

## Chapter IV

# Conceptual foundations of development assistance<sup>1</sup>

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### 4.1. Conceptualization of the concept of development assistance

#### 4.1.1. The genesis of development assistance

Decolonization and the bipolar system of international relations are two key reasons for the emergence in the West, primarily in the USA, of the idea of providing aid to developing countries (DC). It was supposed to limit the spread of the influence of the Soviet Union and communism in the world. The experience gained during the implementation of the Marshall Plan was used in developing this concept for DC.

The United States, in the conditions of the escalation of the conflict with Moscow, treated national liberation and revolutionary struggles not so much as a continuation of the post-war decolonization process, but as an extension of the Cold War confrontation to the area of DC. The political transformations in these countries were seen primarily from the point of view of the global interests of the United States. On the other hand, less attention was paid to the internal (subjective and objective) factors that led to such a state, and to the development of large-scale projects aimed at eliminating these causes. Thus, when creating the idea

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<sup>1</sup> More on this subject can be found in the work by Deszczyński (2011a, pp. 39-149).

of providing aid to developing countries, a kind of original sin was committed, which will have a negative impact on effectiveness of the help for decades to come (Deszczyński, 2001b, pp. 125–142; Moyo, 2009, pp. 3–68).

#### 4.1.2. The concept of development assistance

As in the case of many other concepts related to the problems of developing countries, the definition of development aid also caused terminological disputes among researchers dealing with this topic. In order to solve them, in 1969 the Development Assistance Committee (DAC) formulated for the first time recommendations as to the interpretation of the definition of official development assistance (ODA). According to the DAC definition, aid is considered development assistance if all four basic conditions are met:

1. Its main goal is to support the economic and social development of developing countries.
2. It is an expenditure of the public sector – governments or other entities acting on behalf of the state or international government organizations (IGOs).
3. Must be partially non-returnable.
4. The recipient country or the international organization has been placed on a special DAC list.

While using this term, one assumes that development aid will contribute to the economic development of DC, and whether this will actually be the case should, according to G. Myrdal's recommendation, be examined *ex post*, and not *ex ante*. Moreover, the practice so far has shown that development aid, if it served economic development, did so rather to donors, not DC, and sometimes, unfortunately, it even contributed to the underdevelopment of its beneficiaries. It also happened that the inclusion of some countries by the DAC on the list of DC was difficult to substantiate. DAC does not include private funds transferred by civil society, foundations, corporations on the basis of voluntary contributions,

e.g. to non-governmental organizations in the donor or recipient country, or directly to citizens (e.g. humanitarian aid), in the development aid. Meanwhile, often such projects undertaken by non-governmental organizations serve the development of DC better than official development assistance. The above remarks confirm once again that the terminological controversy related to the definition of development aid is in fact unavoidable.

#### 4.1.3. Goals of development assistance

In official government documents concerning development policy, ethical and humanitarian motives are heavily emphasized, and much less is being said about one's own interests. Development aid in the first decades of providing it was subordinated to the political and economic goals of Western countries. In the case of the former, it was about realizing the vital interests of foreign policy and promoting the values of the donor's social and political system. Among the economic goals, the following dominated:

1. Consolidation and further development of trade relations with DC.
2. Providing companies with the necessary raw materials, including, in particular, the supply of energy resources to the West.
3. Creation of new sales markets in the short or long term.
4. Maintaining the existing and potentially creating new jobs.

The highly unsatisfactory effects of development aid, the deepening catastrophic economic situation of many developing countries in the last two decades of the twentieth century, the collapse of the bipolar system, China's opening to the world economy and its active participation in the globalization process, the international community entering the third millennium – all this together contributed to the adoption of Millennium Declaration by 189 United Nations member states at the 2000 Millennium Summit in New York City. It includes the Millennium Development Goals (MDGs). They constitute a kind of map on the road to the implementation of development aid. Many declarations and

resolutions are adopted at the UN forum, which are then difficult to fully implement or enforce in the outlined time perspective. This was also the case of the Millennium Development Goals.

#### 4.1.4. The problem of efficiency and effectiveness of development assistance

Development assistance does not meet the conditions for the optimal allocation of resources consistent with the criterion formulated by V. Pareto. It means the flow of resources from Western countries to DC, i.e. to an area where lower productivity can be achieved. Statistical data on the export of capital taking place after World War II, but on strictly commercial terms, confirmed the correctness of Pareto's assumptions, i.e. investments were made much more willingly in the West, so in places where higher productivity can be obtained. In turn, among the DC countries were selected where it was possible to achieve the highest productivity now or in the near future, i.e. countries with high GDP per capita, large population and with raw materials of interest to the West, primarily energy resources. Therefore, it is difficult to refer to the effectiveness of development aid, since it *a priori* does not meet the conditions of optimal resource allocation in order to achieve higher productivity. For these reasons, instead of the category of "efficiency", terms such as "effectiveness", "coherence", "quality", "subjectivity" and "transparency" are used. Development aid effectiveness should be understood rather as the ability to achieve the goals that accompany it and are associated with it.

