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THE INTEGRATION OF LONG-TERM, MEDIUM-TERM AND SHORT-TERM

PLANS A NOTE ON JAMAICA'S EXPERIENCE

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The Integration of Long-Term, Medium-Term and Short-Term Plans:
A Note on Jamaica's Experience

At present, Jamaica is grappling with the problem of integrating long-term planning objectives with the medium term and short term programmes of the Government. In the past, the adoption of long term plans was frequently overtaken by rapidly changing economic and political circumstances, to which a small dependent economy with a democratic political system is naturally subject. Such changes often resulted in the abandonment of "the Plan", and sometimes of the concept of planning itself.

However, it is now recognized that economic and political uncertainties do not imply the abandonment of planning but rather the development of a flexible planning system, which can respond efficiently to changing circumstances while retaining a commitment to long term development goals. For this purpose three principal conditions have been found to be necessary:

- i) a clear elaboration of and commitment to the strategy for development and growth, as reflected in the deployment of fiscal and monetary instruments and other policy measures aimed at affecting the principal macroeconomic variables;
- ii) an efficient system for the deployment of the annual programme of the public sector in a manner consistent with and supportive of the development strategy, particularly as it concerns investment budgeting, foreign exchange budgeting, and project implementation.
- iii) a workable institutional and consultative framework to secure the harmonisation of the behaviour of the public and private sectors and the trade unions, in support of macroeconomic objectives;

The present planning system, which is obviously in need of continuous improvement, has evolved from the first attempts at planning during the colonial period to the present Five Year Development Plan for the period 1978-83.

II. Planning Experiences, 1945-1977

As in all countries, Jamaica's experience of planning has been conditioned by the objective natural and economic conditions of the country, together with the historical and political context. Jamaica is a small country, some 10,982 km² in area with a population of just over 2 million persons. Over two-thirds of the land area is hilly and mountainous, the remainder consisting of gently rolling coastal plains and interior alluvial valleys. There are large deposits of bauxite, the ore of aluminium, and Jamaica is the world's third leading producer of this commodity. Water resources are also plentiful, though not yet satisfactorily developed. However, energy resources are limited and the country is over 90 per cent dependent on imported oil for its energy supplies.

Small size, overlaid with a history of colonial and neo-colonial exploitation, has left Jamaica with a highly open and dependent economic structure. Up until the second world war the economy was primarily oriented towards export agriculture, in which sugar-cane and bananas predominated, with some support from orchard crops such as coffee, cocoa and citrus. However, during the 1940s the bauxite deposits were discovered, and the principal North American transnational enterprises in the aluminium business secured mining rights. In the 1950s and 1960s these companies invested over U.S.\$700 million in bauxite mines, alumina plants, and infrastructure, thereby providing considerable growth dynamic to the economy. Tourism, construction and import-substituting industrialization (mainly final-assembly activities) also enjoyed expansion. Real growth averaged 4-5 per cent in the 1950s/1960s.

The 1970s have seen considerable economic difficulties. Investment in bauxite has declined, two major world recessions have eroded export receipts while the quadrupling of oil prices and huge inflation on other import prices have pushed up import costs. Negative growth has been recorded since 1973, and since early 1977 the economy has been in the throes of an acute foreign exchange crisis. To deal with this an emergency programme was instituted in 1977 and a long-term programme for recovery and growth, with I.M.F. assistance, was set in place in 1978.

Economic plans instituted by Government have been as follows:

- i) Ten Year Development Plan, 1946-1956;
- ii) National Plan for Jamaica, 1957-1967; (dropped in 1962)

- iii) Five Year Independence Plan, 1963-1968;
- iv) Emergency Production Plan, 1977/1978;
- v) Five Year Development Plan, 1978-82

Planning methods, and the development strategy, have evolved in accordance with changing circumstances.

- i) Ten Year Development Plan, 1945-1956. This was prepared by the U.K. Colonial Authorities, and its principal purpose was to guide the development expenditure being undertaken with U.K. financial assistance during the transition to self-government and Independence. It consisted essentially of a ten year development budget. Agriculture and the social services absorbed the bulk of the projected expenditure. No comprehensive strategy for development and growth was elaborated, but the implied strategy was a concentration on traditional export agriculture, and a rejection of industrialization as a development strategy.
- ii) National Plan for Jamaica, 1957-1967. By 1956 Jamaica had begun to develop many of the political and economic institutions of an independent state, and responsibility for economic matters rested mainly in the hands of the national Government. The 1957 Plan was also a ten year development budget, but a development strategy was consciously elaborated. The main elements of this was overall export growth led by bauxite and tourism, with support from a modernised export agricultural sector; and industrialization based partly on the protected national market and partly on the exploitation of cheap labour for export market. Local and foreign private capital were to provide the sources of growth dynamic, with the public sector playing a supporting role. Accordingly, the main components of the Government's development budget were economic and social infrastructure expenditures, together with capital inputs for the agricultural sector.

