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DEVELOPMENT AND INTERNATIONAL ECONOMIC CO-OPERATION

Letter dated 10 September 1981 from the Permanent Representative of Israel to the United Nations addressed to the Secretary-General

I have the honour to attach herewith a report prepared by the Government of Israel entitled "An Outline of Development through Promotion of the Transitional Economy". The report deals with ways and means to enhance development activities in developing countries in the light of the prospective global negotiations and the North-South dialogue.

I have the honour to request that this letter and the attached report be circulated as an official document of the General Assembly under item 69 of the provisional agenda.

(Signed) Yehuda Z. BLUM
Ambassador
Permanent Representative of Israel
to the United Nations

* A/36/150.

ANNEX

STATE OF ISRAEL

AN OUTLINE OF DEVELOPMENT THROUGH PROMOTION OF THE TRANSITIONAL ECONOMY

June 1981

EXECUTIVE SUMMARY

The impressive growth record of the Third World over the last two decades tends to mask the fact that the economic growth of the poorer LDCs (less developed countries), and especially that of the LLDCs (least developed countries) and of the peripheral sector in NICs (newly industrializing countries) has been, to say the least, disappointing.

Most analysts now tend to agree that this lopsided development in the Third World can be corrected only by directly addressing the productivity and quality of life problems of underdevelopment on a national scale. However, surveys indicate that both the capital and human resources that could be made available for this purpose may fall far short of the resources required for the implementation of orthodox development programmes.

Hence there is a need to design new prototype programmes which could, with little delay, improve the productivity and quality of life of the peripheral sector on a national scale, under the prevailing resource constraints. To achieve this goal, programmes would have to be applied which would firstly create the environment for social learning in order to relax the resource constraints. The new prototypes would differ from orthodox programmes in four ways.

Firstly, while orthodox programmes tend to disregard capacity limitations in human resources at both ends of the transfer process, the new prototypes would initially adapt operations to the limitations of people (in the development institutions and in the target population), and would, by the promotion of social learning, endeavour concurrently to upgrade the capacity of people in accordance with the requirements of the further advancement of the programme.

Secondly, instead of attempting to impose—paternalistically—new patterns of production and social behaviour, the new prototypes would make every effort to motivate grass-roots participation and promote assumption by the target population of co-responsibility for the design, implementation and, later, operation of projects.

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Thirdly, in order to allow for the unavoidable uncertainties, which the inflexible blueprint-like approach of orthodox planning, characteristically disregards, an experimental style, which is wide-open to feedback, will have to be adopted.

Fourthly, one of the principal selection criteria used in orthodox planning—that of the optimization of the benefit-cost relationship of individual projects associated with an investment for the improvement of a specific production complex (such as an irrigation facility) must be set aside. In its place, the integrated use of the totality of natural resources and of the unemployed and underemployed labour available within a basin or a region, and of the potential contribution of the target population that can be mobilized by emphasis on social learning and participation, should be adopted as the selection criterion. This criterion aims at achieving under the prevailing constraints, the greatest possible benefit streams for the basin or region, their most satisfactory social distribution, and the speediest conversion to self-sustained growth.

Although development efforts, as a matter of course, should not—cannot—be confined to the peripheral sector, the modern-sector bias of the last two decades must, for some time, give way to a bias favouring the peripheral sector, with a view to setting right the lopsidedness of past development efforts. Alongside the quasi-closed modern-sector island economies that have been created by exclusive reliance on orthodox development styles, quasi-closed peripheral economies, the 'transitional economies' of this paper, should be established. Transitional economies would produce primarily for their own consumption; they would produce for intersectorial and international exports only to the extent needed to pay for their imports.

The new prototype programmes will focus on issues of productivity and production in agriculture, off-farm job creation in rural industries and workshops, rural social services, and infrastructure. Parallel programmes ought to be promoted in the so-called 'informal-sector' in urban slums.

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Highly successful large-scale agricultural productivity programmes of this type have, over the last few years, been executed, under World Bank auspices, in the irrigated areas of numerous countries, while smaller projects are being executed in areas under a rainfed agriculture. Promising beginnings have likewise been made with similar methods in other sectors, such as basic health and education. All these programmes have certain common features: the selection of technologies that comply with the above-mentioned criterion, the upgrading and expansion of supporting extension services and of similar institutions mediating the necessary transfers of technology, flexibility in planning and implementation, and adoption by government of appropriate economic policies.

Neither NICs nor LDCs have the capital or the trained human resources needed to launch programmes in all sectors simultaneously; nor could the target population absorb such a density of innovation. Initial programmes will therefore have to be confined to the most acute issues and designed so as to achieve, with available resources, substantial initial benefits on the broadest possible front; subsequent programmes would aim at making the fullest possible use of the facilitation effects that can be achieved within sectors or between them.

The proposed strategy reorientation is liable to meet resistance from many quarters. To overcome this resistance, strong national and international incentives will have to be created. National incentives will have to be sponsored by redesigning economic policies so as to reverse the existing modern-sector bias. International incentives might take the form of earmarking concessionary funds of international, regional or bilateral funding agencies for the new prototypes in LDCs and LLDCs, or offering for 'transitional economy' programmes in NICs interest rate supports according to the Horowitz Plan, within a co-financing framework comprising both public funding agencies and commercial banks. Economic incentives will have to be supplemented by measures intended to make the planning approach professionally respectable, for instance, by putting the new strategy on the agenda of national and regional professional discussion fora, etc..

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The 'trickling down' effect of the modern-sector emphasis of the last two decades has failed to alleviate peripheral poverty or the endemic problems associated with it, such as excessive rural-urban migration and demographic growth. The encouraging record of the new strategy in agriculture indicates that application of a similar methodology to other sectors—such as rural services, off-farm job creation, basic housing and job creation in the urban slums—offer a promising strategy for bringing the peripheral sector into the economy, with the least possible delay and on the largest possible scale.

