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PROBLEMS CONCERNING DEVELOPMENT PROGRAMMING AND POLICY  
IN AFRICAN COUNTRIES

## INTRODUCTION

This paper was prepared in the Research Division of the UN Economic Commission for Africa for the meeting of economic experts on techniques and problems of development programming in Africa, held at Addis Ababa from 30 November to 5 December 1959. The sole purpose of the paper was to serve that meeting as a basis of discussion and a point of departure. While it was written with the special problems and conditions of African countries in mind, the experience of the UN Regional Commissions in Asia and the Far East (ECAFE) and in Latin America (ECLA) was utilized, though this is not always made evident through direct quotation.

The paper is now being circulated to serve as a basis for discussion of problems of comprehensive planning at the session of the Working Party on Economic and Social Development to be held at Addis Ababa January 1962.

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CHAPTER I            IS DEVELOPMENT PROGRAMMING DESIRABLE?

1. In April 1953, the Minister of Finance of an African country in his budget speech made the following statement: "It is absolutely necessary to make embryo plans four years ahead; it is absolutely necessary to do what we have done and carry these down to the details of the actual tons of steel and firm orders to be placed. It is absolutely necessary to cover those commitments with a firm promise of a sufficiency of finance from overseas to do the large part we admittedly cannot do ourselves, and all of these things must be worked out as a complete exercise... you cannot look at any single one of these problems in isolation. Every one affects all the others".<sup>1/</sup>

2. Here in a nutshell we have the basic elements of the process of development programming: to make "embryo plans" (or sectional plans) for several years ahead; to check intentions against available resources; to work out a "complete exercise", i.e. to see everything that is being done as part of the total picture; to express the needs in terms of specific scarce resources such as tons of steel etc. - this is the essence of development programming.<sup>2/</sup>

3. The Minister in the above quotation stated that such a process was "absolutely necessary". As a matter of fact, virtually all African countries and territories in recent years have utilized most or all of the elements of development programming. This in itself does not prove that development programming is "absolutely necessary". Historically, it would certainly be an exaggeration to say that economic progress depends on development programming.

<sup>1/</sup> Quoted in C.H. Thompson and H.W. Woodruff, Economic Development in Rhodesia and Nyasaland; Dennis Dobson Ltd., London; p.83

<sup>2/</sup> A fuller definition of a development programme and its essential elements is elaborated in Chapter II of this paper.

It would be an even greater travesty to say that development programming, or even good development programming, guarantees economic progress. While we must be wary of such exaggerations, it is clear from the facts, and will also emerge from this paper, that development programming is more than a general fashion. While in favourable circumstances progress takes place without development programming, and in unfavourable circumstances no progress takes place even with development programming, yet efficient development programming is capable of making progress more likely than it otherwise would be, given the circumstances. Perhaps even more important, efficient development programming may create a situation in which the underlying circumstances can be made more favourable to economic progress.

A. From Budgeting to Development Programming

4. Historically, the development programmes of African countries and territories have developed partly out of their annual budget-making procedure, partly out of the allocation of external assistance to them. For instance, in British dependent territories the making of Ten-Year Programmes, mainly in the nature of public investment programmes, has developed out of the need to incorporate Colonial Welfare and Development grants in the territorial budgets over a period of years. The evolution of development programming out of annual budgets can perhaps be traced to four main sources:

(a) Many of the larger projects financed in annual budgets are of a multi-annual nature. The execution of a major construction project extends over a number of years and even more so the completion of complete programmes; e.g., in education programmes the period from the moment of making provision for the training of teachers to the absorption of the first group of better-educated people in the labour market extends over many years, possibly a generation. There is, therefore, an immediate case for viewing the annual budget, not as an isolated proposal, but as a link in a chain extending over

many budget periods.

(b) Even before economists developed such notions as "functional finance" and "national income accounting", it was clear to officials in the rather obvious circumstances of most African countries that the actions of a government have the effect of shaping the whole course of economic life and development of the countries or territories concerned. The budget, therefore, could not be conceived simply in the same terms as the accounts of an individual Mr. Micawber. <sup>3/</sup>

(c) Officials, especially Finance Ministers, could not but become rapidly aware of the inter-relationship existing between the budgets of different years; in particular, it was borne in upon responsible officials by (sometimes bitter) experience, that today's capital expenditure becomes tomorrow's current expenditure on maintaining and running the installations created. Hence, it became essential to enquire to what extent today's investment would increase the stream of future incomes, how much of that stream would flow back, or should be diverted back into the budget, and thus be available for maintaining and running the new facilities. From such considerations, it also became rapidly clear that the addition to future production and income arising from "public works" would largely depend upon private actions and reactions; these would at least have to be guessed, but were also capable of being influenced by government action - most obviously by fiscal, monetary and trade policies - and general legislation. Hence, the process of budgeting led almost inevitably to the process of development programming.

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<sup>3/</sup> "Income 20 shillings, expenditure 19 shillings and 6 pence - result happiness".

"Income 20 shillings, expenditure 20 shillings and 6 pence - result misery."

(d) Current revenue in most African countries is liable to fluctuate widely from year to year in accordance with export prices. The need to ensure a steadier rate of development than the annual budget would provide for under such circumstances is a further reason for adopting a longer than annual perspective.

### B. Three Objections to Development Programming

5. It could be said - and it is sometimes said - that in African countries development programming is unnecessary. Three arguments are adduced, alone or in combination : first, that development programming is not a substitute for sound judgement, economic and also political, by those responsible; secondly, that development programming is unnecessary because the problems of most African countries and territories are too simple and obvious to require any elaborate development programming; and thirdly, that development programming is impossible because of a lack of data.

Let us take these three points in turn:

#### (1) "Nothing like judgement"

6. It is true that development programming is not a substitute for judgement. It is perfectly proper for a responsible Minister or Planning Board to reject the pattern of expenditure and policies suggested as a result of a more or less elaborate development programming exercise. Such suggestions may be rejected because they would be politically unacceptable : for example, they may result in greater inequality of income distribution when the policy of the government is the opposite, or they may temporarily benefit one part of the country more than another part, etc. In such cases, while the suggested development programme is properly rejected as unacceptable, it is not the process of development programming which is to be blamed. The political objectives, such as greater equality of income distribution, or a required geographical distribution of benefits, etc. should have been impressed beforehand upon those asked to prepare a



development programme. It should then have been the task of those preparing the development programme to prepare the best programme they could within the limits of the politically-set objectives - although they might also quite properly have pointed out the economic costs, if any, of those objectives. Thus, the fact that a development programme may be unacceptable politically to those in charge is not an argument at all against development programming; but where a development programme is in fact rejected for such reasons, this may reflect on the degree of co-operation between those preparing the programme and those responsible for government policies.

7. It is also perfectly proper for a Minister or Planning Board or Parliament to reject or modify a development programme because they prefer to trust their own economic judgement or "hunch" over the judgement or "hunches" of those preparing the programme. They may do so either because they distrust the data on which the development programme has been prepared, or because they distrust the use made of these data. This is also perfectly proper. Ministers or members of parliament and others with trained judgement and knowledge of the conditions and requirements of their own country are perfectly qualified to question or to set aside proposals arrived at by a process of development programming. It is a duty of those preparing a development programme to admit where their data are weak, and to make explicit the judgements which they have made. Even if a development programme is set aside or modified because those in charge follow their own judgement rather than the results of a process of reasoning and calculation in a development programme, this does not show that development programming was unnecessary. Reasonable people reconsider their judgement if they find that it conflicts with the results of reasoning by honest and competent people, doing the best they can with the data at their disposal. The result of such reconsideration may be, of course, that the original judgement is maintained; or that the original judgement is abandoned in the direction of the development programme; or that out of the clash between the judgement of those responsible for final decisions and those preparing

the programme there will emerge something else that is a combination of the two. In neither case can it be said that development programming was unnecessary. Even if the development programme does no more than confirm what might have emerged from general knowledge and general judgement, it may still be that the added confidence given by the coincidence of results will enable the Government to make firmer commitments than would otherwise have been the case.

8. It may also be that a development programme is rejected or modified by those in charge because they distrust the quality of the people working on the development programme, and their capacity to draw an efficient programme. In that case, it would naturally have been better not to draw up a programme in the first place. The request to a certain group of people to prepare a development programme must be assumed to imply a certain degree of confidence in their ability. Where there is no such confidence, obviously what is required is to train or bring in people, from inside or outside the country, who are sufficiently trusted to prepare a programme which would be taken seriously when submitted. It is also possible that politicians in charge may wish for reasons of their own to go through the motions of preparing a development programme, simply because it may be popular or fashionable, without having any intention of taking the results seriously. This does not show that development programming is unnecessary. It does show that it may be misused.

9. A development programme may also be rejected because those responsible feel, rightly or wrongly, that the programme submitted is not a genuine development programme, but merely the result of some kind of compromise of the various Departments and other interests involved. This directs our attention to the importance of administrative arrangements which are necessary for the emergence of a genuine development programme.

10. It is obvious from the foregoing that the relationship between those responsible for preparing a development programme and those responsible for making decisions about it is of crucial importance for the success of the operation.

(2) Conditions "too simple"?

11. The second objection was that development programming is unnecessary because the problems of African countries are "too simple". This is not a good argument. It is largely based on a confusion. It is true that in many respects the present economic structure of African countries looks comparatively simple: there are large numbers of subsistence farmers operating individual farms or living in village or tribal communities at present outside the money economy; a money economy based on export of a very few primary commodities; the number of industries represented is small, perhaps some food processing, textiles, handicrafts, perhaps brewing, perhaps a cement plant; within each industry, there are probably only very few plants; the transport network is rudimentary-- one or two railway lines and a few major all-weather roads, probably radiating from the capital, etc.. But the fact that the present structure of African countries may be superficially simple and easily described has nothing to do with the simplicity or complexity of the economic problems which face them. In some ways, it could even be maintained that it is the highly developed countries rather than the African countries where the problems are too simple to require development programming.<sup>4/</sup> Their problems is continued progress within a broadly satisfactory framework, and a highly developed mechanism of prices and markets linking the activities of large numbers of trained individuals may be presupposed to deal with the problems involved in a broadly satisfactory manner. Compared with this, the problems of African countries is highly complex: not progress within an established framework, but a change of the framework itself. In particular, the great problem of most African countries and territories is the creation of a unified

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<sup>4/</sup> "The reconstruction of the European economies was easier to analyze than the pattern of growth of the under-developed countries of Asia and Latin America". H.B. Chenery, "Development Policies and Programmes", U.N. Economic Commission for Latin America, Bulletin, March 1958, p.59.

national monetary economy --the widening of the market from individual family or village to the nation. There are no market prices to provide much guidance; nor is there much previous experience of, e.g. the impact of government expenditure on education or roads on total production. The responses of people, especially of private businessmen or farmers, to money and other incentives are less well-known and less easily foreseen than in the more developed countries. Capital in African countries is so scarce that it is much more vital to utilize any process or technique which may increase the efficiency or the volume of the total possible investment. In developed countries, "waste" of capital is much less fatal, and in any case the meaning of "waste" of capital is rather doubtful in affluent societies. Thus, in a general sense, it is submitted that there is no case for believing that development programming is less necessary in Africa because things are so "simple".

12. What is true is that often not enough actual projects have been prepared or thought about in African countries to involve a complicated or agonizing choice. But this is a reflection on the state of development programming rather than a reflection on its value. Development programming is a method of choice among many possible actions or combinations of actions. Where it is not possible to prepare for consideration a sufficient number of possible lines of action worked out in the necessary concrete detail, it is obvious that the usefulness of a development programme is impaired. Where this is not due to an absolute shortage of technical staff, it may be due to administrative inefficiency; the Ministry of Agriculture, for instance, in spite of sufficient staffing, may never have troubled to develop plans, beyond its routine activities, for the development of the agricultural sector of the economy, including projects for possible irrigation or drainage, for supporting farm prices or for agricultural extension work, marketing developments, seed improvements etc.. Where that is the case, in fact, the decision to draw up a development programme may be useful in prodding insufficiently active government departments into action in preparing

possible plans of developmental action within their field.

(3) Lack of data?

13. The third doubt arose from the lack of information, and especially of statistical data. Does not this lack make development programming unnecessary or dangerous? Good information is certainly, the life-blood of a good development programme, and much - not all - of the information required is quantitative in form. What is the present structure of the economy - how much consumption, investment, savings, etc. in agriculture, industry etc.? What are the recent trends in the economy? How will additional incomes be spent or saved or invested? What are the costs and benefits of given development projects? What will be the impact of a programme on the balance of payments? What will be the total requirements in terms of bricks or steel or skilled people or transport or water - or development programmers? Answers to such questions are of the essence in development programming. But even the person who uses "plain judgement" in determining the future pattern of investment and expenditure, or decides on a series of economic measures for his country, gives answers to such questions whether he knows it or not. Some answer to these questions is necessarily assumed in whatever course of action is decided upon. It is better to guess the answer to these questions deliberately, using whatever scraps of information may be available, to expose the results to the light of criticism and to make them stand as a challenge for improvement in statistics, instead of burying the presumed answers in the cloudy recesses of somebody's mind.

