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MANAGEMENT APPRAISAL

OF

SECTOR LOANS TO COLOMBIA

By the

Operations Appraisal Staff

of the

Office of the Auditor General

March 30, 1973

A.I.D.
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CONTENTS

		Page No.
I.	Background, Purpose and Scope of Report	1
	Background	1
	Purpose	1
	Scope	1
II.	Summary Conclusions, Recommendations and Alternatives	2
	Conclusions	2
	Recommendations	5
	Alternatives	6
III.	Colombian Development Plan and Consultative Group Meetings	8
	GOC Plan Strategy	8
	Macro-Economic Indicators	8
	Consultative Group Meetings	9
	Comment	10
IV.	Rationale for Sector Loans to Colombia	11
	Summary of Events	11
	Sector Loan Policy	12
	Domestic Savings Gap	12
	Loan Untying	13
	A.I.D./GOC Views on Sector Loans	15
	Comment	16
V.	Loan Agreements and Compliance Appraisal	18
	Loan Agreement Language	18
	Comment	20
VI.	Financial Performance	21
	Financial Data	21
	Interpretation of Financial Data	26
	Comment	28
VII.	Quantitative Performance	29

	Page No.
VIII. Mission Representations and Reporting.....	29
Representations.....	29
Reporting.....	29
Comment.....	30

ATTACHMENT - Abbreviations Used in Report

EXHIBIT A - CY 1971 Entity Receipts Under Agriculture Sector Loan 064 - 5140164 Ag Sector IV

EXHIBIT B - CY 1971 Entity Activity Expenditures Under Agriculture Sector Loan 064

EXHIBIT C - CY 1972 Entity Activity Expenditures Under Agriculture Sector Loan 064

EXHIBIT D - CY 1972 Entity Activity Expenditures Under Education Sector Loan 065 5140165 Ed Sector III (.1-.7)

EXHIBIT E - CY 1972 Entity Activity Expenditures Under Urban/Regional Sector Loan 063 5140163 Urban Dev

DISTRIBUTION

I. Background, Purpose and Scope of Report

Background

By memorandum dated September 1, 1972, the Area Auditor General for Latin America (AAG/LA) requested AG/Audit (AG/AUD) guidance relative to $166 million of sector loans to Colombia. The problem concerned loss of the traditional audit trail for both loan dollars and purchased local currency. The AG/AUD response of September 22, 1972, proposed a broad-gauged "operations appraisal" approach to examination of sector loans in Colombia. A subsequent Auditor General memorandum dated October 5, 1972, to the AA/LA, advised that an Auditor General Operations Appraisal Staff (AG/OAS) economist would be visiting Bogota to lead an inquiry into sector loan appraisal in cooperation with Area Auditor General staff located in Colombia. The first step consisted of a three-week reconnaissance visit to Bogota, beginning October 30, 1972. This visit helped to provide a perspective on the problem, and established the need for information on actual performance against targets cited in the Loan Agreements. For financial targets this meant waiting for the availability of actual data for CY 1972. The AG/OAS representative returned to Bogota on January 28, 1973, to complete work on this report.

Purpose

The purpose of this operations appraisal is to inform and point out; it is intended to surface problems and issues that might warrant Agency attention regarding implementation of sector loans to Colombia, and which may have application elsewhere. The viewpoint for appraisal is pursuant to the Auditor General's oversight responsibility for ensuring prudent use of A.I.D. funds. (The appraisal is management-oriented. It asks what A.I.D. has received for funds expended. The appraisal inquires into the manner in which USAID/Colombia has accounted for its stewardship. A subsidiary consideration concerns how sector loans might appear to Committees of the U.S. Congress, in the light of the legislative history of the foreign aid program.

Scope

The scope of this report is restricted to operations appraisal of the local currency component of FY 1971 sector loans. Summary data for these loans in millions of dollars show as follows:

	Agriculture Loan 064	Education Loan 065	Urban Loan 063
Loan Amount	$ 28.0	$ 20.0	$ 29.0
For Dollar Procurement	0.9	1.0	- 0 -
For Peso Purchase	27.1	19.0	29.0

As a matter of information, these same sector programs received additional funding during FY 1972 as follows:

	Agriculture Loan 067	Education Loan 066	Urban Loan 068
Loan Amount	$ 30.8	$ 20.5	$ 37.7
For Dollar Procurement	- 0 -	1.5	- 0 -
For Peso Purchase	30.8	19.0	37.7

This sector loan operations appraisal consists largely of examining relevant files in A.I.D./W, and of discussions with Mission personnel in Bogota. Financial data contained in this report were largely obtained from the Mission in Colombia.

Members of the Area AG staff located in Bogota, in conjunction with Mission personnel, made a 10-day field trip in January 1973 to visit selected activities cited in the three sector loan Agreements.

Excluded from report coverage is direct dollar procurement for goods and services representing [illegible] percent of the $166 million of referenced sector loans. Also excluded is any assessment of the quality of those sector analyses which the Mission represents as providing the framework for sector loan amounts, composition and strategy. The same exclusion applies to the quality of macro-analysis prepared by IBRD for the guidance of member countries during Consultative Group meetings. Finally excluded is any reference to sector loan "Evaluation"--as the term is used in M.C. 1026.1. No visits were made to GOC agencies, nor were GOC views solicited.

II. Summary Conclusions, Recommendations and Alternatives

Sector loans to Colombia represent an A.I.D./W delegation of wide authority to the Mission. Given the stage of Colombian development, and the strong Colombian commitment to further development, this delegation is, however, consistent with Agency policy which looks forward to a collaborative and nondirective style of A.I.D. assistance. Moreover, even though sector loans to Colombia, with their commingling of directly purchased local

currency, represent high-risk business for A.I.D., they offer also an appropriate vehicle for use in those LDC's standing on the threshold of graduation from bilateral, concessional lending.

The basic A.I.D. decision to supplement GOC resources may well be made in support of broad U.S. interests; nonetheless, a subsequent requirement--following sector loan approval--is that the Mission ensures a prudent use of A.I.D. funds. The sector loan approach calls for special quality in Mission leadership and staffing. Sector loans presume the availability of broad-gauged personnel who can cope comfortably with the constellation of forces impinging on the process of economic and social development. This is especially relevant in Colombia where the A.I.D. program deliberately pushes against absorbtive capacity.

Were the Mission to continue its deep involvement on the receipt side of GOC entity affairs, then from a monitoring viewpoint it would be helpful if those GOC financial contributions shown in Annex I of the several sector Loan Agreements were subdivided as between GOC budgetary and non-budgetary sources. The idea would be to facilitate a more insistent claim for matching contributions against GOC budgetary resources than might prove realistic from non-budgetary resources. In fact, this separation already has been accomplished for FY 1972 sector loans, and presumably will apply to FY 1973 loans.

A less complicated sector loan approach might focus exclusively on those entity activities with which A.I.D. chooses to be associated. This would be without reference to the source of entity receipts, but would rely instead on a GOC undertaking to meet certain expenditure levels for agreed activities. Such an approach would facilitate a reduced need for Mission tranching of A.I.D. funds, and for Mission involvement in GOC affairs. In consequence there might also be a reduced need for Mission staffing. At issue would be a restatement of the A.I.D. position covering a mature partnership relationship and a nondirective style of assistance, in the light of a concurrent Mission responsibility to ensure an effective utilization of A.I.D. funds.

Mission methodology for administering the A.I.D. program to Colombia appears to have evolved in a way differing somewhat from the manner prescribed in A.I.D.'s manual orders and other directives. Yet, to the extent that this variation derives sanction through precedential decisions flowing from Mission dialogue with the LA Bureau, it is a factor to be considered in any operations appraisal of sector loans to Colombia.

Appraisal of sector loan implementation reveals a number of issues which require Agency attention. These issues include the question of a permissible level of local cost financing, and whether desired

local currency must be obtained by direct purchase. In addition, the conceptual argument of an alleged domestic savings gap to justify local cost financing needs to be reexamined. Moreover, the A.I.D. posture on FY 1971 sector loan approvals, and the A.I.D. stance taken during subsequent Consultative Group meetings appear to differ in some respects. There is also the question of how to reconcile A.I.D.'s responding to GOC initiatives, with the Mission's applying upward pressure on GOC budgets and resource allocations.

On the receipt side of sector program funding, the Mission appears to operate deep within the GOC bureaucratic structure. Through dialogue the Mission seeks to induce the GOC to take those actions which will enable the Mission to release sector loan funds. The Mission seeks to play the role of catalyst; yet, the Mission also would emphasize that it is responding to those priorities and initiatives already established by the GOC itself. On the expenditure side, at the activity level, the Mission role is largely one of noninterference.

