

Further work on identifying likely recipients of Canadian assistance is obviously needed. Dimic's paper could act as a base, with further criteria reflecting the theoretical motivation behind endogenous growth theory as useful additions.

By stressing the importance of delivery, and the type and distribution of aid, the new growth theory also could have an impact on deciding which countries fit into the Zone 1 and 2 groups identified by Christie/Preston, as well as the appropriate delivery mechanisms in each case. The challenges of retailoring our aid programme to fit these new realities have already been accepted by CIDA, which has adjusted to the changing reality and understanding of development by focussing on improvements in human capital, by encouraging a "market-based" environment and by taking into account government performance. The next steps will be to refine this approach further.

## 10. Conclusions and Policy Recommendations

- Canadian development assistance has adapted reasonably well to changing circumstances. The choice of recipient countries and of appropriate policy instruments (e.g. CIDA's Industrial Cooperation Programme) has also changed to reflect the times. As donor budgets continue to shrink, ours included, even tighter targetting will be required.
- While maintaining our traditional short-term focus on humanitarian and disaster relief, Canadian development assistance should become even more focussed on a few specific countries that can use it well. These countries should be identified by certain criteria, one of which is the ability to maintain a growth path, which could lead them out of the aid recipient class.
- Neoclassical growth theory argues that foreign aid can "replace" domestic capital in the capital accumulation process. Canadian aid should become even more focussed on training and education, and encouraging a market-based environment more propitious for learning by doing. One of the most efficient forms of aid may be that which raises the level of human capital which is applied to the creation and management of an appropriate policy environment.
- International assistance should be even more tightly targeted in large part on improving the export capabilities and the functioning of domestic markets of recipient countries, through improving two-way market access, strengthening intellectual property and commercial law regimes, and helping recipient countries to participate in markets more efficiently.