- iii) Five Year Independence Plan, 1963-1968. Jamaica achieved National Independence and membership in the United Nations in 1962. This, together with a change of Government resulting from national elections in that year, resulted in the termination of the 1957 Plan and the preparation of an 'Independence Plan' for the period 1963-68. The new Plan was the first in Jamaica to utilize the methods of indicative macroeconomic planning which had been developed internationally in the 1950s. A target rate of growth of 5 per cent per annum was set, and projections consistent with this target were made for the main industrial sectors and Principal macroeconomic variables. The public sector development expenditure and financing budget for the five year period was prepared, and the expenditure budget was itemised into a number of discrete projects. The growth strategy continued to be export expansion in bauxite, agriculture and tourism, with industrialization for the domestic market. In addition there was a greater explicit concern with social development and rural development, in order to stabilise social discontent and contain possible disruption to the development process.

The first problem area consisted of the wide discrepancies between planned performance and actual performance with respect to the sectoral allocation of development expenditure in the long term development budget. The table below sets out the estimated ex ante and ex post allocation for the three development plans referred to.

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	<u>1946 - 1956</u>		<u>1957 - 1967</u>		<u>1968 - 1958</u>	
	<u>Plan</u>	<u>Actual</u> ¹	<u>Plan</u>	<u>Actual</u> ²	<u>Plan</u>	<u>Actual</u>
<u>Total</u> (J\$Million)	<u>39</u>	<u>37</u>	<u>159</u>	<u>111</u>	<u>103</u>	<u>162</u>
<u>Percent:-</u>						
Agriculture	31	33	28	20	33	18
Public Works & Economic Infrastructure	9	16	34	32	33	39
Trade & Industry	2	6	11	12	3	10
Finance & Development	--	-	9	11	5	18
Education	17	9	7	9	7	6
Public Health	28	24	4	5	4	2
Housing & Social Welfare	9	4	7	10	12	5
Other	4	4	-	-	-	1

1. 'Actual' relates to the period 1946 - 1957

1. 'Actual' relates to the period 1957-1963 only.

Source - Girvan, Foreign Capital, ch.5

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'Planned' expenditure allocation among sectors reflects the political priorities of the Government, the development strategy, and the project preparation capabilities in each sector. It also reflects the 'image' that the Government sector seeks to project to the principal targets of the Plan document, i.e. the international aid agencies and, to some extent, the local socio-political system. All this gives rise to a list of capital projects/programmes for each sector with estimated costs.

'Actual' expenditure by sector can be an entirely different thing. The table shows that in general the categories Public Works and Economic Infrastructure, Finance and Development, and Trade and Industry, have tended to increase their actual share of development expenditure over what was originally provided for, in all three long term plans. On the other hand Agriculture (except for the 1945-56 Plan) and the social services have consistently failed to absorb the shares of development expenditure which Governments "planned" to devote to them. This can be due to a number of factors, viz.

- (i) changing political priorities of the Government over the period of the Plan;
- (ii) changing emphases in the development strategy over the Plan period, and
- (iii) lack of project implementation capabilities in certain sectors. As a general observation it can be stated that the pattern reflects the tendency of successive governments to spend preferentially on relatively large, high-visibility and employment-creating infrastructure projects, and to provide loans to the private sector; irrespective of the stated intentions of their plans.

The second problem area was the wide discrepancy between planned and actual performance in the financing of development expenditure.

(Table 2 next page)

Table 2

	<u>1946-1956</u>		<u>1957 - 1967</u>		<u>1963 - 1968</u>	
	<u>Plan</u>	<u>Actual</u>	<u>Plan¹</u>	<u>Actual²</u>	<u>Plan</u>	<u>Actual</u>
<u>Total Financing</u> (J\$ Million)	<u>43</u>	<u>37</u>	<u>62</u>	<u>115</u>	<u>183</u>	<u>169</u>
<u>Per cent:-</u>						
Government saving	43	31	39	44	20	31
Domestic Commercial Loans)	25	14	10	21	19	45
Foreign Commercial Loans)		21	42	29	28	20
Foreign Aid	29	31	10	5	33	4

1. 1957-1960 only

2. 1957-1963 only

For example, in the first Ten Year Plan, the Government intended to finance some 40% of development expenditure from internal savings but was able actually to finance only 31% in this way. The difference had to be made up with additional commercial borrowing. In the two subsequent plans, the Government over-estimated the availability of foreign aid to finance development expenditure; in the case of the Five Year Independence Plan some 33% was slated to be financed by foreign aid but only 4% was actually financed by this means. In both cases, the differences were made up with additional Government savings and additional local commercial borrowing.