There would be no necessary contradiction in applauding Mission performance with respect to dialogue and collaboration on sector loan inputs, and yet asserting the need for increased Mission attention to objective monitoring on financial and qualitative performance, as measured against those targets set forth in the several sector loan Agreements. The immediate challenge in Colombia is how best to develop more meaningful monitoring procedures than currently prevail.

Apart from a lack of hard information at this time for measuring actual performance against targets cited in sector loan Agreements, the evolving and flexible nature of sector loans, as proclaimed by the Mission, serves to highlight the absence of Agency common standards for appraising sector loans to Colombia as either good or bad.

This situation may be illustrated by polarizing what appears to be the essential differences of PPC and LA Bureau positions on sector loans. PPC would justify the availability of untied dollars in terms of actual GOC self-help performance. The LA Bureau, in turn, would stress the ability of the Mission to work directly and intimately with selected GOC ministries and agencies.

USAID/Colombia goes a step further. Mission management not only claims for itself a meaningful role in serving to influence GOC policy and institutional development as a byproduct of sector loan formulation and implementation, but in addition appears not to consider the provisions of A.I.D.-financed technical assistance to the GOC as a necessary condition for sector loans. In fact the Mission would seem to have no objection to using sector loan funds solely to help finance and firm up unilaterally developed,

GOC sector development programs. While a simple U.S. Mission presence could make a difference with respect to Colombian economic social development, this would not be easy to document. In any event, concern for those GOC performance targets set forth in Annex I of the several sector Loan Agreements could hardly be waived. At the same time one could well question whether the concept of sector loans would be unacceptably compromised if the GOC were to express no felt need for U.S. technical assistance.

Regardless of the Agency view on the above issues, it would seem important for A.I.D. to foreclose against possible U.S. Congressional disquietude with respect to sector loan operations, by taking the initiative in a candid recital to the Congress of just how the sector loan approach with its high local currency content, has evolved out of traditional A.I.D. project and program loans.

Recommendations:

Within this policy framework and broad conclusion, certain recommendations emerge:

Of Mission Concern

1. There is need for improved and systematic Mission monitoring and surveillance on financial and qualitative performance, as measured by those targets established in the sector Loan Agreements.

2. The sector loan approach, with its emphasis and reliance on dialogue and rapport, requires special attention to the quality and continuity of Mission staffing, and to the suitability of any A.I.D.-financed intermediary offering technical assistance to the GOC.

3. Mission consideration might be given to waiving concern regarding the source of entity funding, focusing instead on a GOC undertaking to meet specified expenditure and performance targets for designated activities within designated entities.

4. In an effort to place the initiative for sector loan implementation clearly with the GOC, and to reduce the Mission's administrative overburden, consideration might be given to releasing sector loan funds through a reimbursement procedure against an agreed percentage of actual GOC expenditures, or even to a pro rata but simultaneous advance of A.I.D./GOC funds to designated entities. + Mission workload could also be reduced if a lesser number of autonomous agencies were eligible for sector loan funds, and if fewer activities were identified to receive commingled funds.

Of A.I.D./W Concern

5. M.C. 1610.1 of Sector Loan Policy is too imprecise for measuring Mission compliance and needs revision. In such a revision, Agency experience with M.C. 1610.1 should contribute to relating the degree of flexibility to the stage of development of the recipient country.

6. Criteria should be developed regarding permissible levels of local cost financing, including a position on acceptability of the very notion of a domestic savings gap. Also needed is reaffirmation or modification of Agency policy on the direct purchase of local currency to support local cost financing.

7. Consideration might be given to shifting from direct purchase of local currency, to making a "Cash Transfer" of loan dollars in consideration of a GOC undertaking to meet specified expenditure and performance levels for designated activities within designated entities.

8. Since the essence of the sector loan rationale is held to be dialogue and collaboration, the "Kissinger formula," if still applicable, with its upward, cost-sharing bias, stands as a possible impediment to sound GOC planning, and should be abandoned.

9. If completely untied dollars are to represent the predominant elemnt of sector loan funding, then this fact should be conveyed to the U.S. Congress as a considered variation from past A.I.D. financing procedures.

Alternatives

In focusing on possible alternatives, two suggestions are offered:

1. If the matter of the U.S. balance of payments were construed to be of overriding importance, sector loans could revert to the practice of generating local currency through an A.I.D.-financed commercial import program, even though this would reintroduce those "irritants" which untying was designed to remove.

2. In view of a diminishing GOC felt need for U.S. technical assistance in sector analysis, and of an A.I.D./CG concern for GOC fiscal and financial performance, sector loans might even be phased out in favor of a reversion to program loans with dialogue and collaboration focusing on macro-economic considerations.

NOTE: An early draft of this operations appraisal report was reviewed and discussed with the Mission Director and his senior staff during four meetings of over two hours each. The general Mission reaction to that draft report which, except for this Part II, remains largely unchanged, can be characterized as follows:

> The A.I.D. Mission found the review interesting and helpful in raising conceptual questions. The sector loan instrument is new, less so in Colombia perhaps than in most other countries, but it is an evolving instrument, and its principal advantages are its flexibility and adaptability to country situations, not only as these exist, but also as these evolve. The Mission did believe that it had considered and dealt with most of the questions raised, but appreciated this external, systematic dealing with these matters. It recognized also that questions raised could well have more implications for other countries, in some respects, than possibly for Colombia and, thus, the focus, while targeted, was appropriately broad.

III. Colombian Development Plan and Consultative Group Meetings

GOC Plan Strategy

The environment for sector loans to Colombia is reflected in the approved strategy for the 1970-1973 Development Plan for Colombia. Diagnosis of the Colombian situation culminated in a four-point development strategy calling for:

1. Investment in urban development including housing, to be financed in large measure from new savings out of incremental income.

2. Increased reliance on exports to obtain those imports required to break bottlenecks to growth.

3. Increased agricultural productivity and accelerated land distribution to raise rural incomes and to provide competitive export of agricultural products.

4. More reliance on progressive taxation and provision of social services to lessen inequalities in income, consumption and opportunity.

The GOC Plan states that the immediate constraints to growth and development do not arise so much from lack of manpower, capital, natural resources or skills, as from institutional factors that impede mobility, create dualism, and result in under utilization of resources. Implicit in this finding is, however, a presumption of significant external assistance available to Colombia.

Since the GOC development strategy is in harmony with current A.I.D. thinking, a basis is readily available for a collaborative effort looking to accelerated development in Colombia. In fact, the Mission position is that the foreign aid community has played an active role in helping awaken a socially-oriented development consciousness in Colombia.

Macro-Economic Indicators

The A.I.D. sector loan contribution to Colombia may be placed in perspective by citing a few aggregate data. National Accounts for 1970 (the latest official data available) show that, of total resources available to Colombia, either for consumption or investment, over 96 percent came from Colombia's own GDP. The 4 percent external contribution represents the equivalent of 23 percent of imports and 22 percent of gross capital formation. Gross domestic saving approaches 20 percent of GDP. For the three-year period 1970-1972, real growth in GDP has averaged over 6.5 percent per year, and for 1972 likely exceeded 7.0 percent. While per capita income exceeds $325, this figure should be viewed in the light of a highly skewed income distribution,

and with over 50 percent of the labor force still occupied in agriculture. Foreign debt service now approaches 18 percent of export earnings.

An apparent tax burden of less than 13 percent of GDP is considered by the U.S. and other donors as inadequate for financing necessary development spending in the public sector. In principle, the GOC agrees. The existence, however, of some 100 decentralized agencies in Colombia, represents a complicating factor with respect to public outlay. For instance, "investment" expenditures charged against the National Budget represent less than one-third of total public sector investment, when outlays by decentralized agencies, departments, and municipalities are included. To a large extent this "extra-budgetary" funding for investment is financed by sales revenue and by public borrowing in lieu of taxation. During the last 7 years, the ratio to GDP of this "global" concept of public investment has risen from 6.3 percent to something like 13.0 percent.

In general 1972 was a satisfying year for Colombia. Coffee prices remained high. Foreign exchange reserves increased by over $150 million to reach $345 million, representing the equivalent of 5 months current imports. Somewhat on the disquieting side, money supply increased by 24 percent and prices by 14 percent. Colombia continues to operate a disequilibrium system, and seems to impose a considerable amount of forced saving to support public sector development spending.

Consultative Group Meetings

Each year in Paris, IBRD chairs a Consultative Group Meeting, attended by eleven countries, including the U.S. and by a number of multilateral agencies such as IMF, IDB, CIAP, and UNDP.

