



ECONOMICS DEPARTMENT

INSTRUCTIONS

Copy these notes after the employment and unemployment notes in the second book of Economics

ECONOMIC DEVELOPMENT PLANNING

Economic development planning is the conscious government's effort to influence, direct and in some cases control changes in a nation's principle economic variables to achieve pre-determined objectives of development over a given period of time.

OR:

It is a deliberate government's effort to formulate decisions on how productive resources shall be allocated among different uses in order to attain targeted economic objectives over a given period of time.

NB: A development plan is a document by the government planning agency containing current national economic conditions, proposed government expenditure, likely developments in the government/public sector and a review of government policies.

Reasons for carrying out economic development planning in developing countries:

1. **To correct the defects of price mechanism especially responding to circumstances requiring rapid structural changes.** The government allocates financial resources to cater for such eventualities.
2. **To ensure proper allocation of resources.** The government draws plans and allocates resources according to the needs
3. **To mobilise resources.** The government draws plans on how to mobilise from the various local as well the foreign sources.
4. **To solicit for foreign aid.** The government draws plans in order to convince the donors to extend aid basing on the planned activities.
5. **To correct the balance of payment deficit/Problem.** Plans are made to increase production at home through import substitution industries to reduce importation and cut down on import expenditure.
6. **To attain price stability.** The government plans to put in place appropriate fiscal and monetary policies to regulate money supply and economic activities.
7. **To determine the rate of economic growth rate.** Government draws plans to provide incentives to increase production in the different sectors of the economy.
8. **To ensure equitable distribution of income/wealth.** The government plans to provide credit facilities to low income groups to enable them invest and increase their incomes.

9. **To identify areas suitable for public and private investment.** Through planning the government identifies areas which are profitable that can attract private investors to be left to them as it concentrates on the less profitable which are likely to be ignored by the private investors.
10. **To encourage public participation in the development process/ To solicit for political support.** The government draws plans to cater for the needs of the people so that they appreciate the effort of the government in order to offer support or participate in the development process.
11. **To reduce economic dependence/To promote self-sufficiency.** The government plans to increase economic activities in the various sectors of the economy so as to reduce sectoral dependence.
12. **To reduce the unemployment problem.** Government draws plans to provide investment incentives so as to attract investors to create more jobs.
13. **To ensure harmonious and consistent use of resources.** Plans are made to enhance linkages between sectors
14. **To relate the present to future trends and targets.** Plans are drawn basing on what happens in the economy at present to predict what will happen in future.

ROLE OF ECONOMIC DEVELOPMENT PLANNING:

- Promotes proper resource utilisation of resources in the country.
- Ensures equitable distribution of income/wealth/ resources.
- Reduces unemployment problem.
- Corrects the balance of payment problem/deficit.
- Ensures stability in prices.
- It guides the government in soliciting foreign aid.
- Ensures self-sufficiency/ Reduces economic dependence.
- Encourages public participation in the development of the economy.
- Guides in identifying areas suitable for public and private investment.
- Promotes faster rate of economic growth.
- Ensures consistence and harmony in the use of resources.
- Relates present to future trends and targets
- Corrects deficiencies of price mechanism

TYPES OF PLANS

Economic development plans are classified according

- a) Duration/Time of the plan.
- b) Coverage of the plan

Classification of plans according to duration:

i) Long term plans/perspective plan; This is a plan with long term targets covering a period of ten years and more e.g. the Uganda vision 2040.

NB: Perspective planning: This refers to long term planning in which long term targets are set in advance over a period of ten and more years.

- ii) Medium term plan;** This is a plan whose period of implementation ranges between 5 and 9 years.
- iii) Short term plan;** This is a plan which is drawn to cover a short period of time e.g. less than 5 years.
- iv) Annual plan;** This is a plan which covers a period of only one year e.g. the national budget of a country.

Classification of plans according to coverage

1. Macro/ Comprehensive plan; This is a plan which covers all sectors of the economy

NB: COMPREHENSIVE PLANNING: This is the planning for all sectors of the economy.

(Note: For benefits of comprehensive planning refer to the benefits of planning in general)

2. Partial plan/ Micro plan; This is a plan which covers a section of the economy e.g. a sectoral plan for a particular sector such as agriculture.

Reasons why developing countries opt for partial plans:

- Inadequate resources/funds to cover up the entire economy.
- Inadequate skilled and experienced manpower to formulate and implement comprehensive plans.
- Political uncertainties in developing countries.
- Differences in level(s) of development in countries i.e. some areas are developed while others are underdeveloped.

NB (a): Partial planning: This is the planning that covers a section of the economy.

Merits of partial planning

- Better quality products are produced due to high degree of concentration.
- It reduces external resource dependence because it can be developed with minimal resources available.
- It reduces government expenditure since it requires minimal resources to develop.
- It is cheap and therefore creates less tax burden to the nationals.
- It promotes better utilisation of resources thus avoiding over exploitation.

