

THE OPTIMIZATION OF NATIONAL DEVELOPMENT PLANNING SYSTEM AS A PRECONDITION FOR COMPETITIVENESS AND SUSTAINABILITY OF NATIONAL ECONOMY

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Abstract

The objective of this paper is to make conclusions regarding the development planning system in Latvia, as well as to give suggestions for the optimization of development planning system with an aim to promote sustainable development of national economy. As a result an updated and enlarged model of national development planning system is proposed. The proposed model allows to put into practice unified development planning process that connects different term and level planning documents to each other as well as national and EU funding investment planning documents. So the proposed model encourages synergy between investments of different sources, which is of particular importance in the current economical situation when resources for stimulation of economy are limited. In addition the model proposes mechanisms for stronger connection between development planning documents and political guidelines. Moreover, proposed model strengthens the linkages between development and budget planning.

Keywords: national growth, socio-economic development, strategic planning, regional policy, European Union funds.

Introduction

Although in the 20th century the term “development” due to historical background has become mostly associated with territory planning, as well as economic planning in developing countries (Severino, 2007), in this article as well as in Latvian legislative acts that stipulates development planning system in Latvia term “development” is used in its broader sense as integrated social, economic and territorial development with an aim to increase the quality of life for inhabitants.

Despite the fact that issues related to economic development has been studied since the formation of first societies, study of economic development became a separate study field after the World War II and were strongly influenced by Keynesianism, wartime experience with strong state intervention, planning experience in Soviet Union, the arising of independent states in third world, as well as the creation of international organisations for fostering development (McNeill, 2003). However varied experiences of development in developed, transition and developing countries, empirical studies and the theory of economics makes look one carefully at the ideas about the causes of economic growth and how government should stimulate it (Rodnik, 2005). Nevertheless a well organized national development planning system is a crucial precondition for an effective, efficient and relevant government intervention.

Because of current economical downturn, the issues regarding national development planning have become even more topical. To simulate the recovery of national economy, available financial and administrative resources should be allocated to the fostering of development in a more goal-oriented way than ever before. Therefore the elaboration of integrated and coordinated national development system that is strongly linked with budget planning is crucial not only for the competitiveness and sustainability of national economy in medium term, but also as an effective response to the current economical downturn.

Several studies (Karnitis & Kucinskis, 2009; Bicevskis, Karnitis & Karnitis, 2010) have already outlined the strategies of most substantial national development planning documents, and studied the processes of national development planning and management in Latvia. This article will concentrate in particular on the system of national development planning documents, their coherence, hierarchy and interdependence, as well as the ability to implement unified national development strategy.

Conclusions about current national development system in Latvia

Since the restoration of independence large number of development planning documents from sectoral development programmes in 1990ies till integrated intersectoral development planning documents in recent years have been elaborated in Latvia. Joining the EU has contributed significantly to the capacity of national development planning because the invention EU funds demands multiannual programming that takes into account economic, social and territorial characteristics, and is consistent with the policies of national and EU level (European Council, 2006). Moreover, the first integrated national development document - National

Development Plan of Latvia (furthermore – NDP) 2000-2002 - served as an investment plan for the use of EU pre-accession funds. Most significant intersectoral development planning documents, that followed first NDP, are NDP 2004-2006 and National Strategic Reference Framework 2007-2013 (both EU funds planning documents), as well as NDP 2007-2013 and Sustainable Development Strategy for Latvia 2030 (to be approved by national Parliament this year).

Since January 1st 2009 the Law on Development Planning System is in force. The law states development planning principles, types of development planning documents, their hierarchy and interdependence, as well as the responsibilities in development planning process. According to the law local level development planning documents are subordinated to regional level documents and regional level documents are subordinated to national level documents. In addition, Sustainable Development Strategy of Latvia 2030 is set as hierarchically the highest development planning document in the long term and National Development Plan - in medium term.

