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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

SECTOR LOAN PAIER

Proposal and Recommendations
For the Review of the
Development Loan Committee

COLOMBIA - URBAN/REGIONAL SECTOR LOAN

AID-DIC/A - 1032

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/P-1032

June 6, 1972

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Colombia - Urban/Regional Sector Loan

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$37,700,000 to the Government of Colombia to assist in financing the local currency costs of goods and services needed to support Borrower's program directed toward solving problems of the urban sector, including, but not limited to, redirecting rural/urban migration, improving basic infrastructure conditions in both major and intermediate cities, and improving local planning and administrative capacity.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Monday, June 12, 1972.

Rachel R. Agee
Secretary
Development Loan Committee

Attachments:

Summary and Recommendations
Sector Analysis
ANNEXES A-C

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URBAN/REGIONAL SECTOR LOAN II

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ANNEX A STATUTORY CRITERIA AND USAID DIRECTOR'S
CERTIFICATION

ANNEX B PROJECT DETAIL

 Exhibit 1 Status of Accomplishments in CY-1971 and Plans for
 CY-1972

 Exhibit 2 Draft of Annex to Proposed Loan Agreement

ANNEX C DRAFT LOAN AUTHORIZATION

SUPPLEMENTS (See Official Files)

SUPPLEMENT ONE URBAN/REGIONAL SECTOR ANALYSES PAPER
 (May 6, 1972)

SUPPLEMENT TWO MACRO ECONOMIC ANALYSES "COLOMBIA:
 ECONOMIC PERFORMANCE AND PROSPECTS
 (1972)"

SUPPLEMENT THREE COLOMBIAN THREE-YEAR SOCIAL AND
 ECONOMIC PLAN (1972-1974)

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June 5, 1972

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URBAN/REGIONAL SECTOR LOAN IISUMMARY AND RECOMMENDATIONSA. Borrower and Implementing Entities

The Borrower will be the Government of the Republic of Colombia (GOC), represented by the Ministry of Finance. The implementing agency will be the Ministry of Development, which will be a signatory to the loan. The following are sub-implementing agencies: National Housing Agency (ICT), Institute for Municipal Development (INSFOPAL), Bank of the Republic (BOR), acting through the Urban and Finance Funds (FFDU and FFI, respectively), Popular Finance Corporation (CFP), Advanced School of Public Administration (ESAP), the National Planning Department (DNP), and the Administrative Department of Statistics (DANE). For purposes of coordination, the Director of the National Planning Department will also be a signatory to the Loan Agreement.

B. The Loan

1. Amount: Not to exceed \$37.7 million.*
2. Terms: Interest in dollars at 2% during the first ten years; ~~3%~~ thereafter. Repayment in dollars over 40 years with a 10-year grace period.

C. Purposes

To support both new and expanded on-going GOC initiatives which serve urban/regional development objectives, including promotion of economic growth in urban areas, with emphasis on the elimination of discrimination against intermediate cities in the areas of credit for the promotion of labor-intensive industry and for municipal infrastructure, and improvement of living conditions for low income families in all urban areas, and improvement of local level planning and public administration.

*All peso amounts shown for CY 1973 are calculated at an exchange rate of US\$1.00=23.8 pesos.

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D. Background

Coordinated, sector AID assistance in this field commenced in FY-1972 with the first urban/regional sector loan of US\$29 million. However, prior to this, AID had for many years provided counterpart financing on an ad hoc basis for several of the same activities now included in the sector loan. For example, since 1962 the peso equivalent of \$85.4 million of program loan counterpart has been distributed to Colombian agencies comprehended within the urban/regional sector. Of this total, more than 50% (\$48.5 million equivalent) was distributed between 1968 and 1971. AID assistance in this area has helped finance expansion of urban infrastructure, slum improvement, greater industrial investment, low cost housing, urban planning studies, and "cottage industries."

Sector Loan I supported the GOC's first major attempt at implementing a coherent urban development strategy consisting of a series of coordinated priority programs with clearly defined objectives. In view of Colombia's difficult, persistent urban problems, the momentum generated by the first sector loan must be accelerated if substantial results are eventually to be achieved.

On May 15, 1972, the GOC submitted a formal request for an AID sector loan in the amount of \$37.7 million. This request proposes continued support for the major programs assisted under the first sector loan, as well as the addition of several new and complementary loan activities. The request represents an important advance in the GOC approach to sector programs in the sense that it reflects greater awareness of the importance of weighing alternatives and making delicate priority determinations. In this regard, it demonstrates further the value of the sector approach and the impact that this approach is having upon the governmental decision-making process.

E. Reasons for Selecting the Sector Loan Technique

In addition to the above, the sector lending technique is considered to be preferable to either project loans or program loans at this time for several other reasons. Unlike a project loan which covers only a limited

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area, generally is expended over several years, is mainly concerned with the end-use of loan funds, and is relatively rigid in its application once negotiated, the sector loan permits assistance to essential elements in the entire area of concern, especially improved policies, planning and management, and is under constant attention, through review and negotiation, allowing refinement of the assistance and strategy as sector problems arise. Also, a sector loan has many of the aspects of a program loan, such as its effect on helping to meet balance of payments problems and spurring on more adequate fiscal performance; however, in the main, it addresses directly the crucial sector issues and seeks improved efficiency and utilization in the use of applicable resources.

F. Description of the Loan

The loan will provide AID assistance to the Colombian urban/regional development program in the achievement of the following of the development plan's intermediate objectives:

1. Increasing credit available for intermediate city infrastructure improvement, particularly streets and water and sewerage lines projects financed through valorization and tariff collections.
2. Increasing credit for small and medium labor-intensive industry in intermediate cities.
3. Expansion of ICT's low-income housing program, with increased emphasis on the lowest cost solutions possible, such as sites and services.
4. Improvement of local level public administration and national level administration, data collection and policy-making in the urban/regional sector.

G. Alternative Sources of Financing

The Mission understands that the IBRD, IDB, and Eximbank have been advised of this proposed loan and have indicated no interest in providing this financing.

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H. Loan Administration

1. Procurement: No dollar procurement is contemplated under the loan.

2. Disbursements: Local currency utilized under the loan shall be Colombian pesos obtained by AID with U. S. dollars. (See Section VI A 4 (b) for a more detailed description of the procedures to be used for generation of local currency to be utilized under the loan.)

I. Views of the Country Team

This loan will be the principal instrument of the FY-1972 United States assistance program for stimulating more balanced urban/regional development. The loan program will have a measurable effect on the Republic of Colombia's capacity to organize more adequately, from a developmental standpoint, her urban areas and strengthen her regional structure, and so foster the achievement of mutually accepted developmental objectives. The Country Team recommends approval of the loan.

J. Statutory Criteria

All statutory criteria have been met. (See Annex A, Exhibit 1.)

K. Issues

None.

L. Recommendations

Authorization of a loan to the Government of the Republic of Colombia in an amount not to exceed \$37.7 million, subject to the following terms and conditions, in addition to the normal AID loan conditions:

Utilization of Previous Loan Proceeds

Disbursement of pesos under the loan shall be made only after all pesos generated by Loan 514-L-063 funds have been completely disbursed to each sub-implementing agency under that loan, unless AID otherwise agrees in writing.

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URBAN/REGIONAL SECTOR LOANSECTION I BACKGROUND

Since the mid-sixties, when Colombia passed the 50% mark in urban population as a percentage of total population, increasing attention has focused on the relationship between national and urban development problems. It cannot be said that the two are synonymous; however, the interdependence of urban growth pressures and national political, social and economic problems has been recognized to be extensive. The central national development strategy of the 1972-1974 GOC Plan focuses on urban growth as a "motor" for development. Urban unemployment, rural/urban migration and Colombia's urban/regional structure are areas that increasingly occupy the attention of Colombian planners, economists and public figures generally. As analysis is applied and problems and priorities are better identified, this identification process has begun to yield a sectoral approach to urban development. This has led to a more precise definition of prime objectives and greater coordination of investment activities to achieve those goals.

A description of the urban sector and an analysis of its principal problems are contained in the "Urban/Regional Sector Analysis Document" recently completed by the Mission. However, the GOC strategies which bear on urban development warrant review here from the standpoint of their increasingly unified sectoral orientation.

A. Summary of GOC Urban/Regional Development Sector Strategy and Plan1. The GOC Development Plan

Analysis of development in Colombia reveals marked differences in the social and economic indicators measuring the levels of urban development between cities. In general, these disparities, in terms of gross

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product, industrial development, literacy rates, and urban and social infrastructure, reflect the advantage in terms of development emphasis the four major cities -- Bogota, Medellin, Cali and Barranquilla -- have received, to the detriment of the development and growth of other centers and regions of the country.

This situation has led the Colombian Government to define policies and strategies which seek to reduce the discrimination that has resulted in a regional imbalance in opportunities and wealth, so that the growing benefits of development may be enjoyed by more citizens.

Briefly, the Government's objectives in regard to this problem, as set forth in the 1972-74 Plan, are:

- a. To raise the standard of living in the various regions;
- b. To reorient migration toward medium-sized cities;
- c. To promote economic growth in small and medium-sized cities;
- d. To promote industrialization in accordance with local potential, and
- e. To improve infrastructure, particularly in intermediate and small cities.

Development policy for various regions and cities is to be determined by the existing state of development and the potential for further development in these localities. This is referred to by the Planning Department as a "differential policies" approach. Cities and applicable development and industrialization policy are categorized as follows:

- a. National metropolis (Bogota): maintain continued industrial growth and improve infrastructure.

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b. "Equilibrium metropolises" (Medellin, Cali, and Barranquilla): promote industrial specialization and the creation of industrial complexes, and emphasize improvement of infrastructure.

c. Medium-sized cities (100,000 to 300,000 population): strengthen small and medium industry as well as large industry, as appropriate.

d. Small cities (30,000 to 100,000 population): promote agro-industry.

In addition to the urban/regional strategy continued from last year's Plan, the 1972-1974 Plan presents an overall strategy which will have significant implications for urban development. This strategy seeks four major objectives: (1) employment generation; (2) growth of exports; (3) increased productivity in agriculture, and (4) improved income distribution.

The Plan assumes that investment may not necessarily be the prime mover of development, but, rather, that increases in effective demand for particular types of commodities are a necessary pre-condition to economic growth. Having made this assumption, the Plan then proceeds to discuss directly the problems of unemployment and under-employment. That is, instead of merely associating certain levels of employment creation with investment-stimulated economic growth, the objective of employment generation is given equal status. The Plan argues that fuller employment of the unemployed and under-employed will lead to more even income distribution and this, in turn, will lead to greater effective demand. If the demand is guided properly, it, in turn, will lead to incentives for greater production.

There are four main areas of attack by which the Plan aims to achieve this result. First, it urges a major effort at urban development, mainly in the field of housing construction. There are both economic and social reasons stated for this approach. The social problems of the rural sector cannot be resolved by acting on rural areas alone, it is argued.

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Likewise, rural/urban migration cannot be halted solely by operating on the rural sector, and social solutions must be found in the cities. Further, there is a huge demand for housing, and construction creates substantial employment per unit of investment, and at small direct cost in foreign exchange. There are two principal mechanisms by which to finance housing: by government subsidy, operating directly through public and quasi-public financial institutions, and by the self-sustained generation of private savings. The first, by the nature of its financial substitution, cannot create substantial new employment, except by running a government deficit. (Though, insofar as this substitutes for less labor-intensive endeavors elsewhere in the economy, new employment may be created.) The second can create new employment, because it can generate "new" savings. The Plan envisages use of both methods, with greater emphasis on the second.

For purposes of the urban/regional sector, the overall strategy is relevant mainly for its emphasis on urban employment generation and improved income distribution, as well as for its concern with urban construction. A more specific analysis of the relationship between the urban/regional and overall strategies must await further definition of the latter; however, this question is discussed preliminarily in Chapter 13 of the Sector Analysis Document.

2. Policies and Programs

The urban/regional strategy takes concrete form in terms of investment and targets in the various sub-sectoral plans contained in Plan chapters on housing, water and sewerage, industry, energy, etc. For example, in the case of housing, the Government's specific plans call for renewed and greater emphasis by ICT on low-income programs, with its criteria to be based on the "Minimum Solutions Study" recently completed.

The Government objective in the water and sewerage sub-sector is, over the next ten years, to provide such services to 85% of the urban population. Institutional changes are proposed in order to achieve the goal. Greater financing is expected to come from user charges, which, like all public service tariffs under Plan proposals, are to be made progressive (i. e., higher rates for larger users).

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The Regional Development chapter provides a framework for the coordination of these various sub-sectoral plans, using city size as a criterion for determining sectoral investment strategy. The policies designed to effectuate this emphasis include:

- a. Equalizing opportunities vis-a-vis big cities for the utilization of credit by intermediate cities;
- b. Assistance to intermediate cities in identifying and developing project opportunities, and
- c. Improving planning, coordination and public administration in intermediate cities.

The key programs and institutions for their implementation are identified in terms of the FY-1971 urban/regional sector loan, which is described in detail in the Plan document. The principal institutions identified are ICT, the FFI, and FFDU.

B. Appraisal of Past Assistance and the Current Sector Loan

1. Summary of the Role and Accomplishment of Past U. S. Assistance to Colombia's Urban/Regional Sector

As noted above, AID assistance for Colombian urban/regional development over the past decade has been substantial. In addition to the investment of counterpart funds, this assistance has taken the form of project lending for urban infrastructure improvement and technical assistance. (See Chapter 2, Urban/Regional Sector Analyses Document.)

The impact of both counterpart funds and project lending has been limited principally to the physical improvements financed (e. g. water systems and housing projects). This is not to suggest that the impact of this investment has been insignificant. In the case of ICT, AID provided a substantial part of its investment over the past ten years, and this support has greatly strengthened that institution. However, past support

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has not had a significant impact on policy, nor has it contributed sufficiently to a sectoral strategy through emphasis on priority projects within a framework of overall objectives.

Technical assistance activities have had a greater effect on policy-making. John Turner's study of low-income housing has been a key element in restructuring the ICT program. The AID-provided technical assistance for preparation of the Cali general plan was considered innovative and has been influential in plan preparation methodology in other Colombian cities. Finally, the IDB study of Cartagena's slums was the basis for development of a small business program in Cartagena that is one of the more interesting approaches to economic improvement in slum areas, and may prove to be a model for similar programs elsewhere.

Not insignificant in AID's contribution to the development of the urban area of Colombia has been the support provided to those Colombians who have been attempting for some years to promote the concept of a sector strategy for urban/regional development, taking into account its broad scope and the interrelationships amongst infrastructure, housing, industrial development and virtually all other key aspects of urban life, including education and some aspects of health and interrelationships with agriculture. The FY-1973 urban/regional sector loan, as the first attempt at implementation of a program for the sector, sought to provide a focus for analysis, planning, execution, and evaluation. The current sector loan is explicitly cited in, and further hoped-for AID sector financing is an integral part of, the Colombian strategy set forth in its 1972-1974 Plan document. The sector loan device clearly is serving to provide the necessary encouragement and inducement to Colombian ministries and agencies to examine urban/regional problems in all their complexities and interrelationships -- as a basis for designing policy actions and programs which make sense and are mutually supporting.

The sector loan technique in Colombia has been accompanied by new procedures and requirements that have had invaluable consequences in the management of development in all three sector loan areas. In the urban/regional area there have been special complications. There are

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diverse agencies at the national, departmental and local levels deeply involved in the development process. These have specific functions and responsibilities and need to adopt a common or, at a minimum, a compatible approach. After only a few months of experience in this sector, it is apparent that the discipline of sector lending is having its positive and intended effect. There are several reasons why.

a. Top-Level Support - Urban problems were an issue in the 1970 presidential campaign. President Pastrana took great interest in the issue and pledged to do something about it if he were elected. In his Inaugural Address his attention to the issue was, perhaps, the principal innovation and change from the policies of his predecessor. Since that time, the President and his key advisors have shown that they are personally and deeply committed.

b. Relatively Strong Institutional Structure for Planning and Carrying Out the Urban Sector Loan - The urban/regional sector loan has not had to depend upon building a completely new institutional structure, nor creating a completely brand new cadre of technically-qualified personnel. The structure largely existed, although only partially utilized. By developing-country standards, it is a good one. The primary constraints were not so much institutional or human, as they were shortcomings in policies, priorities and funding.

