

A PRAGMATIC APPROACH TO PLANNING

by Albert Waterston*

Introduction

In the last three years, I have visited some sixteen countries in Africa, Asia and Latin America to provide technical assistance for improving development planning systems, procedures and organization. My visits disclose that in varying degrees, medium-term (i.e., three-to ten-year) national development plans, whether well or poorly devised, are frequently facades which are ignored or circumvented by technical ministries. In practice, technical ministries, departments and agencies pursue a "project-by-project" approach, with many projects related neither to national development plans nor to each other. Technical ministries, departments and agencies in few low-income countries have staffs qualified to identify, evaluate and prepare good projects, and to fix project priorities in accordance with general economic criteria. There is generally a scarcity of well-prepared projects ready to go and only a handful of countries have coherent programs for any of their basic economic sectors or subsectors. The lack of sector programs reduces the number of potentially viable projects and the lack of good projects reduces sound investment opportunities. Projects which are likely to produce low yields in relation to cost, often in the form of turnkey plants financed by short-term suppliers' credits, are sometimes approved by governments because they are the only ones available. The shortage of ready investment alternatives plays into the hands of those who prefer to choose projects from political or personal motives. They can contend that if these projects are not started, there may not be any others to substitute for them.

In most low-income countries, the ultimate arbiter of what is included or excluded in government investment budgets is the budgetary authority, which frequently ignores the recommendations of the central planning agency or the requirements implicit in the national development plan. Because of this, the government budget comes closer in reality to being the investment plan for the public sector than does the national development plan. But since budgets in most low-income countries

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are incomplete statements of public investment, and are besides poorly organized and administered, with budgetary systems and procedures which were designed to serve limited goals in other eras, budgets are often unsuited to the more dynamic needs of planned development under present conditions. Because technical ministries and departments often cannot furnish reliable estimates of project costs and benefits, as well as dependable estimates of time of construction, budget authorities tend to make arbitrary "across-the-board" reductions in ministry or department requests for allocations, instead of trying to weed out low-priority projects. Delays in closing budgetary accounts lead to poor reporting of past expenditures. This leads, in turn, to financial allocations without benefit of past experience. There is considerable slippage in the mobilization and allocation of public resources, control of budgetary expenditures, and estimation of the impact of public investment on recurrent expenditures. Overspending by some ministries and underspending by others are common and it frequently happens that no one in authority knows how much is being invested in the public sector, or whether the total is more or less than total financial resources. Archaic budgetary classification systems make it difficult or impossible to relate development plans to budgets.

In many countries, medium-term plans are not supplemented with annual plans essential for making medium-term development plans operational. Instead, a so-called annual "development budget" may be prepared by the central planning agency which includes many nondevelopment items (e.g., the construction of prisons or embassies abroad) and excludes important developmental items (e.g., agricultural research and extension or the training of technicians), which are generally included in the recurrent budget.

In providing technical assistance to low-income countries, donor countries and agencies generally use national development plans as benchmarks. But since these plans are rarely followed in practice, this results in technical assistance programs which have little to do with actual public investment activities; at the same time, activities which are directly related to public investment often go begging for technical assistance. Thus, the technical assistance made available for overall development planning, although not abundant, is much greater than for improving budgets, sectoral programming or project evaluation.

An Alternative to Conventional Plans

The widespread failure of low-income countries to achieve even the modest growth targets set forth in their development plans has led them repeatedly to try to improve these plans. But because an inhospitable political and administrative environment makes it virtually impossible for many governments in most low-income

countries to maintain the discipline required to carry out medium-term development plans, results have not improved in most countries and have worsened in some.

Proceeding on the assumption that a fundamental change in environment is unlikely to occur in the near future, and that medium-term plans are more useful as statements of national aspirations than as blueprints for action, I concluded that there was little point in trying to improve on the formulation of medium-term plans, although there is much to improve. Instead, I concentrated on improving the decision-making process affecting *actual* investment and development activities of governments in the countries visited. To achieve this objective, I proposed a system of planning with the following three main elements:

- a. The preparation of annual plans in which a rationalized inventory of current public investment and policy measures to stimulate private investment along appropriate lines are the two basic ingredients.
- b. Improved budgetary procedures for linking annual plans and budgets, phasing related investment and recurrent estimates, controlling expenditures and reporting on the progress of development projects.
- c. The preparation of programs for basic economic sectors for ten or more years which, on the basis of clear and concrete development objectives for the sector, and policies and measures designed to achieve these objectives, lists projects arranged in accordance with economic priorities.

