**KEY CONCEPTS AND SKILLS: Units 4.5 – 4.7 – Foreign Sources of Finance and Foreign Debt**

**Definitions:**

* **Foreign Direct Investment (FDI)**: investment by firms based in one country (the home country) in productive activities in another country (the host country).
* **Multinational Corporation (MNC)**: a firm that undertakes foreign direct investment; in other words, a firm that operates in more than one country
* **Foreign Aid**: the transfer of funds or goods and services to developing nations, with the goal of bringing about improvements in their economic, social or political conditions.
* **Concessional**: describes conditions or terms that are more favorable than could be achieved in the market
* **Grants**: Gifts of either money or goods and services that do not need to be repaid
* **Humanitarian aid**: aid extended in regions where there are emergences caused by violent conflicts or natural disasters. It is intended to save lives, provide basic necessities, or aid in reconstruction.
* **Development aid:** aid intended to help developing countries achieve economic growth and development objectives. It may take the form of:
  + **Project aid**: financial support for specific projects, such as building schools, roads, etc.
  + **Program aid**: financial support for specific sectors of a developing nation’s economy, such as healthcare, education, or financial services
  + **Technical assistance**: provision of technical advice by developed country specialists such as doctors, teachers, etc.
  + **Debt relief**: forgiving outstanding debts; generally only provided to very poor countries
* **Tied Aid**: the practice where donors make the recipients of aid spend a portion of borrowed funds to buy goods and services from the donor country.
* **Official Development Assistance**: foreign aid provided by governments or by international agencies supported by multiple governments (i.e., it does not include aid from non-governmental organizations)
* **Non-Governmental Organizations (NGOs)**: private (i.e., non-government) organizations that provide aid to developing nations
* **Foreign Debt**: external debt, meaning debt incurred by borrowing (by both government and private borrowers) from foreign creditors

**Concepts and Applications:**

***Foreign Direct Investment and Multinational Corporations)***

* Outline examples of foreign direct investment.
* Explain the reasons that MNCs expand into economically less developed countries.
* Describe the characteristics of LEDCs that tend to attract FDI from multinational companies.
* Explain why lower income countries may attract less FDI than higher income countries.
* Evaluate the impact of FDI for economically less developed countries.
* Explain why some observers have referred to the competition between developing countries to attract MNCs as the “race to the bottom”.

***Foreign Aid***

* Define foreign aid, with reference to the concepts of *concessional* and *non-commercial* transactions.
* Describe the two sources of foreign aid (i.e., government vs. non-government).
* Outline the difference between *humanitarian aid* and *development aid*.
* Outline the different types of *development aid*.
* Explain the motivations of economically more developed countries giving aid.
* Explain the disadvantages to the recipient countries of *tied aid*.
* Evaluate the effectiveness of foreign aid in contributing to economic development
* Compare and contrast the roles of aid and trade in economic development.

***Multilateral Development Assistance***

* Explain the roles and goals of the World Bank and the IMF.
* Explain the strengths/weaknesses and successes/issues related to the development activities of the World Bank and IMF

***The Role of International Debt***

* Explain why LEDCs borrow from foreign creditors.
* Explain why some developing countries developed very large foreign debt loads.
* Outline the methods used by the World Bank and IMF to help some high-debt countries meet their debt obligations. Why have these policies been criticized?
* Explain the consequences of very high levels of foreign debt on a developing nation’s economic growth and development.
* Describe the HIPC initiative, including the advantages to developing nations if it is adopted.