

Development Planning in Theory and Practice

Gunanidhi Sharma*

INTRODUCTION

The world today appears in a mood for reviving the pre-keynesian neo-classical process of economic adjustment. In effect, attempts are there for containing the supremacy of self-regulated market mechanism. The system of Keynesians' vis-a-vis Marxists' state supported or regulated economic development of World War II origin seems to be gradually degenerated, and is no longer the matter of common interest. Big powers with influential world of mathematical knowledge are trying to equate the left hand side (the south) with the right hand side (the north) in matters of devising national policies regardless of the differences in low and high income countries facing their own problems of unique origin. The debate, however, is heading them toward confrontation, even between rightists and leftist rightists. Even a country like Nepal is confronting with this ideological war. While compulsion for her is to go for a state-led radical socio-economic transformations, the pressure from the outside is for containing the inequality biased neo-classical economic framework.

The following sections review the essence of planning, the nature of planning problems and the planning techniques in Nepal and many other countries. The first part deals with the rationale of planning. The second part is devoted to the methods of making plans. The third part, moreover, is concerned with the concept of rural development planning and monitoring thereof. Discussions, however, are in brief.

THE RATIONALE OF NATIONAL PLANNING

The Theory

When planning in a socialist economy was a by-product of the October Revolution in 1917, the capitalist economy began to plan the development of economic activities when it faced the crisis of 1930s (the Great Depression).

For both the economies, planning has originated as a tool to realise:

- An orderly (officially approved) arrangement of economic relations within and between nations.
- An economic independence from the centre (economically advanced attractive nations) whose disturbances entered freely into periphery (depending on the centre for raising resource efficiency) country.

* *Dr. Sharma is an Associate Professor at Central Department of Economics, Tribhuvan University, Kirtipur, Kathmandu, Nepal. This article is based on a paper presented in a training programme on Planning and Management of Rural Development in Nepal, organised by CEDA, T.U., Kathmandu, December 1992.*

In a capitalist country, the debate on 'planning' or 'not planning' for economic advancement rests on two schools of thought. (a) Monetarists – Opposing serious state intervention (Friedman school), and (b) Fiscalists (Keynesian school) – supporting state intervention.

Besides, planning in a capitalist economy is also instrumental to the benefit maximisation from the projects or the identification of the cost effectiveness of projects. Planning here is identified with the systematic role of a state as a producer, supplier, employer, stabilizer, investor, regulator, consumer, etc. The motive of the government for involving itself into various activities is the promotion and regulation of interrelated variables in favour of the nation and the common people.

As opposed to this approach for public intervention, monetarists and mainly the monetarists only, argue for worldwide resource efficiency regardless of any other social costs and benefits. Free trade (not exactly the free movement of manpower and technology) for them is the only vehicle through which everyone reaches the breakeven point (optimum growth) and maximises personal benefit – a case of a liberal but integrated world move (includes policy and philosophy) without restrictions, or the economic boundary wall (extreme case). A free enterprise but self-regulated economy is expected to produce and distribute most efficiently and productively. A market state of perfect competition, nevertheless, is a pre-condition for its success.

As against, the pro-planning philosophy argues that this ideal market situation is a remote hope but not a reality. Prices, or the markets, are distorted by another variant of market condition, often known as monopoly or the monopsony. State as a balancing factor regulates the market or the price structure, the ultimate aim of which is to approach desired conditions, or the prices closer to resource efficiency (shadow) prices.

Besides, the need for a planned development of an economy in the low income world is justified on the following grounds.

- State should generate critical minimum efforts for sustainable development. These efforts are summarised in manpower and other project plans.
- State systematically intervenes for using resources productively and prevents the misuse and over-exploitation of scarce resources (wealth) at the nation's disposal. It helps in keeping a balance between the interests of the poor and the rich, and of present and future generations.
- Sectors need discrimination in their treatment, as scarcity of capital and skilled manpower (distributed unevenly) requires the best but appropriate use.
- There is a need of lifting up the economy out of low equilibrium population trap.
- Infrastructural development (both hard and soft) may not be an attraction for the private sector, as this sector is guided by financial rather than social gains. The

side effects (linkage effects) of such infrastructural projects are quite many, yielding high social rates of real returns.