Rapid and massive development of the periphery will undoubtedly create a substantial 'trickling-up' effect which should before long also benefit the modern sector. Moreover, successful adoption of the new strategy in a few countries is expected to create a demonstration effect which will give rise to a 'sideward' trickling effect facilitating a broader diffusion of the message. Israel has been applying some elements of this methodology, both within Israel and in its numerous foreign cooperation programmes in the Third World.

Israel's experience and expertise, as well as that of other countries active in this field, could be utilized to assist Third World nations to accelerate the shift to the 'transitional economy' strategy.

RANGE OF GOALS

It is impossible to deal with development strategy without reference to goals. However, it would be difficult to identify a generally acceptable goal-set that would fit the diversity of socio-economic and cultural conditions, aspirations, ideologies and political regimes encountered in the less developed countries (LDCs). The best we can hope for is to make the definition of a goal-set sufficiently broad to make it acceptable to most LDCs, without making it so broad as to deprive it of any meaning.

The broad range of goals referred to in this memorandum is derived from the at least rhetorical consensus that the primary aspiration of LDCs ought now to be to promote the economical integration of the poorest, by assisting them to enter the 'transitional economy' en masse, to assist those who are already part of it to move to higher levels of productivity, and to facilitate the movement into the modern economy of the upper population stratum in the 'transitional economy'.

The concept of 'transitional economy' used here is meant to denote a continuous dynamic process (rather than a target) of upgrading of technology, inputs and means of production—coupled with the associated processes of cultural, institutional and political adaptation—at intensities which can be sustained on a national scale under prevailing constraints. Transitional economy refers to 'growth' in the economic dimensions, whereas the associated processes refer to 'growth' in the non-economic dimensions. Development, the object of our aspirations, is contingent on scheduling the allocation of resources in a way which will ensure a harmonious progression of both aspects of growth.

DIAGNOSTICS

Although an impressive rate of economic growth has been achieved in many LDCs, growth in lower-income countries has lagged behind, and development of the peripheral population, in practically all LDCs, has been, to say the least, disappointing. In the North-South dialogue, this failure has been attributed to four main deficiencies.

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(a) Imbalance in resource allocation between the peripheral-traditional and the central-modern sectors (resulting in an almost exclusive fixation on economic growth) and in a failure to develop effective prototype programmes for the economic and socio-cultural development of the peripheral sector.

(b) Inadequacy of concessionary and commercial and financial support and of trade opportunities to those LDCs which need it most, and 'usurpation' of decision-making power in international institutions by the developed countries (DCs).

(c) Failure of communication caused primarily by differences in the parties' conceptions of their own interests and of those of the opposing party, exacerbated by 'ethnocentric' ideologies and argumentation.

(d) Evasion of responsibility for failures by taking refuge in 'projection', i.e., ascription of the causes of endogenous failures to exogenous agents and collusions, and in 'cargo-cult' escapism, i.e., legitimizing the remissness in taking requisite action by the refusal of exogenous agents to acknowledge their responsibility for past and present 'sins of commission and omission', and assertion of the dependence of action, on a meaningful scale, upon their redress.

In the North-South controversy, DCs are wont to attribute the disappointing results of development programmes in the Third World primarily to the first of the above listed deficiencies, LDCs to the second deficiency; the third deficiency is assiduously ignored by both sides. LDCs are usually accused of being addicted to the fourth vice, though DCs cannot claim to be completely free from it.

ALTERNATIVE DEVELOPMENT STRATEGIES

It would be absurd to claim that a single development strategy can fit the great variety of conditions and aspirations found in the LDCs. Obviously no single strategy can produce feasible solutions which would meet the needs of the poorest billion people in the low-income and middle-income countries, as well as those of the population in the modern sector of the middle-income countries and of the population of the oil-rich countries.

The present memorandum deals exclusively with the development problems of the first category, i.e., the poor in the LDCs. The strategies outlined here refer only to this social stratum, and it is, therefore, obvious that they cannot become exclusive strategies, and that most LDCs—and especially NICs—will also have to continue to follow some of their orthodox development policies with their export emphasis.

It is, however, felt that a revision of priorities in favour of the peripheral population and a radical rethinking of methodologies to harmonize with the conditions encountered in the development of this social stratum will result not only in a better distribution and in larger amounts of welfare, but that it could also, in the longer term, provide a sounder basis for further expansion of the modern sector. Indeed, the history of economic development indicates that, in the majority of cases, industrialization has been preceded by massive agricultural development.

Two basic policy alternatives—anchored in two antithetic hypotheses of the causes of the poverty of nations—have been promoted since the end of World War II.

(a) Emphasis on development of the modern sector and the related infrastructure and services, on the assumption that the traditional sector would, in time, benefit from a 'trickling down' effect; this alternative, focussing on urban industrialization aimed at import substitution and/or export, stems from the hypothesis that attributes international inequality mainly to global structural factors. According to this hypothesis, the poverty of the LDCs is due to their 'neo-colonial exploitation' effected by the 'collusion' of the DCs. This collusion extends to the manipulation of terms of trade, formal or informal trade barriers, the imposition of an inequitable international division of labour between North and South, the abuse of the control by the North over the international financial market and international funding institutions, etc.

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(b) Emphasis on direct efforts to break the vicious circle of poverty in the peripheral traditional sector. This development strategy is rooted in a hypothesis which attributes poverty primarily to the operation of internal structural factors—political, economic, social, cultural and ideological. It places the responsibility for undertaking the refractory job of transformation squarely on the national government.

During the first three post-war decades, emphasis was unconditionally on the first, the modern-sector strategy, and this has brought about in some countries a spectacular growth of the modern sector. However, the promised 'trickling down' effect to benefit the peripheral sector failed to materialize and a dual-economy pattern evolved instead, characterized by an uneasy co-existence of an expanding modern-sector economy at the centre with a stagnant traditional economy at the periphery.

The second development hypothesis has succeeded in mobilizing support only recently, as a reaction to the universal stagnation in the development of the peripheral sector—the result of exclusive emphasis on the first hypothesis.

