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

SECTOR LOAN PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

COLOMBIA - URBAN REGIONAL SECTOR LOAN

AID-DLC/P-966

GROUP 3
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not automatically declassified

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

AID-DLC/P-966

May 27, 1971

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 $29,000,000 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 the four major 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 Thursday, June 3, 1971.

Rachel R. Agee
Secretary
Development Loan Committee

Attachments:
Sections A-D
Sector Analysis
ANNEXES II and IV

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May 27, 1971

COLOMBIA

URBAN REGIONAL SECTOR LOAN

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* Technical Data not attached. To be printed later and distributed under separate cover.

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In addition to its employment impact, the expanded infrastructure credit will result in improving the living standards of families via expanded or improved water and sewer lines, electric lines, streets and sidewalks, shell housing, and sites and services programs. About 350,000 families will be served by these facilities.

D. Background

GOC urban development efforts have been carried out on an ad-hoc basis by a variety of National Government and decentralized institutions. These efforts have been almost entirely uncoordinated, and urban "policy" has borne little, or only a chance, relationship to overall GOC development efforts. Thus, although the elimination of unemployment is a prime GOC goal, urban development policies have not focused on reducing migration to the largest cities -- a factor in the unemployment situation, since the largest cities have grown in population at a rate beyond all capacity to provide jobs and public services for their citizens.

The GOC has been developing an urban-regional strategy over the past two years. This strategy appeared as an "urban-regional model" in the 1968/1972 GOC Development Plan; however, except for proposing legislation for the creation of regional planning bodies (which has passed one house of Congress) and submission of an urban reform bill which has not been acted upon, no concrete investment or institutional modification actions have been undertaken in conjunction with the "model". The goals of this strategy were:

1. to increase the standards of living in the various regions of Colombia;

2. to divert migration from the major to the intermediate cities;

3. to promote economic growth in intermediate cities;

4. to provide for industrial specialization in selected cities, in order to promote economies of scale, and the development of external economies (See Section "G" below for Mission reaction to this element of GOC policy.) and

5. to coordinate public and private investment on a regional level.

The 1970-1973 Development Plan further refines the strategy, and proposes specific institutional reforms. The urban/regional "model" goals were endorsed by the Pastrana Administration, and some concrete steps have been taken in support of the program (e.g., introduction of a broader urban reform bill, now being redrafted by a mixed executive-legislative commission, and a bill to create regional development funds, utilizing unemployment payment reserves now held by employees).

Despite the lack of coordinated planning or action, the urban sector has received increased attention in recent years, as expressed in terms of the percentage of total public investment devoted to this area, which has gone from 18 % in 1969 to 22 % in 1971 . Also, efforts have been made, and are continuing, to increase the municipalities' share of total tax receipts.

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SUMMARY AND RECOMMENDATIONS

A. Borrower

Government of Colombia (GOC). The Borrower's representative, subject to final GOC determination, will either be the National Planning Department (DNP) or the Ministry of Development. Four implementing agencies are contemplated:

1. The National Housing Institute (ICI)

2. The Bank of the Republic (BOR)

3. The Colombian Institute for the Development of Higher Education (ICFES).

4. The National Planning Department(DNP)

B. The Loan

1. Amount: Not to exceed US$29.0 million.

2. Terms: Interest in dollars at 2% during the first 10 years, 3% thereafter. Repayment in dollars over 40 years, including a 10 year grace period.

C. Purposes

The proposed loan will provide assistance to the GOC development effort by focusing attention on the role of the urban/regional sector in the country's overall development strategy and by contributing to GOC efforts to improve urban conditions and reduce urban unemployment. Among the specific purposes are:

1. Assist in partially redirecting rural-urban migration away from the four major Colombian cities (Bogotá, Medellín, Cali and Barranquilla) through job creation and municipal infrastructure improvement in intermediate sized cities;

2. Improve conditions in the four major cities through extension of basic infrastructure services to low income areas; and

3. Improve local planning and administration capacity.

Achievement of the above purposes will have a substantial impact on employment generation, both directly and indirectly. The impact of expanded industrial credit for industry will be three to four thousand industrial jobs in intermediate cities, an equal number of industrial jobs in larger cities, plus twelve to sixteen thousand jobs created in other sectors through forward and backward linkage effects. Expanded infrastructure credit will result in ten to fifteen thousand jobs in construction (plus unmeasurable effects in other sectors). Thus the total employment impact will be about twenty-eight to thirty-nine thousand new jobs.

