

**Session One**  
**ECONOMIC PLANING**

***Learning Outcome:***

The main objective of the session is to learn about fundamentals of economic planning. It includes learning economic and development perspectives and the conceptual base of planning process that consisted of objectives, type of planning, mode of planning and means and ends analysis. It also reviews the concept of strategic planning with a broader perspectives. Thus the learning outcome of the session would be to, enhance graduates' knowledge on applying fundamentals of planning for economic development. The lesson consists of five sections i.e. development, planning, means and end analysis, strategic planning and stakeholder analysis,

**1. Economic planning**

Economic planning is the main instrument of resource allocation for solving basic economic problems such as what to produce, how to produce and what quantities in planned economies. Basically, economic planning is aimed at economic development or quantitative and qualitative change in the economy. It is an ongoing or intended change that desire to achieve or become a better state or the higher position of the society. Essentially it is a normative value judgment about human beings and the process of societal change (Marks, 1847). Accordingly, it should be able to determine who gets the benefits from societal change.

According Wikipedia, "Planning is the process of thinking about and organizing the activities required to achieve a desired goal". It combines with forecasting and how reacting through a sequence of action steps to achieve some specific goals. Planning is regarded as the most important project management and time management techniques. Plan is like a road map which shows how much progressed towards the target and how far away from the destination

## **2. Need and Importance of Planning**

After Second World War economic planning become core economic activity of many countries because price mechanism was not effective to solve macro-economic problems that occurred during the war period and the after the war. So the government intervention was emphasized by economic planning.

The need and the importance of economic planning was considered on several views;

1. Market failure argument
2. Resource allocation argument
3. Foreign aid allocation argument
4. Attitudinal and Psychological argument

Healey (1994) distinguish five main kind of planning systems;

- I. Economic Planning
- II. Physical Planning
- III. Policy Analysis and Planning
- IV. Interpretative (Communicative) planning
- V. Collaborative Planning

Economic and physical planning are recognized as the main and common planning Systems. Policy analysis and planning is linked with subject matters such as production system and Centre structures. Subject matter planning is referred to as “object oriented”, substantive or technical planning (Faludi, 1973). It also expressed as procedural, decision centered, process oriented and institution oriented (Dale, 2004); and strategic planning.

Interpretative and Collaborative Planning emphasis on mechanism or process of planning.

Similarly, Mankar (1995) also distinguishes six types of economic planning.

1. Physical planning and financial planning

2. Planning by direction (command) and planning by inducement (indicative planning)
3. Capitalist planning and socialist planning
4. Democratic Socialist planning and Totalitarian Socialist planning
5. Planning from above (centralized planning) and planning from below (decentralized planning)
6. Functional planning and structural planning

Physical planning is planning in terms of resources i.e. land, labour, raw materials and equipment etc. planning in terms of financial resources is referred as financial planning. Both types of planning are complementary not contradictory. Planning by direction is called planning by command. Planning by inducement or the price mechanism is known as inducement planning (Laisser-faire). So there is no compulsion or command (Lewis, W. A. 1956).

According to Robert Chambers (1983) economic development is a people focused concept that related to human problems either to be removed or alleviated i.e. poverty or deprivation. Thus various indicators were used to measure development. Dale (2000) suggests a general typology of dimensions of development;

- 1) Economic Features/Indicators such as GDP, GNP and rate of employments etc.
- 2) Social Features such as life expectancy, mortality rates and school enrolments
- 3) Dependent and independent positions
- 4) Marginalized verses integrated positions
- 5) Degree of freedom from violence
- 6) Degree of mental satisfactions
- 7) Development related attitudes

Many of these indicators are normative or qualitative. But economic and social indicators are quantitative and numerical

### **3. Modes of Planning**

Modes of planning refers to planning **mechanism** and **process**. It means how to plan in accordance with explorations of problems to be addressed, which **related to opportunities and constraints, decision making, intended achievements on committed tasks, resources and organizations, time horizon and timing of activities**. Economic planning is implemented in the way of centralized, decentralized or participatory forms of planning.

It is important to understand that economic / development planning is a **normative process**. It focuses explicitly on changing quality of people. Therefore it refers as **people focused perspectives** that based on the **need and interests** of deprived people or who are expected to participate various ways.

