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ADMINISTRATIVE ASPECTS OF ANNUAL OPERATIONAL PLANS

Prepared by the Latin American Institute for Economic and Social Planning

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/I. INTRODUCTION

I. INTRODUCTION

1. A number of interesting studies have recently appeared on the need to formulate and implement annual development plans.[1/] More and more emphasis has been placed on the urgency of supplementing the work done in Latin American countries in the field of long- and medium-term planning by a systematic and continuous process of annual planning. At a seminar on the organization of planning activities, held by the Latin American Institute for Economic and Social Planning (ILPES) in 1965, there was general agreement that one of the most widespread defects in Latin American planning was the lack of operational mechanisms.[2/] There are few practical precedents on how to formulate and implement short-term plans and, consequently, there is as yet insufficient information on the administrative aspects involved in these operations.

2. This paper is intended, therefore, to provide a preliminary analysis of the general principles underlying the administrative system and procedures required for the operation of annual planning mechanisms. It does, however, also take account of the experience of the Latin American countries in the application of performance budget techniques [3/] and the adoption of national economic budgets.[4/]

II. THE ADMINISTRATIVE PROCESS OF ANNUAL PLANNING

3. This paper does not go into the functions, objectives and advantages of annual plans, since these aspects have been fully treated in the literature on the subject. It thus concentrates directly on aspects relating to the organization and procedures required for the efficient operation of annual planning mechanisms. In short, the paper is concerned with a set of principles or central ideas designed to act as guidelines for the establishment of administrative mechanisms for annual planning.

1/ For references to these works, see the bibliographical footnotes.

2/ ILPES, Discusiones sobre planificación. Report of the Seminar, Santiago, Chile, 6-14 July 1965.

3/ ILPES, Las reformas presupuestarias para la planificación.

4/ ILPES, Seminario de planes anuales operativos (Santiago, Chile, 1966).

/1. Nature

1. Nature of annual planning

4. Annual planning can take two forms. If it is limited to the projection of macro-economic or over-all variables, which point to the action to be taken vis-à-vis the whole economic system, it is indicative. If, on the other hand, it is concerned with specific aggregate and sectoral programmes, activities and projects, and the economic policy measures that should be adopted to ensure a specific allocation of resources within the economy, it is operational. Generally speaking, it is accepted that operational planning enters into greater detail in relation to the public sector, for which annual operational plans are formulated, and is more general in nature in relation to the private sector, for which economic policy programmes are drawn up.

5. The annual indicative plan is prepared at high government levels and is intended to facilitate the adoption of macro-economic decisions. It involves the definition of principles and criteria for determining the desired gross domestic product, growth rate, investment rate, public expenditure, private consumption, balance-of-payments situation, etc.

6. Economic policy is regulatory and operational so far as the annual operational plan is concerned: it helps to establish which economic mechanisms should be influenced, which procedures should be followed, which organizations should be involved and which administrative decisions should be taken. In this phase, annual planning is detailed, operational and concerned with short-term intermediate objectives.

7. While indicative planning is based on macro-economic variables and is carried out at the highest administrative level (the Office of the President, the Ministry of Finance and other Ministries concerned with economic and social affairs, the Central Bank, the central planning office, etc.), annual regulatory and operational planning is based on the macro-economic framework and is formulated mainly in accordance with operational criteria and micro-economic analyses at the intermediate and lower administrative levels (departments, divisions and sections of Ministries, autonomous agencies, public enterprises, etc.).

/8. At

8. At the highest level, annual planning - whether indicative or operational - helps to define strategies and final aggregate or sectoral objectives, while at the intermediate and basic levels it is concerned with tactics and sectoral or regional intermediate objectives (which are linked with the final objectives), and with identifying specific programmes, operations and projects. In its operational phase, planning is also linked with the budget process, which is the actual instrument for the allocation of resources. There is a very close relationship between annual planning and budgeting, since the annual plan affects the structure and orientation of the programme budget. Thus, sectoral plans provide a basis for the budget programme in each sector; the agricultural plan and the programme of regulatory and operational measures and decisions, for example, are what determine the priorities in each of the budget programmes, both the substantive programmes (development of stock farming, crop farming, etc.) and the support programmes (agricultural research, extension services, technical assistance, fertilizers, etc.). The programme budget thus expresses the annual plan for the public sector and a programme or project is a means of implementing the annual plan.

9. At any level, the annual plan is an expression of development strategy and tactics; it has specific aims and is intended to achieve results that are definable and, so far as is possible, measurable. In simplified terms, these aspects can be described as follows:

Definition of development strategy and tactics (Intention)	→	Indicative and/or operational annual planning	→	Impact on the economy to obtain a given result

10. The operation of the annual plan entails the action of a great variety of "social entities" or agents of economic activity. There is an active agent (the agent which takes the decision or applies it) and a passive agent (the agent affected by the decision). The substantive relationship between the active agent A and the passive agent B takes the form of a measure applied by A through an instrument which determines the degree of impact on B. In the case of the application of a tax, for example, the active agent is the State, represented by the Tax Department of the Ministry of Finance, the passive agent is the taxpayer on whom the tax falls and the measure is the amount of the tax, established through the instrument taxation.

2. Annual indicative planning

11. The administrative features of annual planning vary according to whether the plans being formulated are operational or indicative. Indicative planning can be divided into the following stages: formulation, discussion and approval, execution, and control and evaluation of the results.

