UNIT 5  DEVELOPMENT PLANNING: CONCEPT AND RATIONALE

Structure

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5.0  OBJECTIVES

After reading this unit, you should be able to:

• Provide a comprehensive view of the concept of development;
• Discuss the concept and types of development planning;
• Outline the key elements of development planning;
• Examine development planning with special reference to South Asia;
• Highlight the important steps in planning process; and
• Point out a few limitations of development planning.

5.1  INTRODUCTION

A plan formulated is of no great use unless it is implemented properly. The politico-administrative structure has an important role in ensuring efficacy of the plan formulation exercise. The analysis of the basics of development and development planning in the first four Units will help us understand the concept strategies, challenges and techniques of development planning.

To understand the concept and rationale of development planning, it is necessary to view ‘development’ in a holistic perspective, as development planning is a particular type of planning activity, which strives to attain the developmental goals. Essentially, a post-war phenomenon, its nature and scope have undergone fundamental changes, largely due to changes in the interpretation of the concept of development.

Historical legacy, natural conditions, national resources, coupled with prevailing political, social and economic systems guide each country in pursuance of its development goals. Yet certain broad goals form the bases of its development strategies. These include economic growth, optimal utilisation of resources, quality of life, technological advancement, good governance and so on. Development Planning is a framework that aims at all round, balanced, multi-faceted development of a country towards enrichment of quality of life of its population.
5.2 DEVELOPMENT PLANNING: CONCEPT

Development Planning may be described as the conscious effort to influence, direct, and sometimes, even control changes in the socio-economic and political variables of a country to achieve predetermined set of objectives. Conyers and Hills define planning as “a continuous process, which involves decisions or choices about alternative ways of using available resources, with the aim of achieving particular goals at some time in the future” (Conyers and Hills, 1984). Development Planning also involves making choices between alternative courses of action. In essence, it tries to make optimal utilisation of resources by allocating it judiciously. In a broadest possible sense, it may be taken to mean any scheme of coordinated action to bring about desired changes in the society and economy, which implies that planning process should not be merely a diagnostic study or an expression of hope, it must be primarily an instrument of action. Socio-economic and political environ of the particular country, guide the form of intervention. As mentioned earlier, development objectives vary from one country to other, so the modes of intervention also vary. A comprehensive plan covers all aspects of development, whereas a partial plan covers only a part of it. In a way, planning is a means of achieving goals, within a specified time frame.

Development Planning is a complex process that involves collection of substantial information; evaluation of past development records, projection of future trends, and sets out targets and major policy measures and guidelines. It encompasses not just economic, but socio-political and administrative factors. An analysis of the need for planning from a historical perspective indicates that the role of state in regulating production and distribution has always been an issue of debate in most of the societies. Virtues of laissez faire and planning have been explored and contested. While in a free economy, production is controlled by demand; capitalists produce what they can sell. But it introduces a system where ‘income is not fairly distributed and as a corollary of this, less urgent goods are produced for wealthy people while the poor lack education, health, good food and ordinary comforts’. Judged against such parameters, especially when all the countries profess to be welfare state, it becomes an enjoined responsibility of the state to ensure that income distribution is equitable. That is why socialists preferred a completely planned economy. In fact, when the world was reeling under the pressure of Great Depression of 1930s, Soviet Union was experiencing economic growth mainly due to success of its five year plans. There are the following three distinct types of Development planning. Earlier, the emphasis of these varied types has been more on achievement of economic goals by the state.

i) Planning in Capitalist Economies

In capitalist economies private sector always played an important role and planning has been relatively indirect. But state minimalism was questioned in the wake of Great Depression. Keynes stressed the role of the state in maintaining a level of effective demand, which was necessary to ensure full employment. So, the state realising the consequences of unfettered play of the market mechanism, which may lead to highly unstable situations reflected in severe fluctuations of income and employment over the course of economic cycles, makes conscious effort through planning to create conditions that will prevent economic instability while still stimulating economic growth.
ii) Planning in Socialist Economies

With a high degree of state control over the economy, a socialist country tries to control its movement through a centralised decision-making process. Specific targets are set and allocations are made on the bases of material, labour and capital requirements of overall plan objectives. Later, implementation of plans is also done by the activities of all productive units. So, it depends on direct control rather than inducement. However, today we cannot find a single example of completely planned economy even in socialist countries.

