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A REVIEW OF THE IMPLEMENTATION OF
THE BLOCK GRANT

USAID/Colombia

June 10, 1975

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ANNEX Block Grant Financial Status Report

BLOCK GRANT IMPLEMENTATION

I. Purpose

This internal USAID review of the implementation of the Block Grant is intended as an input into the Mission decision-making process with regard to future AID support of the program. The review contains a short history of the Grant, including its goals and purposes, a summary of the advisory services and training funded through the program, an analysis of Grant administration and GOC procedures, conclusions, USAID policy options and the policy option recommended by the Mission. Included as an annex is a status report of the funds committed.

II. Goals and History of the Grant

The goals of the Grant were to promote Colombia's economic and social development through technical assistance and training. It was also to help build the capacity of key GOC agencies to analyze development problems and bottlenecks, and to plan and implement sectoral development activities. These goals and purposes were based on the assumption that the GOC would be prepared to assume almost complete responsibility with respect to technical assistance priorities and could insure the smooth flow of operational matters.

On December 21, 1972, after long negotiations undertaken primarily at AID initiative, the Block Grant Agreement was signed for \$500,000. The implementing agency was the National Planning Department (DNP or Planeación Nacional). Procurement was to be accomplished through DNP's Special Fund for Development Projects (FONADE). The choice of Planeación as implementing agency assumed that GOC technical assistance requirements would be essentially in the areas of planning and policy. The Grant was designed to finance the foreign exchange costs of technical assistance services, including up to 20% of the funds to be utilized in training. The agreement called for the GOC to deposit 10 million pesos as counterpart, including two million pesos to be converted to dollars and placed in a revolving fund for dollar costs pending reimbursement from AID.

On May 22, 1974, the Grant was increased to \$700,000 and the GOC counterpart commitment increased to 11 million pesos. On February 11, 1975, a second amendment increased the AID funds available to \$1.0 million. The Director of Planeación in early 1975 expressed interest in new Block Grant yearly allocations of up to \$1.0 million for further activities, largely mining studies. As of June 2, 1975, projects totaling \$844,776, or 85% of available funds, had been approved for financing under the Grant. Over half of this amount was for the financing of projects in the urban sector. A total of \$241,235 has been disbursed by AID. With respect to the GOC counterpart, of the \$8.0 million pesos deposited in the special account to date,

project financing totaling \$6.3 million pesos has been approved by the GOC and \$2.8 million disbursed.

The DNP has been the principal user of the Block Grant. Other GOC agencies have had limited access to it. Project implementation at the beginning was seriously delayed because the GOC was several months late in meeting the conditions precedent with respect to its counterpart commitment. Later, acute administrative problems hampered the effectiveness of Block Grant operations.

After more than two years of activity, in early 1975 the DNP requested AID to revert to traditional procurement procedures and assume contracting and management of the funds obligated under the Block Grant. Furthermore, the GOC informed AID that counterpart funds were not available for further technical assistance contracts funded under the agreement and asked that the dollar funds obligated thereunder become available for conversion to pesos to fund local costs of technical assistance activities.

At the request of the Director of Planeación Nacional, the Block Grant agreement was amended effective as of June 2, 1975 to permit direct AID contracting with U.S. Universities, using Grant funds, for the provision of technical assistance to GOC entities. The Grant was previously amended to allow AID to contract directly with U.S. Government departments and agencies. A further amendment is in process which will extend the final commitment date for Grant funds, from June 30 to October 31, 1975. Funds are committed upon signature of a contract.

III. Technical Assistance Services and Policy Contribution

The Technical assistance projects financed by the Block Grant and under which work has either been completed or is underway, can be divided into two areas: support for DNP's exploration and acceptance of the "cities within cities" concept, and short-term, highly specialized expertise on specific policy issues. On the first, the Block Grant made an important contribution to the formulation of GOC policy to implement the "cities within cities" program. Advisory services provided under the Grant gave the GOC clear guidance as to how to move from the concept stage to the construction stage of "El Salitre", the city within the city of Bogotá. Construction of El Salitre is scheduled to begin by late 1975. Similar studies have been completed on Barranquilla and Bucaramanga, and those for the cities of Cali and Medellín are planned for completion in late June 1975 using Block Grant-funded consultants. In the second area, Block Grant-funded technical assistance has varied from being very useful in a key area (e.g., Hanson's monetary work) to some activities where it is not yet apparent that the work undertaken has resulted in or is leading to policy changes.

