Economic Planning in Pakistan

History of Economic Planning in Pakistan

The history of national economic planning in Pakistan is divided in the following periods:

1. Period of economic coordination (1947-53)
2. Period of planning board (1953-58)
3. Period of Planning Commission (1958-68)
4. Period of decline of Planning Commission (1968-77)
5. Period of revival of Planning Commission (1978-88)
6. Period of (1988-98)
7. Period of restructuring of economy (1999-todate)

1. Period of economic coordination (1947 – 1953): Pakistan's first planning board was established in 1950 with main emphasis on agriculture. Unfortunately, that plan was not well implemented on time. There were no targets fixed for the plan and the planning machinery was so weak to tackle with implementation. Therefore, the economic planning efforts during this period was a complete failure.

2. Period of planning board (1953 – 1958): The planning board of Pakistan was renamed as Planning Commission in 1953. The planning commission was facing the following serious problems:

- Shortage of trained staff,
- Non-availability of accurate and reliable data,
- Uncertain conditions in the planning machinery
- It was regarded as a rivalry between Ministry of Finance and the State Bank of Pakistan
- Political instability
- Annual economic planning was never seriously followed
- Most of the economic advices were rejected by implementing authorities
- Economic priorities were not given due importance
- Budget decisions were also distorted

During this period, the First Five-Year Plan was made. Its implementation suffered due to rapid changes in government and a lack of political support.

3. Period of planning commission (1958 – 1968): The third period of the planning process began in October 1958 with the assumption of power by the military government of Ayub Khan. The new regime chooses to make economic development through a marked economy and reliance of the private sector as its primary objective. The new government gave proper attention to achieve the following targets:

- Rapid industrialisation in the country,
- Removal of food shortage,
- Removal of political instability, and
- To overcome the problem of deficit of balance of payment.

The status of the Planning Commission was raised to a Division in the President's secretariat. The President himself assumed the chairmanship of the Planning Commission and Deputy Chairman, with the ex-officio status of a minister, was made the operational head of the Commission. Provincial planning department was organised. The Planning Commission was also provided the secretariat for National Economic Council (NEC) which looked after the day-to-day work of NEC and was also responsible for final approval for annual development.

During this period the Second Five-Year Plan (1960-65) was made. It was so successful that Pakistan led to an example for hunger nations of the world. But unfortunately Pakistan had to fight war against India in 1965. Then there was a hue and cry against Ayub government and another government got the power.

4. **<u>Period of decline of planning commission (1968 – 1977):</u>** This is the period of decline of Planning Commission as an important decision-making body coincided with the fall of Ayub Khan's government. During the Yahya Khan period (1969 – 1971), the serious planning on national level was completely ignored. The Third Five-Year Plan (1965 – 1970) was virtually abandoned by the Yahya Khan's government. In 1970, the Fourth Five-Year Plan (1970 – 1975) was made and it was also a big failure because of the worst political conditions and instable government policies. In 1972, the newly elected government of Z. A. Bhutto decided to run the economy through annual planning, rather than through a comprehensive five-year plan. During the same year, the Planning Commission was placed directly under the control of Ministry of Finance as a Division. During the period from 1972 to 1977, the Planning Commission, with very less powers, have very few favourable economic decisions. In other words, the Planning Commission was powerless and ineffective.

5. **<u>Period of revival of planning commission (1978 – 1988):</u>** After taking charge of the government, the Zia-ul-Haq's regime emphasised on the needs of five-year plans. In early 1980s, the Zia government took steps to revive the Planning Commission as an effective and authoritative economic decision-making body.

   During this period, two Five-Year Plans were formulated, i.e., Fifth and Sixth. In 1978, the Fifth Five-Year Plan to cover the period of 1978 – 1983 was published. But the Government failed to pursue the plan mainly because of uncertain political as well as economic conditions at that time. The Sixth Five-Year Plan was formulated in 1983 to cover the period 1983 – 1988. At that time, Dr. Mahbub-ul-Haq was the Finance Minister. He formulated the plan and because of his great efforts, this plan was a success. During his tenure, the Planning Commission has played a vital role in effectively formulating and implementing the economic planning. Not only the Sixth Five-Year Plan, but also the annual plans were formulated by the Planning Commission.

6. **<u>The period of (1988 – 1999):</u>** The period of 1988 to 1999 the period of political and economic instability. During this period, four elected governments were dismissed by the President on the charges of corruption. The role of Planning Commission was over-shadowed by political decisions. Its role was just limited to the preparation and submission of reports. It has nothing to do with the implementation of planning.