A gradual shift in allocation policies can already be observed. However, resource allocation and attention to the peripheral sector are still far from adequate, and centres almost completely on the creation of the infrastructure for material growth, while paying only scarce attention to the complementary aspects of socio-cultural adaptation.

THE PROPOSED STRATEGY: PROMOTION OF A 'TRANSITIONAL ECONOMY'

Looking back at the economic history of the past thirty years, we can observe that economic policies and development strategies are rarely balanced and that one type of policy usually follows its opposite in what might be termed a periodic dialectic swing. The causes of this periodicity in emphasis can be traced to socio-economic and political, as well as psychological-motivational, factors. A balanced programme may appear to lack in charisma and make indifferent rhetoric; conversely, a sharp turn in emphasis often appeals to the imagination, and may provide welcome mobilization slogans.

To counterbalance the modern-sector bias of the last thirty years, resource allocations must be shifted to the traditional sector and the periphery. The bias on the centre has created 'quasi-closed' modern-sector islands, producing primarily for their own consumption and yielding only marginal benefits to the periphery, while using the income from exports originating in the periphery to finance the capital imports needed to develop the modern sector. The proposed shift of bias to the periphery would analogously facilitate the emergence of a (temporarily) quasi-closed peripheral economy which would produce food and non-agricultural goods and services, primarily for its own consumption, with predominantly agricultural surpluses to pay for its imports from the modern sector and from the world market.

Unlike the 'basic-needs' concept, which carries the offensive connotation of an externally imposed target which deprives the poor of the right to aspire beyond the indignity of rigidly defined bare subsistence, the 'transitional economy'-concept gives rise to the image of a continuous autonomous process of growth and adaptation. Rather than suggesting to palm off inferior solutions on a resigned lumpenproletariat and thereby legitimize the inadequacy of capital transfers from DCs, (as the 'basic needs' concept might be interpreted to do), it proposes to create, for the great majority of the poor, opportunities and support to join the economy and to better their condition continuously by their own effort. The launching of the 'transitional economy' could be compared to a moving pavement in which, at one end, 'passengers' embark and commence their journey; those already on the pavement continue their progress to intermediate targets, and those at the far end disembark and can move on to the next pavement, the modern sector.

The modern-sector strategy implies a discontinuous leap from a traditional to a modern economy, a leap which will have to remain confined to a narrow population front because of its high resource requirements. This strategy also calls for firm and specific goals which,

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faute de mieux, will usually turn out to be infelicitous copies of the orthodox growth goals of the industrialized countries—ironically at a time when the latter are labouring under serious misgivings regarding the wisdom of their choice.

The very fact that the transitional-economy strategy aims much lower offers the option of expanding development interventions, without delay, on a national scale and without initially having to assume commitments beyond the most obvious targets, which are common to all strategies. This will enable LDCs to derive their own long-range goal concepts from experimentation with alternative goals in the course of their development.

THE IMPLICATIONS OF THE NEW DEVELOPMENT STRATEGY

According to the 1979 World Development Report of the World Bank, some 600 million people may, in the year 2000, still have to live below the line of absolute poverty, even if we assume a moderately optimistic and 'surprise-free' scenario. In a less optimistic scenario, the figure might exceed 700 million. The most emphatic recommendation of the Report is that the flow of funds to LDCs ought to be greatly augmented and exports from LDCs to DCs expanded. However, considering the economic outlook of OECD countries in the near future, the authors of the Report doubt the probability of such changes. By confining future development strategy to the continuation of orthodox trends, the authors of the Report have been forced into a variant of the 'cargo-cult' frame of mind: no sufficient improvements can be effected in the welfare of the poor, unless the DCs change their way of thinking about their global responsibilities, in a manner that the authors themselves deem improbable.

LDC representative organizations have readily taken up this argument and used it to rationalize their own 'cargo-cult' attitudes; to further underpin their case, they have pronounced that LDC development is conditional on radical changes in global politics and in the control of international institutions,

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changes which will hardly be acceptable to the DCs, which provide most of the funds.

The kingpin of the cargo-cult argument is, however, the 'structuralist' hypothesis positing a direct and exclusive causative interconnection between the poverty of LDCs (and especially of LLDCs) and the affluence of DCs. Whatever truth the argument may contain, most analysts would now tend to agree that it has least validity in relation to the peripheral sector. The fundamental causes of the poverty of this sector have to be sought in national, rather than in global structural problems. Hence, it would be illusory to hope to attenuate peripheral poverty in LDCs without addressing, in the first place, the relevant *national* structural problems.

To escape the 'cargo-cult' frame of mind, problems will have to be re-defined and problem-solving attitudes revised. Instead of posing the question: what are the conditions that have to be met and the resources that have to be mobilized to achieve attainable targets? we ought to define our problem as: how can available resources be best used to promote the 'transitional economy' on the broadest possible scale and thereby supply the peripheral population with the means to rise above the level of absolute poverty? Since such objectives, apparently, cannot be reached by pursuing the customary types of programmes, what other programme prototypes would offer better prospects to succeed under prevailing constraints? How could the dormant motivation of change agents and target population be harnessed through *participation* to improve cost-effectiveness? What macro-economic policies would have to be embraced and what incentives and facilitating conditions created by national governments and international agencies to promote the acceptance of the more promising prototype of programmes?

Experience shows that development, as now practised, is liable to exhaust resources without advancing society at a rate and on a scale compatible with long-term goal aspirations. Orthodox project designs have been exhausting resources to provide hardware and increase personnel, while studiously shunning interventions associated with the troublesome behavioural-institutional transformations. More ambitious projects may

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have specified some of the latter-type interventions, but in designing them, they have, until recently, disregarded the capacity limitations encountered both in development institutions and in target populations.