In addition to the above projects, eight other projects have been approved in the past four months. Five of these involve dollar costs, the remainder local currency expenditures. Under the provisions of the most

recent amendment to the Block Grant mentioned above, services under three of the new projects are to be provided through contracts signed directly between AID and U.S. universities, using Grant funds.

Below are descriptions of projects on which work has either been completed or is underway, followed by summaries of work to be undertaken in the eight projects recently approved.

A. "Cities Within Cities"

The DNP, profiting from the talent of Special Economic Advisor Lauchlin Currie, developed the concept of "cities within cities" to deal with Colombia's growing urban problem.

This concept of a self-sufficient community implies an area within a larger metropolis with an identifiable set of boundaries, having an employment base large and varied enough to provide jobs for those who live there, and having all of the supporting commercial and social services required to create a sense of community within the area. This urban development strategy is designed to create employment opportunities mainly for unskilled workers. For example, during four years of the construction work in the Bogotá Plan, 40,000 jobs will be created. Afterwards, the commercial and social services are expected to provide at least 125,000 job opportunities in different fields. Each city will provide housing facilities for 500,000 inhabitants, mostly low-income groups.

To develop this concept, DNP has utilized \$466,000 of Block Grant funds to complete studies of Bogotá, Barranquilla and Bucaramanga and to finance the studies of Cali and Medellín, nearing completion. The actual work plan accomplishments and contracts are discussed below.

B. Planners, Inc.

The first step in DNP's strategy was to familiarize influential Colombian urban officials with the application of the "cities within cities" concept in other areas of the world. Planners, Inc., held a seminar in Medellín which dealt with the basic technical and implementation principles of urban development programs. Case studies were presented. The terms of reference for the feasibility studies of the cities of Bogotá, Barranquilla, Medellín and Cali were reviewed and finalized. After the seminar under Planners, Inc., sponsorship, 13 influential urban officials visited several cities around the world to review experience with the concept. The principal conclusion was that higher income classes tended to live in the new cities. The Colombians on the trip concluded that special efforts had to be made to insure that the lower income groups benefitted from the new housing and employment. These urban officials played an important role in the refine-

ment of Colombia's urban development strategy, including César Garcés who has been the Colombian consultant for the Bogotá and Barranquilla studies. In both the Cali and Medellín studies, most of the Colombian counterparts were participants in the seminar and trip financed from the Block Grant.

C. Delaplaine, Miels, and Blum

DNP's next step was to establish overall policy ground rules for the development of the cities in two aspects: finances and legal procedures. Dr. John Delaplaine prepared the cash flows and financial alternatives of different types of housing units, commercial possibilities, and the economic self-sufficiency of the community. Delaplaine provided the GOC with specific guidance in the Bogotá, Barranquilla, and Bucaramanga "new cities" for the types of construction necessary to achieve financial and economic viability.

Hugh Miels and David Blum were contracted to give advisory services on the legal aspects of urban planning. Their reports were used to complement the technical and economic feasibility studies, and included information on the following fields: possession and use of property, stabilization of sale prices, expropriation, and means of disposing of necessary land for the growth of cities. The latter part of the report emphasized the need for a specific policy to avoid speculation in the value of urban property. Other beneficial work was done in the areas of commercial center construction and land valuation techniques.

D. Specific City Studies

Emerging from this conceptual overview, DNP began using the Block Grant to develop specific city studies as a prelude to beginning physical construction in late 1975. Three studies have been completed: one by the American City Corporation on Bogotá's El Salitre, one by Planners, Inc., on Barranquilla, and one by Dr. John Delaplaine on Bucaramanga. DNP is currently working on the Cali study with American City Corporation, and on the Medellín study with Planning Research Corporation, which is being assisted by a local architectural engineering consulting firm AEI (Asesorías e Interventorías Ltda.).