The effectiveness of development aid in its classic understanding is difficult to test at the mega-, macro- and mezeoeconomic levels. In the conditions of globalization, the economic growth of a state or its collapse is simultaneously influenced by many different factors, often mutually exclusive, also of a psychological and speculative basis, etc. It is much easier to determine whether development aid was effective on a microeconomic, and above all micro-microeconomic scale. However, this means starting a long-term work that is not very spectacular from the donor's point of view, and in addition it does not guarantee lasting success due to many factors beyond the donor's control, such as the risk of changing

the socio-political and economic situation in the beneficiary's country in the future or cultural and religious conditions.

Testing the effectiveness of aid is highly difficult because:

1. It is not comparable. Projects that succeed in one context may not succeed in another.
2. The projects' financing is partially interchangeable. Financing some projects by donors frees up the beneficiary government resources for other, more marginal projects. As a result, donors do not finance the project for which they are putting money, but those that the recipient government deems fit for funding.

Regardless of the presented difficulties with examining whether development aid contributed to the economic development of DC (also because statistical reporting in most of them is underdeveloped), it has been assumed that since the civilization gap (which is actually measurable) between the countries that are highly developed and the developing ones increased, development aid did not meet the expectations associated with it. That is because it served the interests of the donors more than the beneficiaries. This is also confirmed by some studies conducted in Western countries in the context of the impact of development aid provided by donors on their economies.

A more practical term in the evaluation of development aid as compared to the efficiency category is testing its effectiveness. It is about assessing the initiatives taken by the donor in the field of development aid in a specific place and time, taking into account the degree of implementation of the adopted assumptions, his and the beneficiary's expectations, compliance of the goals with the ones declared on the international forum, e.g. in terms of the implementation of the Sustainable Development Goals. Therefore, the possibility of assessing the effectiveness concerns various forms of development assistance, and within its framework – projects, thanks to which it becomes realistic even in the conditions of an underdeveloped state reporting system of DC.

For example, we can examine how effective was the construction of a drinking water intake in town X, in country Y, taking into account

the criteria adopted in advance in the investment project, e.g. in terms of the long-term performance of the water intake device, its efficiency, impact on the health situation of the population using this intake, etc., as well as how much the project cost and if it was built in the assumed time and in accordance with the adopted budget estimate. In a similar way, we can study the effectiveness of implementing a program in town X, country Y, which provides for at least primary education for all children, including girls. We can analyze the percentage in which this was achieved in relation to boys and girls in the first and subsequent years of education, respectively. In the event of ineffectiveness, we should draw general conclusions so as not to repeat the same mistakes in similar cases.

## **4.2. Classification of forms of development assistance**

It was made on the basis of five criteria: the channel of transfer, the way of transfer and usage by the donor, the beneficiary's repayment burden and the beneficiary's freedom of managing it. On the basis of these criteria at least two basic forms were distinguished each time. It is no coincidence that the scheme focuses on bilateral and multilateral aid, considered as crucial in accordance with the accepted practice of development institutions. It should be emphasized that the adopted criteria are not mutually exclusive, which means that individual forms may appear in various configurations, e.g. bilateral aid may take the form of technical, programme, non-returnable or untied assistance.

### **4.2.1. Bilateral aid**

The essence of bilateral aid consists in its direct transfer from the donor state to the recipient state. The transfer is made by the donor government, usually through specially established government aid agencies. The beneficiary country is usually represented by its government or a specialized government institution, and recently, more and more often, aid also goes directly to other entities of the beneficiary country, e.g. non-governmental organizations, citizens or groups of citizens, and even local companies. Bilateral aid creates – unlike multilateral aid – greater possibilities

of political and economic influence on developing countries. Another drawback of bilateral aid is the increased risk of its instability. Decisions on granting it are based on annual budget decisions. As a result, it can be very quickly reduced, even abandoned altogether, and then resumed for political, economic and social reasons, due to the internal situation of the donor or beneficiary country or changed external conditions. Another disadvantage is the lack of coordination with other donors, which often leads to a situation where programs and projects implemented simultaneously by different countries compete with each other, and often are even mutually exclusive.

Within the framework of bilateral aid, donor states most often support countries they have historical and cultural ties with, e.g. colonial metropolises and their former colonial territories, or maintain close economic, political, strategic and military relations (or would like to develop them). Thanks to direct benefits, the donor can count on special treatment of the beneficiary's government and on building prestige among local citizens, and in his country it is easier to gain acceptance by the majority of the public for the implementation of development policy. Bilateral aid also enables the use of practices of making, directly or indirectly, the supplies of goods and services for beneficiaries from the donor country conditional. For these reasons, the bilateral form has often occurred in the past together with the bound form, and vice versa – multilateral form with the unbound form.

Supporters of benefits in the form of bilateral aid emphasize, in turn, that it is usually accompanied by better control of the use of benefits by developing countries. Due to the long-term cooperation and knowledge of local conditions, it can also be better adjusted to the needs of the beneficiaries. Such assistance is often easier to obtain than that provided through international organizations, such as the World Bank Group, which often imposes more stringent requirements. The decision-making procedures for granting funds are also less time-consuming and administrative costs are lower than with multilateral aid (Oden, Wohlgemuth, 2007, p. 18).

