UNITED NATIONS
AFRICAN INSTITUTE FOR ECONOMIC
DEVELOPMENT AND PLANNING

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Lecture 4

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DEVELOPMENT ECONOMICS

Fourth Lecture: Development and Planning Institutions

1. Relevance of Political Structure to Effectiveness of Development and Planning Institutions.

Parliamentary Democracy vs Presidential Democracy

Parliamentary Democracy

Judiciary — Prime Minister & Cabinet — Legislature

Non-separation of Executive and Legislative Powers

The Electoral Machinery throws up the Executive Personnel as well as the Legislators and cannot be trusted to furnish competent Heads of Ministries

This defect can to some extent be overcome by the establishment of Finance and Investment Institutions outside of the regular Civil Service in the form of corporations or boards on a semi-autonomous basis.

(case of British Commonwealth Africa)

Presidential Democracy

Judiciary — President & Cabinet — Legislature

Rigid Separation of Executive and Legislative Powers

The Electoral Machinery throws up only the President who has wide freedom in the choice of his Cabinet Ministers and is therefore in a better position to select a competent Cabinet

(case of U.A.R., Puerto Rico, etc.)

2. Models of Development and Planning Institutions

Puerto Rico

FOMENTO

- Planning Board (Capital Budget)
- Development Bank (Loans to industry, commerce, real estate, hotels, Economic Development Administration, and to the Government
- Economic Development Administration (Construction and lease of factories, preparation of industrial sites)

Sierra Leone (Proposed)

Prime Minister

Economic Adviser

- Institute for Social & Econ. Research (or, Planning Inst.)
- Ministry of Econ. & Social) Developm.
  - Developm. Secretary
    - Central Statistic. Office
    - National Plan Commission (Inspectorate)
    - Economic Planning Unit
    - Co-ordination of Economic Affairs among Ministries, Technical Assistance, Sources of External Funds for Development
- Ministry of Finance
- Ministry of Trade & Indust.
- Other Ministries
- Dev. Bank.
- Ind. Dev. Corp.

3. Personnel for Development and Planning Institutions

(a) Foreign Personnel
(b) Local Personnel trained abroad
(c) Training programmes (Planning Institute, Universities)

4. Criteria for Investment

General: (a) Choice of leading sectors promoting maximum growth (not always feasible)
(b) Choice of industries that contribute to growth, employment and training of local personnel (not always feasible; Cf. Hirschman's theory of Unbalanced Growth)

Specific: (a) Import displacement by domestic manufacture for home consumption
(b) Domestic manufacture for home consumption and for export
(c) Capital goods industries for the domestic market

5. Inducements to Foreign Investors

(a) Income Tax holidays (provided double taxation is avoided)
(b) Duty-free importation of plant, equipment, and raw materials, and exportation of local products
(c) Accelerated depreciation allowances
(d) Industrial sites and buildings for rent or lease for factories or commercial purposes
(e) Repatriation of capital and profits (subject to the state of the external balance of payments)
(f) Preferential tariff rates for imports from certain sources or markets.

6. Policy toward Foreign Investors

(a) Provision of infrastructure (roads, schools, telecommunications, hospitals, power, light, ports, railways, etc.)

(b) Encouragement through various specific inducements (Item 5)

(c) Non-nationalization of foreign enterprises (tax treaties and non-nationalization pacts lodged with U.N. or World Bank) or nationalization with fair compensation (determination of fair compensation with assistance of the World Bank)

(d) Participation by the state in private enterprise on a rigid or flexible percentage basis (sometimes state participation in lieu of, or as trustees for, local investors to whom shares held by the state would be sold eventually).

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<u>Note</u>: (i) Necessity for caution against general or indiscriminate state participation in foreign enterprise in order to avoid involvement in unsound private foreign ventures.

(ii) Need to avoid straining, overburdening, or unhealthy expansion of, civil service on ground of limited ability and capacity for engaging in industrial enterprises.

(iii) Participation by the state on a majority basis justified in the case of major mineral resources.

(e) Protection, on certain conditions, of certain industries, especially those based on local materials, or of an import-displacing nature.

<u>Note</u>: (i) Necessity for minimal policy of protection in order to avoid incompetence and inefficient production, and to safeguard the cost of living of consumers.

(ii) Compensation for loss of import revenue by the levy of sales tax on the local product.

(iii) Protection normally justified for decreasing cost industries or industries likely to fall into this category.

(f) Restriction on foreign enterprise in certain activities reserved for local business, e.g., retail merchandizing on grounds of:

(i) increasing employment of local people (e.g., women) and widening of local participation in import and retail trade, especially where previously dominated by foreign enterprise;

(ii) greater productivity of scarce foreign capital in other than service fields, e.g., in manufacturing industry.

(g) Import licensing as a tool of alteration in the composition of imports, both to encourage establishment of import-displacing industries and to alter the ratio of capital to consumer goods in favour of the former.

Diamond, William, <u>Development Banks</u> ((I.B.R.D.,
Boskey, Shirley, <u>Problems and Practices of Development Banks</u>. (Johns Hopkins (Press, Baltimore)