NATIONAL DEVELOPMENT PLANNING PROCESS*

BY

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Development planning, though rightly or otherwise has been generally accepted by many economists as the most direct and surest way to achieve economic growth and thereby, the economic development of a nation. Until very recently, very few in developing countries have questioned the rationale for the necessity to formulate and implement national development plans. As a result, it has become a norm for government ministries of developing countries to produce beautiful development plans every five years or so and this is often paraded with a great deal of publicity.

In essence, economic development planning is necessary and desirable if a nation aims to achieve the objectives of development by optimally using its limited resources. Economic planning may be described as the "conscious governmental effort to influence, direct and in some cases, even control changes in the principal economic variables (consumption, investment, savings, exports, imports etc.,) of a certain country or region over the course of time, in order to achieve a predetermined set of objectives". Basically, development planning can be said to be governmental influence, direction and control and the degree with which each of these aspects is applied depends to a great deal on the kind of political system that is prevalent within that particular nation.

Every nation has a given amount of resources - capital, human and natural, which is often limited in most developing countries. The objective of most nations is to achieve development and some of the national goals most often mentioned include:

- A rapid increase in per capital income;
- A high level of employment;
- A reduction of poverty and income inequalities;
- A diversified and self reliant economy;
- A favourable balance of payment situation and
- A relatively high stable price level of primary commodities.

The question then is how best to utilise the limited resources to achieve the objectives of development. Thus there is a dire need to have an overall comprehensive development plan and a development planning process whereby the scarce resources could be optimally used to achieve development objectives.

As mentioned earlier, the type of development planning process adopted by each nation will, to a large extent, depend on the kind of political system existing in that nation because the political system determines to a large extent the control and influence the government in power has over the resources available within the nation. Basically, there are three types of planning systems and these are:

(i) Planning in market economies;
(ii) Planning in centrally planned (command) economies;
(iii) Planning in mixed developing economies.

Planning in Market Economies

These are mainly private enterprise economies where a major portion of the resources are in the hands of the private sector. Here, the governments do play a vital, although relatively indirect role in the economic process. Development planning usually consists of the conscious effort by the government to attain rapid economic growth with high employment and stable prices through its various fiscal and monetary policies. The governments actively attempt to create conditions that will prevent economic instability while still stimulating economic growth. The private sector undertakes most of the development projects per se whilst the government plays an active but indirect role using policy instruments such as monetary, fiscal and foreign trade relations

(a) The small traditional subsistence sector consisting of smallholdings selling part of their produce to the local market;
(b) Small scale individual or family owned commercial business and service activities;
(c) Medium sized commercial enterprises in the fields of agriculture, industry, trade and transport which are owned and operated by local entrepreneurs;

(d) Large jointly owned or completely foreign owned enterprises which include plantation, manufacturing and mining companies which cater primarily to foreign markets but sometimes with substantial local sales. The capital for such enterprises usually comes from abroad but a significant proportion of their profits tend to be remitted overseas.

Under such an institutional setting, there are three principal components of development planning in mixed economies:

(a) Government economic policy including taxation, licensing, import quotas, wage and price policies, to stimulate, direct, and in some cases even control private economic activity in order to ensure a harmonious relationship between the wants of private businessmen and the overall social objectives of the national government;

(b) The government's utilisation of domestic savings and foreign finance to undertake public investment projects to provide physical and social infrastructure that will greatly contribute towards the realisation of long term economic objectives e.g. the construction of roads, railways, utilities and power projects, schools and hospitals;

(c) The government's undertaking of public enterprises including industries, plantations and other commercial activities such as transport and banking because of the failure of the private sector to undertake these activities or to achieve certain other national objectives and aspirations.