The three completed studies provided DNP with policy guidance on the next stage of action with regard to land acquisitions, organization of the development team, formulation of a financial strategy, and the next commitment steps. For example, the Bogotá study provided (a) the formulation of the physical development plan and program for the major undeveloped portion of the area in Bogotá, and a strategy for dealing with other undeveloped smaller parcels within the area and controlling the quality of development of adjacent areas; (b) identification of social resources and community facilities within the area needed to achieve self-sufficiency for those who

live and work in the new city within the city; (c) the design of a plan that allocates resources and aggregates newly created values in such a way as to make the project self-supporting, while providing benefits to residents, metropolitan area, and the nation; and (d) the description of a management plan to administer the project efficiently and to meet all schedules and stay within the budgeted limits.

E. Other Short-Term Technical Assistance

Short-term highly specialized public policy consultants financed by the Block Grant dealt with six policy areas: monetary policy, industrial statistics, natural resources, public works, social security, and education. Each of these areas is reviewed below.

The two consultants to DNP in monetary policy, James A. Hanson and Robert Barro, were well known to DNP in this key field. The objective in their most recent work was to prepare the basic documents to study and evaluate monetary policy, utilizing existing data and the economic results of the different GOC policies in this field. Particular attention was paid to the effect of monetary measures on inflation and employment, especially related to low income groups. The consultants were instrumental in contributing to recent GOC decisions to equalize domestic interest rates and to speed up the official exchange rate to keep it equal to the unofficial rate. Dr. Hanson also provided some excellent policy guidance regarding open-market operations which the GOC recently began.

Dr. Milton Moss, another well-known consultant, developed statistical indicators to measure industrial growth in various cities to assist in the formulation of Colombian industrial policy. Moss designed a data gathering system using electric power and social security data, plus DANE's monthly industrial sample, as a basis. The system is currently being applied in Bogotá, Cali, Medellín and Barranquilla with varying degrees of success. The Moss work is planned for completion under the auspices of a newly formed development research institute (Instituto de Estudios Colombianos) through a grant from FONADE using Block Grant funds. When all the bugs have been worked out, the GOC will have a management information system upon which to base future industrial policy decisions.

The services of Jaro Mayda were contracted by the Colombian Natural Resources Agency (INDERENA) to assist in the development of the "National Resources Code Book and Environmental Protection." He suggested basic modifications both in format and content of the Code Book which is an important tool for natural resources and ecology policy making within INDERENA and DNP.

Dr. Clarkson H. Oglesby of Stanford University was contracted by the Ministry of Public Works with Block Grant funds. He developed a methodology for Colombian engineers to use in evaluating the economic feasibility of proposed road projects. His system is currently being utilized by the Ministry.

DNP contracted with Mr. George Rohrllich through Nathan Associates to review the Colombian social security system and suggest modifications. He completed three reports entitled "Social Security and Economic Development," "Social Security and Income Distribution" and "Social Costs of Social Security." Mr. Rohrllich's work has been of limited value thus far in the solution of Colombia's social security problems.

Dr. Guillermo Mojica assisted DNP in developing a conceptual framework for a comprehensive analysis of the education sector. His study included the development of terms of reference for the analysis, a review of the information required and its availability, and the development of a bibliography.

F. Projects Recently Approved and Pending Implementation

Under direct AID contracts using Block Grant funds, Michigan State University (MSU) will assist the Ministry of Agriculture in creating a national agricultural marketing program; Princeton University will assist the National Statistical Agency (DANE) in analyzing 1973 national census data taking into account census data and population trends since 1938, and focusing on (a) fertility and mortality rates since 1964, (b) international migration, and (c) the adequacy of census coverage; and the Denver Research Institute (DRI) is to help the Technological Research Institute (IIT) improve its capacity for the transfer of technology to industry.