Demerits of partial planning

- It worsens income/wealth inequalities.
- It causes regional imbalances in development.
- It results into sectoral imbalances in development.
- It encourages underutilization of the available resources
- It encourages sectoral dependence and its evils.
- It limits employment creation.
- It leads to low tax revenue.
- It leads to loss of political popularity.

3. **Centralized plan/Authoritarian plan;** This is a plan drawn by the government to allocate resources in the whole economy and directs the implementation of the plan in line with the set targets/objectives.

NB: Centralised /authoritarian/directive] planning; It refers to the planning process where the government allocates resources in the whole country and it directs implementations of plans in line with the set targets/objectives

Note; (For benefits of centralized planning refer to the benefits of planning in general)

4. **Decentralised plan:** This is a plan whereby economic decision making and the implementation of plans is in line with the set targets undertaken by the local government/ local authority.

NB: DECENTRALISED ECONOMIC PLANNING; This is the planning process whereby economic decision making and the implementation of plans in line with the set targets are undertaken by local governments/local authority instead of the central authority.

Advantages of decentralised planning:

- It promotes the use of locally available resources.
- It caters for the specific need of the people.
- It creates more employment opportunities.
- It promotes commitment due to sense of belonging.
- It reduces rural urban migration and its associated evils.
- It is less bureaucratic.
- It creates competition among the local governments.
- It reduces pressure on the central government.
- It makes it easier to fight corruption.
- It is appropriate for a very large country.
- It requires little capital to finance.

Demerits of decentralised planning:

- It promotes regional imbalance in the development.
- It limits national unity.
- It is expensive in terms of hiring labour.
- It involves duplication of projects and services.
- It sometimes contradicts with the national objectives of the government.
- It leads to poor service delivery because some regions have limited resources.
- It makes the government in power unpopular.

5. **Indicative plan;** This is a plan where the government identifies priority areas for investment provides information and incentives to the private sector so as to achieve the desired objectives.

NB: Indicative planning: This is planning whereby the government identifies appropriate investment areas and provides incentives and the required information to individual economic units to achieve pre-determined forecasts and targets.

6. Project plan; This is a plan drawn with the aim of ensuring success of a particular project at a given time e.g. the plan drawn to construct a power dam at Karuma falls

STAGES/HIERARCHY OF ECONOMIC DEVELOPMENT PLANNING:

- **Identification stage;** This involves defining the objectives to be achieved
- **Formulation of the plan;** This involves the actual drawing of the plan.
- **Implementation of the plan;** This involves putting the activities written into action.
- **Evaluation of the plan;** This involves comparing what is basically implemented against what was expected. If any weaknesses are identified, corrective measures are taken.

PRINCIPLES OF PLANNING; These are guidelines which should be followed in the formulation and implementation of a development plan to ensure effective allocation of resources.

These include the following:

- **Principle of comprehensiveness.;** a good plan should cover all sectors and regions of a country for balanced regional development.
- **Principle of consistency;** the plan should match with the available resources for effective implementation.
- **Principle of optimality.** The plan should maximally utilise the available resources.
- **Principle of feasibility.** The implementation should be possible using the available resources
- **Principle of sequencing.** The plans should be implemented in an orderly way beginning with those of primary importance
- **Principle of proportionality.** The available resources should be allocated equitably among sectors according to their degree of importance so as to achieve harmony.
- **Principle of compatibility.** The projects to be formed should be able to co-exist so as to create maximum forward and backward linkages.

Features/ Characteristics of a good plan:

- **A good plan should be comprehensive;** It should cover all sectors of the economy.
- **A good plan should be consistent.** the plan should match with the available resources for effective implementation.
- **A good plan should be compatible.** The projects to be formed should be able to co-exist so as to create maximum forward and backward linkages
- **A good plan should have a good sequence.** The plans should be implemented in an orderly way beginning with those of primary importance.

- **A good plan should be proportional in the allocation of resources.** The available resources should be allocated equitably among sectors according to their degree of importance so as to achieve harmony
- **A good plan should be optimal.** The plan should maximally utilise the available resources.
- **A good plan should be economically achievable (feasible).** It should have targets that are attainable considering the existing resources at a time.
- **A good plan should be politically acceptable.** It should be in line with government policy so as to attract financial and political support of the government.
- **A good plan should be socially relevant.** It should address the basic social needs of the people e.g. ensuring the provision of safe water, education, security needs etc. this helps the plan to attract public support.
- **A good plan should be internationally relevant.** A good plan should meet the international planning standards; address the requirements of the foreign donor. This makes it easy for the plans to attract funds from the donors.