At the 1970 meeting, IBRD suggested a target level of official foreign loan disbursements to Colombia of between $250 - $300 million per year. At the February 1971 meeting, this figure was raised to $450 million, ostensibly to support the GOC target growth rate of 7.5 percent, an increase over an earlier GOC figure of 7.0 percent.

At the Consultative Group Meeting of February 1972, IBRD took cognizance of the prevailing economic situation in Colombia, expressed satisfaction with GOC performance, but voiced concern regarding incipient inflationary pressures. This was seen by IBRD to give added urgency to realization of the GOC's own declared intention to increase mobilization of domestic resources for development in the public sector.

Signed loan agreements with CG members during 1971 amounted to over $385 million. For 1972 this figure increased to just under $400 million. The latter figure includes $80 million of GOC foreign commercial borrowing to generate pesos to reduce debt to BOR and for budget support, including matching contributions for sector loans. Colombia is diversifying the source of its external assistance. The proportion for IBRD, IDB, AID and Ex-Im of total assistance has fallen from an average of 80 percent during 1963-69, to about 55 percent for 1972.

A.I.D. maintains a low profile at the CG meetings. A 1970 U.S. policy pronouncement on Colombia calls for a reduction in U.S. bilateral assistance in favor of a shift to multilateral assistance. Even bilateral programs are to be developed in a multilateral context of analysis and negotiation. A.I.D. supports IBRD leadership in urging on the GOC an increased mobilization of domestic resources and sees a shortage of local currency as a constraint on foreign lending for project assistance.

Meanwhile, A.I.D. declares that the intent of sector loans is not to support the GOC budget, in the sense of continuing an existing deficit, but to help the GOC accelerate and expand socially important programs that would otherwise have to be carried out at lower levels.

Comment

The Colombian economy has reached a stage of development which offers full scope to the A.I.D. policy of a collaborative and nondirective style of assistance. Colombian prospects outweight Colombian problems, and the GOC appears to be resolutely, development-oriented.

In terms of an operation appraisal of sector loans, two points require attention. The intended shift from bilateral financing to multilateral financing would appear not to have taken place, at least not in terms of absolute funding levels. A.I.D. approval of sector loans for FY 1971 was tied to an injunction that the GOC be advised of the importance of altering its course of relying so heavily on external resources to finance public development programs. Yet, at the CG meeting of 1972 A.I.D. seemed to raise no objection as IBRD proposed increased external resources to Colombia. Thus, a clarification, reaffirmation, or modification of the A.I.D./W position on external assistance to Colombia may be in order.

A separate matter concerns the Colombian self-help effort. If the constant stress at CG meetings on increased public savings were construed to represent a donor judgment on the inadequacy

of GOC performance, then this would seem to invoke the issue of consistency with A.I.D. sector loan policy, which requires an A.I.D. determination on the sufficiency of GOC fiscal and financial responsibility. This matter will be further pursued below.

IV. Rational for Sector Loans to Colombia

Summary of Events

We believe that it would be useful to recapitulate what appears to be the genesis of the Agency's position on providing sector loans to Colombia. In the fall of 1969, the LA Bureau reasoned that the rise in Colombian coffee prices served to remove any balance of payments justification for program loans to Colombia. Increased export earnings were expected to exceed intended levels of A.I.D. financing. This triggered a series of memorandums within the Bureau, designed to develop an alternative rationale for continued bilateral assistance to Colombia. In essence, the sector loan approach was embraced as a useful technique for focusing on social programs and accelerated growth in those sectors of special interest to A.I.D.

Early in 1970 the LA Bureau argued from the premise of U.S. interests which called for supplementing GOC resources in the amount of about $80 million a year. It was noted, however, that under a shift from program to sector loans, A.I.D. epistemology appeared to require a shift in assistance rationale from a foreign exchange gap to a domestic savings gap. For FY 1970, sector loans were approved for a total of $30.0 million, in addition to a program loan of $40 million.

In regard to sector loans, PPC went along, but expressed concern over inadequate attention in loan papers to meeting sector loan criteria as set forth in M.C. 1010.1. While the sector loan purpose was identified with local cost financing, the preponderance of FY 1970 sector loan funds were used for financing general commodity imports, with generated counterpart funds allocated for utilization in the agriculture and education sectors.

FY 1971 sector loans were increased to $77.0 million, but this time largely for direct purchase of local currency. This was in compliance with the President's decision on "untying," as will be discussed below. No program loan was authorized. PPC expressed strong concern as to GOC fiscal performance, and even suggested that the LA Bureau might want to return to the program loan rationale for assistance to Colombia. Sector loans were, however, approved as requested, but A.I.D./W admonished the Mission, as noted above, that the GOC must do more in the way of domestic resource mobilization, and must rely less on external assistance.

A similar scenario was played out in FY 1972, with sector loans approved for 89.0 million; again predominantly for direct purchase of local currency.

Sector Loan Policy

The nature of A.I.D. sector loan policy is set forth in M.C. 1610.1 of October 1970. A sector loan is considered appropriate when the A.I.D. intent is to focus the development dialogue on problems of the sector, and a systematic analysis of sectoral policy, institutional change and resource requirements. The A.I.D. contribution should be large enough to make a significant difference towards sectoral change and increased resource allocation. Central to sector loan policy is an A.I.D. assessment of Colombian fiscal and financial responsibility. Recurring costs are expected to be financed by the GOC but a "reasonable" level of "nonrecurring" local currency costs can be made from sector loan funds, where "reasonableness" is tied back to evidence of Colombian fiscal and financial responsibility. M.C. 1610.1 states the basic tenet of sector loans to be development rather than covering balance of payments deficits. Further, if there is no such deficit, then justification for A.I.D. assistance must be grounded in analysis of the "internal savings/investment gap." Merely to state the essence of A.I.D. sector loan policy is to raise the issue, either of Mission accommodation to policy, or to the current validity of the policy itself.

Domestic Savings Gap

Responsive to LA Bureau intimations regarding local cost financing, the Mission's CFS of August 1970 included a "two-gap" model, designed to "demonstrate the new dominance" of a domestic savings gap (local currency) over an import gap (foreign exchange), as the major constraint to growth in Colombia. The Mission model projected for 1972 an import gap of less than one-third the savings gap.

Since the LA Bureau identifies sector loans with significant components of local cost financing, a word on two-gap methodology would seem warranted.

The first step in such model-building is to posit a desired rate of growth in GDP. This then provides the basis for estimating the level of both required investment and of expected savings. Any shortfall in anticipated savings over required investment, is labeled the domestic savings gap. On the external side, export earnings are projected and compared with the level of imports deemed necessary to support the targeted rate growth in GDP. Any shortfall in import financing is labeled the foreign exchange gap. Fundamental to this sort of gap analysis are those operating assumptions incorporated into the model.

In a national accounts sense, the two gaps are always equal. That is, domestic saving plus foreign saving is identical to total investment. For purposes of forward planning, however, a calculated savings gap may be closed through the provision of external assistance. Yet to close the savings gap in this fashion is to endorse an import level in excess of that "required" to achieve the target rate of growth in GDP. In effect the Mission would provide local cost financing through increased imports as a substitute for increased mobilization of domestic resources.

The Mission did acknowledge the conceptual and methodological weaknesses of the two-gap concept. In fact, gap projections generated by the Mission model were not used in subsequent CFS tables. Further, the Mission took note of the problems associated with attempting to transfer foreign resources to Colombia in a situation of an improving balance of payments. At issue here is the A.I.D. practice of seeking to postulate a sharp distinction in rationale between commodity program loans and local cost financing under sector loans.

Loan Untying

In October 1969, President Nixon authorized partial untying of A.I.D. commodity procurement for Latin American programs by extending procurement eligibility to Code 940 countries. In January 1970 the President approved a November 1969 proposal of the A.I.D. Administrator for complete untying with respect to loan dollars used to purchase local currency needed to meet essential local costs of development programs. This untying was to replace an earlier de minimis special letter of credit procedure, stated by the Administrator to be largely of only cosmetic significance with respect to Buy-American procurement. An order of magnitude figure for local currency conversion under complete untying for the whole of Latin America was placed at $50 - $60 million a year. The Administrator noted that permitting Latin American countries to use untied A.I.D. dollars for procurement in Japan or Europe was a point particularly attractive to Latin America. In August 1970 the President authorized complete untying for local currency purchases on a worldwide basis and provided that A.I.D. should use untied dollars instead of dollar credits to purchase necessary local currency.