14. It is even worse to leave these questions unanswered and simply determine on a pattern of measures and expenditures which could only be right on the infinitesimal chance of hitting upon the right pattern by accident or inspiration. In actual fact, there is not even that infinitesimal chance, because the answers to these questions which would have to emerge to make the pattern right would normally be mutually inconsistent. Surely the better approach is to "rely on

figures and hunch rather than upon hunch alone, even when the figures are themselves partly based on hunch".<sup>5/</sup>

15. The advantages of putting in quantitative form even answers which are more based on "hunch" and judgement than on reliable data are as follows:

(a) By setting out the "empty economic boxes" which it is essential to fill with information, a spur and guidance is given to statistical improvements.

(b) By setting out these data in quantitative form, their mutual consistency can be tested.

(c) Informed criticism and discussion of the programme is facilitated.

(d) In preparing such quantitative data, whatever partial or scrappy information is available can be most effectively utilized, although great care and caution is indicated in the use of partial information.

16. It may be added that what is said about quantitative information would apply even to transactions which are almost by definition unknown because they do not pass through any market, such as subsistence production on farms or rural investment in kind.

17. The need to make quantitative guesses or assumptions concerning such transactions is a spur to undertaking the kind of sample studies or social inquiries which are essential for a knowledge of the nature of the economy and of the incentives which move people into action.

18. In no case does programming in any way add to the obstacles towards effective policy formulation created by absence of data. It has been well said that a lack of adequate data "is a limitation to any form of analysis and does not handicap a systematic approach to programming any more than any unsystematic one."<sup>6/</sup>

<sup>5/</sup> W.A.Lewis, "The Theory of Economic Growth"; London 1955, pp.389-390.

<sup>6/</sup> H.B. Chenery, op.cit., p.61.

19. The danger for those drawing up development programmes is that they may become prisoners of their own guesses, i.e. having once put the best figure down they may assume that this figure is a fact, when it may only be a guess. It is very important to replace the original guesses by better guesses and finally by facts, as more information becomes available. It should also be remembered that it is not the ultimate test of a good development programme that the data contained in it should be accurate; nor even that the change in data and the path of economic development should be accurately forecast in it. Rather, the test of a good development programme is that it should lead to measures which make growth more rapid, and make total investment more efficient, than would otherwise have been the case. A development programme may very well operate with doubtful data and doubtful projections, and yet it may serve to produce the kind of investment 'package' which is superior to the sum of investments which would have emerged from a case-by-case or departmentalized approach. Or it may serve its purpose by putting its finger on exactly the kind of measures most needed to increase production. No one would call a development programme "inefficient" because the measures suggested in it have turned out to be successful beyond expectation!

#### C. External Fluctuations

20. Another possible doubt as to whether development programming is possible or desirable arises from the fact that all African economies are strongly of the type of "open dependent economies", i.e. export proceeds - usually dominated by one or two products - form a high percentage of their domestic monetary incomes, or even of their total domestic incomes. Moreover, agricultural production in general, subject to unpredictable changes due to weather etc., is an important part of national incomes. It follows that total resources available may fluctuate heavily from year to year, and in a manner difficult to predict.

21. This certainly creates difficulties for development programming and it also calls for special adjustments in the techniques of programming which this meeting might well discuss. For instance, it may be that there should be a basic programme founded on the assumption of moderately unfavourable price developments in world markets and a supplementary programme in the event of more favourable prices; variability of total available resources may also call for greater flexibility a more frequent adjustment and possibly shorter duration of development programmes. Many African countries have found ways of stabilizing their national expenditure to some extent in spite of fluctuations in world prices, by such measures as Marketing Boards, sliding scales of taxation, compensatory stock-piling or accumulation of buffer funds etc.. To discuss the economic substance of such stabilization policies would carry us beyond the techniques of development programming. But such policies are bound to influence the techniques of development programming at the same time as they make the task easier by smoothing out the fluctuations in available resources.

#### D. 'Programming' and Programmes

22. It will be noted that this paper has so far dealt with the desirability of development programming rather than the desirability of having a development programme. The two are not quite the same thing. Development programming as a process is something that may be considered as an indispensable precondition of efficient policy formulation. Whether or not the results of this policy should be brought together in one single programme or plan is a separate matter. However, it is rare for a programme or plan not to be produced and published. The production of a single document embodying the results of development programming has a number of advantages:

(a) It is of great value to agencies rendering or considering assistance to a country to have in front of them a picture of the sum total of the kind of policies which the government proposes to follow



and of the results which it hopes for, or expects. This applies to private foreign investors as well as to national or international public agencies. It has already been mentioned that, historically, in a number of African countries and territories the first long-range plans were prepared in connexion with grants under the British Colonial Welfare and Development system. The same is true in the French dependent territories or formerly dependent territories, where external assistance provided by FIDES (Fonds d'Investissement pour le Développement Economique et Social) and CCFOM (Caisse Centrale de la France d'Outre-Mer), has led to the formulation of four-year development plans. In general, assistance under the Marshall Plan to western Europe through OEEC led to the formulation of development programmes for the overseas territories in Africa. Similarly, the principles recommended by FAO for agricultural surplus disposal recommend that the use of local currency receipts arising from such transactions be linked to development programmes, primarily in less-developed areas. Moreover, in several cases missions from the International Bank have suggested or helped to establish the outline of a development programme. There is no doubt that a country's chances of attracting foreign resources are increased by the existence of plausible and realistic programmes providing evidence that a government knows what it wants to do and why it is doing it.

(b) Equally - and perhaps more important - it is of great importance to domestic investors, particularly to private businessmen, to know and to understand what the government is willing to do to help them in, or alternatively to discourage them from, certain courses of action. In under-developed countries, individual acts of investment are often much less profitable than the shortage of capital might suggest, because of lack of transport, power, repair and maintenance facilities, skilled labour, technicians, knowledge of markets etc.. The very fact that a potential investor is informed about what is likely to happen in the next few years in all these respects, how the incomes of his

potential customers are likely to increase, and what other supplementary enterprises may be started during the period, makes it that much likelier that he will take the risk, and also that his investment will be of the right kind when he decides to risk it. This naturally presumes that the development programme is expected by the private business community to be actually carried out. If a government has successfully carried out one or two previous development programmes, this may sharply increase the expectation that it means business and knows what it is doing.

(c) The publication of the results of development programming in the form of a development programme also seems appropriate to the democratic system of government. People have a right to know the picture which the government has formed and the aims which it hopes to achieve, as well as the measures by which it hopes to achieve them. In a democracy, also, the government does not consider itself as the sole repository of wisdom, and it is right that it should expose its intentions and objectives to the test of public debate and criticism. In fact, informed debate around a development programme is more fruitful and healthier than controversies around personalities or ephemeral events. The case for development programming without a development programme seems no stronger than the case for budgeting without the publication of annual budget.

23. The above advantages apply to the publication of the development programme when the time is ripe. This does not mean that it is a good thing to publish development programmes which have not yet been approved or which may still be subject to major revision. Premature publication might easily confuse public opinion, or create public positions for or against certain 'targets' or policies which could distort the ultimate programme.

CHAPTER II. Formulation of a Development Programme

24. For the provisional discussion in Section I, it was sufficient to use the rough-and-ready definition of a development programme contained in the initial quotation from a budget speech. It is now necessary to define a development programme more precisely and to indicate its essential elements. A development programme is an analysis which provides a basis for designing and carrying out a development policy by reference to objective criteria and for testing its implications against those of alternative policies.<sup>1/</sup>

25. The essential components of a development programme are the following:

- (a) A statement of the general aims and objectives of the government.
- (b) A statement of more precise and quantitative targets.
- (c) A statement of the structure of the economy, recent trends and broad lines of development.
- (d) Balance-sheets and tests of feasibility.
- (e) A public expenditure programme.
- (f) Details on major projects.
- (g) Explanation of policies and measures by which the government proposes to achieve its aims.

A. General Aims and Objectives

26. The central objective of any development programme is to promote "development". But this is not sufficiently precise. "Development"

<sup>1/</sup> This definition combines elements from H.B.Chenery, "Development Policies and Programmes", Economic Bulletin for Latin America, March 1958, U.N.Economic Commission for Latin America, and J.Tinbergen "On the Theory of Economic Policy", 1952.

means many things to many men. It is necessary in a development programme to specify what lines of development the government has in mind. Among possible objectives - all of them of importance in Africa - are the following: to reduce mass poverty and malnutrition; to change over from a subsistence to a monetary economy; to achieve a higher degree of export diversification; to become less dependent upon fluctuating world markets; to promote exports; to increase production as rapidly as possible; to lay the foundations for future growth; to attract foreign capital; to encourage domestic investment; to increase consumption rapidly; to hold down consumption in order to increase investment; to industrialize; to encourage agriculture etc. It will be readily seen that these objectives are not all mutually consistent and may compete for limited resources. It is important to say what exactly the government has in mind. Otherwise, its policies and proposed projects cannot be properly understood.

27. As the government's general aims and objectives will often apply to a longer period than the development programme itself, it seems useful to specify which of the general objectives are expected to continue for a long time to come, and which determine the present programme but are expected to change with its execution.

28. The main objectives will largely determine the general priorities. In a good development programme, the general aims and objectives as well as the associated priorities should arise from an analysis of the present structure of the economy and the main weaknesses to be remedied. This is the main reason why it is here submitted that an analysis of the structure of the economy should be included in a development programme, designed more to bring out the main points of weaknesses than to provide a full description. Particularly when programming for a country in early stages of development, it may be most important to expand the development capacity by removing sources of weakness.

29. The general aims and objectives will not always be of a quantitative nature. For instance, among the objectives for many countries in Africa could be such things as changing the attitude of cattle owners so that their cattle might be considered as a productive investment rather than an accumulation of wealth; as an objective this is hardly capable of being expressed in quantitative terms (although its consequences in terms of increased production are). On the other hand, the objective of bringing more cultivable land under cultivation can be quantitatively expressed direct. Where a general objective is quantitatively expressed, it becomes a long-term target. A number of objectives are partly qualitative and partly quantitative, such as the "transition from a subsistence economy to a monetary economy". This is in itself qualitative but is capable of being expressed by a number of quantitative indicators.

30. The statement of general aims and objectives may well reflect the general economic philosophy of the government. For example, is it desired to produce a more equal income distribution or on the contrary, to encourage inequalities for the sake of incentives? Is it desired to lay the foundations for a long-term increase in production or to achieve immediate improvements in living conditions? Is it desired to enlarge or reduce direct government participation in production, etc.? It is good that a development programme should explain the general economic beliefs of the government so that proposals can be judged in their proper context.

#### B. Targets

##### (1) Overall targets

31. Such targets can be "overall" or "sectoral." Among overall targets, which are frequently included in development programmes, either singly or jointly, we find national-income targets, consumption or standard-of-living targets, investment targets, targets for total

employment or changes in employment structure, export and import targets. In many development programmes, one of these targets appears as the original target from which others may be derived. The choice of the original target will reflect the general priorities of the government. E.g., where the priority problem is to improve the balance-of-payments position, export and import targets will be primary; where the main concern is with the provision of employment, targets will be primary; where the main concern is with raising standards of living, consumption targets; where the main concern is to raise capital formation, investment targets; where the main concern is to industrialize, the change in employment structure away from agriculture and towards industry may be adopted as the primary targets. It is useful in a development programme to indicate the primary targets from which the others have been derived.

32. An overall target of this kind can be in the nature of a task to be set, or it can be in the nature of a trend to be projected. Where an analysis of recent progress under earlier programmes or a periodic survey of recent trends<sup>2/</sup> shows that satisfactory progress is being made, the target may simply be to continue this satisfactory rate of progress. It is even possible for a development programme to provide for a smaller rate of progress than has recently been observed; this will be the case where recent progress has been due to special circumstances which cannot be repeated, such as post-war reconstruction or specially favourable commodity prices. Normally, however, a development programme will provide a task, some kind of speeding-up in the trends recently observed.

33. Some people doubt the usefulness of aggregative income targets. It is certainly true that, broadly speaking, any country will try in its development programme to make the rate of increase in national income as high as possible. Hence, the target acquires the nature of a general goal. But most development programmes do, in fact, contain

<sup>2/</sup> See paragraph 68 below.

such targets, and the prevailing feeling is that this is useful in setting a task which will spur everybody concerned to great efforts to accomplish it, and that it also provides a test for the relative degree of success or failure of the development programme. Moreover, an over-ambitious target in projection of the speed of overall growth is much less harmful than wrong targets concerning the relation of different sectors to each other and wrong selection of projects. "A development programme can, therefore, serve its main function of guiding the direction of resource allocation even if it does not turn out to be a good forecast of the rate of growth."<sup>3/</sup>

34. In this connexion, it is also useful to bear in mind that the establishment of aggregative income targets is particularly difficult in African countries. Since economic development involves a structural change from subsistence to market economy, estimated increases in domestic product may be magnified as a result of incomplete coverage of non-monetary transactions. Such increases are also influenced by the methods of valuation adopted, particularly in respect to subsistence crops.

35. These observations have also a bearing on comparisons among countries. In fact, the practices adopted in dealing with the subsistence sector, as well as the relative price structure, vary from one African country to another. It may therefore be very misleading to judge various African countries' speed of development mainly by reference to the rates of increase of their national income or to set their aggregative income targets on the basis of other countries' "performance".