The National Department of Planning had over the past several years attracted young, enthusiastic, qualified staff members. The Department had demonstrated conceptual capability and an ability to find imaginative approaches to helping solve serious development problems. The staffing of the urban/regional unit was no exception. There also existed many development organizations, both public and private, concerned with urban/regional development -- over and above the traditional organizations of government. All of these organizations were active, most were reasonably effective, but some tended to duplicate functions of others. There were gaps and there still are. Taken as a whole, though, Colombia's institutional structure demonstrates that it can be a dynamic force for change in the urban/regional area.

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The three major channels being used for directing loan funds existed prior to loan signature. The Colombian Housing Agency (ICT) had long existed and enjoyed AID and IDB support. There were two funds in the Bank of the Republic, one to rediscount municipal loans directly, the other to rediscount loans for small industry authorized by other lending institutions.

It may be noted also that with a great increase in the numbers of university-level educational institutions and graduates, together with growing numbers of Colombians who have been trained abroad, there are at least three times as many trained persons today to plan and help carry out development programs as there were only ten years ago. Because of the nature of their training, and because the Government is traditionally the largest employer of technical talent, they have tended to gravitate toward government service.

c. A Change-Oriented Environment - It is not often in a developing country's history that there is a convergence of top-level support, a relatively sound institutional and human resource base, and a favorable development environment in which policy changes find such ready acceptance. This is the case in Colombia, and it is particularly true with respect to the urban/regional area.

Urban/regional development is beginning to attract much attention in all its varied aspects: the needs, the constraints, the opportunities, employment, unemployment and under-employment; population growth and the effects of migration, particularly from rural to urban areas; natural and human factors which have both helped to cause the present situation and may contribute toward resolution of the problems. These aspects and others have been and are being studied in Colombia. There is much work yet to be done; there are fruitful areas for continued research and investigation. There is a growing body of knowledge, but there still are many gaps. Yet, there is presently sufficient information on which to develop a policy course and proceed. As elsewhere, Colombian urban problems are so pervasive and difficult that the Government has recognized it must take action promptly. This affords the United States Government the opportunity to make a major development contribution through the most suitably-effective mechanism presently available -- the sector loan.

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2. Appraisal of the FY-1971 Sector Program (Loan 514-L-063)

a. Financial Progress - As of May, 1972, 390.8 million pesos (US\$18,400,000 equivalent) of FY-1971 loan proceeds had been disbursed to the GOC Treasury. This represents 63.4% of the US\$29 million scheduled for peso disbursement under this loan, and corresponds to an initial advance, plus a second disbursement pursuant to a GOC progress report and request. (See Annex B, Exhibit 1, for a summary of this progress report.) Since funds disbursed under this second request are intended, for all but one sub-implementing agency, to meet demand through June 30, 1972, it is expected that a third disbursement will be requested shortly after that date. In view of the heavy demand for funds, particularly in the cases of ICT, the FFI, and the FFDU, there is little doubt that any undisbursed funds remaining after the third GOC request will be disbursed prior to December 31, 1972.

The summary table which follows presents, for all activities covered in the first urban/regional sector loan, the results of the GOC 1971 fiscal exercise and its plans for 1972. This table indicates that for the period covered in the Loan Agreement there will be a total expenditure of 63.5 million pesos less than provided for in the Agreement (the sum of columns 3, 5 and 6, compared to the sum of columns 1 and 4). This 3% difference in total financing is due entirely to a miscalculation made when the CAP was drafted regarding recuperations for the FFDU and FFI, and offsets what would otherwise be a 20 million peso increase over loan targets.

The delay in sector loan disbursements in 1971 was due to procedural problems in moving sector loan proceeds from the GOC Treasury to the sub-implementing agencies. These problems were exogenous to the operation of the urban/regional sector loan, and have now largely been corrected. As will be seen, only in the case of one sub-implementing agency (the FFDU), did this "cash flow" difficulty delay the initiation of its program.

In sum, as concerns overall investment for the urban/regional sector, the GOC has lived up to its commitments as set forth in the FY-1971 Loan Agreement. The program is accelerating in terms of both disbursements and demand for funds as it becomes more widely known and sub-implementing agencies become more fully familiar with administrative procedures.

NATIONAL URBAN/REGIONAL DEVELOPMENT INVESTMENT

1971 - 1972

(Millions of Current Pesos.)

Type of Funds	CY-1971 *			CY-1972		
	Total Programmed per Loan Agreement (1)	Total Obligated or Expended ** (2)	Total Received by Sub-implementing Agencies (3)	Total Programmed per Loan Agreement (4)	Total Disbursed to Date to Sub-implementing Agencies (5)	Total Programmed for Disbursement During Balance of Year (6)
Sector Loan	86.0	37.5	0	522.3	85.0	523.3
Counterpart	89.9	89.9	89.9	-	-	-
GOC Resources	<u>391.3</u>	<u>405.1</u>	<u>394.1</u>	<u>916.1</u>	<u>202.7</u>	<u>647.1</u>
TOTALS	<u>567.2</u>	<u>532.5</u>	<u>484.0</u>	<u>1,438.4</u>	<u>287.7</u>	<u>1,170.4</u>

* For FFDU and FFI period from 8/11/71 - 12/31/71 only included.

** Obligation figures for FFDU and FFI; expenditures for ICT, ICFES, and DNP

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b. Qualitative and Quantitative Progress

(1) Overall Analysis

(a) Prior Analysis - The analysis of the FY-1971 urban/regional sector program began several months before the actual loan request. The initial presentation was contained in the AID Country Field Submission and the GOC Economic and Social Development Plan, 1970-73. These documents, in turn, were supported by numerous other studies. Immediately following submission of the CFS, intensive effort began on the overall urban/regional sector analysis. The analysis drew upon the resources of the National Planning Department and AID/Washington. These efforts resulted in the most comprehensive analysis of the Colombian urban/regional sector in existence at that time. The recent, in-depth sector analysis has confirmed the main conclusions reached in last year's analysis.

(b) Strategy Design - The sector analysis was substantially in agreement with the GOC strategy in terms of approach. Both analyses identified three main problem areas: (i) discrimination against Colombia's important intermediate cities, principally in terms of credit distribution; (ii) the poor quality of life for the very large urban low-income class, and (iii) the ineffectiveness of urban public administration.

In terms of promotion of intermediate cities growth and the quality of urban life, employment creation was identified as a key factor. Emphasis was placed on the role intermediate cities could play in absorbing rural/urban migration, thus reducing pressure on the largest cities in their efforts to cope with rapid urban growth. Employment creation is considered the major single factor which enables smaller cities to attract and absorb a larger share of the migration stream.

The major areas of public service deficit affecting the quality of urban life, particularly in intermediate cities, were identified as water and sewerage service and housing. .

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The Mission worked closely with the DNP in developing a sector loan program designed to attack these problems in the most effective way possible. As part of this effort, quantified goals and targets were specified in order to strengthen the implementation and evaluation processes. Consideration of a broad range of needs as part of a single overall program automatically focused attention on the need to set priorities and use them to select among various program mixes. This has proved to be a major advantage of strategy development within the sector programming framework.

Beyond this immediate effort at developing an urban/regional sector loan, AID provided the GOC with technical assistance to help further refine its urban/regional strategy. This assistance was in the areas of intermediate city employment creation, rural/urban migration, cost of infrastructure, and public administration, and is described in Chapter 9 of the "Urban/Regional Sector Analysis Document."

(c) Problem and Constraints Identification - During preparation of the Capital Assistance Paper for FY 1971, as well as during the conduct of the current and previous sector analysis, the Mission worked closely with the DNP in the identification of constraints and the selection of innovative programs to be directed at their alleviation.

In addition to those constraints which loan supported programs are designed to alleviate (e.g., credit discrimination for intermediate cities) others were identified which are more difficult to attack directly. These included labor code provisions which inhibit intermediate cities from profiting from factor advantages -- although possibly not to a significant extent; and lack of administrative decentralization in such matters as import license approval. The stated policy of the GOC is to decentralize administrative machinery and progress is being made, but it is a slow process. In general, it must be recognized that smaller cities do not offer the economies of scale, business service, and inter-industry linkages available in major cities. This disadvantage lessens, however, as rising costs and taxes, general unrest, and "urban strangulation" affect the metropolises at the stage Colombia is now reaching. The time is ripe for incentives to intermediate cities, because significant response to such incentives can now be expected.

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One major problem that has arisen in the implementation of the FY 1971 loan has been overall management and coordination of the program. The DNP Urban/Regional Unit has thus far performed these functions well; however, it is the Mission's judgment, shared by the DNP, that this function should not be the sole responsibility of the DNP, since time-consuming management problems have diverted it from its planning functions. It is proposed that the FY 1972 Loan Agreement contain a condition precedent to disbursement that the GOC study current implementation procedures and develop proposals to solve current problems.

Another problem -- common to most sectors-- which has been identified is the lack of certain kinds of data and of disaggregate analysis of available data. This situation is being remedied to some extent, e.g., via the design of the 1973 national housing and population census, through an IBRD-CEDE study of employment effects of different kinds of industrial investment, through sample studies of the employment effects of working capital vs fixed capital loans and through an in-depth migration motivation study. However, a need still exists to define more precisely -- and then arrange to install -- a comprehensive data base and an analytical system for using the data.

(d) Allocation of Resources - The quantitative allocation of resources to the urban/regional sector has followed that specified in the FY 1971 sector program. (The allocations to individual entities and organizations are discussed in Annex B, Exhibit 1, to this paper.) The distribution of allocated resources, however, lagged behind the expected disbursement schedule. In part, this resulted from the newness of the distribution process established for this program (as contrasted with the former system of gradual peso generation through importation), and from inherent complexities of the Colombian Government's system of budgeting and financing. Fortunately, as can be seen from the progress report portion of Annex B, this delay deterred progress only briefly. At this writing, the problem appears to have been resolved.

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(e) Policy Issues Raised on the FY 1971 Program - These included the possible need for technical assistance to implement the FY 1971 program. In addition to this point, which was specifically identified as a policy issue in the FY 1971 CAP, there were several other policy questions reflected in special covenants to the Loan Agreement, the major ones being: (i) the need to provide technical assistance to intermediate cities to prepare infrastructure projects, and (ii) the need to undertake broad based evaluation programs.

No need for external technical assistance, other than that made available, has yet become apparent in the course of execution of the program. The GOC has shown the capacity to satisfactorily implement loan activities now under way without external technical assistance. However, the university urban studies center program is just now commencing, and progress will be monitored to determine whether assistance may be helpful.

In regard to technical assistance to intermediate cities, the GOC, through the DNP, has created a special traveling technical assistance team to help identify and do initial development work on intermediate city projects. This program will receive support through the proposed FY 1972 loan. All traveling assistance teams include representatives of FONADE, the major national source of credit for technical assistance. These FONADE representatives assist municipalities in identifying technical assistance needs and in applying for FONADE financing. Thus FONADE services have been effectively extended to intermediate cities, perhaps more effectively than through a program of publicity as required by the previous sector loan agreement.

With regard to initiation of an evaluation program, separate from loan monitoring, there has been little progress to date. This is due, in part, to the fact that all available time and energy of the DNP has been concentrated on getting the operational program under way.

(f) Action Plans and Implementation Experience - The implementation of the FY 1971 activities which were scheduled in CY 1971 and early CY 1972 are described in Annex B, Exhibit 1, by sub-implementing agency.

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In all cases but one, substantial implementation has already taken place despite the initial flow of funds problem. Several entities had cut back on lower priority programs, where they were able, to finance their sector loan-related programs. These efforts have kept target achievement fairly well on schedule. In addition to implementation, the sector loan, from the outset, has been instrumental in effectuating a number of major policy reorientations, perhaps most significantly in regard to credit for intermediate cities. In this regard, the principal activities and accomplishments are described in brief below. Full details are provided in Annex B, Exhibit 1.

(i) ICT - In 1971, ICT utilized close to 60% of its resources for Low-income programs. This is a dramatic turnabout from the trend in the late sixties of ICT construction of relatively more expensive housing. ICT has prepared, and AID has approved, a detailed analysis for the implementation of a "site and service" program and will shortly commence project construction.

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(ii) FFDU - The regulations governing FFDU operations have been modified, lowering the interest rate by a point and providing for 80% rediscounting on intermediate city loans. Its approvals reflect this new orientation. More than 60% of its disbursements in the April-June trimester will go to intermediate cities, and over 50% of its total lending for 1972, as now projected on the basis of approved applications, will be in intermediate cities. In prior years only about 20% of this financing went to intermediate cities.

(iii) BOR-FFI - FFI regulations have also been modified, raising the rediscount rate for loans in intermediate cities to 80%. As a result, 50% of its lending has been in intermediate cities since the commencement of the program, as compared with 20% prior thereto. The FFI has also increased its eligibility standards and will now lend to firms which have up to 20 million pesos in assets if they meet a labor-intensiveness test, vs. the previous limitation of 15 million pesos.

(iv) ICFES-ESAP - ESAP initiated its public service training program in CY-1971 and trained 1,350 officials in that year and 4,868 more in the first three months of 1972. This was accomplished in spite of delays in sector loan support; it was financed by deferring lower priority programs.

(v) ICFES - University Urban Studies Program - The GOC has presented recently, and AID has approved, a proposal for developing university urban study programs. It is expected that the first disbursement for this activity will be made shortly.

(vi) DNP - The DNP has been active in its sector loan-related program since CY-1971, although it only recently received its first loan disbursement. It has carried out extensive publicity activity and has finished substantially the job of preparing criteria and technical assistance programs for the municipal development and industrial promotion foundation activities.

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SECTION II THE PROJECT: URBAN/REGIONAL SECTOR LOAN II

The Mission's Urban/Regional Sector Loan Committee has analyzed Colombia's urban/regional sector strategy and is convinced, in view of the above, that further AID capital assistance, as requested by the GOC, will assist the Colombian urban/regional sector to continue progress in ways and at a rate otherwise not currently feasible.

This proposed second sector loan is generally structured along the same lines as the current loan; however, AID inputs are planned for seven sub-implementing agencies, instead of four as in the previous loan. Two of the new agencies complement the activities of those now supported; the third represents a one-time activity designed to improve the data base for the sector. The additional agencies are:

INSFOPAL - which will finance the construction of water and sewerage lines in intermediate cities which do not have local entities to undertake such activities and so cannot utilize FFDU financing. This program will include priority projects already planned, and will include a mechanism to induce many of the cities benefitted to establish local public service corporations.

Corporacion Financiera Popular - which will provide direct credit for small and medium labor-intensive industry in intermediate cities. This is the principal, existing Colombian institution serving this purpose and has developed a program to virtually double its lending portfolio during 1973.

DANE - This will be a one-time input to finance the 1973 national census, which will provide essential data bearing on urban/regional development, particularly rural/urban migration and housing. AID has already provided technical assistance to help design the migration component of the census.

The remaining activities will essentially be continuations of the present program. All activities are fully described in what is proposed as the Annex to the Loan Agreement, a draft of which is provided as Annex B,

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Exhibit 2, to this CAP. It should be noted that certain activities encompassed in the current loan will not be programmed to receive commingled funds under the FY-1972 proposal. These are the municipal development institutes, regional industrial foundations, and university urban studies activities. All these programs are experimental, and although the latter two programs are getting under way, and sector loan money will soon be disbursed for these purposes, the GOC is not now prepared to make a judgment as to the need for additional funding for them for 1973. The municipal development institute program is in the advanced planning stage; however, its initiation is not anticipated prior to the second semester of this year. In the case of the municipal development institutes and the regional industrial foundations, should it later be determined that additional funding is needed in 1973, this can be accomplished by authorizing the FFDU and FFI to make the necessary allocations against available commingled funds.

The US\$37.7 million pesos equivalent for the seven sub-implementing agencies under this loan will be commingled with US\$64.3 million peso equivalent of national budget and non-budgetary resources for a total of approximately US\$102.1 million equivalent in resources directly associated with the sector loan program. As will be noted from a review of Chapter 12 of the Sector Analysis Document, it is difficult to determine precisely the level of national urban/regional sector investment; however, based on the analysis therein, this US\$102.1 million represents about 18% of total urban/regional investment. It represents, of course, a key 18% since it constitutes the essential financing for the priority expansion areas of the GOC's urban/regional strategy.