(a) Formulation

12. This stage begins with an analysis of economic and social trends, identifying the basic obstacles to development, etc. A diagnosis - both qualitative and quantitative - has to be made of the present situation, describing the event in the external sector and specifying the behaviour of such economic mechanisms as capital formation, the channelling of investment, the investment system as a whole, market and price mechanisms, and monetary and fiscal mechanisms.

13. The diagnosis must be accompanied by a prognosis, i.e. by a view of what will happen in the future if present trends continue and the economic mechanisms continue to operate along the same lines. If, for example, there is an increasingly regressive trend in the distribution of national income, it must be indicated that an accentuation of this trend might in the foreseeable future affect the size of domestic markets and lead to a distortion of the structure of production, because of the demand for highly-processed products on the part of the wealthy sectors, or an intensification of their propensity to import, which would also have an unfavourable effect on the balance of payments; moreover, the reduction in demand on the part of the bulk of the population might act as a disincentive for the production of popular consumer industrial goods.

14. Once the diagnosis and preliminary prognosis have been outlined, a start can be made on establishing the final objectives designed to modify the operation of the economic system. This involves identifying the strategic objectives, within the framework of the over-all strategy for the long and medium term, in order to establish the raison d'être of the action to be undertaken. Once the objectives have been established - such as an increase in the savings rate, a reduction in the wage rate, a reduction in profit margins, etc. - the next step is to consider which

/instruments to

instruments to use: bank rates, minimum cash reserves, tax rates, the establishment of credit lines, exchange controls, etc. An evaluation must be made of the possibilities afforded by each instrument and of their capacity to contribute to the final objective proposed, whether it be price stability, a higher growth rate, more equitable income distribution, etc.

(b) Discussion and approval

15. Once the basic lines of economic policy and the annual plan have been established and consistency tests carried out, the successive stages of the plan must be discussed with the political authorities. Obviously, many aspects must be defined by the Head of State himself and by Ministers responsible for economic and social affairs.

16. But it is also necessary to carry out a technical evaluation, and for this purpose Ministers, Central Bank officials and the main economic policy agencies must be consulted. In addition, the programme must be examined carefully in the light of the international agreements and commitments assumed by the Government. During this stage, discussion and approval of the plan is generally the concern of the Executive.

17. However, Parliament, too, often has a say in basic economic policy decisions. In many countries, tax, wage and public investment policies are laid down in bills which are then submitted to Congress.

18. In addition, certain pressure groups have to be included in the process of discussion and negotiation. It is unlikely that all economic groups will find themselves in agreement on an economic policy programme and annual plan, since a plan usually imposes sacrifices on some groups and grants benefits to others. The extent of these sacrifices or benefits depends on the strength of each group and its bargaining power. There is, therefore, a need for discussion and negotiation between the various social entities: public agencies, manufacturers' associations, trade unions, etc.

19. Sometimes the time spent on the discussion and approval of the over-all economic policy programme and annual plan is unduly long and usually depends on the complexity of the political machinery involved.

/(c) Implementation

(c) Implementation

20. Both direct and indirect instruments are used in implementing the over-all annual plan. It is in this stage that instruments are applied by active agents on passive agents. Their purpose is to bring about the desired impact and modify the behaviour of the passive agents. In other words, in this stage action is primarily directed towards generating changes of direction in the operation of the economy. If, for example, it is desired to increase the savings rate, instruments such as the establishment of interest rates, taxes, credit, etc., are used to attain the increase envisaged. If it is planned to increase exports, instruments for stimulating export activities are applied, either by means of exchange rates or fiscal incentives, credit, direct investment, etc.

21. All the general executing agencies, such as the offices of the Ministry of Finance, the Central Bank and the Ministries dealing with economic affairs, must co-operate in the process of implementation. There must be a continuous appraisal of the reactions and repercussions produced by the application of the instruments, so that any necessary modification can be introduced. The impact of any measure sets the resistance mechanisms of the passive agent into motion. For example, a taxpayer affected by a new tax may attempt to pass the tax on to the consumer and thus avoid payment of the tax; an entrepreneur may ignore fixed selling prices; an importer may oppose devaluation of the currency, etc. To combat this type of resistance, supplementary measures may be introduced, such as severe penalties, incentives for those respecting the measures, and other sanctions.

(d) Control and evaluation of results

22. The application of economic policy instruments will modify the existing situation in varying degrees. It will then be necessary to embark on the stage of measuring the results in order to obtain a clear idea of the direction and extent of the change introduced. So far as possible, a set of economic indicators must be chosen that will reveal what is happening in the economy as a whole. These indicators should primarily show the growth of the gross product, the level of investment, the increase in public expenditure, the expansion of the money supply,

/fiscal revenue,

fiscal revenue, the size of the fiscal deficits, the volume of exports and imports, the wage bill, etc. All these indicators will provide a basis for over-all control of economic policy and the annual plan.

23. A careful analysis of the economic indicators will make it possible to formulate a clear picture of the economic situation after the application of the over-all annual plan and to compare it with the situation prevailing before the planning process was initiated. A comparison of the levels of economic activity, employment, investment, etc., in the two periods and a measurement of the results achieved against the objectives laid down will make it possible to evaluate the implementation of the economic policy and provide a basis for modifying the over-all approach and re-appraising the criteria for the next year's plans, thus starting a new cycle.