36. It is one of the great merits of the system of national income accounting to indicate that all the various overall targets so far mentioned are inter-related, and that they must, therefore, be made mutually consistent. Once a certain percentage increase in national income has been set as a goal, and made concrete in terms of specific

<sup>3/</sup> See H.B.Chenery, op.cit., p.76.

increases in output the investment target follows more or less directly from this. A certain part of the increase in national income may be obtained without investment e.g. by better utilization of existing capacities, or by getting farmers to practice better crop rotation, or by land reform, greater incentives, increasing skill, reducing waste, better repairs and maintenance etc.. It is one of the weaknesses of development programming generally, and one based on aggregative investment targets specifically, that it may concentrate the attention too much on tangible investment as the only method of raising incomes.

37. This danger is not necessarily inherent in this type of development programming and should be resolutely resisted. But when all is said and done the increase in national income will require a certain amount of new investment, partly public and partly private.

38. Once the volume of required investment has been calculated in relation to the increased income or output, a "capital/output ratio" follows. If this capital/output ratio is low, for instance less than 2:1, this may mean that the efficiency of new investment is great, or that a lot of investment has been concentrated in sectors which yield immediate output, or that much increase in output has been achieved by methods requiring little or no investment. A low capital/output ratio over a comparatively short period of four to five years, such as is covered by most development programmes, is not in itself evidence of a good development programme. The fact that investment has been concentrated on sectors resulting in much immediate output may be at the expense of creating difficulties later. The low capital/output ratio may also be due to specially favourable circumstances, such as the existence of unutilized capacity, perhaps as a result of previous investment programmes. Over the long run, however, say 10 years or certainly 20 years, a low capital/output ratio is evidence either of favourable conditions for progress in the economy or of good management, or perhaps of good luck (e.g. high export commodity prices).

39. A plausible capital/output ratio does provide some first test of the realism of investment targets. Where the capital/output ratio



is as low as 1:1 or even 1½:1, there is reason for a searching and skeptical examination of the estimates of investment requirements. Where the capital/output ratio is as high as 5:1 or 6:1, there is reason to search for cheaper and more effective capital-saving methods of development.

40. In many cases, however, the capital requirements to produce a given increase in output, are not really computed, but are derived from a preconceived capital/output ratio. In other words, the procedure is reversed: instead of deriving the capital/output ratio from the investment requirements, investment requirements are derived from a capital/output ratio.

41. The capital/output ratio can be obtained from the experience of other countries in similar conditions, or by rule-of-thumb (often a ratio of 3:1 or 4:1 is assumed)<sup>4/</sup>, or it is simply a matter of general judgement. Such a procedure is never safe. Capital/output ratios do show a certain measure of long-term stability in more-developed countries, but this does not provide a sufficient basis for assuming such a ratio in an under-developed country for a shorter period. In particular, it neglects the changing composition of investment as between more or less capital-intensive sectors as well as changes in the degree in which it is possible to increase production without investment. Moreover, capital/output ratios in African countries are influenced by wide variations in relative prices of "capital" and "output" from one country to another. Since practically all capital goods are imported and output consists mainly of raw materials, foodstuffs and manufactured consumer goods, the capital/output ratios are strongly influenced by Customs and general import policy as well as by the respective shares of high-priced and low-priced goods in the output. Moreover, as already pointed out, the estimated increases in domestic product reflect methods applied in dealing with the subsistence sector.

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<sup>4/</sup> Arthur Lewis "guesses" a rate of 4:1. Theory of Economic Growth, p. 397.

An overall capital/output ratio assumed by reference to experience in other countries cannot therefore be a substitute for real estimates of investment requirements. When this is not possible, however, estimates based on sectoral capital/output ratios derived from comparable conditions may be helpful in certain cases.

42. Once an estimate of investment requirements has been arrived at, an estimate of resources available for consumption follows. Consumption is equal to production minus investment, plus any import surplus. This last factor immediately directs attention to balance-of-payments targets. Total import requirements follow from the projected increase in consumption and from the projected investment requirements, as modified by any measures of import substitution, taxation, controls etc. which may be envisaged in the development programme.

43. Total exports depend on the foreseen state of world markets for the commodities concerned, and the expected actions of competitive countries, as modified by such specific measures of export promotion or discouragement as may be envisaged in the programme. The rise in income and investment requirements may also divert resources from export production to domestic use; this must be taken into account in setting realistic targets, but is often neglected.

44. It stands to reason that, where an import surplus is part of the inter-related overall targets, some picture must exist of how this import surplus can be financed. Where the import surplus cannot be financed, the programme must be modified or measures must be taken to prevent the import surplus. If not, the programme will be an "exercise in hope". <sup>5/</sup> Some countries hopefully plan for an import surplus even without immediately visible ways of financing it, in the hope that the rest of the world will not let the development programme fail for lack of the necessary foreign exchange. But this is obviously a risky assumption. Any development programme based on such an assumption must be considered as somewhat tentative.

5/A. Lewis "Theory of Economic Growth", page 389.

45. Where a development programme establishes overall targets for national income, consumption, investment (public and private), exports and imports, it is best to set out these targets in the form of at least an elementary national accounting system. In this way the internal consistency of the various targets can be tested, such as the assumed relationship between increase in income and increase in imports, the assumed ratio of investment, the extent to which increases in income are assumed to be "ploughed back" into investment, etc. <sup>6/</sup>.

46. In a development programme covering, say, five years, the overall targets could be set either for the five year period as a whole, or year-by-year. In economies in which resources fluctuate widely because of fluctuating prices for export commodities, excessive importance should not be attributed to year-by-year targets, particularly of exports and imports, but also of investment and national income.

47. Year-by-year targets for such national aggregates would perhaps be better regarded as mental exercises, and the value of their publication is somewhat doubtful. It is sometimes said that such year-by-year targets are necessary in order to provide a measure of progress and success in implementing the plan. Possibly, however, this purpose could be satisfied by expressing a general objective, e.g. to achieve within the first two years of the plan perhaps one-third of the increase in national income, within the first three years of the plan half of the increase, etc.. The doubt about the publication of annual aggregative targets of this kind does not, however, apply to public investment. In the case of public investment which by nature will be known to those drawing up the programme in much more detail and will be subject to annual budget procedures, it seems an essential element of a development programme to have a year-by-year projection or target for public investment drawn up and published.

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<sup>6/</sup> Also, in this way the consistency of the total development programme with total available resources can be tested. This is elaborated in Section (d) below "Balance-Sheets and Tests of Feasibility."

48. Nearly all development programmes which set overall targets for the growth of national income and of total investment provide for a higher rate of reinvestment of increases in income ("marginal rate of investment"), as compared with the previous rate of investment. This corresponds to a principle of development policy, i.e. that at low income levels it is difficult to save or increase savings out of present low incomes; but as incomes are increased, e.g. by increased productivity, it should be possible to plough back a higher share of the income into the productive capital of the country. It should be clearly understood that to "provide for" a higher marginal rate of investment may look satisfactory on paper but is meaningless unless accompanied by the corresponding measures and policies which will actually produce the desired higher marginal rate of investment. The desire to achieve a higher marginal rate of investment may also affect the allocation of investment as between different types and sectors, since the income arising from different kinds of investment is not equally capable of being "ploughed back" into new investment.

49. Where investment targets are set, it is important to specify whether the target relates to net investment, i.e. increase in total capital, or whether it relates to gross investment, including the maintenance and replacement of existing capital. It is also important to state whether necessary increases in stocks have been included. Development programmes sometimes fail to take into account that rising levels of incomes, and a spreading monetary economy, make it necessary to provide for larger stocks of commodities, and this can absorb significant resources. Both concepts, net investments and gross investment, are valid, but it is important to distinguish between them.

50. Finally, among the overall targets, we find employment targets. Estimates of national income are sometimes arrived at by taking first the expected increase in population of working ages, second an estimated degree of absorption of unemployed or under-employed persons, and third an estimate of an increase in productivity per person or manpower based

on past trends or on the estimated effect of proposed measures and policies. <sup>7/</sup>

51. Employment trends also provide a transition to sectoral targets. Employment targets often show the projected change in the distribution of employment as between agriculture and other occupations, particularly industry. As development proceeds, the normal rule is that the percentage of population employed in agriculture falls from perhaps as much as 90% to ultimately as low as 10%. Subject to certain qualifications the speed of economic development can be measured by the rate at which the relative share of agriculture in total employment falls. Since population increases all the time, the absolute number of people engaged in agriculture will normally continue to increase, at least in the underdeveloped countries. <sup>8/</sup> A development programme which provides for the maintenance of the absolute number of people engaged in agriculture, by transferring the whole increase in population into non-agricultural employment, would be an extremely ambitious development programme; it could only be maintained if the rate of investment were extremely high <sup>2/</sup> and the rate of productivity in agriculture increased extremely fast.

## (2) Sectoral targets

52. Apart from fully aggregative targets, development programmes normally include targets for the major sectors of economic activity. In countries where development plans have already been executed, subsequent plans may illustrate changes in priorities by comparing sectoral expenditures in earlier plans.

<sup>7/</sup> For instance, the Japanese approach to development programming is along these lines.

<sup>8/</sup> In more developed countries, where the population increases more slowly and agricultural productivity rises fast, even the absolute numbers in agriculture tend to decrease.

<sup>9/</sup> For the way in which productivity targets and investment targets can be derived from employment targets, see H.W.Singer, "The Mechanics of Economic Development", Indian Economic Review 1952; also "The Economics of Underdevelopment". Oxford University Press 1958, pp.381-399.

The relationships between the overall targets and the sectoral targets can be of two kinds : either the sectoral targets are derived from the overall targets (this is known as the "programming approach"); or the overall targets are built up from sectoral targets (the "sectoral approach"). The development from a "sectoral" approach to "programming" is clearly illustrated in the following statement relating to the British dependent territories in Africa:

"It is fair to say that most of the early drafts of the Development Plans were little more than a series of departmental estimates inflated above their normal level by anticipation of the receipt of extra-territorial aid. The plans eventually approved represented the result of a joint attempt to appraise - probably for the first time - the prospects and potentialities of each individual territory, and devise the most efficient allocation of the resources available for development. <sup>10/</sup>

53. The "programming approach" is theoretically superior, but it requires a considerable volume of information or assumptions. Once it has been determined that the aggregate per capita income could be increased by  $T\%$  in the course of the period covered by a development programme, that this increase would consist of a  $X\%$  increase in consumption and a  $Y\%$  increase in investment, and be accompanied by a  $Z\%$  increase in imports, then the composition of the increased flow of goods as between agriculture, industry, transport, power etc., can only be determined by measuring or assuming:

- a. The income elasticity of demand, i.e., the way in which the projected increase in aggregate incomes will result in a demand for various kinds of final goods. The changes in demand for different kinds of final goods can, of course be influenced by governmental measures contained in the development programme, such as taxation. One would also have to know something about the distribution of the additional incomes, since different income groups and different social groups will

<sup>10/</sup> Lord Hailey, "An African Survey", Revised 1956 Oxford, pp. 1336-1337.

have different consumption patterns.

- b. The input-output relations, i.e. what quantities of the various raw materials and intermediate goods are needed in order to produce the final bill of goods demanded as a result of the projected increase in income.
- c. The cost of production of both raw materials and final goods, since the demand for them will depend not only on incomes, but also on prices. The desirability of either importing or producing at home specified commodities also depends on relative costs.

54. By now it will be appreciated that the derivation of sectoral targets presupposes a fairly complete knowledge of the "economic map", including income elasticities of demand, price elasticities of demand, technological production functions, and cost structure of different industries. While there may be partial information available to serve as a guide, such as budget studies, industrial censuses, the results of tests on agricultural experimental stations, etc., it is not likely that the "programming approach" can be applied in the fully scientific sense in the earlier stages of development programming.

55. In practice, therefore, it is more the other way around. Instead of the overall targets serving as the basis for deriving sectoral targets, the sectoral targets serve as foundations for the overall targets. The latter then have mainly the function of determining the feasibility of the whole programme and determining the broad lines of government fiscal, monetary, trade and other policies.

56. In practice, therefore, development programming often starts with the individual sectors: what can be done in agriculture, industry, transport etc.? This procedure also makes it possible to take advantage of such advance planning as is done in the individual government departments. But it is an essential element of the process of development programming, that the programme should not be a simple addition of sectoral programmes and targets presented by the individual government

departments. This would be wrong for a number of reasons:

- a. The different departments would prepare their sectoral programmes with different vigour, and the result would, therefore, be "unbalanced."
- b. The different government departments would prepare their sectoral programmes on different underlying assumptions. For instance, one government department may assume that there will be no foreign exchange bottleneck and imported materials will be freely available, while another department proceeds on the assumption of foreign exchange stringency. It is clear that the addition of two such heterogeneous pieces is not likely to make a good programme.
- c. The addition of the various programmes would only by accident be consistent with the available resources. It may either leave resources unemployed; more probably, it may exceed the available resources and result in losses or inflation; or, most probably, it may create intolerable scarcities of certain bottleneck resources, while leaving others unutilized.
- d. Sectoral programmes simply added together would not be properly related to each other. For instance, the road building programme would not provide the roads required to carry to market the additional produce provided for in the agricultural programme; or else it might provide roads to the wrong place, or the wrong kind of roads.