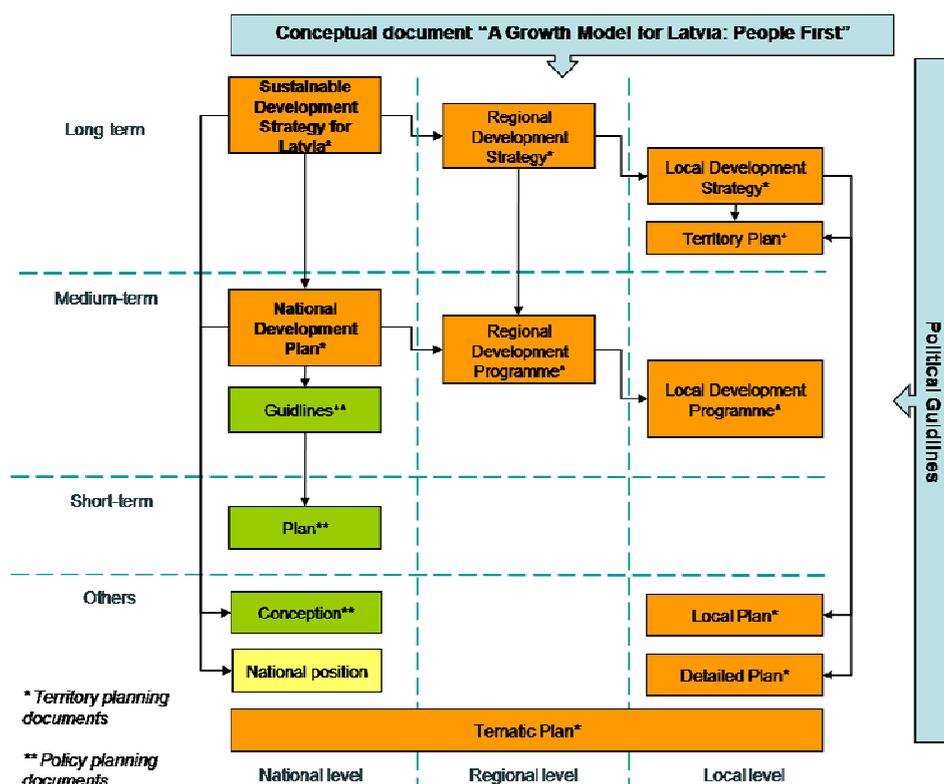


Figure 1. Hierarchy and interdependence of development planning documents in Latvia

National development planning system is also regulated by the Law on Territory planning (currently drafted) and the Cabinet Regulation No.1178 of 13th October 2009 “The regulation on the elaboration and impact assessment of development planning documents”. The Law on Territory planning covers the issues related to territory planning documents, and the Cabinet Regulation – those related to policy planning documents. The hierarchy and interdependence of development planning documents according to the law are shown in Figure 1.

Still the development system which is stated in the current regulation is not complete. First of all, the unsatisfactory implementation of the NDP 2007-2013 (Ministry of Regional Development and Local Government of Republic of Latvia, 2008) shows that current development planning and implementing is not integrated and coordinated to implement united mid-term development strategy that is stated in the NDP. Moreover in conceptual document “A Growth Model for Latvia: People First” defined boundary spanning principle (expansion of activities beyond frameworks of individual sectors, institutions etc.) is not put into practice, so development planning in Latvia remains strictly sectoral, lacks synergy and runs a risk to become contrary to each other.

Secondly, the coherence between national and international development planning documents (EU sustainable development strategy, EU Lisbon strategy etc.) is unclear, and the place of internationally

initiated development planning documents (first of all, EU funds planning documents, as well as National Lisbon Programme and National Convergence Programme) is not fixed in the national development planning system. The praxis shows that national development planning documents are rarely implemented because of the lack of financing. Meanwhile the major investment planning documents – EU funds planning documents – are drawn up separately from national development planning system without direct linking with the NDP and subordinated policy and territory planning documents. As a result EU strategic plans that are elaborated to implement EU Cohesion policy and EU Common Agriculture policy financing in Latvia not only lack consistency with national development planning documents but also (because of the lack of unified state development strategy) with each another. Moreover, both EU funds planning documents form their own performance indicator system which is weakly related to national performance indicator system.