   The Seventh Five-Year Plan was formulated during the Zia-ul-Haq period. But after his death, in 1988, the newly elected government of Benazir Bhutto took over the charge and so the Seventh Five-Year Plan has never been implemented. After the fall of Benazir's government in 1990, Nawaz Sharif's government came into power. During his tenure, he introduced privatisation, deregulation, and economic reform aimed at reducing structural impediments to sound economic development. His top priority was to denationalise some 115 public industrial enterprises, abolishing the government's monopoly in the financial sector, and selling utilities to private interests. Although the Nawaz Sharif government made considerable progress in liberalising the economy, but it failed to address the problem of a growing budget deficit, which in turn led to a loss of confidence in the government on the part of foreign aid donors. In 1993, the Nawaz Sharif government was dismissed by the President on the charges of corruption. In the parliamentary elections of 1993, Benazir Bhutto, once again, became the Prime Minister of Pakistan. Meanwhile, the so-called Seventh Five-Year Plan period came to an end. In 1994, the Planning Commission publish the Eighth Five-Year Plan to cover the period 1993 – 1998. In November 1996, once again, the PPP government was dismissed by the President on corruption charges. The parliamentary election was held in 1997 and, once again, Mian Nawaz Sharif elected as the Prime Minister of Pakistan. The targets of Eighth Five-Year Plan were also not well achieved. For example, the target of wheat was set at 18.3 million tons which could not be achieved by 1996-97 when its actual production was 16.6 million tons. It was achieved in the last year of the plan but it again slipped down to 17.8 million tons in the following year. Similarly the target of non-traditional oilseeds, grape and mustard was set at 0.4 million tons which was far below the national requirements. Likewise, the projected plan period target of agricultural credit of Rs 80.5 billion could not be achieved as the maximum credit given during the plan period was Rs 37.7 billion and most of which went to the influential feudal lords and politicians rather than to the common farmers. The Ninth Five-Year Plan was formulated by Nawaz Sharif government to cover the period 1998-2003. Following were the priorities of Ninth Five-Year Plan:

   (a) Maintenance of fiscal deficit at a sustainable level,
   (b) Maintenance of GDP growth at 7% p.a.
   (c) Investment in physical infrastructure,
   (d) Export-led industrialisation,

(e) End of agriculture-water dichotomy,
(f) Developing a civil society, etc.

7. **Period of restructuring of economy (1999 – to date):** In October 1999, the Nawaz Sharif government was dismissed with the military coup by the Chief of Army Staff, General Pervez Musharraf. The entire country was in a state of jeopardy. Before that, the businessmen have already lost their confidence due to economic instability with the Nuclear Test, freezing of foreign currency accounts, devaluation of rupee, and the Kargil War in 1998. Therefore, the targets of Ninth Five-Year Plan were never been well implemented.

   The era of General Pervez Musharraf is known as the era of economic and political restructuring. During this era, the economy grew at an average growth rate of 5.1% (started from 2.6% in 2000-01 to 8.4% in 2004-05). President General Pervez Musharraf invited Mr. Shaukat Aziz to take charge of the Ministry of Finance in November 1999. He very quickly assembled a team of highly trained economists and extremely talented civil servants. To address the issue of the severe macroeconomic crisis and place the economy on a path of sustained higher growth, financial stability, and improved external balance of payments, the economic team launched a comprehensive set of economic stabilization and structural reform measures. The government believed that macroeconomic stability was vital for achieving higher and sustained economic growth, creating employment opportunities and preventing people from falling below the poverty line. It is with this view that a series of structural reform measures were initiated in such areas as privatisation and deregulation, trade liberalization, banking sector reform, capital market reform, tax system and tax administration reform, agriculture sector reform etc. As a result, Pakistan's economy started showing signs of improvement by 2000-01 well before 9/11. Manufacturing sector grew 11% in 2000-01 against 3.6% in 1998-99, revenue collection increased to Rs. 396 billion against Rs. 308 billion, debt servicing declined from 64% to 57% of total revenue, export increased from $ 7.8 billion to $ 9.2 billion. These are undeniable facts and well documented in official publications. These improvements had taken place much before 9/11.

