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The Economic, Social and Political Prerequisites of Development

by Herbert Wilkens, Hans J. Petersen, Siegfried Schultz, Berlin*

Whether development aid promises to be successful depends not least on the conditions prevailing in the developing countries themselves. A study commissioned by the German Federal Ministry for Economic Co-operation has examined whether it is possible to identify universal requirements for successful development in Third World countries. Its main findings are presented below.

The study by the DIW¹ defines successful development in multi-dimensional terms. Essential elements are economic growth, an increase in the level of employment and an improvement in the material circumstances of the disadvantaged sections of the population. Others include the protection of human rights, the degree of political and social participation (of minorities and economically disadvantaged groups, too) and improvements in social security and in the future prospects for all citizens (for example through education and institutional reforms).

Within these terms of reference, the study attempted to compare economic, social and political progress in a cross-section of countries and to investigate the links between them or the reasons for them. Attention was therefore focussed not on the type and level of development aid but on conditions in the developing countries themselves. It is these that determine whether external support promises to be successful and how it can best be arranged.

Method

Regression analysis techniques were used extensively. In principle, all countries with more than 2 million inhabitants were examined, provided the available statistical data were adequate. The 84 countries covered are listed in Table 1. The period examined was generally the seventies; depending on the indicator in question, this entailed either examining the annual change over this period or comparing the end-period value (generally 1980, but in some cases

adjacent years) with the value for the reference year (in most cases 1970). Using a well-tried procedure, groups of indicators were then combined to form composite indices for the level and change in the physical quality of life and success in the social, political, domestic economic and external economic fields.

The composite index for the *physical quality of life* devised by Morris (1979) consists of the indicators of life expectancy at the end of the first year of life, infant mortality and the literacy rate. The change in the index is used as an indicator of development success over time.

Progress in the *social field* is portrayed here by seven indicators: life expectancy at birth, child mortality, number of doctors per 100,000 inhabitants, primary school pupils in relation to the population of primary school age, food supply, birth rate and the urban population in relation to the total population.

The indicator for comparing *political* success in developing countries (consisting of 11 sub-indicators) is generated from two groups: the incident indicators and the indicators on citizens' legal status. The average indices of these groups are given equal weights and combined to form the overall political indicator. The incident indicators are intended to illustrate political and social stability. The statistics permit political incidents

¹ H. Wilkens, H. J. Petersen, S. Schultz, D. Schumacher: Wirtschaftliche, soziale und politische Bedingungen der Entwicklung – Ein Beitrag zur Erklärung von Entwicklungserfolgen in Ländern der Dritten Welt – Querschnittsvergleich für 84 Länder mit Fallstudien für Birma, Bolivien und Kenia, Cologne 1985 (Research reports of the Federal Ministry for Economic Co-operation, vol. 71). The work also contains detailed notes on methodology and the sources used.

* Deutsches Institut für Wirtschaftsforschung (DIW).

between 1971 and 1977 to be "captured" and compared with data for the years from 1961 to 1970. The data involved here are the number of deaths as a result of communal violence, cases of regular changes of government and irregular transfers of power, protest demonstrations, political strikes, revolts, attacks, political assassinations and attempted coups. The index on the legal status of citizens consists of the change in civil and political rights.

Domestic economic development is compared on the basis of the following indicators: per capita gross national product, per capita energy consumption, output of finished products as a proportion of GDP, the investment-income ratio, the savings-income ratio and per capita food output. *External economic performance* is measured in terms of seven indicators: real export growth, change in real export growth, real import growth, change in real import growth, change in the structure of exports, indebtedness and debt service ratio.

Performance

The results for the three indicators from which the *physical quality of life index* (PQLI) is constructed improved considerably in the last two decades. In very few countries can it be said that progress was at a standstill, although the situation is still far from satisfactory. In 1980 more than one-quarter of the countries examined scored 40 or less out of 100 on the PQLI scale. In the last twenty years the more advanced countries were also the most successful in improving their material standard of living. The results demonstrate that economic performance and the satisfaction of basic needs do not always go hand in hand.