### Means and End Analysis

Means and End analysis is meant that **planners are assessed the end results or the outcome of the intended work to be done and select the suitable methods to be followed**. Thus means and end analysis is used as the focal point of planning process as a technical mode of reasoning. It also refers as formal rationality, institutional rationality and technical rationality. Conceptually all development plans should be rationalized by considering objectives (ends) and strategy (means) along with policy and policy instruments (Mollett, 1984). See the example given in fig 1.1.

Fig1.1: Ends and Means

Objective/Outcome (END)	Self Sufficiency in Rice production
Strategy (Means)	Use High yielding Varieties
Policy (Means)	Chemical Fertilizer      Farm Mechanization
Policy Instruments (Means)	Fertilizer subsidy      Tractors / Harvesters

### 4. Planning systems

According to main economic systems in the world that known as planed/command, market (liberal) and mixed economic systems, planning methods or the systems also distinguished as the way of practiced the economic system by the countries. Thus the means of planning, strategies and the expected outcome were varied in with various forms of planning systems. Basically, five planning systems were implemented.

#### **4.1 Centralized Planning**

The concept of centralized or the command planning is refer to the planning system practiced by socialists and Marxists economies such as Soviet Union and Republic of China that ruled as command economies. The classical conception of socialist economic planning held by [Marxists](#) involved an economic system where goods and services were valued, demanded and produced directly for their “use-value”, as opposed to being produced as a by-product of the pursuit of profit by business enterprises. This idea of "production for use" is a fundamental aspect of a socialist economy (Wikipedia, 2019).

In Marxist economics, planning entails control of the surplus product (profit) by the associated producers in a democratic manner. This differs from planning within the framework of capitalism, which is based on the planned accumulation of capital in order to either stabilize the business cycle (when undertaken by governments) or to maximize profits (when undertaken by firms), as opposed to the socialist concept of planned production for use.

Plans were formulated and implemented through top-down administrative fashion based on bureaucratic organization. That empowered by a commander or a committee. Economic analysts have argued that the economy of the former Soviet Union actually represented an administered or command economy as the system of command-and-control.

The good example for the centralized planning system is Soviets Union. According to Russian planning model, decisions on production and investment are embodied in a plan formulated by the “Gosplan”, the state planning agency. The system used material balance planning. Economic information, including consumer demand and enterprise resource requirements, were aggregated to balance supply, from the available resource inventories, with demand, based on requirements for individual economic units and enterprises, through a system of iterations (Wikipedia, 2019)..

#### **4.2 Capitalist/ Market Economy Planning**

This system based on the economic models developed by American economists [Fred M. Taylor](#) and [Abba Lerner](#) in the 1920s and 1930s and by Polish economist [Oskar Lange](#) involved a form of planning based on marginal cost pricing. In Lange's model, a central planning board would set prices for producer goods through a trial-and-error method, adjusting until the price matched the marginal cost, with the aim of achieving "Pareto-efficient" outcomes. Although these models were often described as "market socialism", they actually represented a form of "market simulation" planning. Thus United states of America has recognized as the example for the market economy planning.

The federal government of USA supplemented the price system with centralized resource allocation and created a number of new agencies to direct important economic sectors: notably, the Food Administration, Fuel Administration, Railroad Administration and War Industries Board. During the Second World War, the economy experienced staggering growth under a similar system of planning. In the postwar period, U.S. governments utilized such measures as the Economic Stabilization Program to directly intervene in the economy to control prices, wages, *et cetera* in different economic sectors (Wikipedia, 2019)

#### **4. 3 Intra-firm and intra-industry planning**

Large [corporations](#) or multinational corporations use planning to allocate resources internally among their divisions and subsidiaries. Many modern firms also use regression analysis to measure market demand to adjust prices and to decide upon the optimal quantities of output to be supplied. .

#### **4. 4 Mixed economic development planning**

Mixed planning system is a combination of planned and market economic planning systems. As mixed economic planning system, state development planning does not replace the market mechanism and does not eliminate the use of money in production. It applies both privately owned and publicly owned firms for the strategic sectors of the economy and seeks to coordinate their activities through indirect means and market-based incentives (such as tax breaks or subsidies (Wikipedia, 2019).

The role of State sector is clear that it involves in national development planning through macroeconomic policies and financial planning conducted by government so as to stabilize the market or to promote economic growth in market-based economies. It involves the use of monetary policy, industrial policy and fiscal policy to "steer" the market toward targeted outcomes (Wikipedia, 2019).