A. Purpose of Urban/Regional Sector Loan II

Within the broad objectives of ameliorating credit discrimination against intermediate cities and improving the quality of urban life, the loan is designed to aid the Borrower in carrying out its urban/regional sector development program by continuing support for previous programs and by supporting new or enlarged initiatives in the following specific areas: (1) further strengthening valorization financing entities at the national and local levels by providing them with working capital and

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increasing their capitalization; (2) supporting priority water and sewerage installation programs in intermediate cities without public service corporations; (3) continuing support for ICT's efforts to enlarge its innovative low-income housing programs and reach the lowest possible income groups; (4) increasing the flow of credit to small and medium labor-intensive industry, particularly in intermediate cities; (5) continuing support for the local public official short-course training programs; (6) providing support to the 1973 census; and (7) continuing support for the DNP's program to coordinate and provide technical assistance and promotional efforts on behalf of the loan.

(See Annex B, Exhibit 2, of this CAP for a detailed description of the use of loan funds.)

B. Description of Key Levels of Impact and Anticipated Results

The loan will have immediate impact on intermediate city credit flow and the quality of urban life, through new and continued requirements that (1) the proportion of credit directed to intermediate cities, flowing through the FFI and FFDU, will be maintained at 50%-60% levels and credit terms for intermediate cities will be relatively more attractive; (2) INSFOPAL will concentrate on improving intermediate city infrastructure and use its resources and influence to induce intermediate cities, which have the financial capacity, to strengthen their institutional structure by setting up public service corporations; (3) ICT will concentrate its investment on the lowest income solutions possible; (4) ESAP will continue and expand its public official training program; and (5) the DNP will strengthen its capacity to provide assistance in the public administration field.

In addition, the loan will support the following quantitative goals:

- To increase FFDU's level of outstanding rediscounts from 635 million pesos to approximately 940 million pesos by the end of 1973, with 60% of new credit invested in intermediate cities.*

- To increase FFI's level of outstanding rediscounts from 590 million pesos to approximately 830 million pesos by the end of 1973, with 50% of new credit invested in intermediate cities.*

* The CY-1971 sector loan used capitalization to define targets for both the FFDU and FFI. We have since determined that, for a variety of

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- To increase the level of CFP's outstanding lending from 240 million pesos to approximately 440 million pesos by the end of CY-1973.

- To increase ICT low-income housing investment in 1973 to 1,000 million pesos (60% of its total investment budget).

- To increase INSEFOPAL's investment to 383 million pesos in 1972 and 547 million pesos in 1973, 60% of which will go to intermediate cities.

- To provide 500 short courses in public administration for 15,000 local public officials.

The measurable direct human impact of this program is, of course, substantial in itself. The indirect impact, in terms of employment created, should be much greater when one considers that the programs supported are all highly labor-intensive.

reasons, this is not an adequate basis for measuring achievement. The principal reason is that capitalization of these two entities is subject to wide fluctuation since their bonds are issued for a six-month term, and there is no way of insuring that at the end of the term bearers will not liquidate their holdings causing abrupt and unpredictable changes. Thus, a target may be achieved on December 31, and soon thereafter the capital may diminish. As will be seen in Annex B, Exhibit 1, this has been already a problem for the FFI, and is a potential problem for the FFDU. In addition, the level of capitalization does not adequately reflect the resource capabilities of these two entities. In this regard, for example, as of May 1, 1972, the FFI and FFDU had borrowed 67 million and 103 million pesos, respectively, from the BOR, which had been utilized to finance previous activities. These loans have no fixed term and the BOR, as a policy matter, has decided not to require repayment at this time. Therefore, for this year's loan, the Mission considers that a better and more stable reflection of FFDU and FFI activity is the increment in rediscounting outstanding. This will give a good indication of net lending and is obviously not subject to the degree of variability of capitalization movements.

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Although the program is not intended to divert or reduce the amount of resources flowing to major cities, and in fact will increase the flow of resources to major cities over what would otherwise be available were there no sector loan program, a key policy aim is to reduce credit discrimination toward intermediate cities. In this regard, the following table will give an approximate indication of the division of sub-implementing agency investment of comingled funds on a city size basis:

	CY 1973 (millions of pesos)	
	Major Cities	Intermediate Cities
1. FFDU *	124	183
2. INSFOPAL	286	191
3. FFI *	230	230
4. CFP	116	170
5. ICT	<u>600</u>	<u>400</u>
TOTALS	1,356	1,178

* New resources only

In the area of financing for small and medium industry, an attempt has been made to provide more effective support to the Colombian institutions primarily concerned with this activity through the addition of loan funds to be provided directly to the CFP, a GOC entity.

As pointed out in Chapter 10 of the Sector Analysis Document, the CFP, in 1971, used roughly 50% of FFI rediscounting and over 60% of FFI rediscounting directed to intermediate cities. Thus the CFP plays a vital role as a primary lender to small and medium business in intermediate cities. The GOC has determined that it wishes to strengthen the CFP and has proposed a substantial increase in its program for FY 1973. In order to support this initiative, and to somewhat rationalize the flow of industrial credit AID will provide direct support to the CFP. CFP investment targets, as stated above and in Annex B, Exhibit 2, are exclusive of rediscounts from the FFI.

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C. Priority of Sector Loan Project

1. Relationship to Recent Sectoral Studies and AID Strategy

The Sector Loan Committee has re-examined the IBRD Regional Development Policy Paper and the ILO report "Towards Full Employment" and finds that Urban/Regional Sector Loan II is consistent with the analyses presented in these reports. The Urban/Regional Sector Loan II program grows out of AID's 1972 Urban/Regional Sector Analysis and is consistent with the last CFS submitted. It is fully consonant with the new GOC 1972-1974 Social and Economic Development Plan, which was considered by the Consultative Group in February, 1972. The loan activities have been drawn from this Plan and other Colombian initiatives, and have been reviewed in close collaboration between USAID/Colombia and GOC officials. The loan program was approved for presentation to AID by the GOC's Economic and Social Policy Council under the Chairmanship of Colombia's President on May 19, 1972.

2. Priority of Project

The urban/regional sector is designated by the GOC as one of the key areas for development leading to accelerated social and economic growth. This loan proposal is part of an overall, on-going urban/regional development program. Other sections of this loan proposal describe the "continuing" aspects of this total program, and make clear that this proposed loan is for the purpose of enabling the GOC to accelerate its urban/regional development efforts, undertake the necessary reforms and innovations, and continue expansion of on-going urban/regional activities.

D. Environmental Aspects

The development activities of this sector loan have an environmental impact in the sense that they affect urban expansion, including building of sanitary systems, construction of housing, and financing of industrial development, as well as influencing the spatial distribution of the population.

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Nevertheless, some of these environmental implications are the result of second or third-level actions, removed in time and space from the sectoral loan program, and difficult, if not impossible, to predict or quantify. Therefore, the presumption of the Urban/Regional Sector Loan Committee is that a detailed analysis of the environmental impact of the ultimate sub-projects contained in this sector loan proposal could neither now be determined, nor should be required.

Notwithstanding, Borrower will be under an obligation to take ecological considerations into account, or cause same to be taken into account by the sub-implementing agencies, where appropriate, among other factors to be taken into consideration in approval of any specific sub-project under the Urban/Regional Sector Loan II. (See Section V - Conditions and Covenants.)

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SECTION III ECONOMIC AND SOCIAL ASPECTS OF THE URBAN/
REGIONAL DEVELOPMENT PROGRAM

A. Present Status of Colombian Economy

The annual rate of real growth of GDP for the period 1965-1970 averaged 5.8%. The period 1968-1970 saw a steadily advancing rate of growth (6.1%, 6.4% and an estimated 6.8% in 1970). Businessmen reported an excellent year in 1971. Nevertheless, preliminary estimates are that the rate of real growth in 1971 was to 5 to 5.7%, largely for reasons beyond Colombia's control. (The IMF, on April 13, 1972, estimates it to have been 5.7%.) Excessive rains in the first half of the year adversely affected agricultural production, although production in the second half made up much of the loss. In addition, coffee prices were down considerably from 1970 levels, and this affected not only export earnings but domestic income as well. Thus far in 1972, coffee prices have remained above last year's levels, agricultural forecasts are excellent, and industrial and commercial activity is high. Present indications are that growth rates on the order of the 1968 to 1970 period will be achieved in 1972. Prices rose in 1971 by 10-15%, depending on the index used, a higher rate of inflation than in the preceding several years. Supply shortages, due to adverse weather and modification of the petroleum exchange rate, contributed to this price rise.

Fiscal revenues in 1971 were above projections, as were investment expenditures. Current expenditures were somewhat lower than anticipated. However, domestic credit resources as well as disbursements on foreign assistance loans were below expected levels, and the overall good fiscal results for the year were possible by maintaining, in terms of constant pesos, rather than reducing, as planned, the GOC floating debt, and by some additional central bank borrowing. Revenue collections for 1972 are continuing to grow satisfactorily but, with planned investment expenditures also growing rapidly, Colombia must continue to pursue sound, improved fiscal policies.

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With respect to the balance of payments, Colombia has enjoyed consistent surpluses through 1971. Minor export growth, which had been improving by over 25% per year from 1967 to 1969, fell off somewhat in 1970, but picked up again in 1971 and still more in the first quarter of 1972. Because of lower coffee prices than in 1970, which were foreseen late in 1970, the import budget for 1971 was reduced from earlier targets. Nevertheless, imports, which grew steadily from 1968 to 1970, are once again picking up well and should be sufficient in 1972 to help support expanding economic activity. (See Macroeconomic Supplement 2 "Colombia: Economic Performance and Prospects" for more detailed discussion.)

B. Impact on U.S. Economy

The project complements and does not compete with U.S. enterprise. It will not have an adverse effect on the U.S. economy.

The current U.S. share of the Colombian global import market is about 41%. This represents a decline from somewhat above 45% during the 1969-1970 period. As a result of the recent changes in monetary parities, the first fruits of the very welcomed greater and more flexible activities of the Export-Import Bank, and other increased promotional activities on behalf of U.S. exports, this loan, by improving Colombia's import capacity, should also help to improve once again the U.S. share of the Colombian market.

The very purpose for which this loan is designed should help to bring about a stable, growing economy, one which will provide a larger market for U.S. exports over the long run.

C. Title IX - Building of Democratic Institutions

This second urban/regional sector loan directly addresses Title IX objectives by placing emphasis on helping to achieve maximum participation in the task of economic development on the part of the people of

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Colombia through its encouragement of a stronger infrastructure of self-sustained, viable private, as well as local, regional, and national government urban development institutions. The loan's effects will increase urban/regional reform activities and support Colombian initiatives and human resource dedication to the advancement of municipal and civic activities in the priority areas covered.

D. Contribution to Colombian Development

As a continuance of the development impetus created by previous urban/regional sector assistance, the program will support the GOC's overall development strategy as described in its 1972-1974 Social and Economic Development Plan and with primary focus on the potential of intermediate cities to contribute to improvement of urban conditions generally, and the expansion of urban employment especially. The previous urban/regional sector loan stimulated a substantial increase in budgetary and human resource investment in the sector and this proposed new assistance is expected to catalyze further efforts toward a still greater increase in the future.

E. Consistency with CIAP Reviews

As of this writing, the last review of the Colombian economy by the Inter-American Committee on the Alliance for Progress (CIAP) was made in February, 1971. In that review, CIAP recognized with satisfaction the urban reform effort developed by the GOC and expressed its pleasure in learning that the proposed strategy and the institutional structure necessary to carry out urban reforms are being submitted to extensive public discussion. CIAP noted that, within the scope of Colombia's urban reform plans, an on-going analysis in depth is being made of the following aspects: an adequate mechanism within the central government to resolve conflicting priorities and regional centralization; the effectiveness and way of carrying out the control and use of land; the criteria for identification of those cities whose growth should be encouraged or limited; and the constraints which may exist relative to the capacity of the construction industry. CIAP,

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at that time, suggested that selective criteria be developed concerning the optimum density and form of the cities considered within the urban sectoral reform. Given the fact that whatever formulae are adopted will imply a heavy load on the implementing institutions, CIAP urged that the international agencies intensify their assistance to the Colombian entities involved in analysis, evaluation, and training, and to provide direct technical assistance over the short-term to those institutions most widely concerned with the process of urban development. CIAP endorsed equally that the international financial institutions bear in mind the needs for external resources which the program may require.

The 1972 CIAP review of the Colombian economy is expected to be held, at the earliest, in June, 1972. The Sectoral Loan Committee anticipates that, in its 1972 review, CIAP will express general concurrence and support for the urban/regional sector objectives set forth in Colombia's 1972-1974 Social and Economic Development Plan.

F. Consistency with Consultative Group Review

The IBRD-sponsored Consultative Group for Colombia met February 28-29, 1972, in Paris to assess Colombian economic performance and to coordinate prospective economic assistance from donor countries. The Consultative Group expressed its general satisfaction with Colombia's recent progress in the development field and showed particular interest in Colombia's urban sector program, and in Colombia's need to continue to receive a high level of external assistance for urban sector and other priority programs. AID's sectoral approach to external assistance was given special attention by the donors as was the GOC's appreciation for this type of assistance. The Consultative Group's stress on the need to focus more intensively on employment and income distribution matters as discussed in Paris, is one of the key elements addressed by this proposed second urban/regional sector loan.

G. Certification of USAID Director

The U.S. AID Director certified on May 24, 1972 that in his opinion the Government of Colombia has demonstrated the necessary capabilities to carry out this sector loan. Refer to Annex A, Exhibit 2, for text of this certification.

SECTION IV FINANCIAL ASPECTS OF THE URBAN/REGIONAL SECTOR LOANA. Borrower - The Government of Colombia

The Borrower will be the Government of Colombia, which will be authorized, after approval by its Economic and Social Policy Council and its Interparliamentary Commission, to enter into a Loan Agreement without further Congressional ratification.

The implementing agency will be the Ministry of Development (MINDES). The following entities will be sub-implementing agencies: The National Housing Agency (ICT); the Bank of the Republic (BOR), acting through its Urban Development and Industrial Finance Funds (FFDU and FFI, respectively); the Municipal Development Institute (INSFOPAL); the Advanced School for Public Administration (ESAP); the National Administrative Department of Statistics (DANE); the Popular Finance Corporation (CFP); and the National Planning Department (DNP).

B. Relation to Total Urban/Regional Sector Financing

The following tables indicate the recent evolution of total public financing and source of financing of the urban/regional sector:

	<u>Total Sector Financing</u>	
	Millions of <u>Current Pesos</u>	Percentage Increase over <u>Previous Year</u>
1970	7,733	-
1971	8,853	14.5
1972	11,220*	26.7
1973	13,413*	19.5

* From Part III, Chapter 12, "Urban/Regional Sector Analysis," Table 12-1. However, 1973 total investment has been increased conservatively on the basis of the somewhat larger than expected GOC sector loan request and

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Percentages of Total Sector Financing by Source

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
AID	2.8	2.9	6.1	6.4
Other donors	17.2	15.3	14.1	14.0
GOC	<u>80.0</u>	<u>81.8</u>	<u>79.8</u>	<u>79.6</u>
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Although total sector growth is shown at about 70% over the three-year period (1970-1973), this is probably a significant understatement. Potentially substantial new national investment for urban construction is planned for 1973, but is not reflected in this table, since neither domestic nor possible foreign-financed amounts are yet known. Also, substantial existing and planned urban public investment is not included for lack of sufficiently precise information as to exactly what portion has been made or is planned in urban areas (within such fields as energy, transportation, communications, etc.).

the correspondingly increased GOC contributions to the sector. The following is the institutional breakdown of increased sector loan and GOC contributions in 1973:

	<u>(millions of pesos)</u>
ICFES (ESAP)	13
FFDU (Valorization)	300
FFI - CFP	110
ICT	156
DANE	30
INSFOPAL	<u>14</u>
	<u>623</u>

Also, in 1972 the INSFOPAL total budget was increased by 80 million pesos over the figure shown in the reference table.

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The table showing financing by source indicates that the GOC component has been about 80% over the three-year period. This table indicates an increase in AID share of 0.3% in 1973, but the Mission believes it likely that when firm GOC investment targets are fixed, this slight further upward trend in the AID share will be cancelled out.

Projected 1973 investment figures for most entities are still tentative and incomplete, and are treated conservatively by both the Ministry of Finance and the DNP. Firm figures probably will not be available until later in the year. However, in view of GOC emphasis on urban development, and its past record of generally under-estimating investment projections, the percentage increase in total sectoral investment should be closer to the 1971-1972 increase of 26.7% than the 19.5% shown.