In essence, this approach represents an attempt to introduce a system of "planning from below" without which the prevailing system of "planning from above" with medium-term plans alone appears to be futile. One virtue of the proposed planning system is that it is directed toward improvement of the management of actual investment and other development decisions rather than toward improvement of the formulation of development plans. However, by setting up for each economic sector a shelf of projects with priorities fixed after feasibility and other technical studies have been made, the sector programs in the proposed system also provide bridges between existing medium-term plans and the projects prepared by technical ministries, departments and agencies. In this way, the proposed system increases the probability that existing medium-term plans will be carried out.

The development planning record in the postwar years shows a general downward trend in the duration of the planning period in most developing countries. This is as true in Asia and Latin America, as it is in Africa. The main reason is that most developing countries have not been able to plan comprehensively with reasonable accuracy for more than three years. Indeed, many countries faced with the prospect of uncertainties or rapid change consider that they cannot effectively plan ahead for more than a year or two.

Countries with long planning experience, when faced with the prospect of rapid or unpredictable change or unusual uncertainties which make multiannual planning unreliable, often resort to annual planning. For example, until recently, Yugoslavia made use of one-year plans and India now has one, because their governments decided that for a time, conditions did not permit comprehensive planning for a longer period.

This has happened before in Yugoslavia, which obtained very good results with a combination of annual plans and sectoral programs for longer periods (e.g., a ten-year program for agriculture) between 1952 and 1956, when changing political and economic conditions made it difficult to plan comprehensively for more than a year. Mexico, which really plans through its annual budget, has found it practicable to do so because in that country sector programming in depth (e.g., it has an excellent eleven-year program for education) has been carried much further than in most countries.

The Case for Annual Comprehensive Plans with Multiannual Sector Programs

Annual comprehensive plans, by themselves, have limited value for influencing changes in an economy because they lack perspective and not much can be done in one year to bring about basic changes. But when combined with sectoral programs of ten years or more, such plans provide the maneuverability and perspective needed for directing overall changes in an economy. Further, by what has come to be known as "feedback", annual plans provide useful data for updating sectoral programs from time to time. Simple aggregative, multiannual guidelines for such variables as exports, imports, and investments can be prepared in a few weeks. When conditions stabilize, or information about the future becomes more reliable, or expertise in planning improves, the establishment of more comprehensive multiannual guidelines, both in the form of medium-term and longer-term perspective plans, becomes possible. But until then, there is much to be said for annual planning-cum-sectoral programming.

If one studies the experience of countries which plan this way, one finds there are good reasons for it. The preparation of an integrated annual plan is much easier and, what is important, takes much less time than the preparation of a multiannual comprehensive plan. Because of this, annual planning allows planners to give more time than does multiannual planning to the preparation of medium-or long-term programs for economic sectors.

Another virtue of an annual plan is that it necessarily focuses attention on the specific programs, economic policies and strategies, fiscal measures, and administrative reforms which must be adopted immediately if the plan is to be

carried out, thereby reducing the penchant of decision-makers to postpone difficult decisions.

An annual plan is less likely than a multiannual one to set overly ambitious targets because it is based on proximate estimates of resources available rather than on estimates made unreliable by a longer time span. In addition, it is less complex than a multiannual plan, and more concrete about what is to be done immediately. Therefore, it can be better for mobilizing and renewing a nation's interest in development, and for obtaining financing for specific projects and programs on the basis of current national action to eliminate bottlenecks and other impediments to development.

Annual Plans

A comprehensive annual development plan usually starts with a review of the economic progress made in the previous year and the bottlenecks and other problems encountered. It estimates the total resources available in physical terms (e.g., natural resources, man-power, productive capacities, etc.) as well as in financial term in domestic currency and foreign exchange (e.g., public and private savings, export earnings, domestic and foreign loans, grants, etc.).

On this basis, the plan sets investment, growth, and other targets for the year. It includes estimated development expenditures for the year, on recurrent as well as capital account, for state enterprises or agencies outside the budget, as well as for ministries and agencies included in the budget. If sectoral and branch programs exist, these data will be obtainable from them. The annual plan also includes estimated development outlays of regional and local governments as well as of the central government. This makes it the only document with a complete account of the financial impact of the public sector's development effort. It also presents a coordinated technical assistance program for carrying out the investment and other programs included in the plan for the public sector.

In addition, the plan includes an estimate of foreseeable private investment and the expected role of the private sector in achieving plan targets. It embodies a foreign exchange budget or projection of foreign exchange allocations for the public and private sectors. Finally, and this is very important, it details specifically and at length the monetary, fiscal, credit, and other financial policy instruments as well as the organizational and administrative measures and strategies which have been or will be adopted to mobilize development resources and achieve the plan targets in the private and public sectors. This account should indicate precisely what is being done to stimulate private investment in industry and agriculture along appropriate lines and the measures adopted to ensure that the budget reflects the plan.