M.C. 1411.5 of October 1970 covered the new untying policy, and provided for direct purchase of local currency "where restricted currency conversion (de minimis) special letters of credit had been previously used, but only under the same programming criteria as would permit use of the de minimis procedure."

Several points deserve attention. Colombia was not covered by M.C. 1411.5, but had been generating local currency through a regular commodity import program. The Mission and the GOC were prepared to continue this arrangement, mainly so as to avoid the risk and disarray that would flow from any subsequent reversal from direct purchase of local currency. A.I.D./W argued, however, that, if the purpose of the sector loan was local cost financing, then direct purchase of local currency was required by Presidential directive. The LA Bureau took this position a step further by subsequently expressing the view that "dollar conversion to local currency in lieu of commodity financing has been and is an integral part of the policy of liberalization and carries explicit Presidential approval."

During FY 1971 LA programs, as a whole, converted $40.3 million for local currency purchases. This figure was increased to $94.4 million for FY 1972, or to almost 50 percent of total LA loan disbursements. Since untying, the U.S. share of Colombia's imports has fallen.

Legislative history fails to reveal any significant Congressional concern regarding the direct purchase of local currency with loan dollars. Neither has A.I.D. surfaced this matter explicitly to the Congress. As a matter of fact, page B-11 of the overview volume of the FY 1973 Congressional Presentation asserts that sector loans would generate local currency requirements through traditional A.I.D. financing of saleable commodity imports.

Secretary Rogers in his testimony before the Passman Subcommittee in the spring of 1972 stated that while 87 percent of A.I.D. funds were used for procurement of U.S. goods and services in 1971, this percentage would be lower for 1972.

A recent GAO report covering a large local currency sector loan to Brazil did not focus on this matter, but the IGA argues repeatedly for a minimum of reliance on direct purchase of local currency, citing Sections 102 and 604(a) of the FAA, and the unfavorable impact on the U.S. balance of payments.

FAA language covering restrictions on A.I.D.-financed dollar procurement is, in practice, construed by A.I.D. as largely inapplicable with respect to utilization of U.S.-owned local currency. Moreover, commingling of such local currency with GOC-owned resources, as in the case of Colombia, invites application of any such restrictions only to that portion of commingled funds which could be attributed to the proceeds of the A.I.D. loan. This point is raised below in discussing Loan Agreement language.

A.I.D./GOC Views on Sector Loans

In March 1971, A.I.D. prepared a memorandum for the signature of the Secretary of State, containing the essence of a proposed assistance program to Colombia, and requested White House approval for three FY 1971 sector loans. Program rationale was given as the need to combine A.I.D. resource transfers with sector reforms in Colombia. The matter of Colombian performance on internal savings was acknowledged as critical to achieving Development Plan goals. It was pointed out that this also affected the GOC ability to take advantage of foreign offers for project assistance.

Subject memorandum refers to GOC development initiatives and takes the position that U.S. bilateral aid is a response rather than a prescription. The A.I.D. role is seen as one of identification with GOC Plans. At the same time, A.I.D. stresses the idea of "additionality" of U.S. resources, and the need for a U.S. presence. In general, A.I.D. argues that sector loans foster both pioneering and innovation; they help cause important policy and related commitments by GOC. Nothing is said regarding any ultimate A.I.D. phase-out from this supportive role.

The LA Bureau in providing guidance to the Mission for IRR submissions covering FY 1971 sector loans, stressed the need for information on those GOC sector objectives which we wish to support. The Mission was to demonstrate why sector loans were required to insure achievement of sector policies and institutional reforms. Information was also requested on the assessment of sector loan progress. Whether or not loan funds were released in tranches was held to make no less obligatory Mission responsibility to insure effective utilization of A.I.D. funds. Subsequently, in giving IRR approvals, the LA Bureau emphasized that attention should be given to the total sector program, and not just to those sub-sectors of interest to the Mission. In addition, the Mission in its macro-economic assessment was to demonstrate GOC fiscal and financial responsibility.

Mission Loan Papers identify the sector loan purpose in various ways. A given loan may be viewed as supporting, assisting, generating, strengthening, contributing to, focusing on, accelerating, or setting the stage for GOC sector reform and development. The Mission intends that sector loans provide upward pressure on the total GOC budget, and induce the GOC to make hard choices on priority goals; sector loans are held to provide the "critical mass" which gives substance and purpose to Mission dialogue and collaboration. In a derivative sense, sector loans are seen to facilitate improved coordination within the GOC; the implementing ministry is held to gain an insight into the affairs of otherwise independent, autonomous agencies. At the same time, the Mission

argues the need for a low visibility, since to take credit for influencing GOC reform decisions would serve to threaten the achievement of those same reforms.

The GOC would also use sector loans for multiple purposes. They offer a tool for policing the GOC budget. Sector loans enable the implementing ministry and the Department of National Planning to gain a measure of control over the decentralized agencies. This, in turn, is viewed by the decentralized agencies as an acceptable price for receiving what they consider to be additional funding. While the GOC argues the virtues of sector loan flexibility, the GOC also sees advantage in sector loan inflexibility. That is, certain elements of the GOC see the sector loan as a means of resisting and discouraging internal pressures for resource allocations to support programs considered by the DNP to be of low priority. The GOC enjoys the availability of untied dollars under sector loans, and, on balance, sees the deep USAID involvement as a form of useful catalyst, not available in the absence of sector loans and of a Mission presence. To the extent that A.I.D. "conditions" constitute an irritant to the GOC, the sector loan technique is considered by the GOC as having at least the potential for minimizing this factor.

Comment

While M.C. 1610.1 offers broad policy guidance on sector loans, the language is not sufficiently precise for appraisal of loan implementation against loan policy. A difference of view between PPC and the LA Bureau regarding the exercise of GOC fiscal and financial responsibility already has been noted. Despite the expression of concern by the CG on this same matter, A.I.D. behavior indicates a willingness to view GOC intentions as a reasonable basis for proceeding with continued bilateral assistance to Colombia. At issue here is the basic A.I.D. predisposition for providing assistance. In the first instance, the U.S. decision to supplement GOC development resources emanates from a multitude of considerations of which the question of GOC economic management is only one. Once an atmosphere for A.I.D. assistance is postulated, the question of program technique and composition becomes relevant.

Economically speaking, for example, sector loans and program loans may be viewed as identical insofar as they provide a vehicle for transferring U.S. resources to Colombia. The difference is that program loans tend to emphasize macro-economic considerations, while sector loans are identified with sector analysis, and related sector program activities. Sector loans emphasize and presume and A.I.D. leverage over GOC domestic budget-making; nevertheless, the foreign exchange transferred through local cost financing still makes its own unrequited contribution to Colombia's balance of payments.

The conceptual apparatus of the two-gap variety probably is of little significance, either for U.S. decision-making or for operations appraisal. For A.I.D. management, however, a procedural issue does arise; namely, whether to generate local currency through the traditional vehicle of commodity imports, or to purchase such local currency directly. In this respect there is need for confirmation of a Presidential intent to shift from partial to complete untying in the execution of A.I.D. programs. Essentially, there is need of some objective definition, not now available, of those "programming criteria" mentioned in M.C. 1411.5 as would identify that "reasonable" level of local cost financing envisaged in M.C. 1610.1.

A measure of Mission influence and leverage is claimed for sector loans. This facet of A.I.D. assistance is seen to flow primarily from the priority given to dialogue and collaboration; that is, leverage derives, not solely from the loan itself, but from a Mission ability to work directly and intimately with selected GOC ministries and agencies. Yet efforts to document the impact of a Mission presence would represent an elusive undertaking, and would entail hypothesizing GOC performance in the absence of a Mission presence.

To the extent that sector loans stress the primacy of dialogue and collaboration, to that same extent the quality, quantity and continuity of Mission staffing and of A.I.D.-financed intermediaries becomes vital to achievement of sector loan purpose. In this respect, perhaps, the scope for a continued Mission contribution through sector loans should be measured by the GOC call for A.I.D.-financed expertise to assist in a continued exploration of sector administrative or technical problems.

Even allowing for a measure of rhetoric in sector loan justification, the composite of A.I.D./GOC view raises a basic issue of conformity to Agency Policy for a nondirective style of assistance. It is note easy, for instance, to reconcile sector loans as "a response rather than a prescription" with the idea of "upward pressure" on GOC budgets. Of course, in the final analysis there must be a convergence of A.I.D./GOC interests or there would be no sector loan, but the manner of reaching this convergence is a proper subject for examination. It appears that during sector loan formulation, A.I.D. negotiates as well as responds. In releasing funds by tranches, the Mission tends to take the initiative in generating an acceptable GOC input. Regarding activity expenditures by various entities, the Mission posture is largely passive.