24. The above description was concerned with the different stages in the process of annual indicative planning. Table 1 relates these stages to the institutions participating in the process, indicating separately the fields of competence of the executive and legislative branches.

3. Annual operational planning

25. The point of departure for operational planning is the macro-economic framework established by indicative planning. However, in contrast with indicative planning, it specifies particular programmes and projects, the units responsible for carrying them out, and the detailed economic policy instruments to be used. Annual operational planning, too, comprises several stages and its implementation is the responsibility of specific intermediate and lower-level government institutions.

(a) Formulation

26. Once the aggregate and sectoral framework has been defined, annual operational planning must study in detail the various aspects of the problems involved and the instruments to be used. If, for example, it is established that the backwardness of agriculture is partly due to the farmers' reluctance to introduce new techniques, and practical policies have been formulated, specifying the strategic instruments to be used, the plan must establish the operational measures required to put those instruments into action. For this purpose, regulatory policies and operational decisions must be adopted.

/Table 1

Table 1

STAGES IN THE PROCESS OF OVER-ALL ANNUAL INDICATIVE PLANNING AND THE INSTITUTIONS INVOLVED

Institutions / Stages	Executive Branch					Legislative Branch
	Office of the President	Planning Office	Ministry of Finance	Ministry of Economic and Social Affairs	Central Bank	
1. Formulation						
1.1 Over-all diagnosis and prognosis		X	Y	Y	Y	
1.2 Establishment of over-all objectives	X	X	Y	Y	Y	
1.3 Analysis of instruments	X	X	X	X	X	
1.4 Study of results	X	X	X	X	X	
2. Discussion and approval	X	X	X	X	X	X
2.1 Feasibility study	X	X	X	X	X	X
2.2 Approval of economic policy programme	X		X	X	X	X
3. Implementation						
3.1 Action of the instruments	X		X	X	X	
3.2 Action of the executing agents	X		X	X	X	
3.3 Analysis of reactions and repercussions	X	X	X	X	X	X
3.4 Adoption of supplementary measures	X		X	X	X	
3.5 Measurement of results		X	X	X	X	
4. Control and evaluation						
4.1 Analysis of indicators	X	X	X	X	X	X
4.2 Evaluation of results	X	X	X	X	X	X

Note: X = direct participation; Y = co-operation.

/27. Once

27. Once the objectives to be attained in dealing with a problem have been established, the plan must contain a programme of action in which the direct and indirect instruments will be interrelated, establishing a time period and sequence which will enable the desired result to be achieved in the shortest possible time, at minimum cost and with maximum efficiency.

28. An analysis must be made of the usefulness of the instruments in relation to the part they are to play in the process, and of the feasibility of using them. In the example cited above, if it is desired to persuade farmers to introduce technological changes, an analysis must be made of the application of such instruments as taxes, credit, technical assistance programmes, subsidies for fertilizers, mechanized services, prices and the establishment of minimum wages.

29. Once the instruments have been defined, the stages of the operation to be undertaken must be considered. To modify the course of an economic activity by means of economic policy instruments, the order in which the measures are to be undertaken must be specified, in accordance with the requirements of the proposed objectives and the conditions under which the executing agencies are operating. This order may be established by drawing up a schedule of priorities, defining the activities to be undertaken.

30. The function of operational economic policy is, of course, to co-ordinate the effects of the application of each of the instruments in such a way as to ensure that what is supplied in the form of credits is not taken away again in the form of taxes. Another aspect worthy of note is the need for an integrated approach to the use of resources: sometimes all the phases of a productive process should be acted upon in one way or another. This occurs particularly in backward countries, in which the farmer has to be persuaded to improve his methods of production by a combination of punishments, rewards and incentives.

/31. Not

31. Not all the instruments of annual operational planning are equally important: there are critical instruments whose application generally determines the fate of a project or activity; in the example cited, taxes, credit, technical assistance and government purchasing power might constitute such instruments. In each particular situation, therefore, particular attention must be paid to the critical instruments.

32. When the phases of the operation to be undertaken and the instruments to be used have been studied, it should next be determined what type of agent will use each instrument; e.g. the mechanized services of Ministries of Agriculture, departments of agricultural extension services, agricultural marketing corporations, agricultural banks, tax departments, Ministries of Public Works, etc.

33. At this point it is already possible to arrive at an approximate quantification of the fiscal impact of the tax, the value of the credits, the amount of technical assistance, the volume of improved seeds to be delivered, the amount of produce to be stored, etc. This whole set of factors will make it possible to assess the likely impact of the application of the instruments and, consequently, the probable reactions of the passive agent.

34. On balance, the situation will produce either a positive or a negative effect on the farmer, which will determine whether or not the project or activity should be carried out. In this sense, an indicator is a clue to past experience, and if in the past the price factor, for example, has played a constrictive role, ways of correcting this should be considered. However, the modification of any instrument may have repercussions on a number of other problems. For example, if prices were made much more remunerative, farmers would probably decide to concentrate on the product favoured, substituting it for other crops produced on the farm, and these crops would suffer because of the lack of incentives for production.

35. Consequently, operational policy should be as precise as possible in defining the kind of result it is hoped to achieve and should attempt to ensure that the application of one micro-economic policy does not prejudice another and thus run counter to the purposes of the macro-economic policy.

