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.

Countries that receive bilateral aid for a particular development project are often expected to purchase the project-related items exclusively from suppliers in the donor country. However, when the external financing for a project is coming from a multilateral source, the developing country is normally required to purchase the project-related goods on the open market, in accordance with international competitive bidding procedures open to suppliers in all member countries of the financing IFI.

One of the main characteristics of multilaterally financed procurement is that the exporter's potential client is the executing agency in the developing country, not the IFI. 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/or appoints the project managers (consultants often serve that function as well), and decides what types of goods, equipment and related services, and civil 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, exporters are assured of payment for the goods supplied or work performed. This makes the business opportunities offered by Third World development attractive in spite of uncertainty about debt repayment and economic stability.

PART I
EXPORTING TO DEVELOPING COUNTRIES

Market Overview

Vast sums of money are expended on Third World development projects. In fact, in 1984, developing countries received $95 billion from all sources of financial aid. Of this, about $16 billion came from multilateral financing.

The following table shows the amounts of money actually spent in 1984 by IFIs and the UNDP on ongoing development projects, as well as amounts committed for new projects.