   The present economic team under the stewardship of Shaukat Aziz has not only salvaged a near bankrupt economy but has put it on a path of sustained high growth with financial stability and considerably improved external balance of payments. Much has been done in the past five years. The country has witnessed a decline in poverty and an improvement in social indicators. The recent up-gradation of Pakistan in the Human Development Index of the UNDP is a vindication of the policies pursued by the government in the last five years.

   In 2005, the Government authorised the Planning Commission to issue the Tenth Five-Year Plan namely ***'Medium Term Development Framework 2005-10'***. The Medium Term Development Framework (MTDF) 2005-10 has been conceived in the light of recent socio-economic performance of the country, continuing supportive public policies and challenges and opportunities emerging from the global economy. Wide-ranging economic and financial reforms have made the economy open, liberalised and market friendly. As a result, private sector has begun to play an active role in shaping structural changes in the economy. The principal objective of the MTDF is to attain high growth of 8.2 percent by the terminal year 2009-10 with a sustained annual average growth of 7.6 percent during the five-year period without compromising macroeconomic stability. The second key objective is to achieve higher level of investment to meet the targeted growth and to effectively address the perennial issues of poverty reduction, employment generation, better access to basic necessities of life including quality education and skill development for up grading the human resources, better health and environment for the common man. The third crucial objective is to attract foreign investment to a level required to become a fast growing economy like Malaysia. Last but not the least, the MTDF will focus on growth which is just and equitable.

The plan has also anticipated the share of manufacturing sector in GDP to increase from 18.3% in 2004-05 to 21.9% in 2009-10. It is also anticipated that the production base would be expanded through the development of engineering goods, electronics, chemicals and other hi-tech industries. The Government is also anticipating fastest growth of IT/Telecom sector. Pakistan has seen an explosive growth in IT/Telecom sector in the last few years. The number of mobile phones achieved their 2007 targets two years earlier, and the recent deregulation of LDI, WLL and other sections have served to provide faster, better and wider coverage, all at lower cost. Nearly 60,000 IT professionals are operating in the country with an annual turnover of Rs. 12 billion of which 15% is exported. The plan has also estimated that our major exports (gross) will increase from Rs. 14.05 billion in 2004-05 to Rs. 28.12 billion in 2009-10.

The MTDF projects a rising growth rate for the agriculture sector from 4.8% in 2005-06 to 5.6% in the last year of the plan, i.e., 2009-10. The production of meat (beef, mutton, poultry meat) will increase from 2,275 thousand tonnes in 2004-05 to 3,124 thousand tonnes in 2009-10, and milk production from 29,472 thousand tonnes in 2004-05 to 43,304 thousand tonnes in 2009-10.
The production of fisheries is projected at an average annual growth rate of 4.8 per cent. The fish production will increase from 574 thousand tonnes in 2004-05 to 725 thousand tonnes in 2009-10.

Planning Machinery in Pakistan

Following are the planning agencies in Pakistan:

National Economic Council (NEC):

The planning machinery in Pakistan is headed by the NEC as the supreme policy making body in the economic sphere. It has the President as the Chairman and all Federal Ministers, incharge of development ministries and provincial governors as members. In addition, a member of other persons are invited to attend the meetings of the NEC as and when the agenda relates to matters concerning them.

Functions of NEC:

(a) To review the overall economic situation in the country
(b) To formulate plans with respect to financial, commercial and economic policies and economic development
(c) To approve the Five-Year Plans (MTDF), the Annual Development Plans (ADP), provincial development schemes in the public sector above a certain financial limit and all non-profit projects.

It may appoint committees or bodies of experts as may be necessary to assist the council in the performance of its functions. NEC discusses different cases and makes decisions. To ensure implementation of the decisions, the secretary of each Ministry is expected to keep a record of all the decisions conveyed to him and to watch the progress of action until it is completed. The Cabinet Secretary is also expected to watch the implementation of the council decisions.

Executive Committee of NEC (ECNEC):

The body directly below the NEC is the ECNEC. It is headed by the Federal Minister for Finance, Planning and Development. Its members include all Federal Ministers incharge of development ministries, provincial governors or their nominees and provincial ministers, incharge of planning and development departments.

Functions:

(a) To set up development schemes (both in the public and private sectors) pending their submission to the NEC.
(b) To allow moderate changes in the plan and sectoral adjustments within the overall plan allocation.
(c) To supervise the implementation of economic policies laid down by the Cabinet and the NEC.