57. From the foregoing, it is obvious that, just as the pure "programming approach" presupposes greater knowledge of the "economic map" than the under-developed countries - or indeed most other countries - even possibly possess, so the pure "sectoral approach" is obviously wasteful and needs modification. In practice, therefore, the relationship between sectoral targets and overall targets is bound to be a mutual one. Development programming essentially consists of a process of a mutual adjustment, back and forth, of sectoral and overall targets



to each other. This procedure by "trial and error" is typical of development programming; it finds its administrative reflection in frequent exchanges between those concerned in individual government departments with individual sectors, and those concerned with the "picture as a whole". A development programme without constant contacts between those at the centre and those in the individual departments cannot possibly be a good development programme; nor can it be so unless there is genuine give-and-take on both sides all the time.<sup>11/</sup>

58. All the time, it is important to remember the difference between targets in the public sector and targets in the private sector. The former are the direct responsibility of the government, and should therefore be in the nature of firm undertakings, subject only to the normal revisions of the development programme.<sup>12/</sup> Targets in the private sector are no more than what the government expects to happen; or would like to happen or will try to make happen by its economic policies. Private targets state the assumptions on which the government proceeds in framing its public expenditure programme and the other measures and policies contained in the development programme. But they cannot be put forward with the same firmness as public targets, since government measures to influence private actions - encouragement or discouragement - are never quite certain in effect, and the achievement of these private targets will depend on the responses of individuals and business units. Moreover, in so far as

<sup>11/</sup> This process of trial and error, of "back and forth" between sectoral targets and aggregative targets is very similar in principle to the 'simplex' technique in linear programming and the theory of games; and this has created interest among those concerned with development programming in these more elaborate mathematical methods. It is not believed, however, that such methods are immediately relevant to African countries at the moment and it is not expected that the meeting will go into this. Hence they are not included in the present paper.

<sup>12/</sup> See below, Section E.

the individuals or business units concerned may be foreign investors, their responses are not easily influenced by the government. For all these reasons, targets in the private sector cannot be held with the same firmness as public targets.

59. Among the public sectors, the more social sectors, such as health and education, are in a special class. A number of recent investigations in more advanced countries have pointed, with great unanimity, to the conclusion that of the total increase in productivity per man hour only a minor part has been due to the increased input of capital and natural resources per worker; the major part has been due to an increase in output per unit of capital and natural resources used as well as per unit of labour. This strongly points to the importance of "human investment" as a factor in increasing output. However, the relationship between expenditure on health and education on the one hand and the resulting output on the other hand is rather different from that, say, between bricks and buildings. In the first place, better health and better education are by themselves desirable development objectives, even if they do not contribute to output; this is not the case with bricks. Secondly, the relationship between health and education and output is usually more remote and unpredictable than the relationship between bricks and buildings. Thirdly, the relationship is not technological but a matter of general economic and social analysis; no input-output tables exist to describe this relationship, and experience elsewhere is not much help.

In the fourth place, there usually is no market demand as a guide to the volume of education and health services required, as there is with buildings. For all these reasons, targets for health and education expenditure are normally treated as "autonomous targets", i.e. they are fixed without much reference to either aggregative targets or to sectoral targets, but more in accordance with what a country "can afford", or what it "needs". The possible guide-lines are the percentages either of total national income or of total public expenditure directed into various types of

health and education programmes.<sup>13/</sup>

60. The more "social requirements" in connexion with specific projects - housing for workers and managers, schools, hospitals etc. - are much more easily calculated than total social expenditure and form part of the true project costs. Experience has shown that a project may founder as easily for lack of proper social provisions and incentives as for technical or economic reasons. This is particularly true of major projects which involve the development of a previously unsettled or thinly settled region. In such cases, the distinction between the "social" infrastructure and the "economic" installations required can become rather thin, and both are more or less equally quantifiable as part of the input requirements for achieving certain increases in output.

(3) Individual targets

61. Below the sectoral targets, there may be output targets for individual major commodities, such as the main kinds of cereals, main export articles, main industrial materials such as cotton, textiles, shoes, cement etc.. Opinion is divided as to whether individual output targets are useful, particularly in the private sector. In the case of Sierra Leone, for instance, it has been pointed out that in the development plan for Sierra Leone published in 1949 output targets were laid down for palm kernels, palm oil, - - - kola nuts, piassava, ginger, cocoa, coffee, benniseed and groundnuts; in the case of coffee the target was vastly exceeded, while in the case of the other commodities the target was not reached, or not maintained. This was said to "illustrate the dangers of setting targets for production and export in a changing economy."

<sup>13/</sup> The best known study is by Arthur Lewis and Alison Martin: "Patterns of Public Revenue and Expenditure", Manchester School, Sept, 1956. Arthur Lewis has also recommended as a rule of thumb that 0.75-1% of the national income should be spent on agricultural research and extension (Theory of Economic Growth p. 188); and 1-2% on community development (ibid., p. 395).

Moreover, the setting of targets tends to introduce an element of rigidity into planning policy which may obstruct the forces which make for the natural growth of the economy"<sup>14/</sup>. As against this view, others hold that the setting of detailed output targets is necessary in order to provide guidance to private investors, explain the nature of government investment and other policies, and to give concrete meaning to the more aggregative targets.

62. Targets can be put forward in different forms. The simplest is in physical terms: tons of cereals or cement, square yards of cotton cloth, number of pairs of shoes, miles of new roads, number of technicians to be trained etc.. These are physical units of output. Targets can also be in physical units of input: area to be planted with certain crops, amount of water to be supplied to farms, number of people to be employed in certain occupations, etc. Where targets are in terms of input, the final result will obviously depend on productivity: yield per acre of land, use made of water supplied, productivity of people employed etc.. Where the final output is the result of unpredictable weather conditions, as for instance in dry farming, it may be preferable to have targets in terms of input rather than of output, since the latter depends on uncontrollable factors. In agriculture, output targets are often put forward on the assumption of normal weather conditions, and should be read as subject to a margin of error. Finally, targets may be in terms of value: value of output (£ X millions worth of shoes and textiles) or value of input (£ X million worth of investment to be devoted

to the production of shoes or textiles). Where targets are in value terms, they are based on certain assumptions concerning prices; such targets can be distorted (or spuriously attained) as a result of subsequent price changes. It is important to translate such targets and their implementation into real terms, "at constant prices". In the same way, original investment or expenditure targets may change in real content with subsequent price changes. Where money receipts

<sup>14/</sup> Professor D.E. Jack, "Economic Survey of Sierra Leone," p.73.

matter more than the physical content, as may, for instance, be the case with export proceeds, targets are rightly given in value terms. Even in this case, however, the real meaning of given export proceeds may change if the price of imports, or "terms of trade" change subsequently.

(4) Regional targets

63. Targets relating specifically to geographical districts and areas smaller than the entire country or territory may be needed in many cases. In the first place, a number of projects, such as hydroelectric schemes, mines or the development of a special agricultural crop can for technical reasons be carried out at certain places only. This, in turn, may determine the geographical location of complementary investments. Furthermore, economic reasons often cause certain investments to have different productivity in different areas. This applies not only to specific investments at a specific point but also more generally to classes of investments or even all investments in an area of some size. For example, industrial investments tend to have higher returns when made in an area which is already developed to a certain degree than in virgin territory where no or very few basic facilities are available, or again they are more profitable in an area where the population has more purchasing power than when they are carried out away from the prospective markets. A development programme may therefore contain pointers to the most productive location of direct investments.

64. Secondly, transport programmes, which are important elements of any development plan, can only be based on a clear and explicit idea about the geographical distribution of present and future economic activity. For this reason too, a regional breakdown of the overall programme is required.

65. Finally, a government may wish for social and political reasons to develop a backward area. In this case, the government wants to make a special effort for a certain region by directing towards it investments which otherwise would have tended to go to other areas with expected higher returns. The economic choice faced by the government in

this question is between higher yields in the short run, and broadening the base for advancement of the country as a whole and thus improving the prospects in the long run.

66. In addition to the arguments mentioned above, a regional break-down of the development programme is necessary to involve the local governments in its implementation. In general it is advisable to draw into the formulation as well as the implementation of a programme as broad groups of the population as possible: this is considerably helped if planning and execution can be brought to the local level <sup>15/</sup>. At any rate, the analysis preceding the formulation of a development programme cannot be confined to the economy as a whole but should deal with its various geographical areas.

#### C. Structure of the Economy and General Lines of Development

67. Reference has already been made to the usefulness of presenting as part of the development programme, or in connexion with it, a picture of the general structure of the economy and its current trends. This is particularly desirable for countries drawing up their first development programme, and generally for new countries. But even otherwise, the presentation of a picture of the economy and its broad trends in the recent past, and as pictured in the development programme, is still desirable for the following reasons:

- a. A description of the structure of the economy, preferably in the form of a national accounting system, indicates the presently available resources, and the use at present made of them: national income in the various sectors, rates of private savings in its various forms, tax and other public revenue and its disposition, rates of public and private capital formation and its various forms, foreign exchange earnings and their uses. These are the indispensable basis

<sup>15/</sup> For the advantages of decentralization, see paragraph 136 et seq.

for forming a picture of the proper magnitude and directions of a development effort.

- b. A projection of recent trends, modified by predictable changes in them, indicates what is likely to happen in the absence of specific new development efforts and government measures. This provides a basis for judging whether the objectives and targets are realistic, and whether the government measures and policies proposed seem adequate to attain them.
- c. The period selected for a development programme is not a self-contained isolated segment of time: it is part of a continuous process in the economic growth, or at any rate in the economic history, of the country concerned. This is true even in a simple-technical sense: at the beginning of the period covered by the development programmes, there will be unfinished business left over from the previous period, in the form of unfinished projects, finished projects which still wait for their complementary investment or utilization, and in the form of unsolved economic problems. Similarly, any development programme, even if successfully attained, will hand over to the subsequent period unfinished business, again in the form of projects to be completed and new problems created by the successful solution of old problems. Thus a development programme can only be understood as a result of what happened before, and as a foundation for what is intended to follow.
- d. A picture of the expected broad changes in the economy under the impact of the development programme helps to understand the purposes and priorities of the programme. The most important part of such a broad picture in African countries would be the relations between agriculture and the rest of the economy, and within agriculture the relation between subsistence production and production for a market.

68. It has already been mentioned that the presentation of such a picture of the economy may either be part of the development programme, or it may be separately presented in connexion with it. The practice of different countries varies in this respect. It depends largely on the institutions and administrative arrangements within each country. Some countries publish an annual or other periodic economic survey in addition to the development programme. In other countries, a speech or statement by the Prime Minister or Chairman of the Planning Board in introducing the development programme may serve as an occasion for presenting such a picture. In other countries again this may be done each year in connexion with the budget speech by the finance Minister. The form in which this is done seems less important than that it should be done, and that it should be properly integrated with the development programme.

#### D. Balance-Sheets And Feasibility Tests

69. A development programme should be able to stand up to a number of tests. To perform these tests is an essential part of development programming. The degree of detail and precision with which these tests are carried out must depend on the nature and precision of information available. How far these tests should be actually included in the published development programme is a different matter. In certain circumstances, where the information is weak, there may be good reason to confine the necessary calculations and discussions to the internal working level. But everybody responsible for framing or carrying out a development programme should satisfy himself that the programme stands up to these tests.

##### (1) Overall feasibility

70. The first such test relates to the overall feasibility of the programme as a whole. The claims of the developmental effort, added to other claims, must not exceed the resources that can be made available during the planning period. For performing this test, some elementary



national income framework is almost indispensable. In the total picture, development investment, public and private, takes its place as a source of demand on the national resources alongside of private consumption, government consumption (the maintenance of normal governmental services, etc), non-developmental investment of all kinds (building of public monuments, building of conspicuous mansions by private persons, or the hoarding of goods or gold), exports necessary to pay for imports, rebuilding foreign exchange reserves, repaying debts etc.. All these things have to be done either out of current production, imports or running down domestic stocks, or out of an import surplus which in turn has to be covered by foreign investment, foreign aid or running down foreign exchange reserves. It will be seen that even in an elementary test quite a number of economic factors have to be considered. Moreover, these factors are interrelated so that a change in one also causes changes in the others. It is in the essence of development programming that these factors should, in fact, be looked at as an interrelated whole.

71. In more concrete terms, if the development programme on a first test seems to be excessive in relation to total available resources, one of the following things will have to be done: private consumption will have to be cut, either by promoting savings or by taxation; or normal government consumption will have to be cut: perhaps defence expenditure, or the number of civil servants, will have to be reduced; or non-developmental investment, public or private, will have to be reduced; or foreign exchange reserves will have to be drawn down, or foreign investment will have to be attracted; or foreign aid will have to be invoked. Some examination of such possibilities is essential in programming, until the development programme meets the test of overall feasibility.

72. This process of cutting down other claims, in order to make room for the development programme, cannot be mechanical. For instance, if private incomes are cut by taxation, there is a danger that private

savings and private developmental investment may be adversely affected; or the increase in taxation may deter foreign investment. It stands to reason that to reduce government consumption at the expense of endangering law and order, or of lowering the standards of general administration in an effort to "promote development" may turn out to be a self-defeating process. The persons performing the tests of feasibility must obviously be well versed in economic analysis and must be familiar with the conditions of their country.

73. A development programme should not, of course, be considered excessive merely because it exceeds the resources available before the start of the development programme. If the development programme includes effective measures to make more resources available, or to bring idle resources (perhaps under-employed manpower), into operation, these resources are also "available" for the purpose of deciding the proper size of the development programme.