/(b) Discussion

(b) Discussion and approval

36. Once the macro-economic framework has been approved at the highest level, the detailed discussion and approval of the operational plan is the responsibility of the Ministries and decentralized agencies. It is the departments, divisions and sections which must discuss and decide how the instruments are to be applied, and study the feasibility of using the instruments and sub-instruments.

37. Each agency involved will then have to approve a schedule for the application of an instruments at the appropriate time.

(c) Implementation of operational plans

38. This phase consists of the detailed implementation of the micro-economic policy decisions and operations. In one sense, in this stage operational planning and administration are inextricably bound up together. The success of planning depends to a large extent on the directive and administrative capacity of each of the social entities involved.

39. The timely application of the measures and operations proposed will depend on administrative efficiency, and the practical activities of the agents responsible for implementing micro-economic policy will determine the fate of the whole operational planning process.

40. The administrative branch will have to continue allocating its resources and timing its activities stage by stage, analysing the activities and the subsequent reactions and repercussions, and reporting on them to the higher levels so that supplementary measures can be taken where advisable. On the basis of all this information, the results will have to be measured and quantified for evaluation purposes and related to the macro-economic framework established. As has been described above, operational planning consists, in the first place, of the establishment of an over-all framework, which process involves the institutions listed in table 1, and in the second place, the establishment of detailed programmes, projects and instruments by the various administrative units.

Table 2 indicates the different agencies involved in the operational phase as such.

/Table 2

Table 2

STAGES OF OPERATIONAL PLANNING AS SUCH AND THE INSTITUTIONS INVOLVED

	Ministries				Decentralized agencies			
	Ministry	Planning office	Department	Sections	Development agencies	Bank	Enterprises	Control agencies
1. Formulation of programmes and micro-economic policies								
1.1 Diagnosis and prognosis of the situation		X	X		X			
1.2 Establishment of micro-economic objectives	X		X	X	X	X	X	X
1.3 Analysis of instruments	X	X	X	X	X	X	X	X
1.4 Plan for application of instruments			X	X	X	X	X	X
1.5 Study of phases of operation			X	X	X	X	X	X
1.6 Decision on agent applying instruments	X	X	X		X	X	X	X
1.7 Study of impact on passive agent		X	X		X	X	X	X
1.8 Analysis of possible reactions	X	X	X		X	X	X	X
1.9 Analysis of possible repercussions	X	X	X		X	X	X	X
1.0 Definition of results	X	X	X		X	X	X	X
2. Discussion and approval								
2.1 Feasibility study	X	X	X		X	X	X	X
2.2 Approval	X		X		X	X	X	X
3. Implementation								
3.1 Application of instruments			X	X	X	X	X	X
3.2 Action of agents applying instruments			X	X	X	X	X	X
3.3 Appraisal of reactions	X	X	X	X	X	X	X	X
3.4 Supplementary measures	X	X	X	X	X	X	X	X
3.5 Measurement of results			X	X	X	X	X	X
4. Control and evaluation	X	X	X		X	X	X	X

4. The setting for annual indicative and operational planning

41. Annual planning is closely linked with medium- and long-term planning on the one hand, and with the government budget process on the other. Planning possibilities are to a large extent determined by a great variety of factors, including the forces emanating from political, economic, social and cultural structures. The relationship between these structures and their link with the public administration determine the way in which annual planning will operate in the country at any given moment.

42. In addition to these permanent determining factors, there are others which are purely conjunctural. These include a series of fortuitous circumstances, such as crises in foreign trade, changes in international relationships, wars and revolutions. There are also factors deriving from physical conditions, such as droughts, disasters, floods and earthquakes; and social factors, such as shifts in the power of social groups, growth of trade union influence, strikes, stoppages, boycotts and social pressures.

43. All these factors may affect the process of both over-all and operational planning. The complexity of the structures referred to and the combination of conjunctural factors make it impossible to guarantee that planning will operate normally, and this represents a considerable obstacle to long- and medium-term planning.

III. ADMINISTRATIVE ORGANIZATION AND PROCEDURES FOR THE PREPARATION OF ANNUAL PLANS

44. Reference must now be made to the governmental procedures, methods, organization and structure that need to be established to make the process of annual planning possible.[5/]

1. Time schedule for the preparation of the annual plan

45. The first stage in the annual planning process is the preparation of an an annual indicative plan. Several months before the plan implementation period begins (perhaps in May of Year 0), some idea should have been formed as to the possibilities of attaining the targets set for the period in question under the medium-term plan. One of the aims of the annual indicative plan is, of course, to determine the approximate share of the various economic units in plan implementation. To that end, an indicative economic budget should be available at the aggregate and sectoral levels, containing, *inter alia*, data on national income and the national product, consumption, investment, the part played by the government, and the role of the external sector. Sectoral data should be prepared for key economic and social sectors such as agriculture, industry, transport, housing, etc. All this background information should be supplemented by projections of public-sector activities, with particular regard to public income and expenditure levels in the programme budget. This is very important, since in practice the annual indicative plan constitutes the over-all framework for the formulation of the public-sector budget. The foregoing instrument must be complemented by monetary, financial and foreign trade guidelines. The annual indicative plan will of course have to put forward options on which short-term policy decisions can be based.

5/ For a study of questions bearing on plan implementation and supervision see "Control of Operative Plans, Programmes and Projects" (ST/ECLA/Conf.30/L.4), 29 November 1967 (a paper presented at this Seminar).

