

Michał Szczurek

Wrocław University of Economics

TWO MODELS OF DEVELOPMENT AID. EUROPEAN AND CHINESE STRUGGLE FOR THE AFRICAN SOUL

Abstract: The article contains the description of differences between two development aid approaches: the approach of member states of the Development Aid Committee of OECD and the approach of China which started to play a significant role on the arena at the beginning of the 21st century. The text is a comparison between two models on the following grounds: the instruments of development aid, the development aid restrictions and the tying of aid phenomenon. In the first part of the article the instruments of development aid and their character are described, which helps to understand the objectives of the models. The second part shows conditionality and selectivity concepts in aid granting procedures. Thanks to the comparison of two models the article demonstrates their advantages and disadvantages which are the clues for the future development aid evolution.

Key words: development aid, OECD, DAC, China, comparison.

1. Introduction

The Paris Declaration on Aid Effectiveness signed in February 2005 was meant to be an inspiration for actions which would lead to greater cooperation and harmonization of the activities of donors and partner-countries in international development aid. People's Republic of China signed the Declaration as a country which receives foreign aid.¹ Two years later China established the China-Africa Development Fund which had at its disposal 5 billion USD. Its purpose was to support development projects in the entire Africa. China's GDP average annual growth between 2000 and 2008 amounted to 9.9%,² while in 2009 it reached 8.7%.³ The relatively smaller Chinese growth in 2009 was caused by the global economic slowdown. It seems that signing the Paris Declaration by China as a partner country was caused rather by political aim to avoid the burden of obligation for donor countries (foreign aid donators)

¹ A. Poduszynska, *Chiny w Afryce kontra Zachód*, <http://afryka.org/index.php?showNewsPlus=4676> (accessed April 2010).

² World Bank Data and Statistics, *Data and Statistics for China 2000-2008*, <http://econ.worldbank.org/> (accessed April 2010).

³ National Bureau of Statistics of China, *Main Statistical Data in 2009*, http://www.stats.gov.cn/english/newsandcomingevents/t20100121_402615505.htm (accessed April 2010).

deriving from the Declaration. According to public international law a declaration-type document is not legally binding, however, it imposes rather a moral obligation on all signing parties to fulfil the principles included in the document. This is the obligation China did not want to face due to its own particular interests which reveal themselves also in foreign aid policy.

Sub-Saharan Africa is a region of the world which is the most in need and precisely on its territory there continues a rivalry between China and Development Assistance Committee (DAC) of OECD in the field of development aid.⁴ 22 DAC member states' official development assistance to Africa in 2006 reached 43.4 billion USD while China's aid accounted for 5.7 billion USD.⁵ However, People's Republic of China offers to partner countries significantly different development aid model which is a genuine alternative for the one presented by DAC members until now the only aid model available. Simultaneously China is often accused of using foreign aid in order to strengthen its own political and economic influence in developing countries, in some cases violating Human Rights. There is more and more concern about increasing rivalry between DAC members and China and, at the same time, more interest in the European-Chinese cooperation in the arena of foreign aid, as only joint initiatives might bring effective aid implementation.

The aim of this article is a comparison between DAC and Chinese development aid models. The most important grounds for differences are the following: (1) the character of aid instruments; (2) granting resources conditionality; (3) selectivity in choosing partner countries; and, last but not least, (4) the so-called phenomenon of tying development aid. Synthetic description of the most important disparities presented on the common grounds will let the reader to understand and appreciate the spirit of both development aid models.

2. China and DAC development aid instruments

The first difference in both described models reveals itself in definitions of development aid. According to OECD definition, official development assistance (ODA) stands for grants and loans transferred to public sector institutions in order to support economic development and creation of welfare, which have at least grant element 25%. In ODA there is also included, so-called, technical cooperation and international debt relief. It must be stressed that military expenditures are excluded,⁶ which highlights the peaceful character of economic and social development.

⁴ D. Kopiński, *Rola i funkcje pomocy zagranicznej we wzajemnych relacjach krajów rozwiniętych i rozwijających się*, [in:] K. Jędrzejczyk-Kliniak, L. Kwieciński, B. Michalski, E. Stadtmüller (eds.), *Regionalizacja w stosunkach międzynarodowych*, Wydawnictwo Adam Marszałek, Toruń 2008, pp. 205.