In any event, sector loan appraisal must, for the most part, focus on actual performance against those targets set forth in the several sector Loan Agreements. This latter point is pursued below.

V. Loan Agreements and Compliance Appraisal

Loan Agreement Language

In principle one could argue that the Mission Loan Paper (CAP) provides the proper benchmark for loan operations appraisal. Representations made in that document are basic to DLC approval and issuance of a Loan Authorization by the Administrator. For FY 1971 CAPs, however, this is not feasible. These documents are a combination of sector analysis and loan proposals. The language is ambiguous, and loan funds are identified with specific activities performance targets and priorities in a manner not capable of demonstration in a situation of commingled funding. While FY 1972 CAPs offer a marked improvement in presentation, it appears that for the present effort, the Loan Agreement offers the appropriate benchmark for performance appraisal.

The three FY 1971 sector Loan Agreements follow a similar format. Section 1.02 uniformly describes "The Program" which the Loan is designed to assist. Then reference is made to Annex I where the Program is "more fully described." But the commingled spending described in Annex I often includes "Other Activities" not considered part of the agreed Program. This ambiguity has obvious implications for sector loan appraisal.

Because of minor variations in section numbering among the three FY 1971 Loan Agreements, reference here is made to Urban/Regional Loan Agreement--063. The Agriculture and Education Loan Agreements contain similar language.

Pursuing the notion of just what is the sector loan "Program," Section 4.06 further complicates the matter by stating that goods and services financed by the Loan shall be used exclusively for the Program. Section 6.01 further provides that pesos disbursed for the Program will be used exclusively to procure goods and services having both their source and origin in Colombia.

The problem here is how to monitor compliance in a situation of commingled funds. Pragmatically the Mission resolves the matter by issuing Implementation Letter No. 1 which provides that the restrictions stated in Section 6.01 "only apply to that portion of commingled funds which can be attributed to the proceeds of this Loan." Presumably Section 6.01 represents a carry-over from those A.I.D. loans involving segregated accounts.

Section 4.01 provides that the Borrower will carry out the Program with diligence and efficiency and in conformity with plans and schedules as agreed upon. Then Section 4.02 states that the Borrower will provide promptly as needed all funds required, in addition to the Loan, to carry out the Program. These sections

are construed to provide protection to A.I.D. in case of untoward experience with the GOC, but for purposes of this operations appraisal, are not viewed as a basis for compliance monitoring.

USAID Implementation Letter No. 5 refers to Section 3.01 of the Agreement and proposes to make Mission releases "in the same ratio to Colombian Government inputs, as described in Annex I of the Loan Agreement for the entire loan period...." In this regard, the Mission argues that GOC revenues are tight during the first half of each year, and that the Mission should allow its own advances to get ahead of a strictly pro rata GOC input. In practice the Mission does hold up releases if it feels the GOC is procrastinating with respect to cost sharing. Even though Loan Agreement language is flexible regarding the ratio of A.I.D./GOC inputs, this point seems to have become institutionalized as a matter of prime concern to the Mission.

Section 4.11 refers to the A.I.D. right of inspection of all books and documents "relating to the Program and the Loan." As noted, however, Loan funds are commingled at the entity level, and to inspect entity performance would be to exceed coverage represented by the Program. This may ultimately constitute an issue, but to date the Mission has not tested GOC reaction to any A.I.D. exercise of its "right-of-audit."

Section 7.01 covers peso disbursement procedures, but nothing is said of promptly getting such funds to the concerned entities. At an earlier date the GOC Treasury often withheld for general budgetary use Mission sector loan releases designated for specific entities. This matter appears now to have been resolved. Further to this point, it may be noted that, within 24 hours of A.I.D. dollar conversions, these dollar funds are added to Colombian free foreign exchange reserves. Accordingly, while Mission releases of purchased local currency may properly be treated as commingled at the GOC Treasury level, for attribution purposes commingling is considered to take place at the entity level, at a date currently less than one month later.

Section 6.02 provides that Loan financing of goods and services apply only to procurement subsequent to the date of the Loan Agreement. This language does not, however, preclude A.I.D. disbursements to cover commitments entered into prior to the date of a Mission fund release. That is, entities anticipate the receipt of sector loan funds in their own program implementation as will be shown below. At issue is the relevance of "tranching" in Mission loan management, ostensibly as a means of closely monitoring loan implementation. Pragmatically, the Mission could hardly deny funding to an entity which had proceeded to implement the Program in advance of a formal Mission release of funds.

Section 1.03 gives recognition to the role of the GOC Department of National Planning in the allocation of public investment funds. The DNP could presumably invoke this section in the event of a funding shortfall. For those decentralized agencies of special interest to A.I.D., actual investment expenditures from budgetary sources amount to less than 90 percent of final budget authorizations. This situation could lead to a delicate negotiating stance for the Mission. The problem would be how to apportion a funding stringency among competing entity activities, of which Mission interests cover only a part. In fact, protracted Mission negotiations with the GOC did take place on this matter in the fall of 1972.

Section 1.02 of the Loan Agreement identifies A.I.D. assistance in terms of U.S. dollars, while Annex I delineates the approved Program in pesos. In this appraisal, it is presumed that the Loan Agreement is intended to authorize disbusements of dollars up to the full amount of the Loan, notwithstanding the fact that actual peso generations may exceed those amounts cited in Annex I. It might be argued that a depreciated peso exchange rate is accompanied by higher prices, and the need for increased pesos to accomplish the targets cited in Annex I of the Loan Agreement.

Comment

To use Loan Agreement language as a benchmark for sector loan operations appraisal may be to attribute to that document a degree of rigor not intended either by A.I.D. or by the GOC Conversely, were Loan Agreement language to be viewed illustratively, and subject to such amendment as would bring it into conformity with actual performance, then the issue of sector loan compliance and appraisal would not arise.

From the U.S. point of view, the Loan Agreement is an obligating document representing a legal commitment of U.S. funds. For the GOC its contribution may better be treated as an intention and a best effort. In fact, sector Loan Agreements are signed in advance of Colombia National Assembly action on GOC budget proposals. Nevertheless, signing the Loan Agreement is authorized by Presidential decree and approved by the Council of Ministers and by the Inter-Parliamentary Commission, and must be accepted on its face as a serious bilateral undertaking.

With fund commingling at the entity level, separation between "The Program" and total entity activities cannot be sustained. Nor can A.I.D. inputs be reserved for exclusive use of the Program. Further, if the Mission were to monitor the entire fragmented entity program, a burden would be placed on Mission staffing clearly not contemplated by the current size of that staff. The problem springs from the nature of program design, but fortunately, none of these semantic details have been allowed to impede sector loan operations.

VI. Financial Performance

Financial Data

Part I above identifies that portion of each sector loan intended for the direct purchase of Colombian pesos. These dollars conversions into local currency amount to $75.1 million and $87.5 million for the FY 1971 and 1972 sector loans, respectively. For programming purposes, however, Annex I of each sector Loan Agreement shows only the peso equivalent of dollar conversion amounts. Summary data for each sector loan, time-phased in terms of proposed expenditure periods, show as follows (in millions of pesos):

	FY 1971 Loans			FY 1972 Loans
	CY 1971	CY 1972	Total	CY 1973
Agriculture Loans	50.0	521.8	571.8	732.4
Education Loans	120.3	282.5	402.8	452.2
Urban/Regional Loans	81.0	529.8	610.8	898.2

Dollar conversion exchange rates implied by these peso aggregates amount to 21.1:1 for FY 1971 loans and 23.8:1 for FY 1972 loans. The difference in conversion rates represents Mission expectations of peso depreciation by the time of loan implementation. Since the actual conversion rate will be that rate applicable on the date of conversion, it follows that any delay in Sector Program implementation will likely mean peso generations in excess of those amounts shown in the several Loan Agreements. As of the end of CY 1972 such "excess" generation, available for programming, approached 75 million pesos, as will be shown below. Since the Loan Agreements are expressed in U.S. dollars, as noted in Part V above, these excess pesos are viewed as available for future programming.

Under the several sector Loan Agreements, the Borrower (GOC) designates as its implementing agency for carrying out the overall program, a specific ministry which, in turn, designates specific autonomous agencies to serve as sub-implementing agencies. For convenience these sub-implementing agencies are also referred to as "entities" and may even include a segment of the implementing ministry itself. A listing of these entities relevant to FY 1971-1972 sector loans is included as an Attachment to this report.