Planeación plans to use Block Grant dollar funds to contract with (a) the International Fertilizer Development Center (IFDC) for assistance to the Colombian Geological Institute (INGEOMINAS) in testing ways for removing phosphate from rock for use as fertilizer, and (b) Mr. Alfred Eustos for assistance to the Colombian Geographic Institute (IGAC) in developing a methodology for assessing rural land values for tax purposes. The Bustos work under the Block Grant will complement the work being carried out under the FY 1971 \$3.6 million AID cadastral loan to Colombia.

The three local currency projects now planned for funding through the Block Grant cover (a) the setting up of a new model of national accounts, linking the ones currently in use by the Bank of the Republic and DANE, (b) an urban development study of the city of Cartagena, including feasibility studies, population projections, infrastructure programming, educational and health services, and general planning for future growth, and (c) a study of the employment potential of small and medium enterprises, experimenting with a work schedule of three eight-hour shifts.

Possible future projects include (a) a study by American City Corporation of project sites in Bogotá for housing in the central part of the city and an industrial commercial center adjacent to Ciudad Kennedy, and (b) the completion of the work by Dr. Milton Moss on industrial statistics.

IV. Training

Besides the "cities within cities" training trip previously discussed, there have been only four training activities funded under the Grant, totalling \$13,006. DNP policy was to use the Grant only for short-term training, since AID education sector loan funds were available for long-term training.

A. Visit to Administrative Programming Institutions in Mexico

During ten days in July, 1974, Lazaro Mejía, Administrative Assistant in DNP, visited public administration institutions in Mexico City. He was especially interested in the surveillance, control, and evaluation of development plans and programs. He studied the systems of sectoral programming in economic development, particularly in the urban/regional area. Lazaro Mejía is still occupying a key post at DNP and has applied some of the ideas he found in Mexico to Colombian situations.

B. Inter-American Course on Accounting and Development Topics

Victor Hugo Castillo, a FONADE employee, attended a one-week course in Puerto Rico in September, 1974. He studied the handling of contracts and payments accountancy work currently being utilized on the Block Grant and other FONADE activities.

C. IRS Tax Administrative Courses (INTAX Program)

The following officials of the National Tax Administration participated in the course in Middle Management Development in Tax Administration between October 28-December 13, 1974: Gilberto Luna Bermudez, head of the Technical Supervision Office; Myriam Piñeros Lozano, section head in the office of taxpayer information; and Amparo Castillo Ramírez, economist in the tax assessment section of the income tax office.

D. Seminar on Rural Development Policies

Sergio Durán, Chief of Planeación Nacional's agriculture division, attended an IDB-sponsored seminar on rural development policies in Washington, D. C., March 16-30, 1975.

Possible future training includes the participation by an official of the National Tax Administration in the Harvard International Tax Program.

V. Administration and GOC Procedures

One of the major problems affecting utilization of the Block Grant has been the complex procedures and bureaucratic requirements in the GOC for sub-project approval. These processes include the initial approval of the terms of reference by DNP, the approval of the contract by the Presidency, the signature of the contract by several agencies, payments and reimbursements. The procedure is as follows:

First Stage: Ideas for technical assistance projects are discussed with Mission offices or are submitted directly to the Overseas Technical Cooperation Division of DNP by the GOC agency seeking assistance. In either case, the requesting agency or office prepares a project proposal in accordance with DNP procedures. DNP reviews and acts on the request. Generally, that aspect of the process takes from two to four months. Once the proposal receives DNP approval, it is forwarded to USAID for approval. This entire stage (project development, review by DNP, and submission to USAID) has taken in some cases as much as a year. In at least one case (the Michigan State University marketing project mentioned below) almost two years elapsed after discussions were begun by a petitioning agency with USAID. Government institutes and ministries other than DNP have had limited access to Grant funds.

Second Stage: FONADE carries out all contracting under DNP direction. Initially, delays were caused by FONADE's inexperience. Now that has improved, but all contracts under a new government regulation must be reviewed by the Presidency before signature. This new requirement usually takes from one to three months.