The Role of the Budget

The last point is of overriding importance. Unless the budget reflects the corresponding items in the annual plan, the probabilities are that the public sector portion of the plan will not be implemented. To ensure this close relationship requires a budget classification and budgetary procedures which permit easy translation of the plan into budgetary terms, as well as budgetary expenditure controls which allow timely and accurate preparation of quarterly, semi-annual and annual reports of plan progress.

But in many less developed countries classification systems in budgets make it difficult to relate projects and programs in annual plans with budgetary allocations. Good planning also requires that recurrent expenditures, e.g., for training personnel, be related to, and phased with, capital outlays for construction of a project so that all parts of a development project move forward at appropriate speeds. In addition, it is useful in planning to be able to extract from the recurrent side of a budget development items which, when added to capital items for development, constitute a comprehensive statement of budgetary outlays for development. But in many countries it is impossible to do these things.

Another impediment to effective planning relates to the way in which development and recurrent budgetary estimates are prepared in many countries. The development estimates are generally prepared in the central planning agency, while the recurrent estimates are prepared in the ministry of finance. There is often an inadequate system for insuring regular and early communication between the central planning office and the ministry of finance while each is preparing its estimates, with the result that neither may be aware of the details of the estimates the other is preparing until after they have been completed. In one Asian country, capital estimates are prepared *after* the recurrent estimates. These procedures not only do not allow proper phasing of capital estimates and recurrent estimates for development; they make it difficult to measure the impact of current investment outlays on future recurrent expenditures. This is a serious shortcoming, since capital expenditures almost always increase future recurrent expenditures. Unless this is borne in mind, the rise in the recurrent budget can greatly reduce the surplus on current account available for development. A final shortcoming of the system employed in many countries, is that operating ministries are required to make two budgetary presentations, one for capital estimates to the central planning agency, the other for recurrent estimates to the ministry of finance.

Although serious, the problems outlined can be resolved with relatively simple administrative changes. To obtain a classification system which permits development expenditures, whether on recurrent or capital account, to be identified

in budgets by projects and programs requires only a functional-economic cross-classification system. The preparation of such a classification system involves some problems, but they are surmountable if a committee composed of representatives of a country's central planning agency, the ministry of finance and other interested bodies e.g., representatives of autonomous public agencies is set up with appropriate technical assistance to iron out problems.

Ideally, the unity of the budget should not be endangered, as it is in practice in many countries, with one agency preparing capital and another preparing recurrent estimates. But a delicate problem confronts anyone who advises that the two parts of the budget be prepared by one agency when two are engaged in the task. The adviser who recommends this may have principle on his side, but he is unlikely to convince one agency to relinquish its prerogative to the other. Given the political and administrative realities in many countries, another course generally has to be found for accomplishing the same result.

Fortunately, a simpler and proven method already exists, and the countries visited were advised to adopt it, where there were dual budgets. In Nigeria, and in some other countries, it has been found possible to deal effectively with the problems raised by dual budgets through a Budgetary Coordinating Committee. Top officials representing the budget office and the central planning agency act as permanent members of the Committee, and a high official of each operating ministry, department or agency presenting budgetary proposals, acts as a temporary member when his organization presents proposals for inclusion in the budget. Each operating organization presents its capital and recurrent estimates simultaneously. The estimates are considered and discussed by the Committee, which reconciles development and recurrent estimates and brings total budget estimates into line with available financial resources. The procedure outlined not only permits realistic estimates to be made of the impact of capital outlays on recurrent expenditures, but also reduces from two to one the number of budgetary presentations which operating organizations have to make.

Sector Programs and Projects

A prime purpose of sector programming is the identification of potentially viable projects based on a coherent set of development policies. Since the preparation of soundly conceived projects *after they have been identified* often takes much longer than the preparation of the most elegantly integrated, comprehensive, medium-term plan, it is important to start sectoral programming and feasibility studies for projects as soon as possible—frequently before the overall plan. Otherwise, it may be impossible to implement the plan. Thus, paradoxically, plan implementation often precedes plan formulation.

In the absence of programs for at least the critical or strategic sectors or branches of an economy, a multiannual, comprehensive plan (whether for two years or ten) is likely to be less reliable than one for a year. Even when sectoral programs and multiannual plans exist, annual plans are needed to make the multiannual plan operable. Planners know this. But it is so difficult and time-consuming to prepare a multiannual plan that they rarely get around to preparing annual plans. This is another reason it is sometimes difficult if not impossible to implement a multiannual plan, even if a government wants to do so. One important reason that the budget, rather than the multiannual plan, is often the real planning document, is precisely that the budget is concerned with what is to be done immediately, not with actions to be taken over a number of years to attain distant goals.

