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## **Economic Chapter 15: Economic development planning**

### **Economic development**

**Economic development planning** refers to the government deliberate effort (attempt) to influence, direct and control economic resources/variables to achieve the targeted (desired) goals (objectives) within a given period of time.

**OR.**

It is government deliberate attempt to formulate decisions on how the scarce economic resources can be allocated among different uses in order to attain targeted economic, social and political objectives in a given period of time.

Such objectives include; increasing National Income, increasing manpower, increasing output, improving on the population through family planning etc.

### **Types of plans**

Development plans are classified as follows;

#### **Classification of plans according to the length of the planning period**

- (a) **Long term (perspective) plans.** These are plans covering a period of 10 years and above. Such plans include industrial plans, education plans, population plans etc.
- (b) **Medium term plans.** These are plans that cover a period of 3 - 7 years. They act as a link between long term and short term plans.
- (c) **Short term (Operational / Annual) plans.** These are plans which cover a period of 1 year. For example the National Budget.

#### **Classification of plans according to coverage**

- (a) **Comprehensive (macro) plans.** These are plans drawn to cover all sectors and resources of the economy considering the inter-sectoral linkages.

#### **Advantages (merits) of a comprehensive plan**

1. **It promotes proper utilization** of the available scarce resources by taking into account inter-sectoral inter dependence.
2. **It leads to balanced/equal development of the country.**
3. **It can be properly regulated and monitored by the planning authority** since in most cases, it is long term.
4. **It reduces the problem of divergence between planned targets and plan implementation.**
5. **It leads to expansion of employment opportunities** in the economy.
6. **It widens the tax base of the economy in case the specified targets are achieved**

### **Disadvantages (demerits) of a comprehensive plan**

1. It is expensive to implement.
2. It requires a lot of data for implementation.
3. It is not easy to administer since it covers large aspects of the economy.
4. In case of failure, a lot of resources are wasted.
5. Priority sectors may be neglected which hinders development.
6. The objectives may not be achieved in case of political instabilities and insecurity in the economy.
7. It is not easily used in the economy where there are different levels of development among sectors.

**(b) Partial/ (micro/ sectoral) plan.** This is a plan drawn to cover part of the economy. It can be one sector or a few sectors of the economy. For example, agricultural sector plan, industrial sector plan etc.

**(c) Project planning.** This is a form planning for a specific project. For example; road construction, railway construction, rice scheme etc.

### **Advantages of partial planning**

1. It is cheap to implement and minimizes the use of scarce resources.
2. It is easy to administer because it covers a particular sector/region.
3. It does not require a lot of data.
4. In case of failure, fewer resources are lost.
5. Priority sectors can be developed first since linkages are emphasized.
6. It is applicable in case of political instabilities in some parts of the country.
7. It is applicable in the country where the sectors are at different levels of development.

### **Disadvantages (demerits) of partial planning**

1. Partial planning can lead to unequal development in the economy.
2. Different partial plans may not be properly regulated and coordinated by the planning authority.
3. Uncoordinated partial plans lead to plan failure and wastage of resources due to lack of inter-dependence.
4. In most cases, partial plans are short term and therefore the set objectives may not be achieved in the given time frame.

### **Classification of planning according to Implementation**

**(a) Indicative (Capitalist) planning.** This is the form of planning where the government (planning authority) uses indirect policies to influence the planning process in the private sector towards the desired government objectives/targets. That is, the government provides incentives and information to private individual economic units in line with the set government targets without influencing their decisions directly.

**(b) Centralized (authoritarian) planning.** This is the form of planning where the central planning authority/ body is responsible for resource allocation in the economy in order to achieve certain set objectives.

**(c) Decentralized planning.** This is the form of planning which involves decision making by different administrative units at various levels. For example district plans. These plans can later be incorporated into the central government plan.

**(d) Bottom to top planning.** This is planning that begins from the local authorities upwards to the central planning body.

**(e) Top to bottom planning.** This is the form of planning that begins from the central planning body downwards to the local levels.