This system also known as mixed economic planning systems that combined with public and private sectors planning for public projects and private projects. Public projects are development oriented that based on the main (macro) issues' of the country such as poverty, malnutrition, water supply and technology development etc. The goals of these projects are to assure public welfare and the economic wellbeing of the nation. On the other hand, private projects or the individual projects are economic and mainly based on the profit maximization. These projects are vivid and based on various fields such as industry, agriculture and services. Public-private partnership programs are also implemented in collaboration with both sectors. It became a common and accepted practice by many governments under liberal economic policy syndrome.

One of the main feature of public sector planning is plans are formulated at national (macro) level, sectors level and sub sectors levels. (See Fig. 1.2). If the main objective of the national planning is to ensure the food security of the nation, its main mean or strategy would be to implement national food drive. National food production drive is implemented as agriculture sector plan. Under agriculture it belongs to crops cultivation such as paddy and vegetables. So the plan will be implemented as an agriculture sector major crop plan by cultivating rice or vegetables at different levels. Planning systems in the following countries are also indicates some identical features in economic planning.

## 4. 6 Decentralized planning]

Decentralized economic planning is a system of planning that starts at the user-level in a bottom-up flow of information. The theoretical postulates for models of decentralized socialist planning was presented by [Karl Kautsky](#), [Rosa Luxemburg](#), [Nikolai Bukharin](#) and [Oskar Lange](#).<sup>[10]</sup> This model involves economic decision-making based on self-governance from the bottom-up (by employees or grass root level) without any directing central authority. This system is against the command and the centralized administrative planning system implemented from higher authorities (Wikipedia, 2019).

Two contemporary models of decentralized planning are [participatory economics](#), developed by the economist [Michael Albert](#); and negotiated coordination, developed by the economist [Pat Devine](#). This system is practiced by eastern European countries belong to former Russian trade bloc. and mixed economies.

Some of the examples for various type of mixed economic planning system are presented as case studies.

### East Asia]

The development models of the East Asian Tiger economies involved varying degrees of economic planning and state-directed investment in a model sometimes described as "[state development capitalism](#)" or the "East Asian Model."

The economy in both [Malaysia](#) and [South Korea](#) were instituted by a series of macroeconomic government plans ([First Malaysia Plan](#) and [Five-Year Plans of South Korea](#)) that rapidly developed and industrialized their mixed economies.

The economy of [Singapore](#) was partially based on government economic planning that involved an active [industrial policy](#) and a mixture of state-owned industry and free-market economy.

### France[

Under [dirigisme](#), France used [indicative planning](#) and established a number of state-owned enterprises in strategic sectors of the economy. The concept behind indicative planning is the early identification of oversupply, bottlenecks, and shortages so that state investment behavior can be quickly modified to reduce market disequilibrium so that stable economic development and growth can be sustained. France experienced its [Trente Glorieuses](#) (Thirty Glorious), years with economic prosperity.

### United Kingdom[]

The need for long-term economic planning to promote efficiency was a central component of [Labour Party](#) thinking until the 1970s. The [Conservative Party](#) largely agreed, which produced the [postwar consensus](#), the broad bipartisan agreement on major policies.<sup>[21]</sup>



## 5 Criticisms

Economic planning system has criticized by economists considering following facts.

The most notable critique of economic planning came from Austrian economists **Friedrich Hayek** and Ludwig von Mises . Hayek argued that central planners could not possibly accrue the necessary information to formulate an effective plan for production because they are not exposed to the rapid changes that take place in an economy in any particular time and place and so they are unfamiliar with those circumstances. The process of transmitting all the necessary information to planners is thus inefficient. Mises also had a similar opinion (Wikipedia, 2019).

Proponents of decentralized economic planning have also criticized central economic planning. Thus, Leon Trotsky believed that central planners, regardless of their intellectual capacity, operated without the input and participation of the millions of people who participate in the economy and so they would be unable to respond to local conditions quickly enough to effectively coordinate all economic activity (Wikipedia, 2019).

