Planning in Developing Countries
Lessons of Experience

Ramgopal Agarwala
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Abstract

This paper reviews the experience of planning in developing countries in the post-World War II period. The main conclusions are:

- In most developing countries, planning failed to live up to expectations.
- The technical, administrative, and political causes of the failure of comprehensive planning in mixed economies are inherent in the process and are unlikely to be remedied merely by more strenuous efforts to strengthen the planning machinery.
- Instead, planning should be reoriented through a streamlining of the incentive system and public investment program and through emphasis on consultations, flexibility, selectivity, and coordination in the formulation of plans.

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Avant-propos

Cette étude fait le bilan de l'expérience acquise par les pays en développement dans le domaine de la planification depuis la fin de la deuxième guerre mondiale. Ses principales conclusions sont les suivantes :

. Dans la plupart des pays en développement, la planification n'a pas donné les résultats escomptés.

. Les causes techniques, administratives et politiques de l'échec d'une planification d'ensemble dans les pays à économie mixte sont inhérentes au processus lui-même, et il est peu probable qu'il suffise, pour les éliminer, de redoubler d'efforts pour renforcer l'appareil de planification.

. Il faut plutôt réorienter la planification en simplifiant le système d'encouragements et le programme d'investissements publics et en accordant plus d'importance aux consultations, à la souplesse, à des décisions plus sélectives et à la coordination lors de l'élaboration des plans.

Extracto

En este documento se analiza la experiencia de la planificación en los países en desarrollo en el período posterior a la segunda guerra mundial. Las principales conclusiones son las siguientes:

. En la mayoría de los países en desarrollo, la planificación no ha estado a la altura de las expectativas.

. Las causas técnicas, administrativas y políticas del fracaso de la planificación general en las economías mixtas son inherentes al proceso y no es probable que se superen sólo mediante la adopción de medidas más energicas para fortalecer el sistema de planificación.

. En su lugar, la planificación debe reorientarse a través de la agilización del sistema de incentivos y programas de inversiones públicas, así como prestando especial atención a las consultas, la flexibilidad, la selectividad y la coordinación en la formulación de los planes.
Foreword

This study is one in a series of World Bank Staff Working Papers devoted to issues of development management. Prepared as background papers for the World Development Report 1983, they provide an in-depth treatment of the subjects dealt with in Part II of the Report. The thirteen papers cover topics ranging from comprehensive surveys of management issues in different types of public sector institutions (for example, state-owned enterprises, the public service, and local government agencies) to broad overviews of such subjects as planning, management training, technical assistance, corruption, and decentralization.

The central concern underlying these papers is the search for greater efficiency in setting and pursuing development goals. The papers focus on the role of the state in this process, stress the importance of appropriate incentives, and assess the effectiveness of alternative institutional arrangements. They offer no general prescriptions, as the developing countries are too diverse—politically, culturally, and in economic resources—to allow the definition of a single strategy.

The papers draw extensively on the experiences of the World Bank and other international agencies. They were reviewed by a wide range of readership from developing and developed countries inside and outside the Bank. They were edited by Victoria Macintyre. Rhoda Blade-Charest, Banjonglak Duangrat, Jaunianne Fawkes, and Carlina Jones prepared the manuscripts for publication.

I hope that these studies will be useful to practitioners and academicians of development management around the world.

Pierre Landell-Mills
Staff Director
World Development Report 1983
Papers in the Management and Development Series


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Introduction

Planning involves anticipating the future and formulating systematic programs of action to attain desired goals. In that general sense, all governments engage in planning; all budgets are plans, as are military or corporate action programs. This paper, however, is concerned with planning in the more specific sense of national economic planning as attempted by most developing countries after World War II for the purpose of accelerating their development. Activities such as setting up planning agencies, publishing medium-term national economic plans, and attempting to steer the pattern of economic development to meet plan objectives were some important institutional departures in developing countries in the course of their efforts to manage development. Their experience with these institutional developments is the central subject of this discussion.

The paper begins with a review of the evolution of planning in developing countries, particularly the political circumstances and economic paradigms that led to the surge of planning efforts. The next section presents a typology of planning based on the intensity of planning efforts, as indicated by the extent to which developing countries relied on techniques to formulate optimum strategy and on administrative machinery to allocate

1/ The basic philosophy of planners has been summarized well by G. Myrdal: "The basic principle in the ideology of economic planning is that the state shall take an active, indeed, the decisive role in the economy; by its own acts of investment and enterprise, and by its various controls—inducements and restrictions—over the private sector the state shall initiate, spur and steer economic development ... [policies would thus be] rationally coordinated, and the coordination [made] explicit in an overall plan for a number of years ahead." See G. Myrdal, An Approach to the Asian Drama: Methodological and Theoretical (New York: Vintage Books, 1970).
resources according to the plans. The successes and failures of planning are then examined alongside the reasons for these outcomes. The discussion closes with a comment on the emerging trends in planning and draws lessons for the future.

Three main conclusions emerge from this study. First, planning failed to live up to expectations in most developing countries. There is no clear association between a high degree of planning efforts in these countries and their performance in terms of growth. Countries that performed best were those that combined effective planning for the public sector with the avoidance of price distortions for the economy as a whole. Second, the technical, administrative, and political causes of the failure of comprehensive planning in mixed economies are inherent in the process and are unlikely to be remedied merely by more strenuous efforts to strengthen the planning machinery. On the other hand, weak planning of public sector investment leads to inefficiency and low growth. Third, planning must be reoriented toward new goals:

- Greater emphasis should be put on streamlining the incentive system, rather than on preparing long-term blueprints for development and targets for sectoral investments and outputs.

- Greater emphasis needs to be put on coordination and consultation—both within government and in the private sector—than on obtaining consistency through top-down technical exercises.

- Greater attention needs to be given to programming public investment than to detailing total national investment.
Because of the complexity of the issues, countries must be selective and must focus on the key policy issues and public investment concerns.

In view of the uncertainties of the 1980s and 1990s, developing countries must be able to respond quickly to changing circumstances by modifying their policies and programs accordingly.

If the need for consultations and flexibility is to be met, a central authority should be given responsibility for coordinating economic policies.

**Genesis of Planning**

Among the factors that led to the surge of planning in developing countries, three were crucial: (a) the apparent success of Soviet Plans, (b) Europe's wartime experience with planning, and (c) the structuralist orientation of development economics.

Up to 1960, many countries were impressed with the apparent success of the Soviet Union's five-year plans initiated in the late 1920s. It was widely believed that the plans helped in the massive and successful industrialization of the USSR—industrialization that enabled it to survive Hitler's onslaughts and become a superpower in the postwar period. Outside of the Soviet Union little was known of the high economic and human costs of collectivization of farms in the 1930s, the exploitation of the peasant to extract surplus, and the slow improvement in the standard of living. Nor was attention paid to the political and administrative power required for
effective planning or to the difficulties of exercising such power in mixed economies with democratic aspirations.

The experience of the United Kingdom (and its colonies) during World War II also helped to popularize national planning. During this period, most consumer goods, producer goods, and foreign exchange were rationed in the United Kingdom. It was believed that the efficient sharing of these goods achieved through government controls would not have been possible through markets. Even in the postwar period, European recovery programs relied heavily on national efforts orchestrated by government, and the success achieved was remarkable. These experiences contributed to the perception that planning had been successful. Few recognized that the extent of national consensus and cooperation achieved in times of war or during postwar reconstruction may not be sustainable in the context of long-run development.

The case for planning was further strengthened by the orientation of development economics. Most of the pioneers of development economics, such as Rosenstein, Rodan, Hirschman, Nurkse, Myrdal, and Lewis, belonged to the structuralist school. The basic tenets of this school were that, owing to social, cultural, and institutional rigidities, the resource flows in developing countries follow traditional lines and are not responsive to prices. Modernization, the structuralists argued, requires a massive reallocation of resources, which in turn requires administrative fiats. They emphasized the market failures without noting that many of these—for example, pollution or economies of scale—become more important only at a later stage of technological development. Nor was attention paid to the possibility that bureaucratic failures could be even more serious than market failures. The faith of the elite in their knowledge of what is good for the masses was unbounded, and it was further strengthened by the development of computers and
programming techniques that suggested social engineering advances comparable to the great achievements in the physical arena. Further impetus was given to planning by international assistance agencies, which believed that their effectiveness would be increased if they knew how their assistance fitted into an overall development program.

Typology of Planning

Since 1950 more than 300 plans have been formulated in developing countries. They have varied enormously in their intentions and achievements. A precise classification of these plans into a neat typology is obviously difficult to construct. However, it may be useful to view them as variants of three broad types: (a) plans in the sub-Soviet belt covering Asia, eastern Europe and northern Africa, which were strongly influenced by the Soviet example and Fabian socialism and which tried by and large to be comprehensive and dirigiste; (b) largely formalistic, often even ritualistic, plans in sub-Saharan Africa and the Caribbean, where colonial traditions and aid mobilization played the key roles; and (c) plans in Latin America, which were largely side shows and which focused primarily on industrialization through import substitution.