The key indicators for assessing *social progress* also showed a clear trend towards improvement. Only with regard to urbanisation and food supplies were the results not entirely positive. On average, social advances were greatest in middle-income countries. The newly industrialising countries, in particular Taiwan and Singapore, also recorded good results in this field. In assessing the results for this group of countries it must be borne in mind that they had already reached a high level at the beginning of the seventies. On average, low-income countries also achieved the least social progress, the only striking exceptions to this general result being China and Indonesia.

Changes in the *political climate* were distributed very unevenly by region and country group in the seventies. There was no apparent difference between less developed and more advanced countries in this respect. Socio-political stability increased mainly in low-income

countries but declined on average in NICs during the period under review. On the other hand, the NICs generally achieved improvements in political and civil rights.

In the seventies considerable success was achieved in the *domestic economy* as a whole. Only food production per capita failed to increase everywhere, the main reason for the unsatisfactory trend in the food supply (production plus net imports) mentioned above. Domestic economic advances were made chiefly in countries that were already relatively developed; as a rule, the least developed countries were the least successful in this respect too. Income distribution trends were probably adverse everywhere, although for many countries time comparisons are not possible on the basis of the available statistics.

The average results for the developing countries as a whole were relatively good on the *external economic* front in the seventies, with imports rising faster than exports in real terms. On principle this was to be welcomed from the development point of view, as it permitted the net transfer of resources to developing countries to be increased. However, the outcome was the very large increase in external debt that has led to the well-known symptoms of crisis since the beginning of the eighties. In the newly industrialising countries, exports increased on average more rapidly than imports, particularly in real terms. Developments in per capita income mirrored changes in the raw-material share of exports. The LLDCs achieved the smallest shift towards exports of manufactured goods, the NICs the greatest.

If the results are weighted in accordance with the population figures, it can be seen that on average countries with a large population had greater development success than those with a small population. There are also links between development successes at various levels; they are relatively clear-cut between the increase in the physical quality of life and social achievements and between domestic and external economic progress, but as a rule they are not conclusive. Table 2 shows how cautious one must be in drawing general conclusions from the results; the individual indicators of success seldom move in step in any one country.

Influences at Work

The study attempted to attribute success or failure in relation to the performance of the other countries to individual influences. For example, it enquired whether giving priority to industrial growth tended to foster social