iii) Planning in Mixed Economies

In a mixed economy private sector exists alongside public sector and productive resources are owned and operated by both the sectors. Both the sectors complement each other in bringing about rapid economic development. However, the extent of presence depends on socio-economic and political conditions of the particular country. Since both the sectors make demands on national resources, mixed economy has necessarily to be a planned economy, but the process is much complex. The crucial factor for determining the mix of state and market is that of comparative efficiency. According to C. Rangarajan, there are three roles for the state in any economic system- as a producer of goods and services, as a systemic regulator and as a supplier of ‘public goods’ or ‘social goods’ like primary education and health.

In all the seven countries of South Asia there is a vibrant private sector. Pakistan chose to centre its development strategy on the private sector. Pakistan Industrial Development Corporation was formed to spearhead the industrialisation drive by providing the critically needed capital and then withdrawing in favour of the private sector, which lacked the skill or the finances to undertake very large projects. Sri Lanka believed in liberal economic regime where the relationship between local and external economy is based on the market ideology. There has been free flow of capital and technology and freedom for its deployment. India and Bangladesh, though, adapted public sector led industrialisation, gave private sector a significant role in development of their respective economies. The fifth five year plan (1997-2002) of Bangladesh commits itself to the market economy and has been pursuing policies through which the private sector is expected to play a dominant role in the country’s development efforts. It has come a long way from the first plan, when the contribution of private sector in plan expenditure was 21.17%, to the fifth plan where it is expected to contribute 56.17% of the plan size.

In view of the broad concept of development and different goals of development of each country, planning differs in content in developing countries as compared to planning in developed countries. The multi-faceted goals of development make development planning more relevant in the context of developing countries. Characterised by wide disparity of income between the rich and the poor, concentration of ownership of resources in a few hands, surplus labour with a large under-employed informal sector, high birth rates, low life expectancy, chronic food deficits and significant number of people living below poverty line, these countries face the challenges of overcoming these odds by making optimum and judicious use of scarce resources and limited technological choices.
As there are limitations in the market mechanism and ever since the myth of Say’s law of market having been exploded, it is generally felt that it cannot ensure economic activity at full employment, leave alone addressing the numerous problems mentioned above. Therefore, external intervention, specifically development planning through government, becomes imperative. Though, it must be conceded that no government can tackle all the problems related with development simultaneously, it could at least identify the priority areas and plan accordingly, without losing the entire perspective. A detailed plan provides a precise and systematic method of attacking specific development problems, revealing the hidden implications of seemingly unrelated individual projects and ascertaining the resource and finance requirements of alternative economic targets. It further aids in overcoming the inconsistencies and inner contradictions that often lead to the emergence of unforeseen bottlenecks and the resultant curtailment of rapid material progress.

The scope of development planning in any country is defined by the approach of the planners as to what subject matters or activities they intend to influence through planning. This is done through planning for various sectors. India has identified key sectors such as agriculture, rural development, industry, power, transport, communication, etc. Pakistan and Bangladesh have similar approach. However, allocations are made depending on the priority of the sector, which in turn depends on the socio-economic conditions of the particular country. For example, Sri Lanka focuses on facilitating growth of plantation sector for increase in yields and subsequently increase in export volumes. As the literacy level is high in Sri Lanka, it can afford to make higher allocations to other sectors. Power shortage in the country has resulted in highest allocations for this sector in seventh and eighth plan. Besides poverty alleviation, agriculture and transport are thrust areas in Bangladesh’s fifth five-year plan.

Development planning encompasses other micro planning measures like social planning, environmental planning, etc., which are also of crucial importance. Similarly to what extent and how to achieve people’s participation in development process is another related issue. It has been emphasised that an egalitarian approach to planning should involve greater participation in the planning process, so that ‘choices reflect the needs and preferences of all social groups’. All these issues are taken care of through planning. In India, decentralised planning is a measure in this direction.

The scope has further increased with the necessities emerging out of importance of integration of developing economies with world economy in view of large undercurrents of liberalisation and globalisation sweeping the world.

