SECTION II

Business Opportunities for Canadian Exporters through Multilateral Financing Institutions

A. Multilateral Development Banks

1. Overview

The multilateral development banks (MDBs), also known as International Financial Institutions (IFIs), are large international organizations established to stimulate economic growth and social development in Third World countries. To help achieve these objectives, the banks assist in preparing and financing sound, high-priority projects throughout the developing world. The policies and lending operations of the banks are reviewed and approved by boards of executive directors who are appointed by member countries.

Canada is a member of the six established multilateral development banks: the World Bank Group, the Inter-American Development Bank, the Asian Development Bank, the Caribbean Development Bank , the African Development Bank and the European Bank for Reconstruction. By virtue of its level of investment in these institutions, Canada has its own Executive Director on the Board of the Inter-American Development Bank and the Caribbean Development Bank. In the case of the World Bank, the African Development Bank, and the Asian Development Bank, the Canadian Executive Directors also represent other countries with which we share seats. Canada's financial contributions to these institutions are in the form of annual capital subscriptions, and special contributions to concessional funds and technical assistance programs. For the 1989 fiscal year, some $460 million was contributed in this way.

In 1989, these MDBs committed approximately US $31.9 billion to developing countries. It is clear, therefore, that the lending operations of the multilateral development banks represent a significant and increasing source of potential export business for Canadian firms. For additional details on these banks, including location and points of contact, please refer to *4. Specific Information about Each Bank*, page 15.

2. The Procurement System

The development banks do not themselves procure goods and services except in a relatively minor way under their technical assistance programs. By far the largest part of MDB activity is lending money to developing countries and it is these borrowers who make the procurement decisions on the basis of procurement guidelines established by each MDB. The guidelines for all banks are broadly similar and normally include a requirement for international competitive bidding. The basic rules are well-defined and even-handed. The maximum margin of preference accorded local suppliers is 15 per cent.

To be eligible for a 15 per cent preference, a local supplier must demonstrate that his product has a local value-added content of no less than 20 per cent. Certain countries with more sophisticated economies, however, may insist that the local content be higher than 20 per cent before firms become eligible. Also, under certain conditions, local civil works contractors may be awarded a 7.5 per cent level of preference. Local import tariffs are normally waived when multilateral development financing is provided so that international competitive bidding often gives local governments an opportunity to reassess the competitiveness of traditional suppliers.

The thrust of international competitive bidding is toward open competition among suppliers from member countries, in order to maximize the effectiveness of public expenditures and provide developing member countries with the best value for their money. Price is, of course, a very significant factor in the bid evaluation process, but it is by no means the sole determinant of contract awards. In some circumstances, a price disadvantage may be off-set by contacting the executing agency and its consultants in the borrowing country at an early stage to market the distinguishing qualities (e.g. technical support and servicing, spare parts, contracting experience) of a higher-priced product. This may assist in ensuring both that a) specifications are written in such a way that your products are compliant and b) that your bid is evaluated by the executing agency and its consultants in full appreciation of your product's particular merits.

Charts outlining the procurement process for equipment and consultant services and a synopsis of the development cycle for loans under consideration by the multilateral development banks follow. Any firm which has the intention of doing business with these banks must have a clear understanding of this procurement process and the nature of the development cycle for loans.

CHART 1: Typical Process for Selection of Consulting Firms on Projects Financed by Multilateral Development Banks

ACTIONS

BY EXECUTING AGENCY	BY THE BANK
Step 1	Step 2
Prepares: - terms of reference - selection procedure - short list of qualified firms	Reviews and approves: - scope of work - terms of reference - selection procedures - list of eligible firms*
Step 3	Step 4
- invites unpriced proposals (and in some cases price proposals in separate sealed envelopes) - rates proposals in order of technical competence - selects best proposal - negotiates contract with selected firm	Reviews and approves: - technical evaluation of proposal - final draft of contract - implementation schedule
Step 5	Step 6
- signs final contract - firm implements work - reports progress to bank	- evaluates performance of consultant's work for bank's confidential reference

* The banks almost never recommend consultants to the borrower. It is easier, however, for a bank to review a short list submitted by a borrower if a consulting firm which is on the short list is also registered with that bank. In general, banks will shortlist consultants or invite proposals on their own only in rare cases where they are the executing agency for another institution or for technical assistance programs. In some cases, the poorest borrowers will delegate this role to a bank when they decide that the bank is better equipped to assume it.