As part of bilateral aid, theoretically it is easier to make changes in its amount, but practice shows that usually several years have to pass

before they occur, hence its significant reduction did not take place until the end of the 1990s. The point is not to cause unnecessary damage to the broadly understood own interests of donor states by reducing the current level of benefits and the number of beneficiaries too abruptly. The most frequently used method in such a situation is first to weaken the dynamics of benefits for countries that do not correspond to the current preferences resulting from the assumed development aid goals, and only then to limit or even discontinue the aid.

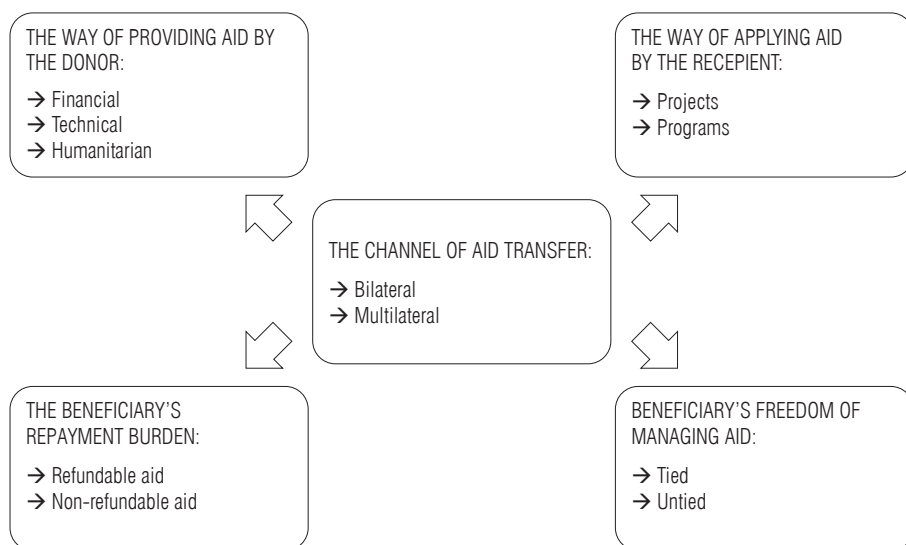


Figure 1. Conceptualization of forms of development aid

Source: own study.

However, among the DAC member states it is difficult to find a universal criterion for making a division between supporters or opponents of bilateral aid. It would seem that bilateral aid is developed primarily by the former colonial metropolises. It turns out, however, that apart from France, which in fact consistently prefers this form, it is equally important for Japan and the USA. In the case of Washington, one should rather expect a high share of multilateral aid, due to the role this superpower plays in international organizations. In turn, the largest colonial metropolis – Great Britain – belongs to the group of countries with a relatively high level of multilateral benefits, along with Denmark. It should also

be noted that the priorities in this area change, e.g. along with the economic situation in the world and macroeconomic situation in individual countries, the assumption of power by other political options, or with the new perception of the role of bilateral aid by scientists and practitioners dealing with the issues of development aid.

DC also do not have a uniform position when it comes to choosing the channel for the transfer of development aid, although most of them favor a multilateral form. They expect that it will be easier for them to obtain approval for their own solutions on the international forum. Moreover, international organizations lean towards the aid distribution principle, according to which the poorer a country, the more aid it receives. Under these conditions, poorer developing countries prefer multilateral aid to bilateral aid. Opposite preferences are reported by countries in a better economic situation, connected with the world market and / or historically with the donor. They rightly assume that they have greater chances of obtaining external support as part of bilateral aid.

#### 4.2.2. Multilateral aid

The essence of multilateral aid consists in its transfer by international organizations to the recipient state. Although international organizations were established and are financed by the same countries that provide bilateral aid to DC, and they also have a decisive influence on the shape of their activities, there is a fundamental difference here. While there is a possibility of direct influence on DC and direct transfer of aid funds to them in bilateral aid, there is no such possibility in the case of multilateral aid. One can only speak of exerting pressure indirectly on this group of states and providing indirect support. As a result, the negotiating position and autonomy of the beneficiary's decisions in relation to a specific donor state increases substantially. However, the above statement does not mean that the scope of discretion in decision-making by developing countries is increasing, because the persuasion power of an international organization, such as the International Monetary Fund (IMF) may be – and in practice is – even greater than that of most individual donor states.

According to the DAC definition, benefits are considered multilateral aid if:

1. They are transferred to international intergovernmental organizations that carry out all or most of their activities for the benefit of developing countries.
2. They lose their national character and become an integral part of the financial assets of the organization referred to in point 1.
3. They are paid with the knowledge and consent of the authorities of the international organizations referred to in point 1.<sup>2</sup>

Multilateral aid is now provided by many organizations. Their number has steadily increased over time, which should be considered a natural reaction to the emergence of new or growing needs in DC and the need to specialize in specific areas of action. It should be remembered that the new order in international relations after World War II was created when most of today's independent DC were part of European colonial metropolises. For understandable reasons, it does not take into account the economic, political and social conditions of this group of countries. Although it was possible to foresee an approximate scenario (though probably incomplete) that would take place in the colonial territories after World War II, it was not a priority for the then decision-makers of the new international order.

Simultaneously with the increase in the number and scale of problems faced by developing countries, the number of member states of the UN – an organization greatly influencing the functioning of multilateral aid – also grew. All this together resulted in a significant increase in the number of international organizations, but also in bureaucratic costs, often unnecessary division and dispersion of activities, overlapping duties (motivated by the need to specialize), with the often harmful competition of individual organizations, the main motive of which was the desire to preserve their status and acquired prestige.