74. However, the experts differ on the advisability of "putting pressure on resources".<sup>16/</sup> All are agreed that a grossly excessive development programme is liable to produce harmful inflation and a foreign exchange crisis, and is more likely to set back development than to promote it. But there is a possibility that a development programme slightly in excess of immediately available resources, by the pressure of demand, will give an incentive to make resources available, either by increasing production or by transferring resources from consumption etc.. However, all are agreed that such possibilities of expanding output by increasing the pressure of demand are less present in under-developed countries than in developed countries, particularly in depressions,

<sup>16/</sup> For a fuller treatment of this subject, see H.W. Singer, "Deficit Financing of Public Capital Formation", Social and Economic Studies, University College of the West Indies, Jamaica, Sept. 1958. Paper presented to the Study Conference on Economic Development in Under-developed Countries, held in Jamaica, 1957.

where only pressure of demand is lacking to produce a corresponding supply. All are agreed that the question of a development programme in excess of immediately available resources should be gingerly approached. This question becomes particularly important for countries in which export proceeds fluctuate widely, and where, therefore, available resources may unpredictably be reduced from one year to another; this is the case of many African countries.

75. What happens if a development programme fails this test of overall feasibility, if it proves to be in excess of available resources? One of three things:

a. Either the available resources must be increased by new measures, such as greater incentives for domestic production or attraction of foreign investment or foreign aid; normally, however, we must assume that all possible measures to increase available resources will in any case already have been taken.

b. The development programme must be cut down. This is a delicate process. The danger is that the development programme will be cut down mechanically across the board, each department being slashed by, say, 10%. Or else the process of cutting down may reflect the bargaining strength of the different departments, or the political importance of the Minister concerned. All this creates a danger that even an originally well-balanced and effective development programme may become unbalanced and less effective in the process of cutting down. The only thing to do is to start afresh and draw up an entirely new development programme requiring smaller resources. A new balance has to be sought - that is what is meant by "trial and error". In practice, however, with a limited supply of persons qualified to formulate development programmes, the temptation is to look for short-cuts, to stick to the

original programme, and to cut it down mechanically. But that is not the way to a good development programme.

c. If it is not possible to prepare an entirely fresh smaller development programme in the light of more limited resources, perhaps the best solution is to stretch the period of time.

If the development programme was originally drawn up for four years, but exceeds available resources during the four years by, say, 20%, then presumably the programme could be covered by resources available during the next five years.

Thus by adjusting the period over which the objective is to be achieved realistically to available resources, it may be possible to preserve the original development programme.

This may be desired because the original programme is assumed to be the best possible programme, or perhaps because it reflects a delicate balance between competing claims which cannot be upset, or because there is not the staff or the time to start again and formulate a new programme.

76. The feasibility test of overall resources, or of foreign exchange resources, cannot be limited to the public expenditure programme. It is obvious that the claims on capital or on foreign exchange in respect of public projects form only part of the total picture. Many a development plan has foundered because the demand by private enterprise for resources or foreign exchange had been wrongly estimated. Nor is it merely a matter of just forming a picture of private claims on resources; it is even more a question of devising the measures and policies that make the claims of private enterprise on resources add up to the desired amount, and within this total claim giving priority to the most productive and most desired types of private investment within the framework of the development objectives. This is at the same time one of the most important and one of the most difficult parts of a development programme.

How to get reasonable advance information on private plans? In a way, the more successful the public expenditure programme is in creating the "infrastructure" or pre-conditions for more profitable private investment, the greater the danger that the foreseen balance of total resources, or of total foreign exchange resources, will be upset by unforeseen large private claims. This, of course, can hardly be called a "failure" of the development programme, since one of its main purposes is precisely to create the pre-conditions for more effective investment, but it does require a revision of the programme since the strain on total resources or on foreign exchange resources must be relieved in one way or another.

(2) Foreign exchange feasibility.

77. The second test, after that of overall feasibility, must be the balance of payments test - the test of foreign exchange resources. These two tests are closely related. Strictly speaking, if unlimited foreign exchange resources were available, a development programme could not be excessive in the overall sense (although there may still be specific bottlenecks which would in practice limit the size of a feasible development programme). If the overall development programme is excessive, the strain will be felt most of all in the balance of payments. The development programme will raise the demand for imports; it will divert resources away from exports; prices will rise which makes exports more expensive and imports comparatively cheaper. As long as the balance of payments can stand this strain, the development programme can proceed; for its inflationary pressure can be kept in bounds. But in most of the countries and territories of Africa there can be no question of unlimited foreign exchange resources. Some countries, it is true, have accumulated considerable foreign exchange reserves and currency reserves, which could be partially utilized for financing development programmes; but other countries have hardly any foreign exchange except what they earn by exports, and have considerable external commitments to honour. In practice, balance-

of payments considerations set a definite limit to the size of feasible development programmes.

78. The foreign exchange budget - the "balance of payments" - is an essential test to which development programmes must be submitted. A foreign exchange budget must take into account:

- a. The present state of the balance of payments and of foreign exchange reserves. If the present foreign exchange reserves are too small for comfort, or if there is reason to anticipate weakness in the main export articles over the years ahead, this calls for particular caution. If there are ample reserves to begin with and good export prospects for the years ahead, the programme can be to that extent bolder.<sup>17/</sup>
- b. The additional direct demand for imports arising from the public and private investment which is part of the development programme. The danger in development programming is that the demand for imports arising from private investment may be neglected. This is one of the reasons why it is dangerous to confine a development programme to a public investment programme, without at the same time picturing the additional private investment which the public investment is intended to stimulate or support. Additional investment creates a direct demand for imports because a very high percentage - in many African countries virtually all - of the capital goods required in investment, such as machinery, transport equipment etc., have to be imported.

<sup>17/</sup> For a fuller treatment of this problem, and a demonstration that the building up of foreign exchange reserves can be a desirable objective of development programmes, see Sir Donald MacDougall, "Bold or Cautious?", Social and Economic Studies, University College of the West Indies, Jamaica, Sept. 1958. Paper presented to the Study Conference on Economic Development in Under-developed Countries, held in Jamaica, 1957.

- c. The indirect additional demand for imports arising from the increase in incomes due to successful development:  
As people's incomes increase their demand will increase generally, but more specifically in the direction of manufactured goods which may have to be imported, and higher quality goods generally (including higher quality food), which may shift demand away from lower quality domestic produce. A failure to take into account indirect import demand arising from higher incomes has often led in the past to difficulties with development programmes.
- d. The additional demand for imports arising from a transformation of a subsistence economy into a money economy, from the spreading of education and knowledge of the world in general, and from increasing economic contacts: All this is an essential part of the process of development, particularly in Africa; but at the same time it has a "demonstration effect", in the sense that a demand for imported products which may previously have been unknown may spread quite rapidly.
- e. Additional demand for imports arising from the fact that a higher level of economic activity generally requires larger stocks of goods and larger imports of raw materials and semi-finished goods: When a new textile factory is constructed, not only must there be foreign exchange for importing looms and spindles; not only have the newly employed textile workers a demand for imported goods; the new factories also need imported cotton and possibly imported fuel in order to operate, and stocks of cotton and of repair and spare parts have to be built up. These additional import items are also often neglected in development programmes, to their detriment.

f. Additional demand for imports may arise from the generally inflationary impact of a development programme. By raising domestic prices, imports now become relatively cheaper; this, unless counteracted, will shift demand away from home production to imports.

79. As against this additional demand for imports arising from various sources, there is to be set in a development programme the reduction in the demand for imports, arising from the fact that a number of the development projects will be designed to produce commodities which were previously imported. This will certainly be the case, particularly since wherever the commodity is imported the market for that commodity already exists, and, therefore, domestic production is much less risky than in the case of a commodity for which the market has still to be created. (This argument assumes that the domestic import substitute is accepted by the population as a genuine substitute in quality for the imported article). The degree in which the development programme provides for the production of commodities which were previously imported, may either be "natural" in the first trial programme, or it may already be increased by balance of payments considerations. If it is known that there is a balance of payments problem, the balance of payments effect of projects will be considered even in the first trial programme, and some priority will be given to production which saves foreign exchange. Be that as it may, the development programme will contain projects which save foreign exchange, and this has to be set against the expected increases in imports. In the stage of development in which African countries find themselves, such import substitution will apply particularly to food, including processed food, textiles, shoes and similar products of lighter industries which tend to be the first to be introduced. But this offset will rarely be sufficient to compensate fully for the increase in imports involved in the development programme.



80. The effect of a development programme on exports works both ways. A development programme will provide for new lines of production which will be partially or wholly exported, e.g. mineral development. A development programme will also provide for an increase in the production of established export commodities, or for improved quality or further processing, both of which should raise their export values. On the other hand, the increase in production and rising incomes projected in a development programme may divert resources away from the export sector. The general inflationary impact of the development programme may also discourage exports by raising domestic costs of production. These contradictory trends will have to be taken into account. At the same time, in view of the rise in imports almost inevitably associated with the development programme, even the original development programme is likely to contain specific measures directed towards export promotion.

81. It is essential to break down the export target into individual forecasts, at least for the major export commodities. In doing this, some general analysis of the world market prospects of the major commodities is essential. It is also important to be aware of the corresponding export plans of other countries which export the same product or a close substitute. It would obviously be useful for the different African countries to have some common picture of the world market prospects for their major exports commodities, and also to have some medium of informing each other of their plans concerning the production and export of the various primary commodities in which they compete. This is a matter which may merit further consideration.

82. In determining the export targets for individual commodities, those preparing a development programme would also have to form an opinion of the relative scope, for the various export commodities, for increasing exports by reducing cost of production or by improving quality. Such cost studies would also have to bear in mind at all time the corresponding cost development of major competitors. A development programme may well express a natural desire to get away from the dominant

one or two export commodities, and develop secondary exports, in order to diversify and reduce the risks attached to fluctuations in world markets. But this natural desire may be offset by the result of the market and cost studies; these may point in the direction of even greater emphasis on the main export commodity.

83. Apart from export and import of commodities, the balance of payments test of a development programme must also make allowance for non-commodity items in the balance of payments. As exports and imports increase, associated costs of transport and insurance will increase. Increased foreign investments in the past, as well as foreign loans received in the past, will be reflected in higher outgoings of foreign exchange, in order to provide for payment of interest, dividends and repayment of capital. Such service payments are often unduly neglected in the balance-of-payments tests of development programmes, but they can be very important, and their neglect is dangerous.

84. Against the projected foreign exchange requirements can be set the expected net inflow of capital. Although some elements of this may be known (e.g. agreements concerning war reparations, negotiations concerning public loans or private investments in an advanced stage, etc.), the forecast must be largely speculative. It is important that, although speculative, forecasts of capital inflow should not become over-sanguine, an "exercise in hope." It is also important that outflow of capital should not be neglected, such as repayment on account of previous investments and loans received.

85. What happens if a development programme does not pass the foreign exchange test, i.e. if the original programme turns out to be not feasible because of foreign exchange difficulties? Several possibilities exist:

- a. The programme may be cut down and made less ambitious until the foreign exchange picture comes out right. This, however, may mean sacrificing internal growth to foreign exchange requirements.
- b. The government may take measures to restrict imports; this in turn can be done by import taxation, revenue duties on imported articles, import quotas, rationing of the consumption of imported articles, licensing etc.. The choice of method must be a matter of separate and detailed consideration.
- c. The development programme may be revised so as to give greater emphasis to import substitution. This in turn can be done either by a general priority for import saving projects or by the use of "accounting prices" <sup>18/</sup> for foreign exchange. This latter procedure means that each unit of foreign exchange saved by import substitution, e.g. each £ or each US\$, is counted in terms of domestic currency not at the official exchange rate, but at a higher rate. When the cost and benefits of individual projects are calculated <sup>19/</sup>, this would automatically raise the benefits of import-saving projects, and should lead to the inclusion of additional import-saving projects in the development programme.
- d. Export promotion may be more strongly emphasized in the revised development programme. This again can be done either by general priority, or by use of an "accounting price" which gives higher value to each unit of foreign exchange earned by exports. General measures of export

<sup>18/</sup> J. Tinbergen, "The Design of Development", International Bank for Reconstruction and Development, Baltimore, 1958.

<sup>19/</sup> See Section F below.

promotion can be taken by exports subsidies, reduction of export taxes, supplies of needed items to export industries at reduced prices (free or reduced seeds, fertilizers or insecticides to farmers producing export crops), preferential credit facilities for exporters etc..

- e. Finally, the currency of the country may be devalued. This would make all imports dearer and hence act like a general import tariff; it would also make all exports cheaper and hence act like a general export subsidy. It is, however, by no means certain that such a measure would actually improve the balance of payments; it should, therefore, be resorted to only after detailed studies concerning the price elasticity of exports and imports. Moreover, currency devaluation is a weighty measure not easily resorted to, and also subject to some limitations under the rules of the International Monetary Fund. At any rate, a number of the African countries with close links with larger monetary zones and without a central banking system could not easily resort to this measure. For practical purposes, therefore, we may leave currency depreciation aside as an instrument in development programming.

86. The main response will be an attempt to promote additional exports on the one hand, and to intensify import substitution on the other hand. But here we are immediately faced with a serious obstacle - typical of the "vicious circles" that beset development programming in under-developed countries. Additional import saving projects may save imports in the long run, but the more immediate effect would be to increase the need for foreign exchange, in order to import the equipment and materials required for the import saving projects. Similarly, an export promoting project may earn foreign exchange in the long run, but more immediately it will use up foreign exchange, in the form of imported capital goods and materials. In practice, therefore,

a foreign exchange bottleneck will enforce the substitution of foreign exchange earning or foreign-exchange saving projects for other projects, rather than the formulation of additional projects. Thus, the whole development programme will have to be reconsidered.