### 5.3 DEVELOPMENT PLANNING: TYPES

**i) Directive Planning and Planning by Inducement**

It is a highly centralised type of planning, relying greatly on administrative orders. However, success of this type of planning depends on accurate anticipation of all the consequences of actions provided for in the plan. Critics argue that planning by direction is by and large inflexible, having not much scope for any alterations, which restricts economic freedom for the people. But it is pertinent to mention that
it helped transformation of underdeveloped economies of many East European countries in the past. It also attracted world’s attention to the importance of planning in 1930s. In fact, planning by direction was an integral part of a socialist society. In today’s context, though we do not find many countries following this path, almost all countries resort to this planning in crucial sectors.

**Planning by Inducement**

Democratic planning in general, means planning by manipulating the market. Players involved in developmental efforts are induced to act in a certain way through various monetary and fiscal measures. For example, to induce increased wheat production, the government may declare higher support price for wheat or give subsidy to fertilisers used in wheat cropping. However, such type of planning is not devoid of problems. Sometimes inducements may not be attractive enough for the producers and consumers to act the way the state desires them to behave and this also leads at times to surpluses and shortages.

In most of the countries today, both these forms of planning are found in existence. Developing countries need to have judicious blending of the two forms in accordance with their socio-economic conditions.

**ii) Financial and Physical Planning**

Financial planning is a technique of planning concerned with allocation of finances while physical planning pertains to the allocation of resources in terms of persons, materials and machinery.

**Financial Planning**

The Indian Planning Commission points out that “the essence of financial planning is to ensure that demand and supplies are matched in a manner which exploits physical potentialities as fully as possible without major and unplanned changes in the price structure”. In financial planning, the equilibrium is established between outlay in terms of money and the funds to be made available for investment purposes. In an underdeveloped economy, however, existence of non-monetised sector poses a problem in estimation. So, in such situations, it is more appropriate to be used in sectoral planning.

**Physical Planning**

Physical planning tries to work out the implications of the development effort in terms of factor allocations and product yields in order to maximise incomes and employment. So it attempts to find a balance between investment and output. Planners also need to pay attention to balance the outputs of the various sections of the economy. As this type of planning requires relevant and reliable statistical data and information, the developing economies face problems in assessing the availability of physical resources due to their inherent structural difficulties. Another difficulty comes in the form of balancing the different segments of the economy.

**iii) Perspective Planning and Annual Planning**

Long-term planning is imperative for any developing country due to various socio-economic problems. Long-term targets are set in advance for a period ranging
between 10 to 15 years. According to Planning Commission of India, which follows perspective planning, it is a blueprint of development to be undertaken over a longer period. For example, literacy level is very low in South Asian countries and desirable levels cannot be reached in 2 years or 5 years, so they resort to 10 to 15 years planning. But the perspective planning does not mean one plan for the entire period. In fact, broader objectives and targets are set for achieving in the specified period. This planning guides the principles of the plan being formulated for a shorter period. Splitting of Plan is also desirable as short term planning can be more precise and moreover, rigidity in planning can be avoided to allow desirable adjustments. Usually they are broken up into parts, mostly of five years duration. In fact, these five-year plans are further broken up into annual plans. The philosophy behind perspective planning is that planning is a continuous process and cannot be isolated for short periods.

Thus, while formulating five-year plans, forward and long term planning is always kept in mind. It provides the basis for shorter term planning.

Development Planning, in almost all developing countries is a combination of long-term perspective plans covering a period of ten to twenty years, medium-term plans for three to six years. Generally, the practice in most Asian countries is to formulate plans for five-year period subject to a system of periodic evaluation and adjustment. In addition to national plans, there are development plans prepared at the state and local levels. There are also sectoral plans outlining the targets, policy guidelines for specific economic and social sectors. While the long-term perspective plan lays down the strategy of development, the medium term plans are instruments to implement the laid down goals. In many countries, the development plan is made operational through the budget and annual plans.

5.4 DEVELOPMENT PLANNING: KEY ELEMENTS

The major elements of development planning are:

Spatial Planning

Spatial planning emerged during 60’s in the developing countries. Prior to 1961, a few countries adopted this type of planning. Spatial planning is basically concerned with introducing a general programme of regional development. It is broadly referred to as the organisation of geographical space or interrelated location of things, activities, and people in space. So, it is arrangement and association of various elements, structured or distributed over a geographical space and has linkages reflecting among them. Mexico, Brazil and Colombia had established river-basin commissions along the lines of the Tennessee Valley Authority. Damodar Valley Corporation was an Indian experiment. This kind of planning emerged out of fear that the further growth of urban areas would absorb scarce agricultural land and create insoluble environmental, social and economic problems. But this thinking was restricted to developed countries. Gradually, however, the developing countries realised the importance of regional development and spatial planning. Now, spatial planning is an integral part of development planning.