The proposed programme prototypes suggest tailoring the garment according to the cloth on hand, and not according to professional tradition or fashion. New prototype programmes will adapt their initial stages to capacity limitations in development institutions and in the target populations; they will, however, at the same time, utilize achievements and contexts engendered by the initial stages, to create the motivation, know-how and behavioural adaptations needed to support subsequent more ambitious interventions. Socio-economic benefits can, of course, be justified on their own merits; but they might also be conceived as instruments for the promotion of a self-sustaining process of development, and self-organization.

More concretely, in the poorer LDCs, resource scarcities are not confined to capital, but extend also to problem-solving and decision-making and management capacities at the centre; to motivation and operational effectiveness of change agents; to the capacity of the target population to absorb innovation, and to their propensity to take risks.

The best use we can make of these scarce resources to improve the welfare of the poor on a national scale will, therefore, be in programmes which, in their initial stages, would confine the number of simultaneous interventions and which would select simple and affordable technologies. The mobilization effects achieved, the behavioural adaptation attained, and the information generated by initial interventions ought to make it possible to move, in subsequent stages, to more ambitious objectives and technologies, to increase the number of programmes, and to deal with the interrelations between them.

To obtain an overview of the intermeshing of the various national development issues, a comprehensive development vision will be needed. However, in planning short-term and medium-term development strategy, a limited number of acute issues related to the welfare of the peripheral population will have to be selected for which substantial improvements can be achieved within a reasonable time and on a national scale, even under prevailing resources and capacity constraints.

DIFFERENCES BETWEEN PREVAILING AND PROPOSED PROGRAMME PRIORITIES

The principal causes of the disappointing results of many programmes for the development of the peripheral population appear to be related to the concentration, timing, intensity, combination and sequencing of flows of information and resources, and to the failure to present programmes as part of a more comprehensive, more significant and more inspiring aspiration. Timing and sequencing of flows will often be found to be decisive for success. Thus 'predevelopment' of an area through the upgrading (or creation where nonexistent) of effective agricultural, industrial, health-related and other supporting extension services may not only dramatically raise productivity and improve the quality of life, but it may, most decisively, facilitate and accelerate acceptance of subsequent irrigation investments and thereby reduce the large costs associated with maturation. In reality, planners rarely realize the serious loss in employment, production and transformation effects suffered by a delay in reducing 'predevelopment'.

A further deficiency is the disregard of performance feedbacks expressed in terms of meaningful social and economic criteria. As a consequence, there is little improvement by learning, and the same type of programme may be repeated for decades in spite of obvious failures.

An additional important deficiency is the excessive concentration of input streams. Every programme is characterized by its specific 'critical mass' of inputs, i.e., by threshold flows of resources and information needed to elicit response. If programmes with a high critical mass are selected (such as public-sector settlement programmes), resources at the disposal of development institutions will be used up on a narrow population front without benefiting the majority of the population. Paternalistic operational styles will exacerbate inequitability of benefit distribution by inhibiting the mobilization of the dormant capacities of the target population, which could reduce the critical mass of public-sector interventions. Orthodox development has become a game played by development institutions

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according to immutable rules without offering the slightest prospect of convergence on national long-term objectives.

Excessive concentration of streams of capital and information now practised will not only affect distributional equity, but also economic benefits. In LDCs, the 'production function', representing the relation between capital and information inputs, on the one hand, and benefits achieved, on the other hand, will, in most cases, prove to be very steep in its first section and then gradually flatten out; in other words, a broader—and ideally national—deployment of input streams promises to yield both higher (social as well as economic) benefits than a concentrated one, as long as input intensities remain above thresholds. Preference should therefore be given to programmes characterized by low threshold values and correspondingly attractive outputs. Adoption of this selection criterion for the allocation of resources has been shown to contribute incomparably more to the achievement of both social and economic objectives than the often marginal attempts to 'optimize' cost-effectiveness of conventional narrow-front programmes with high threshold levels. The encouraging results achieved, on a very large scale, in World Bank projects by applying the "Training and Visits" (T & V) low-threshold type of extension programmes in irrigated agriculture, (pioneered by Israel) or similarly structural operations to promote basic health benefits, in accordance with the Alma Ata resolutions, of the W.H.O., are illustrations of the validity of this selection principle.

Finally, a deficiency has to be mentioned which may appear to be rather 'abstract' but which still has proven to be very damaging, i.e., the disregard of the continuity, complexity, non-linearity and indeterminacy of the development process. The western paradigm of development envisages a, by and large, predictable process of growth within an existing economic, cultural, social and political framework, in which the complexity of requisite adaptation of attitudes and behaviour can be disregarded by the development institution because adaptation will, generally, evolve spontaneously. In this vision, man figures as a conveniently adaptive input to economic growth, and social institutions as an invariant. The transfer of this paradigm to the development context of LDCs, where the (unfortunately never fully predictable) adaptation of behaviour and the transformation of attitudes constitute a primary instrumental objective—has become one of the most serious deficiencies in LDC development thinking.

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REVISION OF THE GOAL IMAGE

In developing countries, the transformation of attitudes, behaviour and institutional structure have to be viewed as both major instrumental and important, intrinsic (i.e., directly man-related) goals. The trajectory taken to achieve economic goals, i.e., the type and degree of transformation achieved, the 'potential' created, may therefore prove to be as important, (and sometimes more important) than the level of goal-achievement. In this view, the primary purpose of development efforts in LDCs ought to be to initiate a process of change which promises to become increasingly self-sustaining.

Goal-images will, of course, have an important bearing on allocation of resources. Until a short time ago, the general consensus in DCs was that the goal of development was the unlimited increase of material welfare. Today, even dyed-in-the-wool conservatives would have misgivings regarding the exclusive validity of this goal. In LDCs, the goal image is still in a formative stage, but there is a clear tendency to reject 'transplantations' of the goal images of DCs and to search for goals anchored in the cultures of DCs. It might be argued that, since immediate targets of LDCs are obviously to break the vicious circle of poverty, the nature of ultimate targets is only a matter of rhetorical concern. However, it would be unwise to underestimate the motivating power of charismastic, comprehensive goal images and the influence it is liable to exert on the course of development. The inability of many LDCs to conceptualize such a goal-image as a framework for concrete programmes is among the causes of their failure to reach the peripheral population.