Thirdly, mechanisms for the integration of sectoral and territory development priorities are not established, therefore the NDP and sectoral policy planning documents lack territorial dimension. At the same time most of regional and local level territory planning documents is too uncertain to be successfully implemented. As a result potential of different territories is explored insufficiently. This is a notable problem that asks for solutions because of a strong conformity of opinions that agglomerations are substantial driving forces for socio-economic growth (OECD, 2006). As one example for the promotion of integrated territory development planning EU funds 2007-2013 priority „Polycentric development” could be mentioned. Priority aims at strengthening the potential of cities as driving force of regional development. In order to apply for EU funds support, potential beneficiaries (cities and towns) shall prepare development strategies that are in line with an integrated approach of development planning. By an integrated approach coordination of spatial, thematic, and time dimension, as well as interests of all parties involved in territory planning process by using concrete financing to achieve the goals are understood (Ministry of Regional Development and Local Government of Republic of Latvia, 2008).

Currently most of development planning documents (as well as institution action plans and budget planning documents) in Latvia includes performance indicators. Still the national system of performance indicators faces several substantial problems. Firstly, the status and place of performance indicators of hierarchically the highest national level development planning documents (the NDP and Sustainable development strategy for Latvia) in national performance indicator system is unclear. Secondly, performance indicators that are included in policy and territory planning documents are weakly related to the process of planning, monitoring and evaluating the impact of national budget.

Furthermore the link between development planning and budget planning is still not sufficient. The process of linking development planning and annual budget planning is shown in Figure 2.

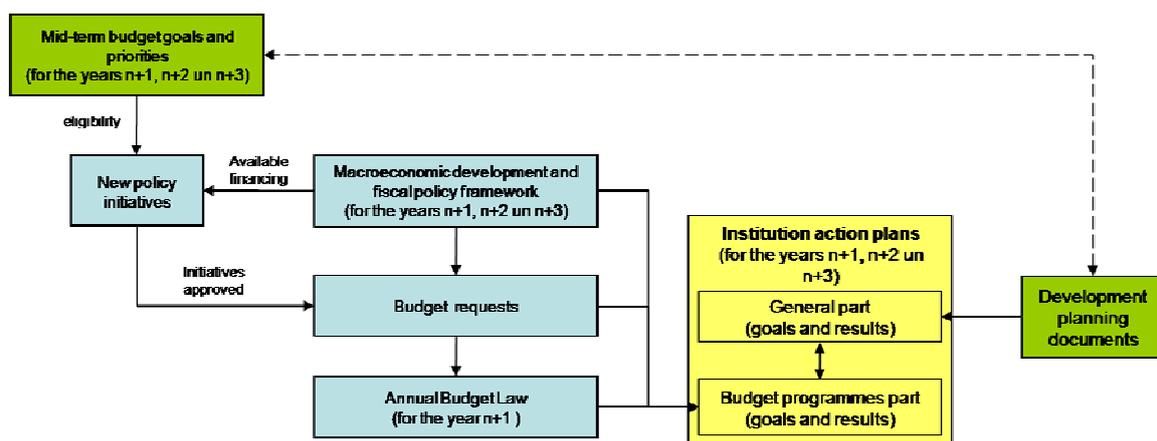


Figure 2. Process of linking development planning and annual budget planning

The Law on Budget and Financial Management stipulates that every year mid-term budget goals and priorities for three forthcoming years are elaborated. This is the only point in budget planning process in which unified development priorities stated by the government are related to budget planning process. However these goals and priorities are taken into account only in the evaluation of proposals for new policy initiatives. It happens, only when financing for new policy initiatives in medium is foreseen. So in the current years of economic recession there will be no linkage (that is stated in the legislation) between centrally defined development priorities and the budget planning. Another instrument for connecting

development planning and budget planning are institution action plans. Institution action plan stipulates strategy (goals, priorities and achievable results) of institution in its administered policy areas for three years in the framework of mid term budget and development planning documents (Cabinet of Ministers, 2008). However, as institution action plans are elaborated after the adoption on annual budget, development planning process in practise is subordinated to budget planning process what from the systematic view should be vice versa. Moreover institution action plans are divided into two sections. General part stipulates the strategy (goals and results) of institution in its policy fields mostly based on development planning documents, whereas budget programmes part describes the goals and results of institution budget programmes based on budget law and submitted budget requests.