Rationale for planning in mixed economies

There are a number of arguments that are often used to rationalise the necessity to have development planning in developing countries which are characterised by mixed economies. Some of these arguments are:

(i) Market Failure Argument
The markets in developing countries are full of imperfections both in the structure and form of operation. The commodity and factor markets are poorly organised and the existence of 'distorted' prices results in the producers and consumers lacking the necessary information to carry out efficient production and distribution. Secondly, well organised capital markets based on the existence of specialised financial institutions performing a great variety of monetary functions (such as the channeling of private savings into loan markets to provide capital funds to finance investment projects) are either non-existent or poorly developed in most developing countries. Furthermore, the failure of the market to price factors of production correctly is further assumed to lead to gross disparities between social and private valuations of alternative investment projects. It is envisaged that without government interference, the inefficient market may lead to the misallocation of present and future resources or in the least, in a direction that may not be in the long run serve the social interest of the nation;

(ii) Resource Mobilisation and Allocation Argument
Developing countries cannot afford to waste their precious and limited financial and skilled manpower resources on unproductive ventures. Investment projects cannot be chosen based on only partial productivity analysis dictated by individual industrial capital/output ratios but rather in the context of an overall development plan which takes into account other factors such as external economies, indirect effects and long term objectives;

(iii) Attitudinal or Psychological Argument
It is assumed that a detailed statement of national economic and social objectives in the form of a specific development plan can have an important attitudinal and psychological impact on the population. It can, for example, rally the people behind the government in its efforts to say "eradicate poverty";

(iv) Foreign Aid Argument
It has often been stated that developing countries first started the preparation of development plans with specific sectoral output targets and carefully designed investment projects in order to obtain multilateral foreign aid especially the World Bank. At present, it is a prerequisite to have a detailed development plan to qualify for bilateral and multilateral aid and so certain cynics have said that the real reason why developing countries create development plans is to secure more foreign aid.

The Planning Process

Whilst there exist a wide range of development plans and planning techniques throughout the third world, there are some basic characteristics of 'comprehensive' development planning that are common to most countries. Profesor Tony Killick has listed the following six characteristics of a development plan as being representative:

1. Starting from the political views of goals of the government, planning attempts to define policy objectives, especially as they relate to the future developments of the economy;

2. A development plan sets out a strategy by means of which it is intended to achieve the objectives, which are normally translated into specific targets;

3. The plan attempts to present a centrally coordinated and internally consistent set of principles and policies, chosen as the optimal means of implementing the strategy and achieving the targets, and intended
to be used as a framework to guide subsequent
day-to-day decisions;

4. It comprehends the whole economy (hence it is
'comprehensive' as against 'Public Sector' planning);

5. In order to secure optimality and consistency, the
comprehensive plan employs a more-or-less formalised
macro-economic model which is employed to
project the intended future performance of the
economy;

6. A development plan typically covers a period of say,
five years and finds physical expression as a medium
term plan document, which may, however, incorpo-
rate a longer term perspective plan and be sup-
ported by annual plans.

Development Planning in Malaysia

Malaysia like most developing countries falls into the
category of mixed developing economies where a certain
portion of the productive resources are under the control
of the public sector while the remainder is privately
controlled. Thus there is a certain degree of direct involve-
ment in the actual development process by the government.
The government also attempts to involve the private
sector in national development through policy instruments
such as fiscal, monetary and foreign trade relations. The
latest attempt has been in the creation of the 'Malaysia
Incorporated' concept whereby the government is en-
couraging both the public and private sectors to work

The development planning process in Malaysia started
way back during the colonial era and has carried on up
to the present moment. However, the strategies of
planning and the emphasis has changed over time in
keeping with the changes that have occurred in the social,
political and economic environment within the country
and also globally. The periods where the development planning
strategies have changed can be classified as follows:-

(a) British colonial era
(b) Period after national independence in 1957
   (i) Period before the racial riots in 1969
   (ii) Period after the racial riots in 1969
       — Emergency period under the National
       Movement Council (Majlis Gerakan
       Negara), 1969—70
       — National Consultative Council

During the colonial era, the British policy towards the
indigenous and non-indigenous people was to divide and
rule and the emphasis of the economic plan was geared
towards the needs of the colonial power i.e., to serve as
a producer of raw materials for industries in Britain and
also be a market for their finished goods. Such a policy
resulted in poverty proliferation and imbalances among
the races and also regions.