The preparation of multiannual programs should be limited at first to the most important economic and social sectors or subsectors. In most countries these are agriculture, industry, mining, power, transportation, education, and health. The program is essentially a framework for balancing and integrating the foreseeable demand in the sector with potential supply. It includes a statement of the basic policies and strategies to be followed in developing the sector or subsector, the organizational and administrative requirements for carrying out the program, as well as a schedule of projects to be completed in accordance with a fixed set of priorities.

Usually, however, what is called a sector program is nothing more than a diverse, often incongruous, collection of projects. In contrast, a good program involves an overall look at the sector. On the basis of clearly defined national objectives for a sector (e.g., the diversification of agriculture, the production of commodities for import substitution or for export, self-sufficiency in certain economic branches, etc.), a survey is made of all the factors which help determine a rational approach toward meeting the objectives laid down for the sector. For electric power, for example, given estimated demand, alternative sources of energy would have to be considered, including the optimal relationships between hydro and thermal power, the needs for transmission and distribution system, the sequence to be followed in building up regional and national grids, etc. For transport, a good sector study generally involves a consideration of all forms of transport including highways, railways, waterways, and airways. If only one branch of a sector is involved, e.g., highways, consideration needs to be given to the needs of other sectors. It would be important, for instance, to ascertain the requirements of agriculture to assure a proper proportion of farm-to-market roads as against trunk lines.

Since some surveys would already have been made in certain sectors or branches of the economy, and some potentially viable projects identified, if not

started, the preparation of a sector or branch program would begin with an inventory of all existing studies, surveys, and research which could cast light on the sector or branch. New information to provide as complete a view as possible would then be obtained. Where additional surveys or studies are required (e.g., cadastral surveys for agriculture, manpower studies for education), provision would be made for them in the sector program. If projects are uncovered which promise high yields for investment outlays, provision must be made with as little delay as possible for beginning feasibility, technical or other preinvestment or investment studies to make them "ready to go" as soon as possible. Experience shows that it is possible to prepare most sectoral or branch programs in nine to eighteen months, depending on the data already available.

An important end result of a sectoral program is the identification of a list of potentially viable projects as "building blocks", for which feasibility studies can be made according to a program phased to acquire a "shelf" or stock of projects which can be drawn upon as circumstances permit without undue delays. This allows a government to start negotiating for external financing for a project long enough in advance to assure construction according to a schedule predetermined in a plan. Where a shelf of studies projects exists, choices among alternatives can be made quickly. Where such alternatives are not available, the choice is often limited to one or two projects in a sector. In such cases, governments have been known to start projects, whatever the likely relationship between costs and benefits, because it is a question of proceeding with the one or two projects available or doing nothing in the sector for a while.

The establishment of appropriate development policies for agriculture is usually more important than the creation of a stock of public investment projects. This is because the right policies can result in farmers providing most of the investment in the sector, with public investment taking care of residual requirements. A good set of agricultural policies would include incentives for increasing annual crops in accordance with development objectives; the establishment of appropriate publicly supported programs for desirable tree or similar crops where long gestation periods make it difficult or impossible for most farmers to carry them out without financial assistance; provision for the elimination of marketing and other obstacles which interfere with the efficient flow of agricultural commodities from producers to consumers or the effective application of economic incentives for producers.

Sector programming is a calculated way of looking ahead to ensure orderly development of an economic sector or branch. The period of a sector program may vary according to the circumstances or the stage of a country's development. For industry, electric power or transport, the sector program may extend for ten years, but it may be much longer than that for agriculture or education. It is

easier to plan for longer periods for an economic sector or branch than for an entire economy because problems of consistency are technically much less difficult.

Within each longer-term sector program, it is possible to formulate a so-called "rolling program" of, say, three years. At the end of each year, another year would be added so as to retain the three-year period as the program "rolled forward" in time. Such a rolling program can spell out in greater detail, the program of action for the sector, with priorities, proposed financing, etc. It is not only useful in the preparation of budgets and overall plans, but also in seeking financing for the sectoral program. International financial agencies, as well as bilateral lenders, often prefer being presented with a series of projects, spread over a period of years, which makes it possible to foresee financing requirements in the sector. The three-year program can become even more valuable if it is stated in terms of minimal and maximal alternatives, depending on the availability of domestic and foreign financing, or on other contingencies.

There is, of course, need to relate sector programs with one another, e.g., roads with agriculture. This need not be done by the detailed calculations usually required to make a comprehensive plan consistent. It can often be secured by juxtaposing the sector programs involved and eliminating inconsistencies. But in the kind of planning discussed here, a more detailed correlation of the sector plans is eventually made year by year in the preparation of the annual development plan.

Conclusion

Most of the countries concerned were visited in 1966 and 1967. It would therefore be premature to expect definitive results. However, the steps taken to implement recommendations have been encouraging. In some countries, only a few recommendations are being implemented, but in more than half of the countries visited, implementation of recommendations has meant that important changes in past administrative organization and procedures have been introduced.