Certain financial and budgetary expressions used in this report are peculiar to Colombia and require definition. All commingled sector loan expenditures are treated by the GOC as investment,

although this may include such operating costs as salaries, per diem, travel, etc. Financial intermediaries may even treat their entire operation as investment. In a word, investment for purposes of this report is what the GOC includes in its investment budget. It appears that DNP prefers a broad definition of investment since this gives DNP control over the allocation of a larger proportion of total resources than would otherwise be true.

The word Expenditure, because of varying methodology, can mean either cash flows or disbursements plus accrued liabilities, depending on how the entities prefer to keep their books.

A Payment Order is a claim for reimbursement from the GOC Treasury against entity expenditures authorized in the approved budget. If the Payment Order is pending at the end of the year, the entity treats such funds as money in the bank.

Unofficial and provisional summary data for Programmed sector loan activity during CY 1971, including contributions from GOC sources to provide commingled funds to using entities in accordance with Sector Loan Agreements, show as follows:

	Sector Loans		
	Agric.	Educ.	Urban
	(millions of pesos)		
Programmed Release to Entities for Expenditures during CY 1971 as per Loan Agreement:			
A.I.D.	50.0	120.3	81.0
GOC	1,435.7	569.5	458.7
Total	1,485.7	689.8	539.7
Disbursements by USAID to GOC Treasury during CY 1971	25.0	75.6	56.5
Funds Received by Entities during CY 1971 from:			
Sector Loan	-0-	-0-	-0-
GOC Budgetary	680.6	477.6	124.1
GOC Non-budgetary	410.7	32.8	323.4
Total	1,091.3	510.4	447.5
Actual Entity Expenditures for CY 1971	1,058.2		
Excess or shortfalls (-) of Entity Expenditures over Receipts	-33.1		

Using the Agriculture Sector Loan 064 as an example, the above tabulation shows that, against a targeted expenditure of sector loan funds from A.I.D. of 50 million pesos for CY 1971, 25 million was disbursed by the Mission to the Treasury, but of this none was received by the using entities as of December 31, 1971. The GOC contribution to the entities totaled 1,091.3 million pesos, but this was still short by 344.4 million pesos (1435.7 - 1091.3) from that amount shown in the Loan Agreement.

This CY 1971 shortfall, if carried over into CY 1972, and if added to Programmed expenditures for CY 1972, would show a target figure for total CY 1972 expenditures as follows:

	Sector Loans		
	Agric.	Educ.	Urban
	(millions of pesos)		
Shortfall in 1971 carried over to Entities as of January 1, 1972			
From A.I.D.	50.0	120.3	81.0
From GOC	344.4	59.1	11.2
Total	394.4	179.4	92.2
Programmed Releases to Entities for Expenditures during CY 1972 as per Loan Agreement:			
From A.I.D.	521.8	282.2	529.8
From GOC	1,520.4	487.6	952.2
Total	2,042.2	769.8	1,482.0
Programmed 1972 Entity Expenditures including Prior Year Shortfall	2,436.6	949.2	1,574.2

Even though unofficial, provisional data are incomplete, movement of funds for CY 1972 show, in part, as follows:

	Agric.	Educ.	Urban
	(millions of pesos)		
Disbursement by USAID to GOC Treasury during CY 1972	543.1	300.0	358.7
Funds Received by Entities during CY 1972			
Sector Loans	549.7	364.3	414.2
GOC Budgetary	564.2	485.4	287.4
GOC Non-budgetary	709.2	42.2	325.7
Total	1,823.1	891.9	1,027.3

The excess of entity receipts from sector loans during CY 1972, over Mission disbursement during CY 1972, may be explained by illustration. For agriculture, the excess receipts of 6.6 million pesos (549.7 - 543.1) is equal to the difference between the 25.0 million pesos in Payment Orders pending on December 31, 1971, as indicated above, and the 18.4 million pesos of Payment Orders pending on December 31, 1972, as shown immediately below. Again entity receipts are insufficient to finance the full Program contemplated in Annex I of the Loan Agreement, and again there is a shortfall for carry-over into CY 1973. Unofficial, provisional data show as follows:

	Sector Loans		
	Agric.	Educ.	Urban
	(millions of pesos)		
Shortfall in CY 1972 Receipts Carried over to Entities as of January 1, 1973			
From A.I.D.			
Payment Orders Pending in Treasury	18.4	11.3	1.0
Balance Against Agreement Amount	3.7	27.2	195.6
Balance Against Dollar Amount	33.2	15.5	25.5
Subtotal	55.3	54.0	222.1
From GOC			
Payment Orders Pending	38.4	30.1	n/a
Subject to new GOC Appropriation or other Funding for CY 1973	553.0	-11.0	n/a
Subtotal	591.4	19.0	350.3
Total Shortfall	646.7	65.0	572.4

In order for A.I.D. to reach a cumulative disbursement level of 571.8 million pesos (50.0 + 521.8) as cited in Annex I of the Agriculture Loan Agreement, and in addition to the 18.4 million pesos in Payment Orders pending on December 31, 1972, the Mission would be required to disburse a residual of 3.7 million pesos (571.8 - 549.7 - 18.4). Finally, because of accelerated peso depreciation a balance of $1.4 million in Mission accounts as of December 31 for Loan 064 would, at an exchange rate of 23.8:1, permit a further disbursement of 33.2 million pesos.

With respect to the GOC contribution to the Agriculture sector program, the GOC has funded only 38.4 million of the large 591.4 million shortfall. Since the balance of 553.0 million pesos would require new GOC appropriations, a more likely expectation

would be for a GOC understanding with the Mission to amend downward targets in Annex I of the Loan Agreement. In fact the Mission currently is considering a downward revision of over 200 million pesos for the GOC contribution under the agriculture sector loan Agreement. The impact of such an action would be, of course to alter the original A.I.D.-GOC cost-sharing ratio in favor of the GOC. While the above language pertains only to Agriculture, a similar delineation can be made for the other two sector loans.

The final payoff in terms of Loan implementation rests with expenditure by the several entitites of those commingled funds programmed against specific activities delineated in the Loan Agreements. Expenditure data shown above under the agriculture sector loan total 1,058.2 million for CY 1971. This may be subdivided by entity to show as follows:

Agriculture Loan 064	CY 1971 Activity Programmed	CY 1971 Activity Actual Expenditures
	(millions of pesos)	
MinAg	27.7	1.7
ICA	418.0	363.9
INCORA	1,040.0	692.6
INDERENA	-0-	-0-
Total	1,485.7	1,058.2

If expenditures for the Colombian Agricultural and Livestock Institute (ICA) were shown by activity, this would appear as follows:

	CY 1971 Activity Programmed	CY 1971 Activity Actual Expenditures
	(millions of pesos)	
Agric. Research	146.4	163.0
Agric. Extension Program	74.6	54.0
Agric. Extension Pilot Areas	-0-	3.0
Quality Control of Agric. Inputs	61.8	15.0
Supervised Credit	21.0	-0-
Other Activities	114.2	128.9
Total	418.0	363.9

Annex 1 of the Agriculture Sector Loan relates commingled expenditure targets for each activity to quantitative targets. Thus a meaningful basis exists for Mission monitoring of sector loan performance. In the case of TCA, as shown above, Agricultural Research, conducted in some 15 field stations, appears to be on schedule. There was some activity during CY 1971 with respect to Quality Control of Agricultural Inputs, but expenditure data indicate either exaggerated expectations or poor performance. With respect to Supervised Credit, six areas were intended for testing assistance to small farmers. At the expenditure level, nothing was accomplished in CY 1971. The above is, of course, only illustrative and should be accompanied by a statement on quantitative performance. A systematic comparison between intended and actual performance for the 60-odd activities cited in the three sector Loan Agreements is now engaging Mission attention, and a report should be available at an early date.

Exhibit A attached to this report shows illustratively how the aggregate of funding sources for CY 1971 under Agricultural Sector Loan 064 is subdivided as among component entities. Exhibit B then shows actual expenditures for CY 1971 under the Agriculture Sector Loan by Agricultural entity and by activity. As may be seen from Exhibits C through E attached to this report, the Mission in its sector loan program is involved with 15 entities and 62 activities, many of which cover the entire country.

Interpretation of Financial Data

The Mission argues that the various GOC entities spend in anticipation of receipts. Entities are reported to place purchase orders, enter into contracts, and borrow from banks. The result is that fund releases by USAID/GOC late in CY 1972 may largely be utilized to liquidate entity obligations already incurred. Obviously this affects fund carry-overs into CY 1973. It could mean also that the Mission faces a delicate situation with respect to the several entities; hard negotiations between USAID/GOC cannot be indifferent to actual entity expenditures in advance of funding.