The sub-Soviet Belt

Almost all the socialist economies of Europe and Asia drew their inspiration for planning from the Soviet Union. Initially, emphasis was on achieving material balances and administrative allocations of investment and output. However, as problems with socialist planning accumulated, countries switched in varying degrees to markets and prices. Yugoslavia started the process in the 1950s, Hungary in the 1960s, and China in the late 1970s. In
recent years, even the Soviet Union has been moving away from its earlier emphasis on material balances and administrative allocations.

In the mixed economies, India was a pioneer in development planning. Even before independence in 1947, the Indian National Congress Party had formed a planning committee, which produced several unofficial plans. The colonial government also set up a Planning and Development Department, which produced a five-year plan and a fifteen-year perspective plan. After independence, planning was taken up with all seriousness. Prime Minister Jawaharlal Nehru was an ardent advocate of planning for the modernization of India. P. C. Mahalanobis and P. Pant were the key figures in developing the techniques of planning, particularly in the areas of heavy industries and sectoral balances; they and several other officials visited the USSR to learn from the Soviet experience. The approach was comprehensive and dirigiste. The objective was to manage the national resources—both public and private—in such a way that the national objectives of growth and minimum consumption needs could be achieved. Interindustry analysis was used to determine sectoral investment allocations and define sectoral output targets. Administrative fiats were to be used not only to provide resources in preferred directions, but also to divert resources away from nonpreferred areas by means of a detailed system of licensing and production quotas. In practice, of course, the vision of planners could not be fully implemented. But the weaknesses were regarded as circumstantial; the planners thought that with greater effort at technical sophistication and with more administrative and political will, allocation along a planned path would be feasible. The inherent reasons for failures of their blueprint approach were not understood. Despite some ups and downs, the basic confidence in comprehensive and dirigiste planning continued in India up to the 1970s. Only recently has
there been some move toward allowing a greater role for markets and prices in the allocation of resources.

Both Pakistan and Turkey, meanwhile, focused weakly on planning in the 1950s. Their economic performance in that period was poor and was perceived to be partly due to the absence of plans. As a result, the 1960s witnessed a surge of planning, which in both countries was comprehensive and dirigiste but permitted greater use of prices than was the case in India. In the face of the economic difficulties of the 1970s, however, both countries moved away from their earlier approach and placed greater emphasis on prices and markets.

Bangladesh, on the other hand, started with tremendous political enthusiasm for planning, backed by considerable technocratic abilities. The approach was comprehensive and dirigiste. However, partly because of the adverse external environment, the First Plan was largely a failure. It was a dramatic demonstration of the inherent political, technical, and administrative weaknesses of this type of planning in a poor and aid-dependent economy. In the ensuing years, Bangladesh has switched to concentrating on key sectors such as food and to making greater use of markets and prices.

The East Asian economies of Japan, Korea, and Singapore developed their own brand of planning, which can perhaps be characterized as comprehensive cooperative planning. As in South Asia, the approach was geared to managing the national resources—thus the focus was on comprehensiveness. However, the Confucian traditions of these countries allowed them to develop a unique approach combining partnership with pragmatism. The private sector and government relied on consultation and cooperation in designing a long-term strategy as well as short-term action programs. With fewer postcolonial hang-ups than South Asia, these countries managed to be pragmatic about the role of
prices, the private sector, and foreigners. Their plans were characterized not by technical sophistication or strict adherence to targets, but by consultations and flexibility.

In Southeast Asia—Malaysia, Thailand, Indonesia, and the Philippines—planning was weaker than in South or East Asia. The Colombo Plan and the international aid agencies provided the initial incentive for planning. Plans were geared more to macroeconomic balances than to sectoral consistency. Adherence to plans was weak, not only because of inadequate political and administrative support, but also because of the readiness to adjust to changing circumstances.

Sub-Saharan Africa and the Caribbean

In much of sub-Saharan Africa and the Caribbean, planning was largely foreign inspired and often managed by expatriates. In several British colonies—for example, Ghana and Tanzania—the colonial administration had formulated development plans before World War II. During the war, many colonial governments were, of necessity, doing some planning. After the war, the socialist government in Britain insisted on plans under its Colonial Development and Welfare Act of 1945. Bilateral as well as multilateral aid agencies not only encouraged planning but also provided technical assistance for preparing the plans. France and Belgium also formulated development plans for their colonies and provided technical assistance for plan preparation after independence. By and large, most of these plans were comprehensive, yet indicative so far as the national economy was concerned and directive only for the government expenditure. Even so, the political support behind planning was weak—except in a few countries such as Botswana and Malawi—and plans were largely ineffective. In addition to the inherent weaknesses of planning
mentioned above, most African and Caribbean countries were characterized by a weak data base, a shortage of planning expertise, and weak administrations.

**Latin American Region**

Latin America was the slowest region to embrace comprehensive formal planning and to publish any plans. Import substitution strategy inspired by R. Prebisch (and the Economic Commission on Latin America (ECLA)) was the core of their development effort. More attention seemed to be paid to sectoral and project planning and less to central consistency planning than was the case in Asia. ECLA was a strong proponent of planning but made little headway. It was only with the founding of the Alliance for Progress that most countries elaborated formal plans to qualify for aid. The consensus is that plans in Latin America had very little influence on economic decisionmaking; in fact, Mexico, whose economic performance in the 1950s and the 1960s was among the best in Latin America, did not have any plans at all.

**Successes and Failures in Planning**

The degree of success achieved by planning is extremely difficult to assess. Planning has many purposes--some stated, some unstated. To the extent that the purpose was to mobilize foreign aid, plans may have served their purpose well, even if the programs were not implemented or targets not reached. To the extent that plans served as an instrument for mobilizing public support for national goals, providing interministerial coordination on policies and programs, and increasing emphasis on economic rationale, the process of planning itself sometimes helped to achieve the purpose, irrespective of what happened to the product. Nor is the lack of a detailed implementation program necessarily a valid criticism of planning insofar as
the plans were geared to defining a broad strategy (a "vision") and left the
details of action programs to be determined as the situation unfolded.
Similarly, the lack of adherence to targets is not necessarily an indicator of
failure because change in circumstances might have made the departure from
targets desirable. In fact, in the successful cases of development, such as
Japan, plans were neither detailed nor rigidly adhered to. Strictly speaking,
the only valid criterion for judging the impact of plans is whether the
performance would have been better or worse in the absence of plans, and that
is obviously difficult to assess.

Although the impact of planning cannot be fully assessed, the growing
disillusionment with planning over time, particularly with the comprehensive
dirigiste type, is noteworthy. In many cases plan targets were exceeded, but
often plans failed to achieve balance even in key sectors such as power or
transport. Despite some positive effects, the poor implementation of plans
has clearly undermined their credibility even as an instrument for mobilizing
political support. Also, by its nature planning introduced certain biases—in
favor of overambitious goals, the public sector, large projects, new projects,
and administrative fiats. In many cases these biases proved costly. Most
countries—for example, Korea and the Philippines—are now moving away from
sophisticated model building for resource allocation.

A review of the experience of the 1970s reveals that the best
performers were neither the countries (such as India, Bangladesh, Turkey,
Ethiopia, and Sri Lanka) that attempted comprehensive dirigiste planning nor
those (such as Nigeria, Senegal, Argentina, Ghana, Jamaica, and Chile) that
put forth a weak planning effort. Rather, countries (such as Korea, Malawi,
Malaysia, Colombia, and Kenya) that performed best by and large relied on
streamlining incentives for guiding the private sector, but did provide a
macroplanning framework for their public investment programs.
Problems of Planning

The literature on planning (see Bibliography) has dealt with various problems of comprehensive planning, particularly those arising at an early stage of development. Typical problems are: a weak data base, shortage of well-trained staff, inadequate cooperation from other ministries, and poor links with the budgeting and evaluation processes. With additional resources, these problems can be alleviated over time. More serious are the inherent problems—technical, political, and administrative.

Experience has revealed the inherent limitations of the technocratic blueprint in a rapidly changing environment. Available analytical techniques are just not able to cope with the complexity of economic change to produce plans that are up to date, relevant, and comprehensive. Investment planning based on input-output models has fallen foul of unforeseen changes in technical coefficients and demand patterns. Similarly, manpower forecasting has been highly inaccurate because of the difficulties in specifying particular types of skills and in projecting demand over a long period. 1/ These technical weaknesses are unlikely to be cured by any foreseeable improvement in data and analytical techniques. Obsession with efforts to improve comprehensive programming capacity diverts attention and resources from more relevant issues. The alternative of making greater use of markets and prices generates less formidable technocratic problems and allows more efficient adjustment.