⁵ M. Davis, *How China Delivers Development Assistance to Africa*, Centre for Chinese Studies, Stellenbosch 2008, p. 6.

⁶ OECD DAC, *DAC Glossary of Key Terms and Concepts*, http://www.oecd.org/document/32/0,3343,en_2649_33721_42632800_1_1_1_1,00.html (accessed April 2010).

Grants (donations) are the most demanded benefits for developing countries since their repayment is not required. In the case of loans, partial repayment is required but it must fulfil ODA 25% of grant element condition.⁷ Main categories in which they are granted are the following: (1) government and civil society; (2) other social infrastructure and services; (3) economic infrastructure; (4) humanitarian aid; and (5) other.⁸ These categories clearly underline both development dimensions promoted by DAC: economic and social.

Within the described instruments there is a third one: technical cooperation. It is based on provision of professional consulting services that support ministries and government agencies of partner countries.⁹ The final assistance instrument mentioned is an international debt relief. As a rule the public finance sector of least developed countries tends to be in so bad condition that they are unable to provide international debt service.¹⁰ The relief of non-repaid debt becomes only an account deduction, theoretically improving partner country's budget; such deduction, however, *de facto* improves only ODA statistics in DAC and nothing more. In 2007 this so-called "phantom aid" reached almost 9% of total ODA.¹¹

As opposed to the transparent ODA definition by DAC, the Chinese definition of foreign aid is much broader and more open to interpretation. Beside grants, technical cooperation, concessional loans and international debt relief, it also includes the so-called "cooperation".¹² It involves foreign direct investments, contracts with Chinese enterprises, trade concessions and commercial loans.¹³ Moreover, there is no minimum level of donation and there are no requirements as to what channels aid should be delivered.¹⁴ A part of resources granted to developing countries is not delivered by public sector and they are transferred directly to the implementing enterprise.¹⁵ Thanks to this simple solution the waste of foreign aid by the developing countries' red tape and the possibilities of conversion of funds can be limited.

Grants and technical cooperation used by China are similar to those offered by DAC, with the only difference: there is no minimum grant element required.¹⁶ However, clear disparity reveals itself in the case of concessional loans and interest-free loans. Majority of loans are granted mainly with regard to their profitability

⁷ *Ibidem*.

⁸ OECD DAC, *Aid Target Slipping out of Reach?*, <http://www.oecd.org/dataoecd/47/25/41724314.pdf>, p. 13 (accessed April 2010).

⁹ OECD DAC, *DAC Glossary*...

¹⁰ W. Easterly, *Brzemię białego człowieka*, Wydawnictwo Naukowe PWN, Warszawa 2008, p. 189.

¹¹ OECD DAC, *Aid Target*..., p. 8.

¹² M. Davis, *op. cit.*, p. 2.

¹³ G.T. Chin, B.M. Frolic, *Emerging Donors in International Development Assistance: The China Case*, York Centre for Asian Research, York 2007, p. 13.

¹⁴ M. Davis, *op. cit.*, p. 1.

¹⁵ *Ibidem*, p. 12.

¹⁶ *Ibidem*, p. 11.

criteria and disregarding the non-economic benefits of certain projects.¹⁷ However, estimated ratio of grants to loans has been changing since decades and while in 1960s to 1980s it accounted for 1 : 2, it gradually changed and it reached approximately 50 : 50 ratio in 2008.¹⁸

Debt relief of African countries by China has two dimensions. It is not only a phantom aid instrument, it also has a deep political dimension – due to debt reliefs China struggles to tight political relations with its African partners.¹⁹ International debt relief decisions are usually announced during China-Africa summits or during Chinese politicians' international trips to African countries. In 2006, during the China-Africa summit in Beijing, Chinese president Hu Jintao announced interest-free loans relief for all the least developed countries.²⁰ Until 2006, China has forgiven approximately 1.3 billion USD to African countries and until June 2007 it has forgiven another 270 million USD.²¹ However, China is accused of DAC debt relief achievements free-riding, disregarding individual country's debt sustainability and the multilateral framework for debt sustainability.²²

To sum up this section it is worth noticing that described instruments of Chinese approach to development aid have one thing in common: profit seeking. The practice shows that the People's Republic of China is able to achieve its own economic goals and, at the same time, it has been able to become one of the largest donors in the international arena in no time.