Table 1
Indicators for the Countries Examined in the Study

Countries	Popu- lation	GNP	Per capita GNP	Real annual average percentage increase in per capita GNP	Average annual percentage population increase	Countries	Popu- lation	GNP	Per capita GNP	Real annual average percentage increase in per capita GNP	Average annual percentage population increase
	million 1980	\$ billion 1980	US\$ 1980	1970-81	1970-79		million 1980	\$ billion 1980	US\$ 1980	1970-81	1970-79
Least developed countries (LLDCs)						El Salvador	4.54	2.69	590	3.10	2.90
Afghanistan	15.94	2.71	170	3.90	2.60	Ivory Coast	8.64	9.92	1150	6.20	5.70
Bangladesh	90.20	11.17	120	4.20	3.00	Guatemala	7.01	7.79	1110	5.50	2.90
Benin	3.53	1.08	300	3.30	2.90	Honduras	3.69	2.07	560	3.80	3.40
Burundi	4.10	0.83	200	3.20	2.20	Iran	38.13	65.00	1700		3.00
Central Afr. Rep.	2.29	0.68	300	1.60	2.30	Iraq	13.07	39.50	3020		3.40
Chad	4.46	0.53	120		2.00	Jamaica	2.19	2.25	1030	-1.20	1.60
Ethiopia	31.47	4.32	140	2.20	2.20	Jordan	3.24	3.27	1420	7.00	3.50
Guinea	5.43	1.59	290	3.00	2.90	Libya	2.98	25.73	8640	2.30	4.20
Haiti	5.01	1.34	270	3.40	1.70	Malaysia	13.44	22.41	1670	7.80	2.30
Laos	3.43	0.41	120		1.30	Morocco	20.18	17.44	860	5.20	3.00
Malawi	5.95	1.39	230	5.60	2.90	Nicaragua	2.67	1.93	720	0.80	3.30
Mali	6.94	1.34	190	4.60	2.60	Nigeria	84.73	85.51	1010	4.50	2.50
Nepal	14.29	1.98	140	2.10	2.40	Papua- New Guinea	3.01	2.36	780	1.90	2.30
Niger	5.32	1.76	330	3.10	2.80	Paraguay	3.06	4.11	1340	8.80	2.90
Rwanda	5.10	1.04	200	5.30	2.80	Peru	17.63	16.47	930	3.00	2.70
Sierra Leone	3.47	0.95	270	1.90	2.60	Philippines	47.88	34.35	720	6.20	2.70
Somalia	3.91	0.86	220	3.90	2.30	Saudi Arabia	8.96	100.93	11260	10.60	4.60
Sudan	18.37	8.64	470	4.10	2.70	Syria	8.98	12.03	1340	10.00	3.60
Tanzania	18.14	4.78	260	5.10	3.40	Thailand	46.45	31.14	670	7.20	2.50
Togo	2.48	1.02	410	3.20	2.40	Turkey	45.36	66.08	1460	5.40	2.50
Uganda	13.20	3.75	280	-1.60	3.00	Tunisia	6.35	8.34	1310	7.30	2.10
Upper Volta	5.73	1.11	190	3.60	1.60	Venezuela	14.93	54.22	3630	4.50	3.40
Yemen	5.81	2.68	460	8.70	1.80	Zambia	5.77	3.22	560	0.40	3.10
						Zimbabwe	7.40	4.64	630	1.80	3.30
Low-income countries (LICs)						Newly industrialising countries (NICs)					
Angola	7.08	3.32	470		2.40	Argentina	27.74	66.43	2390	1.90	1.60
Burma	33.31	5.91	180	4.80	2.20	Brazil	118.67	243.24	2050	8.40	2.30
China	994.38	283.25	290	5.50	1.90	Chile	11.10	23.98	2160	2.10	1.70
Ghana	11.68	4.92	420	-0.20	3.10	Greece	9.33	42.19	4520	4.40	0.60
India	673.21	159.43	240	3.60	2.10	Hong Kong	5.11	21.50	4210	9.90	2.60
Indonesia	146.24	61.77	420	7.80	2.30	Israel	3.88	17.44	4500	4.00	2.70
Kenya	15.87	6.63	420	5.80	3.50	Korea, Rep.	38.46	58.58	1520	9.10	1.90
Madagascar	8.71	3.03	350	0.30	2.50	Mexico	67.46	144.00	2130	6.50	3.00
Mozambique	10.47	2.81	270		2.50	Portugal	9.84	23.14	2350	4.40	1.20
Pakistan	82.17	24.87	300	4.80	3.10	Singapore	2.39	10.70	4480	8.50	1.40
Senegal	5.66	2.56	450	2.00	2.60	Spain	37.38	199.78	5350	3.20	1.10
Sri Lanka	14.82	3.99	270	4.30	1.70	Taiwan	17.65	38.20	2160	9.20	2.00
Viet Nam	54.18	13.54	250		2.90	Uruguay	2.92	8.24	2820	3.10	0.30
Zaire	28.29	6.34	220	-0.20	2.70	Yugoslavia	22.33	58.57	2620	5.70	0.90
Middle-income countries (MICs)						Total or average	3271.53	2337.94	715	4.64	2.54
Algeria	19.92	36.41	1920	6.90	3.20	LLDCs	274.56	55.96	204	3.54	2.45
Bolivia	5.57	3.19	570	4.40	2.60	LICs	2096.07	582.37	279	3.50	2.54
Cameroon	8.44	5.66	670	6.30	2.20	MICs	536.66	743.62	1386	5.28	2.98
Colombia	26.67	31.57	1180	5.70	2.30	NICs	374.24	955.99	2554	5.74	1.66
Costa Rica	2.21	3.82	1730	5.20	2.50						
Dominican Rep.	5.44	6.20	1140	6.30	3.00						
Ecuador	8.36	10.23	1220	8.60	3.30						
Egypt	39.77	23.14	580	8.10	2.00						

Sources: World Bank: The World Bank Atlas (various years) and World Development Report (various years); estimates by the DIW.

progress. The main technique used here was regression analysis. The factors investigated can be classified according to the following criteria:

- ☐ regional location and resource endowment;
- ☐ level of development at the beginning of the period under examination;
- ☐ external financing and integration in foreign trade;
- ☐ economic and political system;
- ☐ sectoral priorities and influence of the state;
- ☐ income distribution and inflation.