The above tables are based on a fairly broad definition of the urban/regional sector and, as mentioned above, include components where data are lacking. If one used a narrower definition, i. e., those major sub-sectors with which the sector loan has been concerned directly, a somewhat different picture emerges. There is clearly a decided shift in investment priorities from other sub-sectors to water and sewerage, low-income housing, small and medium industry promotion, and valorization, as reflected by an overall increase in investment in these sub-sectors over the 1970-73 period of 136%, as compared to 70% for the sector under the broader definition used.

The following tables indicate the evolution of investment, with 1973 conservatively estimated, in the key sector-loan related areas of urban/regional investment:

(millions of current pesos)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Water & Sewerage	1,056	1,045	1,609	1,937
Low-Income Housing	648	751	1,500	1,861
Small & Medium Industry	227	340	565	750
Valorization	<u>369</u>	<u>355</u>	<u>900</u>	<u>900</u>
	2,300	2,491	4,574	5,448
Percentage increase over previous year		8.3%	83.6%	19.1%

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Financing by Source
(millions of current pesos)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
AID	164 (7.1)	205 (8.2)	688 (15.0)	858 (15.7)
Other donors	361 (15.7)	433 (17.4)	898 (19.8)	867 (15.9)
GOC	<u>1,775 (77.2)</u>	<u>1,853 (74.4)</u>	<u>2,958 (65.2)</u>	<u>3,670 (68.4)</u>
	<u>2,300 (100)</u>	<u>2,491 (100)</u>	<u>4,494 (100)</u>	<u>5,434 (100)</u>

The most important fact to keep in mind in evaluating the impact of AID's substantial sector loan inputs in 1972-1973 is that 41% (618 million of 1,507 million pesos) of those inputs represents increased resources for FFI and FF DU. Rather than promoting continued GOC reliance on AID contributions, capitalization of these entities will mean lessened requirements for external support as they become more self-sufficient in the reasonably near future. For example, the GOC proposes an increase in FF DU's resources to 900 million pesos by the end of 1973. If FF DU reaches this level, the prospects are that it will need little additional assistance after 1974.

The initiation of substantial sector lending in 1971, and its continuation through 1973, has resulted, quite naturally, in an increase in the AID share of sector financing. The Mission believes that these years represent a peak input that is essential and justifiable if sufficient resources are to be made available to influence opportunely modifications in GOC urban/regional policy, and to strengthen key institutions rapidly so that they may become more self-sufficient and not have to rely too heavily on external support in the future.

C. Relation to Implementing Agency Financing

The following tables compare, on a summary basis, AID sector loan and GOC inputs to proposed sector loan sub-implementing agencies:

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Comparison of Loan Year to Past Year for On-Going Activities
(1973 over 1972)

(millions of current pesos)

<u>Agency or Program</u>	(1) <u>Change in Total Activity</u>	(2) <u>Change in AID Support</u>	(3) <u>Percent of Increase (2/1)</u>
ICT	346.0	134.0	38.2
INSFOPAL (water & sewer line installation)	164.0	48.0	29.2
FFDU	-74.0	-37.0	-
FFI	-120.0	-65.0	-
CFP	200.0	60.0	30.0
DNP	0.1	-0.6	-
ESAP	13.0	3.0	23.1

Financing of Implementing Agency Programs
(millions of current pesos)

<u>Entity</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
<u>ICT</u>			
Total	<u>438.9</u>	<u>655.0</u>	<u>1001.5</u>
GOC and other	<u>402.9</u>	<u>420.0</u>	<u>632.7</u>
AID	-	<u>235.0</u>	<u>368.8</u>
<u>INSFOPAL</u>			
Total	<u>-</u>	<u>383.0</u>	<u>547.0</u>
GOC	<u>-</u>	<u>343.0</u>	<u>420.0</u>
AID	<u>-</u>	<u>40.0</u>	<u>127.0</u>
<u>FFDU*</u>			
Total	<u>-</u>	<u>360.0</u>	<u>286.0</u>
GOC and other	<u>-</u>	<u>180.4</u>	<u>143.0</u>
AID	<u>-</u>	<u>180.0</u>	<u>143.0</u>
<u>FFI*</u>			
Total	<u>-</u>	<u>360.0</u>	<u>240.0</u>
GOC and Other	<u>-</u>	<u>180.0</u>	<u>125.0</u>
AID	<u>-</u>	<u>180.0</u>	<u>115.0</u>

* New resources only

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<u>Entity</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
<u>CFP</u>			
Total	-	240.0	440.0
GOC	-	240.0	380.0
AID	-	-	60.0
<u>DNP</u>			
Total	7.0	10.5	10.63
GOC	7.0	7.5	8.25
AID	-	3.0	2.38
<u>ESAP</u>			
Total	10.0	18.4	28.5
GOC	10.0	9.4	16.5
AID	-	9.0	12.0
<u>DANE</u>			
Total	-	30.0	57.0
GOC	-	30.0	27.0
AID	-	-	30.0

Looking at the data from the viewpoint of change in AID support as a percentage of total change in the input for each agency with an on-going program, for CY-1973 (the proposed loan year) over CY-1972, the following picture emerges: AID financing ranges between 23.0% and 38.2% of the increment. In three instances the proposed AID input in 1973 is lower than for 1972 and, thus, cannot be reflected as a percentage of the increment.

In addition to the above, the proposed loan provides support to the DANE Housing and Population Census. Since this is a discrete activity, the funding for which stretches over a 3-year period (1972-74), the above formula is not considered to be applicable. The total costs of the Census are estimated by the GOC to be 102 million pesos, of which 30 million are being spent in 1972, 57 million are programmed for 1973, and 15 million for 1974. The GOC request for sector loan support is 30 million, which corresponds to 30% of the total, or 52.7% of the 1973 expenditure.

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D. Terms of Loan, Alternative Sources, and Repayment Prospects

1. Terms of the Loan

The terms recommended for the proposed loan are 40-year repayment by the Borrower, including a 10-year grace period, at an interest rate of 2% per annum during the grace period and 3% per annum thereafter.

2. Justification of Loan Terms

The Sector Loan Committee is of the opinion that the terms recommended are reasonable for this sectoral non-revenue producing program.

3. Other Free World Financing Available

IBRD, IDB, and Eximbank have been advised of this proposed loan and have indicated that they are not interested in financing this program. Substantial other free world financial and technical assistance has been provided and is anticipated for the urban/regional sector. This assistance has been coordinated through the Consultative Group. (See Part Three of 1972 Colombian Urban/Regional Sector Analysis for details and discussion of external assistance.)

4. Prospects for Repayment

The prospects for repayment of the proposed loan are excellent. The Government of Colombia will undertake the obligation and assume the exchange risk. The debt burden of the GOC is low compared to other Latin American countries of similar economic conditions. (See Macroeconomic Supplement Two: "Colombia: Economic Performance and Prospects" for survey of GOC foreign debt and net foreign exchange resources.)

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E. Financial Plan

Estimated total costs of the program over the estimated disbursement period are shown in Section IV C. The loan is anticipated to be disbursed during the course of CY 1973, except for 40 million pesos in the latter part of CY 1972. In general, disbursements are expected to follow the normal GOC disbursement pattern. However, since one of the purposes of the program is to enable GOC to proceed faster than it ordinarily would on progress of the program, and since historically the GOC disbursements from ordinary revenue are smaller in the first half and higher in the second half of any CY, it may be determined desirable for AID to disburse a higher percentage of loan funds in the first half of the year and a lower percentage in the second half, depending upon circumstances.

A condition precedent to disbursement to any sub-implementing agency under the loan is the GOC's having completely disbursed all funds from Urban/Regional Sector Loan I (514-L-063) to each sub-implementing agency, unless AID otherwise agrees in writing.

Subject to the above, and to fulfillment of all other conditions precedent to disbursement, AID would make an automatic disbursement of up to approximately 15-20% of the total amount of the loan, distributed among all sub-implementing agencies. The exact breakdown of the amount of initial advance to be allocated to each specific sub-implementing agency is to be determined during negotiation of the Loan Agreement and will be indicated in the Loan Agreement.

This initial advance is considered justified by the need to ensure continuity and impetus of the program of Loan 514-L-063, rather than experiencing a time lag and possible disruption of program progress awaiting a final report on physical accomplishments pertaining to the last release of 514-L-063. With regard to subsequent disbursement requests under the loan, after the first advance, the language of the Loan Agreement will provide, as it did for the previous loan, that disbursements will be contingent on demonstrated financial and physical progress toward loan targets and that GOC requests for such disbursements will be automatically honored when submitted with evidence of the required financial and physical progress toward loan targets.

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SECTION V COVENANTS AND CONDITIONS

In addition to the usual covenants and conditions, the Sector Loan Committee recommends that the Loan Agreement contain the following:

A. Conditions Precedent

1. Prior to any disbursement under the loan:

a. Borrower shall provide evidence, satisfactory to AID, that the GOC has disbursed completely all peso funds generated from Urban/Regional Sector Loan 514-L-063 to each sub-implementing agency under that loan, unless AID otherwise agrees in writing.

b. Borrower shall provide evidence that it has entered into arrangements, acceptable in form and substance to AID, with a suitable institution, under which said institution shall provide information and an analysis of the progress of the program by sub-implementing agencies, and its impact on urban/regional development in Colombia.

c. Borrower shall undertake a review of the procedures and institutional arrangements now in effect in connection with Urban/Regional Sector Loan 514-L-063, for overall management and coordination of the program, including the role and responsibility of the following institutions: Comité Política Sectorial, MINDES, and the DNP, and upon said review, the Borrower shall provide to AID, in writing, its conclusions as to the management and coordination of the program, together with any recommendations considered appropriate, and indications of plans to effectuate such recommendations.

d. Prior to any disbursement under the loan for use by FFI or FFDU, the Borrower shall furnish, or cause to be furnished, to AID, in form and substance satisfactory to AID, agreements between a suitable institution or institutions and the Bank of the Republic setting forth the responsibility of the parties to the contracts for administration of funds to be transferred to the FFI and the FFDU under this Agreement.

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2. The above conditions precedent to disbursement will not apply to the initial advance in CY-1972 for use by INSFOPAL. (See Annex B, Exhibit 2, Section IV B.) However, prior to any disbursement under the loan in CY-1972, the Borrower will furnish evidence to AID that it has established a total 1972 appropriation in the investment budget for INSFOPAL of 213 million pesos.

B. Covenants

1. Borrower covenants that its contribution to the program, as described in Annex I hereof, shall be provided in a timely manner, and in accordance with the provisions set forth therein.

2. Borrower covenants that, during the disbursement period of this loan, it will undertake a study of ICT's long-term financial situation, particularly in regard to ICT decapitalization resulting from subsidization of low-income housing and from the effect of inflation on its mortgage portfolio, and will, on the basis of said study, take such measures as are necessary for the resolution of these financial problems.

SECTION VI LOAN ADMINISTRATION

Administration and Implementation Plan

1. Execution Plan

Major execution steps of the program are described below. The Loan Agreement, together with its Annex and Basic Implementation Letter No. 1, will state the conditions which must be fulfilled by Borrower prior to any disbursement.

USAID/Colombia will ensure that conditions precedent, the covenants contained in the Loan Agreement, and the procedures required thereunder are, in fact, being followed. USAID personnel will make periodic inspections and reviews of the program, assisted by contract and AID/W personnel, if required.

Until the loan is repaid in full, an audit of the loan will be made by AID at such times as may be deemed appropriate.

2. Loan Monitoring

Implementation responsibility for the program will be under the primary control of the Ministry of Development. The primary responsibility for fulfilling AID's part of the monitoring rests with USAID/Colombia, assisted by AID/W personnel, as appropriate. Disbursement requests will be reviewed by the USAID's Urban/Regional Development, Capital Resources Development, and Controller Divisions. Qualitative progress of the program will be monitored by the USAID's Urban/Regional Development Division.

3. Disbursement Plan

Peso disbursements of this sector loan are planned to be effected over a 15-month period, beginning in the second semester of 1972. However, to allow for unforeseen eventualities, the Loan Agreement will provide for a 21-month disbursement period. We now estimate that to start up the disbursements of the 898.2 million peso loan program,

to INSFOPAL approximately 40 million in Colombian pesos will be disbursed/ following fulfillment of formal conditions precedent, with another 135 to 180 million peso equivalent being disbursed in January, 1973, when completion of disbursements under Loan 063 is currently anticipated. The balance of 678 to 723 million in Colombian pesos is anticipated to be disbursed during the remainder of CY-1973.

4. Disbursement Procedures

a. U.S. Dollar Costs - No U.S. dollar procurement is contemplated under the loan.

b. Local Currency Costs (Colombian Pesos)

(1) The Loan Agreement shall be denominated in U.S. dollars insofar as payments of interest and repayment of principal to the U.S. is concerned, but will clearly state that the U.S. dollars are being loaned for the purpose of converting them into Colombian pesos so as to satisfy stipulated peso needs of the sector program. The Agreement will also indicate the uses for which the pesos are destined, the executing agencies which will be responsible for expending them, and the time period over which they are to be spent. In conformity with this, the Agreement will provide that peso disbursements will be released to a given sub-implementing agency in concert with the program of the specified entity and evidence of satisfactory progress.

(2) Peso Generation Procedure - The direct conversion procedure will be employed in accordance with the following system:

(a) Except for the initial advances, Borrower will request disbursement for the local currency requirements of the loan program in accordance with the terms and conditions of the Loan Agreement by submitting to AID such supporting documents as the Mission will prescribe in Implementation Letters.

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(b) In advance of disbursements, USAID/Colombia will obtain from the U.S. Treasury Department dollar checks in amounts approximately equivalent to the next anticipated disbursement. When the disbursement request has been received by USAID/Colombia, the USAID/Colombia Controller will convert, through the First National City Bank, the prepositioned dollar checks to a Colombian peso draft payable to the GOC central bank (Banco de la Republica). This peso draft, in the exact amount of the disbursement, will then, on the same day, be transmitted to the Banco de la Republica for deposit to the GOC Treasury account there. Concurrently, the Loan Agreement will be charged with the exact U.S. dollar equivalent of the disbursement.

(3) Peso Disbursements

(a) In the first months of implementation of the FY-1971 sector loan series there were a number of problems in making the pesos generated under the above method available to the sub-implementing agencies with a minimum of delay. This problem has been thoroughly reviewed with the GOC at the very top levels and disbursements are now moving with greater efficiency. In addition, the GOC is exploring the desirability of having its Treasury set up a separate sub-account for receipt and disbursement of AID sector loan funds. This system is expected to prevail during disbursement of this proposed loan and should provide a mechanism whereby there is a minimum delay between AID disbursement and sub-agency receipt of funds.

(b) At such times as AID may specify in Implementation Letters, the GOC sector central implementing agency shall provide evidence satisfactory to AID of receipt by it and by sub-implementing agencies of loan-generated pesos from the Treasury of the Republic. Upon receipt of pesos allocated to the GOC implementing agencies, the funds will lose their separate identity and be merged with the funds of those entities.

(c) At such times as AID may specify in Implementation Letters, the sector implementing agency shall furnish evidence satisfactory to AID of the total budgetary flow of the commingled peso funds of the sector, and of each of the sectoral program's operating agencies, in accordance with the sectoral plan agreed upon in the Loan Agreement.

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(d) The purchase and release of pesos will be on an advance basis, equivalent to the estimated needs of given activities for a mutually agreed period, to permit opportune application of resources.

(e) Justification for advances, after the initial ones, will be reports showing progress on overall execution of the specified activity, including evidence of disbursement of commingled funds reported in (d) above.

(f) The timing of disbursement will be reflected by sector needs and requirements, and such disbursement will be approved subject to (i) the GOC's requests for disbursements based on needs, and (ii) USAID/Colombia's careful periodic review of these needs and overall sector fiscal and qualitative performance.

5. Procurement Procedures - No dollar procurement is contemplated under the loan.

6. Small Business Notification - Not applicable to this loan in that no dollar procurement of goods or services is contemplated under the loan.

7. Shipping and Insurance - Since no dollar goods or services are contemplated for procurement under the loan, the standard clauses concerning shipping and insurance will not be included in the Loan Agreement.

B. Evaluation

The evaluation of this project will be carried out through the establishment of processes and criteria for evaluation acceptable to the GOC and USAID/Colombia. The basic conceptual framework of the evaluation will be developed in Implementation Letters.

It should be noted that the process of evaluation is viewed as a joint responsibility. The burden for carrying out the evaluation studies following the agreed guidelines rests with the GOC, which will report to USAID/Colombia the results of evaluations according to an agreed schedule.