/At this

At this stage, several of the instruments of indicative planning are used. Indeed, at the start of an operational planning process, the annual indicative plan is based on a perspective plan (medium- or long-term).

46. Once the most suitable option has been decided upon, the way is open for the preparation of the annual operational plan. Between May and September in Year 0, the annual operational plan that will be in force during Year 1 should be formulated. The first step might be to establish the framework within which the economic units will have to act in co-ordination; and to make it easier to ensure compatibility between their activities, the plan should be based on an over-all and sectoral economic budget drawn up in accordance with social accounting methods.

The national economic budget should be broken down sufficiently to show the roles that will be incumbent on the public and private sectors. For the public sector, the operational instruments are the general government programme budget and the State enterprise budget. These must be broken down by sectors so that they can more easily be incorporated in annual plans. In addition, the programme structures should follow the outlines established in the medium-term plans, in order to facilitate co-ordination between the two instruments and comparison with each year's actual achievements.

47. Table 3 outlines the time-schedule for the preparation of the economic budget and the partial budgets. The latter are of various kinds (see table 4). As stated above, the general government budget - which also includes cash budgets to serve as a guide in the formulation of conjunctural financial policy, and programmes for the execution of public-sector projects of key importance - is the instrument of action in this branch of the public sector and is supported by the public enterprise budget. The monetary budget in its turn forms part of the annual plan, and must include directives and specific targets for monetary policy. Since financial policy is a related field, a breakdown of financial objectives by sectors and agencies should also be available.[6/] The foreign trade budget is another basic component of the opeational plan.

6/ See ILPES "Algunas consideraciones sobre la programación monetaria-financiera de corto plazo", September 1967.

/Table 3

Table 3 a/

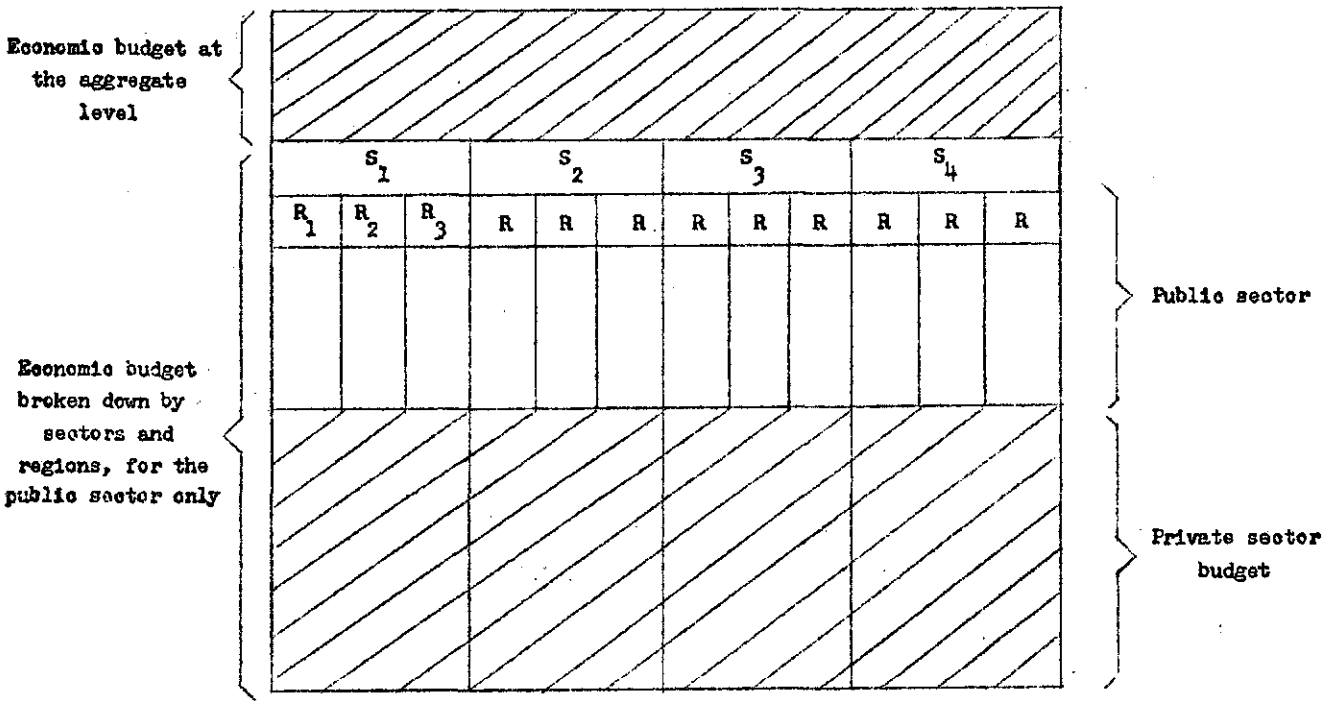
TIME-SCHEDULE FOR PREPARATION OF THE NATIONAL ECONOMIC BUDGET AND PARTIAL BUDGETS