Several indicators were used for each of these areas, the total being 30. The following individual results are of interest:

- ☐ The *regional averages* merely confirm the known fact that the conditions for successful development are particularly bad in Sub-Saharan Africa. If one looks at the situation of individual countries rather than merely the group averages, the great diversity within the regions becomes obvious. In Black Africa and East Asia, in particular, the individual values differ very widely. Nor does classification of developing countries according to their *endowment with natural resources* reveal any plausible link with developments in the areas under examination here.
- ☐ On the other hand, a link can generally be discerned between the *level of development* at the beginning of the period and subsequent development success. The rise in the physical quality of life correlates significantly and with a substantial coefficient of determination (60 %) with the initial level of this index. There is also evidence of a weak positive link between social achievements and the 1970 level. It is true that many countries recorded good results from a poor initial position, but these were clearly in the minority.
- ☐ Contrary to expectations, successful development is linked to only a small degree with the *inflow of development aid* and that of other financial and material *resources* from abroad. The higher both the inflow of development aid and the import surplus (in relation to GNP), the smaller development success tends to be. This inverse correlation could stem from the fact that most donors wish to give priority to helping the least developed countries. The current account trend is due partly to extreme values for countries such as Saudi Arabia, Iraq and Libya. It can be explained partly by the need for adjustment that usually accompanies chronic current account disequilibrium. This has an inhibiting effect on domestic development and hence on the domestic economic and social spheres.

☐ As far as the influence of the *economic system* is concerned, the calculations made in another study² showed that countries with market economies had achieved greater economic and social success than more centrally planned economies. However, the use of averages does not produce meaningful results, because they are unable to reflect the enormous spread of individual data. The calculation of normalised indices for successful development in individual areas makes it possible to use regression analysis to test whether there is a link between the type of economic system and development success. Scatter diagrams already gave a clear impression that this is not the case. The conclusion to be drawn from these calculations is that the nature of the economic system does not have a decisive influence on the scale of development success.

☐ The weak statistical relationship between the *political system* and other aspects leaves one no option but to conclude that greater success in social and economic development does not generate a trend towards a more liberal political system and that a liberal system does not typically lead to more successful development.

☐ Similarly, there was no clear evidence that in general successful development was dependent on *sectoral strategy*. The results merely mirror the process of economic restructuring over time: as real income rises, first industry's share of GDP rises, then that of the services sector, while that of agriculture steadily declines. In the conditions that prevailed during the period under examination, a policy of industrialisation reliant on the world market had a beneficial effect, provided the food base was already secure. By contrast, the neglect of agriculture evident in many developing countries, particularly in Africa, hindered successful development in other sectors.

☐ The desirable scale of *state activity* is also a contentious issue in the development policy debate. The lack of successful development is often blamed on management mistakes by official bodies caused by bureaucratic behaviour and an administrative rather than entrepreneurial approach to decision-making. The World Bank notes that in Black Africa, for example, the state sector is generally excessively large, with the result that industrial development is inefficient, agriculture is put at a disadvantage and little progress is made on the social front. These hypotheses were first tested by means of an indicator expressing the

² A. J. Halbach, R. Osterkamp, H.-G. Braun, A. Gälli: Wirtschaftsordnung, sozio-ökonomische Entwicklung und weltwirtschaftliche Integration in den Entwicklungsländern, Bonn 1982.

orientation of state expenditure (defence on the one hand, education, health and social security on the other). The great heterogeneity of the individual results means that the regression tests on the success indicators produce unclear results. The state employment ratio (government employees as a percentage of the population) does show a clear positive correlation with the improvement in the physical quality of life, but not with domestic economic success, social success or political improvements. Serious price distortions as a result of state intervention, such as subsidies, tend to go hand in hand with poorer figures for

domestic economic success. On the other hand, however, the results cannot be adduced in support of a liberalisation policy relying solely on market mechanisms.