Integration

Development Planning is multi-disciplinary and multi-sectoral in nature as it is designed to meet multiple goals and objectives. This includes increased economic...
growth, creation of livelihood opportunities, utilisation of human resources, conservation of environmental resources, and so on. Activities of development planning require the expertise of many different disciplines like economics, geography, sociology, political science, public administration, natural science, architecture, etc. To make concerted effort to achieve common development objectives, these activities need to be interrelated in an effective manner. Again, convergence of sectoral plans for the same purpose also becomes important. For example, to manage its oil pool deficit a country may need to plan for alternative arrangements, like levying additional levies, developing alternative sources of energy, etc. Eventually, a detailed plan would be required, giving designs of specific projects, location and layouts. Broadly, a comprehensive plan would, entail integration of multiple goals and objectives.

Moreover, the plans are also prepared at the state and local levels. Their integration at the national level is also a part of this approach. In India, plans prepared by District Planning Committee, comprising the plans of rural and urban areas falling under its jurisdiction, are consolidated at the state level and depending on the state and national priorities they subsequently find their way into the national plan.

The key feature of this activity that takes place in development planning is functional, spatial and temporal integration. There is functional integration, bringing together socio-economic activities needed for societal growth. There is integration in terms of location of functions and activities vital to planning. And temporal integration indicates converging all development processes taking into account the present requirements, resources, future trends and activities.

5.5 DEVELOPMENT PLANNING WITH SPECIAL REFERENCE TO SOUTH ASIA

Development planning cannot be considered in isolation from the social, administrative and particularly, political environment in which it has to operate. Political ideology of the government in power and social structure of society has a direct impact on the methods and contents of the plans. Whether the state is ‘strong’ or ‘weak’ determines the efficacy of implementation of the plan projects. In Pakistan, during the 1960s an authoritarian state, which was considered a strong state, could help accelerate the rate of growth in the large-scale manufacturing sector to more than 15%. But, this industrial strategy did not lead to redistribution of growth. Mahbub ul Haq, Chief Economist of the Planning Commission, expressed that twenty-two families controlled 66% of the industrial wealth and 87% of the banking and insurance in the country. This to a great extent caused public resentment. Consequently, in the 1970s, the successor government of Bhutto induced drastic changes in the plan contents.

In Sri Lanka, the fluctuations in economic performances were closely related to the differences in domestic policies followed by the political parties, which came to power. The major rightist party favoured private enterprise and relatively liberal economic policies. Their stand was vindicated by the realisation that low periods of growth in the 1950s, 1960s and 1970s coincided with policies, which veered towards state enterprise, relied on state intervention and regulation and reduced the role of private sector. Internal conflicts have resulted in economy being in shambles. In 1999, its GDP growth rate was merely 4.2%.

Political instability in Bangladesh has resulted in the growth rate being low. Despite having savings of 21.1% of GDP and every previous plan targeting at an
average annual GDP growth rate of above 5%, it could achieve only 4% growth rate.

India relatively has always been a stable polity. But over the years, it too has faltered in achieving its plan objectives. In the initial stages, it could achieve only Hindu growth rate. Political analysts consider that ‘weak’ state, might be the major reason for the set back.

Development Planning has been in existence in many countries for several decades. It facilitated the policy makers to formulate and implement economic and social policies.

In the South Asian region comprising Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, the level of socio-economic development has been very low. The region is characterised by pervasive poverty, accounting in the mid-nineties for 40% of the world’s poor population. In terms of income deprivation alone, the number of poor in the region was estimated to be 515 million, which was more than the combined population in poverty in Sub-Saharan Africa, the Arab states, East Asia and the Pacific (excluding China) and Latin America and Caribbean. The South Asia Human Development Report 2000 estimated the number of people in 1995 without access to healthcare to be 272 million, to education 395 million and to safe drinking water as 285 million.

