by donors secondary to the Millennium Project acts more like conditionality, which has shown very underwhelming performance over the past several decades. That selectivity has, however, created a tendency to leave behind countries with desperate need but less-than-satisfactory bureaucratic institutionalization.
After reviewing some of these problems, it is clear that budget support cannot be advisable on a global and nearly universal level, given its inherent weaknesses. If the endorsement of the Millennium Development Goals by way of the Millennium Project Report have had a measurable effect on the way in which aid is delivered, they are guilty not only of ignoring best practices but creating a net decrease in aid effectiveness. This contention requires evidence that the MDG movement has changed the giving habits of bilateral and multilateral donors in favor of general budgetary support since the establishment of the Goals and the publication of the Report. The subsequent data analysis hopes to answer these questions.
Chapter 5: Methodology of Analysis and Results

Now that the empirical and theoretical objections to budgetary support as a general tool for aid delivery have been explained at length, the analysis turns to whether the Millennium Development Goals or Millennium Project Goals have coincided with a statistically significant increase in its use. Before such analysis is undertaken, however, some important distinctions must be made to focus and qualify the results to come. In this chapter, these questions - including choice of data source and definition of terms, regional foci, and statistical tools to be employed- will be answered, in order to better support or refute the hypothesis that the Millennium Project Report has decreased use of best practices for aid delivery, as exemplified by the increase in budgetary support in the era of the Millennium Development Goals.

5.1 Data source and definitions

For the analysis of budgetary support in terms of overall aid dollars and as a percentage of financial assistance given, I will be using the Creditor Reporting System (CRS) of the OECD. I have chosen to use OECD data on Official Development Assistance because they are the source used by most scholarly and practical development endeavors, including the Millennium Project Report itself. The online database makes the acquisition of aggregate dollar amounts relatively uncomplicated, and allows for sorting by time period, country and region. I will compare constant 2009 US dollars given as budget support aid between 1995 and 2009 (the last year in which data has been made publicly available on the OECD server). I will make this comparison in monetary
terms as well as in terms of percentage of ODA aid, and will analyze global data, data from the Least Developed Countries (LDCs) of the world, for the African continent, and for LDCs in Africa.

5.2 Regional focus: Africa

In the analysis of the change in importance of budgetary support secondary to the formulation of the MDGs and recommendation of the Millennium Development Report that follows, special attention will be paid to Africa, and more specifically to the Least Developed Countries in Africa. This is partially because “(i)n a historical perspective, Africa is different, but neither policy analysis nor social scientists have taken this observation *ad notam*.”\(^{179}\) The main argument for my concentration, however, is one made by the Millennium Development Report. The United Nations reports that “Sub-Saharan Africa is the epicenter of the (poverty) crisis, with continuing food insecurity, a rise of extreme poverty, stunningly high child and maternal mortality, and large numbers of people living in slums…, and a widespread shortfall for most of the MDGs.”\(^{180}\) According both to the Millennium Project and to observing scholars, Sub-Saharan Africa is the only region of the world, with a partial exception of Oceania, where no progress or even a reversal is being recorded with respect to the Goals and targets.\(^{181}\) Not only is Sub-Saharan Africa the region with the greatest need, seeing the least progress; its historical and cultural heterogeneity and difference from Western beliefs make it most likely to need heterodox and innovative solutions. It would follow that the methods of

\(^{179}\)Hyden, p. 16751.

\(^{180}\)UN, p. 9.

\(^{181}\)Hyden, p. 16751.
development assistance delivery would be particularly pertinent and should be designed to best suit Africa’s needs.