Despite all the methodological problems, such as intercorrelation of the "independent" variables, multiple regression analyses basically confirm the results. The degree of democracy and liberality of the political system comes into play here as an additional determinant of improvements in the physical quality of life. The negative correlation between external

Table 2
Indicators of Successful Development in the
Seventies: Normalised Indices

	Improve- ment in physical quality of life	Social success	Political success	Domestic economic success	External economic success		Improve- ment in physical quality of life	Social success	Political success	Domestic economic success	External economic success
Afghanistan	31	14	24	58		El Salvador	53	63	20	45	59
Bangladesh	34	30		43		Guatemala	47	66	28	51	65
Benin	41	49	50	45	22	Honduras	50	46	59	45	30
Burundi	32	39	35	44		Iran	51	75	46	52	
Central Afr. Rep.	40	18	56	26	42	Iraq	47	68	71	62	
Chad	33	16	50	23	15	Ivory Coast	43	31	56	51	29
Ethiopia	32	34	1	23	49	Jamaica	72	56	42	13	24
Guinea	34	32	47	30		Jordan	66	79	63	67	100
Haiti	39	62	57	60		Libya	48	75	55	78	
Laos	33	50	13	44		Malaysia	51	31	50	79	61
Malawi	37	25	57	51	43	Morocco	41	55	55	51	44
Mali	33	28	51	31	81	Nicaragua	62	39	44	27	
Nepal	34	62	64	31		Nigeria	41	64	78	55	61
Niger	33	41	40	54	89	Papua- New Guinea	39	54	48	47	
Rwanda	41	36	36	80	30	Paraguay	56	54	48	73	65
Sierra Leone	35	15	46	20	33	Peru	57	52	84	46	38
Somalia	49	48	51	40	40	Philippines	53	69	41	60	66
Sudan	37	50	60	35	35	Saudi Arabia	45	98	47	60	
Tanzania	63	65	56	32	25	Syria	64	76	85	86	54
Togo	35	52	49	47	25	Thailand	63	72	49	63	61
Uganda	50	23	53	0	15	Turkey	53	43	24	59	64
Upper Volta	28	9	30	48	45	Tunisia	62	86	55	78	80
Yemen	33	28	68	79		Venezuela	66	41	68	46	29
Angola	40	46	23	35		Zambia	41	39	60	34	19
Burma	44	48	43	51	46	Zimbabwe	49	10	63	36	
China	74	100	60	80		Argentina	50	32	28	54	76
Ghana	37	38	61	22	38	Brazil	51	42	75	59	58
India	38	50	64	47	69	Chile	66	59	18	28	72
Indonesia	48	84	50	71	70	Greece	75	49	74	52	73
Kenya	51	38	68	43	24	Hong Kong	94	67		63	47
Madagascar	47	59	12	29	13	Israel	70	49	47	43	53
Mozambique	40	55	40	24		Korea, Rep.	63	47	51	78	78
Pakistan	35	44	0	51	73	Mexico	58	44	48	54	81
Senegal	31	31	75	45	44	Portugal	64	59	54	44	41
Sri Lanka	48	20	36	57	57	Singapore	76	72	56	96	86
Viet Nam	74	47		21		Spain	87	64	49	59	
Zaire	41	40	88	19	4	Taiwan	97	78	51	86	59
Algeria	44	74	77	53	34	Uruguay	53	55	38	52	74
Bolivia	42	47	48	49	41	Yugoslavia	66	48	45	61	75
Cameroon	36	38	40	57	34						
Colombia	59	51	51	64	68						
Costa Rica	82	70	44	58	42						
Dominican Rep.	46	55	81	50	60						
Ecuador	54	58	85	56	42						
Egypt	43	77	42	80	58						

Normalised indices: the higher the index figure, the greater the development success. All-country average = 50. See the text for methodological information.

Source: Calculations by the DIW.

economic success and price distortions emerges more clearly from multiple regression than from the simple comparison. In as far as they were tested because links could be supposed to exist, none of the other independent variables were correlated substantially more closely with the indicators of success than was shown by simple regression.