The growth rate of GNP per capita in the region between 1965 and 1980 was only 1.4% as compared to 4.2% in East Asia. Though this improved to 2.9% between 1980-93, it fell substantially short of 7.8% recorded in East Asia. The per capita GNP in 1993 was $309 as compared to $555 in Sub-Saharan Africa. In fact, South Asia has the lowest per capita income among regions of the world.

Most South Asian economies suffer from inefficient and unjust systems of economic management. Governments are large in size, but low in efficiency. Most taxes are regressive, falling far more on the poor and the middle class than on the rich, because nearly 70% of the regions’ total tax revenue is obtained through levying indirect taxes (Human Development in South Asia, 2000).

There is increase in unemployment in the region. In Pakistan, the employment situation has worsened due to lower output, growth and fewer people migrating abroad. In Bangladesh, despite high levels of urban labour absorption and fairly high levels of growth in the same period, there are still insufficient jobs to counter the numbers of people joining the labour force.

In view of such appalling socio-economic conditions, it has become imperative for all the seven economies to use their resources judiciously and optimally. Hence planning has been an important and useful tool to achieve their developmental goals.

5.6 DEVELOPMENT PLANNING PROCESS

The process of development planning requires a deep understanding of the dynamics of the existing system. To avoid it from being reduced only to wishful thinking, the fundamental and the facilitating policies need to be combined in the design of a path of change depending on the government’s ability to intervene and cope with change. As the government’s role cannot be ignored in implementing development agenda, it becomes necessary to identify critical
organisational mechanisms. Conyers and Hills have given a schematic presentation of the development planning process, which is given below-

Despite the fact that the planning process differs from country to country, by and large its main features are similar in all the developing countries. In a developing plan, framework planners need to take following factors into consideration.

**Stage of Development**

Essentially, the political, social and economic environment of a country guides the choice of programmes. All South Asian countries embarked upon industrialisation soon after independence, as there was no industry at that time worth mentioning in existence except in India. Even India could not boast of a good manufacturing base. Capital formation was a necessity at that point of time. Today, all the developing countries in general and seven economies in particular are focusing on poverty alleviation. Hence the stage of development, the country is in, matters.

**Institutional Structure**

Normally, there is a Central Planning Commission in all the developing countries. However, many variants are there down the line. In India, earlier it was a top-down approach. After 73rd and 74th Amendment Act with the constitutional status accorded to Panchayati Raj Institutions, planning has been brought closer to people, which was necessary in view of region-specific demands and requirements. Even a small country like Bhutan has given power to people to plan for themselves through the institutions of District Development Committee and Dzongkha Development Committee.
Again, the role of public and private sectors and expectations from them need to be clearly spelt out.

**Assessment of Available Resources**

The rate of development is crucially dependent on the availability of resources be it natural, capital or manpower. So a proper assessment of availability of these resources through appropriate surveys is important. For example, if a government does not possess sufficient capital to finance the part of the plan, which is its responsibility, it needs to identify the sources from where it can generate resources. For instance the Government of India has an ambitious plan of disinvestments in public sector enterprises.

**Past Performance of Economy**

Current socio-economic conditions of any country are legacy of its policies in the past. Evaluation of past performance helps in identifying the operative constraints and provides the country the opportunity to rectify its mistakes. Most of the time the constraints are related to the stage of development. Usually, capital and foreign exchange are the principal bottlenecks. Absence of key raw materials and their high prices in international markets also pose problems for developing countries. Other possible bottlenecks might be supplies of high-level manpower, inadequate transport facilities, and insufficient communication networks.

**Projection of Future Trends**

Projection of future trends enables the planners to evolve a suitable plan. For example, if unemployment in a country is 5% and every year 2% workforce is getting added to this population, the planners can calculate the rate of employment generation required to tackle unemployment in a foreseeable future. Similarly a projection of how much petroleum products needs to be imported every year in the next five years can help planners in managing foreign exchange. Many models are used to forecast or predict future conditions in areas that are of concern to planners. The models include input-output analysis, population forecasting, etc.