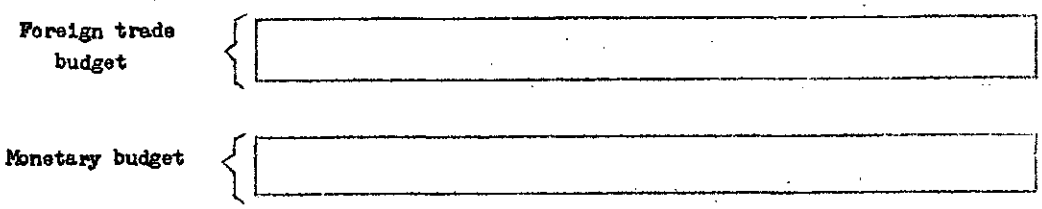
	Date	Component	Function
Aggregate and sectoral levels	May Year 0	ANNUAL INDICATIVE PLAN Year 1	To serve as a general frame of reference for the formulation of the fiscal budget and for ascertaining the possibilities of implementing the medium-term plan
Aggregate and sectoral levels	September Year 0	ANNUAL OPERATIONAL PLAN Year 1	To specify more precisely the action to be taken in the following year and the instruments to be used
		A. BUDGETS - Economic budget at the aggregate level, and broken down by sectors (used of various types of surveys to obtain information on the private sector) - General government budget (excluding public enterprises), by sectoral programmes - Monetary budget - Foreign trade budget - State enterprise budget - National investment budget B. DECISIONS ON ACTIVITIES OF ECONOMIC UNITS	To ensure compatibility of measures and activi. To serve as a guide for the activities of the responsible institutions To influence the action of the public and private sectors by direct and indirect measures
Private sector		C. PROGRAMME OF ECONOMIC POLICY AND KEY PROJECTS FOR THE PRIVATE SECTOR	To induce the private sector to assume responsibility for key investment projects
Resources		D. ESTIMATED BALANCES OF HUMAN AND MATERIAL RESOURCES (distinguishing between the public and private sector)	To determine the resources to be used for implementation of the operational plan
Implementation programme for the year	November Year 0	PROGRAMMES FOR THE EXECUTION OF KEY PUBLIC-SECTOR PROJECTS (a broader concept than that of investment projects) MONTHLY CASH BUDGETS FOR THE PUBLIC SECTOR	To establish detailed time-schedules for the basic public-sector activities provided for in the budget To serve as a guide to conjunctural financial policy
	May Year 1	REVISED ANNUAL OPERATIONAL PLAN Year 1 ANNUAL INDICATIVE PLAN Year 2	To reformulate the operational plan for Year 1 in the light of increased experience and information and to lay down guidelines for the following year (Year 2)

a/ The present table is based on one appearing in the report of a seminar on annual operational plans held by the Latin American Institute for Economic and Social Planning (ILPES).

Table 4

ANNUAL PLAN





S = Sector

R = Region

/48. Yet

48. Yet another important feature of the annual plan consists in the set of decisions that have to be adopted for plan implementation purposes. They relate essentially to short-term economic and social policy or operational policy, i.e., to tax measures, incentives and disincentives, customs regulations, price and wage fixing, authorization to install new industries, import and export regulations, etc. Key projects for the private sector are also among the components of the annual plan, and really represent direct inducements to the private sector to assume responsibility for undertakings connected with the production and marketing of goods and services.

49. Lastly, the annual plan must contain estimated balances of human and material resources, distinguishing between the public and private sectors. These are necessary tools for ascertaining, on the one hand, the level and composition of employment of manpower, and, on the other, the use to be made of goods and equipment required for the implementation of the plan.

50. The instruments referred to should be prepared in Year 0, in the month of September, with the exception of the programmes for the execution of public-sector projects and the cash budgets, which are drawn up in November of that same year.

51. In May of the following year (Year 1), when the annual plan for Year 1 is already in operation, it should be revised, and another cycle should be started with the preparation of an indicative plan for Year 2.

2. Organization for annual planning

52. Organization for annual planning is not a substitute for the structures set up in a number of countries for planning and budgeting purposes. On the contrary, it strengthens them and brings them into line with each other, making it easier for them to work better as part of an organic and consistent whole. In many instances, it is hardly an innovation, since many of the requisite instruments and decisions have already been established. Cases in point are systems of national accounts, monetary budgets, foreign exchange budgets, etc. If often happens, however, that these instruments operate in isolation, and therefore not on a co-ordinated basis. Consequently, they fail to ensure the compatibility of the measures to be taken. Herein lies one of the merits of annual planning: it is a means of promoting the co-ordination and consistency of the activities of the economic units in relation to plan implementation.

/53. Annual

53. Annual planning, however, entails changes in the administration and in its procedures. To that end, the starting-point should be the formation of a team to be responsible for the annual plan. This group should guide annual planning activities in the agencies concerned in the process, facilitate the participation of the private sector, promote a thorough overhaul of certain routine procedures, and encourage the establishment of new channels for decision-making, reporting and control within the overall planning process.

54. For the operation of planning systems in Latin America, central, sectoral, institutional and regional planning agencies have been established. In most cases the central agencies have taken the form of national planning councils or central planning offices, and are generally to be found at the highest institutional level, i.e., attached to the Office of the President of the Republic. These agencies have mainly assumed responsibility for long- and medium-term planning. As an exception to the rule, in a few countries - Costa Rica, Panama and Uruguay, for example - they have also undertaken short-term planning (annual plans and budgets).

55. Most of the sectoral agencies (planning offices for agriculture, industry, etc.) are directly sub-ordinate to the Ministries responsible for the sectors concerned, and their function has been to give advisory assistance in the formulation, discussion, execution, control and evaluation of sectoral development plans.