1/ See S. Ozgediz, Managing the Public Service in Developing Countries, World Bank Staff Working Paper no. 584 (Washington, D.C., September, 1983).
From a political point of view, the problem is that plans constrain the economic choices that the politicians see as their prerogative. The clarity and certainty sought by plans conflict with the flexibility and fuzziness that are often the life-blood of politics. In the real world of politics, any attempt to detail a blueprint risks confrontation with political interests and can easily become counterproductive.

Third, there are inherent administrative limitations. For one thing, in most developing countries, a great many economic decisions are made by the private sector outside the control of the administration. Even where the administration is effectively in control, the plan objectives are not always shared by the bureaucrats implementing the plans. Deliberate obstruction and distortion by bureaucrats—as individuals and as sectional groups pursuing their own interests—lead to bureaucratic failures that are even more serious than market failures.

Emerging Trends and Lessons

As the limitations of planning—both circumstantial and inherent—have become clearer, many developing countries have moved away from comprehensive dirigiste plans. Particularly in the 1970s, when the world economy was subjected to severe shocks, the limitations of such planning became more and more obvious. It is interesting to note that this trend is quite different from that visualized by earlier planners. For example, Waterston (1965) concluded from his review of the planning experience that planning passes through natural stages after the stage of development—first, plans concentrate on project preparation; next, they develop public investment
programs; and eventually they become comprehensive. Another strand of thought in the 1960s was that implementation needed greater attention than the formulation of plans. The emerging trends, however, seem to follow a different path. Countries such as Korea and India have moved away from comprehensive dirigiste planning despite their higher stage of development and increasing technical expertise. Moreover, successful cases of development--such as Korea and Japan--are distinguished by the flexibility of their planning, which suggests that strict adherence to plans may not be a virtue in a changing situation. There is a growing realization among developing countries of the limitations of econometrics as an analytical tool, and a growing appreciation of the power of prices and markets, and of the importance of consultations, selectivity, flexibility, and coordination. These trends are further elaborated below.

Getting Prices Right

The future is unknown and largely unknowable. Therefore planners should try to forecast only to the extent necessary for making decisions in the present. One important aspect of policymaking that does not require forecasting, but that can have large benefits in terms of efficiency, is streamlining of the incentive system. There is strong evidence to suggest that policies leading to high distortions in prices and incentives also lead to significant losses in growth and do not necessarily produce benefits in terms of equity. More specifically, countries with relatively high growth rates have pursued the following policies:

- Avoided appreciation of the real effective exchange rate
- Kept the effective protection rate of manufacturing both low (below 40 percent) and even among products
Avoided the high taxation of agriculture by holding down producer prices

- Kept interest rates positive in real terms and avoided real wage increases not justified by rising productivity
- Applied cost recovery principles in the pricing of infrastructure services
- Avoided high and accelerating inflation

The empirical evidence of the 1960s and 1970s strongly suggests that nothing is more critical for economic progress than the skillful management of this interconnected system of prices and incentives. Many recent plans do, in fact, give much greater attention to prices and markets. For example, Korea's Fifth Plan (1982-86) makes greater use of markets and prices in its central focus. Plan projections—even of exports—are treated not as targets, but as forecasts indicative of planners' best judgements. India's Sixth Plan (1981-85) has an extensive discussion on price policy.

Sound Public Investment Program

Right prices help in the efficient allocation and utilization of resources in both the private and public sectors. However, governments do need to plan public investment carefully and in detail. \(^1\) To ensure effective planning of public investment and to give guidance to the private sector, countries must rely on medium- and long-term forecasting to a certain extent. The art here lies in identifying the critical minimum forecasting necessary for these purposes. Most important, the variables such as GDP, saving, investment public revenue, public expenditure, export, import, foreign

\(^1\) For a review of issues that must be tackled in improving integration between budgets and plans, see Annex I.
capital inflows, and so on, need to be projected to provide an informed macroeconomic and financial framework for decisionmaking. Insofar as sectors are concerned, forecasts in a few key areas such as power, transport, and energy are more useful than detailed forecasts of sectoral and subsectoral outputs and investments. In particular, extensive medium-term targeting of outputs and investments has not proved useful. The emerging trends point to a need for the programming of public investment combined with forecasting (not targeting) for the private sector.

Experience suggests that the approach adopted by many developing countries needs to be reoriented toward the appraisal of public investment programs. The typical comprehensive planning approach is to formulate medium- and long-term output targets, work out the investment requirements for meeting those output targets, and then decide which of these sectoral investments should be undertaken by the public sector. Many countries have found, however, that the planners' knowledge of sectoral investment-output coefficients and time-lags is so limited that these exercises are of little value in practical decisionmaking. Moreover, the comprehensive planning approach and its inherent biases have led to overloaded public investment programs. In many countries a key issue for the 1980s is how to streamline the completed and ongoing projects rather than how to design new investment programs. A recent survey by the World Bank showed that for six out of ten of the Bank's borrowers the problems of underfunding of ongoing projects and the maintenance of completed projects have assumed serious proportions—and that tackling these problems requires a case-by-case approach very different from the earlier investment programming approach (as illustrated by the recent reviews of public investment programs in Turkey). This approach concentrates on getting the best returns from completed and ongoing projects and
identifying the "free" public sector resources available after budgeting for the legitimate needs of these projects. It also puts greater emphasis on performance auditing of completed and ongoing projects than was the case earlier. 1/

Calculations of "free resources" would no doubt show that in most developing countries the amount of public resources available for initiating new projects is far short of the costs of projects being proposed by various public sector agencies. Thus the role of the planning agency is often to "shoot down bad projects"; consequently, the strengthening of the project appraisal capacity has become more important than the overall investment programming capacity. In this respect, calculations of rates of return (with shadow prices where appropriate) are more useful than the analysis of sectoral demand-supply balance, except in a limited number of cases where market failures are demonstrably important.

Consultative versus Technocratic Approach

Whether it is for the formulation of the right incentives or for the designing of sound public investment programs, close consultation among the concerned agencies is vital. Given the complexity of the problems, analytical techniques in themselves generally do not provide optimal solutions; qualitative judgment is essential in the process. Such judgments are most likely to be obtained through consultation, not only in different parts of the government, but also with businessmen and academics. Japan, Korea, and Brazil have, for some time, employed consultation to improve their economic management. To be effective, such a process should remain consultative and should not require conformity. Its functions should be primarily

1/ For a review of issues in program evaluation, see Annex II.
informational and consensus building. An interesting case is that of Yugoslavia, where self-management planning has attempted to improve ex ante coordination of investment decisions by facilitating the exchange of information on the consistency of assumptions and by merely strengthening eventual contractual agreements.

Learning versus Blueprint Approach

The experience of the 1970s has shown that even the best-laid policies and programs can become out of date in changing circumstances, and that the "learning approach" is more effective than the "blueprint" for national economic management. Flexibility is therefore essential for sound management. In Chile, for example, rigid adherence to certain policies has merely been counterproductive, and the inability of Mexico, Venezuela, and Turkey to adjust their public investment programs to reduced resources has led to disruption. To assist in the process of adjustment, several countries (for example, Bangladesh) have found it useful to identify a core program of high priority investment so that, in cases of resource shortfalls, program cuts can be selective rather than across the board. Rolling plans of public investment (such as those instituted in Botswana and Korea) also help in keeping the programs up to date.

Selective versus Comprehensive Approach

Reconciling consultations with flexibility is not easy. Consultations take time, whereas flexibility requires quick response. To reconcile these requirements, two devices are helpful. First, governments need to be selective in the goals and key instruments they emphasize. Theoretically, everything depends on everything else and a comprehensive approach is intellectually attractive. In policymaking, however, one cannot work out everything at the same time, and selectivity is essential, even
though it is often based on judgment. This approach has already been adopted in many countries: in Japan, both the national plans and the visions of the Ministry of International Trade and Industry have concentrated on selected themes; in Korea, export promotion has been a focal point for the development effort; in Bangladesh, planning was improved when it was directed at key issues such as increasing food production; in Malaysia, improvement in income and wealth distribution between Malays and non-Malays has been the central theme for the past ten years; in mineral-based economies such as Botswana, planning has concentrated on trying to convert mineral wealth into human and physical capital, while minimizing the adverse side effects on the rest of the economy; and in Kenya, the practice of preparing sessional papers on key issues has proved useful.

Second, to combine flexibility with consultation, countries may have to rely on a central authority for coordinating efforts. In Korea, planning, budgeting, and policy functions have been integrated under a Deputy Prime Minister, who is also the chairman of a policy committee consisting of various economic ministries. In Brazil and Japan, the finance and industry ministries have played an active part in coordinating policies. In Hungary, that role has been assumed by an economic policy committee. In both India and Pakistan, the policy review capacity has recently been strengthened in the planning agencies and in the office of the prime minister and the president. Although the specific arrangements depend upon the circumstances of each country, an authoritative coordinating agency is clearly desirable.