The third problem area relates to the wide discrepancy between the economic conditions expected at the time of the preparation of the Plan, and the actual conditions that materialised. Overall economic performance is conditioned by the state of the foreign sector, which is at once the principal generator (direct and indirect) of tax revenues and of real GDP. For example, in the 1957 Plan, the performance of bauxite revenues exceeded the original expectations making it possible for a greater share of expenditure

to be financed from internal sources. A similar experience was recorded in the 1963 Plan where fairly modest assumptions about the performance of the export industries were significantly exceeded, as a result of the general buoyant conditions in the international economy at this time.

It is perhaps not difficult to understand why towards the end of the 1960s, the concept of planning tended to lose importance in the minds of policy makers. Experience seemed to suggest that plans tended to be honoured more in the breach than in the observance, and that economic performance was good but for reasons which had little to do with the plans. A Five Year Plan was prepared for the period 1970-75 but was never adopted partly because of a lack of internal consensus and also because of a change in Government in early 1972.

The new administration which assumed office in 1972 was preoccupied with the need to undertake social and institutional reforms to deal with the inequalities and disaffection which had become manifest in the 1952-1972 period. Social programmes oriented towards land reform, unemployment and the redistribution of income were vigorously pursued; while state participation was extended to the major public utilities and export industries. In the midst of this came the oil price increases, the general import price inflation and the difficulties on the export side associated with the world recessions. This was coupled with a decline in direct foreign investment and a flight of domestic capital, resulting in acute pressure being exerted on the balance of payments and external reserves. Such pressures were cushioned for a while by the imposition of special taxes on the bauxite industry and resort to external borrowing from commercial banking sources. However, by the end of 1973, foreign exchange reserves had been totally depleted and external loans had slowed to a trickle, so that more basic changes in policy became necessary.

In 1977, the Government prepared and adopted a one year Emergency Production Plan; this has been followed in 1978 with a five Year Development Plan for the period 1978 - 1982. The recent approaches to planning have come in the midst of an acute foreign exchange crisis and five successive years of negative GDP growth. Consequently, planning has had to address fundamental aspects of the growth process and has also needed to develop new methods to deal with the problem of integrating long, medium and short term plans in a context of economic uncertainty.

The essential concern of the Emergency Production Plan was the shortage of foreign exchange to finance essential imports and service foreign debt payments in 1977. Its two main objectives were to mobilise additional domestic production to cushion the shortfall in imported supplies, and to mobilise additional foreign exchange through expanded exports and additional credit provided under a standby agreement with the International Monetary Fund. According in the focus was in sectoral programmes and policies for increased production; together with the exchange rate policies, incomes policies and a fiscal programme to secure a macro-economic package which could provide the process for negotiation with external sources of credit. Although the economy recorded another year of negative growth in 1977, the Emergency Production Plan was rewarded with certain positive results in the performance of production in domestic agriculture, mining and tourism, and in the reduction of the balance of payments, deficits and the fiscal deficit.

The Five Year Development Plan aims at providing the frame work for long term recovery and growth. It has three principal aspects:

- (1) A statement of objectives, policies and programmes which will guide Government's action in the economic and social area for the five year period, both in respect of the macro-economy and the principal economic and social sectors.
- (2) A concrete package of macro-economic policies negotiated with the International Monetary Fund to secure equilibrium in the main macro-economic parameters, and to stimulate growth in the productive sector.
- (3) Provision for a rolling three year Public Investment Programme and an annual Government Economic Programme to secure continuous adjustment, and consistency with, (1) and (2) above.

The first aspect noted above derives principally from the overall ideological orientation and political and social philosophy of the Government in power. The present Jamaican government subscribes to the philosophy of Democratic Socialism. In economic and social terms this means principally that the commanding heights of the economy should be subject to public ownership or state participation, that there is a commitment to a strong and dynamic private sector which, however, should be regulated in the public interest, and that the Government is

committed to the creation of a just and equitable society. Government planners take these broad objectives as their terms of reference in undertaking their work on the policies and programmes for the different sectors, which are prepared in consultation with the private sector and other interested non-Governmental groups.