Varied reasons exist why Africa might be experiencing greater difficulty in meeting targets towards achievement of the Millennium Development Goals. Sanchez et al highlight the importance of physical capital, infrastructure, and infectious disease, while Blair’s Commission for Africa blames aid delivery for the lack of progress: “the system for allocating aid to African countries remains haphazard, uncoordinated and unfocused. Some donors continue to commit errors that, at best, reduce the effectiveness of aid. At worst, they undermine the long-term development prospects of those they are supposed to be helping.” Blair’s Commission Report is scathing about past movements in foreign aid, claiming that “rich countries pursue their own fixations and fads,” but after reviewing the vast literature available on the relative weakness of budgetary support as a development tool, one has to ask whether the MDGs are anything other than the latest popular trend. As has already been mentioned, African conditions lead to incomplete capture by formal institutions, so “poverty reduction through formal institutions therefore becomes ineffective.” Indeed, the very definition of poverty could be called into question. Although generally more impoverished than their Asian and Latin American counterparts, African populations tend to have more social support mechanisms, something Hyden refers to as “the economy of affection.” This often beneficial informal social structure makes Africans in need exceedingly difficult to reach.

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182 Sanchez et al, p. 16755
184 Hyden, p. 51.
185 Hyden, p. 16755.
through official, formal institutional means, especially considering the increased donor fragmentation that further taxes institutional capacities.

Due to the inappropriate use of budgetary support in an environment especially incapable of benefiting from such a tool and despite its own contention that Africa is the “epicenter of the crisis,” the Millennium Project Report includes a caveat to excuse the future failure to meet the Goals. The report admits that a scale-up will allow many, but not all counties to escape poverty and graduate from aid receipt, “the poorest countries” will continue to require assistance for likely ten years after the 2015 conclusion of the Millennium Project, totaling up to twenty percent of the country’s GDP. Regardless of the fact that twenty years is not likely to be enough for large capital transfers given as budgetary assistance to assist African countries to an era of self-sufficient and self-sustaining growth, this admission is a massive reversal from the oaths made elsewhere in the document and by the Millennium Development Goals regarding the outcome of their “Decade of Ambition.” Moreover, the map to which this admission refers, in which countries which may very well fail to meet the Goals in time are highlighted, includes most of the African continent, and nearly all of Sub-Saharan Africa. This graphic also suggests that twenty-two states will require more than 20% of their GDP to be donated, as opposed to the maximum of 20% suggested by the document. Of those, a full nineteen are African countries.
Figure 1: Map of countries not expected to reach Goals by 2015 and the percent of their budget expected to be foreign assistance after this time. Source: UN MPR.

The purpose of my analysis is to show that the methodology advocated by the Millennium Development Report (budgetary support) has increased in prominence over the course of the past two decades. It seems germane to pay special heed to that tool’s use in the area of the world most in need of assistance, the region least likely to benefit from its use. Subsequently, in addition to looking at global trends, I will calculate the change in non-sector allocable budgetary aid in the African continent, as well as the LDCs in Africa. This last calculation has been chosen in place of dividing by geographical region (read: Sub-Saharan Africa) because it will exclude Botswana, Namibia, South Africa and Lesotho, as they are generally excluded from discussions of Sub-Saharan poverty and are subsequently hypothesized to “graduate” from aid receipt
by 2015 by the Millennium Project. Other LDCs in Africa will also be included in the data, providing a better picture of the countries most in need on the continent most in need of assistance.

5.3 Other Empirical Considerations

In addition to differentiating recipient regions, the analysis will also examine the aid allocation patterns of different donors or groups of donors. More specifically, in addition to describing ODA aid patterns for all donors, the analysis will consider the donations of the Development Assistance Committee, the United States, multilateral donors and EU Institutions. The DAC will be used as a proxy for bilateral donation, as the committee includes all of the major providers of bilateral development assistance, and it may be useful to be able to compare bilateral and multilateral flows. The United States and European Union have been chosen as examples of bilateral and multilateral aid as they are two of the largest donors overall, and are strong examples of differing aid philosophies.\(^\text{186}\)

I will utilize descriptive statistics to examine changes between three five-year time periods. Data from 1995-1999 (Period 1) will be compared to data from 2000-2004 (Period 2), the latter data set also being compared to data from 2005-2009 (Period 3). These divisions allow for substantiation or disproval of the effects of both the Millennium Development Goals (2000) and the Millennium Project Report (2005). Changes in means from these two periods will be compared to the average standard deviation of the two, with changes in mean valuing less than one average standard deviation being dismissed as insignificant, as they may well reflect more noise than