**Monitoring Recent Developments versus Forecasting the Future**

Planning is concerned with where we want to go; however, that task cannot be accomplished successfully unless we know where we are and where we have been. Although the former task is intellectually stimulating and has
thus engaged the attention of planners, plans cannot have relevance unless they are well grounded in facts. Thus, a strong information system is essential for all aspects of economic management. Systematic adjustments in policies and programs, necessary in a fast-changing world, are not possible without the reliable monitoring of current developments. As a rule, detailed information—especially about key performance indicators—brings bigger dividends for economic management than do sophisticated techniques of long-term forecasting.

Costs of poor data. The problems of planning without facts have been well documented in Africa; they are serious in many other countries as well. Lacking sectoral statistics, governments have not been able to address sectoral issues. This lack proved particularly damaging when oil prices rose sharply in the 1970s, because few developing countries had the data they needed to reassess their energy requirements and to develop conservation programs. For years, the lack of adequate agricultural statistics has seriously handicapped the analysis of agricultural development programs and the formulation of policies. And the whole world has now learned of the dangers of ignorance about a country's financial position. In several countries—notably Indonesia, Mexico, and Turkey—the external debt crisis was compounded by the lack of comprehensive data, especially on private debt (which had been growing rapidly). Finally, at the project level, the absence of effective monitoring and evaluation procedures has hampered mid-course correction and has made it hard to feed back information that could help in the design of future projects.

Benefits of sound data. The rewards of a strong information system are illustrated by the experience of several countries, particularly Kenya, Bangladesh, India, and South Korea. Korea's export-oriented strategy was
greatly aided by comprehensive and up-to-date statistics on foreign trade. Kenya, through its rural household surveys, gathered estimates of food production and prepared crop forecasts that proved invaluable in the drought of the late 1970s; the authorities were able to act quickly in organizing transport and distribution of supplies to the drought-stricken areas. By contrast, the countries of the Sahel region had poor or nonexistent information on food production, which made it difficult to organize effective drought relief operations in the 1970s. Improved data on food supplies helped Bangladesh to tackle food shortages in 1979 much better than it had done in 1974. And in India the recent centralization of information on movements of railway wagons has helped to improve the railway's efficiency, with spinoff benefits for industries like coal and fertilizers.

**Statistical priorities.** Since it is expensive to collect information, governments need to set themselves clear priorities. This task can be assisted by a medium-term plan for statistical development, as the Malaysian experience has shown. Such plans identify not only the required figures, but also the tools needed to collect them—equipment, manpower, offices, and so on. In many countries, priorities include financial statistics that cover both external debt and government receipts and spending. In several countries, however, even the basic details of the national income accounts and balance of payments are missing or are unreliable; as a rule, these should receive priority.

To promote flexibility in policymaking, governments need to make more use of sample surveys and administrative records. Well-planned and well-designed sample surveys are relatively inexpensive, impose a smaller burden on the statistical office, and can produce thorough and up-to-date information. Kenya has made wide use of such surveys; its Central Bureau of Statistics is
now able to provide sound historical data as well as current statistics for short-term policymaking, particularly in the area of food and agricultural policy.

The administrative records of government agencies can also provide valuable information that is readily available. The records of different agencies can often be linked in useful ways; in Malaysia, for example, information on family planning acceptors has been combined with records on births to indicate the impact of the family planning program. The usefulness of administrative records can be enhanced if statistical agencies are consulted during the design of administrative forms and during the development of appropriate classifications and codes.

Recent advances in microcomputers and associated software have revolutionized the opportunities for providing decisionmakers with the analysis of relevant data. Being relatively inexpensive, portable, resilient, and easy to operate, microcomputers are suitable for work in rural areas and for middle and junior managers who have no special programming skills. The availability of a rapidly growing library of software tailored to special needs is also a critical factor. Before they can be fully exploited, however, accounting systems will have to be rationalized and appropriate indicators developed for program monitoring.

Conclusion

A review of thirty years of planning in developing countries shows that planning machinery needs to be reoriented rather than abandoned. The desired means of reorientation are: streamlining incentive system and public investment programs; and emphasizing consultations, flexibility, selectivity,
and coordination in formulation of plans. Efforts should be directed more at improving the data base needed for policy analysis and decisionmaking and less toward preparing detailed long-term economic projections.
Improving Integration between Plans and Budgets

Government budget is the principal administrative instrument through which economic plans are transformed into tangible achievements. In the course of development planning since 1950 various efforts have therefore been made to strengthen the links between budgets and economic plans. However, the degree of success achieved has been limited. Key issues in this connection are: the organization of budget and planning office, the classification of budget items, the control system for implementation, and the monitoring and evaluation of budgetary outcome.

Organization of Budget and Plan Offices

Several approaches have been taken in integrating budgeting and planning functions; they fall into basically three types: (a) the planning agency takes over the budgeting function, (b) budgeting takes over the planning function, or (c) these two functions are taken over by a national ministry of finance and planning. Variants of the first approach are to be found in Brazil and Korea, where the performance under this arrangement was quite good. The second one, primarily applicable to industrial countries, was attempted through Planning Programming and Budgeting Systems (PPBS). The third approach was tried in the Bahamas, Bahrain, Pakistan, Singapore,

Tanzania, and Zambia, but the organizational mergers in these cases often proved to be unwieldy, and in the absence of well-developed coordination mechanisms they worked out less than smoothly. This was due to the fact that each agency developed an administrative style of its own and it did not lose its identity, even when integrated with others. Consequently, several countries allowed budget and planning agencies to have separate functions. Some countries, notably Pakistan, Tanzania, and Zambia, have gone through cycles of separate functioning, followed by integration, and eventually reversion to separate functioning.

Budget Classification

Irrespective of organizational structure, conformity of budget to investment program categories is important for their integration, and the reclassification of budget items is generally necessary for this purpose. In the early days, the primary purpose of budget classification was to establish a basis for legislative oversight through the provision of information on what the spending unit was and what the government was trying to do with appropriated funds. Toward this end, classifications were devised to show the objects of expenditure (salaries, equipment, and so on) in addition to the organizations that were responsible for incurring them (or points of control). Classifications of this type proved to be inadequate, however, during the first few years of developmental planning. Instead, budget classification schemes were developed to divide government receipts and expenditure according to function, program, and economic category. Within this broad framework, several variations are evident in the developed countries. A commonly used variant is classification into current and capital budget. Controversies abound on the measurement of capital outlays and their usefulness. Supporters of the dual budget suggest that such measurement
facilitates a clear identification of borrowing and its utilization. Also, the separation of current and capital transaction facilitates the evaluation of balance on the current account as a key variable of economic policy. Opponents argue that a dual budget contributes to needless emphasis on brick-and-mortar projects, and, conversely, to the neglect of maintenance outlays. Another variant is to prepare, apart from the regular budget, development budgets (these are prevalent mainly in west and east African countries). These budgets comprise foreign-aided projects, or, where national development plans are formulated, they cover all plan outlays irrespective of their economic character. Budgets can also be classified by functions or programs if they are administered by several agencies, but the aggregation would show the linkages and a better comprehension of the objectives of expenditure. Yet another approach is to classify government transactions into categories that facilitate the assessment of the impact of the budget on the economy—for example, consumption expenditures, subsidies, transfers (domestic and abroad), capital formation, and so on.

Although these budget classifications are improvements over the traditional practices, many weaknesses need to be taken care of if they are to serve as useful instruments of planning and financial management. First, the basis for the division of receipts and expenditures into current and capital items is not always delineated and there is frequent switching of funds from one category to another. Second, the functional and program classifications are too broad to serve either planning or managerial purposes. Third, the classifications used for budget and development plans are different, and some countries (for example India) have had to develop link documents to provide a crosswalk between budget and plan categories. The effective linking of budgets and plans depends on uniform classification for plans, multiyear
budgets, annual budgets, and annual accounts of governments. Classifications should not be viewed as static groupings, but need to be frequently reassessed or updated to reflect the changing tasks of government. No single classification can meet the diverse requirements of government, and various subclassifications would need to be devised to meet the different purposes; each one, however, can and should be so arranged as to contribute to and supplement the main classification used for budgets and accounts.

Budget Control

The implementation of many a development plan, experience reveals, has been hindered by the excessive use of negative controls by the finance and planning agencies. In normal situations, once budget allocations are made, the responsibility associated with requisite freedom is expected to be entrusted to the spending departments that are to implement the budget; the central agencies, for their part, are expected to depend on various accounting reports to monitor the overall financial progress and its implications for national economic policies. However, budgetary uncertainties have made central agencies reluctant to allow the spending agencies to have any freedom and, over the years, the dependence of spending agencies on central agencies has steadily increased. This situation is paradoxical in consideration of the generally held view that, as the operations of government increase, decentralization would become necessary because of the usual futility of any centrally imposed command solutions or centrally administered controls. To some extent, this problem has been recognized, and some countries (for example, Bangladesh, India, and Pakistan) have sought to mitigate it through the appointment of financial advisers, who in effect are nominees of the finance ministries, to help selected spending ministries. On the whole, however, the progress in building up adequate financial management capability
within spending agencies has not been considerable; even in countries that have made some progress in this direction, that progress has been offset by the reimposition of highly centralized controls during periods of financial austerity.