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CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1972.

MMA - Merchant Marine Act of 1936, as amended.

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. FAA §. 208; §. 251(b).

A. Describe extent to which country is:

- (1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

Colombia is making appropriate efforts through its Office of Agricultural Planning, Institute of Agricultural Marketing, Institute for Development of Natural Renewable Resources, and the Colombian Agricultural Institute. These efforts are more fully described in Sections I and II of the FY 1972 Agriculture Sector Loan Paper.

- (2) Creating a favorable climate for foreign and domestic private enterprise and investment.

Colombia has traditionally created a hospitable climate for foreign and domestic private enterprise and investment. However, the recently announced common foreign investment code of the Andean Group may have at least temporarily inhibited foreign investors from investing in Colombia (See Supplement Two for a fuller treatment of this problem).

(3) Increasing the public's role in the developmental process.

The GOC has increased the public role in the development process through the stimulation of wide public discussion of development policies, financing widespread and active community development programs, and substantial increases in the financing of education and of credit for small and middle-sized farmers.

(4) a) Allocating available budgetary resources to development.

The GOC is allocating available budgetary resources to development. (See Supplement Two).

b) Diverting such resources for unnecessary military expenditure and intervention in affairs of other free and independent nations. (See Item No.16).

It is considered that some expenditure for modernization of Colombia's armed forces is justifiable.

Colombia is not intervening in the affairs of other free and independent nations.

(5) Willing to contribute funds to the project or program.

The GOC has demonstrated willingness to contribute substantially to the program.

(6) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

Fiscal measures which have been taken or which are actively being considered by the GOC, such as tax collection improvement, are set forth in Supplement Two. Colombia's program of land reform is discussed in detail in Parts One and Two of this CAP. The development plans of the GOC recognize the importance of individual initiative and private enterprise. Individual freedom, freedom of press, speech and religion continue.

(7) Adhering to the principles of the Act of Bogotá and Charter of Punta del Este.

Colombia is adhering to the principles of the Act of Bogotá and the Charter of Punta del Este.

(8) Attempting to repatriate capital invested in other countries by its own citizens.

Under the 1967 Foreign Exchange Statute, Colombian nationals were to repatriate demand and time deposits by mid-1967, upon their sale, and no Colombian national was to invest abroad without the prior approval of the Department of Planning. During 1967 it is estimated that up to \$50 million was repatriated. No data are available for later periods.

(9) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

The GOC is undertaking effective self-help measures in response to vital concerns of its people.

B. Are above factors taken into account in the furnishing of the subject assistance?

Yes.

Treatment of U.S. Citizens

2. FAA S. 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services

furnished or ordered where (a)
such citizen has exhausted
available legal remedies and
(b) debt is not denied or
contested?

According to the best information available, Colombia is not known
to be so indebted.

3. FAA §. 620(e)(1). If assistance
is to a government, has it
(including government agencies or
sub-divisions) taken any action
which has the effect of nationalizing,
expropriating, or otherwise
seizing-ownership or control of
property of U.S. citizens or
entities beneficially owned by
them without taking steps to
discharge its obligations
toward such citizens or entities?

No such action is known to have been taken.

4. FAA §. 620(o). Fishermen's Protective
Act, § 5. If country has seized, or
imposed any penalty or sanction against,
any U.S. fishing vessel on account of
its fishing activities in international waters.

There is no evidence to indicate that the GOC has so acted against
any U.S. fishing vessel. Two fishing vessels were detained in 1969
in the area of Quitasueño Bank and Serrana Cay, areas which are claimed
both by the U.S. and Colombia. The fact that the area is in dispute
was recognized by a U.S.-Colombian treaty signed in 1928. The deten-
tions were in error, admitted by the Colombian Government, and the
vessels were released without fine.

- a) Has any deduction required by
Fishermen's Protective Act been made?

N.A.

- b) Has complete denial of assistance
been considered by AID Administrator?

N.A.

Relations with U.S. Government and Other Nations

5. FAA §. 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

Loan funds will not finance the construction or operation of any productive enterprise which will compete with U.S. enterprise.

6. FAA §. (20(1)). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action, of U.S. property?

Colombia is taking adequate measures to prevent the damage or destruction by mob action of U.S. property.

7. FAA §. 620(1). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the AID administration within the past year considered denying assistance to such government for this reason?

The GOC signed an investment guaranty bilateral agreement in 1963, and has cooperated in implementing the guaranty program to date. However, the agreement has not been ratified by the Colombian Congress. For this reason, the "Administrator's Determination" under which the program has operated was not renewed upon its expiration on December 31, 1970. OPIC currently is studying the question of whether to continue the program in Colombia. Pending this study, the Mission recommends against denying assistance.

8. FAA §. 620(q). Is the government of the recipient country in default on interest or principal of any AID loan to the country?

No such default exists.

9. FAA §. 620(t). Has the country severed diplomatic relations with U.S.? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

Colombia has not severed diplomatic relations with the United States.

10. FAA §. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearage taken into account by the AID Administrator in determining the current AID Operating Year Budget?

Colombia is not delinquent with respect to dues, assessments or other obligations to the U.N.

11. FAA §. 620(a). Does recipient country furnish assistance to Cuba, or fail to take appropriate steps to prevent ships or aircraft under its flag to carry cargoes to or from Cuba?

Colombia does not furnish assistance to the present Government of Cuba. Colombia has taken appropriate steps to prevent ships or aircraft under its registry from engaging in any Cuban trade.

12. FAA §. 620(b). If assistance is to a government, has Secretary of State determined that it is not controlled by the international Communist movement?

The Secretary of State has determined that Colombia is not controlled by the international Communist movement.

13. FAA §, 620(f). Is recipient country a Communist country?

No.

14. FAA §, 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the U.S. or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?

No.

15. FAA §, 620(n). Does recipient country furnish goods to North Vietnam or permit ships or aircraft under its flag to carry cargoes to or from North Vietnam?

To the best of our knowledge, no Colombian ships or aircraft trade with North Vietnam.

See FAA §, 620(n) (see page 20 of this Annex)

Military Expenditures

16. FAA §, 620(g). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons system? (Consideration of these points to be coordinated with PPC/HAS.)

a) Military Expenditures as percent of total budget: in CY 1971 10.4 percent of appropriated funds. In CY 1972 11.3 percent of approved budget.

b) Foreign Exchange Expenditures for Military Equipment: In CY 1971 the GOC assumed commitments for foreign exchange expenditures of US\$91 million. Given that most of the acquisitions are being financed with credit over 8 to 10 years, actual appropriations for foreign exchange expenditures in 1971 were US\$9 million. In 1972 new commitments are not expected to exceed US\$10 million, while the 1972 budget provides for actual foreign exchange expenditures of US\$16 million.

c) Foreign Exchange Expenditures for Sophisticated Weapons: Of the foreign exchange totals above, the following are the amounts related to purchase of sophisticated weapons, i.e., Mirage jets; 1971-commitments of US\$41 million and actual expenditures of US\$8 million; 1972-anticipate no new commitments and estimated actual expenditures of US\$8 million.

CONDITIONS OF THE LOAN

General Soundness

17. FAA §. 201(d). Information and conclusion on reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.

The terms of the proposed loan are consistent with the laws of Colombia and the United States and are not excessive or unreasonable for the Borrower.

18. FAA §. 251(b)(2); §. 251(e). Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

The project is economically and technically sound. (See Part II of the Loan Paper). The GOC has submitted an application for the proposed loan and the Mission has been provided sufficient information and assurances to indicate reasonably that the funds will be used in an economically and technically sound manner.

19. FAA §. 251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.

The terms of the proposed loan are such that there are reasonable prospects for its repayment. (Section IV D.4).

20. FAA §. 611(a)(1). Prior to signing of loan, will there be:

a) Engineering, financial, and other plans necessary to carry out the assistance?

This loan finances part of the GOC program in the Urban Regional Sector. To the extent engineering plans were required to develop the program, they have been carried out. With respect to financial planning, the total cost of the program is based on an analysis of quantitative demand and absorptive capacity of the Urban Regional Sector (see Sections II and IV). Organizational plans are set forth in Section I. Preliminary implementation plans for the loan are contained in Sections II and VI of this loan paper.

b) A reasonably firm estimate of the cost to the U.S. of the assistance?

A reasonably firm estimate of the cost of the program is set forth in Sections II and IV.

21. FAA §. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan?

No further legislation is required except for the yearly Budget Law which is normally approved by the end of each CY. Based upon past performance, there are reasonable expectations that the necessary Budget Laws will be enacted and that the law or amendments thereto will contain the amounts scheduled to be contributed by the GOC.

22. FAA §. 611(e). If loan is for capital assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

Yes. See Director's Certificate in this Annex.

23. FAA §. 251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.

The Mission understands that the IDB, IBRD and Eximbank have expressed no interest in financing this program. The IDB and IBRD have been informed of the contents of this loan and have expressed great interest in its accomplishment, as the loan is complementary to their Colombian activities.

Loan's Relationship to Achievement of Country and Regional Goals

24. FAA §. 207; §. 251(a). Extent to which assistance reflects appropriate emphasis on:

a) Encouraging development of democratic economic, political, and social institutions;

A large portion of the loan will be devoted to helping small business through FFI, obtain and productively utilize credit, and to provide home ownership opportunities for low income families through ICT financing.

b) Self-help in meeting the country's food needs;

N.A.

c) Improving availability of trained manpower in the country;

Part of the loan will be used to train manpower for Colombia, through the sub-implementing agencies and the Ministry of Development.

d) Programs designed to meet the country's health needs;

The expansion and improvement of water and sewerage facilities in urban areas will assist in raising the general level of health.

e) Other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and voluntary agencies; transportation and communication; planning and public administration; urban development; and modernization of existing laws.

It is anticipated that the loan will contribute to the economic development of the country by assisting in the upgrading of technology, availability of credit, and increased productivity of the small industry sector; moreover a portion of loan funds will be used to provide training in the areas of urban planning and public administration; and lastly, a significant portion of the loan will be dedicated to the urban development of medium sized cities in Colombia.

25. FAA B. 209. Is project susceptible of execution as part of the regional project? If so, why is project not so executed?

The proposed loan project is not susceptible of execution as part of a regional project.

26. FAA B. 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.

The loan will contribute to realizable long-range objectives by encouraging the GOC to take planning and administrative measures which will improve its action in the urban-regional sector, to provide incentives for the investment of private capital in that sector, and to increase the GOC investment in that sector. The loan program is consistent with the plans of the IBRD and the intention of the Mission to support urban-regional investment in future years.

27. FAA B. 251(b)(7). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.

See comment under Item 26.

28. FAA §. 281(a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.

The use of pesos generated by the loan to assist in infrastructure improvement, industrial credit, and decentralization of planning functions of the GOC will further foster participation in development by the people, and contribute to the encouragement of local governmental institutions.

29. FAA §. 281(b) Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

Improvement of urban areas and decentralization of planning functions is indispensable to the future well-being of Colombia. Part One of this paper and Supplement One: Urban/Regional Sector Analysis describe in full the need for an enhanced urban improvement program, and the expected benefits therefrom. As also described in Part Two of the paper a portion of loan funds will be used to train local level public administrators thereby encouraging institutional development.

30. FAA §. 601(b). Information and conclusion whether loan will encourage efforts of the country to:

a) Increase the flow of International trade;

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The Loan will increase the flow of international trade by making free dollars available to the GOC with which it can continue a substantial importation of necessary goods. The Balance of Payments section of the macro-economic analysis, Supplement Two, discussed these considerations in full.

b) Foster private initiative and competition;

The loan will foster private initiative and competition by making possible the continued importation of goods needed to strengthen the private sector's productivity, and by supporting the GOC's development plans which contain many measures designed to stimulate private initiative, especially in the intermediate cities.

c) Encourage development and use of cooperatives, credit unions, and savings and loan associations;

N.A.

d) Discourage monopolistic practices;

The loan will discourage monopolistic practices by providing credit to many small businessmen thereby providing more effective competition.

e) Improve technical efficiency of industry, agriculture, and commerce;

The loan is designed, in part, to improve the technical efficiency of small businessmen, by providing credit for technical assistance.

f) Strengthen free labor unions.

N.A.

31. FAA B. 619. If assistance is for newly independent country, is it furnished through multilateral organizations or plans to the maximum extent appropriate?

N.A.

32. FAA §. 251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Alliance for Progress in its annual review of national development activities.

The proposed loan is consistent therewith. (See Section III E).

33. FAA §. 251(g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.

N.A.

34. FAA §. 209; § 251 (b)(8). Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.

The loan has no direct bearing on achieving economic and political integration in Latin America.

Loan's Effect on U.S. and AID Program

35. FAA §. 251(b)(4); §. 102
Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

The Mission does not contemplate any adverse effect on the U.S. economy. (See Section III B).

36. FAA S. 601(b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

It is anticipated that a substantial number of the dollars expended under this loan to purchase local currency will return to the U.S. in payment for U.S. exports to Colombia.

37. FAA S. 601(d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?

No procurement of engineering or professional services is contemplated under the loan.

38. FAA S. 602. Information and conclusion whether U.S. small businesses will participate equitably in the furnishing of goods and services financed by the loan.

No procurement of goods and services are provided under the loan.

39. FAA S. 620(a). Will the loan promote or assist the foreign aid projects or activities of the Communist-Block countries?

No.

40. FAA S. 621. If technical assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on

a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

No technical assistance will be funded with dollars under the loan.

41. FAA §. 252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

None of the funds made available under the loan will go directly to private enterprise. The loan will be disbursed directly to the government, whose agencies, including intermediate credit institutions, in turn will supply funds to large numbers of individual small borrowers in the private sector, who will procure from private sources.

Loan's Compliance with Specific Requirements

42. FAA §. 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?

Yes.

43. FAA §. 608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

N.A. No dollar procurement of property will be made from loan funds.

44. FAA §. 604(a). Will all commodity procurement financed under the loan be from U.S. except as otherwise determined by the President?

No dollar commodity procurement will be made from loan funds.

45. FAA §. 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?

N.A.

46. FAA §. 604(d). If the host country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the U.S. on commodities financed by the loan?

N.A.

47. FAA §. 604(e). If off-shore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?

N.A.

48. FAA §. 611(b), App. §. 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?

N.A.

49. FAA §. 611(c). If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?

Colombian law so requires.

50. FAA §. 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?

The loan agreement will not permit such use.

51. FAA §. 612(b); §. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.

The GOC is financing the major portion of the cost of the program for which this loan is made; this financing includes the cost of contracting and other services. No U.S.-owned foreign excess currency is available for these purposes.

52. FAA §. 104. Will any loan funds be used to pay pensions, etc., for military personnel?

No.

53. FAA §. 106. If loan is for capital project, is there provision for AID approval of all contractors and contract terms?

The loan is being made to the GOC which will in turn supply funds to various governmental agencies for redistribution in the urban regional sector. The contracting procedures and criteria for selection of contractors of these governmental agencies are approved by AID.

54. FAA §. 108. Will any loan funds be used to pay U.N. assessments?

No.

55. FAA §. 109. Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (Regulation 7).

N.A.

56. FAA §. 636(1). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicles manufactured outside the U.S., or any guaranty of such transaction?

No motor vehicles are to be obtained under the loan.

57. App. §. 401. Will any loan funds be used for publicity or propaganda purposes within U.S. not authorized by the Congress?

No.

58. FAA §. 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished exceed \$100 million?

N.A.

59. FAA §. 612(d). Does the U.S. own excess foreign currency, and if so, what arrangements have been made for its release?

No.

60. FAA §. 901 (b). Compliance with requirement that at least fifty percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately-owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

N.A. No dollar commodities will be funded by the loan.

- 15a. FAA § 481. Has the government of recipient country failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

There is a narcotics interdiction awareness generally in Colombia, especially at the highest levels of the Government. There is knowledge and appreciation of the importance of international cooperation in accomplishing the measures necessary to help solve this problem. In the past nine or ten months, the Government of Colombia has taken a number of steps which have improved its narcotics interdiction capability. Arrests in Colombia have been stepped up sharply. The GOC has continued to cooperate closely with U.S. operational agencies in interdicting drug flow. There is an improved Colombian narcotics control structure, particularly in the National Police and in the Office of the Procurador General (Attorney General's Office). The Department of Administrative Security (DAS) is seeking to effect major improvements in its interdiction capability. There are also new indications that the Colombian Customs Service is disposed to become more active in this regard than in the past. Cooperative efforts are being stepped up; the Government of Colombia is clearly interested in further improvements.