87. The question of the foreign-exchange test of feasibility has been dealt with in this paper at some length, partly because it can be used as an illustration of the kind of problems which will also arise with other tests of feasibility as well and partly because it is in practice of crucial importance for the "open dependent economies" of Africa. What Professor Chenery has said in his study for the Economic Commission for Latin America could be equally true in Africa; "In my opinion, the solution to the problem of import substitution is at once the most important and the most difficult aspect of development programming .... Of the choices made in setting up an investment programme, that between exports and domestic production is both the most difficult analytically and the most important, since it determines the future pattern of development." <sup>20/</sup>

### (3) Capital shortage feasibility

88. A third limitation general to African countries, apart from total resources and foreign-exchange resources, is a specific shortage of capital in relation to unskilled labour, and in many parts of Africa also in relation to land. The shortage of capital also requires specific adjustments in the techniques of development programming. As in the case of foreign exchange, the use of actual market prices in calculating the costs and benefits of development projects may not lead to the most desirable result. The rate of interest charged in African countries is not necessarily a true reflection of the scarcity of capital; nor

20/ "Development Policies and Programmes", op. cit. The first quotation is from page 67, the second from page 72.

need actual wage rates reflect the abundance of unskilled labour, at present unemployed or employed at exceedingly low or zero marginal productivity. <sup>21/</sup> Here again, the use of "accounting prices" may be advisable, to reflect the true opportunity cost of capital and unskilled labour respectively. It will easily be seen that if a high "accounting rate of interest" is used—perhaps close to the capital/output ratio of 3:1 or 33%—and a low "accounting wage rate" is used—perhaps close to zero the result will be:

- a. More capital will be allocated to those sectors which use relatively little capital and relatively much unskilled labour.
- b. Within each sector, projects of a kind using relatively little capital and much unskilled labour will be more strongly emphasized.
- c. For each individual project, wherever there is a choice of different ways of executing the project, labour-intensive methods will get stronger emphasis as compared with capital-intensive methods.

89. The degree to which a development programme should be adjusted to scarce capital resources in this way is somewhat controversial. Some economists, for instance, maintain that a preference for labour-intensive technologies over capital-intensive technologies should not be carried too far, since it might land the under-developed countries into obsolete high-cost industries and shut them off from the essential learning process and from the stream of technical progress. <sup>22/</sup>

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<sup>21/</sup> W.A.Lewis, "Economic Development With Unlimited Supplies of Labour", Manchester School of Economics and Social Studies, May 1954.

<sup>22/</sup> This is a burning issue in the Indian development plans. The importance of the "learning process" is particularly emphasized by A.O. Hirschmann: "The Strategy of Economic Development", Yale University Press, 1958.

It is certainly true that in adjusting a development programme to the scarcity of capital in relation to unskilled labour it is important to remember that projects may last for a long time, and proceed in the light of the projected rather than the present resource picture. (It can now be seen why it is important to have linked with the development programme a picture of the broad pattern of future development). On the other hand, the shortage of capital should rightly direct the development programme into giving greater prominence to shorter-lived projects, with a more immediate contribution to output, over and above projects of very long-term duration, wherever there is a reasonable choice. The use of higher "accounting rates of interest" will do that automatically, by discounting future output more heavily.

90. While theoretically the "accounting wage rate" could be zero as long as there are unemployed to draw upon, in practice this will not be the case, because the unemployed farmer now employed in a development project will be removed from his food base, without any certainty that marketable food supplies from the countryside will increase, and he also expects and needs certain things additional to his previous consumption. Thus, in practice, the opportunity cost even of unskilled labour would hardly be zero. But it may be less than the current wage rate, which traditionally may be much higher than a farmer's income. It will be seen that these are rather complicated issues requiring careful economic analysis.

91. It should also be remembered that in many African countries skilled labour or even unskilled labour available for certain sectors or certain development regions may be as scarce as capital, or indeed scarcer. It is true that the bottleneck of skilled labour is in part identical with the foreign exchange bottleneck, in the sense that with abundant foreign exchange most skills can be imported. But the employment of expatriate skill, and the import of highly complicated equipment substituting for domestic skill are both extremely expensive. In practice, while foreign-exchange budgeting will in itself serve to change the pattern

of investment so that less capital (which is largely imported) will be used and more labour (which is domestic), this will not be enough. There will be need for further adjustment of the programme to take direct account of capital shortage in relation to unskilled labour, and possibly land.

#### (4) Food supply feasibility tests

92. Food supply - or more generally, agricultural output and productivity - are the object of another essential test of feasibility. The increase in industrial and other non-agricultural employment associated with a development programme requires increased food supplies from a relatively smaller number of people; it requires the development of agricultural raw materials; it requires the development of agricultural exports in order to pay for the capital goods and indirect additional imports required. Superimposed upon all this is the desire also to raise the standard of living of the agricultural population itself, which forms the majority of the total population in Africa, and will continue to do so for a considerable time to come. It will be seen that the combined need for higher agricultural productivity in a development programme can be very considerable; and it is essential to see whether the measures proposed in the development programme make such a rise in productivity possible: provision of agricultural extension - services, seeds, insecticides, fertilizers, better tools, irrigation, land tenure measures, agricultural credit etc.. The stipulated overall targets of rates of growth, the rate of industrialization, the export targets and the required increase in agricultural productivity are all related to each other in an interdependent consistent system.

23/ For a fuller description and numerical illustration of this relationship, see W.W.Singer, "The Mechanics of Economic Development", op.cit.



If agricultural productivity fails to rise to the required degree, the whole inter-related system will come crashing down. Failure to meet this test has been the rock against which many a development programme has foundered.

(5) Fiscal feasibility test

93. Fiscal feasibility is another important test. In determining the pattern of development expenditure, it must be realized that, as development proceeds, current expenditures tend to increase and an increasing portion of future revenue has to be earmarked to meet them. Significant additions to current expenditures may result from the completion of some of the development projects, especially in social and other not directly or immediately productive fields, which give rise to recurrent charges for their continued utilization and maintenance without bringing about a corresponding increase in revenue. The fiscal feasibility test lies precisely in checking the future availability of current revenue against the needs of growing current expenditures, account being taken of the expected need for budgetary savings. For instance, considerations of future fiscal feasibility necessitated pruning down of development expenditure on social services and other similar not directly revenue-producing services in many of the earlier Colonial development plans and the emphasis was shifted in favour of revenue producing projects. <sup>24/</sup>

(6) Other feasibility tests

94. Other tests of feasibility can be dealt with more briefly, not because they are less important, but because the principles used in applying these tests are the same. Any realistic development programme

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<sup>24/</sup> B.Niculescu: Colonial Planning: George Allen & Unwin Ltd., London, 1958.  
See Chapter 14, particularly p. 153 ff.

should include a comparison of total demand with available supplies for most or all of the following scarce factors: skilled manpower of different categories, particularly technicians, fuel and energy supplies generally, and specifically oil, coal, electric power; building capacity generally, and specifically railway capacity, lorry capacity, shipping tonnage; scarce machinery and equipment, such as repair facilities, port facilities, storage facilities, machine tools, bulldozers, tractors.

95. In each economy, there are specific scarcities to be added, but the foregoing list may serve as a general check-list. Strictly speaking, the normal price system may be relied upon to allocate these scarce essential items to the most urgent developmental uses, and to exclude less essential uses. In practice, however, this might result in a price increase for these essential items, which would be undesirable, both because of its general inflationary effects and because it would unduly increase the cost of essential development projects. In many cases, therefore, governments will wish to include in their development programmes measures to discourage or exclude less essential uses, and reserve such essential scarce items to essential uses. In deciding upon such measures, or indeed in deciding whether any measures will be necessary, it is indispensable to prepare a balance-sheet of the total demands for scarce commodities, as compared with estimated available supplies.

96. Such commodity balance sheets must be linked with an analysis of expected economic developments; only in this way can bottlenecks and shortages be identified in time to enable the right kind of measures to be taken, before irreparable harm has been done. This is one of the most important functions of development programmes.

97. The supply of staff trained to formulate development projects and programmes, and to execute them, might also be called a scarce commodity. It is certainly a proper test of feasibility for the development programme that it should not out-run the capacity of those in charge to implement the programme, and to administer the various projects. One method of economizing this scarce commodity is to shift as much as possible of the initiative

in development programming either to the private level or to the local level. If a country can be assured that there is vigorous private and local activity, e.g. through a vigorous community development movement, it is possible to that extent for the development programme to concentrate more on a smaller number of large-scale projects, without distorting the pattern of development. In the absence of private and local initiative, such concentration can be dangerous.

98. However, it is not usual to treat the problems arising from a scarcity of administrative and managerial personnel among the "commodity balances". It is more usual to deal with them apart from the formulation of development programmes, namely as problems of execution and administration. This practice is also followed in this paper.<sup>25/</sup>

#### E. Public Expenditure Programmes

99. Historically, development programming started from the need to formulate multi-annual public investment programmes. While development programming has become much more than a public investment programme, this remains an important part of it.

100. The first problem arising is one of definition. The development programme should set out the Government's intended development expenditure, together with other measures and policies and its picture of the economy as a whole. But what is "development expenditure"? The easy answer - and the traditional answer - is to identify "development expenditure" with capital expenditure. This, however, is not only wrong, but also misleading. It is wrong because not all capital expenditure is developmental, nor is all development expenditure capital. Expenditure on splendid public buildings is capital expenditure but not necessarily developmental, even though it may be included in the development programme. The salaries of agricultural extension workers are developmental, but they are recurrent expenditure, not

<sup>25/</sup> See chapter III below.

capital expenditure. The identification of development expenditure with capital expenditure is misleading because it draws development expenditure into the identification (in itself misleading) of recurrent expenditure with ordinary revenue, and of capital expenditure with borrowing.

101. The question of definition and classification of expenditure is important as a first step in drawing up a public expenditure programme, as an integral part of an economic development programme. The United Nations has organized regional "workshops" on the problems of economic and functional classifications of government transactions.<sup>26/</sup> Such schemes of classification cover the expenditure in the entire public sector and set it within the context of the economy as a whole. It helps to bring out more clearly the inter-relationships between the public and the private sector and, thus, develops information essential for development programming. At the same time, the economic and functional classifications provide a convenient basis for distinguishing development expenditure from other public expenditure.

102. Economic development programming sets the public expenditure programme within the context of the economy as a whole. In the first place, the proper way of financing the public expenditure depends on the financing of private investment, which in African countries is always an important and frequently the major part of total development investment. If private savings plus inflow of private foreign capital are insufficient to finance private development investment without undue recourse to inflation, the public expenditure programme (even that part of it which is capital expenditure "below the line") may have to be financed out of ordinary revenue, and the Government may

26/ A Workshop on Problems of Budget Reclassification and Management in the African Region has recently been held in Addis Ababa (See Report E/CN14/117 - BRW.1/11Rev. 1.).

have to make public revenue available to private investors. On the other hand, if private savings plus inflow of foreign capital should be amply sufficient to cover private development investment needs - not a very likely case - the public expenditure programme, even part of the current expenditure, can be safely covered through various forms of borrowing or even creation of money. Development programming leads necessarily away from a purely "fiscal" view of financing public expenditure programmes towards a more "functional" view. But this does not mean that the old fiscal canons of finance have become useless and should be thrown on the scrap heap.

103. Secondly, development programming indicates that the benefits of public investment are not measured by the production directly arising in the public sector, and even less by the public revenue to which they give rise. Rather, they are measured by the total increase of production made possible as a result of public investment, whether this increase in production accrues in the private sector or the public sector. But again, this does not mean that the revenue producing character or otherwise of different public expenditure projects should be entirely disregarded. Far from it: the degree in which subsequent increases in output can be "ploughed back" into new investment is of great importance to the development programming approach, as we have already seen. <sup>27/</sup>

104. Thirdly, the financing of public and private investment must be seen as a whole. Private savings are considered to be available to finance public investment, if in the context of the development programme public investment deserves higher priority than the private investment which would otherwise be financed. Whether the private savings are transferred to the public sector by taxation, or by borrowing, or by

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<sup>27/</sup> See paragraph 48 above.

credit rationing to the private sector or by other means is a question of technique, not of principle. But the opposite is also true. If private development investment is deemed to have priority over public investment, the public savings (surplus of revenue over expenditure as well as the Government's access to external resources of public finance) should be made available to finance private development investment. This can be done by subsidizing private investment, or by setting up public credit institutions for private investors, or by reducing taxation; again, this is a matter of technique.

105. It will be noted that development programming is neutral as to what are proper spheres of public and private investment. That is a matter to be decided on other grounds. The technique of development programming is applicable whether the realm of public investment is widened, as a matter of philosophy or efficiency, or whether it is narrowed. Although it is commonly believed that development programming implies a bias in favour of public investment, this is not the case provided that those formulating the programmes beware of an elementary fallacy. It is a fact that public investment programmes can be drawn up with much more assurance, certainty and detail than private investment programmes, which are at best a guess of what large numbers of private persons are likely to do under such stimuli as the Government provides. In any case, those formulating the development programme are officials more closely in touch with government departments than with private investors. But it is a fallacy to conclude, that, because public investment is more easily predictable and more easily controlled by those formulating development programmes, public investment for that reason is more important to development than private investment. Thus put, the fallacy involved is evident, and development programming can be seen to be a neutral technique.