## Session Two

### Strategic Planning

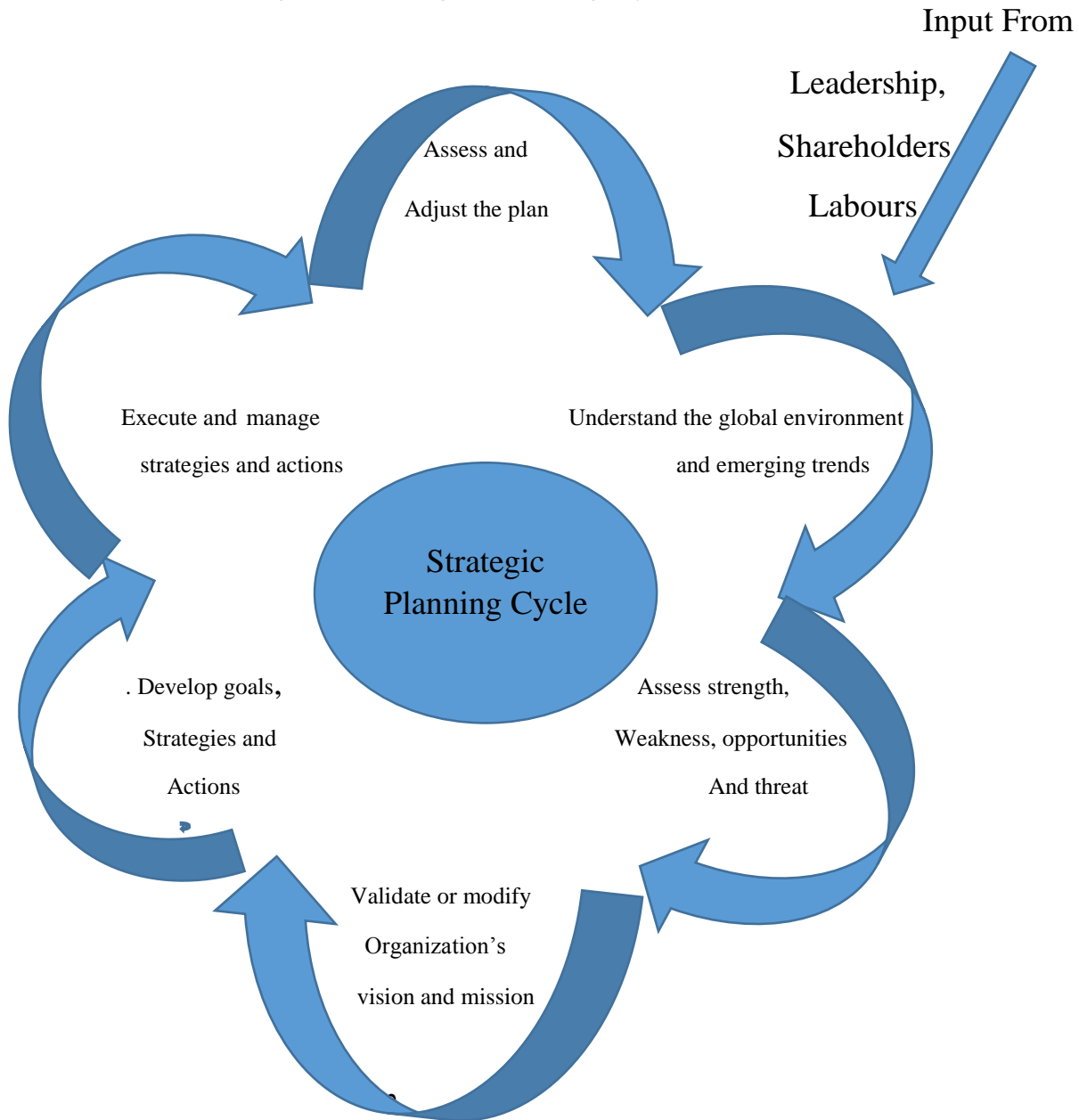
The concept of strategy is defined *as the mediating force between the organization and its environment*. It depicts the relationship between organization and environment in achieving intended objectives. As defined earlier the concept of development means qualitative changes in the human beings. So the development strategy means to find best possible solutions to upgrade living standards of target beneficiaries.

According to Lynne Carbone, the President of Lynne Carbone & Associates, strategic planning is a powerful leadership and management tool to guide decisions and focus actions for the organization. She demonstrates that developing a plan does not have to be a long, involved or painful process. In fact, with the **right** advance work including a collection of customer, partner, employee and stakeholder inputs and the key decision-makers, it can be an efficient, energizing and rewarding experience. The organization receives relevant strategies and road map for decision-making and a focused action plan for execution in the near-term (<http://lynnecarbone.com/strategic-planning,2019>)

The LCA process is based on **cycle of six strategic activities** which serve as building blocks for plan development (Fig. 2.1).