The need for decentralization of financial powers and greater operational freedom among spending departments is so evident in the situation that it requires no special advocacy. Central controls can have only limited success, and that, too, can be expected only in specific situations; their persistence over prolonged periods is bound to be dysfunctional. Also, the central agencies do not have the capabilities to comprehend and administer the wide variety of governmental operations. On the other hand, government policies cannot be implemented unless the responsibility for formulating administrative policies goes hand in hand with the management of related finances; integration of administrative and financial responsibilities is, therefore, vital. As a corollary, once resources are allocated after adequate scrutiny, and with reference to specific programs and expected results, the spending agencies should be made accountable, not only for the routine observance of routine accounting checks, but primarily for results. The resources allocated need to be viewed as contractual obligations on the part of the spending agencies to deliver results. This, in turn, requires that the spending agencies have viable financial management capabilities to estimate and monitor costs and to fulfill the program tasks within specified cost ceilings. As a preliminary step, governments must undertake a review of the status of financial management in spending agencies and must begin, in selected major spending agencies, to organize and staff appropriate financial units. Given the general shortage of trained administrators, the process of
decentralization is likely to be a slow and long journey, but the need for taking the first and decisive step itself cannot be overemphasized.

The need for decentralization will have to be tempered by a recognition of the need for macroeconomic management as well as for orderly financial management in the central agencies. Their role should be to receive information that would be used to monitor progress, which could then provide feedback for making policy adjustments. The procedures in cash releases and related cash management also need strengthening. Further progress in budget cash implementation depends vitally on the building up of financial management capabilities in spending agencies and on the strengthening of financial information systems.

**Financial Information System**

The growth of financial information systems, however, has been hampered by the inadequate progress in modernizing government accounting systems. In several countries accounts are maintained by a central office, and the need for building up policy accounts within spending agencies, although recognized, has not been adequately met. The classification used in accounts has been geared more to traditional legislative concerns. The basis of accounting itself remains an issue and cash accounts are not always available. Furthermore, the proliferation of special accounts or autonomous entities needing frequent reconciliation hampers the timely submission of accounts. As a result, even today government accounts in many countries are published long after the close of the financial year.

Hoping to mitigate the above problems, several governments have installed electronic data processing systems (EDP systems) to speed up the compilation and consolidation of data. Some countries, notably India and Korea, have also evolved and implemented improved financial reporting systems, which cover more than just government accounts.
The main advantage of EDP systems is their capability for handling a greater volume of work, quickness in compilation, ready retrieval procedures, and, during more recent years, lower costs of operation. The introduction of EDP systems requires well-organized payment procedures (whether on a centralized or decentralized model), standardized bookkeeping practices, and an efficient postal system. Computerized accounts offer a unique and simultaneous opportunity for both central and spending agencies to make use of financial information. Since information can be organized in terms of various building blocks, they can be arranged so as to meet the different requirements of users.

The computerization of accounts, a significant step forward, has been undertaken by many countries, with mixed results. A few (such as Bahrain, Saudi Arabia, and Kenya) have successfully implemented computerized systems and have thereby collected up-to-date financial information. Others (such as Guyana, Liberia, Papua New Guinea, and Tanzania) have experienced considerable problems after introducing EDP systems. In their case, accounting systems and procedures were not rationalized prior to the introduction of EDP systems. Where procedures were reorganized, problems were encountered in managing the inputs into the computer. Operations by inexperienced and poorly trained staff contributed to classification errors, and, consequently, final outputs were far from recognizable to those engaged in administering them. When the results proved disappointing, one country (Tanzania) reverted to manual procedures.

These experiences illustrate the need, not for caution in the introduction of EDP systems, but for rationalizing accounting systems as a precedent. It is essential that governments review the use of EDP systems and make efforts to utilize them as instruments for generating financial information.
Postbudget Evaluation

Traditionally, postbudget evaluation has been undertaken in the form of audits. Government audits have been confined largely to appropriation audits and to the observance of census of financial propriety. Since 1960 various efforts have been made to improve techniques in evaluating the implementation of development programs and projects, but no definitive style of performance or efficiency audits has developed. A review of experience in this area is provided in Annex II of this paper.
The successful implementation of budgeting procedures designed to reflect developmental priorities faces many difficulties in the developing countries. Despite considerable improvement in recent years, budgeting systems that were originally developed to meet the requirements of smaller, less demanding governments and that are incapable of supplying the information and analytical support required by a modern government still dominate the budgeting practices of most countries. In the Third World, where these problems are compounded by shortages of staff and resources, budgeting systems have militated against the successful achievement of many developmental plans and objectives. This discussion is about these difficulties. The establishment and evaluation of budget objectives, and the role that budgets, organized by programs and outputs, can play in ameliorating some of the current difficulties, are the main themes.

**Budgeting in the Third World**

**Administrative Difficulties.**

The problems in developing a budget that will accurately forecast the demand to be made on a government's revenues, and ensure that the day-to-day

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1/ This annex is based on a report prepared by Peter Bowden of Monash University, Australia.
expenditures against the budget reflect development priorities, can be traced to several sources:

Budget estimates. Few Third World countries have the capability to process all the historical data and cost estimates needed to prepare an accurate budget for each program. The result is an overestimation, or more usually an underestimation, of demands to be made on funds throughout the budget year. Sri Lanka, for instance, in recent years has experienced underexpenditures on development projects that have been as low as 10 percent of the budget. In some years as little as 50 percent of the development budget was expended. Tanzania has experienced similar problems. (Both countries have now installed budget control procedures designed to cope with this difficulty.) More common, however, is a poor estimation of the costs and possible achievements against the development budget.

Project delays and cost overruns. Delays in project completion and frequent increases in project and program costs—which are particularly acute during periods of rapid inflation—increase the variations in expenditures and thus the difficulty in anticipating and controlling cash expenditures against a budget. The consequences are less-than-planned achievement from budget expenditures and a slowing down of overall development progress.

Controlling expenditures. Many systems of accounting for expended costs use slow data collection procedures, are sometimes required to account for expenditures made from several accounts, and all too frequently rely on cash accounting rather than accrual accounting. The resulting slow disbursement and accounting for funds expended may be aggravated by the costs and difficulties of installing data processing and funds transfer facilities. The Philippines, for instance, was for many years forced to operate funding accounts for each of its implementing ministries. Because
considerable time was required in each accounting period to ascertain expenditures made from several accounts, all too frequently agencies rely on cash accounting rather than accrual accounting. The resulting slow disbursement and accounting for funds expended may be aggravated by the costs and difficulties of installing data processing and funds transfer facilities. The Philippines, for instance, was for many years forced to operate funding accounts for each of its implementing ministries. Because considerable time was required each accounting period to ascertain the central demand on budget resource, some projects had excess funds for current needs, whereas others were starved of funds. Although this system was successfully overhauled, the ministry still lacks the close operational control necessary to manage a development budget.

Revenue collection. An accurate estimate of the income available to fund a budget for a given year is difficult to achieve even in western countries, and it is certainly more difficult than estimating expenditures. A government's income depends on the performance of the domestic economy and, for many Third World countries, on international commodity prices, which are difficult to estimate in advance over the budget year. Furthermore, developing countries must cope with uncertainty regarding the timing of the flow of aid funds, and the limited borrowing capacity of the public sector. Once again, the consequences can be shortages in available funds, and a reduction in the achievements of some developmental programs.

Political factors. Some projects have a high political visibility and are regarded as sufficiently important to receive funds ahead of other, less visible projects. Apart from distorting expenditures against planned developmental priorities, such funding methods result in token releases,
enabling the project or program to be operational, but at a rate that extends its completion date considerably or spreads its benefits over a longer period.

**Provision for current expenditure.** The problems experienced in providing budgeted funds for staff and in maintaining fixed investments are readily understood in this context. The Third World's development efforts abound with examples of capital investments such as roads, hospitals, schools, or even entire industries, the full potential of which is not being achieved owing to shortages of current funds for staff, equipment, maintenance, or imports of materials and spare parts.

**Trust accounts.** The difficulty of ensuring that continuing funds will be available for key programs has led many countries to earmark particular income sources for special trust accounts that are to be used only for programs and activities designated by law. In many Third World countries, for example, port dues are earmarked for harbor maintenance, and aircraft landing dues and departure taxes for civil aviation administration. Although the principle of "user pays" is difficult to contest, the practice may mean that the resources used by a government do not reflect its priorities.