106. Incidentally, the danger pointed out in the preceding paragraph, i.e. that development programmers as officials may be over-familiar with public investment and therefore lean towards it, and under-familiar with private investment and therefore shy away from it, is a good reason for associating persons or groups representative of private investors as closely as possible with the process of preparing a development programme at all stages. It is also a reason for drawing the officials preparing a programme from backgrounds which give familiarity with private investment activities, as well as those of government departments. It is finally a reason for giving development programmes the greatest possible publicity and submitting them to wide public discussion, preferably before they are put into final shape. In all these ways, care can be taken to see that the neutrality of development programming as a technique is safeguarded.

107. Experience has shown that although public expenditure programmes are more easily foreseen than private investment programmes, nevertheless serious errors in forecasting can be made. Once a public expenditure programme has been drawn up, the speed with which it can be implemented is often over-estimated. This means that in the earlier stages of the expenditure programme, or of major projects, expenditure may well fall short of the original estimates, because the preparatory work needed has not been sufficiently taken into account. This may give the erroneous impression that the original expenditure programme was too modest, and may lead to the adoption of additional projects which cannot really be afforded. In the later stages, the situation is often reversed: expenditure exceeds the estimated amount. Frequently, the original estimates were drawn up under rather ideal assumptions regarding efficiency of execution; provision for contingencies may have been insufficient; prices may have risen in the interval; certain features of the project may have been expanded compared with the original plans, etc.. At this stage, the danger is that unforeseen budget deficits may cause inflationary pressure as well as pressure on the balance of

payments. Alternatively, projects may be hastily cut down in order to avoid the deficit, to the detriment of the balance of the programme as a whole. Therefore accurate and realistic public expenditure estimates are very important in development programming.

108. Previous reference has already been made to an attempt to compare the public expenditure pattern of different countries, expressed as a percentage of national income, with a view to determining whether any general rules or frames of reference could be found concerning the distribution of public expenditure of countries at different stages of development and in different economic circumstances. <sup>28/</sup>

#### F. Individual projects

109. It is obviously necessary in a development programme to come down to concrete projects. A development programme without individual projects would float in the air. While there can be no development programme without projects, it should be emphasized again that development programming is much more than a collection of projects.

110. In selecting projects, the technique of development programming leads to emphasis in the following directions;

- a. Projects are looked for which have a strong "impact effect" in utilizing otherwise unemployed resources. Examples of this are projects which utilize domestic materials which could not otherwise find a market; or projects which create the greatest possible volume of employment in countries where there is unemployed or under-employed labour of the right kind; or projects which utilize the unutilized capacity of already

<sup>28/</sup> W.A. Lewis and Alison Martin, "The Pattern of Public Revenue and Expenditure", op. cit.



existing transport, power or industrial plants. Such projects will be advanced in the scale of priority because the "accounting price" (opportunity costs) of the otherwise unemployed resources which they utilize would be counted as very low or even zero; alternatively, additional employment or utilization will be counted as an additional "indirect" benefit. In either case, such projects will appear more attractive as a result of applying the technique of development programming.

Community development is, in this connexion, a typical example. It comprises, as a rule, a collection of projects carried out within a rural community with the unused and often abundant resources of that community. It furnishes stimuli to what is often called self-help and is based on the idea that many improvements, either to the social facilities or to the economic infrastructure of a village, which are not called for by the price mechanism because of the low income of the group nor carried out by the Central Government because of limited finances, can be carried out by the community itself through contributions in kind of available and unused resources such as labour and local materials. The proportion of total investment which takes the form of non-monetary rural investment is already more than negligible in a number of African countries. Experience has shown that it can be greatly increased by community development methods, using unpaid spare-time labour with a minimum claim on scarce materials and scarce foreign exchange. The labour-intensive methods used in community development work as well as the fact that the selection of projects is made by those directly due to benefit, are further advantages of this method. Moreover, the employment of farmers on rural improvements of their own choice in their own village does not remove them from their food base and therefore

minimizes the drain on food supplies. <sup>29/</sup> In addition, extension work and improvements in agricultural methods can be made more acceptable to farmers, and hence more effective. These advantages are so powerful that the possibilities of community development as a method of economic development have hardly been exhausted. "This is the best kind of planning". <sup>30/</sup>

- b. Projects which relieve a particular bottleneck or source of weakness in the economy: Such projects might be regarded as a special case of the type discussed under (a), but in practice they usually appear as a special category. Once the statement of general aims and objectives has been made, and the economic analysis has singled out specific problems or sources of weakness as being of over-riding importance, projects directly designed to deal with these will be advanced in the scale of priorities. To illustrate: if the chief problem is to transform a subsistence economy into a monetary economy, transport projects may acquire special priority. Where the chief problem is to improve the balance of payments, foreign exchange earning and foreign exchange saving projects will receive priority. Where the chief problem is to create a class of domestic business managers, the promotion of small or medium industries of a type suitable for giving experience in management will receive priority, or projects in which foreign knowledge and domestic enterprise are associated in the form of "joint venture". <sup>31/</sup>

<sup>29/</sup> See paragraph 92 above.

<sup>30/</sup> See Arthur Lewis: Theory of Economic Growth, p. 219.

<sup>31/</sup> In the Philippine five-year development programme, such considerations have been embodied in an actual formula which is used by the Philippine authorities in deciding upon the encouragement or discouragement of individual projects. The use of such a formula is, however, exceptional.

c. Projects which are related to other projects in a "complementary fashion", i.e. projects which mutually support each other and increase each other's efficiency: That is what is meant by saying that development programming tries to form "patterns" or "packages" of projects so that the sum total of the benefits of the "package" is greater than the benefits derived from the individual projects contained in the package, each project taken by itself. An obvious illustration would be the building of a road in a previously undeveloped region, the provision of irrigation facilities to farmers in the same region in order to grow crops to be marketed over the new road, and the establishment of a processing plant in the same area to process the additional production marketed over the new road. These three projects form a "package". Each project separately might be a bad project; together, they may be a very good investment. Some economists maintain that the investment "package" in an investment programme should in itself be "balanced", but the value of this prescript is doubted by others.

d. Projects which "diversify" the economy, i.e. which introduce or strengthen a line of production or economic activity previously not represented or under-represented in the economy: The argument for giving special consideration to such projects, other things being equal, runs along lines made familiar (in a more restricted sense) from the "infant industry argument" for tariff protection. The argument is that a new industry can be expected in course of time to become more and more efficient, as experience is gained. Therefore, if a project establishing a new industry or new technique is reasonably attractive on the basis of present costs and benefits, it can be assumed to be even more attractive if the expected future increase in efficiency is taken into account. Sometimes, diversification is put forward as an objective in itself, regardless of efficiency. The rational basis for this, apart from considerations of national prestige, is that a more diversified economy reduces risks, and offers more "growing points" for technical progress.

However, it is somewhat dangerous to give priority to a project merely because it is something new. Almost by definition, the risks in introducing something entirely new may be greater than the risks in building and developing what already exists. However, while for instance the desirability of substantial export diversification is a complex matter to be decided in the light of each individual case, there is no question but that the diversification of agricultural production for local consumption is almost always essential for nutritional reasons.

111. The preceding discussion, of course, does not exhaust the list of factors to be taken into account in selecting projects. In his Report on Industrialization and the Gold Coast, Accra, 1953, Prof. Lewis outlines some most effective criteria to determine which industries can best be developed locally. It is, however, obvious that a great deal of judgment and analysis is necessary on the part of development programmers.

112. In preparing and selecting projects for a development programme, a number of practical questions arise: Considering the shortage of trained people to prepare development projects, how far is it justifiable or possible to prepare and study a much larger number of projects than can actually be selected for the programme? Which is greater, the risk that manpower may be wasted in preparing projects, or the risk that those formulating development programmes have to accept projects prepared for them without knowing whether sufficient alternatives have been considered? What can be done to avoid undue priority being given to big, showy, spectacular projects as against the scattered, inconspicuous, yet possibly very important projects? Should those responsible for formulating a development programme play a direct part in the formulation of projects, should they leave this to people in the various government departments, or should there be a combination of the two?

Which is the best way for economists and technicians to co-operate in the formulation of development projects, and in measuring costs and benefits? How does one best ensure that those preparing development projects in one department are aware of related projects under study in other departments, so that proper "packages" can be formed? This list of questions is by no means exhaustive.

113. Another problem is how to ensure that a "project" is not defined in an unduly restrictive manner. A project does not necessarily result in a tangible concrete end-product. Although this paper follows the usual practice in using the term "project", perhaps it would be better to speak of an "activity" instead. Some economists maintain that development programmes tend to place too much emphasis on tangible capital formation and to neglect such activities as training, agricultural extension, industrial productivity advice, surveys, health work etc. — all activities which result in an increase in knowledge and efficiency, but not directly in tangible pieces of capital. If such a bias exists, it is not inherent in the technique of development programming. It is true that the benefits of human investment are often less tangible and difficult to measure. But development programming itself, with its emphasis on indirect benefits, opportunity costs and the interlinking of different activities should rather tend to reduce the handicap of human investment in competing for resources. Where expenditure is determined by a plain competition for available funds on the basis of individual projects, without any attempt at programming, it is to be feared that human investment will get even less than its due than under development programming.

114. There are situations in which one single project stands out as being of such great importance, and so obviously deserving priority, that the job of development programming is greatly simplified. In such cases, economists working on problems of development programming can render perhaps the best service in improving the project itself by examining its various aspects, costs and benefits. However, such a dominating priority project is likely to be a large-scale multi-purpose project, such as the

development of a river valley, or the development of an aluminium industry involving bauxite mining, hydro-electric power development, port development, etc., as well as smelters and other plants. Such dominating multi-purpose projects can be extremely complex. The relations among their various aspects may need the application of the techniques of development programming as much as the analysis of the national economy as a whole. In general, improvement of individual projects is usually left to the staff of the various departments and operating agencies, whereas those responsible for formulating development programmes concentrate more on the inter-relationship of different projects and priority directions. But no hard and fast rule can be laid down.

115. It is not easy to see how a good development programme can be formulated except by those who have an understanding also of the problems of preparing and evaluating individual projects, its difficulties and pitfalls.

#### G. Policies and Measures to Implement the Programme

116. The purpose of a development programme is not to produce an impressive or even an intellectually satisfactory document. The purpose is to get things done, to change things. Therefore, the means towards this end are as important as the end itself. If the means are not provided to implement the programme, the programme will remain on paper. (It is also true, however, that it is not possible to provide the proper means and policies without being quite clear about what actually it is hoped to achieve). While some people prefer to distinguish sharply between the formulation of a development programme on the one hand and its implementation on the other hand, it is perhaps preferable to think of the measures and policies to implement the programme as an integral part of the programme formulation itself.

117. Although it is necessary to show that the objectives of a development programme are capable of achievement, the specific policies and measures to be applied may not be published at the same time and in

the same document as the programme itself. The practice of different countries differs in this respect, depending also upon constitutional and legal requirements. For instance, tax measures may be announced in the budget speech whereas a development programme may be published at a different time of the year; it may not be considered wise to announce tax changes ahead of the budget date. Even then, it would seem desirable, wherever possible, for the development programme to indicate at least in broad outline, if not in detail, the type of measures and policies contemplated for its implementation. If the purpose of publishing a development programme is to guide individuals in their economic actions and to enlist their informed support, it is difficult to see how either of these two purposes can be fully achieved unless some indication of policies and measures is given. To bring such contemplated policies and measures together and relate them to the objectives of the development programme may also have the advantage that legislatures as well as individual citizens can see the proposed measures as part of a general design, rather than as isolated bolts from the blue.

118. The range of policy instruments at the disposal of governments is, of course, very large.<sup>32/</sup> There is little to be said in a general way. The choice of policy instruments will depend on the preferences, traditions and institutions of each particular country. The only general statement one can make is that in formulating a development programme no possible measure or policy should be excluded from consideration. For instance, in addition to the more usual "economic policies" such as fiscal policy, monetary policy, trade policy, credit policy etc., certainly matters like commercial law, banking legislation, land tenure legislation, property rights of foreigners etc. can be of great importance and should all be examined.

<sup>32/</sup> In the application of linear programming techniques, the number of policy instruments to be considered must, in fact, at least be equal to the number of objectives.

119. Perhaps one further general statement can be ventured, although perhaps not everybody would agree with it. Where the Government has a choice between measures which operate through normal market forces (e.g. taxes, interest rates, exchange rates, subsidies, wage rates etc.), and measures which involve quantitative regulation (rationing, licensing, prohibitions, quotas etc.), other things being reasonably equal, perhaps some preference should be given to the first type of measures. In carrying out a vigorous development programme the Government would in any case have its hands fully, and quantitative regulation imposes a greater strain on official manpower than changing of market data. However, in a number of specific circumstances the market mechanism is not well developed, and there are consequently areas where many believe that direct government action is preferable to working through the market.

120. Apart from studying the general economic effects of individual measures, such as tax changes or new commercial legislation, those formulating development programmes also have a special duty to study and advise on the co-ordination of the various policy measures taken by the Government. Is the pricing policy of public enterprises in line with fiscal policies, or other measures to encourage saving? Is a proposed new import duty in line with a policy of encouraging domestic industries by such measures as, e.g., the setting up of an industrial or trading estate? Is the policy of a marketing board in withholding certain portions of incomes from exporters at times of high prices compatible with the desire to raise agricultural productivity? These are the types of questions concerning the inter-relationship of the different measures taken by governments which should come under review in formulating a development programme.