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<sup>2</sup> [www.oecd.org/dac](http://www.oecd.org/dac), [www.bmz.de/de/zahlen/imDetail/index.html](http://www.bmz.de/de/zahlen/imDetail/index.html).

Among the international organizations providing development aid, the following should be distinguished:

1. The World Bank Group (WBG) and within it:
  - International Bank for Reconstruction and Development – (IBRD),
  - International Development Association (IDA),
  - International Finance Corporation – (IFC),
  - Multilateral Investment Guarantee Agency (MIGA),
  - International Center for the Settlement of Investment Disputes (ICSID).
2. The International Monetary Fund (IMF).
3. Regional Development Banks, including:
  - African Development Bank (AfDB),
  - Asian Development Bank (AsDB),
  - Caribbean Development Bank (CDB),
  - Inter-American Development Bank.
4. The United Nations (United Nations Organization – UNO) and in its framework:
  - United Nations Industrial Development Organization (UNIDO),
  - United Nations Conference on Trade and Development (UNCTAD),
  - Food and Agriculture Organization of the United Nations – (FAO),
  - International Fund for Agriculture Development – (IFAD),
  - International Labor Organization (ILO),
  - United Nations Educational, Scientific and Cultural Organization (UNESCO),
  - United Nations Children's Fund – (UNICEF),
  - United Nations Development Fund for Women (UNIFEM),
  - World Health Organization (WHO),
  - Joint United Nations Program on HIV/AIDS – (UNAIDS),
  - International Trade Center (ITC),
  - United Nations Office on Drugs and Crime (UNODC),

- United Nations Development Group (UNDG),
- United Nations Development Program (UNDP),
- United Nations Program for Human Settlements – (UN – Habitat),
- Office of the United Nations High Commissioner for Human Rights – (OHCHR),
- United Nations Environment Program (United Nations Environmental Program – UNEP),
- United Nations Population Fund (UNFPA),
- United Nations Office for Project Services – (UNOPS),
- United Nations Volunteers Program (UNV),
- World Food Program (WFP),
- Consultative Group on International Agricultural Research – (CGIAR).

The above list of key international intergovernmental organizations providing multilateral aid is at the same time the best exemplification of the role that the United Nations played in establishing institutional foundations and conceptualizing development policy. It should be remembered here that the World Bank and the International Monetary Fund, separately identified in this paper (due to their importance in providing multilateral development aid), are also specialized organizations of the United Nations. However, despite the common genesis of most of these organizations, the way they are managed and controlled is not the same. Each of them has also developed its own internal functioning mechanisms, rules for providing benefits, as well as evaluating the effectiveness of their use in developing countries.

The European Union plays a special role among all international organizations that provide development aid. It results not only from the size of benefits but also from the specificity of its functioning. The EU, unlike the UN, is not a universal and global organization, but a regional organization with limited membership. Therefore, controversy has arisen as to whether the development aid provided within the EU and earlier the EEC should be considered multilateral. OECD / DAC solved this problem by distinguishing collective bilateral aid from among bilateral and multilateral aid.

Multilateral aid as a form of providing development aid has as many supporters as opponents. Moreover, the opinions of scientists dealing with the issues and the positions of the donor countries have changed over time. The argument for increasing the share of multilateral aid in global development aid is its long-term impact. It is, in fact, not subject to major fluctuations and in its case it is possible to implement the assumed goals step by step. This is important because the problems of DC cannot be solved overnight. One needs to be patient here and assume that their achievement, if in some spheres will take place at all (e.g. democratization of political life), will take place only after many years.

The advantage of multilateral aid is also the possibility of implementing larger projects within its framework. This is because many projects carried out in DC far exceed the financial, technical and organizational capacities of most individual donor countries. In such a situation, international organizations are extremely helpful. They coordinate the actions of individual donors and also mobilize own resources. They also act as a catalyst for the flow of funds to DC, e.g. in the form of the first transfer initiating the start of a development program or project.

A multilateral form of development aid may also be attractive for governments of highly developed countries, not only due to the fact that its costs are spread over a larger number of countries, but also due to the transfer of responsibility for achieving the final success to the international organization – the project coordinator. One should be aware that even with a very well prepared project or program, the probability of failure is usually greater than the probability of success. DC often do not use development aid in accordance with its intended purpose. Expenditure control is sometimes difficult due to the permanent instability of the political situation in many of these countries and / or the lack of transparency that usually accompanies autocratic governments or facade democracies in which the principle of alternation of power has not yet been implemented. There is also uncertainty as to whether the solutions developed by Western economists based on theories of development economics will prove effective in the practice of economic life in DC.

As a result, individual countries try to avoid necessary, from the point of view of DC, but highly risky and costly ventures. International

institutions, however, do not have such great concerns. Moreover, they are seen quite commonly as organizations that take the greatest interest in DC (with the exception of the World Bank Group and the International Monetary Fund). Econometric studies confirmed the hypothesis that multilateral aid took into account the needs of DC more than bilateral aid, even under the conditions of the bipolar system.