\(^{\text{186}}\) For one of many examples of analysis of these differences, see Alesina and Dollar (2000).
actual change. Changes in mean which equate to more than one standard deviation will likewise be seen to be more significant. Both aid commitments and disbursal will be analyzed across donors and regions, which will allow for the calculation of average fulfillment of commitments for both budget support and ODA. Finally, simple linear regressions will be carried out across donors, regions, and periods of time. A multivariate regression is beyond the scope of this thesis, but due to the likelihood of confounding factors and the limited data available, only regressions with very high explanatory power (with r-squared values equaling or exceeding 0.9) will be used to show statistically significant linear relationships.

5.4 Results

5.4.1 Descriptive Statistics

A cursory glance at the data retrieved from the CRS database suggests that general budgetary support increased more because of the creation of the Millennium Development Goals than the publication of the Millennium Project Report. For all donor delineations, universal budget support increased more between periods one and two than periods two and three. In the case of budget support given only to countries designated as LDCs, multilateral donors, the countries of the DAC and the summation of all donors show a significant increase between periods one and two, but no significant change between periods two and three. Budgetary aid to Africa (Figure 2) saw a very significant increase around the establishment of the MDGs in 2000 but not around the publication of the MPR for aggregate donors, with significant versus insignificant increases in the other four donor divisions. Finally, general budget support to LDCs
increased at a higher rate between the first two time periods for three of five donor divisions, with the other two delineations experiencing the same rate of increase over time. The only case in which budget support increased more between periods 2 and 3 is the United States, which could be because of the creation of the Millennium Challenge Account (MCA) in 2005.

Figure 2: Committed Budgetary Support to Africa

The examination of budgetary support as a percentage of ODA given by these donors proves more interesting yet. The share of ODA devoted to general budget support did not increase in global LDCs from the period of 1995-2009. This suggests that neither the establishment of the MDGs nor the publication of the MPR changed the prominence of budgetary assistance as a whole. In fact, the percentage of ODA given as budget assistance didn’t increase for any donor to any recipient except for multilateral aid given to Africa and in aggregate. Even more surprisingly, total donors as well as the sum of DAC countries and the United States all show a decrease in the prominence of budget support to recipients as a system over both period comparisons as shown in Figure 3, and
no significant increases were seen with respect to aid to LDCs. Similar to the results outlined above, African LDCs experienced decreases in budget support’s share of ODA for all donor divisions across time divisions except for the US between time periods 2 and 3, again a likely result of the creation of the MCA. This result insinuates that countries are indeed becoming more “selective” in their budgetary aid allocation, and though a country-by-country recipient analysis was not conducted, one might wonder if this lower level of budgetary support compared to aid supported the hypothesis that some African countries were being “left behind.”

Figure 3: Budgetary Support as a Percentage of ODA Commitments

There is an increased compliance to commitments to give budget support by the United States between Periods 2 and 3, but decreased compliance for ODA. Theoretically it would seem that higher compliance with respect to budget support leans toward the notion that conditionality is being less widely used, while higher compliance with respect to ODA suggests conformity to and acceptance of the Big Push mentality. This first result, then, signifies an abandonment of conditionality in favor of selectivity
(or decreased willingness to hold recipients accountable for broken agreements at the cost of aid disbursal). It also calls into question whether the United States is making ODA commitments under duress – whether it is making promises to meet global approval with no means or plans to keep them. The institutions of the European Union seem to be making the most empty promises with respect to Official Development Assistance disbursal, as their disbursal percentage of commitment is easily the lowest. The world’s strongest proponents for a predictable Big Push have average compliance rates ranging from 59.9% to 77.8% across recipient categories. The next lowest compliance levels by other donors exceed the maximum compliance of EU institutions by approximately 10%. Multilateral institutions maintain the highest percent compliance, with more than 100% of committed aid disbursed on average to LDCs, Africa, and African LDCs.

