best in those countries. Stable macroeconomic conditions are also necessary for enhancing the benefits from foreign assistance in an environment of heightened competition for limited donor resources. In addition, the empirical findings indicate the positive contribution to growth of improvements in human capital (both directly and indirectly through its impact on population growth) and progress toward policy liberalization.

In attempting to target aid where the potential for success is greatest, we must take into account that this potential is partially determined by the presence of reasonable macroeconomic policies and a commitment to efficient (market-driven) resource allocation on the part of the domestic authorities. Targeting aid to such good performers (if such a practice were to become widespread amongst the major donors) would have the added systemic benefit of re-inforcing the incentives for other, currently mis-managed developing countries to follow such "good" policies. Put another way, the appropriate strategy is to avoid the moral hazard problem of rewarding unproductive policies and behaviours.

If we take the recommendations from the Christie/Preston and Dimic Policy Staff Papers (see footnote 4 above), and attempt to categorize recipients into specific groups, where aid would "work the best", we can add the conclusions from our reading on new growth theory as a further criterion. Christie/Preston make the point that our aid strategy should be based on two approaches for two different sets of countries. To paraphrase, humanitarian and poverty assistance for one group, development/technical assistance for growth for the other. This second group, according to Dimic's typology generally has in common commitments to democracy, sustainable development and sound economic policies. When Dimic factors in "Canadian interests" to his matrix, a list emerges of countries that could form the core of Zone 2 partners described by Christie/Preston.[30]

New growth theory, in attempting to explain why the paths of certain countries deviate, and stressing the importance of improvements to human capital and the need for education further edifies the results of the previous two Staff Papers. For one of his development criteria, Dimic uses the UNDP human development index. In some empirical work on innovation and new growth theory, proxies such as R&D intensity, educational achievement and others have been shown to correlate well with productivity gains, leading to economic growth.

[30] For comparison purposes with Table 1 above, the countries Dimic identifies are: Mexico, Brazil, Colombia, Uruguay, Jamaica, Chile, Venezuela, Trinidad and Tobago, Honduras, Bolivia, Indonesia, China, Malaysia, Thailand, India, Philippines, Egypt, Botswana, Madagascar and Ghana.