The concept of developing and implementing 5-year
development plans started in Malaysia in 1956 and since
then we have implemented six development plans and are
currently in the middle of the seventh five-year develop-
ment plan. The 5-year development plans that have been
implemented and their emphasis are as follows:-

a) 1956-60 First Malaysia Plan — Provision of infrastruc-
ture
b) 1961-65 Second Malaysia Plan — and rural development
plan

c) 1966-70 First Malaysia Plan — Economic Growth
plan

d) 1971-75 Second Malaysia Plan — New Economic
Policy

e) 1976-80 Third Malaysia Plan — New Economic Policy
f) 1981-85 Fourth Malaysia Plan — New Economic Policy

During the first and second Malaysia plan periods, the
emphasis was on the provision of basic physical and
social infrastructure and rural development. This approach
was understandable for a new nation that had just achieved
independence and aiming to follow the lead of the more
developed countries. The First Malaysia Plan (1966-70),
in line with the theories of development prevalent at that
time, concentrated on achieving economic growth with
limited efforts to overcome problems of income distribu-
tion and racial and social imbalances. Although a high
per capita income growth rate was achieved during the
First Malaysia Plan (FMP) period, the problems of racial
imbalances and income distribution existed which cul-
minated with the occurrence of racial riots in May 1969.

As a result of this undesirable occurrence, the New
Economic Policy came into being in 1970 as a means of
overcoming the social, political and economic problems
of the nation and steering the nation towards a path of
development where all citizens irrespective of race could
benefit from the fruits of development. The objective of the
New Economic Policy (NEP) was to achieve National Unity through:-

a) Reducing and ultimately eradicating poverty among
   all the citizens of the country irrespective of race;
   b) Restructuring society in order to reduce and ultimately
   eradicate the identification of race by economic
   function and place of domicile.

The Second Malaysia Plan (1970-75) was the first 5-
year development plan to use the New Economic Policy
(NEP) as the guideline for the economic development
planning in the country. Since then all the subsequent
5-year development plans implemented in the country
is designed to achieve the objectives of the New Economic
Policy. Some of the factors that have to be taken into
consideration when drawing up the development plan
include:-

(i) The creation of employment opportunities
(ii) Increase productivity and incomes
(iii) Increase the opportunities for workers in the
    low productive sectors to move to more lucrative
    sectors
(iv) Reduce income differences
(v) Modernise living in the rural sector
(vi) Create a group of indigenous (Bumiputera) entrepreneurs and businessmen
(vii) Employment should reflect the racial composition within the country
(viii) Increase educational and training facilities and provide more physical and social infrastructure.

The Development Planning Process in Malaysia

The focal point in preparing the 5-year development plan is the Economic Planning Unit (EPU) in the Prime Minister's department but a system has been developed whereby close consultation with relevant agencies is carried out in the preparation of the plan. Before drafting the 5-year development plan, the EPU establishes several Inter Agency Planning Groups (IAPG'S) which are committees consisting of representatives from relevant Ministries and departments in specific sectors. The task of these committees is to review policies and implementation of programmes during the previous Plan and to formulate policies and programmes for the coming plan.

The planning section of the respective Ministry is requested to present a paper reviewing the implementation of policies and programmes during the previous plan based on a format and questionnaire prepared by the EPU. This paper also contains the proposed policies and programmes/projects for the coming plan. This is discussed by the IAPG and appropriate recommendations are made. Based on the deliberations of the IAPG, the EPU prepares a staff paper regarding each sector for the approval of the National Development Planning Committee (NDPC).

The NDPC is the highest planning committee at the official level. It is made up of the Chief Secretary to the Government as the Chairman and the other members include the Economic Advisor to the Public Services Department, Director General of EPU, Secretary-General of Treasury, Ministry of Agriculture and Ministry of Trade and Industry and the Director Generals of the Public Works Department (PWD) and Implementation Coordination Unit (ICU). The secretariat of the NDPC is the EPU. The NDPC meets to consider the paper on each sector and approves with whatever amendments that is deemed necessary. Based on the approval of the NDPC, the Economic Planning Unit drafts the chapter on each sector to be included in the planning document.