This is in stark contrast to the levels of compliance to commitment by donors specifically for general budget support. European Union Institutions gave over 100% of their committed budget support, with the United States coming in lowest with less than 50% compliance for LDCs and African LDCs. This result suggests either that the United States has generally been more inclined to enforce conditionalities than the other donors examined or that they made commitments in bad faith to avoid the negative attention that a failure to change behavior in response to the Millennium Declaration could create in the international arena without actually changing that behavior. As stated above, US compliance to commitments increased in 2005, which can be hypothesized to be an effect of the creation of the MCA. This would seem to point towards the prior explanation, that the conditionalities imposed by the United States are more stringently enforced, rather than a lack of intention by the US to meet stated goals. With the rigorous standards by
which MCA applicants must conform, the US is less likely to require the use of conditionality to enforce agreements with recipient states. Aggregate numbers do not show the extent to which ODA compliance by the United States decreased after 2005, the greatest decrease being in Africa. The average commitment to disbursal rate from 2002-2005 is 103.07%, while compliance on average from 2006-2009 was only 77.46%. This 25.6% plunge is accompanied by a 21.69% decrease in compliance to commitments to African LDCs. Perhaps due to the same rigorous standards by which eligibility for budget support is ascertained, Africa, and especially Africa’s poorest nations, are receiving significantly less assistance from the United States than expected - a data point that supports the notion that “selectivity” is leaving some of the world’s most needy people left behind.

5.4.2 Regression analysis

The simple linear regressions were more useful in substantiating, rather than disproving null hypotheses that the MDGs and MPR had no significant effect. A significant linear increasing relationship was seen in the period from 1995 to 2010 in the following cases:

- ODA given by multilateral organizations to all recipients (Figure 4)
- ODA given by donors in aggregate to all recipients
- ODA given by the sum of donors, by the total of DAC countries, by the United States and by multilateral organizations to LDCs
- ODA given to Africa by all donors in aggregate
- ODA to African LDCs given by all donors in aggregate, the DAC countries and multilateral organizations

These regressions have an interesting implication. By saying that the increase in ODA was linear from 1995-2009, the results suggest that there was no significant shift in
allocation in either 2000 or 2005, which implies that neither the ratification of the Millennium Development Goals nor the publication of the Millennium Project Report significantly affected ODA flows. Further, no linear increases were reportable in year subsets not included in the eliminated sections listed above.

![ODA Given by Multilateral Organizations to All Recipients](image-url)

Figure 4: ODA Given by Multilateral Organizations to All Recipients

The results for the regressions from 2005-2009 (period three) of aid disbursal yielded more interesting results. Multilateral organizations increased their disbursal of budgetary support as a percentage of ODA overall, to LCDs, and to Africa from 2005 through 2009, but not (in Periods 1 and 2) before 2005. This finding is intuitively comprehensible, as the descriptive statistics showed that multilateral institutions increased budget support’s share of ODA commitment in all but one geographical region, pointing to an agreement with or compliance to the MDGs and MPR. It follows that with the Millennium Development Goals, commitments to give budget support increased, and with the further advocacy for budget support’s usefulness expressed in the Millennium Project Report, more budget support was disbursed. A more contrary finding was found
when total donor disbursals were examined. In all four geographic delineations, budgetary support as a percentage of ODA increased in a significantly linear way for the summation of all donors in the second, but not the first time period. Commitment in these categories was not changed by one donor, and experienced a decrease in the cases of the other four. This juxtaposition of decreased commitment with increased disbursal leads one to the natural conclusion that less budget support is being promised, but the promises are being more closely kept. In other words, general budget support appears to truly have shifted towards “selectivity” and away from conditionality, or at least away from holding recipients accountable for meeting those conditionalities. One would further expect, then, that the problems associated with selectivity are in play, and that the disuse or failure to enforce conditionality may weaken its chance of success in the future if the mantle of policy conditions to aid were ever to be taken up again.