56. Lastly, the purpose of the regional planning offices is to take charge of planning for specific parts of the country concerned. The development of such offices in Latin America has become an increasingly urgent need, since it is essential to draw new areas and communities into the development process and to prepare plans on a regional basis. In some instances these offices are directly attached to the central planning agency, in others they have been set up as component units of regional development corporations as in the case of the Supervisory Agency for the Development of the North-East (Superintendencia de Desenvolvimento do Nordeste - SUDENE) in Brazil and the Andes Corporation (Corporación de los Andes - CORPORANDES) in Venezuela.

57. As regards organization for budgeting, central budget offices in Latin America are usually under the authority of the Ministry of Finance. In some countries, however (Brazil, Costa Rica, the Dominican Republic, Ecuador - for a few years -, Panama and Uruguay), they form part of the central planning offices. Sectoral and institutional budget offices are either directly responsible to Ministries or included in administrative departments. Sometimes they are attached to the sectoral planning offices (to those of the agricultural and housing sectors in Chile, for example).

58. In certain countries the above-mentioned planning and budget agencies have played a more or less preponderant part in the annual planning process. There are many instances, however, in which there has been too little communication to ensure the consistency of short-term policies, partly owing to the lack of linkage with the central banks, credit banks, development corporations, Ministries of Economic Affairs and other similar institutions.

59. Although in some cases the central budget offices have influenced the formulation of short-term budget policy, they have not succeeded in establishing compatibility between the budget instrument and monetary or foreign exchange budgets, and have therefore not secured consistency of action. Monetary policy has been formulated and implemented by the central banks, and in many cases has not been properly co-ordinated with production, finance, budget, price, wage and other policies. The central banks have also intervened in foreign trade matters, even where special agencies exist for this branch of economic activity.

60. In some countries the co-ordination of monetary, financial and foreign trade policies is attributable to special circumstances which have laid the responsibility for all three on a Minister of Finance.[7/] In the field of price fixing and control, which is another variable of great importance over the short term, it is the Ministry of Economic Affairs that has taken action. Wage policies have been in the hands of the Ministry of Labour, although the Ministries of Finance and of Economic Affairs may have had something to do with them. Tax policies are generally established by the Ministry of Finance in the Latin American countries. The responsibility for production, employment and other sectoral policies is incumbent upon another set of specialized agencies.

7/ Inasmuch as at the same time he has held the office of President of the Central Bank, Minister of Economic Affairs, etc.

/61. To

61. To sum up, many agencies are concerned in short-term policy, but their activities are often insufficiently co-ordinated to form a consistent whole, within the framework of medium- and long-term development policy. Hence the need to co-ordinate short-term action on an institutional basis, i.e., to adapt systems and establish machinery for the annual planning process.

62. In the first place, the necessary organizational changes should be introduced to enable the central planning agency to take the lead in annual planning. A team might be set up, whose members were engaged in official activities bearing on the short-term planning process.

63. This annual planning group or committee might be formed by representatives of the central bank, of the foreign trade agency, of the central planning office (the national accounts institution), of the central budget office, of the agencies concerned with prices, wages and production, and, in short, of all official staff taking part in short-term action.

64. To which administrative department such a committee would be answerable, and under whose direction it would operate, would depend upon the structure of the national administration and the location of the decision-making centres. If, for example, the planning office is responsible for annual plans and forms part of a high-level decision-making centre, a committee on annual planning could act as an advisory agency of the Planning Council (which is usually under the direction of the President of the Republic). On the other hand, if the responsibility for short-term policy rests with the Ministry of Finance, the committee could be headed by the Minister of Finance and assist him in an advisory capacity. No single procedure can be recommended for adoption in all situations.

65. The committee on annual planning will need a very small team of specialists in each of the short-term fields: monetary policy, finance, foreign trade, prices, employment, etc. Needless to say these specialists will not replace the permanent operational units; their function will rather be to co-ordinate these and see that their lines of action are compatible. The team will be in constant contact with the Ministries and agencies taking part in the formulation of short-term policy.

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66. Another very important point is that the private sector should be consulted by the committee on annual planning. To that end, a private-sector consultative group might be constituted. This procedure is a necessary safeguard against the possibility that if the private sector does not play an integral part in the formulation, implementation, supervision and evaluation of annual plans, any attempt to co-ordinate short-term economic action may be frustrated.

67. For the purposes of sectoral, regional and institutional organization for short-term planning, an essential step would be to establish proper channels of communication with the central operational agencies, and to institute the functions and provide the personnel required for integrating the activities of all participants in the annual planning process.

3. Operation of the committee on annual planning

68. As pointed out above, the basic tool of annual planning is the annual indicative plan. This should be prepared by the committee on annual planning, on the basis of data furnished by the institutions and agencies directly concerned in short-term action. In theory, it would be advisable for the following bodies to co-operate in the formulation of the plan:

(a) The national accounts and national statistics offices;

(b) The central planning offices;

(c) The budget office;

(d) The central bank;

(e) The credit banks.

69. One of the functions of the committee on annual planning would be to co-ordinate the preparatory work for the formulation of the annual indicative plan, using the following basic data:

(a) The national product and income sections of the national accounts;

(b) Balance-of-payments data;

(c) A simplified table of sources and uses of funds;

(d) Financial balances of the public sector;

(e) Monetary and credit statistics;

(f) Wage and employment statistics;

(g) Human resources statistics.