1. Understand the global environment and emerging trends
2. Assess strength, weakness, opportunities and threat
3. Validate or modify organization's vision and mission
4. Develop goals, strategies and actions
5. Execute and manage strategies and actions
6. Assess and adjust the plan as an ongoing process

Fig 2.1: Strategic Planning Cycle



Source: <http://lynnecarbhone.com/strategic-planning,2019>

The system is based on a collaborative model which promotes and facilitates consensus-based decisions. Groups receive the added benefit of teambuilding in the process of planning together. They are coached and given tools to brainstorm, listen effectively, articulate positions, provide constructive feedback, define and problem-solve issues, build strategies, and confront difficult situations and topics.

LCA uses multiple interpersonal relationship building tools and methods to promote robust dialog and reality-based decision-making throughout the process (ibid).

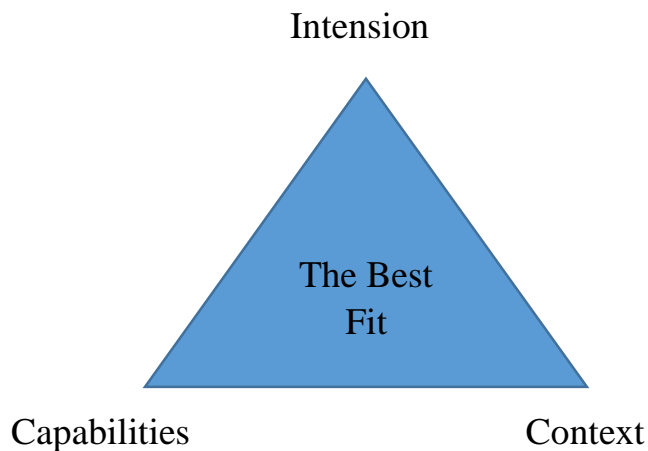
As a new planning concept strategic planning is practiced by both public and private sector organizations. Basically strategic planning is defined as ‘obtaining the best possible fit (congruence) between an intended action, the resources and abilities for undertaking it, and its societal context” (Dale, 2004: PP.17). This triangle relationship was illustrated as follows.

The intended action or the intension should clarified through a general statement of purpose or the objective. This statement is also referred as mission of the organization. The objective should be elaborated by sub objectives and targets to be performed.

Capabilities refer to resources, organizational strengths and organizational weaknesses

Context refer to present and future opportunities, present constraints and future threats

Fig 1.3: Triangulation of Main Concepts



### **Stakeholder Analysis**

Stakeholder analysis is one of the essential element in strategic planning. Stakeholder analysis was defined as identifying beneficiaries and other bodies with an interest in the program or project, assessing their stakes and clarifying their involvements (Grimble and Chan, 1995).

Stakeholders were recognized as all the parties involved in the project or programs as either external or internal participants. Thus project/program beneficiaries, funders, planning staff, supporting staff, input suppliers, advisors and partner organizations are known as stakeholders. In a development program that focused on improving quality of human beings, target group beneficiaries, implementing officers, funders, local government institutions, input suppliers, members of the community become stakeholders. Following steps to be followed in a stakeholder analysis.

1. Identify the stakeholders by their stakes- they may include: those who are affected by the problem, those who cause the problem, those who may be affected by measures against the problem etc.
2. Categorize the stakeholders by main relevant criteria (individuals, private organizations, government agencies etc.
3. Get an overview of the needs and interests of each category of stakeholders
4. Discuss and decide on whose needs, interests and views should be given priority.
5. Analyze further the needs and interests of the prioritized individuals, groups and organizations
6. Analyze the strengths and weakness of potential external contributors, groups and organizations
7. Analyze the constraints or threats posed by the hostile individuals, groups and organizations
8. Feedback to the problem analysis

## Tools and approaches]

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A variety of analytical tools and techniques are used in strategic planning.<sup>1</sup> These were developed by companies and management consulting firms to help provide a framework for strategic planning. Such tools include (Wikikipedia, 2019):

- **PEST analysis**, which covers the remote external environment elements such as political, economic, social and technological (PESTLE adds legal/regulatory and ecological/environmental);
- **Scenario planning**, which was originally used in the military and recently used by large corporations to analyze future scenarios. The flowchart to the right provides a process for classifying a phenomenon as a scenario in the intuitive logics tradition. **Porter five forces analysis**, which addresses industry

attractiveness and rivalry through the bargaining power of buyers and suppliers and the threat of substitute products and new market entrants;

- **SWOT analysis**, which addresses internal strengths and weaknesses relative to the external opportunities and threats;
- **Growth-share matrix**, which involves portfolio decisions about which businesses to retain or divest; and
- **Balanced Scorecards** and **strategy maps**, which creates a systematic framework for measuring and controlling strategy.
- **Responsive Evaluation**, which uses a constructivist evaluation approach to identify the outcomes of objectives, which then supports future strategic planning exercises.