The results for the prevalence of budget support secondary to this analysis seem to be fairly mixed. From the perspective of aid commitments, the recommendations of the MDGs and subsequent MPR do not appear to have fundamentally changed the amount of aid promised as budget support. In fact, despite its preferred status by the United Nations, the share of official aid given as budget support was seen to be generally decreasing over time. In the case of African LDCs, decreases in the share of budget support were less significant in the second period, suggesting that perhaps the advocacy by the Report had some effect, but budget support’s share of the aid budget was still decreasing despite calls for its increase. Hesitance to comply with commitments for budget support by the United States could show some lack of faith in the method or a higher willingness to hold countries accountable for broken promises, and the strong
On the other hand, the low compliance to commitment shown by the EU in terms of overall official development assistance (ODA) is interesting due to the high praise it often receives for committing a higher percentage of their GDP to be used as ODA.

One would almost be tempted to conclude that the MDGs and MPR had very little effect on the use of general budget support in international development assistance. In fact, the descriptive statistics showed ten additional cases in which no significant change was registered between any of the three time periods. No significant change was seen for budget support given to all recipients by DAC countries or the United States, nor did the US increase its universal ODA. EU institutions didn’t increase budget support’s share of aid overall or for African LDCs, nor did they increase budget support in dollar terms for African or global LDCs. The DAC didn’t increase budget support as a percentage of aid for Africa, and neither the DAC nor multilateral organizations increased this percentage for African LDCs. However, the disbursement regressions show that as a whole, aid given as budget support, as a fraction of all aid, increased in a linear fashion between Periods 2 and 3 (after 2005).

Commitments of budget support may not have changed much as a whole, or may have even decreased, but disbursement of budget support has increased dramatically. Given the detrimental effects of general budget support outlined in Chapter 4, the Millennium Project can be seen to have increased the use of what is generally concluded not to be best practice in international development, quite possibly increasing the problems inherent in the use of such a tool.
It is important to reiterate that these results suggest relationship, and cannot assert causation of increases or decreases in aid. Aid flows and their composition may be affected by any number of influences, from domestic politics to global economic health. Cases in which a linear relationship starting before the creation of the MDGs or in which no change is seen over the same time frame strongly suggest a lack of causation. If there was no significant increase from five years before the Millennium Declaration was signed into effect through five years after the Millennium Report was published, it can be maintained that neither of the Goals nor the Report had any meaningful or significant effect on disbursal. Other increases, decreases, and linear patterns over time are suggestive of relationships; but further and more exhaustive research on this topic is certainly needed. Given the high stakes of meeting the Millennium Development Goals for the international aid community and the world’s poor, such research should be a main priority for the Millennium Project.
Chapter 6: Conclusions and Discussion

A discussion paper published in March 2010 by the European Commission purports to contain evidence that countries that received high levels of general budget support outperformed those that did not in achieving progress towards the Millennium Development Goals.\(^{187}\) The study even goes so far as to report that these relationships hold when policy environment, income and aid dependency are controlled. Upon closer reading, however, the study suffers from serious empirical shortcomings. Not least of these is a binomial definition of policy environment: ambiguously titled “high policy” and “low policy” countries. More dubious even than this bilateral division is the source from which the two are defined, the World Bank’s Country Policy and Institutional Assessment (CPIA). The CPIA is widely criticized in the scientific community and suffers several inconsistencies and limitations, including complexity and lack of transparency along with subjective agency-prescribed ratings that many believe to make the scale unusable in scholarly endeavors.\(^{188}\) Yet because the European Commission study has controlled for a few major possible confounds (albeit exceedingly poorly), the study is seen to provide “more comprehensive support for the view that countries receiving large amounts of budget support perform better than little or no budget support.” (abstract) Ironically, the study does not include countries that do not receive budget support, as the CPIA is applied only to those countries the EC has already

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determined are eligible for budget support, and the study only includes countries for which CPIA data is available.