Medium-term development programmes ought, therefore, to be presented as the launching stage of comprehensive long-term programmes, and these given a more definite form as experience accumulates.

THE NEW PROTOTYPE PROGRAMMES

There are no universal prescriptions as to how to overcome the endemic deficiencies of current development practices and break the vicious circle of poverty. Listing the 'one-shoulds' or speculating about 'if only'—as many over-ambitious programmes do—will serve no useful purpose. If a nation could transpose all the 'one-shoulds' into reality, it would have learned the lesson and would no longer be 'underdeveloped'.

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It is, however, possible to outline a number of fundamental policies for the improvement of the development process and formulate guidelines for their promotion. It would also be useful to illustrate the application of these policies to typical programmes. This will be done in the present and in the following sections.

In a nutshell, the static aspect of the policy message would be: adaptation of the development game to the limitation of the players, without, however, losing sight of longer-term goals. The dynamic aspect of the message would be: adaptation of the players to the requirements of the development game, i.e., the incorporation into programmes of a learning function to improve the effectiveness of human and institutional resources and thereby facilitate the relaxation of constraints. Monitoring would have to ensure that both conditions are met at all times.

To comply with the first part of the static policy requirement, planning would have to allow firstly for the limitation of the political process to deal effectively at one time with more than an extremely limited number of priority issues. Attention and resources ought therefore to be concentrated initially on a small number of critical issues. The disturbing effects of political instability could be minimized by a programme designed to reduce dependence on the centre, for instance, by the participation of funding agencies in financing and by encouraging the formation of programme 'constituencies'.

Operational limitations of the bureaucratic process, low absorptive capacity of the target population, scarcity of capital resources, and political instability will demand simple, low-cost, short-term and highly effective initial programmes, which will fully exploit the synergistic complementarity between the constituting elements and which, even under the prevailing constraints, can be rapidly expanded to a broader, or even a national, coverage.

To ensure the convergence of actual performance upon long-term national goals, a permanent, systematic and hierarchic process of monitoring, evaluation and revision will have to be incorporated into the programme: at lower levels it will follow performance associated with specific short-term or medium-term targets; at higher levels, it will have to monitor convergence upon long-term goals.

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To meet the requirements of policy dynamics, programme designs will have to embody a learning process operating at a number of levels. At the first level, the local demonstration effect and measures for risk reduction ought to motivate people (including change agents) to agree to listen to the basic development message, i.e., to learn to learn. At the next higher level, an extension service, i.e., a supporting organization operating at the peripheral level to facilitate the acquisition of problem-solving, decision-making and manual skills, will have to be created. For development institutions this level of learning will be associated with the capacity to conduct planning in a way which will comply both with static and dynamic policy requirements. At a still higher level, learning will be associated with the planned utilization of the development process proper for the promotion of contexts to facilitate the type of socio-cultural adaptation that the programme requires.

Finally, at a still higher level, learning will be associated with the creation—by the central national executive, by regional or nation-bloc organizations, by international, regional and bilateral funding agencies, and by the professional community—of an economic-ideological-professional climate, to encourage political acceptance of new programme prototypes. An effective way to create such a promotional climate would be the earmarking by international funding institutions of concessionary funds for the new prototype projects; such incentives ought to possess the power not only to motivate the political level to adopt the new development strategy, but they would also make it politically very awkward not to do so.

In the economic sphere, the new capacities acquired by change agents and by the target population will make it possible to address more complex aspects of development and to consider, in more detail, the utilization of potential synergistic complementarities between different programmes. In the political sphere, peripheral institution-building and self-organization will create new constituencies which cannot fail to gain some political influence.

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A TYPICAL PROGRAMME FOR THE PROMOTION OF THE TRANSITIONAL ECONOMY

Programmes for the promotion of the 'transitional economy' will, in general, focus on five principal issues: agricultural productivity (including, where relevant, irrigation); off-farm rural job creation; rural social services and infrastructure; employment creation, housing and services in urban slums; and population control. For political and logistic reasons, it will usually prove difficult to start action on all issues simultaneously. Delayed programmes should be started when those under execution will offer appropriate facilitating conditions. If, for example, highest priority will initially be assigned to agricultural productivity (often, a wise selection), the emergence of some type of agricultural cooperative organization in the early phases of the agricultural programme would offer the option to use it as the core organization to which rural social services could be attached.

Complementarity will make its greatest contribution to the creation of the 'transitional economy' where capital investments are coupled with extension operations to facilitate the technological transfers and behavioural changes needed for the full utilization of investments.

Generally speaking, the synergistic effects of complementarity may be attained at three levels. At the intersectorial level: behavioural and institutional adaptive changes achieved in one sector may facilitate changes required in another sector, for instance, the existence of agricultural cooperative organizations will make it possible to graft on them rural social services. At the intra-sectorial level: the coupling of capital investment in production facilities and of improved inputs with extension operations will substantially improve the cost-effectiveness of investments; for instance, the combination of investments in irrigation facilities with agricultural extension, or of rural water supply facilities with hygiene and sanitation extension. At the personal level: skills and attitudes acquired in one sectorial context will stand in good stead in the acceptance of innovation related to another sector. Similarly, the learning of simpler skills will facilitate acquisition of more complex ones. Moreover, innovational attitudes, once adopted and successful, may become a habit, and even an addiction.

The important and potentially decisive contribution of complementarities has been demonstrated, on a large scale, in a number of agricultural development projects in which a new type of extension programme figures as the main feature in promoting productivity in irrigated agriculture. More recent operations in rainfed agriculture have likewise had encouraging results. It may be no exaggeration to state that massive application of programmes of this type could produce results that are comparable to those of major technological breakthroughs, such as that of improved seed varieties. When the two are combined (as they have been in a number of major projects) the effect can become truly dramatic.