- Market information gaps are serious constraints for private sector's intensive participation. The government should overcome the market gaps for information and technology.
- Imperfection in the market structure caused by market immobilities of goods and factor services; unhealthy competition among production and economic forces; monopoly practices; low level of market ethics, etc, invite systematic public intervention.
- Self reliance has a high national value in terms of pride and crisis management. State comes forward with plans and programmes consistent with this distinct goal.
- As there is no time to delay the course of socioeconomic transformations, the state should provide appropriate climate for such radical changes in economic relationships.
- The nation overwhelmingly needs to systematically overcome the problems of poverty and ignorance--social diseases, the environmental degradation, inflow of population and resources, urban management, and so on.
- Government planning helps develop the concept of 'social culture' in a resource scarce economy of Nepal today. This raises the overall resource efficiency for social upliftment.
- Above all, the national planning agency (together with the government) makes efforts for keeping macroeconomic balance within the country.

Of course, there is no question of whether to stage planning, or not. The disagreement is simply about the coverage and the degree of planning. When a most radical plan, like in a socialist country, seeks to become more comprehensive in its coverage, a liberal market economy plans only partially for overall macro balance. Policies and programmes are devised accordingly. The critical nature of the planning problem, therefore, varies with the need of a nation. Milton Friedman is quoted as saying:

" proposition that economic development requires centralised government control and planning that it requires a 'coordinated development programme'. This proposition, too, contains an element of truth. Government certainly has an important role to play in the process of development. It must provide a stable legal framework; it must provide law and order; security to person and property. Beyond this, it has an important role in promoting certain basic services, such as elementary education, roads, and a monetary system; it can make an important contribution by extension activities which help to spread of knowledge of new improved techniques. And numerous other activities of the same sort come to mind." (Friedman, 1970: 70).

The Nepalese Context

Nepal needs to formulate comprehensive national plans for resolving the following problems of structural origin:

- Low equilibrium population trap.
- Growing size of revenue gap.
- Rising external trade imbalance and dependence.
- Increasing cost of production due to factor inefficiencies, open inflation and several other bottlenecks causing price hikes and the hardship of life.
- Widening disparity of income and wealth.
- Growing size of poverty and the environmental degradation.
- Poor and low quality resource base.
- Scarcity of entrepreneurial skills and the absence of risk bearing.
- Low supply response to changes in market prices (as a result of high demand pressure and technological breakthrough).

Of course, the market rigidities and imbalances together with overwhelming foreign dependence of the country have remained as a sole source of trouble over the years. A systematic approach to development has been seen as an essential basis of plans here. The nation in its first (1956) through eighth (1992) plans has underlined the need for socio-economic transformations, with different stresses in each of them. While the first five year plan (1956-62) made a good beginning for a systematic involvement of the government in the social development process, the second three year plan (1962-65) showed its concern for sound data base, institution building, and structural reforms. The third five-year plan (1965-70) was more committed to infrastructural development and internal regulations of market forces. The fourth five year plan (1970-75), moreover, adopted the concept of regional balance and the manpower planning. The fifth five year plan (1975-80), instead, addressed the issues like employment, population problem, and resources development. The sixth five year plan (1980-85), nonetheless, focused on poverty, environment, and the production of basic goods. The seventh five-year plan (1985-90) came with more rigorous thinking on poverty, environment, and population planning. Instead of talking about 'basic goods', it made planning for basic needs satisfaction, and spelled out the growing problems of population led environmental degradation. At the initiative of the World Bank and International Monetary Fund (IMF), macro-balance and structural reform packages were introduced, though with little success. The current eighth plan (1992-97), nevertheless, focuses on privatisation and liberalisation; but is amidst intensive controversy.

Obviously, recent plans in Nepal are becoming more ideological in their scheme for social transformations.

TECHNIQUES OF PLANNING

The Theory

Of course, planning for economic adjustment for national development has become an essential ingredient of development philosophy, in each country in this globe. It may be viewed as an instrument for an orderly promotion of a social structure interested in a healthy economic framework juxtaposing indigenous forces of production, consumption, distribution, and economic acceleration.

The type of a plan adopted by a nation differs from that of another counterpart in one fundamental aspect of goal setting. Goals that a nation wants to realise may be of short run, medium run, and long run categories. The chosen goal, thus, has an implication for the period set forth for plan implementation. Accordingly, plans may be of indicative vs directive type, comprehensive vs partial type, radical vs moderate type, short term or medium term vs long term type, centralised vs decentralised type, etc. Choosing the type of a plan is a function of the decision taken at the political level.

Mostly, short term plans are made for keeping market forces (demand and supply) into balance. The long term plan, instead, is spelled out in terms of the future policy requirements, as guides for medium term planning and programming. The techniques we describe here relate to this last attempt for plan and programme formulation. The technique, nevertheless, proceeds in the following order.