A drawback of multilateral aid (with the exception of the World Bank Group and the International Monetary Fund) is the problem of controlling and evaluating implemented projects. The authorities of some international organizations, such as UNESCO, FAO, and the European Development Bank, wasted funds allocated to development aid or tolerated corruption when spending them in DC. For these reasons, G. Myrdal, contrary to the tendencies of the time (the recommendations of the Pearson Commission), opted for a bilateral form of development aid, arguing that in the case of multilateral aid control would always be more difficult, and thus the risk of corruption would increase significantly.

In turn, the advantages of development aid implemented by the institutions of the World Bank Group and the International Monetary Fund, as opposed to bilateral aid, include the powerful persuasion force of these organizations. They dictate specific solutions in the economic policy of the beneficiary and make the release of funds dependent on their adoption and subsequent consistent implementation. At this point, I am prescinding from the final effects of such an economic policy, which, as we know, is controversial, but I see as an advantage the very possibility of stimulating the governments of DC to undertake economic and social reforms. The pressure of these institutions is so strong that politicians from DC decide on reforms painful for the society, but often necessary from the point of view of economic recovery, which under normal conditions (the existence of an alternative) would never dare to carry out. The problem, however, is that the cost of recommendations of the experts of the World Bank Group and the International Monetary Fund borne by the society of DC is often far too high in relation to the effects achieved. This is criticized both by DC and an increasing number of economists, including those who have worked in the past for the World Bank Group or the IMF. This is a broader problem that

cannot be discussed exhaustively and in detail here. Therefore, I refer to the works of the Nobel laureate in the field of economics, J.E. Stiglitz and W. Easterly. Most generally, however, it can be said that it is about too draconian conditions that are imposed on DC and the way these international organizations function, as well as too much influence of the USA on the policy of the World Bank Group and the IMF (Stiglitz, 2007, pp. 7–223; Easterly, 2008, pp. 9–316).

Within multilateral aid, there was also the same trend as in the case of global and bilateral development aid. In the 1990s, it had a decreasing tendency, while in the 21st century – increasing.

#### 4.2.3. Financial aid

There are four basic structural shortages in DC – food, skilled labor, foreign exchange and capital – with the common denominator of an insufficient rate of accumulation. The shortage of capital results from the tendency of the population (both poor and rich) to ostentatious consumption, additionally strengthened by the demonstration effect, high operating costs of an excessively developed state administration, including the police and military apparatus, and the lack of a high propensity to save, so characteristic of entrepreneurs during the formation of capitalism in highly developed countries today. As a result, DC were chronically lacking capital, including foreign exchange, needed to achieve economic growth. Under these conditions, external financial aid was to be an effective instrument to eliminate these two structural deficiencies and to break what R. Nurkse called “the vicious circle of poverty”.

It did play a dominant role in the first Decades of Development. At that time, it was also called capital aid, because it financed mainly specific, often very spectacular investments (e.g. construction of a motorway, airport, bridges) in the sphere of economic, social and, to a lesser extent, institutional infrastructure. The donors, regardless of the expected economic effects, also wanted to discount the propaganda effect. It is always easier to obtain with one large investment than with very many small ones, although the cost of the project may be the same or even greater in the latter case.

It would seem that this type of investment projects is most economically justified for DC, that they will serve their economic growth and development, in situation when for most of them infrastructure was and still is one of the powerful barriers preventing them from entering this take off path. The problem is that many of these investments, especially such as transport and irrigation infrastructure facilities, water supply systems, hospitals, and even turnkey production plants, e.g. fertilizer factories, so necessary to increase the efficiency of local agriculture, after the departure of foreign experts and their transfer to the control and management of local authorities, malfunctioned, and with the passage of time, often stopped functioning altogether. In that case, donors from highly developed countries faced a dilemma whether to accept the fact of wasting funds already spent on very expensive investment projects, or perhaps to ensure their continued operation by fully or partially assuming the costs of maintaining and servicing these investments. Usually they chose the latter solution. As a result, in the structure of capital aid expenditure, also due to the growing reluctance of donors to undertake large and costly investments, the share of funds that were strictly financial, and not investment, was growing. Moreover, it included advisory services that were previously associated only with technical assistance.

Under these conditions, financial aid has become the name more adequate to reality. It is most often provided in the form of loans granted on much more favorable conditions than the market ones in terms of the interest rate, grace period and repayment date. In the case of LLDC states, after the energy crisis that most affected this group of countries, it is given as a donation. Funds allocated under the financial aid could also be used – initially by way of exception – to refinance repayments of liabilities previously incurred by the beneficiary. The debt crisis, which affected many DC in the last two decades of the twentieth century, resulted in an increase of the share of write-offs (total or partial) of previously drawn loans, which in practice turned out to be unpayable, in the structure of financial aid. This applies to the obligations of developing countries both to international financial institutions, such as the World Bank or the IMF, and to countries that provide loans in the form of bilateral aid.

It is worth emphasizing here that only loans not previously included in official development assistance may be eligible for debt reduction. The idea is to eliminate the situation where the same financial resources would be recorded twice in the statistics as development aid – first in the form of an ODA loan, and then, due to inability to repay it, as a write-off. In addition, according to the definition of DAC development aid, subsidies, loans and credits for military purposes are excluded from it, and the same (since 1993) also applies to debt reduction for military purposes.<sup>3</sup>

Financial aid is granted for the implementation of predefined projects or programs. This goal is served also by the progressive coordination of the activities of institutions responsible for providing financial aid as part of bilateral aid from DAC countries and multilateral aid, as well as by taking care to strengthen the sense of responsibility for the final effects among partners from developing countries.