3. Development aid granting restrictions

In the following sections I explain the characteristics of both development aid approaches to aid restrictions: conditionality and selectivity. Conditionality refers to donors' requirements addressed to government of partner country in order to be able to approve development aid.²³ In its turn, selectivity stands for the principles followed by donor countries in process of choosing certain partner countries.²⁴

DAC official development assistance has been criticised for its restrictions and barriers in the approval process since decades. Not only the multilateral aid institutions

¹⁷ T. Lum, H. Fisher, J. Gomez-Granger, A. Lealand, *China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia*, Congressional Research Service, Washington 2009, p. 2.

¹⁸ M. Davis, *op. cit.*, p. 11.

¹⁹ B. Berger, *EU-China-Africa Trilateral Development Cooperation*, German Development Institute, Bonn 2007, p. 12.

²⁰ M. Davis, *op. cit.*, p. 11.

²¹ *Ibidem*.

²² B. Berger, *op. cit.*, p. 3.

²³ D. Kopiński, *Africa and the Bretton Woods Institutions – is there still a case for conditionality of aid*, [in:] I. Benczes, W. Niemiec (eds.), *The Economic Dimensions of Global and Regional Governance*, Wydawnictwo Adam Marszałek, Toruń 2009, p. 172.

²⁴ W. Haut, *The Politics of Aid Selectivity. Good Governance Criteria in World Bank, US and Dutch Development Assistance*, Routledge, Oxon 2007, p. 5.

(like World Bank, International Monetary Fund or UN agendas²⁵) but also bilateral donors attach strict conditions to their assistance. Most of the reforms are good governance-related, which means that they are supposed to support the rule of law, efficient public sector, financial accountability and well-educated and healthy society in partner countries.²⁶ It happens however, that conditionality causes extraordinary situations when partner country's government with weak public sector background is required to implement costly reforms in order to receive next portion of foreign aid.²⁷ This is well illustrated by the aid application documents, for example Poverty Reduction Support Credit to World Bank.²⁸ This document requires, *inter alia*, fiscal deficit targets, structural reforms and lowering trade barriers; these conditions are usually hard to fulfil without strong public administration and balanced budget.²⁹

At the same time conditionality is seen as a necessary element of aid as a guarantee of spending aid received on purposes compatible with DAC policy.³⁰ However, most of African states gained independence in the second half of the 20th century while several of DAC member states are former colonial powers (like the greatest donor USA).³¹ In many cases politicians and high officers of partner countries do not identify themselves with those top-down reforms ordered by developed countries because of an asymmetry of power and because of conditionality which might often be seen as a manifestation of neo-colonial policy.³² The lack of identification of officers of all administration levels does not help the aid projects and programmes performance and evaluation.³³

Selectivity of official development assistance is another controversial issue of DAC projects and programmes. During the Cold War, aid granting has been based mainly on the political criteria.³⁴ Though in 1990s a serious change has been made in resources allocation and as a result aid transfer to the poorest countries has increased. The most up-to-date statistics show, however, that the largest aid recipients are Iraq

²⁵ OECD DAC, *DAC Report on Multilateral Aid – Executive Summary*, www.oecd.org, p. 2.

²⁶ B. Berger, *op. cit.*, p. 21.

²⁷ M. Gueye, *Dlaczego Afryka uważa Chiny za swoją szansę?*, *Globalna Północ – Globalne Południe. Kwartalnik o rozwoju, odpowiedzialności globalnej i prawach człowieka* 2008, Nr 1, http://www.igo.org.pl/pobierz/kwartalnik/01/dlaczego-afryka-uwaza-chiny-za-szanse_gueye.pdf (accessed April 2010).

²⁸ W. Easterly, *Cartel of Good Intentions: The Problem of Bureaucracy in Foreign Aid*, Center for Global Development, Washington 2002, p. 2.

²⁹ *Ibidem*.

³⁰ D. Kopiński, *Africa and the Bretton Woods...*, p. 174.

³¹ OECD DAC, *Net Official Development Assistance in 2009*, <http://www.oecd.org/dataoecd/17/9/44981892.pdf> (accessed April 2010).