Experience with complementary effects in the non-agricultural sectors, though less extensive, is sufficient to confirm the general validity of this approach. Moreover, this experience shows that basic methodologies need not differ much between sectors and that a methodology proven in the agricultural sector may, *mutatis mutandis*, come in most useful in the design of programmes in other sectors. After some adaptive experimentation, prospects of success for such intersectorial transpositions may be judged to be excellent.

PROGRAMMES TO PROMOTE AGRICULTURAL PRODUCTIVITY AND IRRIGATION

Programmes to raise agricultural productivity will comprise a number of succeeding phases of increasing complexity. In the early phases, efforts will be associated mainly with assistance to the agricultural extension service in the setting-up or streamlining of programmes, of technological diffusion and behavioural adaptation focussing primarily on a few simple, but highly effective, interventions with low logistic requirements. In many cases, the initiation of such programmes will call for major changes in problem-definition approaches, in work styles, in organization, in intra-organizational communication, and in operational equipment. By exposing farmers to the demonstration effect of substantial productivity gains attained by the adoption of simple, low-cost and low-risk techniques, and by making these techniques accessible, motivation can be created to harness dormant capacities and thereby to improve significantly the effectiveness of the direct interventions of change agents. In programmes

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of this type, systematic monitoring, continuous evaluation and periodic review are essential to maintain adequate performance and to gather valuable information.

With the consolidation of the first phase, additional more complex interventions, backed by local applicative research, will be undertaken to promote diversification, to provide improved inputs and means of production and to improve marketing services. These developments will involve more complex logistics, village-level institution building, organization of credit facilities and smooth two-way communications with higher professional levels and research. This might be the correct time to supplement agricultural programme with programmes related to other sectors.

In many LDCs, climatic conditions, unfavourable land-man ratios or other economic or political considerations may require a more intensive use of existing irrigation facilities and their rehabilitation or the construction of new irrigation works. However, irrigation is a notoriously high-cost investment, and it should not be undertaken without ensuring full use of the potential synergistic contribution of agricultural productivity programmes. Wherever possible, productivity programmes should precede major investments in irrigation facilities.

An innovative approach to raise the real cost-effectiveness of costly irrigation works (as distinguished from the specious cost-effectiveness of ex-ante studies) requires a revision of their engineering-economic design. Orthodox project design aims at minimizing costs of conserving and distributing major (usually river-based) water resources. As a consequence, such designs usually provide only for the irrigation of upstream lands which are closest to the water resource and deprive downstream farmers—usually the majority of the basin populations—of any benefits. Such a water conservation design will also greatly reduce the engineering and economic feasibility of utilizing minor dispersed water resources downstream. Moreover, irrigation methods, crop selection agro-techniques and potential labour intensity are usually considered (and suboptimized) separately. Last but not least, experience from many countries has shown that indivisible projects of this type have long maturation periods and prohibitive gestation costs.

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Both economic and social considerations indicate the preferability of a broader distribution, of an integrated conservation of water resources throughout the basin, and of joint evaluation of facilities, of transformation and of water application aspects. The resulting increase of water availability, the higher labour saturation of production encouraged by a wider distribution of water, the selection of irrigation methods, crops and agro-techniques compatible with the resources base, the possibility of starting partial development and transformation operations throughout the basin with less delay and much earlier benefits—all these may be expected to result in greater total economic benefits, greatly reduced gestation costs of project investments, a more equitable distribution of benefits, and a broader and earlier improvement in the general socio-economic climate of the whole region.

OFF-FARM RURAL EMPLOYMENT THROUGH INDUSTRIALIZATION

Both the need to reduce endemic rural unemployment and underemployment (which is liable to rise in the future) and the need to raise rural income levels require that agricultural development be supplemented by rural off-farm job creation. If economic, social, environmental and stability considerations are given their proper weight, the use of intermediate technologies, of small scale, and of the broad geographic distribution of manufacturing facilities will, in many cases, prove to be preferable to the concentration of facilities customary in DCs.

Intermediate technology need not signify traditional technology, but the most effective combination of up-to-date low-cost (and often small-scale) technology—wherever such a choice will substantially reduce investments—with up-to-date high technology, where the cost increase and the additional maintenance burden will be justified, such as in the utilization of electronic controls or biological innovation. In any case, selection of technology will have to be of a type admitting later upgrading with little loss in sunk investments. The success of such a development pattern will depend on the adoption of an appropriate promotional policy, on the emergence of entrepreneurial talent, on the provision of basic infrastructure, on the establishment of a supportive extension service to offer technological-managerial advice, and on the assistance of special financial instruments.

Fully developed, this sector could provide a very substantial share of employment in rural environments and contribute to the abatement of important socio-economic problems, such as the disparity between urban and rural incomes and of the associated rate of rural-urban migration.

Off-farm programmes might comprise a great variety of products and be located either in the village or in the nearest provincial centre. The most obvious ones would, of course, be those associated with the agricultural production process itself—both on the 'upstream' end, e.g., inputs, tools, repair shops, and on the downstream end, e.g., processing (such as simple extraction of oils, canning, etc.), packaging and transporting, and, at one remove, the manufacture of textile and leather goods. Off-farm employment creation programmes can be advanced by the construction of industrial parks (provided with the necessary infrastructure) to serve one or a number of villages. The experience of Israel and of other countries in cooperative, rural industrialization might (with appropriate adaptation of technology) be useful in the design of such projects.

Simple non-agricultural consumption goods, building materials and housing would form a second category. Undertaking subcontracts for the production of simple parts for larger industrial undertakings might form a third category.

Emphasis on off-farm employment can substantially increase the share of the rural economy in the more lucrative elements associated with agricultural production and with the manufacture of consumption goods for the rural population, and thereby substantially improve income levels and job opportunities. Together with the other rural development programmes, it can greatly reduce the gap between town and country, and thereby rein the lure of metropolitan industrial centres.