Financial assistance was also launched in the event of a foreign exchange barrier in developing countries, in order to enable the financing of the import of goods and services necessary for the normal functioning of these economies. Due to the fact that many Western governments used this situation as an instrument of supporting their own exports in the conditions of recession in their economies, and even more so in the economic crisis, as well as a way of helping domestic industries experiencing difficulties, in 1992 the so-called Helsinki Consensus was developed within the OECD, which was aimed at if not eliminating, then at least significantly limiting the procedure of tying financial aid.

The most important goals of financial assistance currently include improving the standard of living of the population of DC, minimizing the likelihood of social and economic tensions, and if they have occurred, then mitigating them, counteracting environmental threats by fighting poverty, supporting the development of social infrastructure (in the sphere of education, health service, construction of clean, suitable for consumption water intakes and sanitary sewage system) and transport and energy infrastructure, as well as the development of the agricultural and financial sector.

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<sup>3</sup> [www.oecd.org/dac](http://www.oecd.org/dac).

#### 4.2.4. Technical assistance

Technical assistance is designed to break the barrier of the underdevelopment of skilled labor in DC. It covers the transfer of advisory services, including training services provided free of charge. Within its framework, know-how is transferred in the economic, political, social, technical and organizational spheres in order to increase the potential of people, organizations and society in DC. Technical assistance is also to stimulate the activity of people in these countries at various levels, and especially to teach them entrepreneurship. There is also an increasing emphasis on satisfying the basic needs of the poorest social strata, including improving the social position of women in developing countries. If the implementation of technical assistance exceeds the organizational capacity of the governments of the DAC states, then they outsource its implementation to an institution specialized in this field.

The main reason for the shortage of qualified workforce is the lack of sufficient funds to finance education, as well as religious and cultural conditions resulting in high illiteracy among women. In view of the emergence of financial problems in DC, the governments of these countries first look for savings in this sector. In extreme cases, education systems are even in danger of collapsing. Additionally, the situation is worsened by the demographic boom in these countries. As a result, it is difficult to expect a radical improvement when it comes to building an adequate number of schools and ensuring a sufficient number of jobs and highly qualified teachers. In many DC, the population lives in the countryside, which makes it difficult to recruit teachers. It is not much better in cities, as the migration of people from the countryside leads to an overcrowding of municipal schools and thus a reduction in the quality of education. This can be seen especially in educational institutions on the outskirts of cities.

Technical assistance usually consists in:

1. Sending professionals (e.g. advisers, trainers, appraisers, experts) and financing their activities, but only in situations where the implementation of a given program or project requires their knowledge that employees from a developing country do not have. In

this way, it is possible to implement many projects requiring, for example, an advanced level of technological knowledge.

2. Education and training of professionals and managers from developing countries in the country and abroad. This is because in many developing countries there is a shortage of experts in planning and implementing economic and social reforms, as well as in preparing budgets and managing public finances.
3. Training young staff through the scholarship system and exchange of experience in managerial positions in politics, economics and administration. As a result, managers from developing countries acquire new qualifications and managerial skills, which in the future should lead to a general improvement in the standard of living of the population of developing countries.
4. Co-financing and supporting projects and programs in developing countries. This includes creating new organizations and institutions in developing countries and developing existing ones, which will continue to operate independently after the end of the project or program.
5. Providing loans for the payment of remuneration for domestic and foreign professionals.
6. Providing or financing the purchase of equipment and devices intended for equipping the supported institutions (e.g. schools or hospitals).<sup>4</sup>

Therefore, technical assistance also includes services that were previously classified as financial assistance, which once again confirms that the boundaries between these forms are increasingly fluid.

#### 4.2.5. Other forms of development aid

Among the other forms of development assistance, the following should be distinguished:

1. Humanitarian;
2. Food;

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<sup>4</sup> [www.oecd.org/dac](http://www.oecd.org/dac).

3. Project;
4. Program;
5. Non-refundable and refundable;
6. Tied and untied.

The genesis of humanitarian aid<sup>5</sup> is related to the problem of refugee, connected with wars between states, civil and religious wars, revolutions and armed conflicts, and more recently – to the emergence of a new category of refugees, resulting from the climate change. The essence of humanitarian aid is to launch it in extraordinary conditions, such as the occurrence of natural disaster (earthquake, flood, epidemic, drought, hurricanes, tsunamis), man-made disaster, crisis resulting from civil war, ethnic conflict, military action in a given country or in neighboring countries. Its aim is to eliminate as soon as possible or at least to alleviate the critical situation in the country where it occurred, if it is not able to do it immediately on its own. It is primarily about saving the lives of people affected by the cataclysm, reducing their suffering and enabling the victims to maintain their human dignity.