## Pre-requisites for good planning

These are the necessary requirements (conditions) before the planning process begins. They include;

1. **A good planning machinery/body.** The planning body should be well organized in order to efficiently allocate the available resources in the planning process. This includes experts such as the economists, statisticians, engineers etc.
2. **Availability of quality statistical data (information).** The availability of adequate, accurate and reliable data is very important in the formulation and evaluation of the plan.
3. **Well stated objectives of the plan.** Such objectives should reflect the interests of various social economic and political groups within the society.
4. **Public cooperation.** The plan to be implemented should be well supported different social groups as reflected in its objectives.
5. **Efficient and Incorrupt administration.** An efficient and incorrupt administration is required to ensure proper resource allocation during plan implementation.
6. **Political stability and security.** Such situations are necessary because their absence may hamper the planning activities.
7. **Well established social and Economic Infrastructure.** Facilities such as office premises, communication and transport facilities, scholastic materials etc. are vital for the planning process to be successful.
8. **Resource mobilization ability.** The plan should lay down in advance the policy and instruments for mobilizing resources to finance its various projects.
9. **Enough financial resources.** There should be enough financial resources for collection, interpretation and analysis of data to be possible.
10. **Proper balances in the economy.** There should be a balance between savings and investment, supply of goods and demand for them etc.

## Characteristics (features/qualities) of a good development plan

1. It should be **comprehensive.** That is, it should cover all sectors of the economy taking into account inter-sectoral linkages.
2. It should be **economically feasible.** That is, the available resources should be able to implement the planned programs in order to realize the set objectives.
3. It should be **socially relevant.** That is, the problems and aspirations of the concerned people should be properly addressed in the plan so as to encourage the participation of the masses in the development effort.
4. It should be **consistent.** That is, the objectives of the plan should be in line with the social- economic conditions of the economy. For example, education policies should be in line with the manpower requirements of the country.
5. It should be **politically and administratively feasible.** That is, it should be based on the government policy for easy implementation.
6. It should be **flexible.** That is, the objectives of the plan can easily be adjusted depending on the prevailing socio-economic and political environment.
7. It should be **compatible.** That is, one development project in the plan should not hinder the development of other projects. Instead, different projects should support each other through linkage effects.
8. It should be **economically viable** such that what is planned for should result into more benefits than the costs.
9. It should be based on the **principle of sequencing.** That is, projects should be done in order of importance. For example, the project to produce inputs should be established first before processing begins (plant sugarcanes before setting up a sugar factory)
10. It should respect the **principle of proportionality.** That is, it should minimize imbalances in resource allocation in order to achieve balanced development of the economy.

11. It should have **clearly stated objectives** to ensure proper allocation of the scarce resources and accountability.

### Principles of planning

These are the guidelines followed in the planning process. They include;

1. **Optimality.** The plan should allow full utilization of the available resources so as to achieve maximum social welfare.
2. **Consistence.** This states that the planned expenditure must conform to the available income (resources) i.e. what is required should not be far from the available resources.
3. **Proportionality.** This principle requires a well- balanced allocation of resources to different sectors (projects) according to their degree of importance.
4. **Comprehensiveness.** This states that, the plan should cover all sectors and regions of the economy.
5. **Compatibility.** The projects in the plan should be inter-related and should be able to exist together i.e. the projects should have forward and backward linkages.
6. **Sequence.** This involves setting up of projects in order of importance such that projects considered to be of primary importance be formed first and those of secondary importance follow e.g. a plan to rear milk cows before setting up a milk processing plant.
7. **Feasibility.** The plan objectives should be politically, economically and administratively achievable i.e. the plan should not set goals which cannot be attained.
8. **Relevance.** The plan objectives should be in line with the social-economic organization, of the economy.

### The need (rationale/case for) development planning in LDC's

1. **Scarcity of resources.** Planning is needed in order to utilize and allocate the available scarce resources efficiently towards productive activities so as to get as much output as possible.
2. **Equitable distribution of resources.** Proper comprehensive planning enables an equal distribution of incomes and wealth among individuals and regions in an economy. This promotes balanced regional development
3. **Correcting the defects of price mechanism.** Price mechanism allocates resources according to profit and price signals and this may lead to resource misallocation. Therefore there is need for planning in order to rectify the short comings of price mechanism in resource allocation.
4. **Reducing unemployment problem.** This is done through appropriate manpower planning e.g. designing an education system aimed at promoting job makers rather than job seekers.
5. **Need for resource mobilization.** Planning is necessary for efficient mobilization of resources from friendly countries and financing bodies like World Bank and **I.M.F** in form of short and long term loans.
6. **Correction of B.O.P. problems.** Through proper planning the quality and quantity of exports can be improved in order to attain high and stable export prices. This increases the foreign exchange earnings of the country.
7. **Ensuring price stability.** Through planning inflationary tendencies prevailing in the economy can be reduced by using appropriate restrictive fiscal and monetary policies.
8. **Means of soliciting for foreign aid.** A detailed development plan with specific objectives can be used to solicit for foreign assistance and to persuade donors that their money will be used as laid down in the plan.
9. Planning **enables the government to invest in large and risky projects** where the private individuals may not invest because of inadequate capital and fear to take risks.
10. Planning helps to **balance the public and the private sector** and to determine the size of each sector depending on the nature of the social-economic organization.
11. Development planning is **necessary to break the vicious cycle of poverty.** For example the use of poverty action plan, poverty eradication action plan etc.