E. Reasons for Selection of the Sector Loan Technique

The Sector lending technique is considered to be preferable to either project loans or program loans at this time. Unlike a project loan which covers only a small area, is implemented generally over a period of 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 a refinement of assistance and strategy as the sector progresses and new problem areas emerge. Also, the sector loan provides useful support, as does a program loan, in its effect on helping meet balance of payments problems and in stimulating proper fiscal performance; however, in the main, it addresses directly the crucial sector issues and seeks improved efficiency and utilization in their use of applicable resources.

F. Description of the Loan

The sector loan has been designed to provide support to GOC initiatives in certain critical areas:

1. With regard to diversion of some rural migration from the major to the intermediate cities:

(a) The Industrial Financing Fund of the Bank of the Republic (FFI) will be strengthened, permitting it to make more funds available on incentive terms for the growth of labor-intensive enterprises in intermediate cities.

(b) Incentives will be provided for improved capabilities and expansion of regional industrial development foundations or similar institutions.

2. With regard to infrastructure improvement:

(a) The National Housing Agency (ICT) will be assisted in expanding its low-income areas program, which involves provision of basic utilities to existing slum areas on a subsidized recovery basis, improvement or replacement of housing in existing slum areas, and development of sites and services and shell housing programs. These programs will be applied to both large and intermediate cities.

(b) The Urban Development Finance Fund of the Bank of the Republic (FFDU) will be strengthened, permitting it to expand credit operations for valorization (tax benefit assessment) projects, especially in the intermediate cities.

(c) Incentives will be provided for the creation of more municipal development institutes at the Departmental level, modeled on a successful existing entity in one Department.

3. With regard to improvement of local planning and administrative capacity:

(a) The School of Public Administration (ESAP), will be assisted to organize short courses for approximately 2300 hundred public officials.

(b) Two universities will be assisted to develop programs leading to specialization in the area of urban studies and to undertake related research.

(c) The National Project Study Fund of the National Planning Department (FONADE) will finance feasibility and pre-feasibility studies at the municipal level (no loan funds are required).

4. FONADE will also contract with a local University for broad and continuing evaluation effort covering the operation of this loan and of urban development evolution in Colombia in general (no loan funds are required).

5. In support of all the above activities, financial assistance will be provided to the National Planning Department to undertake itself and/or through contract information and technical assistance activities. (See attached Table for allocation of loan funds by targets)

C. Loan Stragegy and Expected GOC Increase in Urban Regional Inputs

1. Four major principles oriented the design and will guide the implementation of the proposed loan. They are:

(a) The program will be coordinated at the national level in order that funds for development activities can be channeled to any community or entity which meets established criteria;

(b) Funds will be made available only in response to local initiative and efforts;

(c) Existing institutions, rather than new and untested institutions, will be used as vehicles for implementation of the program; and

(d) Elimination of artificial biases against intermediate cities, rather than seeking "balanced growth" or decentralization per se, would be sought.

MISSION ANALYSIS OF COMPLIANCE WITH PRESIDENTIAL CRITERIA APPLIED TO COLOMBIAN AID PROGRAM

I. SECTOR TOTAL	Last Year (1971)	Loan Year (1972)
% of AID in Total Sector Investment 1/	8.25	6.71

II. A. NEW ACTIVITIES	Total of New Activity (1)	AID Support to Activity (2)	Percent AID Support
	(millions of dollars)		
Local level in-service training program (ESAP)	1.3	0.6	46
Urban Development University Centers (ICFES)	0.3	0.2	67 2/

B. ONGOING ACTIVITIES	Change in Total Activity 7/71-12/72 over 1/70-6/72 3/ (1)	Change in AID Support (2)	% Increase (2) / (1)
ICT Low Income Programs	22.2	7.3	33
DNP Urban/Regional Development Unit	0.1	0.1	100 4/
Infrastructure Credit and Institutional Development (FFDU) 5/	17.0	8.5	50
Industrial Credit and Institutional Development (FFI) 5/	17.0	8.5	50

1/ See Annex II, Table 10.