Last but not least, the coordination, continuity and relevance of national development planning system are strongly influenced by political will to agree on and implement a unified development planning strategy. Political system that is characterised by unstable short term coalition government makes it especially difficult. As a result development planning documents are weakly connected with political guidelines both in content and terms. Although political guidelines of national level – the declaration of government - include a list of priorities, operational part of these documents is only a list of tasks which must be fulfilled by ministries without any prioritisation and measurable results that need to be achieved by implementing the declaration. Moreover, the average duration of government in Latvia which is less than a year and four months (State Chancellery, 2010) is far too short period for strategic planning.

Suggestions for the optimisation of national development planning system in Latvia

Considering problems of national development planning system mentioned previously, in this paper an updated and enlarged model of national development planning system is proposed (Fig. 3; please note, that territory planning documents that represent land use graphically are included in the model although not shown in this figure).

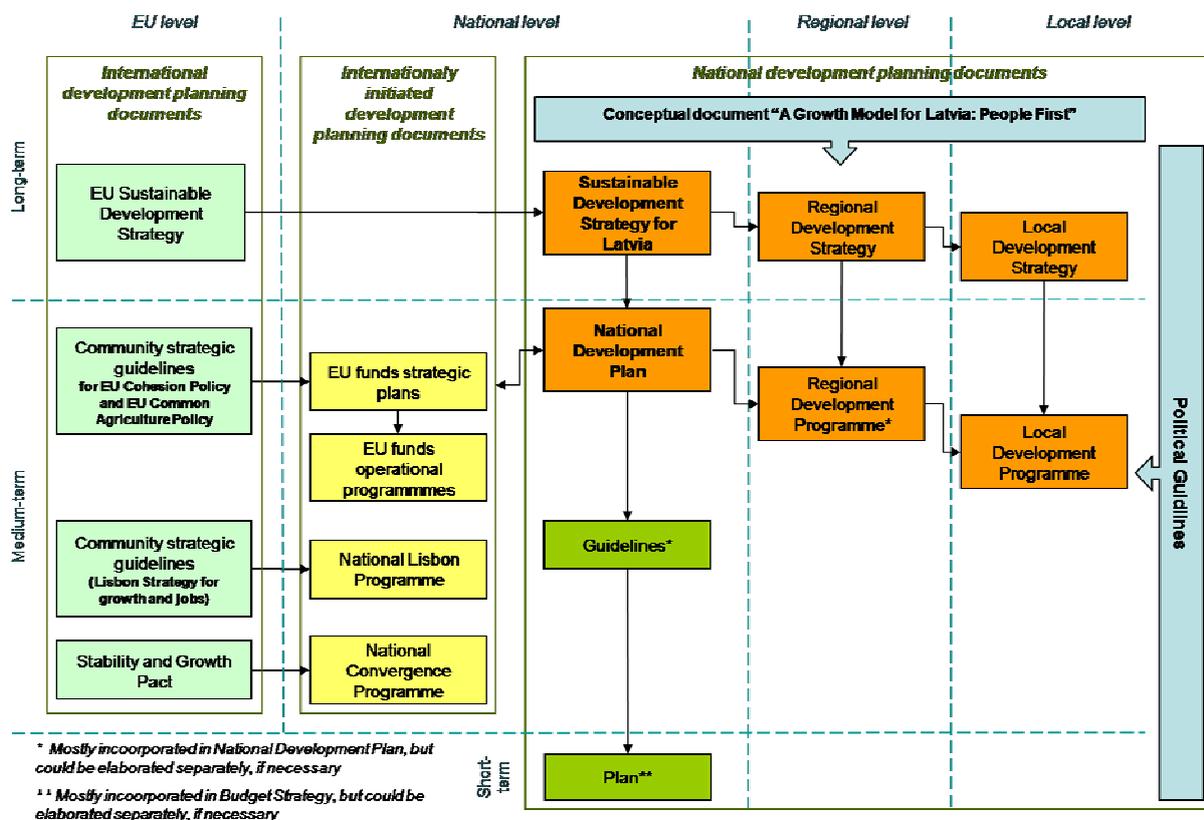


Figure 3. Proposed model of national development planning system

The proposed model allows to put into practice unified development planning process that connects different term (short, medium and long) and level (national, regional, local) planning documents to each

other as well as with national and EU funding (especially EU Cohesion Policy, EU Common Agricultural Policy) investment planning documents.

