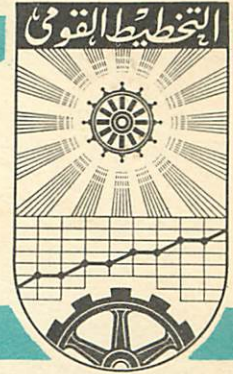


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### INVESTMENT PLANNING

(Part I)

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### Investment Planning

#### (Part I)

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## Investment planning

### Chapter I

#### General aspects of investment planning

##### I. Definition of investment and investment planning

Investments are a main concern of economists and likewise of planners. Activities in this field are, therefore, given great emphasis both from the theoretical and practical point of view. And we shall endeavour to discuss the problem of investment planning with due respect to all essential issues involved in it, because it affects the national economy as a whole. A one-sided or narrow-minded way of studying the problem would give interesting details but no full picture a planner urgently is in need of when drawing up and implementing the national plan. We should, therefore, be well aware of the point of view from which we are starting our study. Taking into account the experience of planning in the U.A.R. or in the G.D.R. and in other socialist countries as well, this point of view can only be the national aspect. We do not regard investment as a means of profitable employment of capital with a view to receive a return but rather as a means of making the national economy more rational and more advanced economically and socially. This attitude, general as it may seem, will help us to find the right solutions of all general and special problems that are to be discussed in this course. Practise in socialist planning shows us that even this general aspect proved a good criterion in cases where planners faced rather special investment problems on a low level as e.g. on the enterprise or village level.

We have answered so far the question how to look on the problems of investment planning in general. We must now explain the substance of investment and, consequently, of investment planning. What are investments and what is investment planning.

Investment means to use part of the national productive labour, represented by goods, in order to



create new and to renew available productive and non-production capacities.

The word "use" indicates that investment is a process implying measures to supply investment goods and to set up a new capacity (or to renew an existing one) in a certain span of time. This process starts with the supply of these goods and it is completed at the moment when the new capacity comes into action. In other words: investment is a process which begins after the output of investment goods has finished, and it will end when the newly built up capacity became part of the fixed assets of the national economy. As a matter of fact, investment represent an increase in the national wealth.

After having formulated a definition of investment we should try to find out the practical consequences of it because any definition has no ends in itself; it is meant, anyway, to give an idea for practical activity in the respective field.

The first consequence we have in mind has been stressed already, namely: investment is a process. It should be conceived as a complex of measures affecting several parts of the national economy. Investment as a process and, consequently investment planning are, therefore, linked with many other economic processes and planning activities.

The second consequence can be derived from the very wording of the definition. As investment is the process of using (investment) goods with respect to increase capacities we can state that investment are, primarily, a material (physical) process, financial problems involved being of secondary importance.

The third consequence will lead us to a definition of investment planning and, simultaneously, to a principle of socialist planning. Taking into account both consequences already mentioned, it will be obvious that investment planning aims at an increase of (productive) capacities by means of supply of investment goods and by putting them into action. Investment planning includes, therefore.

analysis both quantitative and qualitative of capacities available and of the necessary increase of them



analysis of investment goods' demand and supply, activities for supplying and establishing those investment goods including the final stage of putting them into action and including the process of financing all these activities.

Investment planning, conceived in this way, reveals that it is not limited to mere analytical work. It goes beyond economic calculations or drawing up a plan. Investment planning and planning in general has two sides: to work out<sup>a</sup> plan and to implement it. In socialist countries planners are accustomed, therefore, to call this phenomenon the "unity of planning and managing (implementing) activities". It should be stressed that this principle of socialist planning implies certain consequences with respect to the responsibility and competences of the different authorities of the planning machinery as well as with respect to the skill a planner must have gained. It will be, perhaps, appropriate to inform the reader, briefly, that a result of this general principle is the regulation that he who works out the plan is regarded responsible for its follow-up and implementation. This, of course, asks for the ability to be a good planner and organiser. Planning and executive work is to be done by any planning institution and by any planner.

Having defined the very subject of our study we shall now ask the question concerning the significance of investment planning.