There are two overarching reasons why the Millennium Project Report ignores best practices as exemplified by the advocacy of budgetary support as the primary means of aid delivery. The first is bad science, and the second is willful ignorance. The study described above is an example of poor science, the sort of poor science that permeates much of the academic literature surrounding aid effectiveness. Defensible, reproduceable, repeatable analysis of aid methodology is necessarily complicated, the operationalization of terms complicated and contentious, the probability of numerous confounds extraordinarily high. A lack of empirically exhaustive research has led to the acceptance and adoption of analyses that do not withstand even cursory critical analysis, as shown with the European Commission paper discussed above.

There is also a significant empirical paucity regarding the comparative effectiveness of different methods of aid delivery, both in organizational and programmatic terms. De Renzio shows that “detailed research and a good empirical evidence base are lacking” with regards to the quality of institutions and capacity required to determine the feasibility of the sort of scale-up of foreign aid outlined by the MDGs.\(^\text{189}\) Cordella and Dell’Ariccia contend that they know of no other study that compares methods of aid delivery in discussing the connection between policy and effectiveness, and while their findings about the relative policy insensitivity of project (vs budget) aid are impressive, proving that they are consistent, reliable and robust requires further research from multiple sources. The international community could do nothing more important for the populations of impoverished nations than call for more, and more

\(^{189}\) De Renzio, p. 145.
scientifically rigorous research, and better reporting at the program level so that the learning curve of aid givers can improve. It is important to universalize methods for reporting, so that different donors and recipients can easily compare data in order to ascertain best practices. Hand in hand with this improved reporting must come improved self education by stakeholders - groups should know the results of analysis carried out by others, should be well informed about the body of research available. As the literature review in this thesis demonstrates, there is a multitude of evidence about the weaknesses inherent in budget support, and yet a monumental global development campaign advocates its use as the primary method by which development assistance should be given.

There is a significant difference between the bad science of basing strategies on insufficient empirical evidence and willful manipulation of data to secure unearned support. The lack of conscience exhibited by the Millennium Development Goals in highlighting Africa as the “epicenter of the crisis” but leaving it ineligible for the primary method by which aid is delivered is rivalled only by its quiet caveat about its reaching the Goals not by 2015 but by around 2025. Nothing compares to the reprehensible conduct of the creators of the Millennium Challenge Report with their assertion that a few countries may need “up to 20%” of their budget in ODA for the next ten years, contrasted with a map buried elsewhere in the document showing that most of Africa is estimated to need more than 20%.

It only follows that aid agencies would bias their research to show that aid is effective in order to justify their continued existence, and that organizations would seek to prove that their preferred methodology surpassed the methodologies used by others.
Nevertheless, in a world in which aid fatigue is increasing and the stakes for global poverty reduction have never been nearly so high, even the mere hope for success can be maintained only if the very best methods are used, and they cannot be used unless they are reliably and scientifically identified. Yet Goran Hyden explains that even where agencies are realizing that current methodologies aren’t best practices and have interest in better empirical analysis on a more detailed level, “this new direction is controversial in donor circles because it does not support the ‘Big Push’ initiative that many seek. It underlines the need for policy and institution building to be driven by a local political process, which takes time and is beyond the control of the donors.”

The global community must set aside biases and expand pre-determined conceptualizations of aid, governance, institutions, and development to be inclusive of a diverse and not always Western world. More importantly, however, it must insist upon complete, unbiased, and robust research upon which it can inform decisions regarding aid allocation and methodology. Agencies must become better at asking questions, rather than looking to justify answers. In short, aid professionals must be better Searchers, by Easterly’s definition.

