

ANNEXURE 4: SECTORAL CLASSIFICATION OF DEVELOPMENT EXPENDITURE

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THE CONCEPT OF DEVELOPMENT EXPENDITURE FOR THE SECOND PLAN

The concept of a workable definition of development expenditure should take into the following basic considerations viz-a-viz the Development Programme:

- i) that it should be designed to keep intact, to enlarge and to improve the physical resources of the country.
- ii) that it should improve the knowledge, skill, and productivity of the people; and
- iii) that it should encourage efficiency with which available resources are used.

2. Accordingly, the following types of expenditure should be treated as developmental:

- (a) In respect of Agriculture and Industry, all such items of expenditure will be included as a result in the replacement or expansion of existing capacity or in the creation of new capacity.

For instance, in agriculture, expenditure on the replacement or expansion of existing capacity or creation of new capacity in respect of anti-locust schemes and plant protection measures, expenditure on popularization and distribution of fertilizers related to specific Plan schemes, net subsidy on fertilizers, expenditure on agricultural extension workers related to specific Plan schemes, all expenditure on village-AID, expenditure on agricultural research and experimentation related to specific Plan schemes, fresh development loans to the agriculturists, etc. will all be treated as developmental. In industry, all expenditure on replacement and depreciation, total investment for the extension of old capacity or for the creation of new capacity, expenditure on technological research and Geological Survey related to specific Plan schemes, etc., will be regarded as developmental. The expenditure on the ordinary maintenance and running of existing facilities will be treated as non-developmental and should be provided for in the non-developmental requirements of the respective government departments: only the expenditure on the establishment of new facilities will be regarded as developmental. Similarly, the existing level of expenditure on agricultural

extension workers, agricultural research, etc. will be treated as non-developmental and only the additional expenditure on those services relating to specific Plan schemes will be regarded as developmental during the Second Plan period. All expenditure on raw materials, spares and fuels will also be treated as non-developmental.

- (b) In respect of transport, communication, irrigation, power, banking, insurance, etc. all such expenditure will be included as is required for the replacement or expansion of existing capacity or for the creation of new physical capacity.

This means that gross investment (including depreciation and replacement in economic overheads will be treated as developmental. The expenditure on technological research related to specific Plan schemes, will also be regarded as developmental).

- (c) In respect of social services like education, health social welfare and manpower development, only non-recurring expenditure on the Plan schemes will be treated as developmental.

The exceptions to this general rule would be as follows:

- i) Recurring expenditure on technical, industrial, and social research related to specific Plan schemes.
- ii) The entire expenditure on scholarships and stipends (whether existing or new expenditure).
- iii) Recurring expenditure on accelerated malaria control schemes.
- iv) Recurring expenditure on account of family planning schemes; and
- v) Recurring expenditure on community development programme in the Second Plan.
- (d) In respect of civil works, gross investment in buildings and roads (except those for defence purposes) will be included in the development programme.

Such expenditure will include buildings in Federal and Provincial Capitals, Divisional and District Headquarters etc. (excluding Army deposits) as well as expenditure on survey, planning and designing of such buildings. Similarly, the non-recurring expenditure on housing and settlement projects and ancillary services such as water supply, sewerage, rural electrification etc. expenditure on surveys and research in respect of housing and settlement problems, expenditure on studies of Master and Regional Plans for housing programme, gross investment in roads, including depreciation and replacement expenditure on existing and new roads as well as expenditure on opening of new roads – all these items of

expenditure will be regarded as developmental. The ordinary expenditure for normal maintenance of roads, canals, buildings etc. will be treated as non-developmental outlay.

3. An attempt has been made to classify the existing budgetary heads according to the above concept (see Appendix). This has been done to facilitate an understanding of the detailed application of the concept and is not intended to suggest any water-tight compartments.

4. It should be clarified that the distinction between development and non-development expenditures, as made above, is in order to specify what particular expenditures will be included in the Second Plan and does not necessarily reflect on the development or non- development character of various activities. Similarly, the concept of development expenditure should be kept separate from the question of financing. In the last analysis recurring expenditure on education staff may be as important as non-recurring expenditure on education buildings and the Planning Commission will take into account as well as insist on an adequate provision for the former in the normal expenditure of the education department irrespective of its exclusion from the concept of "Plan expenditure".

**APPENDIX
TO
THE CONCEPT OF DEVELOPMENT EXPENDITURE**

In the light of the revised concept of development expenditure, the list of Major and Minor Heads of expenditure of the Central and Provincial budgets has been segregated in the following three categories:

Category "A"

Major and Minor Heads of account on which the entire expenditure on specific Plan schemes during the Second Plan period will be considered as developmental.

Category "B"

Major and Minor Heads of account on which expenditure on specific schemes included in the Second Five Year Plan will be treated as developmental.

Category "C"

Major and Minor Heads of account on which the entire expenditure will be considered as non-developmental.