## 2. The significance of investment planning

It had been already mentioned that investments increase national wealth. This statement should be amplified by saying that they extend that part of the national wealth which enables us to expand production and services. Investments and investment planning are a process of increasing the productive potential of the national economy. They are the basis for further growth and for the improvement of the technical and economic level as well as of the structure of national economy. To investment planning, therefore, great attention is to be attached.



Economic growth depends upon the economic potential conceived as a quantitative category, and upon the level and the structure of the national economy. Investments are the means to improve them. It is needless to say that economic growth is, usually, the faster the greater investments are. Planning experience in socialist countries tells us that this is not true at any case. Growth is not only a function of the investment volume but even of the way in which a given volume is used. The best way to use a given investment fund is (i) to invest modern techniques because they will increase productivity, i.e. the economic level and (ii) to distribute the investment fund rationally, i.e. to improve the economic structure of the country.

In order to make these general remarks applicable to practical planning in the field of investments it will be useful to resort to some problems which emerged in socialist planning experience and which in particular induced the planners to work out some kind of general principles of investment planning for the various branches and sectors of the national economy. They are basic to all planning activities in the field of investments so that we shall refer to them later very often.

- Projects (investments) are to be established with a minimum of material and financial funds. The minimum is reached when the various targets of the long-term plan can be realised with projects which ensure the smallest investment in physical and value terms in connection with the shortest construction period.

- Any project is to be drawn up and set up in accordance with the highest level of technical and technological progress in the respective field.

- Any project has to be set up only in case that there is no other possibility to expand output in order to meet demand. Demand of the respective products must be calculated before any project is to be taken into consideration.

- Investment planning has to analyse thoroughly, from the very beginning, the following problems:

- (i) The effects of the project on the respective branch (pro-



ductivity, production , manpower and raw material supply etc.);

- (ii) the effects on the adjoining branches which are to process the production of the project under consideration;
- (iii) the effects on the region where the project is to be located .

- Planning a project includes planning of all primary and secondary(direct and indirect) effects on the national economy. The latter must be balanced, too, in physical and value terms.

- Project(investment) planning must be executed with full coordination of all relevant material and financial data(targets).

- The establishment of a project cannot start unless all economic technical and technological documents etc. are available and finally approved by the responsible authorities.

It can be learned from this short list that investment planning asks for an extensive study of different problems . The first is that the planner must realize <sup>whether</sup> his project he has in mind, is in line with the general development of the national economy, and consequently, if it does fit in the political and social structure and interests of his country. The second, economic, problem is to be fully aware of the relations between the project and all other parts of the national economy. That project is best which will promote economic progress on the national scale. Planners should not pay their attention to an isolated project though it may be or become a rather profitable one. If one project seems to be rather profitable at the expenses of other projects or even establishments which are already active any society with a large nationalized sector will suffer from definite losses. Thirdly and last not least , each project must be established in accordance with the best accomplishments of modern technique and technology as well. This so because both modern technique and technology are a means of reaching a higher rate of growth.

It is obvious that investment planning is a combination of interdependent political economic and technical problems. The planner is



facing this combination in his day-to-day performance of his duty. He must be well trained to cope with the theoretical and practical problems of all three fields of knowledge and activity. This fact induced planners to regard their activities, not only in the field of investments, as a unity of politics, economics and techniques. Thus we have found, by the way, another principle of socialist planning.

### 3. The investment plan as part of the national plan

It is generally acknowledged in socialist countries and in many developing countries as well (e.g. in the U.A.R.) that planning should be (i) national planning and (ii) a comprehensive one, too. This acknowledgement involves that investment planning should be defined as part of the national planning as a whole and, moreover, that investment planning should be given a distinct role in national planning activities. This is meant to decide which priorities are to be given to it <sup>whether</sup> or such should be given, anyway, and what the investment plan itself should be like. Speaking about the role of investment planning we shall learn by the way some ideas about the parts which a comprehensive national plan must consist of.

The discussion of the problem that the investment plan represents one part of the entire national plan has to start with the question: which are the direct relations to other parts (sections) of the plan? This will be followed by another question as to the priority of any section of the national plan, with which the investment plan proves to be linked.