Annual Plan Coordination Committee (APCC):

Another body concerned with economic policy is the APCC which is a purely advisory body responsible for advising the Cabinet and the NEC regarding the coordination of policies. It is headed by the Secretary General, Finance, Planning and Economic Coordination. All federal secretaries of development ministries, heads of provincial planning and development departments and heads of the State Bank, the Board of Industrial Management and PIDC are its members.

Central Development Working Party (CDWP):

Below ECNEC is the CDWP which is responsible for the scrutiny and sanction of development projects. The Secretary, Planning Division, is the president of CDWP. Its members include federal secretaries of the concerned departments, federal finance secretary and chairman of the provincial planning and development departments.

The development schemes of federal ministers costing over Rs. 10 million and of the provincial governments costing over Rs. 50 million are submitted to CDWP for approval.

The responsibility for the overall economic evaluation of Annual Plans remains with the Planning Division which places a report each year before the NEC evaluating economic achievements and failures. Mid-Plan reviews outlining the progress of the Five Year Plan are also published by the Planning Commission.

A Critical Appraisal of Planning Machinery in Pakistan

Following are main hindrances in the way of effective planning in Pakistan:

(a) Administrative obstacles of planning: One major obstacle which has stood in the way of establishing a sound, efficient and independent planning authority is the lack of an effective administrative machinery as this has greatly limited the tasks of development policy and planning. Some of the factors which still continue to be major hindrances and act as administrative obstacles and bottlenecks to planning are discussed below:

(i) Lack of competent personnel: One of the major obstacles in the way of an effective planning machinery is the lack of competent personnel. Good and highly qualified economists, technicians, planners, etc. do not join government service because of lack salaries and facilities.

(ii) Dilatory procedures: In Pakistan, documents and files must follow a prescribed series of steps through administrative layers. It has been pointed out that often there seems to be a disposition to shift the file and documents from one office to another, or from one ministry to another. The resultant delays are sometimes unbelievably long.

(iii)Lack of coordination: In many cases, the coordination of development activities has been extremely difficult because responsibility for different aspects of a project or programme are divided among many ministries and agencies. So it becomes, sometimes, very difficult to carry on programme according to policy.

(b) Inadequate preparatory work on projects: When a potentially desirable project has to be identified, a feasibility study has to be made to determine whether it is practicable and justified. A feasibility study involves a detailed examination of the economic, technical, financial, commercial and organisational aspects of a project.

According to Planning Commission of Pakistan, preparatory work on public projects in the country was frequently lacking. So due to inadequate preparatory work on projects, our plans have been failed in achieving their targets.

(c) Lack of implementation of plans: A major reason for the lack of implementation of the country's various five year plans has been the widespread failure of the governments of the day to maintain discipline, implicit in their plan. What is planned and what is done in many cases bears little relationship to each other. At times it almost appears that plans are prepared by a planning agency in one corner of a government and policy is made by various bodies in other corners.

(d) Lack of evaluation of plan progress and project implementation: Flexibility is an essential element of development planning because in many cases changes in economic conditions make deviations from original plan unavoidable. A central planning agency must, therefore, constantly review and assess progress in relation to events.

Unfortunately, whenever evaluation has been prepared by the country's planning authorities, they have been issued long after the end of the period to which they refer. In many cases the mid-term reviews of five year plans have been published almost near the end of the plan period and the final reviews of the plan have come long after the new plan have been launched and, therefore, been of little use to formulating targets and policies for the new plan. The need for a good reporting system on plan and project implementation is, therefore, an essential prerequisite for a good evaluation system.

An Operational Approach to Plan/Project Appraisal

A development plan is essentially a forward looking policy framework which envisages a concrete and prioritised but somewhat flexible programme of action to be launched in a dynamic situation to attain specified economic and social objectives. A plan or a programme / project is ultimately as good as its implementation since it is the actual achievement of the results in line with the targets and not merely the targets set or the resources allocated that determine the degree of success or failure of the plan / programme as well as its impact on the socio-economic life of the people. Thus, it is clear that only the technically, financially and economically sound and viable projects, if properly executed in a coordinated manner, can provide a strong edifice for the successful implementation of the plan.