Examples of Successful Development

The results of the case studies were particularly useful in drawing conclusions for development policy, as the characteristics of successful development take on a much more concrete form than in the case of cross-section analyses. The purpose of this study was to examine development successes resulting primarily from *developing countries' own efforts* and also to look at positive cases of bilateral co-operation or multilateral projects involving the Federal Republic of Germany. It goes without saying that "success stories" in the sense of entirely positive results could not be found. Underdevelopment leads to bottlenecks and critical situations even in good projects. As these are the issues that preoccupy those locally in charge of projects, it was not always easy to focus discussion on successes and the prerequisites for achieving them rather than on problems and failures.

Burma

Burma is one of the few countries in the region that managed to sustain economic expansion in the late seventies and early eighties despite the worldwide recession. The large agricultural sector made a decisive contribution to this achievement. Apart from agriculture, and in particular rice production, the study examined Burmese measures regarding the regional structure, health and education. Probably the most important step towards increasing agricultural output was the introduction of high-yielding varieties combined with correspondingly improved cultivation methods. To ensure the success of the "Green Revolution", other yield-boosting inputs were made available to supplement the improved seeds. Moreover, two crops a year were advocated where this was feasible from the technical and organisational points of view.

Burma had a remarkable record of achievements in certain social fields even before the worldwide debate on the "basic needs" concept. This internationally favourable position reflects on the one hand the traditional values of Burmese society and on the other the country's successful efforts to guarantee a minimum subsistence level of food supplies and health care for the majority of the population.

To summarise, it may be concluded that Burma displays a number of conditions that favour successful development. It is relatively well endowed with natural resources. The contrast between rural and urban life is less marked than elsewhere. The development path is clearly formulated and consistently followed. Political independence and cultural identity are important principles. Burma has made considerable efforts of its own to advance its inward-facing development. This applies to progress in literacy as well as to social and economic reforms. Where external borrowing has been unavoidable, Burma has always proved a good debtor. On the other hand, the marked hierarchical mentality is an impediment. Initiative must proceed very cautiously, as success might compromise higher-ranking officials and failure would be punished severely. This breeds conformity and hinders development. Burma's self-imposed isolation from the rest of the world has technical and scientific consequences for the country's development that will not have their full impact until the future.

Development co-operation with Germany has not been without its problems, though at present it is operating relatively smoothly. Burma's planning machinery is cumbersome; a long period of preparation is needed to get new projects off the ground. Outside assistance must be concentrated on support for project implementation. Burma seeks additional support for projects conceived at home. An increase in the proportion of product and programme aid would meet with a positive response from the Burmese partner. Confidence-creating measures are worthwhile, since reliable partners will be invited to return. If the foreign contribution to the development effort is of high quality an excellent foundation can be laid for lasting relations.

Bolivia

The picture of Bolivia today is more one of development failures than successes. Nevertheless, taking a longer-term view a number of advances can be identified in the areas of regional integration, structural differentiation of the economy, provision of basic needs and social participation. The study examined measures aimed at structural change at regional and sectoral level, projects in the health and education sectors and integrated rural development. The following conclusions may be drawn.

A fundamental change of course appears to be unavoidable if the prospects for socio-economic progress in Bolivia are to improve. This will entail above all the replacement of the backward-looking political

elite, the removal of red tape in public institutions, the return of state-owned enterprises to profitability, a more thorough decentralisation of state development policy to regional and local decision-making and executive bodies and the participation of social forces and target groups in planning and directing the development process. This alone can prevent a further heightening of social confrontation.

Against this background, it cannot simply be a question of tackling the present crisis with a stabilisation programme approved by the IMF. However urgent the need to solve the problems of the country's horrendous foreign debt, budget deficits and inflation, this may not and cannot be forced through yet again at the expense of the wage-earning and farming sections of the population. International development policy can make a constructive contribution to the further development process by expressing its continued solidarity with Bolivian democracy, the restoration of which was due in no small measure to the international boycott against the previous military dictatorship. Since then, solidarity has been repeatedly expressed at the bilateral and multilateral levels but has so far not been fully matched by action. Broadly-based measures in favour of socially weak target groups must be employed more consistently than in the past and support must be given where possible to participatory approaches, which are the most likely to lead to autocentric development.

