

Types of Aid to Developing Countries

When nations undertake the process of economic development, they seek to improve the living conditions of their populations and establish or expand a productive infrastructure. To do this, they need resources — human, material, and financial — on a large scale. Poor countries often have to supplement their own resources through the following:

- *bilateral aid* — loans and grants from individual governments of richer nations;
- *multilateral aid* — technical and financial assistance from international financial institutions (IFIs) which are funded and operated collectively by many governments;
- *other sources* — commercial banks, private firms, and non-governmental charitable organizations.

Developing countries use some of these resources to pay for the services of experts who can help identify, prepare, execute, or operate development projects and purchase the goods, equipment and related services, and civil works needed for them.

When financing for the development projects is being provided by an IFI, the developing country is encouraged, sometimes even required, to go outside its borders to seek services from qualified consulting firms and individual consultants representing many areas of expertise. These areas include engineering, planning, accounting, various types of management and analysis (economic, financial, market, systems), architecture, agronomy, and sociology.

One of the main characteristics of multilaterally financed procurement is that the exporter's potential client

is the executing agency in the developing country. The executing agency is an arm of the borrowing country's government, usually a branch of a ministry or some other official entity, that is empowered to formulate, design, and carry out the project, often with the help of consultants. The executing agency retains the consultants and appoints the project managers (consultants often serve that function as well), and decides what types of goods and works are needed to implement the project and from which suppliers to purchase them.

Because it is normally the IFI that makes disbursements out of the borrowing country's loan account to pay for the items procured, consultants are assured of payment for work performed. This makes the business opportunities offered by Third World development attractive in spite of uncertainty about debt repayment and economic stability.

In certain circumstances, consulting services are contracted directly by an IFI. This can occur when the IFI

- requires assistance with various aspects of its lending work;
- has been commissioned by another institution to undertake studies, e.g., when the World Bank is used by the UNDP as its executing agency;
- is both financing and carrying out technical assistance projects in its borrowing countries, as is the case with the AsDB's Technical Assistance Loans.

The rules vary slightly from one IFI to another. It is therefore important to carefully read each IFI's published *Guidelines for Consultants*, for specific information on their rules.