- Assessment of available resources and technology.
- Review of past achievements at both the micro and the macro levels.
- Fixation of goals for plan realisation in priority order. These goals in some cases are conflicting among each other (for examples, economic growth requires the injection of more money which, in turn, disturbs price situation and balance of payments).
- Specification of plan strategy (includes balanced vs unbalanced growth, capital intensive vs labour absorbing, critical minimum effort or big push (once for all) vs the regular attempt, sector led vs comprehensive, high vs low complementarity (linkage) effects, etc. The choice of a strategy, in fact, depends upon the nature of the economic problem the nation experiences, and the type of a social order the country is expected to attain.
- Specification of the areas for private sector and public sector operation. Private also includes foreign capital investment. Here a detailed account of investment policies for all the sectors-agriculture, industry and services, and their sub categories is warranted.
- Setting of physical vis-a-vis financial targets. Mostly, consistency models developed within the framework of input-output, linear programming, and macro-economic policy models (where interdependent relationships are expressed

in figures) are devised for setting visible targets, defining policy vectors (parameters) and selecting policy instruments. As the models are disaggregated by type of numerous indigenous activities in regions and sectors, the attempt is highly sophisticated.

Alternatively, micro (project) planning proceeds through the selection (choice) of projects on the basis of cost effectiveness, social benefit-cost ratio, net present value of the expected net lifetime benefit and the internal rate of return. Choosing the projects directly for plan implementation is an old style of making targets, which is still effective. Besides, in certain areas like education and health, manpower requirements for sectors are spelled out and activities are expanded accordingly.

- Making institutional arrangement for plan realisation, supervision and monitoring. The nation uses political and administrative capital for this purpose. The effectiveness in planning depends upon the active but honest involvement of these institutions created or organised.

The Nepalese Style of Making Plans

Earlier, it was made clear that there are, mainly, two ways of making plans: (a) the macroeconomic approach, and (b) the decentralised approach. While the concern of the former is with the programming method described within the framework of input-output, macroeconomic (Sharma, 1989a), and linear programming models, the latter tries to identify viable projects in various sectors. Final choices of the projects are made consistent with national goals set by the National Planning Commission which directs government vis-a-vis other organisations in matter of plan formulation and implementation, and fixes national parameters. The commission prepares final document, sends it to respective ministries, and monitors the achievements regularly. The government administrative machinery as a whole is involved in the planning process. Nepal adheres this (later) type of planning technique. The method, however, is more expensive that it requires manpower and exercises at all levels of plan formulation and implementation.

INTEGRATED RURAL DEVELOPMENT (IRD) MONITORING AND EVALUATION

Nations are making systematic and organised efforts for socioeconomic development. These efforts are known as planning, and the intentions for initiating planning are known as national goals. Planning efforts, thus, have become the way of national life of every nation, including Nepal.

In a low income nation facing several structural defects, planning efforts are of serious concern. Their strategies include the macro-balance as well as the micro-level attempts for enhancing income and employment opportunities; reducing income and wealth disparity; providing personal assets like health, skill, etc., and the social durable assets (for joint use) like road, building, etc; and increasing the flow of services, information, and the electricity. The Integrated Rural Development Programme (IRD) is one of such attempts at the local level, serving as the vehicle instrument for

socioeconomic transformations there. The programme is intended to achieve following specific goals which are consistent with overall national objectives, such as: a) rural development, b) social diversification, c) egalitarian distribution of income and assets, d) raising self-employment ratio, e) effective delivery of services, f) increase the productivity (efficiency of land, labour, and other productive assets, like financial fund and technology.

The programme like IRD is highly specific in making concentrated efforts. It is one of the versions of:

- Regional development strategy,
- Space of area development strategy,
- Block or village development strategy,
- Activity expansion strategy,
- Community development strategy,
- Target group oriented strategy.

As the ultimate beneficiaries of the programme include the local level households (families), all the strategies are similar in their effects on household income, employment, asset generation, the quality of life, etc. Mostly, whatever may be the strategy, its schemes for household of community welfare are:

- *Subsidy scheme*: price, tax, interest, etc., with effects on disposable income.
- *Employment or self-employment scheme*: social or family sources of income-like credit allocation, etc.
- *Asset formation scheme*: personal sources of income - like training and health.
- *Asset distribution scheme*: redistribution of purchasing power- like land, enterprises, equity, etc.
- *Community or block development scheme*: for promoting forestry; roads; social services like public health posts, schools, post offices, communication, etc.

All these schemes are alike in their effects on socio-economic indicators presented in the next section. The need of becoming selective in devising such schemes for community, area, activity, block, families, etc., development arises for the following reasons.