The general objective of a plan particularly in developing countries is to increase output. Considering the problem of growth we have in mind, first and foremost, the rate of growth of total output.<sup>I)</sup> This increase largely depends upon high efficiency of the economic potential which is <sup>a</sup> synonym for labour productivity. As the investment plan has no ends in itself it must be closely coordinated with the targets of the plan in the field of production and productivity. Even with respect to countries with less experience in planning we should

I.) It must be stressed that, of course, the problem of economic growth is not limited only to this problem. Growth is a category of a far wider scope.



nevertheless, point out that this interdependence requires a section of the national plan in the field of production and of productivity as well. If national conditions, perhaps, in the initial stage of planning make it impossible to work out a plan of labour productivity, some calculations on productivity should be exercised, at least, in order to try to get <sup>a rough</sup> idea about the effects of productivity on the national economy.2).

Anyway, investments as a means of increasing production and productivity ask for the subordination of the investment plan to production and productivity plans. This subordination must be regarded from the point of view of the final objective of planning activities, i.e. this subordination is to be conceived as the definite sequence of planning the economic and social development in general.

If we have in mind the planning and operative (managing) activities of different kinds we must be aware that things go the other way round. The final objective taken for granted(i.e. output), planning and managing or implementing work has to start at the other end by creating e.g. new capacities as a prerequisite of increasing output. Investments and the investment plan must be given, consequently, priority. This priority includes, time priority.

At this point we touch another problem. Investments create new productive capacities as one precondition of further increase in output. But to set up new capacities requires material and financial funds. We find that investment planning depends, in turn, upon production and financial planning. This is obviously true with respect to the planning of technical and technological progress which is to be introduced, preferably, by the way of investments. We can conclude from this that investment planning, though given priority, is determined greatly by the level of productivity, by the volume of output and or supply of investment goods and by the financial funds available. The level of productivity should be regarded as the basic precondition if we have in mind the final objective of planning. Output(supply) of investment goods and financial funds are the first problems to be considered if we have in mind the practical work for

2.) The author believes that the pressure of population in some developing countries is not in favour of the argument that productivity problems are no actual ones.



establishing and implementing the plan .

It is not our intention to give full account of the relations between investments and the investment plan on the one hand and the other parts (sections) of the national economy and the national plan on other. No is it envisaged to work out a philosophy on these relations. What we have in mind is a rather practical problem. The fact that the investment plan is related to many other sections of the national plan resulted in the existence of two different kinds of planning data (or coefficients).<sup>3)</sup> The first kind comprises data which represent binding targets of the respective investment plan, i.e. they are binding for the planning authority which is responsible for a certain branch etc. of the national economy and by which this plan has been worked out. Taking into account what has been said about the priority of plans we can conclude that the investment plan.<sup>4)</sup> should have, at least, the following main groups of data (targets):

- total financial fund
- single projects (most important ones only)
- new capacities.

Even a superficial study of these data reveals why they must be binding. If e.g. more financial funds are used for a certain project other ones cannot be carried out or the state Budget has to reduce other planned expenditures. The main projects, furthermore, must be set up according to the plan because they exert a certain influence on e.g. the region where it is located, on the technical level of the branch it belongs to etc. As far as the new capacities are concerned, they must be established, anyway, because the increase of production which is to be reached by means of them is part of the production, consumption and or export plan.

In order to complement or to work out the target data of the investment plan planners use a series of other data, coefficients etc. These are not binding but used for calculation only. As an example we wish to quote some of this kind:

- analysis of the utilization of the existing productive capacities (number of shifts, continuity of raw material supply
- 3.) This is valid, of course, for all kinds of plans and planning activities.
- 4.) We have in mind the central investment plan only. The respective plans on the branch, regional and enterprise level are more amplified.



- investment output ratio (its serves to choose the best variant out of a number of proposed projects on the branch level )

Without going into detail we can generalize these statements in the following way: Binding data are those which express economic processes which must be influenced and controlled by the respective planning authority <sup>directly</sup>. If some of these processes and the respective data are of national importance they will be included in the central plan. If not, they are part of the plans on the other levels (branch, regional etc.) . All other economic processes and the respective data belong to the second kind of data (coefficients) which are used for calculations. They, usually, are an appendix to the plan.