GOC budgetary procedures pretty well insure that full budget authorizations cannot be implemented for lack of revenues. The question then arises as to where apportionments are to be reduced. Here the source of sector program funding could be relevant. The Education program, for instance, with its 95 percent dependence on GOC budgetary resources could be more vulnerable than the Urban/Regional program, with almost 60 percent dependence on non-budgetary receipts. Actually, the reverse appears to be true, with the greatest funding shortfall showing up in non-budgetary contributions.

Another aspect of financial data concerns the extent to which commingled spending, as provided for in the Loan Agreement, covers

the totality of entity spending. In most cases the entry "Other Activities" in Annex I represents a residual item which links funding for activities identified for Mission participation with total entity spending. In the aggregate, and according to FY 1971-1972 Sector Loan Agreements, this "Other Activity" category with which the Mission does not wish to identify, represents as much as one-half of A.I.D. financial inputs. Yet commingled funding applies to the entity as a whole, and not just to those activities of Mission interest.

Alternatively, only those activities of special interest to the Mission may be shown in the Loan Agreement. In this case the source of entity "Receipts" must be arbitrary since only a portion of fungible entity income is included. For instance, the source of funds for the low-income housing component of the National Housing Agency (ICT) cannot be rigorously identified. Total ICT income is over three times as large as that shown in Annex F. The Mission properly notes that "ICT accounts do not permit discrimination of receipts by intended use."

In some cases the Mission released funds in CY 1972 for use in CY 1973. INCORA is a case in point. This would seem to imply a supplement to those CY 1973 funds which are already programmed for the same purpose under FY 1972 sector loans.

During CY 1971, loan repayments, or recuperations, amounting to 415.3 million pesos for INCORA were excluded from INCORA receipts. This was pursuant to Mission Implementation Letter No. 5 which stated that recuperations do not constitute new assets. Implementation Letter No. 5 introduced an anomaly, however, by stating that INCORA recuperations would be included under expenditures. For other entities recuperations are usually included as both a GOC contribution and as an entity expenditure.

White House approval of FY 1971 sector loans included a so-called "Kissinger formula" restricting A.I.D. inputs to not exceeding 50 percent of new or expanded "activities," and to a decreasing proportion of total sector investment. This sort of constraint reflects the "additionality" bias of A.I.D.. While the constraints may for the most part reflect "only common sense," the current situation in Colombia may call for consolidation of entity gains rather than for increased outlays. In addressing the matter of compliance with the Kissinger formula, Mission Loan Papers for FY 1971 sometimes focused on entity activities, sometimes on the entity as a whole, and in the case of the Education sector loan, compliance was measured in terms of spending at various levels of education. Presumably the Kissinger formula lapsed with FY 1971 Sector loan approval, although the same criteria were applied voluntarily by the Mission with respect to FY 1972 sector loans.

Activity spending levels for each entity, as shown in the Loan Agreement, are the result of protracted discussion among concerned officials of both the Mission and the GOC. The intent is to reach a convergence of view with respect to A.I.D. funding and GOC contributions, from both budgetary and non-budgetary sources. In many respects the Kissinger formula may be viewed as contrary to a nondirective style of assistance.

The basic GOC budget law of 1964 provides for "unity of the budget" and requires that A.I.D. funds be channeled through the GOC Treasury. As a procedural matter, A.I.D. funds are attributed to the GOC Investment Budget which, as noted above, includes operating and other expenditures, as well as expenditures for capital formation. The approved GOC budget identifies funding sources, including sector loans, for entity programs, as well as the level of activity spending authorized within each entity. It is, of course, the level of total spending for an approved activity, both from A.I.D. and GOC sources, that is of concern with respect to Annex I of the Loan Agreement. The highly complicated procedures established in the several Loan Agreements, and in related Mission Implementation Letters, regarding funding sources, reflect a related Mission goal: Mission format for entity financial flows was designed to assist responsible GOC ministries to obtain that type of information required by the Ministry for coordinating the activities of otherwise largely autonomous agencies.

Comment

The Mission in its deep involvement with the GOC is motivated to facilitating the release of funds to the using entities. The challenge is how best to accomplish this task without undue compromise of the A.I.D.-GOC cost-sharing ratio implicit in Annex I of the Loan Agreements. Yet this very act of intrusion runs the risk of negating the virtue of sector loan untying which was intended to help remove "irritants" to the LDCs. Accordingly, a shift in Mission emphasis from the receipt side of entity operations to the expenditure side, would appear to warrant Mission attention.

Then deviations in actual expenditures from target figures would provide a basis for measuring parallel deviations in quantitative performance. It is noted that the Mission is still without information on actual expenditure performance during CY 1971 for both the Education and Urban/Regional sector loans.

With respect to A.I.D./W review of FY 1971 sector loans to Colombia, PPC argued that justification for making untied dollars available to the GOC, by way of local cost financing, was linked to "adequate self-help performance" by Columbia, in a situation

where sector loans were to represent only a portion of increased resources allocated to the chosen sectors. This PPC language appears to be at some variance with the "dialogue and collaboration" rationale emphasized by the LA Bureau.

VII. Quantitative Performance

NOTE: No systematic reports through end-1972 are yet available on quantitative or fiscal performance with respect to targets shown in Annex I of the Sector Loan Agreements. The Mission expected, however, to have a comprehensive report from the GOC by the end of March, segregated as between 1971 and 1972 performance. Presumably, deviations with respect to financial targets will be related to deviations for quantitative targets, and explained.

VIII. Mission Representations and Reporting

Representations

Each sector loan paper submitted for A.I.D./W approval contains a Section 611(e) certification by the Mission Director to the effect that the GOC has the financial capability and human resources to utilize the proposed Sector Loan. This is supplemented by a Checklist of Statutory Criteria incorporated by reference into the Loan Paper, and covering a multitude of Mission representations pursuant to language of the FAA.

Appraisal of the validity of Mission certifications is at best a difficult undertaking, and can only be developed from Mission reporting and from observation on actual GOC performance.

Reporting

Sector Loan Agreements uniformly provide for progress reporting by the Borrower. In practice, Agreement language on reporting has not been invoked except in the sense of requiring interim justification for A.I.D. fund releases. Pursuant to the inexacting character of Mission-GOC relationships on sector loan implementation, Mission policy seems to call for a minimum of monitoring on entity activities. The Mission position seems to be that this approach has LA Bureau endorsement by precedential acquiescence. In any event, this, too, affects the task of operations appraisal.

The LA Bureau advised the Mission in January 1972 of the need for improved monitoring and reporting on sector loans. Operational status was to be compared with the Program schedule. The Mission response, however, was essentially confined to providing data on Loan disbursements by the Mission.

In April 1972 the Mission prepared a report to show progress against sector loans to Colombia. The report, however, was designed to provide back-up material for the FY 1973 Congressional Presentation, and as such, was forward looking and couched in language not suitable for operations appraisal.

In September 1972 the Mission submitted to the LA Bureau an interim, but rather comprehensive status report on the three FY 1971 sector loans, covering both fiscal and quantitative progress. This report was designed to advise the LA Bureau on Mission projections on sector loan disbursements during the balance of CY 1972. The September report provided valuable insights into the problems of financial practice and accounting on the GOC side, and several of these considerations have already been discussed above under "Financial Performance."

Mission Loan Papers in support of FY 1972 sector loan requests did include brief narrative material and entity obligation data on FY 1971 sector loans through March 1972. Since loan implementation was at that time only in its formative stages, coverage was unavoidably limited.

Comment

It appears that field reporting on sector loans is treated largely as an informal arrangement between the Mission and the LA Bureau. There is no U-203-type report available to Agency management through the Office of the Controller. PPC involvement is limited to review and approval of sector loan proposals; PPC plays no role in loan evaluation. Even the matter of insuring conformity between Loan Papers, Loan Authorizations, and Loan Agreements is treated as outside the purview of PPC.