- As the generalised system of approaching to problems of poverty, environment, income disparity, fertility and so on may instead aggravate the situation which is already worsening, a programme like IRD should be more problem specific and selective.
- As regions or blocks differ in resource base, intensity of problems, level of technological adaptation, population size and its composition, and the

concentration of economic activities, programmes should be discriminatory and selective. Otherwise, equal treatment of unequals will worsen the situation.

- The programme like IRD holds that development spreads over to periphery from the centre which takes leadership in demonstrating the process of economic and social transformation. The programme extends linkage effects beyond the area of its operation, as there is a market network.
- As the funds for investment are limited, they should be allocated most productively such that the economy realises greater multiplier effect on income and employment.
- Anti-poverty efforts need to become more target group-community, area, activity, etc. -based. IRD is one of such efforts.

Anti-poverty or the rural development programme like IRD needs an integrated supply of goods and services in a package. For instance, benefits from cattle or intensive farming depend upon the supply of inputs, know-how, and the marketing services. Same is true for self-employment for which a package of improving and expanding activities is an essence.

For a successful implementation of the programme like IRD, supports of administrative, technological, financial, marketing, etc., kinds are highly warranted. An organised move of the both, the NGO's and the government, needs a planning framework spelled out for a period of 5-10 years, the medium term focus. The periodic plans after initiation of application should be reviewed, monitored, and supervised regularly. Weaknesses and the limitations of the programme should be assessed; and the corrections to these weaknesses and limitations as built within (internal) and superimposed from outside (external) must be made instantly. Details of the procedures for monitoring and evaluation, moreover, are described below.

Monitoring and Evaluation

Before taking steps for project monitoring and evaluation, one needs the examination of programme focus on goals, activities (coverage), areas (confinements), and the period chosen (time frame). In most cases, the specified goals are consistent with national goals for an improvement in the quality of life and the factor productivity. In a more professional terms these are known as equity and efficiency goals. While the concern of the former is with distributive justice, the latter is akin more to economic growth. Sometimes, these goals are conflicting to each other; for example, it is said, growth requires inequality of income. But in many instances they complement each other. When equity is established, resources like labour are fully involved in the production process, which eventually lead to higher growth rate. The difference is only ideological.

In order to realise the set goals for a project like IRD, we need to choose target variables which are observable and quantifiable. These variables may be the family income, employment, productivity for labour and capital, savings ratio, level of

consumption, low income and wealth disparity, etc. We want to maximise (if the variables are output, employment, consumption, savings, productivity, etc.), or minimise (if it is income / wealth disparity) them over time. These target variables are keenly associated with several socioeconomic indicators, which are grouped into following categories. These indicators, of course, are governed by induced as well as autonomous (including government policy) factors. These indicators serve as the basis for monitoring and evaluation of project effects.

Household Indicators

- Expenses on medicine - decline indicates better health,
- Expenses on education - increase is a good indication,
- Eradication of diseases - a reflection of healthy environment and the health awareness,
- Expenses on cattle and the number of cattle owned - increase indicates high propensity to save,
- Expenses on dresses - increase is a manifestation of modernisation,
- Change in food habit - other than cereals such as vegetables, fruits, meat, milk, etc., is an indication of economic transformation,
- Expenses on consumption - increase reflects better way of living,

Technological Diversification Indicators

- Change in farming practice - application of modern but diversified culture,
- Increase in marketable surplus - indicates the conversion of subsistence farming into commercial farming,
- Increase in industrial, commercial, and service units,
- Increase in livestock population of improved variety,

Social Indicators

- Change in banking habit - deposit to currency ratio, the use of organised source of fund, and the number of financial organisations,
- Change in population composition, fertility rate, and the employment pattern,
- Change in literacy rate,
- Change in life expectancy,

- Change in the number of technical hands,
- Availability of physical infrastructures like road, schools, health posts, veterinary centres, postal system, area covered by forestry, electrification, other means of communications, etc.,

Target Group Indicators

- Effect on target group in terms of i) training and education - number of programmes, types of training and education, expenses or budget for training and education, etc. ii) health improvement - death rate, fertility rate, life expectancy, etc. iii) assets formation - including the purchases of assets like livestock, farms, land, equipments, equities, bank deposits, bonds and debentures. iv) land distribution in favour of poor families, employment of unskilled and poor and consumption pattern of goods and services for poor.

Capacity Indicators for Planning Exercises

The measurement of the difference between targets and achievements gives an indication of absorptive capacity. Following indicators are noted as the enhancing factors of social absorption for modernisation. These factors can be made as the basis of effective planning:

- Training and education - number of trainees and educated people and amount spent in training,
- Institution building, or local institutions for service delivery,
- Organisational network for plan implementation,
- Revenue generation at the local level,
- Budgetary performance in health and family planning,
- The size of matching fund-the local participation rate, and
- Formation of durable social assets.