#### **Vision**

To become a Centre of excellence in creation and dissemination of knowledge for sustainable development.

#### **Mission**

To nurture intellectual citizens through creativity and innovation, who contribute to the national development

## Session Three

### **Projects and project Planning**

The lesson three is focused on learning projects and project formulation. It includes characterization of project concept, project cycle and main steps to be followed in project formulation. Learning outcome of the session would be to realize fundamentals of projects planning, project cycle, and distinguish public and private sectors projects and knowing project formulation. The lesson consists of four sections i.e. what is project, public and private sector projects, project cycle and main components of project cycle.

#### 3.1 What is Project?

The word project comes the Latin word projectum from the Latin verb proiacere, it means “**before an action**” which in turn comes from pro-, which denotes precedence, something that comes before something else in time and iacere, "to do". Thus the word "project" originally meant "before an action"(Wikipedia, 2016).

Project planning is inherently uncertain as it must be done before the project is actually started. Therefore the duration of the tasks is often estimated through a weighted average of optimistic, normal, and pessimistic cases. The conceptual linkage of a project derive from plans and programs as shown below. A program is a Portfolio (collection) of related projects that help to achieve strategic objective. So program management is important to set the overall direction, coordination and control of portfolio of projects.

Plan  Program  project

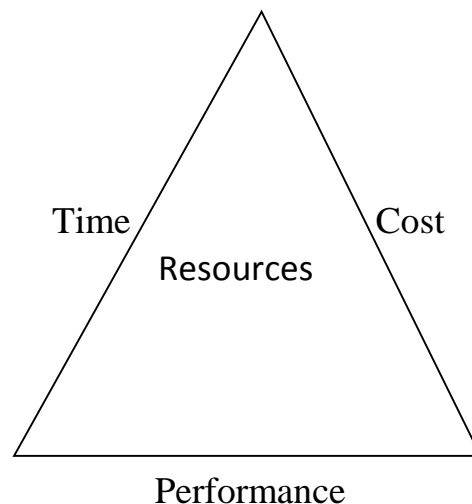
The definitions of project are wide-ranging and vary according to public and private projects. A Public project is a government intervention to change the existing

situation or initiation of new system for the betterment of the society. On the other hand, the private project is an initiation or intervention by an individuals, a group or a company for the betterment or the profit maximization

In any context it is a **temporary organized endeavor** to change existing situation that bound by constraints. According to Wikipedia, the project is *a “set of interrelated tasks to be executed over a fixed period and within certain cost and other limitations.”*

In contemporary business and science literature, a **project** is a collaborative enterprise, involved research or design and planned to achieve a particular intended outcome. It also defined as temporary endeavor that are created by stakeholders to accomplish particular tasks under triple constraints i.e. Time, cost and performance. It reflects as triple constraints as shown in figure 2.1.

Fig 3.1: Triple Constraints



In a public development project, it is a clearly delimited and highly specified undertaking (Dale, 2004). It is a planned intervention for achieving one or more objectives, encompassing a set of interrelated activities that are undertaken during a delimited period of time using human and physical resources (ibid).



In a business project, it is an undertaken task to create a unique product with an ultimate objective of changing positions by **knowledge, attitudes and practices** effectively and efficiently.

Irrespective of either public or a private projects, Project Plan is a contract or document that the project sponsor and project manager use to agree on the initial vision of the project (scope, baseline, resources and objectives). A project plan answers basic questions about the project:

- **Why?** - What is the problem or value proposition addressed by the project? Why is it being sponsored?
- **What?** - What is the work that will be performed on the project? What are the major products/deliverables
- **Who?** - Who will be involved and what will be their responsibilities within the project? How will they be organized?
- **When?** - What is the project timeline and when will particularly meaningful points, referred to as milestone to be completed?

A project plan typically answer to above questions and executes according to vision and the objectives.

### 3.2 Type of Projects

According to type and the functions of the projects four type of projects were identified (Molllett, 1984).