**Consequences and solutions.** The results are seen primarily in a "stop-start" flow of funds to the development budget, or to particular projects within this budget. The routine or current budget is usually unaffected (it largely comprises the salaries of the civil service and is not easily changed in its funding requirements), as are projects that have a large foreign aid component (many aid agencies make the release of foreign exchange contingent on adequate levels of local currency funding).

Many Third World countries attempt to overcome the uncertainty of cash availability and the resulting stop-start flow of funds to development projects through a system of monitoring expenditures directly from the
programs and projects. These systems often use the program manager's estimates of actual expenditures rather than incur delays in waiting for the receipt of accurate accounting data. In addition, most request periodic (usually quarterly, but sometimes monthly) forecasts of future expenditures, which are then matched against estimated availability of funds.

Another means of providing adequate budget appropriations and funding levels for development activities is to improve budget planning and control. Steps in this direction—which at times may require very large changes to existing practices—include:

- Procedures for collecting historical cost data
- Greater delegations to implementing agencies in permitting changes in expenditures between budgeted items
- Uniform, strengthened, and centralized disbursement and accounting
- Introduction of accrual or commitment accounting where appropriate
- Estimation of total or life cycle program costs and their inclusion in a multiyear budget (development and current)
- Strengthened procedures for estimating revenue collections, foreign aid disbursements, and the likely exchange rates that will govern much of a budget year's income.

A particularly effective step might be to change the procedures for analyzing and presenting budget data. The construction, appropriation, and control of a budget under a program format, for example, in conjunction with the analysis and identification of anticipated outputs, would reduce some of the problems listed above. Methods of budgeting by programs are known variously as Program Budgeting (or Planning, Programming, Budgeting Systems, PPBS), Output Budgeting, or sometimes Performance Budgeting. These budgeting systems facilitate the construction of a budget by a priority ranking of programs, and in times of stringency enable cuts to be made against this
ranking, rather than by a budget controller's assessment of activities that are most amenable to a reduction in funding. (The applicability and benefits of Program Budgeting in Third World countries are discussed later.)

**Budgets not related to plans.** In most Third World countries the policies and investment priorities that are intended to maximize social and economic well-being are based on long-term and annual development plans drawn up by central planning agencies. The ministry of finance prepares a separate budget for each government agency, and usually lists proposed expenditures under traditional budget items such as salaries, travel, accommodation, transfer payments, and so on. Most Third World countries also prepare a development budget, usually comprising the capital expenditure plans of the departments and agencies. Occasionally the planning agency has a strong input into this budget and, on more infrequent occasions, is responsible for its creation. Even so, the development budget is usually structured as a capital investment budget and does not reflect all development priorities. Rather, the development activities of existing staff will be contained in the current budget, which only now and then may identify special programs. Hence it is difficult to identify the developmental activities of the government, or to relate the outputs expressed in the national plan to the funds appropriated in the budget.

In any case, control of budget expenditures invariably lies with the ministry of finance. Changes and adjustments to the development or current budget will not usually reflect the planners' priorities. These adjustments are made by a controller of the budget in a ministry of finance who does not have the time (nor in many cases the inclination) to liaise with the planning staff in the central planning agency or in the operating ministries, or to wait until a revised set of budget priorities is determined. The nature of the construction of the budget inhibits such action.
Evaluation of Developmental Achievements

Although most countries monitor progress and evaluation achievements on large foreign-aided projects (often at the request of the donor agency) and a number have independently established their own central monitoring and evaluation systems, such systems are rarely integrated into the budgeting process. Their primary purpose is to identify and overcome the difficulties that are preventing developmental objectives from being implemented. They are not specifically designed to evaluate the achievements of development programs.

In many countries (for example, Honduras, Indonesia, Korea, and Peru), similar systems are operated by an auditing unit of the ministry of finance. In addition to checking the validity and reasonableness of financial expenditures, the unit also checks the efficiency of implementation and the extent to which immediate outputs have been achieved. These audits, however, rarely become involved in evaluating the higher level and usually more intangible achievements of a government's developmental program. (An exception is the ministry of finance unit in Honduras, which does attempt to assess developmental achievement by means of routine "evaluation meetings" between the ministry of finance, the implementing ministry, and the project staff.)

The central monitoring and evaluation systems are only concerned with developmental projects and programs that have been identified as such. Most cover only the major projects and programs within this classification. They do not cover the entire budget, nor even the developmental activities of staff encompassed by the current budget.
The Role and Evaluation Methodology of PPBS

The concepts of Program Budgeting (of PPBS) are simple. Budgets are cast in terms of programs, and each program is analyzed in terms of costs and expected benefits (or results or outputs). The benefits of each program can then be evaluated and the priority of programs established from that evaluation. This system facilitates an end-of-year or ex-post evaluation of achievements and leads to analysis, evaluation, and replanning of individual programs and a possible re-ordering of priorities for future years. On the macroeconomic level, PPBS can also help a country identify the external effects of programs and its social or economic structure.

Although PPBS is operating in a variety of forms and with varying degrees of success in a number of countries, its implementation has been slow. The reasons are several: many countries are reluctant to change budgeting practices that stretch back two hundred years and that have been designed to facilitate the control of public expenditures and the auditing of their validity; it is difficult to specify and measure outputs for many programs of government; the benefits to be obtained by different levels of funding are not always easy to analyze and compare within and between programs; and a large proportion of the public budget seems immutably tied up in the routine activities of the civil service. The difficulties are not insurmountable, however, and do not negate the advantages of this form of budgeting.

The Formation and Analysis of Programs

Every ministry of government has certain objectives that it attempts to achieve through regional and national programs. A Program Budget will organize the development budget (for new investments) and the operating budget
(for headquarters and regional staff) around several of these programs. Each program can be broken down, in turn, into lower level programs (in extension activities, for example, there would be marketing and export programs, credit systems, subsidies and other incentives, input delivery systems, and agricultural and livestock research). Each of these has its own multiple outputs that will contribute to the higher level objectives (Program Budgeting systems use the term outputs to encompass lower level as well as higher level objectives). In the annual budget appropriation for the ministry and for the entire government, the expected outputs, in relation to the costs involved, are assessed for each of these programs and their priorities assessed in relation to all other programs of the government.

Assessing Program Priorities

Determining the relative priority, and the resultant level of funding, for each program is not a simple process. Many choices have to be made when all programs are being considered prior to the presentation of the budget: between different levels of funding for any one program (these choices need to be balanced against alternate and competing programs within the same sector and, in turn, against programs in other sectors), and between investment levels in particular programs in the development budget and the expenditures in the current budget. The impact of an increase or decrease in the current budget for, say, a tertiary education program will have to be weighed, in terms of net national benefit, against the impact of changes in funding for terms of net national benefit; against the impact of changes in funding for other programs in health, agriculture, transport, and so on; and against possible investments in the development or capital works budget.
A comprehensive analysis and comparative ranking of all choices is not possible. Nevertheless, the approaches outlined below will enable the analyst to assess in some degree the priorities of programs in different sectors—at least at the margins.

**Investment choices.** Two related techniques for determining program priorities within the development budget are cost-benefit analysis and cost-effectiveness analysis (or cost-utility analysis). Cost-benefit analysis refers to the comparative evaluation of benefits derived from alternative uses of resources in a particular program. In all cases, attempts are made to quantify the costs and benefits—including direct and indirect costs and benefits—in monetary terms at the same time. Even within one sector, however, not all costs or benefits can be quantified. For instance, improved throughput and increased ship turnaround times derived from a port investment are difficult to relate to the benefits from investments in rural roads, even though both investments may be in the same transport sector. It is even more difficult to compare these types of infrastructure investments with investments in other social sectors (for example, in health facilities or education programs).

One answer to this problem is to assess and compare the effectiveness, or utility, that results from the investments. Different effectiveness levels for the same cost investment can be assessed, as can the different costs required to achieve the same effectiveness level. Although the final decision will usually be a judgment, it is hoped that it will be a more informed judgment that is based on a high degree of analytical evaluation. In some programs, however, direct quantitative comparison of effectiveness may be possible—for example, in terms of births prevented or different population control approaches. On the other hand, a comparison of
the utility or effectiveness of these investments with alternate investments in, say, a disease eradication program will require considerable judgment.

**Multiyear time frame.** To ensure that the budget analysis and appropriation requests reflect the longer time frame appropriate to development programs, Program Budgeting systems require multiyear (usually five-year) budget proposals. Longer budget periods help ensure that both the capital investments and operating costs and benefits of different programs are included in the budget priorities. The budget is still usually appropriated for a one-year period and rolled on for subsequent years. One effect of these developments has been an increasing trend to multiyear appropriations for major capital works in regular budgeting systems.