Data on all these indicators should be collected from (a) official records, (b) sample survey. A comparative figure for the chosen period (time frame) should be obtained.

All categories of the indicators may be used for assessing the project impact on specifically chosen places, communities, and activities. These indicators are, primarily, the basis of project monitoring and impact evaluation. These indicators can approximately tell us whether or not we are moving precisely in the right direction for realising the stated goals of a project like IRD. It is this information which is so vital in project planning (including its monitoring and performance evaluation). Any deviation from the expected path or slow movement of indicators for project effects may make rooms for corrections at various project points of administrative, organisational, and policy structure.

CONCLUSION

The planning efforts in Nepal, and elsewhere are intended to realise certain short, medium and long run goals of the nation which is in a mood to change existing arrangements for social relationships helpful in raising overall economic efficiency and community welfare. The state is active (through planning) to keep social harmony at all the local, district and national levels. Mainly, people below poverty line are the central focus of plans in low income countries. Nepal is one of such countries which make deliberate attempt for resolving the unique problems of poverty, income disparity, environmental degradation, trade deficit, excessive external dependence and economic cycle. As Nepal is facing most the crisis of structural origin, her planning effort is also directed to improve production relations affecting the efficiency of overall production, and hence the fair the distribution of assets and income.

SELECTED REFERENCES

- Bhattacharya, B.B. (1984), *Public Expenditure, Inflation and Growth*, Macmillan, New Delhi.
- Fitzgerald, E.V.K. (1985), *Public Sector Investment Planning for Developing Countries*, Macmillan, London.
- Friedman, M. (1970), "Foreign Economic Aid : Means and Objectives" In Jagdish Bhagwati and Richard S. Eckans (eds.) *Foreign Aid*, Penguin Books, Britain, PP. 63-78
- Ghosh, Alak and Ghosh, S. K. (1983), *The Planning Techniques and Indian Plans*, Wheeler, Allahabad.
- Khan, A.R. (1977), *The Basic Needs Approach to Development*, ILO, Geneva.
- Krishnamurti K. and Pandit V. (1985), *Macroeconomic Modelling of the Indian Economy*, Hindustan Publishing Corporation, New Delhi.
- National Planning Commission, Nepal, *Plan Documents* (Various Issues), NPC, Kathmandu.
- Pyatt, Graham and Throbacke Erik. (1976), *Planning Techniques for Better Future*, Oxford and IBH Publishing Co., New Delhi.
- Romer, Michael & Stern, J.J. (1981), *Cases in Economic Development Projects and Strategies*, Butterworths, Cornmeal .
- Rudra, Ashok. (1976), *Indian Plan Models*, Allied Publishers, New Delhi.
- Sharma, Gunanidhi. (1992), "The Economy of Nepal: A Macroeconomic Overview" (Mimeo), Kathmandu.

_____ (1992 b), *Aid in Nepal's Development: How Necessary?* Udaya Himalaya Net work, Kathmandu.

_____ (1992 c), "Nepal: the State of Economy" in Ramakant and B.C. uprati (eds.) *Indo-Nepal Relations*, South Asian Publishers, New Delhi.

_____ (1991), *Population, Poverty and the Environment in Nepal* Report Prepared for population, Division, NPC HMG and UNFFA, Nepal, Kathmandu.

_____ (1989 a), *A Macroeconomic Study of Nepalese Plan Performance*, Nirala Publishers, New Delhi.

_____ (1989 b), "Macroeconomic Foundation of the plan for the Satisfaction of Basic Needs: The Case of Nepal", *South Asian Studies* (India), Vol 24, No.1, Jan-June.

_____ (1989 c), "A Macroeconomic Planning Framework: The Context of Eighth Five Year Plan (1990-95) in Nepal," *Economic Journal of Nepal*, Vol 12, No. 4 Oct-Dec.

_____ (1988), "Efforts for the satisfaction of Basic Needs: The Nepalese "Context", *Vikas*, Vol 8, No. 1 Jan-Feb .

_____ (1985), "The Roel of Monetary Policy in Transforming Nepalese Economy A review" *South Asian Studies* (India), Vol 20, No.2 Jul-Dec.

_____ (1980), "Development Efforts through Planning in Nepal", *Economic Journal of Nepal*, Vol 3, No.4, Oct-Dec.

Todaro, M.P. (1971), *Development Planning : Models and Methods*, Oxford University Press, Nairobi