RURAL SERVICES AND INFRASTRUCTURE

With rural incomes rising as a result of agricultural productivity and rural industrialization, demand for rural services will increase, although cultural bias may temporarily distort the need pattern. Rural services will therefore have to be developed in phase with socio-economic development. Synchronized, massive development of agricultural productivity and rural services is of special importance in LLDCs, since it has been found that the attenuation of many of the most disturbing social problems that plague LDCs—such as rural-urban migration, excessive population growth—depend, to a great extent, on the reduction of the differential between urban and rural incomes, and on the improvement of the quality of rural life.

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Here again we shall encounter the need to consider the synergistic complementarity between 'hardware' and 'software' aspects, between installations and behavioural adaptation. Scarcity of capital and of human talent may here even be more acute than in production-oriented operations. The strategy will therefore again have to be, initially, to adapt programmes to constraints, and to use exogenous change agents primarily as catalysts for the transfer of technology, for the promotion of peripheral cooperation and for the creation of learning contexts through which constraints could gradually be relaxed.

The parallel to the 'transitional economy' in the domain of social services will be the 'transitional service system'. Principles of design and implementation will be similar to those outlined for the economic domain: first priority will be given to assist the poor and unserved to enter the 'transitional service system', and to facilitate movement to a higher service level of those that already have some access to the system. Initial programmes will again comprise a very limited number of simple, low-cost routines requiring little training, on lines so successfully employed in "Training and Visits" programmes in agriculture.

The achievable rate of development of services will, to a great extent, depend on the motivation of the target population to participate actively in the programme. Once routinized, such programmes lose their dependence on the centre and have a good chance to survive political turmoil.

Instead of being condemned to resign themselves to an externally prescribed 'basic needs' service system, the target population, in cooperation with change agents, would be offered the option to establish, without delay, a 'transitional system', that could be joined by all, and in which a continuous onward movement to higher service levels could be maintained.

The best time for the launching of the initial phase of the 'transitional service system' might possibly be shortly after the achievement of the first agricultural productivity increases, when the target population will be motivated to proceed to rural institution building to support further economic growth.

The initial phase would focus on the most acute health problems, such as vaccination, oral rehydration for infants and young children, and preventive environmental and simple curative measures to combat endemic diseases. In the next phase, personal hygiene, sanitation and rural water supply measures might be accorded priority. Sub-

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sequently, local health workers could be given additional training and be fully integrated into a hierarchical referral system. Scheduling investment in rural infrastructure (roads, energy, improvement of the habitats, communication, etc.) ought to be harmonized with that of the complementary production aspects.

Other issues of the 'transitional rural service system', such as vocational training, education and leisure activities, will also have to be fitted in, as need arises, and to the extent that the target population will be ready to participate.

POPULATION CONTROL

Population control—though part of the 'transitional service system'—has here been singled out for special mention because of its fundamental importance for the socio-economic success of any development programme. In spite of extensive research, we still know little about the economic, social and psychological motivations that influence birth-rates and the acceptance of birth control measures. Apparently, a number of causative factors interact, but their interaction patterns are still imperfectly understood. Some correlations have even been established which could assist the strategy planner. Birth-rates have, for instance, been shown to decline with the rise in the standard of living, with improvement in the quality of life, with education and the availability of educational options, and with the introduction of effective birth-control programmes.

Considering the 'state of the art', the most pragmatic approach would, therefore, be to incorporate specific birth-control elements into socio-economic projects, justified on their own merits and assumed to generate motivation to reduce birth-rates. From available evidence, it would appear that the acceptance of a 'transitional economy' and a 'transitional service system' would also constitute a very effective strategy to reduce birth-rates.

Similar considerations apply to the reduction of the rate of rural-urban migration and the associated rate of urbanization. Again, the adoption of a 'transitional economy' and a 'transitional service system' will prove an effective strategy also in slowing down migration.

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URBAN SLUMS

Although the population of urban slums will, on an average, enjoy higher incomes than the rural population, its poverty, and the tenuous connection of the so-called 'informal sector' with the economic system, constitute a problem whose seriousness often matches that of rural poverty.

Unfortunately, there is much less experience of the integration of the urban poor into the economy than there is of similar problems in rural environments. However, there is no apparent reason why the same strategic principles could not be applied, after appropriate adaptation.

Since, in most LDCs, the rate of industrialization and social service building on lines pursued by DCs cannot match the rate of urbanization (which is controlled by the growth of the urban population), we shall again have to resort to intermediate solutions, i.e., to the establishment of a 'transitional urban economy'.

In this economy, the strategy will again have to be to use scarce capital resources and talent primarily to integrate the great majority of the underemployed and unemployed, as rapidly as possible, into the production process. To achieve this, job-creation would have to be based on affordable labour-intensive technologies that could, in time, be upgraded with little loss. Emphasis would again be on producing primarily for the direct consumption of the urban target population and for such exports to other sectors of the national economy (such as agriculture) or to other countries as are needed to pay for imports—especially food from the national agricultural sector and raw materials.

Though spontaneous development of this type has taken place in a number of countries—often as a by-product of rapid agricultural development—little experience has, so far, been collected on major public-sector projects. The most extensive projects have been in the field of housing, where affordable technology varied from 'site and services' combined with modest credits for the purchase of building materials, to the construction of 'core houses'. More recently, projects for the construction of industrial parks have been implemented. The subject of creation of financing incentives, to encourage rural and urban industrialization, and of industrial extension services, to provide technological and managerial advice, has been taken up by some organizations, but is still little explored.

FACILITATING ECONOMIC-FISCAL POLICY

Economic policies in many LDCs encourage, explicitly or implicitly, capital-intensive investments in the modern sector, and especially in industry, and discourage low-cost, labour-saturated investments in the peripheral sector. To create a major promotional momentum for the 'transitional economy', this misguided bias would have to be reversed. An analyst, comparing economic policies of DCs with those of LDCs, has recently commented that DCs, in which the share of agriculture in employment and production is small and declining, have rigged their economies in favour of agriculture, and, therefore, possess flourishing agricultures. On the other hand, LDCs, in which agriculture employs a high percentage of the labour force and produces the lion's share of exports, have, paradoxically, rigged their's to the disadvantage of agriculture and have ended up with stagnating agricultures.