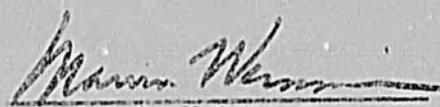
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CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE FOREIGN
ASSISTANCE ACT OF 1961 AS AMENDED

SUBJECT: COLOMBIA - Capital Assistance - Urban/Regional Sector Loan

Having taken into account, among other things, the maintenance and utilization of projects in Colombia previously financed or assisted by the United States, I certify that in my judgment Colombia has the financial capability and the human resources to maintain and utilize effectively the proposed Urban/Regional Sector Loan.

This judgment is based primarily on the facts developed in the Capital Assistance Paper for the proposed loan of \$37.7 million, A.I.D.'s analysis and evaluation of the Colombian Urban/Regional Sector contained in the document entitled "Urban/Regional Sector Analysis", and the manner in which the first Urban/Regional Sector Loan is being utilized by the Government of Colombia and the various governmental agencies which presently are implementing that loan.


Marvin Weissman
Mission Director

May 24, 1972
Date

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STATUS OF ACCOMPLISHMENTS IN CY-1971 AND FIRST QUARTER 1972,
AND PLANS FOR THE REMAINDER OF CY-1972

This Annex summarizes the data provided in the first progress report on Loan 514-L-063, included in the request for disbursement received from the Comite de Credito Sectorial, dated May 12, 1972. In general, the Annex follows the format agreed upon with the GOC for periodic reports, which was incorporated into Implementation Letter No. 5, dated December 6, 1971, and is constructed on a sub-implementing agency basis, showing for each: (1) financial data, and (2) status of program accomplishments.

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TABLE I. FINANCIAL FLOW DATA - ICT
 (000)

	CY - 1971				CY - 1972			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Released Programmed	Actual Releases	Reserves Established for 1972 Disbursement	Releases to date	Add.Antic. Releases thru 5/22-6/30/72	Antic.Rel. 6/30/72 1/31/72	Total Rel. for 1972 4+5+6	Bal. Programmed Per Loan Agreement
A. Sector Loan Disbursements to Treasury 1/	36,000 (1802)	36,000 (1802)	-	174,600 (8275)	-	24,400 (1155)	199,000 (9431)	199,000 (9431)
B. Disbursements to agency by treasury								
Sector Loan	36,000	-	36,000	36,000 ^{4/}	174,600	24,400	235,000	199,000
AID Counterpart	89,958	89,958	-	- ^{4/}	-	-	-	-
GOC Resources	326,042	348,942	-	96,000	130,390	298,010	524,400	427,000
TOTAL	452,000	438,900	36,000	132,000	304,990	322,410	759,400 ^{1/}	626,000
US\$ Equivalent	(22,623)	(21,967)	(1,802)	(6,256)	(14,455)	(15,280)	(35,991)	(29,668)
C. Program Expenditures Co-mingled Funds 2/								
	<u>Expenditures Programmed</u>	<u>Expenditures Incurred</u>		<u>Expenditures 1/1/72-3/31/72</u>	<u>Expen.Antic 6/30/72</u>	<u>Expen.Antic 7/1-12/31/72</u>	<u>Total Antic</u>	<u>Total Programmed</u>
1) Fondo de Redes	130,000	62,500		21,500	59,900	45,700	127,100	225,000
2) Mejoramiento de Vivienda+PMA	6,000	1,000		-	-	2,500	2,500	7,000
3) Soluciones Míminas	247,000	106,500		27,600	85,100	91,200	203,900	307,000
4) Vivienda Desarrollo Progresivo	-	268,900		45,700	150,000	195,200	390,300	-
5) Lotes con servicios	-	-		1,200	10,000	23,800	35,000	-
6) Habilitacion de Barrios	69,000	-		-	-	-	-	87,000
TOTAL	452,000	438,900		96,000	305,000	358,400	759,400 ^{1/}	626,000
US\$ Equivalent	(22,623)	(21,967)		(4,550)	(14,455)	(16,986)	(35,991)	(29,668)

1/ This is a projected figure as of the last ICT disbursement request. For purposes of other calculations in this CAP a more conservative estimate of \$655 million which was the total programmed for 1972 in the Loan Agreement has been utilized.

2/ Programmed figures shown correspond to the CAP definition of the Barrios Jóvenes program. Expenditure figures correspond to a redefinition of this program which is described in the narrative which follows.

3/ As of 5/22/72

4/ As of 3/31/72

Exchange Rate: Col \$19.98 = US\$1.00 for 1971 and Col \$21.10 = US\$1.00 for 1972.

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1. INSTITUTO DE CREDITO TERRITORIAL (ICT)

A. Financial Targets

Due to serious difficulties encountered by the BCH during CY-1971 (see discussion in Chapter 8 of Sector Analysis Paper), the ICT suffered a major shortfall in its CY-1971 overall investment level. A loan it believed would be forthcoming from the BCH, agreed to originally by both parties, did not materialize. Compounding ICT's difficulties, the BCH's persistent financial problems (despite continued attention from GOC authorities) makes it most unlikely that a projected 1972 loan to ICT will materialize.

The ICT, consequently, has lowered its total investment targets in 1972 from 1,573 million pesos to a currently projected range of 1,245 to 1,505 million pesos. The Mission, in view of the ICT's recent financial history, considers the lower 1972 projection to be more prudent. In either case, ICT's projected investment in 1972 is planned to be far above the levels achieved in any preceding year (see Table below).

B. ICT's Adjustment to Financial Situation

As the current financial situation began to become clear, the GOC approached the Mission pointing out that the main thrust of the Loan Agreement was to have ICT increase and reorient its investments toward low-income projects, and that ICT was prepared to live up to this commitment within available resources. Specifically to offset partially inevitable shortfalls in planned targets, they proposed to increase the amounts programmed for the Desarrollo Progresivo (VDP) program (where also there were fewer operational problems to surmount than with the Fondo de Redes or Soluciones Minimias), and to incorporate this program into the target amounts, where it should have been initially in terms of establishing low-income housing targets.

The following table shows the shift in investment composition of all available ICT resources:

(millions of pesos)

Years	(1)	(2)	(3)
	<u>Total Investment</u>	<u>Investment in Low-Income Projects</u>	<u>(2) as Percentage of (1)</u>
1968	395	133	33.7
1969	399	103	25.8
1970	648	130	20.1
1971	751	439	58.5
1972	1,245	655	52.6

In terms of the low-income program now considered likely for 1972, and the actual 1971 results, targets become:

(millions of pesos)

	<u>Original Targets</u>		<u>Revised Targets</u>	
	<u>CY-1971</u>	<u>CY 1972</u>	<u>CY 1971</u>	<u>CY-1972</u>
1. FR	130.0	225.0	62.5	118.6
2. PMA*	6.0	7.0	1.0	2.5
3. SM	247.0	307.0	106.5	184.6
4. HB**	69.0	87.0	-	-
5. LS	-	-	-	33.0
Subtotals	<u>452.0</u>	<u>626.0</u>	<u>170.0</u>	<u>338.7</u>
6. Plus VDP*** (Not in original target)	<u>194.0</u>	<u>244.0</u>	<u>268.9</u>	<u>316.3</u>
Totals:	<u>646.0</u>	<u>870.0</u>	<u>438.9</u>	<u>655.0</u>

*Corresponds to the Desarrollo Progresivo program in Annex I, Section II B of Loan Agreement.

**Habilitacion de Barrios (HB) program has been eliminated as a discreet activity, but, in fact, will continue to be carried out under the Fondo de Redes (FR) and SM programs. All HB projects were in fact a combination of SM and FR projects, with a different name.

***VDP consists of shell housing from 30 m² - 50 m² in size at a cost of about 30,000 pesos (less than US \$1,500) per unit. It is designed for families with an income of 1,000 - 1,500 pesos per month. VDP housing is the same as Soluciones Minimas (SM) housing, with one additional room. It is designed to meet the needs of a large number of low-income families who can afford something more than a minimal unit, but must depend on ICT for subsidized housing.

While achievement of initial targets plus the addition of an increased VDP program would have added up to a major breakthrough in ICT's attention to the low-income sector, attainment of currently projected targets, in light of the absence of the planned BCH loans, represents a considerable step forward in bringing ICT's attention to bear on the target population most in need of its services. As noted earlier, not only have total allocations increased sharply, but the portion of ICT's resources devoted to this level of housing now surpasses 50% as compared to under 30% on the average prior to 1971.

C. Status of Physical Accomplishments

1. Fondo de Redes Operation

a. ICT and the DNP are now well advanced in the development of guidelines on the demarcation of projects financed via FFDU and FR.

b. Total ICT investment in the FR program in 1971 was 62.5 million pesos which financed utility installations in 55,400 homes in low-income areas. Approximately 50% of this investment was in major cities and the remainder in intermediate cities. In the first quarter of 1972, ICT disbursed 21.5 million for the FR program. Information on

city size distribution of lending and type of project financed, has been submitted; however, it includes projections for all of 1972, and is now being analyzed to segregate first quarter information.

2. Construction

For 1971, ICT Barrios Jovenes housing construction was as follows.

	<u>Number of Units</u>	<u>Average Cost Per Solution</u>
<u>Soluciones Minimias</u>	<u>8772</u>	US\$1,000
construction commenced	5771	
construction terminated	3001	
<u>Vivienda Desarrollo Progresivo</u>	<u>7432</u>	US\$1,800
construction commenced	3396	
construction terminated	4036	

In the first quarter of 1972 ICT disbursed 27.6 million pesos for construction of Solucion Minimias projects and 45.7 million for the construction of VDP projects. Again, further information as to projects initiated in the first quarter must await analyses of the ICT submission.

3. Pilot Site and Service Program

ICT has submitted and AID has approved a program for the construction of 3,500 urbanized low-income housing sites. This is 1,000 units more than required by the Loan Agreement. Construction of sites commenced in March, 1972. The sites will be sold for US\$500. Two thousand sites will be located in major cities and the remainder in intermediate cities.

TABLE II. FINANCIAL FLOW DATA - FFDU
(000)

	CY-1971 ^{1/}			CY-1972				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Releases Programmed	Actual Releases	Reserves Established for 1972 Disbursement	Releases to date (5/23/72)	Releases thru 6/30/72	Antic. Rel. 6/30/72 - 12/31/72	Total Rel. for 1972 4+5+6	Rel. Programmed Per Loan Agreement
A. Sector Loan Disbursement to Treasury (US\$ Equivalent)	19,000 (951)	-	-	69,600 (3,299)	-	110,400 (5,232)	180,000 (8,531)	161,000 (7,580)
B. Disbursement to Agency by Intermediary, and Other Receipts								
1) From Sector Loan	19,000	-	19,000	19,000	50,600	110,400	180,00	161,000
2) From AFD Counterpart	-	-	-	-	-	-	-	-
3) From AFD Resources	21,787	2,787	19,000	21,588	53,188	115,576	190,352	219,213
TOTAL	40,787	2,787	38,000	40,588	88,788	225,976	370,352	380,213
(US\$ Equivalent)	(2,041.1)	(139.1)	(1,902)	(1,923)	(4,202)	(10,710.8)	(17,552)	(18,020)
C. Program Obligations of Commingle ^d Funds								
	Obl. Program- med	Obl. Incurred		Obliga- tions thru March 30/ 72	Obl. Antic. thru 4/1/72 6/30/72	Obl. Antic. 6/30/72 12/31/72	Total Antic. 1971-72	1971-1972 Programmed
1) Intermediate City Valorization Projects	-	-		32,900	65,772	141,328	240,000	240,000
2) Municipal Development Institutes	-	-		-	-	21,000	21,000	21,000
3) Other FFDU activities	-	-		19,500	29,791	62,848	112,139	160,000
TOTAL				52,400	95,563	225,176	373,139	421,000
(US \$ Equivalent)				(2,483)	(4,529)	(10,672)	(17,684)	(19,953)

^{1/} Period between 8/11 and 12/31/71

^{2/} Obligations were not programmed by year.

^{3/} Disbursements to borrowers authorized

Exchange Rate: Col \$19.98 = US\$1.00 for 1971 and Col. \$21.10 = US\$1.00 for 1972.

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11. URBAN DEVELOPMENT FINANCE FUND (FFDU)

A. Financial Flow Data

In terms of movement of funds, the FFDU has been on dead center from the inception of the program (August 11, 1971) until the latter part of May, 1972. As can be seen from the preceding table, during CY 1971, the only receipts of the FFDU were 2.8 million pesos in recuperations. They received no new funds from sector loan proceeds (due to delays in approval of the contract providing for transmittal of funds from the Treasury through an intermediary), nor from other sources. The non-loan resources which the FFDU had counted on had to be used to retire bonds held by the Central Mortgage Bank (BCH) when the latter had liquidity problems.

The 40.6 million pesos shown as having been released to the FFDU thus far in CY 1972 has only taken place in the latter half of May, 1972. Consequently, actual cash disbursements to date have been very low (3.8 million pesos). However, as can be seen from the table on applications received and approved (Section B), the FFDU continued to receive and process requests. Thus, as shown on the preceding table, as of March 30, 1972 the Agency was in a position to make 52.4 million in cash disbursements and is now proceeding to use the 40.6 million just received by it to meet the bulk of this requirement.

It should also be noted that present estimates of the amount of recuperations to be received during CY 1972 are significantly less than were estimated at the time the CAP was prepared. This accounts for the 48 million difference between planned and presently programmed disbursements. The figures shown are preliminary, and this matter is currently being discussed with the FFDU. Part of the difference results from an error when the CAP was prepared and recuperations for the entire CY 1971, rather than just the 8/11- 12/31/72 estimates were included.

B. Status of Physical Accomplishments

1. Municipal Development Institute Grants

While no funds have yet been expended for this activity, there has been progress in development of the program. A contract has been signed between the BOR and IDI, under which the latter will provide technical assistance and undertake promotional activities to new municipal development institutes. Also, with assistance from the GOC, and

as a part of a national seminar on regional development held in March, 1972, plans and proposals of representatives of several Departments were put forward and discussed. The DNP is well advanced in preparing the documents covering financial, organizational and legal criteria to be used in making grants. Finally, there have been formal indications of interest and requests for assistance from four departments. It is anticipated that this activity will become operational during the latter half of 1972.

2. Credit Operations

a) Organizational Matters

As called for in the Loan Agreement, regulations governing FFDU operations have been modified to lower the interest rate by 1 point and to provide for 80% rediscounting on intermediate city loans.

A review of the reporting and monitoring system used by FFDU for its loans has found that the present system is adequate. Furthermore, the Credit Department of the BOR which administers the FFDU operations has undergone a needed expansion and is in a better position to provide needed monitoring.

There has been no action to date on expanding the role of FFDU financing for non-valorization activities.

b) Loans

The following Table 1 summarizes the loan operations between August 11, 1971 and March 31, 1972.

TABLE 1

August 11, 1971 - March 31, 1972

	^{1/} Applications Received		Applications Approved		Disbursements Approved		Funds Disbursed	
	Number	Value ^{2/}	Number	Value ^{3/}	No. of Projects	Value	No. of Projects	Value
a) Intermediate City Valorization			8	85.6	8	32.9	1	3.8
b) Major City Urbanization			2	57.5	2	19.5		
<u>TOTAL</u>	22	565.2	10	143.1	10	52.4	1	3.8

- 1/ No breakdown of these figures is yet available.
- 2/ Total project value shown.
- 3/ Discountable portion only of projects totalling 195.3 million pesos.

The average term of the loans approved to date is 6.75 years, at an average interest rate of 13.8%.

The 10 loans approved to date break down by type of project as follows:

	<u>No. Projects</u>	<u>Cost (000 pesos)</u>	<u>% of Total</u>
Roads	4	130,000	66.5
Sewerage	1	5,000	2.6
Others	<u>5</u>	<u>60,350</u>	30.9
	10	195,350	
	=====	=====	

The detailed financing of each of the approved 10 projects and its location is shown in Table 2.

The impact of FFDU policy changes in distribution of credit is clear. Prior to the sector loan, about 20% of FFDU lending went to intermediate cities. The percentage, thus far in 1972, is 67% and it is expected that the FFDU should easily meet its 50% target as of the end of 1972.