³² D. Kopiński, *Africa and the Bretton Woods...*, p. 179.

³³ *Ibidem*, p. 177.

³⁴ OECD DAC, *Aid Effectiveness and Selectivity: Integrating Multiple Objectives into Aid Location*, Paris 2003, <http://www.oecd.org/dataoecd/4/33/18444948.pdf>, p. 28 (accessed April 2010).

and Afghanistan.³⁵ This comes as a surprise since the countries do not belong to the lowest income *per capita* group.³⁶ This fact may be explained by the United States' strategic cooperation with Bagdad and Kabul, which strongly supports aid allocation in both countries.³⁷

The most important difference in aid granting within Chinese aid model is the lack of political conditions for beneficiary states,³⁸ which undermines DAC member states' efforts aimed to improve political, legal and social situation in African countries.³⁹ In foreign aid granting, China follows two principles: respect for sovereignty and non-interference in internal affairs of partner country.⁴⁰ This approach supports tightening the political relations between China and African countries, all the more, since China stresses that Chinese have also been deeply experienced by the colonization and that Africans and Chinese have similar anti-colonial roots.⁴¹

The only rule China used to follow in selecting its partner countries was the so-called "One China" principle. According to the principle China does not recognize Taiwan as an independent state and continues to treat it as a rebel Chinese province. For many years People's Republic of China has limited its cooperation and development assistance to those states which acknowledged Taiwan's independence. However, in recent years Chinese decision-makers' attitude has changed to a rather pragmatic approach. Currently China tries not to delimit its economic involvement in Africa by means of political doctrines.⁴²

4. The tying of aid

Tying of aid describes to what extent beneficiary has discretion in expenditure of the aid. According to OECD pure form of untied aid is grants or loans, which might be spent in any of the OECD member states or in any of developing countries.⁴³ Untied aid involves grants and loans with defined possible country/group of countries in

³⁵ U.S. Official Development Assistance Database, OECD/DAC Standard Tables and Charts – Geographical Distribution of ODA, www.usoda.eads.usaidallnet.gov/docs/dcr/table25.xls.

³⁶ CIA World Fact Book, *GDP per capita (PPP)*, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html> (accessed April 2010).

³⁷ J. Anders, *United States Is Largest Donor of Foreign Aid*, www.america.gov.

³⁸ A. Mitraszewska, Chiński plan Marshalla, czyli pomoc finansowa dla Afryki, *Gazeta Wyborcza*, 6.12.2009, www.wyborcza.biz.

³⁹ B. Berger, *op. cit.*, p. 3.

⁴⁰ M. Davis, *op. cit.*, p. 57.

⁴¹ B. Góralczyk, *Pozycja Chin w Afryce. Czerwona książeczka czekowa*, Portal Spraw Zagranicznych, 2.11.2009, <http://www.psz.pl/tekst-24721/Bogdan-Goralczyk-Pozycja-Chin-w-Afryce-Czerwona-ksiazeczka-czekowa> (accessed April 2010).

⁴² *Ibidem*, p. 55.

⁴³ E.J. Clay, M. Geddes, L. Natali, *Untying Aid: Is It Working?*, Danish Institute for International Studies, Copenhagen 2009, p. 5.

which it might be spent.⁴⁴ On the one hand, aid tying helps to sustain already existing political affiliation,⁴⁵ on the other, it increases export and promotes enterprises of donor country.⁴⁶ However, many studies confirm that fully untied aid is more efficient than its tied alternative. Generally speaking, the lower efficiency is caused by higher prices of goods and services in countries where aid can be spent, the higher transport costs of aid expenditure in remote countries, lower goods and services quality or rising international debt.⁴⁷ The average cost of tied aid is higher than the cost of its untied equivalent by 15-30%.⁴⁸ Inefficiency derives from common practices in foreign aid and it is even more burning issue for the poor countries.