With respect to the proposed contract with Michigan State on agricultural marketing, FONADE insisted on the rigid application of its standard contracting procedures (involving performance bond, fines for not complying with terms of contract, etc.), which MSU felt were unrealistic and incompatible with university policies governing international assistance contracts. Consequently, to facilitate the procurement of the proposed technical assistance, the Block Grant is being amended as noted in Section II to permit the Mission to contract directly with MSU (and other U. S. universities as well in similar cases) for the advisory services in marketing to the planning office of the Ministry of Agriculture (OPSA).

Third Stage: FONADE has the responsibility for payment of contractors. Although not all have experienced delays in obtaining payment for delivered services, there have been several delays of more than four months between the time services were provided and payments were received by the contractors. There are, certainly, some instances of slow payment where FONADE has not been responsible for the delay. Unfortunately, however, the instances in

which delays have occurred are sufficiently numerous to have an impact on the recruitment of the most highly qualified contractors because of their concern with potential difficulties in receiving payment within reasonable time limits for services delivered under the Block Grant.

Fourth Stage: FONADE has been slow in requesting reimbursement from AID. Out of \$840,020 committed, only \$241,235, or 29%, has been requested for reimbursement. As a result, the revolving fund to pay contractors has been depleted at various times.

VI. Conclusions

1. The Block Grant as developed in Colombia was not a viable mechanism for transferring technical assistance.

2. The Block Grant was primarily an AID, rather than a GOC, initiative. Thus, the level of interest and understanding never existed within Planeación to make the program work well.

3. The basic assumptions on which it was developed were incorrect. Adoption of the mechanism assumed that GOC institutions were in place, people were trained and, for these reasons, the GOC had the capacity to assume full responsibility for a program of this nature. It is worth noting that the Block Grant and sectoral loan concepts were developed simultaneously within USAID/Colombia. Both assumed that the GOC had reached a stage of development and management sophistication which enabled it to administer well greatly expanded sectoral investments and its own program of technical assistance.

4. The Grant has not been a suitable mechanism for funding technical assistance considered of high priority by AID. In most cases where AID and the key sectoral agencies with which it works most closely were interested in using Grant funds for technical assistance, there was a lack of coincidence with DNP priorities. The funds were utilized almost exclusively for DNP priorities.

5. The original scope of the Block Grant was limited to financing technical assistance for planning and policy. The GOC continues to require technical assistance in other areas.

6. Implications of the Block Grant (i.e., focusing on policy and planning) were not widely understood in either the Mission or AID/W, leading to resentment by AID technical personnel not having access to technical assistance funds.

VII. USAID policy Options

There are possible alternatives to resolution of the current and probable future problems existing with the Block Grant.

Option I: Reach agreement with Planeación through amendment of existing Block Grant procedures whereby access to Grant funds would be broadened to include many more functions than has previously been the case.

Option II: Terminate Block Grant funding of new activities as of the final commitment date, which is in the process of being extended from June 30 to October 31, 1975. Previous commitments would be honored during a three-year disbursement period but no new obligations would be authorized.

Option III: Make several mini block grants to ministries whose activities are coincident with AID's priorities.

Option IV: Develop a USAID managed generalized program for financing moderate levels of technical assistance to sectors or problems which the GOC and USAID consider critical but which are too small to be developed into specific priority projects.

VIII. Recommendation

USAID/C believes that a combination of Options II and IV best address the current circumstances in Colombia. Accordingly, USAID has notified the GOC of our intention to implement Option II. During FY 1976, USAID/C intends to develop a modest program as described generally in Option IV, for presentation in the next annual budget submission/Congressional Presentation cycle.

Clearances:

DRO: RFrederick
RLA: DRobertson
DRC: CGomez
SDU: CGreen
SDU: WBair
RDCL: DPeacock
EA: JFox
PDO: ACohen
SDU: ARollins
CONT: JBMartin
A/DIR: PRSchwab