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TABLE 2

URBAN DEVELOPMENT FINANCE FUND
URBAN/REGIONAL DEVELOPMENT LOAN
 (AID 514-L-063)

Financing of Approved Projects Between August 11, 1971 and March, 1972

CITY	APPROVED	REDISCOUNTABLE	FFDU CONTRIBUTION		OTHER CONTRIBUTIONS		PROJECT	
	VALUE	RATE	REDISCOUNTABLE	RATES			VALUE	
	\$ (000)	%	\$ (000)	%	\$ (000)	%	\$ (000)	%
Barranquilla*	50,000	65	32,500	44.0	41,318	56.0	73,818	100.0
Manizales	60,000	80	48,000	76.2	15,000	23.8	63,000	100.0
Montería	10,000	80	8,000	41.3	11,375	58.7	19,375	100.0
Neiva	8,000	80	6,400	34.8	11,991	65.2	18,391	100.0
Sincedejo	10,000	80	8,000	52.4	7,276	47.6	15,276	100.0
Magangué	950	80	760	40.0	1,138	60.0	1,898	100.0
Ibagué	10,000	80	8,000	50.9	7,722	49.1	15,722	100.0
Cali*	38,400	65	24,960	18.7	108,550	71.3	133,510	100.0
Santa Marta	5,000	80	4,000	28.2	10,182	71.8	14,182	100.0
Valledupar	3,000	80	2,400	59.0	1,671	41.0	4,071	100.0
TOTAL	195,350		143,020	39.8	216,223	14.6	359,243	

* Only major cities. All others are intermediate cities.

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TABLE III FINANCIAL FLOW DATA - FFI

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	(000)								
	CY-1971 ^{1/}			CY-1972					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Releases Programmed	Actual Releases	Reserves Established for 1972 Disbursement	Releases to date (5/23/72)	Antic. Releases Add. thru 6/30/72	Ant. Rel. 6/30/72 - 12/31/72	Total Rel. for 1972 4+5+6	Rel. Programmed per Loan Agreement		
A. Sector Loan Disbursements To Treasury (US\$ Equivalent)	28,500 (1,426)	-	-	100,100 (4,744)	-	79,900 (3,784)	180,000 (8,531)	151,500 (7,180)	
B. Disbursement to Agency by Intermediary and Other Receipts									
1) From Sector Loan	28,500	-	28,500	28,500	71,600	79,900	180,000	151,500	
2) From AID Counterpart	-	-	-	-	-	-	-	-	
3) From GOC Resources	25,300	25,300	-	72,831	4,856	137,070	214,757	249,700	
Total (US\$ equivalent)	53,800 (2,693)	25,300 (1,266)	28,500 (1,426)	101,331 (4,802)	76,456 (3,624)	216,970 (10,283)	394,757 (18,708)	401,200 (19,014)	
			Obligations Programmed ^{2/}	Obligations Incurred ^{3/}	Obligations through 3/30/72 ^{3/}	Obl. Antic. 6/30/72	Obl. 6/30/72 Antic. 12/31/72	Total Antic. 1971/72	1971 - 1972 Programmed
C. Program Expenditures Commingled Funds									
1) Intermediate City Industry	-	-	28,044	16,879	80,561	74,393	199,877	175,000	
2) Regional Industrial Development Foundations	-	-	-	-	2,000	18,000	20,000	20,000	
3) Other FFI activities	-	-	45,756	27,425	78,561	48,438	200,180	260,000	
Total			73,800 (3,694)	44,304 (2,100)	161,122 (7,636)	140,831 (6,674)	420,057 (19,908)	455,000 (21,564)	

^{1/} Period between 8/11 and 12/31/71^{2/} Obligations were not programmed by year.^{3/} Loan applications approved.Exchange rates utilized: \$19.98 - 1971
\$21.10 - 1972

III FONDO FINANCIERO INDUSTRIAL (FFI)

A. Financial Targets

As indicated in the preceding table, total disbursement of commingled funds over the loan period is now estimated to be about 35 million pesos (7.7%) under the targets established in the Annex to the Loan Agreement. This apparent shortfall results from miscalculations, at the time the CAI was prepared, concerning recuperations. The CAF figures erroneously included recuperation for the entire 12 months of CY-1971, whereas the loan period (and the figures on the preceding table) cover only 4 1/2 months of 1971, between August 11 and December 31. There also appears to be some overestimation of recuperations in 1972. The situation is currently being discussed with the Bank of the Republic in an attempt to arrive at more exact figures and to determine whether an adjustment of the overall target is necessary.

As regards the composition of loans, as can be seen from the preceding table, 38% of the 118.1 million pesos for loan discounts approved between August 11, 1971, and March 31, 1972, were for intermediate city, industry. This compares to the loan target of 40%. The FFI, based on applications received, estimates that by the end of CY-1972, the percentage for intermediate cities will be 50% (10% more than established as a target in the Loan Agreement).

B. Status of Program Accomplishments

1. Credit Policy Changes

As a condition precedent to disbursement of sector loan funds for use by FFI, it was required that the discountable portion of FFI-supported industrial credit in intermediate cities be raised from 65% to 80% of each loan. The purpose of this policy change was to make intermediate city lending somewhat more attractive to banks in order to further induce an expanded credit supply in intermediate cities. The change has been effected and early indications suggest it has accomplished its objectives.

It was also expected, though not made a loan condition, that FFI would consider the feasibility of raising the total asset eligibility requirement for labor-intensive firms. We have been advised that the eligibility requirements have been so revised.

Establishment of a loan guarantee fund is still under consideration, but no decision has yet been made.

2. Loans

The following summary table indicates the status of applications received, approved, etc., between August 11, 1971, and March 31, 1972:

	<u>Totals</u>	<u>Intermediate Cities</u>	<u>Major Cities</u>
Number of applications received	764	NA	NA
Value of projects covered by applications (millions of pesos)	192.4	NA	NA
Number of applications approved	713	352	361
Value of projects approved (millions of pesos)	168.7	56.1	112.6
Value of discounts approved (millions of pesos)	118.1	44.9	73.2

The 713 approved projects are estimated to result in the creation of 7,194 jobs. Average investment per job is low (37,288 pesos, or less than US\$2,000).

The geographical spread of approved projects is wide, with all 22 of Colombia's departments being represented.

The range of industry assisted and employment relationships is shown in the following table.

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<u>TYPE OF INDUSTRY</u>	<u>VALUE OF PAYMENT \$ (000)</u>	<u>%</u>	<u>EMPLOYMENT GENERATED</u>	<u>%</u>	<u>$\frac{a}{b}$</u> \$
Extraction of non-metallic minerals	4,351	1.6	20	0.3	217.550
Food Products	20,956	7.8	774	10.8	27.075
Drinks	610	0.2	44	0.6	13.864
Tobacco	-	-	-	-	-
Textiles	22,582	8.4	477	6.6	47.342
Shoes and Textiles	46,312	17.3	1,640	22.8	28.239
Wood and cork, except furniture	6,183	2.3	270	3.8	22.900
Wooden furniture	5,265	2.0	327	4.5	16.101
Paper and Paper Products	12,080	4.5	197	2.7	61.320
Printing and publishing	9,888	3.7	184	2.6	53.739
Leather and leather products, except shoes	8,975	3.3	271	3.8	33.118
Rubber products	3,238	1.2	76	1.1	43.263
Chemical products	11,577	4.3	292	4.1	30.647
Derivating of petroleum and coal	200	0.1	6	0.1	33.333
Non-metallic mineral products	29,336	10.9	640	8.9	45.838
Basic metals	2,425	0.9	77	1.1	31.494
Metal products, except machines	41,554	15.5	827	11.5	50.247
Non-electric machinery	5,372	2.0	136	1.9	39.500
Machinery and electrical accessories	7,428	2.8	246	3.4	30.195
Transport material	15,589	5.8	399	5.4	39.070
Other	14,277	5.4	291	4.0	49.062
<u>TOTAL</u>	<u>268,248</u>	<u>100.0</u>	<u>7,194</u>	<u>100.0</u>	<u>37.288</u>

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The term and interest rate structure of the loans discounted is as follows:

<u>Term</u>	<u>Interest Rate</u>	<u>Number</u>	<u>% of Total</u>
1 year	14.0%	15	2.1
2 years	14.5%	112	15.7
3 years	15.0%	427	59.9
4 years	15.5%	78	10.9
5 years	16.0%	<u>81</u>	<u>11.4</u>
	Total	<u>713</u>	<u>100.0</u>

3. Grants to Regional Industrial Foundations

FFI has not yet provided grants to regional industrial foundations as anticipated in the sector loan program. It has pending applications against which it hopes to make disbursements prior to June 30 for 2 million pesos of the 20 million pesos allocated to this activity. Legal and organizational criteria for approval of grants are expected to be completed within the immediate future. Initial grants are expected to be made by June 30, 1972.

4. Capitalization of FFI

As indicated in the body of this CAP, this has proven to be an illusive indicator of progress. While certain data has been provided, given the current financial structure of the Fund, it is not considered sufficiently relevant to measuring progress in this activity. The Mission will be exploring this problem further with the BOR.

TABLE IV - FINANCIAL FLOW DATA - ICFES
(000)

	CY-1971			CY-1972				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Releases Programmed	Actual Releases	Reserves Established for 1972 Disbursement	Releases to date (5/23/72)	Releases Anticipated through 6/30/72	Antic. Releases 9/30/72 to 12/31/72	Total Releases Anticipated for 1972	Total Release Programmed per Loan Agreement
A. Sector Loan Disbursement to Treasury	4,000	1,500	-	6,000	2,200	3,100	11,300	8,800
(US \$ Equivalent) <u>1/</u>	(200.2)	(75.1)	-	(284.4)	(104.3)	(147.0)	(535.7)	(417.1)
B. Disbursement to Agency by Treasury & Other Receipts								
1) From Sector Loan	4,000	-	1,500	1,500	8,200	3,100	12,800	8,800
2) From AID Counterpart	-	-	-	-	-	-	-	-
3) From GOC Resources	8,800	10,000	-	2,300	4,200	8,200	14,700	12,700
TOTAL	12,800	10,000	1,500	3,800	12,400	11,300	27,500	21,500
(US \$ Equivalent)	(640.6)	(500.5)	(75.1)	(180.1)	(587.7)	(535.5)	(1,303.3)	(1,018.9)
C. Program Expenditures Commingled Funds								
	Programmed Per Loan Agreement	Expenditures		Expend. to Date	Expend. Antic. To	Oblig. Antic. to 12/72	From Total	Programmed
1) ESAP	10,000	10,000		3,800	8,400 (9/30)	6,200	(9/30) 18,400	15,000
2) University Programs	2,800	-		-	4,000 (6/30)	5,100	(6/30) 9,100	6,500
TOTAL	12,800	10,000		3,800	12,400	11,300	27,500	21,500
(US \$ Equivalent)	(640.6)	(500.5)		(180.1)	(587.7)	(535.5)	(1,303.3)	(1,019.0)

1/ Exchange rates utilized: 19.98 - 1971
21.10 - 1972

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IV. ICFES

A. Financial Flow Data

As indicated in the summary table, sector loan releases did not begin to flow to the sub-implementing agency until CY-1972. In spite of this, ESAP did proceed with execution of its full public official training program, shifting resources from lower priority programs. ESAP received more funds than expected from the GOC. The ESAP public officials training program is now moving rapidly, and 83% of sector loan funds have been disbursed.

The university urban studies program was not presented to AID for approval until February, 1972; however, approval has now been granted. The GOC has advised the Mission that they will shortly be requesting a \$2.2 million peso disbursement for this program.

B. Status of Program Accomplishments

1. ESAP Short-Course Training for Public Officials

In 1971, ESAP held 54 courses designed for public service training. A total of 1,350 public officials were trained during this period, 321 from department offices, 202 from municipalities, and 827 from public service corporations and similar municipal entities.

From January 1, through May 31, 1972, 165 courses were programmed to train 4,868 public officials -- 2,628 from departmental offices, 1,752 from municipalities, and 488 from public service corporations.

These accomplishments compare with original program goals for training 2,300 officials in 1971-1972.

The distribution of courses was as follows:

	1971 <hr/>	1/1/72 - <hr/> 5/31/72
Project design	3	24
General public administration	20	40
Urban and regional planning administration	19	22
Urban and regional fiscal admin.	1	53
Others	<hr/> 11	<hr/> 26
Total	54	165

The above work was carried out mostly through 7 newly created regional offices of ESAP.

2. University Urban Studies Centers

The DNP, pursuant to the Loan Agreement, has submitted to the Mission a plan of action of university-level urban studies program. The plan has been accepted and approved by AID.

Under the program as proposed, funds will be made available for undergraduate as well as postgraduate programs, and they will be distributed on a regional basis. Three institutions would receive assistance for the creation of postgraduate programs (the University of Valle, National University in Bogota, and National University in Medellin). In addition, funds would be available on a regional basis to smaller universities without the capacity to set up a graduate program, to initiate undergraduate courses in the areas of urban and regional studies. It is contemplated that eight such undergraduate programs will be initiated.

TABLE V

FINANCIAL FLOW DATA - DNP
(000)

	CY - 1971			CY - 1972				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Releases Programmed	Actual Releases	Reserves Established for 1972 Disbursement	Releases to date	Add. Antic. Releases Through 6/30/72	Antic. Rel. 6/30/72 - 12/31/72	Total Release for 1972 4+5+6	Rel. Programmed Per Loan Agreement
A. Sector Loan Disbursement to Treasury	1,000	-		2,000	-	1,000	3,000	2,000
(U.S. \$ Equivalent)	(50.0)		(50.0)	(94.8)		(47.4)	(142.2)	(94.8)
B. Disbursement to Agency by Treasury								
1) From Sector Loan	1,000	-	1,000	-	2,000	1,000	3,000	2,000
2) From AID Counterpart	-	-	-	-	-	-	-	-
3) From GOC Resources	7,000	7,000	-	N.A.	N.A.	N.A.	7,500	7,500
TOTAL	8,000	7,000	1,000	-	-	-	10,500	9,500
(U.S. \$ Equivalent)	(400.4)	(350.4)	(50.0)	-	-	-	(497.6)	(450.2)
C. Program Expenditures Commingled Funds								

1/ Information on use of funds by activity not currently available.
Exchange rates utilized: 19.98 - 1971
21.10 - 1972

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V. DNP

A. Financial Targets

In CY-1971 and thus far in CY-1972, DNP financed extensive urban/regional unit sector loan-related activities, although it has not yet received any sector loan disbursements.

B. Status of Program Accomplishments

1. Information and Publicity Activity

The DNP has established a Travelling Advisory Group (Grupo de Asesoría Móvil) which is charged with the dissemination of information regarding loan-financed activities and other non-loan related GOC urban and regional development policies and programs. In relation to the Group's function of providing information and publicity, it has prepared teaching materials such as manuals, pamphlets, books, etc., has organized seminars and conferences, and is publicizing the activities of the program through the use of television, movies, radio and the press. The following seminars and training courses have been organized for municipal and departmental employees:

- 1) Regional Seminars for Mayors of Intermediate Cities.
- 2) Regional Seminars for Chiefs of Municipal Planning Offices.
- 3) National Seminars for Chiefs of Departmental Planning Offices.
- 4) Minimum Urbanization Standards, Public and Community Services.

Pamphlets and manuals covering the following subject matters are being prepared for distribution to municipal governments:

- 1) Internal Public Credit.
- 2) Requirements and procedures for credit applications for municipal development studies and works.
- 3) Terms of reference for the elaboration of Urban Development Plans.

- 4) Organization and Operation of Municipal Planning Offices.
- 5) National Fund for Development Studies.
- 6) General Information and Method of Presenting Applications.

2. Promotional and Technical Assistance for the Development of Industrial Promotion Foundations and Municipal Development Institutes.

The DNP has assisted in the negotiation and preparation of contracts with "IDEA" and the "Fundación del Desarrollo de Cali" for implementation of this activity. In addition, in conjunction with its publicity activity, the DNP has promoted the development of new institutions through seminars and conferences at the departmental and municipal levels.

Finally, the DNP has been engaged in the development of legal, organizational and financial criteria for providing grant support for such institutions.

3. Loan Administration

The DNP has undertaken substantial responsibility for management of the urban/regional sector loan. It is estimated that three professionals of the Urban Regional Unit are engaged almost full-time in this activity.

4. Program Related Studies

None have been undertaken thus far.

5. Other Activities

In addition to its normal activities, the Urban Regional Unit has undertaken an extensive program of technical assistance to intermediate cities that is directly related to the sector loan.