Factors influence//affect/determine the success of development planning:

1. **Political climate.** A stable political environment facilitates effective economic planning because the planned activities are not disrupted by the chaos and political fights. However political instability distorts planning because the planned activities are disrupted by the political chaos since they are delayed or not completed.
2. **The availability of data/information.** Presence of accurate and complete data enables the planners to set realistic objectives that are easily achieved however inadequate data results into setting of unrealistic objectives which cannot be achieved.
3. **The availability of funds.** Adequate financing of the planned promotes planning because the funds are available in time and the projects are financed to completion, while limited funds limit plan implementation because projects are started late while some fail to start.
4. **Level of supply of skilled man power (planners)/the efficiency of the implementation machinery.** Adequate supply of trained planners enables the creation of complete and realistic objectives which are easily achieved during planning. While, shortage of trained planners leads to plan failure because the semi-trained people that are hired create unrealistic objectives and implement the planned activities poorly.
5. **The level of government commitment.** High level of government commitment improves planning because the planned projects are well financed and monitored by the government while, limited government commitment limits planning because the planned projects are not well financed and poorly managed.
6. **The degree of public support towards the planned activities/The level of conservatism/The will of the people.** Adequate support from members of the public like the church leaders, elders, NGO's leads to effective economic planning because such support comes with better mobilisation of the masses towards the planned activities. while, limited support from the public leads to plan failure because some members of the public create destructive propaganda towards the planned activities.
7. **The level of development of infrastructure.** Well-developed infrastructure promotes effective development planning because it ensures the coordination of the planned activities. while, poor infrastructure makes planning less effective because it limits the coordination of the planned activities.

8. **The level of dependence on foreign aid.** High level of dependence on foreign aid limits planning because aid is inconsistent, and delays, while reliance on locally available resources improves planning because the funds are available in time for quick implementation of the plans.
9. **The degree of responsiveness of the private sector.** A highly responsive private sector promotes planning because they easily rally behind the government to implement the plans, while a non-responsive private sector limits planning because people don't rally behind government which slows down plan implementation.
10. **Degree of ambitiousness in planning.** Over ambitious plans limits planning because plans cannot be implemented using the available resources, while less ambitious plans are easy to implement because the available resources are adequate.
11. **The level of dependence on nature/ the natural factors.** Favourable natural factors help to improve planning in the economy because the funds are well utilised without being diverted to solving natural calamities, while unfavourable natural factors limit planning because the funds for the projects are diverted to solve the effects natural calamities and the projects are not done.
12. **The rate of inflation.** Low rate of inflation promotes effective development planning because the funds allocated for projects implementation becomes sufficient since prices for inputs are stable/low. While, high rate of inflation leads to ineffective planning because the funds allocated for project implementation become insufficient since the prices for inputs rise.
13. **The degree of political interference.** High degree of political interference leads to ineffective planning this is so because the politicians always dictate their interests to the planners to adopt objectives that are to improve their political popularity, while low degree of political interference leads to effective planning because politician do not interfere with the set objectives by planners, so they are able to implement all the activities within the plan basing on the priorities of the country.
14. **The level of accountability.** Corruption leads to ineffective planning because some officials employed in the planning authority use the money meant for implementation of planned activities for personal gains and the projects are not done, while high level of accountability promotes effective planning because the funds allocated are properly utilised leading to timely completion of the projects

Challenges of planning in developing countries.

- Limited information/data.
- Political instabilities.
- High inflation rate.
- Limited skilled personnel/inefficient-implementation/administrative machinery.
- Over dependence on external resources/ Dependence on foreign aid.
- Inadequate funds.
- Natural calamities.
- Corruption on the part of plan implementers.
- Interference by politicians or government officials.
- Plans being too ambitious.
- Non-responsive growing private sector.
- Poor/under developed infrastructure.
- Limited will by the people/conservatism.

- Limited commitment by the government
- High population growth rate.

Measures that should be adopted to improve economic development planning

- Ensure proper data collection. This will enable planners set realistic objectives that can be achieved.
- Raise sufficient funds. This will ensure adequate financing and timely completion of the projects.
- Ensure efficiency of the planning machinery/train the manpower. This will ensure collection of relevant data and formulation of realistic objectives for effective implementation of plans.
- Promote autonomy of planning authority/discourage political interference in planning. This will ensure that politician leave the planners to do the implementation of plans according to programs.
- Ensure government commitment/support in planning, this will ensure adequate financing of projects and proper monitoring of the projects.
- Ensure stable political climate; this minimise disruption of the planned projects and they will be completed in time.
- Fight inflation; This will ensure stable costs of inputs which makes the funds allocated adequate.
- Minimize over ambitious planning; This will ensure that the planned projects are easily implemented using available resources.
- Reduce dependence on foreign aid; this will ensure that the funds for project implementation are secured in time to allow timely completion of the projects.
- Minimize dependence on nature, this will ensure that the projects are carried out even during unfavourable natural factors.
- Develop economic infrastructure; This will ensure proper coordination of the implementation of the planned projects.
- Encourage proper accountability; This will ensure proper utilisation of the available funds and thus timely completion of the projects.
- Sensitize the private sector on her role in planning; This will make the private sector responsive and rally behind the government to implement the plans.