/These data

These data would provide the material for short-term programming models, which would facilitate the determination of variables in relation to the short-term activities of the different economic units. The annual indicative plan recommends that various alternatives be considered, thus making it easier for the authorities to choose the best possible course.

70. The following are the most important items on which the committee on annual planning might present data for the purposes of selection of the policy option on which the annual operational plans will be based:

(a) Changes in the gross domestic product;

(b) Consumer price levels;

(c) Employment and unemployment levels;

(d) Level of external indebtedness;

(e) Salary and wage levels;

(f) Public and private saving and investment levels;

(g) Level of public income and expenditure;

(h) Sectoral production levels;

(i) Basic investment projects, by sectors.

This information will pave the way for definition of the alternative courses open to the political authorities (the President, the Council of Ministers and the Planning Council). Thus begins the preparation of the annual operational plan proper.

71. The planning and budget agencies must take part in this stage of the proceedings, since they have to draft the fiscal budget for Year 1, which must be adopted before 31 December in Year 0. In order to prepare the budget, the executing units must thoroughly acquaint themselves with the operational approach, and above all with the sectoral breakdown of budget programmes. During this phase, care must be taken to see that the programmes really do reflect the sector's objectives and targets, and that they fall within the areas demarcated in the medium- and long-term plans. The parts relating to private-sector activities will be formulated with the advisory assistance of the consultative units which organization for planning comprises. At this stage, more intensive use should be made of direct consultation and surveys in specific sectors and branches of activity.

72. It would be advisable for the committee on annual planning to have at its disposal, before 1 September in Year 0, not only the draft economic budget at the aggregate level and the sectoral breakdowns, but also the draft public-sector, monetary and foreign trade budgets. The next step would be for the political authorities to take cognizance of these budgets, upon their submission by the committee on annual planning, and to discuss the economic policy measures that it would be necessary to adopt. It should be noted that in some countries the annual plan has to be approved by the Executive even before the month of September, because the Legislature requires from three to four months to discuss and adopt the budget.

73. Since the public-sector budget is a part of the annual plan, when it is submitted to Congress (the fiscal budget usually for adoption, and the budgets of decentralized institutions, State enterprises and local authorities merely for information), it should be accompanied by data which will acquaint the political authorities with the whole of the policy to be pursued. To that end, the tools listed in table 3 would have to be presented for information purposes.

74. The budget data should be submitted in the form of a consolidated public-sector budget, broken down by sectors, and brought into line with development plans. Once the budget has been adopted by the Legislature, and whatever laws are required for putting the plan into operation have been passed, the measures for implementing its provisions should be revised. A budget execution programme should be drawn up, showing targets and resources for quarterly, four-monthly or other sub-divisions of the budget period. It would comprise a cash budget and a time-schedule for the execution of investment projects, Time-schedules would also be prepared for the implementation of monetary, foreign trade, price, wage and other policies. Such sub-period programmes, besides going into still further detail as to the activities to be undertaken and the responsibilities to be assigned, serve as a control instrument, by means of which achievements can be compared with objectives and the factors accounting for success or failure can be identified.

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75. The committee on annual planning would see that the agencies involved in short-term policy programmed the execution of their activities on the lines previously indicated. Where the public sector is concerned, the units responsible for the execution process must possess the facilities and powers they need in order to become promotors of annual action.

76. At this stage, systems of reporting and measurement of results should be brought into operation, so that information on the implementation of operational plans may be available. The same machinery and procedures as were established under the planning systems, on the basis of flows of information from the executing units to the sectoral and regional levels and thence to the central authorities, can be turned to account during this phase. Machinery for ascertaining what is happening in the private sector, however, will have to be set up. Such information can be obtained from the private sector's representatives on consultative committees, as well as through direct contacts and surveys.

77. The committee on annual planning should periodically receive factual and financial data on budget execution, monetary matters, foreign trade, production, prices, etc., and should report to the political authorities so that they could evaluate and revise the relevant policies. During the second quarter of the operational plan year, a revised operational plan could be drawn up, if appropriate, and the work of formulating the indicative plan for Year 2 could be started. Thus a new cycle would begin.

4. Annual planning and the public administration

78. Operational plans are not merely annual planning instruments. They are the real mainsprings of the process of clarifying the organization and functions of the public administration and determining the contributions of the various economic units to economic development. Indeed, the characteristic feature of operational plans is that the responsibility for their implementation is assigned to fully-identified administrative units or agencies.

79. It is for this reason that a prerequisite for annual operational planning is an improvement in the organization of the public sector. All sorts of problems arise in connexion with the capacity of the public administration in some Latin American countries to secure the satisfactory attainment of plan objectives. Operational plans should therefore include measures designed to perfect the public administration and incorporated in a consistent programme for adapting it to the needs of administration for development.

80. Accordingly, operational plans may contribute to the re-organization and strengthening of operational agencies, under whatever name they go - central services, decentralized agencies, local authorities, State enterprises, etc. - since in the plans the emphasis is laid on actual achievements.

81. While it is true that the private sector has a more substantive role to play in the preparation of medium-term plans, representatives of its economic units should take an organized part in annual planning, so that it can be quick to respond to the demands of circumstances. It should also be given the opportunity of participating in the control and evaluation of medium-term plans.