Most of the developing countries still need to further evolve their development planning processes by redefining their national objectives and searching for alternative strategies, programmes and projects because it has been realised by most of them by now that the development planning adopted so far could not achieve the desired results especially in the areas of social development and income distribution. Recent international experience also shows conclusively that the formulation of technically sound, economically viable and administratively feasible programmes / projects, their proper appraisal, implementation and management are amongst the palpably weaker areas of development planning. In numerous instances, projects included in the development plans have either not been optimally implemented or even if implemented, have failed to yield the expected results on time. Similarly, such other factors like deliberate under-estimating of costs and over-pitching of targets at the approval stage, coupled with recent increase in input prices, have adversely affected the overall plan implementation in most of the LDCs.

In recent years, increasing attention is being devoted to more systematic processes of planning and decision making as a means of addressing the concerns of developing countries about the pace and pattern of economic growth, the failure to achieve planned objectives, and the continuing financial and economic crises. This approach has reinforced the case for greater depth in and a more systematic and inter-related approach to the monitoring, evaluation and follow-up of all public policy actions. This renewed urge is shared both by national as well as international agencies in order to up-grade the developing countries' status.

The United Nations International Development Strategy (UNIDS), therefore, emphasises that, to provide increasing opportunities to all people for a better life, it is essential in the development planning to bring about more equitable distribution of income and wealth for promoting both social justice and efficiency of production, to raise substantially the level of employment, to achieve a greater degree of income security, to expand and improve facilities for education, health, nutrition, housing and social welfare, and to safeguard the environment. The International Development Strategy emphasises the importance of national evaluation system. According to UNIDS, every developing country is needed to establish a reliable and independent evaluation machinery or strengthening the existing one, in order to ensure the implementation of development programmes.

<u>Plan Preparation and Implementation Cycle:</u>

The process of development appraisal and performance evaluation is an intrinsic component of planning. The standard plan preparation and plan implementation cycle includes:

(a) Establishment of goals, objectives and targets;
(b) Formulation of strategies;
(c) Formulation of operating plans composed of policies and specific measures necessary to achieve the real targets;
(d) Implementation of policies and measures to the plan;
(e) Monitoring and evaluation of performance (both financial and physical) against targets;
(f) Adjustment of targets and/or plans as may be indicated by actual accomplishments and related developments.

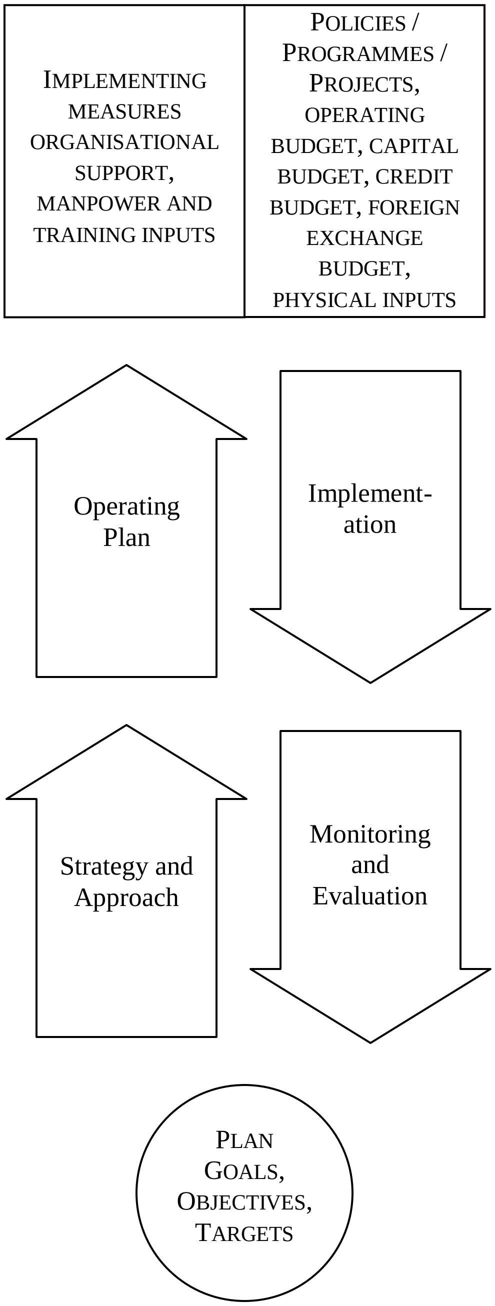

Figure 1. Plan Preparation and Implementation Cycle

It can thus be summed up that the success of the whole process of planning, implementation, monitoring and evaluation rests upon the very first step of *'identifying and specifying clearly the real objectives and targets'*.