12. Plans are used to **encourage public participation** in the development process and to solicit political support by the government.
13. Planning helps to check **on the negative effects of the unforeseen circumstances like** natural hazards such as drought, earthquakes, destructive rains, diseases etc.
14. Planning **acts as a symbol of national sovereignty** and helps to promote self-determination which gives the country a sense of independence and self-reliance.
15. Planning helps to **balance population growth and economic growth** through the use of family planning, educational planning etc.
16. Planning helps to **relate the future economic opportunities** basing on the past and present economic trends.

### **Bottlenecks (limitations) of planning in developing countries**

1. **Inadequate resources for plan implementation** in form of capital and other logistical materials. Such funds are limited in LDCS hence limiting the planning process.
2. **Lack of enough and necessary statistical data information.** In LDCs there is inadequate and unreliable data regarding the existing resources and this makes planning difficult.
3. **Weak administrative and implementation machinery.** In most LDCs, the planning machinery is dominated by unqualified, incompetent and unreliable people who are not fit for planning purposes.
4. **Limited political will and commitment by both the public and the government.** This is because some development plans are not in line with the social economic needs of the people.
5. **Over ambitious plans with unrealistic goals.** Most developing countries try to achieve so many goals at once within a short time without considering the available resources hence plan failure.
6. **Presence of unforeseen economic circumstances** (disturbances) beyond the country's capacity to control them. Such natural hazards like drought, earthquakes, bad weather etc. greatly affect planning in developing countries.
7. **Existence of a large private sector.** Large parts of most **LDC** economies are not directly controlled by the planning authority. This makes it difficult to coordinate and implement plans by the planning authority.
8. **Over dependence on foreign assistance (aid)** which is inadequate, inconsistent, uncertain and unreliable limits the planning process in developing countries.
9. **Persistent political instabilities and insecurity** in form of wars which lead to change in regimes. This limits plan implementation hence failure to achieve the planned objectives.
10. **Economic instabilities** in form of high levels of inflation and other market shortages limit the planning process.
11. **High degree of corruption and embezzlement** of funds meant for planning activities. This leads to shortage of funds hence plan failure.
12. **Poor social and economic infrastructure.** For example, poor roads, limited financial services etc. Such infrastructure is not enough to facilitate effective planning and plan implementation.

### **Revision questions**

#### **Section A questions**

- 1 (a) Differentiate between a comprehensive plan and partial plan.  
 (b) Mention two advantages of comprehensive planning in your country.  
 (c) Give two advantages of partial planning in an economy 2 State any four qualities (features) of good development plan 3 Distinguish the following;
- 2 (a) Regional planning and sectoral planning.  
 (b) A long term plan and a short term plan.
- 4 (a) Distinguish between bottom-up planning and top-bottom planning  
 (b) Outline two objectives of planning.
- 5 (a) Define Economic Development planning  
 (b) Mention three benefits of economic development planning in your country.
- 6 (a) Distinguish between directive planning and decentralized planning

- (b) State two demerits of directive planning in an economy
3. Distinguish between the following terms:
- (a) A perspective plan and an annual plan
  - (b) Macro planning and micro planning
  - (c) Sectoral plan and project plan
  - (d) Indicative planning and corrective planning

**Section B questions**

- 1 (a) Explain why planning is indispensable in your country.  
(b) Explain the limitations to successful implementation of development plans in developing countries.
- 2 (a) Distinguish between sequencing and optimality principles of planning.  
(b) Examine the factors that influence the implementation of development plans in your country.
- 3 (a) Differentiate between decentralized planning and centralized planning.  
(b) Account for centralized planning in developing countries.
- 4 (a) Explain the pre-requisites for planning.  
(b) Explain why development plans often fail to achieve their objectives in developing countries.
- 5 (a) Assess the role of economic development planning in your country.  
(b) Explain the measures that should be taken to improve economic development planning in your country.
- 6 (a) Distinguish between a planned economy and unplanned economy.  
(b) Why does your country carry out economic development planning?

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