Since the beginning of 21st century among the DAC member states the ratio of untied aid has increased. In 2001 OECD recommended to all DAC member states to fully untie the aid without delay.⁴⁹ The untied aid ratio increased from 46% in 1999-2001 to 79% in 2009.⁵⁰ Until 2009 three DAC members fully untied aid, these are: Luxemburg, Ireland and the United Kingdom.⁵¹ UK is perceived as a leader in contemporary development aid; as one of the leading donors, it has fully abandoned employing the tied aid. It has one of the most effective government agency for foreign aid – the Department for International Development. It is also seen as the political leader in the field (it is thanks to the United Kingdom that the Paris Declaration on Aid Effectiveness has been signed).⁵²

China's approach presents a drastically different attitude to the tying of the development aid and it results mainly from China's expansive economic policy and the will to secure the access to Africa's natural resources.⁵³ Receiving Chinese concessional loans usually involves two economic conditions: it requires Chinese enterprises involvement and observance of principle of origin: at least 50% of equipment, materials and technology must come from China.⁵⁴ Chinese government actively supports investors in managing protectionism and overcoming local red tape.⁵⁵ Until 2006 approximately 800 Chinese firms have invested nearly 1 billion USD; about 280 joint ventures were established and the number of Chinese staff

⁴⁴ *Ibidem*.

⁴⁵ L. Hurst, *China and Africa: Friends with Benefits*, www.eastasiaforum.org/2010/02/17/china-and-africa-friends-with-benefits/ (accessed April 2010).

⁴⁶ E.J. Clay, M. Geddes, L. Natali, *op. cit.*, p. 27.

⁴⁷ *Ibidem*, p. 26.

⁴⁸ *Ibidem*.

⁴⁹ OECD DAC, *DAC Recommendation on Untying ODA*, www.oecd.org.

⁵⁰ E.J. Clay, M. Geddes, L. Natali, *op. cit.*, p. 60.

⁵¹ *Ibidem*, p. 67.

⁵² OECD DAC, *United Kingdom (2006), DAC Peer Review: Main Findings and Recommendations*, http://www.oecd.org/document/43/0,2340,en_2649_34603_36881515_1_1_1_1,00.html (accessed April 2010).

⁵³ M. Davis, *op. cit.*, p. 4.

⁵⁴ B. Berger, *op. cit.*, p. 12.

⁵⁵ *Ibidem*, p. 5.

employed in Africa reached 78,000.⁵⁶ Unfortunately, in most ventures African enterprises are marginalised and play insignificant role in Chinese projects.⁵⁷

5. Conclusion

Development aid models presented in the article differ from each other on many accounts. In both models one might observe donors' particular interests in the field. Yet DAC struggles to promote western values and standards. In its turn China seeks opportunities to achieve its own economic purposes by securing access to African natural resources.

I believe it is possible to work out the third way model. As a result of European (and the United States) and Chinese cooperation it would avoid their model's disadvantages: too severe restrictions, sometimes making the aid unobtainable; a requirement of fund transfer by the public sector (often corrupted); following the political clues in aid allocation. However, it would certainly employ their advantages: the prioritization of social development related projects; the struggle to achieve high standards of public administration and a welfare increase.

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⁵⁶ *Ibidem*, p. 1.

⁵⁷ *Ibidem*, p. 3.

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DWA MODELE POMOCY ROZWOJOWEJ. EUROPEJSKO-CHIŃSKIE ZMAGANIA O AFRYKAŃSKIE DUSZE

Streszczenie: Celem artykułu jest zaprezentowanie różnic pomiędzy dwoma podejściami do pomocy rozwojowej: podejściem państw członkowskich Komitetu Pomocy Rozwojowej przy OECD a podejściem Chin, które dopiero na początku XXI w. stały się znaczącym donatorem. Tekst jest porównaniem obu modeli pomocy rozwojowej na płaszczyznach, którymi są: instrumenty pomocy rozwojowej oraz ich charakterystyka, ograniczenia w przyznawaniu pomocy rozwojowej oraz zjawisko wiązania pomocy. Porównanie nie tylko zestawia różnice w założeniach obu podejść, ale także prezentuje przykłady wynikające ze stosowania ich w praktyce pomocowej. W pierwszej części opisane są instrumenty pomocy rozwojowej oraz ich charakter. Druga część kreśli koncepcje warunkowania i selektywności w przyznawaniu pomocy konkretnym odbiorcom. Dzięki porównaniu obu modeli ukazują się ich zalety i wady, które są wskazówkami, w jakim kierunku powinna ewoluować współczesna pomoc rozwojowa.