The costs of benefits for refugees are included in humanitarian aid, but only for the first year from the moment the reasons for refugee appear. Such a practice was developed in the 1980s and was formally regulated in 1991 (Development, 2010, p. 268). Humanitarian aid is supposed to retain the features that distinguish it from other forms of development aid, although in reality the benefits are often identical to those in the financial, technical or food form of assistance. It is about the extraordinary nature of the situation and simplified procedures when making the decision to grant it, which means that it can be transferred immediately. This does not mean, however, that a developing country affected by a humanitarian disaster is left alone with its problems after one year, but it is sufficient time to launch other forms of development aid that are characterized by more complex procedures designed to reduce the risk of corruption, nepotism and waste of donor countries' funds.

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<sup>5</sup> In English literature, alongside the term “humanitarian aid”, one can also find the terms “relief aid” and “emergency aid”.

Depending on the needs resulting from extraordinary events, humanitarian aid takes various forms. This may include the supply of drinking water, food, clothing, basic personal hygiene items, tents, sleeping bags and blankets, but also the reconstruction of the necessary infrastructure, e.g. drinking water intakes, power grid, hospitals, schools, with the intention of recovering as soon as possible a minimum level of self-sufficiency and security by people affected by the disaster. For humanitarian aid to be effective, the real needs of people affected by the disaster should be taken into account, and resources should be transferred in accordance with the principles of impartiality, neutrality and broadly understood principles of humanitarianism, without imposing political, economic or social preconditions.

Humanitarian aid has its advantages as well as disadvantages. The former should include the speed of its launch, which in the case of cataclysms is always of colossal importance, because the time factor is here the main determinant deciding about the possibility of saving many lives. The disadvantages include a greater potential risk of corruption and nepotism, insufficient emphasis on existing social networks within recipient groups in DC, and insufficient, despite too much centralization, coordination of own services and activities with other DAC countries, multilateral institutions and non-governmental organizations, which often causes duplication or even, in extreme situations, mutual exclusion of the taken actions.

Food assistance for DC is a consequence of the existing chronic food shortage. This is why the Millennium Development Goals made the eradication of extreme poverty and hunger the number one goal. Food aid was supposed to be an important instrument in its implementation. Within its framework, highly developed countries provided DC with surplus of produced food, mainly in the form of donations. Simultaneously, apart from eliminating or at least alleviating the problem of hunger, they should support economic development in these countries through the possibility of allocating the currency saved in this way to pro-development investments. Food aid was also expected to reduce the risk of rising inflation and to reach the poorest social strata. Thus, the degree of susceptibility to diseases would decrease, which would positively affect

the reproduction of the labor force, contributing to an increase in labor productivity and production.

The provision of food aid to DC has aroused and continues to cause much controversy. Food products remain an important item in the exports of DC, making it possible to obtain the necessary currency for the normal functioning of their economies. And here we are dealing with a specific paradox – the inhabitants of developing countries suffer from a drastic shortage of food, which in practice often means death by starvation, despite the fact that the country of which they are citizens exports food. Food aid mainly covers the supply of grains and other western-produced food commodities. If it was transferred in a financial form and not in kind, food could be purchased much cheaper on world markets, and above all on local markets (not only lower prices, but also lower costs of transport and insurance).

Project assistance covers a specific project and this is what distinguishes it from program assistance in the first place. It is provided at a specific time and place. In the initial period of granting development aid, project assistance was accompanied by capital aid, as it most often took the form of a spectacular infrastructure investment. It is assumed that as part of the project assistance, the donors covered the foreign exchange costs, and the beneficiaries mainly covered local costs. As a result, developing countries often gave up on implementing their own projects, as the funds previously reserved for them were needed to start the project under development aid. Moreover, in this situation, they showed a tendency to prefer projects with a large share of foreign exchange costs financed by donors. It meant, however, that the chances of stimulating their own economy by means of project aid decreased significantly, as Western countries usually preferred their own goods and services (Hemmer, 2002, pp. 945–950).

The disadvantages of project assistance also included the chronic lack of coordination between the donor and the beneficiary and other donors and the resulting risk of duplication of investment projects, the occurrence of the “drainage” effect of qualified workforce from the public sector of a developing country, a deepening disproportion between the needs and funds at the disposal of the beneficiary. In the case of a short-term involvement of a donor in a given project, the project often ended in

failure, while long-term commitment often led to the recipient's dependence on external funds. After the completion of an investment project, a developing country usually found it difficult to guarantee financing at the same level as provided by the donor, which resulted in a waste of development aid funds (Common, 2008, p. 1).

Program assistance consists in supporting the policy of DC both internally (supporting a specific group of the population – e.g. small farmers, the sector – e.g. health care or the region) and externally (e.g. stabilization of foreign exchange reserves, financing necessary intervention imports). Contrary to project aid, it is therefore not aimed at the implementation of a specific in-kind project, but focuses on supporting the general policy objectives of its beneficiary, including, to an increasing extent, macro-economic objectives. It is also more flexible and less prone to corruption. Providing program assistance is closely related to the economic and social strategy adopted by the beneficiary state, its priority needs and the method of managing public funds, which should be correlated with the donor's development aid strategy. This always increases the level of trust between the donor and the recipient, which is particularly important in this form of providing development aid. It is also required that the beneficiary conducts a stable macroeconomic and monetary policy (DAC's Principles, 2001, p. 5).

