

SP/18
First Draft

METHODOLOGICAL PRINCIPLES FOR
SHORT-TERM PROGRAMMING

Note: The purpose of this paper is simply to bring together some of the principal aspects of short-term programming that might be useful for discussion during the Consultations. At the conclusion of the Consultations, the secretariats will present a new document incorporating any comments made on this provisional text in the course of the discussions.

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FOREWORD

1. To assist the Latin American officials in charge of planning in carrying out their immediate tasks of formulating and executing economic and social development plans, the secretariats of OAS and ECLA present a succinct and practical outline of suggested guide-lines for the preparation of short-term development programmes. The following notes are mainly based on the working papers and discussions of the Latin American Seminar on Planning; however, they also include some points that were not fully discussed at the Seminar but that both secretariats consider to be of practical importance for the more efficient performance of planning activities. Although some of these ideas originated in the Seminar discussions, it should be pointed out that they do not always reflect a consensus of opinion on the part of the participants.

1. The aim of short-term programming

2. Short-term programming may be regarded as a part of long-term planning. It may also be looked upon as a programme for immediate action in specific high-priority fields, which should be formulated and put into effect while integrate long-term plans for economic and social development are being prepared.
3. The choice of one or other of these criteria will depend primarily on whether the country concerned has already drawn up its long-term development plan and has an administration that is capable of carrying it out. In any case, the aim of short-term programming is to translate the targets into action and to carry planning activities into the field of practical achievements. Where there is no long-term plan, short-term programming provides the necessary discipline to prevent projects from being conceived as isolated units but - and this is of great importance - as part of an interrelated group, due regard being also paid to order of priority and allotment of resources. Moreover, it entails the incorporation of the economic policy measures that are necessary for its implementation.
4. Thus, a short-term programme should be an essential factor in the preparation of an integrated long-term plan, where such a plan does not already exist.

2. Content and method of formulation

(A) Analysis and determination of economic and social objectives

5. Although the short-term programme can and should be embarked upon before a detailed long-term plan is prepared, it must obviously be related to a general framework of broad economic and social objectives of a less urgent nature. Hence, if short-term programming is to have real value, some indications should be provided of the direction in which the economy should move. For this purpose, a preliminary analysis of the recent economy's trends and prospects is required. This analysis should draw on the information and studies available, and should not be so ambitious in scope as unnecessarily to delay the formulation of the short-term programme.

6. Whereas the scope of the analysis will vary from one country to another, the main structural and institutional obstacles to economic growth should be identified in all cases and an examination made of such problems as production bottlenecks, idle capacity, poor use of existing resources, fiscal and balance-of-payments disequilibria, depletion and deterioration of natural resources and the more obvious deficiencies in housing, public health, education and other areas of social tension.

7. What is essential is to make a reasonable analysis without waiting for new intensive or extensive investigations, and to use the preliminary diagnosis (i) to determine the general lines of planning efforts, over the short and long term, including such factors as targets for the increase and improved distribution of income, improvement of productive efficiency and new types of industry to be established, the fiscal, land and labour reforms planned, manpower training targets, the social improvements contemplated, etc.; and (ii) to identify the gaps in information and basic knowledge that should be filled during the execution of the short-term programme. In fact, it would be desirable for the programme to include projects for the improvement of statistical data, research on natural resources, cartography, etc. without which effective long-term planning would be difficult if not impossible.

/(b) Means

(b) Means of action in the public sector

8. The short-term action of the public sector has three main facets. The first relates to the basic approach and over-all objectives in respect of the economy as a whole, which must be indicated by the short-term development plan. The second is connected with the exact definition of the role and responsibility specifically incumbent upon the public sector; in practical terms this can be expressed in the form of a short-term public investment plan. The third is that of the translation of this responsibility into decisions as to what will be done during the next fiscal period. This last implies the need to adjust the mechanics of formulating and presenting the national budget, either by the introduction of a special capital budget or by the gradual incorporation of programme budgeting techniques.

9. To the first of these aspects reference has been made in earlier paragraphs. As regards the public investment plan, consideration should be given to the inclusion not only of investment projects proper, but also of those activities which are closely linked to the development of the sectors of production; cases in point would be such programmes as those concerning animal health, seed multiplication, environmental sanitation, research on natural resources, etc. The plan should give precise indications of sources of financing, distinguishing between the internal and the external resources to be mobilized.

10. The national budget must constitute a basic instrument for short-term action, but its immediate use for such purposes is restricted by the purely administrative accounting methods generally adopted in drawing it up. The first step towards ensuring a more rapid response to requirements in connexion with immediate action might be a more accurate breakdown of capital expenditure items, the aggregation of which would form a special capital budget. Basically, this would be nothing but a functional classification of investment expenditure on the part of the central Government and of the autonomous and semi-autonomous bodies.

11. Short-term plan, public investment plan and capital budget - or programme budget - do not necessarily constitute successive stages, and there is no reason why they should hold up the public sector's decisions with respect

/to immediate

to immediate action. They will have to be undertaken simultaneously, even if only on the basis of highly simplified initial outlines which will be improved upon in later phases.