It is a critical time for international development, a critical time for the world’s poor. Decades of failed initiatives and trillions of dollars spent with little quantifiable result have created an ever-increasing sentiment of aid fatigue. One might ask why the failure of this particular initiative stands to do so much more damage than the failure of its predecessors. The effect is cumulative. With every failed attempt to “Make Poverty History,” confidence in foreign aid is diminished. This initiative is made more imperative by the current global financial crisis and, more specifically, the debt crisis in

190Hyden, p. 16755.
the United States. According to Reuters, the Republican spending plan released in February of this year called for an 18% decrease in foreign aid, which pales in comparison to the call Senator Rand Paul (son of Presidential hopeful Ron Paul) made for the complete defunding of foreign aid as well as international commissions and organizations such as the UN. While it is doubtful that such a drastic measure will be taken, both of these documents highlight the growing neo-isolationism that is permeating American culture and politics. Certainly aid fatigue has increased over the past sixty years, but in the current climate, a failure to meet stated objectives due to superseded methodology stands to have a more catastrophic backlash than ever. The Millennium Development Goals are the most publicized, most popular, most visible commitments aid has seen, and their failure has unprecedented potential to harm the case for development assistance.

It is imperative that the identification of best practices in aid is made an immediate priority to prevent the public backlash that would come from failure to reach the Millennium Development Goals. The United Nations may not be equal to this task if the manipulation of data and misrepresentation of objectives shown by the Millennium Project Report are any indication. What is more, the UN may not be willing to attempt research to ascertain this information, as the Millennium Development Report seems to decree that no further research is required. In the face of other comments of staggering hubris and oversimplification, the Millennium Project Report actually goes so far as to

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voice the contention that "the specific technologies for achieving the capitalized Goals are known. What is needed to apply them at scale."¹⁹³ To paraphrase, the thinktank associated with the Millennium Development Goals believes that what is needed now is not further research but merely further funds. Nevertheless, with universal reporting methods to an international body by agencies, nongovernmental organizations and recipients the identification of best practices would be attainable at little extra cost, as all of these stakeholders already engage in reporting procedures, just to less avail. The conclusion of this thesis is that further research is essential to the survival of, let alone success of foreign aid, as is the standardization of reporting that would allow accurate comparison of research results. The Millennium Development Report is devalued by this lack of evidence, and delegitimized to an extent by its advocacy of academically repudiated methodologies such as general budgetary support. Even setting aside the billions spent annually toward accomplishing the Millennium Development Goals, failure to address these weaknesses is too expensive a mistake to make.

¹⁹³UN, p. 2.
Appendix A: The Millennium Development Goals and Targets

**Goal 1: Eradicate extreme poverty and hunger**

**Target 1.**
Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day

**Target 2.**
Halve, between 1990 and 2015, the proportion of people who suffer from hunger

**Goal 2: Achieve universal primary education**

**Target 3.**
Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling

**Goal 3: Promote gender equality and empower women**

**Target 4.**
Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015

**Goal 4: Reduce child mortality**

**Target 5**
Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate

**Goal 5: Improve maternal health**

**Target 6**
Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio

**Goal 6: Combat HIV/AIDS, malaria, and other communicable diseases**

**Target 7.**
Have halted by 2015 and begun to reverse the spread of HIV/AIDS

**Target 8.**
Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases
Goal 7: Ensure environmental sustainability

**Target 9.**
Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources

**Target 10.**
Halve by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation

**Target 11.**
Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers

Goal 8: Develop a global partnership for development

**Target 12.**
Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system (includes a commitment to good governance, development, and poverty reduction – both nationally and internationally)

**Target 13.**
Address the special needs of the Least Developed Countries (includes tariff- and quota-free access for Least Developed Countries’ exports, enhanced program of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt, and more generous official development assistance for countries committed to poverty reduction)

**Target 14.**
Address the special needs of landlocked developing countries and small island developing states (through the Program of Action for the Sustainable Development of Small Island Developing States and 22nd General Assembly provisions)

**Target 15.**
Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term

Some of the indicators listed below are monitored separately for the least developed countries, Africa, landlocked developing countries, and small island developing states
**Target 16.**
In cooperation with developing countries, develop and implement strategies for decent and productive work for youth

**Target 17.**
In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries

**Target 18.**
In cooperation with the private sector, make available the benefits of new technologies, especially information and communications technologies
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