Recently, the sector-wide approach (SWAP) has been preferred. Its essence consists in building a dynamic and long-term relationship between all partners participating in program assistance, which is systematically consolidated and extended by implementing and improving the existing operating procedures. The sectoral approach is to counteract the dispersion of development aid by adopting a strategy of concentrating aid funds by the donor on one or several sectors, in accordance with the needs reported by the beneficiary state, defined in the development strategy of this sector. SWAP includes program aid for: Sectoral Adjustment Lending – SECAL, Sectoral Budget Support – SBS, and Sector Investment Programs – SIPs. In the latter case, the greatest scope of donor interference is anticipated, in the form of control and conditioning of the continuation of program assistance depending on the current course of the implementation of a given SIP (The Sector – Wide Approach, 2004,

p. 8; Piccioto, 2009, pp. 185–187). In the 21st century, program assistance began to play a greater role than project assistance.

Development aid can be both non-refundable and refundable. Both forms have occurred since the beginning of providing development aid by the DAC countries, and the importance of the non-refundable form has grown over the years. This situation resulted from the more and more effective lobbying of DC, which, since independence, consistently demanded a transition from paid to free form or at least an increase in the share of donations and grants in global development aid. The increase in non-returnable benefits was also fostered by the increasing diversification of GNP per capita within developing countries, e.g. the emergence of the LLDC (Least Developed Countries) group and more and more cases of falling of developing countries previously perceived as financially and economically stable (including Iraq, Nigeria, some ASEAN countries) for various reasons (war, debt trap, Asian financial crisis) into huge economic problems, so great that without external non-refundable aid it would be difficult for them to quickly rebuild their own economies.

Refundable development aid is most often provided in the form of loans granted on much more favorable conditions than the market ones in terms of the interest rate, grace period and repayment date. with the proviso that for all these three conditions, according to the DAC definition, the donation equivalent in the loan should correspond to the amount by which the sum of the real decreasing values of repayments of principal installments and interest is lower than the nominal amount of the loan granted.

The granting of non-refundable or refundable aid does not yet determine which one is more beneficial to DC. Theoretically, it should be a non-refundable form, but in practice it may be different. Non-refundable aid may constitute an even higher burden than loans in a situation where it is intended for purposes that require supplementing with own capital, which would not otherwise have to be spent. And yet such a situation often occurred within the framework of project aid, where donors covered foreign exchange costs, and beneficiaries mostly local costs. As a result, developing countries often gave up on implementing their own projects, more necessary for economic development, which could jointly

bring greater effects than the project preferred by the donor, because the funds previously reserved for them were needed to launch this project under non-returnable development aid.

Non-refundable aid may also be associated with various types of dependence on the donor. The beneficiary state can expect that, once it has received non-refundable aid, it will also receive it in the future. Such an attitude will not be conducive to undertaking its own internal actions aimed at combating economic underdevelopment, including, in particular, efforts to achieve a high accumulation rate. In addition, awarding a grant in kind in the form of equipment and machinery from the donor's country makes the beneficiary dependent on the supply of spare parts and service, which, when provided on market terms, often exceed the value of the donation. It is also worth noting that the provision of refundable development aid does not mean that the beneficiary is charged with its costs. In the final effect, it may turn out to be non-returnable, because the costs of its provision are borne by a third party under the so-called tripartite cooperation, e.g. Saudi Arabia, rich in financial resources (Deszczyński, 1995, p. 82).

Taking into account the scope of freedom in using development aid by beneficiaries as a criterion, we distinguish between the tied and the untied forms. The essence of tied aid, as the name suggests, is to limit the recipient's discretion in regards to the possibility of obtaining goods and services on the free market and the final allocation of the funds received. In the first case, the granting of development aid is conditioned by the obligation to make purchases in whole or in a significant part in the donor country (or it concerns specific goods and services mentioned by name). In this way, the "conservative social welfare function" named by W.M. Corden was implemented, consisting in maintaining jobs and a certain level of income of citizens in the donor country who were employed in sectors of the economy experiencing temporary difficulties or unable to cope with competition (e.g. shipbuilding, agriculture).

In the second case, the beneficiary is obliged to finalize the project or program previously agreed with the donor. Often, especially in the first decades of providing development assistance, this agreement meant in practice the implementation of goals preferred by the donor, usually

more favorable to the donor than the beneficiary, and was most often intended to alleviate the problems that occurred in the donor's balance of payments. Often the prices of goods and services in the donor country were also significantly higher than those offered on the world market. As a result, tying development aid was the subject of severe criticism from the very beginning of the idea of granting it.

Untied aid, on the other hand, means the freedom of choice that the donor leaves to the beneficiary using it. The main point is to provide him with fully autonomous, unlimited decision-making when it comes to making purchases geographically. However, this does not exclude spending the funds obtained under untied aid on the market of the donor state.

And here the problem arises whether, despite the official declaration on the non-tying of development aid, in practice it has a really untied character. For example, the introduction of strictly defined procedures motivated by the desire to increase the effectiveness of development aid (e.g. to eliminate corruption or the purchase of luxury goods) may effectively favor donor's goods and companies. In addition, there may also be informal lobbying or the tendency of beneficiaries to prefer purchases in the donor country for fear that the lack of it will in the future limit or even end aid to developing countries benefiting from untied form. The DAC countries, in turn, explain the high percentage of recovery of funds granted under untied aid in the form of orders on the donor market by the high competitiveness of their capital goods and services.