12. The functional classification referred to should be supplemented by an indication of the agency which will be responsible for the execution of the project. Furthermore, each investment proposal must comprise - apart from the justification of the project - an estimate of capital outlay, as well as of overheads and operational expenditure, and a description of the economic or social benefits which will derive from the project.

13. It is important for the investment budget to be presented together with the budget of operational expenditure, in order to ensure an adequate allocation of public funds to each and thus guarantee the satisfactory development of the projects as time goes on. For example, budgetary provision will have to be made for sufficient funds to pay teachers' salaries in consonance with the number of new school premises built. The best procedure would be to extend the functional classification recommended for the capital budget to operational expenditure.

14. The investment plan and the capital budget are essentially instruments of analysis and planning, and must not be interpreted as substitutes for the administrative budget, which must be drawn up in conformity with the legal provisions in force, until official approval has been given to programme budgeting techniques.

15. In practice, conceptual problems will undoubtedly arise in connexion with the classification of expenditure, in approaching which simplified criteria should be applied, so that, even if some shortcomings remain, the preparation of the programme will not be retarded.

16. There is good reason to think that many countries are already in a position to draw up capital budgets and investment plans which, although as yet somewhat rough and ready, may allow a fairly rapid start to be made on short-term planning.

(c) Criteria for the evaluation and selection of projects

17. The analysis and objectives of economic and social improvement on which the short-term plan is based will serve as a guide in allocating investment resources among the different economic and social activities (transport, industry, education, public health, etc.).

18. The selection of specific projects within each of these branches of activity should be effected on the basis of objective evaluation criteria in order to establish an order of priority among them. These criteria are based on the profit ratio not only in terms of the economic yield of the private enterprise, but also in terms of their impact on the economy as a whole, measured by the direct and indirect effect of the project on the gross product.

19. In applying these criteria, the use of accounting prices is advisable wherever possible. Even if temporary values are assigned, the effect of distortions in the prices of factors of production (salaries, interest on capital, foreign exchange) can be substantially reduced in this way.

20. With respect to investment projects for the provision of social services, the application of these criteria presents a difficult, and in some ways an insuperable problem. The establishment of an order of priority among such projects is difficult because they do not lend themselves to comparison and it is not easy to quantify the benefits to be derived from them. It would nevertheless be useful to group them functionally so as to identify - e.g. in sectors such as education and public health - those projects where the unit cost is relatively low.

(d) Economic policy in short-term planning

21. A point which should be stressed is that the investment budget is only one instrument used in short-term planning. Proper execution of the programme depends not only on a clear definition of objectives and a sound investment programme but also on a wide range of economic and financial measures as well as others aimed at acquainting the public at large with the purposes and content of the programme.

22. For example, monetary and fiscal measures or reforms might be so designed as to make for better utilization of idle industrial capacity and of arable land. Tax policy might be made use of to mobilize domestic resources and check inflationary pressures. Price increases resulting from dislocations between the additional demand generated by investment expenditure and the availability of consumer goods might cause an upward trend in prices, and there must be a readiness to apply monetary or fiscal measures at the first sign of a cumulative movement in price levels. Measures to stimulate private initiative so as to supplement activity in the public sector are likewise desirable.

23. In this connexion, the planning agency would do well to consult trade union, industrial and other groups on their role in planning, so as to give the public a sense of full participation in the programming process and a clear understanding of what it is all about.

24. Moreover, import policy should be adjusted in order to prevent the additional foreign exchange funds from being squandered through imports of luxury items.

3. Planning organization

25. Although the planning organization should be designed in accordance with the administrative characteristics of the individual country, there are certain minimum operational requirements which impose a general pattern on the organization.

26. The planning machinery must cover all levels and areas of the public administration. In structure this machinery consists essentially of a central nucleus at the highest level of the Executive, and other units in the Ministries and the main decentralized bodies of the public sector. In addition, if the circumstances call for it, units would be set up with responsibility for regional planning.

27. At the initial stage the minimum organization would consist only of the central nucleus, having close ties with the main Ministries and decentralized bodies. These ties could take various forms: inter-departmental committees, representation of the Ministries and public bodies on the planning agency, and vice versa.

28. Links must also be established with the Legislative and with public and private bodies such as the universities, trade unions, etc.

29. The planning agency would be responsible for preparing short-term and long-term plans, and advising on the formulation of economic policy, supervising its execution, and working out periodic revisions. In addition one of its main tasks would be to promote the preparation of new projects in both the public and private sectors.

30. The preparation of the capital budget and the public investment plan which constitute the first step towards the effective application of the plan should also be the responsibility of the central planning body. The government bodies responsible for fiscal and financial matters would naturally contribute their advice, since the administration of funds and the calculations of costs falls within their jurisdiction.

31. In both the preparation of plans and their execution and supervision, a regular flow of information would be required; in fact it is true to say that in the absence of such a flow there can be no real planning process. In Latin America there are great gaps, breaks in continuity and time-lags in data, and consequently one of the first tasks of the central planning body must be to remedy this situation.

32. In the immediate future the staff of the planning agency must be recruited mainly from the officials and professional workers - above all economists, statisticians and engineers - already working in government departments. This first group can be reinforced through international technical assistance, especially at the stage when the planning machinery is being put into operation, when this type of assistance would appear to be essential.

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