The causes for the modern-sector policy bias are associated with economic, political, ideological and cultural factors. It may therefore prove to be difficult to displace such a firmly anchored bias without some assistance from outside factors. In lower-income LDCs, possibly the most important assistance that outside factors could provide for the promotion of a 'transitional economy' strategy would be the earmarking, by international, regional and bilateral funding institutions, of substantial concessionary development funds for projects complying with the requirements of this strategy—rural and urban.

The special assistance to economically more advanced LDCs for the promotion of such projects could take the form of interest-rate support, effectuated by joint financing consortia, combining international, regional, bilateral and commercial financing, on lines suggested, many years ago, by the late David Horowitz, then Governor of the Bank of Israel. A variant of the interest-rate support policy is, in fact, being employed by most DCs in making available for exports to LDCs (and, in fact, also for exports to DCs) suppliers' credits at highly subsidized interest rates, backed up by subsidized export risk insurance. The earmarking of concessionary funds for development will create a powerful political motivation in national governments to turn to the 'transitional economy' approach.

Another, less powerful, but still important way to promote the rethinking of development policy on the lines suggested here would be to give it professional respectability. International, regional and national meetings organized by professional organizations, by international funding institutions and by the foundations could greatly contribute to this process. In many LDCs, professionals exercise a considerable influence on policy formations, and acceptance by them of the proposed development orientation cannot fail to make itself felt before long.

CONCLUSION

The proposed 'transitional economy' strategy attempts to combine the vision of a comprehensive, intersectorial development process with pragmatic decentralized planning, programming and implementation, mindful of prevalent constraints. The 'transitional economy' strategy calls for the launching of programmes with a limited number of projects associated with the most acute socio-economic issues and employing an initial level of complexity that is compatible with the current capacities of development institutions, change agents and target populations. The learning function built into programmes will relax these constraints and induce the complementary adaptation needed for prompt and full fruition of investments and for facilitation of subsequent, more complex programmes. Technological, behavioural and organizational adaptation will thus be developed *pari passu* with the improvement of means of production and inputs, with the coupling of capital investments and complementary extension operations, and with the promotion of peripheral institution building.

Scarce capital will be employed, together with even scarcer talent, in places, at times and in ways which will make the greatest contribution to the satisfaction of material and non-material needs and to the catalyzation of adaptation and capacity creation.

The proposed strategy offers not only the most effective way of achieving a degree of national self-reliance compatible with international interdependence, but also the most expeditious way of reducing dependence of the national peripheral sector upon the centre and of promoting social equity.

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The image of development will be transformed from an operation viewed by recipients with doubts and suspicion to that of a participative process generating the motivation and organizational momentum to make it self-sustaining. Planning and implementation—though oriented towards specific goals, and blueprinted to employ specific means—will still retain sufficient flexibility to accommodate uncertainty, especially in the behavioural and organizational dimensions in response to performance feedbacks.

The formation of a 'transitional economy' holds out hope of integrating the great majority of the peripheral population by initially employing levels of technology that can be sustained on a national front, and which can be gradually upgraded, as new resources and new capacities are created through the process of development. The more advanced elements of the population already participating in the 'transitional economy' would be assisted to move to more advanced levels, and in time, to the 'modern-sector' level—whatever meaning the specific country chooses to impart to this concept—and to a greater emphasis on trade.

However, the social and economic benefits offered by the 'transitional economy' strategy may not suffice to make it politically feasible. Substantial support from international and regional agencies may be required to change the orthodox image of development. International, regional and bilateral funding institutions, and other economic agencies, would have to accept the idea of the 'transitional economy' and 'transitional service system' as the global strategy for the advancement of the peripheral population in the LDCs—rural and urban—in the 1980s. They would have to agree to act in concert to further this strategy energetically and to promote its acceptance by LDCs by the creation of strong financial incentives, such as concessionary interest rates or interest-rate support. The creation of such incentives on a scale compatible with global development requirements, will call for new patterns of cooperation between the international, regional and bilateral funding agencies, on the one hand, and commercial banks and other agencies, on the other.

Promotional efforts would also have to extend to sponsoring the strategy in professional circles. The transposition of the strategy into concrete national programmes should, of course, remain the exclusive prerogative of national governments.

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If we wish to avoid a situation in which possibly as many as 700 million people will in the year 2000 live below the poverty level, then the Third World will have to place much more emphasis on programmes focussed directly on the development of the periphery and the poor, channel suitable resources to these programmes, and change priorities in resource allocation accordingly. Trickling down effects from the modern sector, in which expectations were based in the past, have failed to materialize.

It is feared that the development strategy that could be inferred from a radical interpretation of the doctrines of the New International Economic Order (NIEO) may prove to be equally disappointing. It might improve prospects for economic growth of NICs and, at best, assist a few more LDCs to rise to the economic status of NICs, but, in the short and medium run, it will have little to offer to the underprivileged in NICs, LDCs and LLDCs alike.

A socio-economic take-off of the periphery, achieved through a 'transitional economy' and a 'transitional service system', might, on the other hand, generate 'spillovers' and 'trickling-up' effects way beyond their direct socio-economic results.

'Transitional economy' programmes do not require long preparations. If accepted by LDCs and by the major funding agencies, massive programmes could be launched with little delay in many countries. Their expansion to a global scale would, however, require an increase of capital transfers from DCs and other sources of capital to LDCs. Significant increases of transfers would depend on a consensus between lenders and borrowers on concrete international financial and economic arrangements which would offer manifest advantages to all parties.

Consensus on such a positive sum-game might not easily fit the economic doctrines prevalent on both sides, but it is certainly within the realm of possibility.