A capital works budget may be difficult to analyze on a program basis because some capital investments are for general purpose office facilities, staff housing, motor vehicles, and so on. Ongoing overhead costs (such as head office staff or training expenses) create a similar budgeting problem. These costs should be included in the budgets for each if programs are to be compared. Actual expenditures also need to be collected against such items and then reallocated to their respective programs. Since multiprogram investments, if not allocated, will distort the assessment of the relative costs and benefits of different programs, they should be included in the planning, analysis, and comparison of new programs. Separation in the budget appropriation structure, however, will facilitate eventual auditing and control.

**Output indicators.** So that all programs can be compared in the same financial terms, output indicators have been developed for each program. Numbers of low-cost houses, miles of road constructed, births prevented, extension visits made, reductions in incidences of diseases, are some examples
of output indicators for particular programs. Although they do provide a summary assessment of the achievements expected from a government's budget expenditures, such indicators need to be treated with caution, as programs usually have more than one objective and the output indicators may not reflect all objectives, or the higher level, more intangible objectives. A road construction program, for instance, might have income-raising objectives and even equity objectives, but such objectives are not reflected in a measure of the miles of roads that are planned to be constructed under the proposed budget. Nevertheless, administrators and political decisionmakers can use the output measures, at least roughly, to assess the expenditure priorities of specific programs.

One other quasi-analytical approach that can assist in setting budget priorities is a simple ranking of need. Most programs are a governmental response to assessed needs in the community—say, to increase vocational training or to increase the resources spent on road maintenance—and these needs, subjectively ranked, will give some assessment of program priorities. Such a ranking can be combined with a statement of the outputs expected from different program expenditures so as to provide a degree of analytical support to the intuitive assessment of politicians and administrators.

**Incremental budgets.** Some PPBS systems have introduced a method of analyzing the effect of raising or lowering the funding levels of routine government programs. Ministries and departments, in requesting their budget appropriation, are asked each year to show the impact of a specified—say, 10 percent—increase or decrease in funding for each program. In this way, both the operating agency and the budget authority are in a better position to detect possible changes in priorities that would result from different funding levels for ongoing programs. Information on the impact of budget cuts or
increases can also be used by the central budgeting agency to divert resources from one sector to another. This diversion would be based on assessment of the marginal utility of the last 10 or 20 percent of the expenditures on programs in different sectors.

One difficulty with this approach, however, is that in a number of countries the system has become mechanized and routine. Agencies have routinely tended to specify outputs at +10 percent of the normal funding without undertaking the analysis necessary to support their figures. Alternatively, the central budget authority could allow a ministry or an agency to suggest where it would wish to transfer resources, and the supporting analyses could be presented in the agency's appropriation requests.

Legislative evaluation. To ensure that funding levels to the programs in a budget reflect the priorities that senior budget administrators or the legislature would wish to make, some countries have adopted "sunset legislation," which authorized the lapse of a program after a specified period. Other countries have stipulated that the achievements of the program must be evaluated and the results reported to the legislature before any continuing funds can be appropriated. As a result of these evaluations, some programs have been dropped or priorities shifted in terms of implementation methodology and funding levels.

Organizational compatibility. Since programs do not usually fit neatly into departmental and agency organizational charts, budget planning and implementation along program lines are possible only if organizational coordinating mechanisms have been established. Budgets that cross several departments, however, are difficult to establish because of the problem of identifying implementation responsibility. As a result, the number of cross-agency programs in a program budget tend to be limited. The considerable
intuition and judgment needed to assess the priorities of programs can be facilitated if the judgment is exercised by the administrator overseeing most of the programs affected. Delegation of budget proposal authority is simplest, therefore, if the budget structure follows the organizational breakdown of ministries and agencies—but the structure further inhibits the development of cross-agency budgets.

Another organizational problem is that the managerial control of the program and the ex-post evaluation of its achievements require actual costs to be collected against each program; but most ministries, particularly those with regional offices (for example, health, agriculture) will not be able to identify the specific costs of all programs. The regional offices of a ministry of agriculture, for instance, may be executing several programs (in extension work, in cooperative marketing, in the supply and distribution of inputs, and so on), and traditional budget accounting systems will not identify charges against each of the programs (although exceptions are often seen in foreign-aided projects). Actual costs will be collected without subdivision for the entire regional office. In addition, other offices within the same ministry will also be contributing to these programs (a research institution for instance, or a central planning unit), and will be collecting costs by their functions, rather than by the programs to which they are contributing.

The practical difficulties of aligning programs with functions in a way that facilitates budgetary control will influence both the designation of the individual programs within a ministry and the organizational structure of that ministry. The simplest practice is to identify programs at a level of aggregation that least disturbs the organizational structure and also minimizes the complexity of the budgetary control system. Such an
aggregation, however, hinders the separate identification of programs and program costs and, therefore, of the extent to which individual program priorities can be set. Gaining the full benefits of a program budgeting system, therefore, may require organizational restructuring of a ministry and some changes to its accounting system.

**Historical Developments and Current Practice in Industrialized Countries**

**Developments in the United States**

Attempts at budget reform along the above lines stretch back seventy years or more in the United States. The Taft Commission on economy and efficiency in government in 1912 emphasized the need for administrators to assess the results—in terms of quality, quantity, cost, and efficiency—of the activities for which they were responsible. (Today, the first three terms would be described as the benefits and costs of a program's achievements.) The concept of using a budget to control the efficiency of government has been a feature of many subsequent attempts at budget reform. The two Hoover Commissions established after World War II, for example, advocated performance and program budgeting organized by "functions, activities, and projects and designed to strengthen a budget's contribution to the efficiency and effectiveness of government activities. Accordingly, the traditional line items became built up within each function or activity designated, and no longer covered the entire department. (Many countries still budget for an entire department's or ministry's activities by the traditional line items; such budgets are usually broken down only by the organizational entities of the department.)
It was not until 1965 that the concept of budget planning by expected program outputs—rather than by functions—received official sanction, when all U.S. federal departments adopted PPBS, which had been developed by the Rand Corporation and implemented successfully in the Department of Defense under Robert McNamara. Under this budgeting system, all activities of each department were divided into separate and distinct programs; a memorandum had to be prepared outlining the objectives, broad strategies, major choices, and tentative recommendations for each program; a multiyear financial plan was required showing costs and output effects of proposed funding levels; and any special studies providing the analytical basis for decisions on program issues had to be documented.

The new budget system was not well received and ran into early difficulties primarily because: it was an overly ambitious attempt to install, in all departments simultaneously, a very complex budgeting system; the U.S. Bureau of the Budget required excessive bureaucratic paperwork in association with the system; problems arose in budgeting for programs that require a contribution from more than one agency; and senior agency officials rejected a budgeting procedure that had the potential to eliminate the bargaining for agency funds based on increments to the previous year's budget (their rejection, incidentally, received considerable support at the time from a small but influential number of academic writers on political issues).

In the early 1970s, the United States abandoned PPBS. Elements of it remain in some departments, however, and it is still the budgeting mechanism used by the Department of Defense. Other systems that have replaced it in the United States demonstrate a close similarity to PPBS in certain areas, and also incorporate some of the changes to original PPBS practices implemented by other western countries.
Subsequent budget developments (MBO and ZBB). When the United States abandoned PPBS in 1972, it introduced a form of management by Objectives (MBO), but with only partial success. The emphasis was still on the achievement of objectives, although more from the viewpoint of establishing goals and targets for individual managers and assessing managerial performance against them. MBO is not designed to analyze and adjudicate on the claims of competing programs, although it does overcome one of the criticisms of PPBS—that, apart from the program manager, the analysis and establishment of output objectives do not involve a wide range of managers with responsibility for elements of the program. Much of the ongoing and ex-post evaluation in the U.S. administration at the time was aimed at establishing and measuring achievements against individual managerial goals. In other words, evaluation was used as much for pinpointing and assessing managerial performance as it was for evaluating the achievements of programs and the validity of the planning assumptions on which the programs were based.

In the late 1970s the United States introduced the concept of Zero Base Budgeting (ZBB), which has undergone many changes since then. Although still program based, it has evolved into an examination of program outputs that can be achieved under varying funding levels. ZBB has also developed a multiyear forecasting approach, although the original concepts envisaged a fresh analysis each year. ZBB works from the lower managerial levels, through the program manager and across to the Office of Management and Budget. It thus involves operating managers in the preparation of their budgets. It has continued to be implemented, but without the same executive support. Attempts are still being made under ZBB to incorporate efficiency concepts into the budgeting process (the efficiency of conversion of inputs into outputs), as well as the measurement and evaluation of effectiveness of outputs.
ZBB is not unlike PPBS in that it has a program format, is concerned with output achievement and associated costs, and is designed to weigh competing budget claims within and between programs. Current budgeting systems in the United States could be categorized, therefore, as an evolving search for an effective method of analyzing and evaluating the results of government expenditures using a program and output format.