Moreover the NDP will consist not only of sectoral development programmes, but also include regional development programmes. The proposals for the invention of the regional EU funds programmes as a tool for promoting sustainable regional development have been discussed recently (Vitola & Senfelde, 2009). Sectoral and regional programmes should be coordinated with each other, so contributing to the implementation of unified development strategy that is stated in the general part of the NDP. By including the regional development programmes in the NDP, the proposed model creates preconditions for decentralisation of development planning process thus contributing to the correspondence of development strategies to the need of inhabitants. The proposal for content of the next NDP is shown in Figure 4.

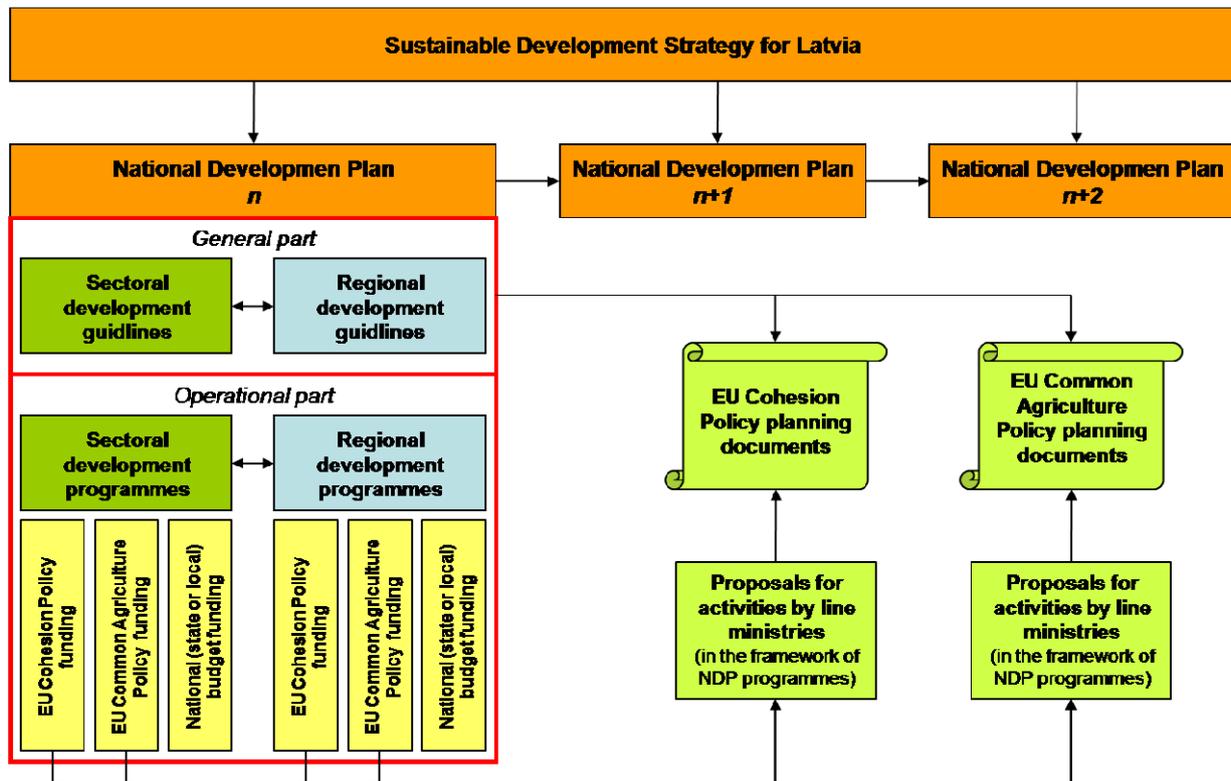


Figure 4. Proposal for contents of the NDP

Accordingly when elaborating EU funding planning documents the general part of the NDP should be supplemented with concrete activities that are planned by line ministries or regional institutions in the framework of the NDP development programmes. Consequently the resources of public administration will not be wasted in preparation of mid term policy planning documents (sector policy and regional development guidelines) that are not directly related to investment planning, lacks synergy and are in risk to become contrary to each other. If necessary for the coordination of financing or administrative resources, line ministries and planning regions will be able to further develop development programmes that are stated in the NDP. Moreover the processes of national development planning and EU policy invention planning in Latvia will be aligned and result in the elaboration of the NDP and EU funds planning documents that are consistent and coherent. So the proposed model encourages synergy between investments of different sources, which will be of particular importance when the economy recovers and more resources for promotion of growth becomes available.