ATTACHMENT

ABBREVIATIONS FOR IMPLEMENTING AGENCIES CITED IN SECTOR LOAN AGREEMENTS AND OTHER ABBREVIATIONS

Agriculture Sector Loans

MinAg:	Ministry of Agriculture
OPSA:	Agriculture Sector Planning Office
INCORA:	Colombian Agrarian Reform Institute
ICA:	Colombian Agricultural and Livestock Institute
INDERENA:	National Resources Institute
CAJA AGRARIA:	Agriculture and Livestock Bank

Education Sector Loans

MinEd:	Ministry of Education
ICOLPE:	Colombian Institute of Educational Research
ICCE:	Colombian Institute of School Construction
ICFES:	Colombian Institute for Higher Education
ICETEX:	Colombian Institute for Educational Credit
COLCIENCIAS:	Science and Technology Colombia Institute
COLDEPORTES:	Youth and Sport Colombian Institute
COLCULTURA:	Colombian Institute of Culture

Urban/Regional Sector Loans

FFDU:	Urban Development Finance Fund
ICT:	National Housing Agency
FFI:	Industrial Finance Fund
IFI:	Industrial Development Institute
INSFOPAL:	National Municipal Development Institute
CFP:	Popular Finance Corporation
ESAP:	Higher School of Public Administration
DANE:	National Statistics Department

Other Abbreviations

BOR:	Bank of Republic (Central Bank)
MinDev:	Ministry of Development
DNP:	National Planning Department
MinFin:	Ministry of Finance
CIAP:	Inter-American Committee on the Alliance for Progress
IBRD:	International Bank for Reconstruction and Development
IDB:	Inter-American Bank
IMF:	International Monetary Fund
CG:	Consultative Group
IRR:	Intensive Review Request
CFS:	Country Field Submission
IGA:	Inspector General of Foreign Assistance
GAO:	General Accounting Office
CAP:	Capital Assistance Paper
DLC:	Development Loan Committee

EXHIBIT A

AGRICULTURAL SECTOR PROGRAM - 064
Funding During CY 1971
(in millions of pesos)

	MinAg	ICA	INCORA	Total
Programmed Receipt/ Expenditure as per Loan Agreement for CY 1971				
A.I.D.	13.0	7.0	30.0	50.0
GOC	14.7	411.0	1,010.0	1,435.7
Total	27.7	418.0	1,040.0	1,485.7
A.I.D. Releases to GOC Treasury	7.0	3.0	15.0	25.0
Source of Funds Received by Entities During CY 1971				
1. National Budget				
Sector Loan Funds	-0-	-0-	-0-	-0-
Counterpart Funds	-0-	75.7	192.1	267.8
Other Funds	1.7	211.4	199.7	412.8
Subtotal	1.7	287.1	391.8	680.6
2. Non-Budgetary				
External Credit	-0-	-0-	75.2	75.2
Internal Credit	-0-	-0-	142.5	142.5
Transfers	-0-	15.2	-0-	15.2
Various	-0-	28.5	149.3	177.8
Subtotal	-0-	43.7	367.0 1/	410.7
Total	1.7	330.8	758.8	1,091.3
Program Shortfall as of December 31, 1971 Carried Over into CY 1972				
From A.I.D.	13.0	7.0	30.0	50.0
From GOC	13.0	80.2	251.2	344.4
Total Shortfall	26.0	87.2	281.2	394.4

1/ Excludes 415.3 million pesos of recuperations.

EXHIBIT B

CY 1971 AGRICULTURE SECTOR EXPENDITURES BY ENTITY AND BY ACTIVITY - 064

(in thousands of pesos)

Entities	Expenditures Per Loan Agreement	Actual Expenditures
Ministry of Agriculture		
OPSA (Agric. Planning)	1,700	1,700
Penetration Roads	12,000	-0-
Supervised Credit	14,000	-0-
Subtotal	27,700	1,700
ICA		
Agricultural Research	146,400	163,000
Agricultural Extension Program	74,600	54,000
Agricultural Extension Pilot Areas	-0-	3,000
Control of Quality of Agriculture Inputs	61,800	15,000
Supervised Credit CAJA AGRARIA	21,000	-0-
Other Activities	114,200	128,900
Subtotal	418,000	363,900
INCORA		
To Title and Legal Expenses	49,900	54,363
Engineering Works	336,000	284,324
Supervised Credit	490,000	275,700
Technical Assistance for Supervised Credit	64,000	78,259
Other Activities	100,100	-0-
Subtotal	1,040,000 1/	692,646 1/
Grand Total	1,485,700	1,059,243

1/ Excludes pesos recuperations from sub-loan repayments amounting to 517,613. See also narrative of Part VI Interpretation of Financial Data.

EXHIBIT C

CY 1972 AGRICULTURE SECTOR EXPENDITURES BY ENTITY AND BY ACTIVITY - COL

(in thousands of pesos)

Entities	Expenditures Per Loan Agreement	Actual Expenditures
Ministry of Agriculture		
OPSA	7,300	
Penetration Roads	30,200	
Supervised Credit	28,200	
Subtotal	65,700	
ICA		
Agricultural Research	256,000	
Agricultural Extension Program	169,700	
Agricultural Extension Pilot Areas	10,600	
Quality Control of Agricultural Inputs	30,200	
Supervised Credit CAJA AGRARIA	42,300	
Other Activities	167,700	
Subtotal	676,500	
INCORA		
Land Title and Legal Expenses	62,000	
Engineering Works	280,000	
Supervised Credit	520,000	
Technical Assistance for Supervised Credit	81,500	
Other Activities	212,700	
Subtotal	1,156,200	
INDERENA		
Forestry Activities	31,300	
Fisheries	17,300	
Soil & Water Activities	28,900	
Parks & Wildlife Activities	8,700	
Other Activities	57,800	
Subtotal	143,800	
Grand Total	2,042,200	

EXHIBIT D

CY 1972 EDUCATION SECTOR EXPENDITURES BY ENTITY AND BY ACTIVITY - 065
(in thousands of pesos)

Entities	Expenditures Per Loan Agreement	Actual Expenditures
ICFES		
Regional Integration	108,000	
Pedagogical Universities - Bogota & Tunja	20,000	
ESAP	5,000	
Faculties of Education	35,000	
Polytechnic Institutes	20,000	
Graduate Programs	7,000	
TEXON	7,500	
Documentation Center	2,000	
Research-Higher Education	2,000	
All Others	22,500	
Subtotal	229,000	
ICCE		
Construction & Maintenance of Scholar Concentrations	32,000	
Complete-Incomplete Schools	100,000	
Construction & Maintenance INEM's	80,000	
Repair & Equipment of Satellite Schools - INEM Program	50,000	
Texts & Audio-Visual Materials	18,000	
Primary Teacher Education	18,000	
Teacher Education	7,000	
All Others	135,000	
Subtotal	440,000	
ICETEX		
Teacher Education Scholarships	11,500	
Subtotal	11,500	

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EXHIBIT D
(continued)

Entities	Expenditures Per Loan Agreement	Actual Expenditures
COLCIENCIAS		
Science Research (Grants-in-aid)	6,200	
NAS-COLCIENCIAS-ICFES	700	
Promulgation of Science Information	2,000	
Science Test Development	1,300	
Information Documentation Center	5,000	
All Others	8,100	
Subtotal	23,300	
ICOLPE		
Research on Basic Education	4,500	
Research on Social Problems Related to Education (Grants-in-aid)	1,500	
Evaluation & Experimentation on Teaching Materials & Educational Innovations (Grants-in-aid)	3,500	
Equipment & Materials	2,500	
ICOLPE Building	4,000	
Subtotal	16,000	
National University		
Implementation of Four-Year Development Plan	32,300	
Subtotal	32,300	
Ministry of Education		
Planning & Technical Assistance	4,600	
All Others	7,400	
Subtotal	12,000	
Grand Total	764,000	

EXHIBIT E

CY 1972 URBAN SECTOR EXPENDITURES BY ENTITY AND BY ACTIVITY - 063

(in thousands of pesos)

Entities	Programmed Exp. Per Loan Agree.	Actual Expenditures
FFDU		
Credit Operations for Intermediate City Valorization Projects	240,000	
Grants-in-aid for Municipal Development Institutes	21,000	
Other FFDU Activities	80,000	
Subtotal	341,000	
ICT		
Lots with Services	33,000	
Water, Sewerage & Electricity Fund	118,600	
Housing Improvement	2,500	
Minimum House Solutions	184,600	
Housing-Progressive Development	316,300	
Subtotal	655,000	
ICFES		
FSAP Program	15,000	
University Urban Study Centers	6,500	
Subtotal	21,500	
DNP		
Information & Publicity Activity		
Promotional & Technical Assistance of Industrial Promotion Foundations		
Promotional & Technical Assistance for the Development of Municipal Development Institutes	No Breakdown	
Loan Administration		
Program Related Studies		
Other Urban-Regional Development Unit Activities		
Subtotal	9,500	

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EXHIBIT E
(continued)

Entities	Programmed Exp. Per Loan Agree.	Actual Expenditures
FFI		
Credit for Intermediate City Industry	175,000	
Assistance for Regional Industrial Development Foundations	20,000	
Other FFI Activities	260,000	
Subtotal	455,000	
Grand Total	1,482,000	

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