**PPBS and Allied Concepts in Other Developed Countries**

Budgeting practices throughout the world were affected by the U.S. decision in 1965 to adopt PPBS. Although the 1972 decision to abandon PPBS in the United States reduced the impetus considerably, by that time a number of countries had already modified it to suit their particular needs and were able to overcome some of the problems encountered in the United States. The two most successful western implementations of the full PPBS concept took place in France and Canada. Introduced in France in 1969 with a nonmandatory approach, La Rationalisation des Choix Budgetaires (RCB) has evolved slowly as a dual budgeting system in which the traditional departmental budget and the national budget in program form are presented for approval each year. The two budgets, which include programs that encompass several departments, can be cross-referenced. The strength of RCB, however, is the analytical content behind the eventual choice of output levels for particular subprograms. Development of the detailed program structure, and the eventual presentation of capital and current expenditures in a form compatible with the system of national accounts, took the best part of a decade; it is still evolving.

Canada's system, initiated in 1968, has also gone through several changes. The original concept envisaged breaking down departmental estimates into programs and presenting them at three levels of spending—a continuation of current levels, desired increases, and reduced levels (specified as a
percent cut). The difficulties involved and the time required in preparing the reduced budget have, however, led to its abandonment. In addition, an elaborate system of increasing program effectiveness eventually had to be scaled down. Canada's system emphasizes the use of cost-benefit and cost-effectiveness analysis in deciding optimum program outputs, and in presenting the results in multiyear budget form (three years for the current budget and five years for capital works). The budget presents each department's programs separately.

In the United Kingdom, certain PPS concepts were applied in the creation of the Public Expenditure Survey Committee (PESC) and the Programme Analysis and Review (PAR). The former examines five-year forecasts of all government spending (central, local, and municipal) in program format under the economic conditions that are expected to prevail. The committee's report is submitted to parliament each year as a supplement to the budget documents. The PAR system, which subjected the outputs of key programs to analytical scrutiny, was abandoned in 1979 and replaced by a system of scrutinizing the efficiency of selected administrative activities—primarily transfer payments. The new system emphasizes efficiency of administration rather than the effectiveness of outputs.

Sweden and the Netherlands, too, are introducing a form of Program Budgeting. In both countries the budget is broken down into programs for which outputs at different expenditure levels are subject to analytical scrutiny, and the program budget and the traditional budget are presented in parallel. Both countries are proceeding slowly, Sweden perhaps being further ahead than the Netherlands.
Program Budgeting systems in the developing countries exhibit the same diverse pattern as they do in developed countries. PPBS is in various stages of implementation in perhaps ten to twelve countries (Dominica, Fiji, India, Indonesia, Lesotho, Malaysia, Nigeria, Peru, and the Philippines, as well as other unidentified Latin American countries). The implementations that have extended beyond the pilot study stage vary from a full program format with costs and expected outputs identified for several programs, as in Malaysia and some of the Latin American systems, to a categorization of budget expenditures under a simple program format, as in Lesotho and Dominica. In Indonesia, efforts have been concentrated on reflecting the developmental projects and programs of the planning agency and their target outputs in the budget appropriations. The Indonesian system is still evolving and is confined to developmental projects identified as such. Nevertheless, it is a form of Program Budgeting, although this term is not used.

The difficult and diverse road to budget reform is perhaps typified by Malaysia, which has developed one of the more complete Program Budgeting systems in the Third World. In 1969 PPBS was introduced in eight agencies, with the assistance of expatriate advisers. By 1972 all agencies had converted to a system in which programs reflected the organizational structure of each agency. The system lacked depth, however, particularly in the development of a program structure, as well as budget staff and planners skilled in and committed to program analysis. In the early 1970s, therefore, the treasury established a high-level steering committee comprising the three senior administrators in the government plus other relevant staff, together with a strong technical support unit. This committee was to guide the
implementation of a PPB system that reached deeper into the departments and that involved departmental staff to a greater extent than the previous externally imposed system. Considerable funds were devoted to training, including overseas training in Canada. An in-depth analysis in one agency and redesign of the PPB system were undertaken in 1973. Each subsequent agency established similar steering committees and support structures to the central organizations. In 1981 full-scale implementation of the revised system took place. The system still has difficulty, however, in defining output measures for some of the more intangible programs and for the routine activities of government. Physical performance achievements are relatively well specified but with varying degrees of success across departments. The Malaysian system attempts to combine efficiency concepts with effectiveness measures by incorporating, primarily for projects, a concept of identifying, and subsequently measuring, expenditures in relation to performance. The system does not cater to programs that involve more than one agency.

The remaining Third World systems have been confined to organizing the development budget in program format, and there has been little effort to identify expected outputs. The developing world has found it particularly difficult to establish sound analytical techniques for examining and ranking programs. Data necessary for reliable analyses are not readily available, and the skills required to carry out the analyses are in short supply. Nevertheless, even the grouping of budget items into program format, with an approximate attempt to delineate the anticipated outputs of the programs, represents a worthwhile advance over budget systems that merely control inputs.
Lessons for Third World Countries

Program Budgeting has several formats, but all share certain core elements: the traditional line item budget of government agencies is restructured into programs; the effectiveness of program outputs is analyzed in terms of funds expended, not only at different levels of expenditures and outputs in one program, but also in competing programs; and the budget is presented in terms of programs and planned outputs. This method of presentation is designed to strengthen the effectiveness of political scrutiny, as well as to provide an objective against which an evaluation of achievements can be carried out at the end of the budget year, or at the completion of the program. The lessons that can be drawn for countries considering PPBS would seem to be:

- The PPB System needs to be designed to meet a particular country's needs and capabilities. Additional questions to be resolved are: Should programs that run across agencies be identified and treated separately? Should costs also be recorded against all programs, as well as against the traditional budget items? What methods are to be used for incorporating administrative support programs (such as civil service personnel management)? Should any attempts be made to incorporate programs with difficult-to-measure outputs?

- The system needs to be implemented initially in one or two ministries, and the lessons learned there should be used to adapt the system to other ministries. The time taken to implement a full Program Budgeting system, therefore, is likely to be several years.

- Top-level support and direction need to be institutionally identified and fully committed to installing an effective PPB system.
Budget departments need to strengthen all the support activities necessary for an effective budgeting system (the data collection systems, estimating, cost control and accounting procedures, data processing facilities, and so on).

During implementation of PPBS operating managers in the departments should be involved in the design of the system to be adopted.

Implementing staff need to be provided with in-depth training, initially in the concepts of PPBS, and subsequently in the operating details of the system that is developed.

The lessons suggest that the simpler the system, the greater the chance of acceptance and implementation by agency officials. The initial implementation should possibly be confined to designing the program structure, leaving the designation of outputs and analytical content of PPBS to later phases of implementation.

Is PPBS Worth It?

Implementation of a full Program Budgeting system is a lengthy, costly, and complex administrative undertaking. Few countries have achieved it, and those that have are still introducing refinements. Moreover, lesser versions adopted in several countries still have to be changed significantly and still have needed a major investment of time and effort.

The developing countries spend a considerable portion of their administrative budgets and employ much of the trained analytical capability available in creating long- and intermediate-term plans for development. Such plans identify the priorities for development and associated policies and proposed investments. The considerable cynicism regarding the value of long-term planning, however, must be attributed, in considerable measure, to the fact that most current budgets do not reflect these priorities and policies.
for development. PPBS can correct that deficiency; it can, in fact, strengthen the planning process, for it establishes outputs to be expected from budgeted expenditures—a level of preciseness that will not be shown by a national plan. The achievements of program budget outputs can be evaluated more carefully. As a result, a program and output format allows a country to monitor the achievements of all its development efforts and to evaluate the utility of the policies that it is pursuing.

PPBS can also help developing countries overcome, at least in part, another planning difficulty: poor organizational relationships, even antipathy, that exists between planning staff and budgeting staff. PPBS forces project planning into the executive ministries, thus reducing the conflict that arises when central planning agencies attempt to plan projects and establish implementation priorities, leaving the details of preparing and budgeting projects to the operating ministries and the ministry of finance.

Staff in the central planning agency will still establish overall budget priorities and broad allocations between the major sectors. Only in its most complex and rarely implemented form can PPBS offer any assistance in deciding the total size of a ministry's budget. The potential for administrative conflict will, therefore, still exist between the planning agency and the finance agency. Inasmuch as the planning and analysis of the projects become the implementing agency's responsibility, however, overall conflict is likely to be reduced.

To the extent that the outputs expected of programs from both current and development expenditures are established, a potential for reducing the bargaining procedures that normally constitute the budgeting process will also exist. At least in part, this bargaining will be based on the relative benefits and costs of particular programs, and on the evaluation of program
achievements rather than on arguments for incremental increases or decreases in the staffing and funding level over last year's budget. Even in itself, such an advance presents a strong argument for the adoption of a Program Budgeting system.
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