BLOCK GRANT FINANCIAL STATUS REPORT

ANNEX

As of June 2, 1975

Contract	Contractor	Total Cost		Project Approved	Contract Signed	Work Completed	AID US\$ Disbursement	Project Description
		US\$	Col.\$					
EG-C01	Planners Incorporated	48,215.00	250,000.00	-	-	X	48,195.10	Metropolitan Areas Training Program
EG-002	Guillermo Mojica D.	-0-	100,000.00	-	-	X	na	Conceptual Basis of the Education Sector
EG-003	Garcés & Smith	-0-	2,000,000.00	-	-	X	na	Metropolitan Areas Development
EG-004	John W. Delaplaine	31,000.00	150,000.00	-	-	X	21,060.36	Urban Development (Financial Analysis)
EG-005	American City Corporation	83,040.00	109,375.00	-	-	X	82,110.00	Proposals for Urban Development (Bogotá)
EG-006	Milton Moss(National Planning)	18,117.00	-0-	-	-	X	18,117.00	Industrial Statistics
EG-007	Planners Incorporated	77,920.00	337,000.00	-	-	X	39,835.27	Proposal For Urban Development (B/quilla)
EG-008	Jaro Mayda	2,727.00	-0-	-	-	X	2,727.00	Natural Resources Code Book (Ecology)
EG-009A	James A. Hanson	5,535.00	42,840.60	-	-	X	4,995.00	Exchange Rates and Devaluation
EG-009B	Robert Barro	3,339.00	12,778.00	-	-	X	3,339.00	Capital Markets
EG-010	Clarkson H. Oglesby	2,400.00	-0-	-	-	X	-0-	Public Roads Advisor to the Ministry
EG-011A	Hugh Miels	2,600.00	3,600.00	-	-	X	2,600.00	Legal Aspects of Urban Planning
EG-011B	David Blum	6,200.00	8,800.00	-	-	X	6,200.00	Legal Aspects of Urban Planning
EG-012	American City Corporation	123,237.00	185,981.00	-	X	-	-0-	Proposal for Urban Development (Cali)
EG-013	Planning Research Corporation	91,190.00	262,900.00	-	X	-	-0-	Proposal for Urban Development (Medellin)
EG-014	Robert Nathan Associates	4,280.54	-0-	-	-	X	-0-	Social Security
EG-016	ASI	-0-	765,962.00	-	X	-	na	Urban Development
AID	Michigan State/OPSA	140,973.00	-0-	X	-	-	-0-	Agricultural Marketing
AID	Princeton/DANE	21,595.00	-0-	X	-	-	-0-	Analysis of 1973 National Census Data
AID	DRI/IIT	38,000.00	-0-	X	-	-	-0-	Build IIT's Technological Transfer Capacity
	IFDC/INGEOMINAS	100,000.00	120,000.00	X	-	-	-0-	Testing phosphate Rock for Fertilizer Use
	Alfred Bustos/IGAC	20,000.00	-0-	X	-	-	-0-	Methodology for Assessing Rural Land Values
	Svenson - Laverde	-0-	600,000.00	X	-	-	na	Study of National Accounts
	Municipality of Cartagena	-0-	500,000.00	X	-	-	na	Urban Development Study
	FICITEC/Boston University	-0-	120,000.00	X	-	-	na	Small and Medium Industry Employment Study
	<u>Training</u>							
	Metropolitan Areas Trip	-0-	665,033.45	-	-	X	na	<u>POSSIBLE FUTURE PROJECTS</u>
	Metropolitan Areas Trip(perdiem)	11,400.00	-0-	-	-	X	11,400.00	American City Corporation - US\$80,000.00
	Lazaro Mejía	336.00	8,581.00	-	-	X	336.00	Study of two project sites in Bogotá
	Victor H. Castillo	320.00	17,225.00	-	-	X	320.00	
	Tax Administration	11,850.00	-0-	-	-	X	-0-	Milton Moss - \$8,557.00
	Sergio Durán	500.00	-0-	-	-	X	-0-	Completion of work on industrial statistics
	<u>SUMMARY OF FUNDING</u>							
	<u>Total Projects Approved</u>	844,775.54	6,260,076.05				Total AID US\$	Total DNP Peso
	<u>Available Funds</u>	1,000,000.00	8,000,000.00				<u>Disbursements</u>	<u>Disbursements</u>
	<u>Balance</u>	155,224.46	1,739,923.95				241,234.73	2,783,685.24
								<u>Training - Harvard Inter-national Tax Program \$8,500.00</u>