To contribute to the optimisation of national development planning system the system of performance indicators has to be adjusted by inventing into praxis the order that is already outlined (but not strictly stated) in Cabinet Regulation No.979 of 1st September 2009 "The order of the system of results and performance indicators". The performance indicators of the Sustainable Development Strategy for Latvia and the NDP should be cascaded to subordinated development planning documents thus forming a clear vertically and horizontally coherent system of the performance indicators. Subsequently clear references should be made between the performance indicators that are used in the development planning documents and the

performance indicators that are included in the budget planning documents thereby linking development goals and tasks with concrete budget programmes.

To strengthen the linkages between development and budget planning we propose to invent yearly elaboration of budget strategy for three years that states national development goals, priorities, action lines and achievable results on national and sector level. Annual budget strategy for three years would be elaborated in close reference to the development planning documents and political guidelines. The process of elaboration and contents of budget strategy is shown in Figure 5.

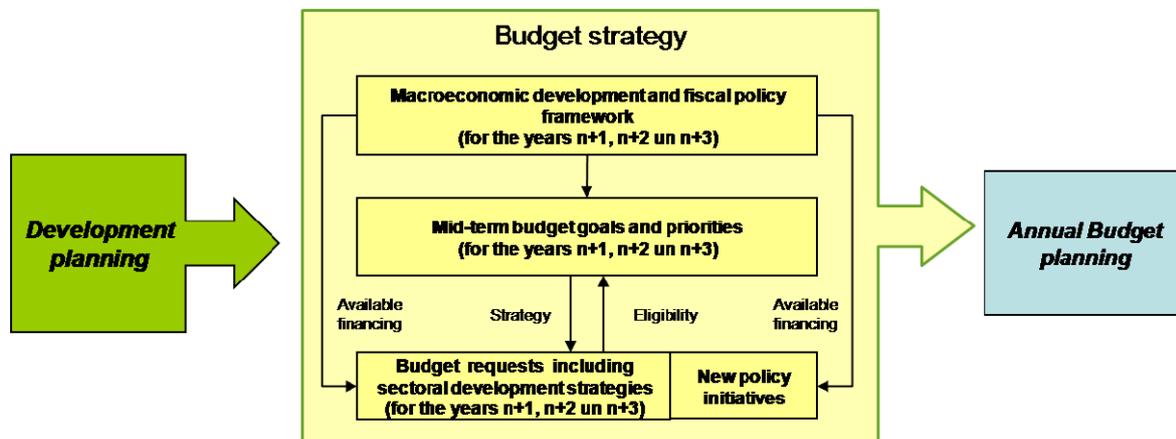


Figure 5. Proposal for process of elaboration and contents of budget strategy

According to the budget strategy and the macroeconomic development and fiscal policy framework (that states the available financing) line ministries would prepare their budget requests that would be evaluated regarding the coherence and input in the implementation of stated budget strategy. After that budget strategy would be supplemented with the sector strategies for the next three years made by the line ministries thus eliminating the necessity to elaborate institution action plans as well as other short term planning documents. Nevertheless institutions could further develop their strategy by elaborating short term development planning documents if necessary for the coordination of financing or administrative resources. Budget strategy would not only serve as a base for well-grounded discussions in the government, parliament and also society in the process of budget planning, but also give detailed and at the same time easy perceivable information regarding the application of public funding.

In addition, in order to optimize the connection of the development planning documents and political guidelines, we propose that the declaration of government should stress changes that the new government is going to make in current policies instead of being a summary of tasks that are proposed in already made or to be made development planning documents.

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