While the IAPG is discussing the policies and programmes in each sector, the Ministry is requested to submit its applications for funds during the coming plan period based on its proposed programmes and projects to the Economic Planning Unit, the Treasury and the Public Services Department. The representatives from these central agencies examine this request and make recommendations based on the implementation capacity of the Ministry, the priority ranking of each sector vis-a-vis other sectors, the sector needs and the total public development expenditure proposed for the plan period to the NDPC Estimates Sub-Committee which is a subcommittee of the NDPC. This sub-committee is chaired by the Director of Budget, Treasury with members consisting of the Deputy Director General of EPU, the Secretary General of the Ministry of Agriculture, the Director General of ICU and the Director of Budget of EPU as secretary. This subcommittee examines in detail the submissions and makes recommendations to NDPC regarding the allocations to be given during the whole plan period to each Ministry.

This allocation together with the policies already approved by the NDPC is included in the chapter on each sector in the plan document and submitted to the National Economic Council, a subcommittee of Cabinet. The National Economic Council (NEC) consists of the Deputy Prime Minister as Chairman, Minister of Finance, the Minister of Home Affairs, the Minister of Public Works, the Minister without Portfolio in the Prime Minister's Department and the Minister of Trade and Industry. The National Economic Council makes changes it deems necessary to the policies and allocations before the EPU submits the Plan to the Cabinet. After approval by Cabinet, the plan document is submitted to Parliament and after a debate it is approved and becomes official to be implemented by the various agencies of Government. This process flow is illustrated in Fig. I.

Although the allocation is made for the 5-year plan, the yearly expenditure is given during the budget examination every year, when each Ministry has to submit to the Economic Planning Unit, the Treasury and the Public Services Department a report on the progress of implementation of the previous years before additional sums are allocated for the coming year. This yearly budget examination serves as a planning mechanism to monitor progress because the phasing had been determined earlier during the preparation of the 5-year plan.

In addition to the yearly budget review the government under-takes a Mid-Term Review of the plan which is normally during the third year of the plan. In the mid term review, the government issues a circular to all implementing agencies requesting information regarding implementation of policies, and programmes during the past two years, their estimates for that year and request for changes in policies, and programmes of allocations for the second half of the plan period. For the Mid-Term Review, the government also establishes IAPG'S similar to those for the preparation of the plan.

In addition to these, the Ministries can, during the course of the year, submit through the EPU, proposals for projects or programmes to the NDPC and Cabinet for approval if these projects or programmes are considered so urgent that it is not possible to wait for the mid term review or the coming plan. The basis for consideration is similar to that in the preparation of the 5-year plan.
Fig. 1 STAGES IN THE PROCESS OF NATIONAL DEVELOPMENT PLANNING

PARLIAMENT

CABINET/NATIONAL ECONOMIC COUNCIL (NEC)

NATIONAL DEVELOPMENT PLANNING COMMITTEE (NDPC)
(Secretariat: EPU)

ESTIMATE SUB COMMITTEE OF NDPC
(Secretariat: EPU)

INTER AGENCY PLANNING GROUP (IAPG)
Resource Forecasts, Policy Targets, Macro Targets, Sectoral Targets, Regional Targets
(Secretariat: EPU)

CENTRAL AGENCIES: (PSD, TREASURY)
Project Evaluation and Selection
Fitting Program Into Policies
(Secretariat: EPU)

FEDERAL MINISTRIES/DEPARTMENTS
Project Identification and Analysis According to set Criteria and Policy Guidelines

FEDERAL DEPARTMENTS AT STATE LEVEL
Project Identification at State Level
Preliminary Project Analysis
(Federal Subjects)

STATE ECONOMIC PLANNING UNIT (SEPU)
Determine State Priorities and State Plans

STATE DEPARTMENTS
(State Subjects)

SDO

SDC