Kenya

In Kenya five areas were identified that Kenyans almost unanimously regard as development successes – coffee, maize, tourism, a textile factory and a cottage industry co-operative. A number of positive influences were at work in these cases: the readiness of Africans and Europeans to work together as partners has ensured continuity of management; the presence of experienced, mostly European experts in certain key positions, in some cases for periods of many years, has made an intensive transfer of technology possible and enabled the new generation of African managers to assume their new tasks gradually. Domestic research and development generated very strong stimuli, in as far as it was directly related to applications in important industries. Free market principles subject to strong government control to guard against abuse ensure that many industries operate without major waste of resources. Development aid with long-term objectives has contributed greatly to the development successes in various sectors. Its application to existing local projects in their initial stages with the aim of clearing bottlenecks appears to be particularly rewarding. Free market

management principles also produce benefits in activities with mainly social objectives. However, purely free market mechanisms are not sensible if market conditions are as seriously distorted as they are in Kenya. This is particularly evident in the fields that enjoy little protection in Kenya such as the regions and sections of the population worst affected by rural poverty. Indeed, it can be said that state control can even foster successful development, as the examples of coffee and maize production clearly demonstrate.

How to Improve Bilateral Co-operation

The following main conclusions for practical development aid policy may be deduced from the above considerations:

- The newly industrialising countries and some middle-income developing countries had already reached a high level of economic and social attainment in all of the fields examined by the end of the sixties but they were also able to achieve further rapid progress in the seventies. The *external support* that some of these countries now need is not development aid in the true sense but a contribution to safeguarding the world economy and more particularly the world monetary system.
- The *distribution of development aid on a country basis* should not depend on the extent to which a country's economy is market oriented. The main criteria to be applied should be the level of development as a measure of need, the foreign trade potential as a measure of self-financing ability and the size of population as a weighting factor. In general, resources should be concentrated even more strongly on LLDCs, but many LICs and MICs also need additional support.
- From the development policy viewpoint, a reduction in a country's priority rating would be justified mainly if the *conditions* in that country were detrimental to development (e.g. deep-rooted and widespread corruption or the repression of particular target groups). Conversely, countries that offered particularly favourable conditions for successful development (e.g. a high degree of readiness to make efforts of its own, a development commitment on the part of the government, participation by the population in general and by target groups in particular) could be given preference in granting aid.
- Countries in which a long period of adverse developments has been brought to an end by a *political change* that holds out the hope of progress in the development field are particularly deserving of assistance. This may be the case after independence

struggles (e.g. Zimbabwe), after the resignation of a criminal dictatorship (e.g. Bolivia in 1982) but also after revolutions or coups aimed at overcoming intolerable economic and social circumstances (e.g. Nicaragua).

□ In future the developing countries must concentrate more strongly on developing the potential within their own market. This *"inward-looking development"*, however, cannot be a question of striving for self-sufficiency. The higher economic costs that may be associated with applying a basic needs concept are balanced by the probability of greater political stability.

□ The debate about the *employment impact* on donor countries has acquired great importance recently, but this aspect cannot be made the main motive for aid to the Third World. The fact that the exports associated with aid have favourable repercussions on employment in the donor country is a side-effect that may at most make it easier to decide to increase the resources provided.

□ Official or informal *aid ties* that help prop up uncompetitive industries in the donor country impair competitiveness over the longer term, quite apart from the fact that they reduce the effectiveness of

development aid. Such practices may be understandable in terms of domestic politics, but they are prejudicial to development policy and foreign policy, notwithstanding their worldwide increasing prevalence.

□ Development in the Third World would be boosted considerably if it was ensured that developing countries had a better chance to bid for tenders. *Procurement from developing countries* should at least be placed on an equal footing.

The case studies in particular showed that certain new trends in development aid policy should be further strengthened. The provision of personnel, particularly on long-term contracts, should be expanded more quickly than financial co-operation. Smaller projects should receive greater funding and encouragement, chiefly because of their beneficial long-term effects on the particularly needy sections of the population. In this connection a further increase in the involvement of non-governmental organisations promises to pay dividends; consideration might be given to simplifying and expanding the funding they receive but also to giving them moral support by paying greater tribute to their achievements.

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