As regards the second aspect above, there are two principal characteristics, one technical and one political. Technically it requires the best possible statistical and macro-economic analytical work so as to lay bare the policy options and the implications of different options in the most detailed possible manner. This is a critical input into the second characteristic which is the process by which political consultation and mobilisation takes place to win the support of the leading economic interest groups to the macro-economic strategy. In Jamaica the Governmental leadership is in a constant and intense process of dialogue with the leading manufacturers and exporters, the trade unions, the small farmers and small businessmen, and the transnational enterprises, which now form joint ventures with the Government in the bauxite industry, so as to harmonise economic behaviour with the macro-economic strategy and targets. The intention is to institutionalise this process in the form of a Mixed Commission consisting of representatives of Government, the private sector and the trade unions.

The third aspect concerns the mechanisms for reconciling the investment programme of the state enterprises and the annual programme of the public sector with long term objectives and the macro-economic strategy. For this purpose, the method of preparing a detailed five year development budget, which was used in previous plans, has been eschewed. Instead the procedure has been to attempt to identify all the elements of the planning process within the Government system and to bring about greater coordination between them within the context of an annual programme which is internally and externally consistent. The three main categories of elements within the planning system have been identified as:

- (i) The system of allocation of resources at the macro and sectoral levels. This concerns mainly the annual Government budget (both recurrent and capital), the investment programme of the state enterprises, the annual foreign exchange and import allocation budget, and annual monetary policy.

- (ii) The system of project preparation and implementation.
This concerns mainly the actions of Government ministries and organisations concerned with different sectors.
- (iii) The statistical research and analytical system which provides inputs for the continuous improvement in the efficiency of decision-making and implementation involved in (i) and (ii) above.

An overview of the documentary manifestation of the planning process as it is intended to operate is outlined below:

/ Outline of the Planning Process

Outline of the Planning Process

<u>DOCUMENT</u>	<u>RESPONSIBILITY</u>	<u>FREQUENCY/DATE</u>
<p>I. Five Year Development Plan 1978-83:</p> <p><u>Main Plan Document</u></p> <p>This is a relatively short and compact document outlining the main objectives and strategies for human-resource development the macro-economy, the main economic and social sectors, and foreign economic policy to be followed over the 5-year period.</p>	National Planning Agency	5-yearly
<p>II. Five Year Development Plan 1978-83</p> <p><u>National Physical Plan</u></p>	Town Planning Department in collaboration with National Planning Agency	5-yearly

<u>DOCUMENT</u>	<u>RESPONSABILITY</u>	<u>FREQUENCY/ DATE</u>
III. Five-Year Development Plan 1978-83	Relevant Ministries and Agencies in collaboration with National Planning Agency.	5-yearly, with annual monitoring and review
<u>Sector Plans</u> Agriculture, Forestry & Fishing (including Land Reform). Manufacturing Industry Bauxite & Mineral Industry Tourism Infrastructure (including Public Utilities, Transport and Roads and Works) Energy Housing Education and Training Health (including Nutrition) Youth, Sports and Community Development Women, the Family and Child Care Social Security and Social Defence Culture, Communications and Mobilisation Science and Technology		
IV. Five-Year Development Plan 1978-83:	National Planning Agency Budget Division, Ministry of Finance/Bank of Jamaica.	November each year
<u>Annual Plan Appendices</u>		
1. Macroeconomic review		

<u>DOCUMENT</u>	<u>RESPONSABILITY</u>	<u>FREQUENCY/DATE</u>
2. Budget Memorandum and Public Investment Programme	Budget Division, Ministry of Finance/ National Planning Agency.	March/April each year.
3. Projects Inventory Technical Assistance Inventory, Lines of Credit Inventory,	Projects Division, Ministry of Finance/ National Planning Agency Trade Administrator.	June 1978 October each year thereafter
4. Economic and Social Survey Plan Revision	National Planning Agency	March/April each year

V. Complementary Reports

1. Reports on Progress of Five -Year Development Plan (EPIC)	Ministry of National Mobilisation	Periodically
2. Bank of Jamaica Reports.	Bank of Jamaica	Monthly
3. Department of Statistics Reports.	Department of Statistics	Regularly according to publication

The basic decisions regarding the adoption of this system were made early in 1978. Considerable work will be required in the next few years to develop it as a smoothly functioning mechanism. The principal problems to be encountered arise out of the tradition of isolated operation of the different Government units concerned with planning and with projects implementation. For this purpose Jamaica is interested in learning experiences of other countries which have encountered similar problems and developed solutions of a similar kind to address them.