### CHAPTER III. Implementation of Development Programmes

121. The term "development programming" or "development programme" is sometimes limited to the problems of formulation discussed in the



previous section. <sup>1/</sup> This paper does not follow that practice. Since the policies and measures necessary to translate a development programme into action have been included as an integral part of the programme itself, <sup>2/</sup> it seems logical to go one step further and include as part of the technique of development programming everything necessary to execute the programme. This seems to be more in line with the view taken in this paper that the purpose of programming is to improve things, and not just to formulate a "consistent" or satisfactory programme, which may, however, fail to be implemented, or may even be incapable of implementation.

122. Among the problems of implementing development programmes we may perhaps single out the following four:

- a. Continuity in development programming.
- b. Revision and keeping up to date of development programmes.
- c. Administrative location of the programming group.
- d. Co-ordination in carrying out the development programme.

These will now be taken up in turn.

#### A. Continuity in Development Programming

123. In democratic countries, parliamentary majorities change, governments change, circumstances change, and the views and objectives of people will change even in given circumstances. Hence, a development programme should never be immutable. And this is even more true of the

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<sup>1/</sup> This, for instance, is the definition used by Chenery, ECLA Bulletin, op. cit., p. 72. Chenery restricts the term programme to analysis, and calls anything to do with execution "development plan".

<sup>2/</sup> See paragraph 116 above.

short-term policies (usually annual) which are designed to achieve the aims of the development programme. On the other hand, there would be no sense in a programme which is changed and upset with every turn and twist of political power or public opinion. The problem then is to provide reasonable continuity. This is often described as "taking the Programme out of party politics".

124. There are various ways of doing this all of which have worked in various countries under different circumstances. A development programme can be taken out of politics by associating the opposition party or parties with the process of formulating the programme; this, of course, assumes widespread agreement on certain economic essentials, and a willingness to take joint responsibility on broad economic matters. Another approach is to leave the formulation and administration of a development programme largely in the hands of politically neutral permanent civil servants so that the machinery at least of development programming will be preserved even with changes in political power; this solution also has its limits since we have seen <sup>3/</sup> that the emphasis given to major political and social objectives must determine the nature of the programme itself. The execution of a development programme may be taken out of the hands of normal government departments, with their political control, and given to autonomous government corporations, with staff not subject to normal civil service rules, with long-term tenure and some degree of independence from political control; this may have other incidental advantages; but there are also disadvantages in creating, as it were, a separate machinery outside the normal machinery of government. There seems to be no patent solution or panacea.

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<sup>3/</sup> Chapter II, A above.

125. Continuity is perhaps best safeguarded if the group of officials executing the development programme establishes a high reputation for efficiency and impartiality, if it establishes good co-operation with the various government departments which formulate projects and carry out policies, if it is recognized by government departments as helping them with their jobs rather than obstructing them, and if the development programme is successful in marshalling enthusiasm and support from the general population and from the private sector. It is also important that the politically neutral character of development programming as a technique should be widely demonstrated so that development programming does not become identified with such temporary objectives as, for instance, nationalization or perhaps denationalization, tightening or perhaps dismantling of import controls etc..

#### B. Revision of Development Programmes

126. Here a distinction must be made between the development programme itself and the short-term policies necessary to execute it. Most development programmes are established for a certain number of years, and it is not anticipated that they will be changed, except for major changes in circumstances or shifts in political power. It has already been indicated that a certain amount of flexibility can be introduced into development programmes, without altering them directly, by changing the time period over which given objectives have to be achieved, for instance, if foreign exchange earnings drop as a result of unfavourable commodity prices, a five-year programme

may be extended to six years.<sup>4/</sup> Or a development programme may be in two parts, a "core" and a supplementary programme, the latter to be brought into operation under certain circumstances. The Second Development Plan of Ghana is on this basis. A special kind of "built-in revision" of a development programme may be mentioned: the development programme can be drawn up for a certain period say, five years; each year the past year is "sliced off" and another year added, so that in each year a programme for the five years ahead is formulated. This procedure, which is followed in Puerto Rico, has the advantage of bringing out the continuous character of the planning process, but it has the disadvantage of requiring a new programme to be formulated every year. This is only possible where there is sufficient staff and capable administration, and where there is considerable continuity of political and economic objectives, all of which is the case in Puerto Rico. Subject to such "built-in revision", however, the development programme itself is not usually meant to be revised. The formulation of a development programme is too great a task to be repeated at frequent intervals. Also, and perhaps more important, it would create confusion in the public mind, both in government departments and in private circles, to have radically changed guide-lines laid down at frequent intervals.

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The UN Working Party on Economic Development and Planning in Asia and the Far East, at its first session in 1955, considered "whether the planning agency should have alternative plans ready to meet likely changes in conditions and policies". However, after noting that in practice the countries of the region are producing one single programme, although leaving flexibility in execution, the Working Party advised that "considering the paucity of resources and also considering the importance of having a sustained policy underlying a plan, this preference for one steady yet progressive and elastic plan seems to be fully justified". (United Nations Economic Bulletin for Asia and the Far East, November 1955, p. 13). This conclusion would also seem to be applicable to African countries, where the paucity of staff and information for development programmes is at least as great as in Asia and the Far East.

127. The situation is, however, quite different if we think, not of the development programme itself, but of the short-term policies which are impressed upon all government departments as necessary for carrying out a development programme. In this case flexibility and constant review should obviously be the order of the day. Any good development programme should have provision for constant evaluation of the progress of the programme, of the way in which the various governmental and private sectors play their part within the programme, and of the effect of the different policy instruments used to produce the desired effect. In many countries the announcement of major new policy instruments and of new operating policies for the various government departments is traditionally associated with the annual budget, the annual budget speeches and budget debates. Hence, it would seem natural that the evaluation of the development programme should also be on an annual basis. <sup>5/</sup>

128. The necessity of constant evaluation and revision of short-term policies and the effectiveness of different policy instruments arises from the fact (emphasized in Chapter II above) that the various proposals and parts of a development programme form an inter-related whole. From this it follows that, if one sector of the development programme deviates from its role in the whole picture or if, for instance, a given measure calls forth a different response from the one originally pictured, this is bound to have an effect on the other components of the development programme and lead to corresponding adjustments there. Failure to make such adjustments would result in waste.

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<sup>5/</sup> This is the case, for instance, in India, where annual evaluation reports are prepared. There is some form of annual evaluation in almost all African countries, at least, of the progress of expenditure and the current state of implementation of projects.

Or, if adjustment is to be avoided, it is vitally important that any deviation in an important sector should be discovered as soon as possible, so that priorities can be changed and counteracting measures taken in order to preserve the balance of the programme and maintain its effectiveness.

129. This need for checking progress, for discovering deviations, for taking counter-measures or for adjusting the rest of the programme calls for high administrative efficiency and good co-ordination among all concerned. In fact, it seems almost certain that revision of short-term policies necessary for executing development programmes is the real test of whether the process of development programming is not in excess of the administrative capacities of the country concerned. The administrative problems in formulating a development programme are, by comparison, of a minor nature.

130. The revision of policies implementing a development programme depends fundamentally on a complete and frank exchange of information between those responsible for the programme as a whole, on the one hand, and officials in various operative departments and also private units and interests, on the other. In that sense, no development programme can be effective unless those in charge of it have their fingers "on the pulse" of the economy.

#### C. Administrative Location of the Programming Group

131. The programming functions must be concentrated in a competent group, located somewhere in the government machinery. It need hardly be pointed out that this has nothing to do with the merits or demerits of "centralized planning". The programming function must be undertaken in one place, but the execution of the plan can be as widely decentralized as desired; it can be left as much as desired to private and individual initiative; and even the formulation of the programme should draw upon a wide circle of groups and interests. The programming function must

be centralised only in the sense that it must be separated from other functions, such as general government administration, central banking, fiscal policy or the formulation of individual projects or departmental programmes.

132. Where no separate programming function is undertaken, a programme can only be formulated by a process of bargaining between the different departments and interests involved, or else by decisions at high political levels, e.g. by ad hoc cabinet decisions. Neither of these two possibilities is good administration or likely to result in a good programme.

133. The programming group can have different names: Planning (or Development) Commission, Bureau, Board, Staff, Secretariat, Department, Ministry etc.. It can be split, more or less clearly, into two levels: a secretariat or civil service level, on the one hand, and a decision-making or political level on the other. The decision-making level can either be a single Minister - Minister of Development, Minister of Planning, Minister of Finance etc.- or a group of Ministers or Cabinet Committee - usually all the Ministers particularly concerned with economic matters under the chairmanship either of the Prime Minister or the Minister of Finance or a special Minister of Planning (or Development) - or the Prime Minister himself or a separate Council or Board. In some countries, Members of Parliament or representatives of private groups or outstanding individuals may participate at the decision-making level. Finally, the programming group may be associated, in varying degrees, with the formulation of short-term policies to carry out the development programme, such as budget formulation or decisions on other economic measures. It will be seen even from this brief description that a great variety of administrative arrangements are possible. In some countries of Latin America and Asia, the Central Bank has traditionally played a considerable part in programme formulation. Its Research Department in such cases, in fact, serves as the programming group.

134. The formulation of a development programme has also technical aspects, and required activities where academic standards of objectivity are important, e.g. the collection of data, the development of priority criteria, the study of engineering and economic aspects of major projects etc.. For this reason, some countries find it useful to associate university institutes or other independent institutions with the formulation of programmes, at least in the initial stages, and also to associate eminent persons of experience from outside the government machinery, or possibly from outside the country, with the development programme.

135. The general spirit of development programming would seem to point in the direction of the staff work being under the direct guidance of a Cabinet Minister, and of the group being directly attached to the Prime Minister's Office. This arrangement would emphasize the neutral co-ordinating position of the programming group between the different departments and interests involved. The Cabinet member in direct charge of the group would make certain that the group is kept in touch with all such new political, social and economic objectives as would have a bearing on the development programme. But this suggestion must be open to many reservations, depending on the circumstances of different countries.

D. Co-ordination in Carrying out the Development Programme

136. Good co-ordination is the essence of good administration. It is also the essence of good development programming. Co-ordination is required at many different stage and at many different levels. Within the government machinery, co-ordination between the substantive departments and the programming group is required in the formulation of development programmes, as has been emphasized already.<sup>6/</sup>

<sup>6/</sup> See Chapter II B above.



Good co-ordination is necessary to provide constant checks upon the progress of the programme, and to discover deviations and bottlenecks at the earliest possible moment. Co-ordination is required to bring to the attention of the programming group any new information or change in data which may be relevant and lead to a revision of the programme. Co-ordination particularly needed in order to ensure that the various policy instruments by which the programme is executed are harmonized with each other, such as fiscal policy, monetary policy, trade policy, commercial legislation, price policies of public enterprise, policies of marketing boards etc.. Co-ordination is required when the various departments have to be brought together in concerted action, for instance in the development of a river valley. Co-ordination within the public domain has also to be extended to such government corporations and government enterprises as are outside the normal governmental routine. It has also to be extended to regional and local levels. As has been emphasized before, smooth-running and vigorous local government, properly co-ordinated with higher levels of administration, can take a terrific load off the programming machinery, and can correct any inherent bias towards centralization and mammoth projects.

137. Of perhaps even greater importance is co-ordination with private activities. Normally, the production of final commodities is almost entirely private. Even where investment is largely public, as is the case in most African countries, its ultimate purpose is to lay the foundation for subsequent private production. Where public investment in the production of final goods takes place, this is often in the nature of pioneer enterprise; the intention is to stimulate private enterprise and ultimately turn over to private enterprise. Often, co-ordination with private enterprise may usefully take the form of joint ventures. In other cases, public activity may take the form of market research, or training of workers or higher personnel, or provision of other specific requirements for private investors, such as factory buildings on public trading estates

or agricultural extension services or demonstration farms, etc.. Even the provision of normal public services depends for its efficiency on gauging correctly the response of private individuals or business units to the provision of such services.

138. Co-ordination with private activities is even more difficult for public servants to achieve than co-ordination within the government machinery. It can be powerfully aided if the programming group is in constant touch with private groups and private opinion. This can be done by adding to the staff of the programming group persons familiar with private activities, or by having private advisory groups attached to the programming unit, or by impressing the staff of the programming unit with the need for constant contact with private opinion. It is also possible to have individuals who are representative of private activities co-opted to the decision-making level of the programming machinery.<sup>1/</sup> Co-ordination can be formal or informal. In countries where there is a tradition of departmental co-ordination there is often no need to formalize the system. In other cases, however, formal arrangements for co-ordination may be absolutely necessary to break down departmental jealousies and stand-offishness; it may, in fact, have to be enforced from above in the initial stages.

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<sup>1/</sup> The Working Party on Economic Development and Planning for Asia and the Far East, in its previously quoted report, while in favour of "appointing some persons with experience of private industry as members of planning boards" advised against "the grant of representation on the planning authority to any particular group in society". This, the Working Party considered inappropriate because it would bind the planning authority to "allegiance to sectional interests". United Nations Economic Commission for Asia and the Far East, Bulletin, November 1955, p. 40.

This, of course, presupposes that there is co-ordination at the decision-making level. If the various departmental Ministers in the Cabinet are not able to co-operate properly, it is not likely that their civil servants can be persuaded to do so. A strong common civil service tradition and esprit de corps can be of great help in achieving co-ordination and is in fact one of the most essential prerequisites for an effective development policy.