**Setting out Targets**

It is believed that the choice of goals is made, like any other public choice, through the political system. As trade-offs have to be made, it is the political executive who plays a key role in assigning priorities to different goals and objectives for planning. Later, it becomes the responsibility of planners to give shape to the plans accordingly. So, a way out is to have a flexible approach about the form of setting goals and objectives. Only then a suitable strategy to achieve them can be worked out. Consequently, policies and projects are prepared by the planners to give shape to political choices. These are technical aspects of the planning, but the responsibility of getting legislative approval is again the responsibility of political executive.

**Planning Techniques**

Once targets have been set, planners have to identify suitable planning techniques, which are capable of providing results within an acceptable time
period. There is need to take into account the cost-effectiveness of different techniques as well. For this purpose, mathematical models can be made use of. A lot also depends on the methods used in data collection. After the collection of data and the expression of priorities by the political executives, planners have to identify which projects can best serve the purpose and consequently prepare them.

**Availability and Quality of Statistical Information**

The availability of reliable statistics about the subject matter is of crucial importance for making a realistic development plan. Lack of reliable data has been a major reason for Nepalese plans going haywire. Shortfalls in target achievements of India or Bangladesh and for that matter other developing countries can be attributed to this factor. There is no denying the fact that unforeseen circumstances also contribute to the woes of planners, as happens quite frequently with Bangladesh, where floods and cyclones create havoc, thereby destabilising the priorities set in the plan.

While actual collection of data is just the first step, its processing and storage in usable form is equally important.

All the variables mentioned above contribute to preparation of the comprehensive plans. Plans for every sector and area constitute a national development plan, specifying explicitly the responsibility of each and every actor- private sector, public sector and the public.

Once the plans are ready, their execution becomes the responsibility of the agencies identified in the plan. The machinery for the execution of the plans should be an integral part of the planning. For instance, in India, the role of Village Education Committee in education has been identified in the plans itself. Similarly, the Sri Lankan plan specifically mentions the agency responsible for child immunisation. However, responsibility of the planners is not over by merely identifying the agency to implement, but, due to cyclical nature of the planning process, they need to monitor and undertake mid-term reviews during the implementation so that necessary modifications can be effected.

**5.7 DEVELOPMENT PLANNING: LIMITATIONS**

Development Planning has been resorted by many developing countries including South Asia to speeding up the process of development. But there have been certain limitations that hindered its effectiveness. These include:

- **Excessive economic orientation to planning:** The concept of development planning initially was identified with more of economic planning. The emphasis has been more on economic growth and strengthening of the national economies. Later, with the concept of development acquiring a broader connotation, the planning activity also became diversified in nature.

- **Creation of centralised machinery to undertake plan formulation:** According to Kabra, the administrative machinery and its modus operandi did not reflect to any marked extent the impact of development planning; it was basically an add-on to the existing arrangements (Kabra, 1996). Hardly any organisations, institutions and procedures were introduced to respond to and reflect the logic of planning.
- Absence of integration of development plans with other development strategies.

- **Gap between plan formulation and implementation**: Implementation of plans need policy directives on other economic and social issues. Absence of coordination on this front in many countries served as a deterrent to development planning.

- **Ineffective plan monitoring and evaluation instruments**: This many a times led to situation of incorporating unrealistic objectives which became an end in itself rather than a means to achieve the end.

### 5.8 ACTIVITY

1. Highlight the major development goals of your country.
2. Examine the initial and the latest plan document of your country and analyse the changing trends.

### 5.9 CONCLUSION

The nature of development planning as in existence in many Asian countries has been indicative. These plans project the targets to be achieved in a specified time frame with general policy directions towards the achievement of the targets. An examination of the development plans over the time reveals several trends. A change in the focus of their development policies is a striking feature.

Transformation of these economies is taking place. Countries like India and Nepal have also undergone significant economic reforms in recent years towards economic liberalisation, deregulation and privatisation. This is observed in case of China where there is transformation from a centrally planned economy to a market economy with resource allocation increasingly determined by market mechanisms.

The shift from state to market economy does not imply that the role of the government and development planning shall diminish. Development plans continue to be important documents specifying a country’s policy emphasis. The government has a major role in formulating and implementing socio-economic policies that influence private investment decisions. Public, private and community cooperation is visible in many spheres. What is needed in present times to make development planning feasible and practical is identification of priorities in economic and social development, strengthening necessary public infrastructure and institutions, to influence private investment initiatives with emphasis on social dimensions of development.

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