1. **Experimental Projects:** refers to projects that are implemented for defining problems in a new ways and assessing alternative solutions. It is regarded as the best way of finding best means of overcoming constraints prevailed at local conditions.
2. **Pilot Projects:** Projects implementing for testing applicability of new methods and approaches. It allows to test new ideas at low risks.
3. **Demonstration Projects:** These projects are implemented to disseminate ideas to stakeholders or the users of the project or products.
4. **Production Projects:** projects which gone through one or more of the preceding stages. Many projects belongs to this category as it implement for public benefits or the profit maximization.

By nature, and activities and the task, project may vary in accordance with size of the projects and the cost as follows;

Mega projects which are above \$ 10.000 million,

Large scale projects between \$ 1000-10. 000 million,

Medium scale projects between \$ 100-1000 million and

Small scale projects less than \$ 100 million

At the same time, classification of projects is also specified as follows

### **1 Quantifiable and Non- Quantifiable Projects**

Economic projects such as electricity, energy and infrastructure development projects are regarded as quantifiable projects. Inputs and outputs of these projects are quantifiable in terms prices, cost and numbers. Some service oriented projects such as health, education projects are regarded as non-quantifiable projects because outcome of these projects cannot measured either numbers of economic values. However, these projects are also measured in terms of social cost benefit indicators.

**2. Techno Economic Projects:** techno and economic projects are also categorized as follows;

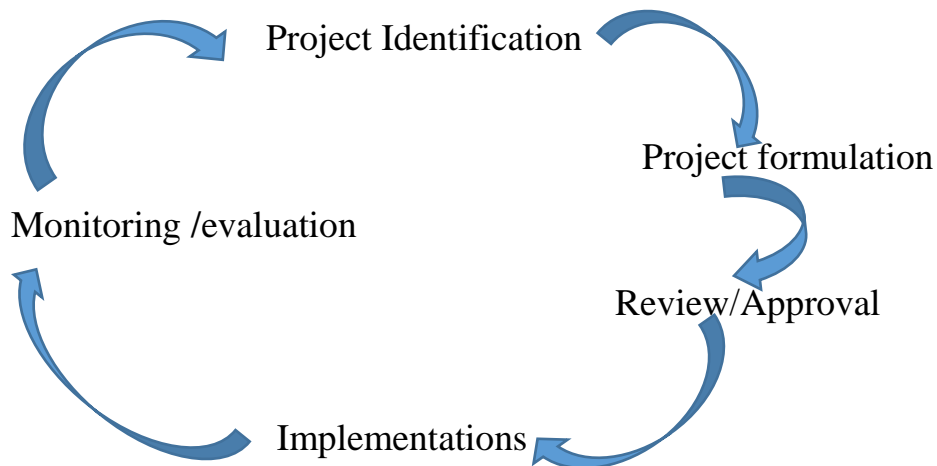
- Factor intensity Projects:
- Demand Based Project: projects which are based on demand for raw materials and semi-products.
- Small and Medium scale projects that based on the quantity of investments: Projects are designed on the Small farmers projects, micro finance projects and cottage industry projects belonged to this category.

### **3.4 Project cycle**

Project cycle is a logical framework which indicates the sequence of the main activities of an intended work/task. Project identification, formulation, Review/approval, Implementation, monitoring and evaluation are the main activities and its cyclical relationship is referred as project cycle (Fig 3.2). The five

phases of the project cycle should be viewed as iterative steps, not as a linear set of sequential steps.

Fig. 3.2: Project cycle



### **Main Components of the project cycle**

According to **UNEP Project manual**, there are five phases in project cycle. Activities related each and every activities were summarized as follows.

Phase 1: Project identification includes following steps;

- I. Situation analysis
- II. Identification test
- III. Preparation of a concept project proposal for sponsorship

Phase 2: Project formulation and preparation

- I. Feasibility study
- II. Project document formulation
- III. Establishment of baseline and target data
- IV. Project implementation planning

Phase 3: Review and approval

- I. Inter -Divisional Review (IDR)
- II. Project Approval Group (PAG) decision on the approval of the project

#### Phase 4: Project implementation

- I. Project implementation to achieve projects objectives/results
- II. Project sustainability ascertained
- III. Monitoring and reporting
- IV. Risk assessment and management

#### Phase 5: Monitoring and Evaluation

- I. Mid-course evaluation for amendments and improvements
- II. End of the project evaluation
- III. Generation of lessons learned

These aspects will be described detail in the following chapters.