We should stress that this distinction between binding and calculating data is not an academic one. We must conceive planning as a means of promoting social and economic progress. But this asks for responsibility of all organisations, institutions and individuals engaged in economic activity. Planning means to carry out definitely what has been calculated before. It is therefore, not a contemplative but rather an active job . To have binding data or targets is only one practical consequence of this general consideration.



#### 4. The basis of the investment plan

We must return to one problem discussed in section 3 in connection with the relations between the investment plan and other sections of the national plan. It had been put forward that investments are to be subordinated to certain objectives of the national plan which will be fulfilled by investment activities. Such objectives had been stated production and productivity targets. Generally, objectives like these are a starting point for investment planning. We are now going to study this problem concerning the basis of investment planning in a more amplified way.

Investments themselves are, usually, a process lasting a more or less long span of time. Taking into account, too, that they are the means of improving (i) the economic level and (ii) the economic structure of the country we see that investment planning is a kind of long-term planning. Moreover, investments as such require a well-balanced long-term national plan indicating the main targets to be reached even by means of investment. This general statement should be stressed because if planning is going this way, the utilization of the given investment fund will be the most rational one. Growth implies a rapid development of a series of economic data, the growth (or rate of growth) of output being the most outstanding one. But output is not an anonymous category, though, expressed in value terms, it does not tell us which concrete products it consists of. As general data output and growth of output must be used and calculated in planning. The higher the rate of growth of output the better the result of planning activities. This, however, does not mean that it does not matter what the concrete output is like. To set up a plan with the view to reach a high rate of output irrespective of the various rates (and volumes) of output of concrete products cannot be called planning. This would be some sort of economic calculation without reference to an effective control of the different concrete economic processes. Moreover, this would leave the use of the concrete output only to the



market machinery; consumption of product, including raw material and investment goods, would happen to be, practically, off the competence of the planning authorities.

Consequently, a good investment plan can be worked out only if an outline of production targets is available broken down by

- (i) branches and by
- (ii) single products which are of national importance.

This outline should cover a period of several years.

Studying planning activities in this respect in different countries we shall observe that, usually, concrete production targets as a guide-line for investment planning are available. They are the result of concrete considerations and calculations so that, perhaps, it might have been not worth mentioning what has just been said about the necessity of concrete production targets as a precondition for a qualified investment planning.

Investments change the economic structure of the country by creating new capacities thus contributing to an increase in output. If this is true, the problem of drawing up concrete production targets prove to be the problem of planning the structure of the national economy. This, obviously, cannot be executed neither by mere concrete production planning on a more or less isolated branch level, nor with respect to industrialization in general. No country can go straight away into development, industrialization and detailed production planning. There must be worked out, first of all, a conception of the economic structure the respective country intends to set up in the long run. This is part of the perspective planning (long-term planning). In this work all important political, economic and social conditions and aims are studied, balanced and, finally, transformed into a set of interdepending data representing the "skeleton" of a detailed long-term national plan. This general conception must be binding for all planning and other economic authorities and organisations. It becomes binding by being approved by the respon-



sible authorities (in socialist countries e.g. by the parliament).

Practically, to work out the general conception or general prospects means to preconceive the national economy in its main proportions and relations (both internal and external) and to anticipate the political and economic future of the country.

This work, which is to be done in general as well as in concrete form, is the first basis of investment planning. It will, by the way, indicate to which branches or regions priority in planning should be given.

We have answered so far the question that investments are a method of changing the structure of the national economy and that they are, therefore, subject to the general targets of the long-term national plan. Investments contribute, too, to an improvement of the economic level of the national economy. From this statement a second question can be derived: What is the basis for investment planning as far as it affects the level of the national economy? Asking this way it is assumed that there is such basis. If we discuss the problem with special reference to planning experience in socialist countries, this proves to be no question at all; in these countries such a basis definitely does exist.

This close relation between investment and the structural changes of the national economy should be stressed from another point of view, too. Rational utilization of the investment is possible only in the long-run because new capacities as a result of investment activities can be used over a long period of time. This simple fact, therefore, requires accurate studies and calculations so as to avoid any serious error in branch (sector) allocation of funds which would lead to a highly inefficient investment. This would mean waste of productive labour in a double sense: wrong (not necessary) investment and new efforts (i.e. allocation of new investments) in order to remedy the previous misallocation.

Economic growth is the general aim of planning with special