With regard to this program, the DNP created a "Flying Committee" (La Comisión Volante) in order to have direct and permanent contact in providing assistance to municipalities. To date, the Committee has visited 26 intermediate and 15 small cities, reviewing 84 applications for technical assistance. Technical assistance has been solicited in the following areas:

<u>Types</u>	<u>Nos.</u>
Study of Urban Development Plans	14
Feasibility Studies to be Financed by FONADE	11
Preparation of Credit Applications	16
Review of Credit applications already presented	12
Organization of planning offices	7
Administrative and financial organization	12
Organization of valorization offices	7
Organization of Empresas Públicas	1
General Advice	<u>4</u>
TOTAL	84
	==

In addition, eleven intermediate cities have presented credit applications with DNP's assistance, in order to implement urban development projects; 12 more cities are in the process of preparing credit applications to carry out such projects.

Among the projects for which credit applications have been received and which are being prepared for financing are:

<u>Types of Projects</u>	<u>Nos.</u>
1. Roads	21
2. Water	8
3. Sewerage	6
4. Drainage	4
5. Energy	3
6. Telephone	1
7. Warehouses	1
8. Parks	1
9. Other	<u>3</u>
TOTAL	48
	==

Approximately 15 intermediate cities have also submitted 25 credit applications for urban sector studies; 9 of these applications are well under way and the rest are in the initial stages.

DRAFT ANNEX TO PROPOSED LOAN AGREEMENT

I. OBJECTIVES

The GOC intends, with support from this Loan, to implement the urban/regional development program set forth in its 1972-1974 Development Plan. This program has the following objectives:

1. To promote economic growth in intermediate cities (30,000-350,000 population);
2. To improve infrastructure in intermediate cities;
3. To reorient migration toward intermediate cities;
4. To improve living conditions in urban areas generally, and
5. To raise the standard of living in the various regions.

II. BASIC PRINCIPLES

Certain basic principles, set forth below, underlie the structure of the Program supported by this Loan. The establishment of criteria for approval of loans and other assistance to local-level entities under this Program, and the resolution of policy issues that may arise in the course of implementation of the Program, shall be guided by the following principles:

1. Funds for development activities will be channeled only to communities or entities which meet established criteria;
2. Funds will be made available only in response to local initiative and efforts;
3. Existing institutions, or institutions for which prototypes now exist, rather than new and untested institutions, will be used as vehicles for implementation of the Program; and
4. Efforts will focus on the elimination of artificial biases against intermediate cities.

III. IMPLEMENTATION OF THE LOAN

Subject to normal GOC procedures, the Implementing Agency and each Sub-implementing Agency specified in Section of the Loan Agreement shall have the authority to make upward or downward adjustments between the targeted amounts for each of the activities managed by it with which this Program is concerned of not to exceed 10% of the total amount of commingled funds programmed for each activity. Adjustments of greater than 10% between the activities within the same Sub-implementing Agency shall be subject to AID approval. Any adjustment of Loan funds between Sub-implementing Agencies shall be subject to AID approval.

For purposes of implementation of the above adjustment provisions and the Program in general, the activities of Sub-implementing Agencies shall be considered as follows:

<u>Sub-implementing Agency</u>	<u>Activity</u>
1. FFDU (all activities)	1. (a) Credit operations for intermediate city valorization projects. (b) Other FFDU activities.
2. INSFOPAL (all activities)	2. (a) Intermediate city water and sewerage installation projects. (b) Other INSFOPAL and INSFOPAL Controlled Investment. (c) Administrative and Debt Service Costs.
3. ICT (programs indicated only)	3. (a) <u>Barrios Jóvenes</u> Program (b) <u>Inquilinato</u> improvement program.
4. FFI (all activities)	4. (a) Credit to intermediate city industry. (b) Other FFI activities.

- | | |
|--|---|
| 5. CFP (all activities) | 5. (a) Credit to intermediate city industry.
(b) Other CFP activities. |
| 6. ESAP (program indicated only) | 6. Short-course training for local level public officials. |
| 7. DANE (program indicated only) | 7. 1973 Census. |
| 8. DNP (Urban/Regional Development Unit Activities only) | 8. (a) Information and publicity program.
(b) Technical and public administration activities for intermediate cities.
(c) Program-related studies.
(d) Other urban/regional development unit activities. |

The amount of pesos shown as Loan proceeds and designated for use by the Implementing and Sub-Implementing Agencies are approximations only, and are subject both to the dollar limitations set forth in Section of this Agreement and those provisions governing the rate of exchange contained in Section hereof. Moreover, pesos scheduled for disbursement in a given calendar year pursuant to the provisions of this Annex may be disbursed in subsequent calendar years in accordance with the needs of the Program.

IV. THE PROGRAM

A. Fondo Financiero Desarrollo Urbano (FFDU)

FFDU Financial Target - To increase the level of outstanding rediscounts of the from the projected January 1, 1973 level of approximately 633 million pesos to approximately 940 million pesos. This is to be achieved through GOC and sector loan contributions of approximately 143 million pesos each and the use of recuperations.

Activity Targets - The program to be carried out by the FFDU envisages expenditure from new resources and net recuperations during the disbursement period of this loan as follows:

(Millions of pesos)	
Credit operations for intermediate city valorization projects	183
Other FFDU activities	<u>124</u>
	307

Credit Operations for Intermediate City Valorization Projects - The funds made available for intermediate city valorization projects will be used to rediscount loans by financial intermediaries to municipal public service corporations, valorization departments, and other municipal entities eligible under FFDU regulations, on the following terms and conditions:

Interest	14%
% rediscountable	80%
Term (maximum)	10 years
Grace period	1 year
Intermediaries margin	2%

Priority will be accorded projects for sewerage installation and street paving.

Other FFDU Activities - The funds programmed for "other FFDU activities" may be used for valorization projects in other than intermediate cities and/or such other projects in any city (including intermediate cities) that the FFDU may wish to finance.

B. INSFOPAL

Financial Target - To make available for expenditure by INSFOPAL the following amounts in 1972 and 1973 to be financed as follows:

		(millions of pesos)	
		<u>CY 1972</u>	<u>CY 1973</u>
GOC		343.0 ^{1/}	420.0 ^{2/}
AID		<u>40.0</u>	<u>127.0</u>
	Total	383.0	547.0

1/ Includes 63.1 million from projects administered or supervised by INSFOPAL, but which appear in Ministry of Health and Ministry of Public Works budgets plus 32 million of official revenues from CY 1971.

2/ Includes estimated 60 million from Ministry of Health and Ministry of Public Works budgets.

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Activity Targets - This program calls for the expenditure of commingled funds in the approximate amounts shown:

	(millions of pesos)	
	<u>CY 1972</u>	<u>CY 1973</u>
Intermediate city water and sewerage installation	185	286
Other INSFOPAL and INSFOPAL-controlled investment	123	191
Administrative and Debt Service Costs	<u>75</u>	<u>70</u>
Totals	<u>383</u>	<u>547</u>

Intermediate city water and sewerage installation - This program is concerned with the financing and construction of water and sewerage projects in intermediate cities which do not have municipal public service corporations, or other municipal entities capable of undertaking the proposed project. All projects under this program will provide in their financial plan for eventual recuperation of their capital cost through tariff collections and/or valorization.

Within sixty (60) days of the execution of this agreement, INSFOPAL shall submit to AID, through the Ministry of Development, for AID approval, a program for stimulating, in conjunction with INSFOPAL projects, the creation of municipal level entities capable of undertaking future water and sewerage projects. Such program shall include criteria for determination of cities which are financially capable of undertaking water and sewerage projects on an unsubsidized basis, general financial characteristics of the program (which may vary from city to city), and a description of any technical assistance INSFOPAL may provide or finance in whole or in part.

Other INSFOPAL and INSFOPAL-Controlled Investments - The funds programmed for this activity are primarily for INSFOPAL investment in cities under 30,000 population.

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C. ICT - Barrios Jóvenes Program and Inquilinato Programs.

Financial Target - To make available for expenditure by ICT on its Barrios Jóvenes and Inquilinato programs in 1973, the following amounts be financed as follows:

	(millions of pesos) <u>CY 1973</u>
GOC	632.7
AID	<u>368.8</u>
	1,001.5

Activity Targets - This program calls for the expenditure of commingled funds during CY 1973 in the approximate amounts shown:

	(millions of pesos)
1. <u>Barrios Jóvenes Program</u>	
Fondo de Redes (FR)	152.5
Soluciones Mínimas (SM)	291.5
PMA	2.5
Lotes con servicios (LS)	42.0
Desarrollo Progresivo (VDP)	<u>469.2</u>
Sub Total	957.7
2. <u>Inquilinatos Program</u>	<u>43.8</u>
Total	1,001.5

Barrios Jóvenes (Young Neighborhoods) Program

1. Fondo de Redes - is concerned with financing the installation of public utilities in low-income neighborhoods.

2. Soluciones Mínimas - is concerned with the construction of 10 m² - 30 m² shell housing. During 1973, it is intended that 12,000 units will be financed under this program.

3. Vivienda Desarrollo Progresivo - is concerned with the construction of 30 m2 - 50 m2 shell housing. During 1973, it is intended that 13,400 units will be financed under this program.

4. Lotes con servicio - is concerned with the preparation of urbanized sites for sale to low-income families. During 1973, it is intended that 4,200 sites be financed under this program.

PMA - functions in connection with donations from the World Food Program and is concerned with self-help improvement projects in existing slum areas.

Improvement of Inquilinatos Program - This is to be an experimental program, concerned with the creation of rental accommodations for low-income families through the sub-division of housing and the improvement and rehabilitation of existing multi-family housing located in areas of major cities where there is a high demand for low-income rental housing.

Within ninety (90) days of the execution of this Loan Agreement the COC shall furnish, or cause to be furnished to AID for its approval, a plan for the development of the inquilinos program. This plan shall include operational, financial, ownership patterns and provision for social service and/or "guidance" activities.

D. Fondo Financiero Industrial (FFI)

Financial Target - To increase the level of outstanding FFI rediscunts from the January 1, 1973 estimated level of approximately 590 million to approximately 830 million by the end of 1973. This is to be accomplished through an increase in FFI's own resources of approximately 125 million pesos in CY-1973, a sector loan contribution of approximately 115 million pesos, and the use of recuperations.

Activity Target - The program to be carried out in CY 1973 as regards new loans is as follows:

	(millions of pesos)
Credit to intermediate city industry	230
Other FFI activities	<u>230</u>
Total	460

FFI shall continue rediscounting 80% of loans to intermediate city industrial firms, the incentive adopted under the first Urban/Regional Sector Loan. Other terms and conditions shall be the same for all rediscounts irrespective of location.

The FFI shall continue to give priority in its loans to industry with a high potential for employment creation.

E. Corporación Financiera Popular (CFP)

Financial Target - To increase the level of outstanding CFP lending, exclusive of rediscounts from FFI, from the estimated January 1, 1973, level of approximately 240 million pesos to approximately 440 million pesos by the end of CY-1973, through GOC budget allocations and resource allocations of other official entities to the CFP of approximately 140 million pesos and a sector loan contribution of approximately 60 million pesos.

Activity Targets - The program of new loans to be carried out in CY-1973 from recuperations, sector loan contributions, increases in its own resources, and non-FFI rediscounting is estimated to be as follows:

(millions of pesos)

Credit to intermediate city industry	116
Other CFP activities	<u>174</u>
Total	290

The CFP will continue its policy of increased decentralization of credit approval and administration.

The CFP will continue to pursue and will expand its program of technical assistance to small and medium-sized industrial enterprises in collaboration with universities and various technical institutes.

The commingled funds shown as "credit to intermediate city industry" will be used only for loans to individual producing enterprises, and not be used for loans to associations of enterprises or promotional entities such as industrial parks.

F. ESAP Shourt-Course Program

The approximate cost and financing of this sub-activity is as follows:

	(millions of pesos)
	<u>CY-1973</u>
GOC	16.0
AID	<u>12.0</u>
	<u>28.0</u>

ESAP will utilize the above funds to organize and administer during CY-1973 a program of approximately 500 short courses in accordance with its Plan General de Adiestramiento en Tecnicas Administrativas. These courses shall be held at ten regional centers around the country, all of which will be created in 1973. Approximately 15,000 departmental and municipal level public officials shall be trained in planning and public administration.

G. DNP Urban/Regional Unit Program

Financial Target - The activities under this program, as they relate to the use of commingled funds to be placed at the disposition of the DNP, are to be undertaken by the Urban/Regional Development Unit. The approximate cost of operating this Unit and of the services which it obtains under contract, as well as source of financing for same, are:

	(millions of pesos)
	<u>CY-1973</u>
GOC	8.25
AID	<u>2.38</u>
	<u>10.63</u>

Activity Targets - The activities to be financed from the above totals are as follows:

	<u>(millions of pesos)</u>
Information and Publicity	1.00
Technical Assistance	4.08
Program-Related Studies	.25
Loan Administration and Other Unit Activities	<u>5.30</u>
	<u>10.63</u>

Information and Publicity Activity - This will consist of the dissemination of information regarding loan-financed activities and other non-loan related GOC urban and regional development policies and programs, and will be carried out through the publication of material describing these programs and the holding of seminars and conferences for professional groups, public and private entities in intermediate cities, and in other suitable forums. ESAP and other specialized entities will assist in this activity.

Technical Assistance - This program will consist of the provision of technical assistance to intermediate cities in the identification and selection of financeable projects and the procedure for preparing, presenting and evaluating them. Information will also be provided on the efficient management of funds during project execution. The program will be managed through the Urban Development Division of the Urban/Regional Development Unit, which will organize travelling instructional teams. Six professionals will be engaged in this activity on a full-time basis and three will be engaged in it on a part-time basis.

Program-Related Studies - It is anticipated that the need for ad hoc studies will develop as the program proceeds and a reasonable amount of funds needs to be reserved for this program.

Loan Administration and Other Urban/Regional Development Unit Activities - This is intended to cover personnel and statistical services needed for monitoring purposes, as well as costs of the Unit, in addition to those specified above.

H. DANE Housing and Population Census Program

The approximate cost and financing of this sub-activity is as follows:

	(millions of pesos) <u>CY-1973</u>
GOC	27.0
AID	<u>30.0</u>
	<u>57.0</u>

DANE will utilize the above funds during CY-1973 for the following activities related to the 1973 Housing and Population census:

	(millions of pesos)
Enumeration and production of preliminary results	37.0
Processing	16.8
Training	<u>3.2</u>
	<u>57.0</u>

LOAN AUTHORIZATION (DRAFT)

Provided from: Alliance for Progress Funds
COLOMBIA: Urban/Regional Sector Loan

Pursuant to the authority vested in the Administrator, Agency for International Development ("A.I.D."), by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan ("Loan") pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, of said Act, to the Government of Colombia ("Borrower") of not to exceed thirty-seven million, seven hundred thousand United States dollars (\$37,700,000) to assist in financing the local currency costs of goods and services needed to support Borrower's program ("Program") directed toward solving problems of the urban sector, including, but not limited to, redirecting rural/urban migration, improving basic infrastructure conditions in both major and intermediate cities, and improving local planning and administrative capacity. More specifically, and as further described in the Loan Paper, the Loan shall finance activities to be implemented by (a) the Urban Development Finance Fund ("FFDU") in the amount of approximately six million United States dollars (\$6,000,000); (b) the Industrial Finance Fund ("FFI") in the amount of approximately four million, eight hundred thousand United States dollars (\$4,800,000); (c) the Popular Finance Corporation ("CFP") in the amount of approximately two million, five hundred thousand United States dollars (\$2,500,000); (d) the National Housing Agency ("ICT") in the amount of approximately fifteen million, five hundred thousand United States dollars (\$15,500,000); (e) the National Municipal Development Institute ("INSFOPAL") in the amount of approximately seven million United States dollars (\$7,000,000); and (f) other agencies in the amount of approximately one million, nine hundred thousand United States dollars (\$1,900,000). The Loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment: Borrower shall repay the Loan to A. I. D. in United States dollars within forty (40) years from the first disbursement under the Loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A. I. D. in United States dollars on the outstanding balance of the Loan, interest at the rate of two (2) percent per annum during the grace period and three (3) percent per annum thereafter.

2. Other Terms and Conditions:

(a) Goods and services financed under the Loan shall have their source and origin in Colombia.

(b) United States dollars utilized under the Loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A. I. D.

(c) The Loan shall be subject to such other terms and conditions as A. I. D. may deem advisable.

Administrator

Date