2/ The total program cost shown understates the situation since many existing, GOC funded facilities at the two universities in question will be used in the creation of these centers. If it were feasible to calculate these GOC inputs, the AID support would drop to under 50%.

Footnotes continued.

3/ Counterpart went to activities in sector from program loans in prior years, permitting 197? to 1971 comparisons of total sector input. However, this being the first sector loan in this area, under which disbursements are proposed for the 18-month period (7/71-12/71), changes in individual on-going activities are shown with regard to the previous 18 month period (1/70-6/71)

4/ The very small AID input in the loan period, though equivalent to the total increment, represents only 15% of the total budget of this Unit.

5/ Represents change in capitalization, plus funds for matching grants to local level development institutions.

I NATURE OF THE LOAN

A. Background of the Loan - Evaluation of US$ Assistance to GOC Urban/Regional Sector to Date

(a) Grant Financed Technical Assistance - Between 1965 and 1970 this has amounted to US$ 6.0 million. (see Part I, Sections IV.A and D for a discussion and evaluation of technical assistance to the Sector).

(b) AID Counterpart - (see Annex VI, Section IV.A for discussion of counterpart assistance). Since 1962 the peso equivalent of $85.4 million of program loan counterpart has been distributed to Colombian agencies now grouped in the Urban/Regional Sector. Of this total, over 50% ($48.5 million) has been distributed between 1968 and 1971. This assistance has helped finance improvement of urban infrastructure, slum improvement, industrial investment, low-cost housing, urban planning studies and "cottage industry".

The total Colombian investment in the urban/regional sector has increased significantly each year from 1968 to 1971 and a large increase is planned for 1972. Of the total urban/regional sector investment budget, program loan counterpart provided 5.7% in 1969 and 5.5% in 1970. (See Annex II, Table 10 for details).

B. Description of Loan Assistance Activities

1. Objectives of the Sector Loan - These are to support GOC initiatives to:

(a) Divert some migration from the major to intermediate cities;

(b) Promote economic growth in intermediate cities;

(c) Improve living conditions for low-income families; and

(d) Improve local planning and public administration.

2. Loan Strategy - Four major principles guided the design and will guide the implementation of the proposed loan. They are:

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(a) The program will be coordinated at the national level in order that funds for development activities can be channeled to any community or entity which meets established criteria;

(b) Funds will be made available only in response to local initiative and efforts;

(c) Exising institutions, rather than creation of new and untested institutions, will be used as vehicles for implementation of the program; and

(d) Artificial biases against intermediate cities will be eliminated, rather than seeking "balanced growth" or decentralization per se.

In accordance with these concepts, the loan-assisted programs will provide funds through national level credit channels to capitalize local financial mechanisms and/or respond to local determinations of the the need for particular projects. The ultimate objective, as reflected in the long-run loan targets, is to capitalize both national and local level revolving funds to provide for self-sustained financing in areas of key importance for urban growth. This is consistent with the overall program strategy of eliminating the artificial bias which now prevents regional centers (especially intermediate cities) from realizing their development potential.

a. Assessment of GOC Contributions to the Sector

The figures for Urban/Regional related investment in 1971-1972, and the relationship to proposed U.S. inputs are:

(Millions of Dollars)

CY	Total Urban/Regional Sector Investment	% of Total National Investment	US Assistance	US Assistance as % of total
1971	263,100	22.0	21,725	8.25
1972	300,900	N.A.	20,200	6.71

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b. Consequences of Non-Approval of Proposed Loans and Relationship to Sector Investment

The current Economic and Social Development Plan contemplates continued U.S. assistance as an integral, although diminishing, part of financing sectoral development. Should this planned input not be forthcoming, accomplishments would be reduced far more than would seem indicated by the percentage of loan funds to total sector investment. For example:

(i) It is unlikely that the GOC would be able to sustain its planned large-scale expansion of ICT low-income programs without sector loan assistance. These programs are expected to have a significant social impact, and in view of the substantial deficits, heavy and continued investment in this area is vital.

(ii) The sector loan emphasis on employment generation has already, in the design stage of the loan, had an impact on GOC proposed allocation of investment. The sector loan has been designed to continue to focus attention on this goal.

(iii) Also, as pointed out previously, the support provided through the loan for the capitalization of local valorization funds will, if sustained over a relatively short period of time, not only result in improvement of local infrastructure, but provide local financial capacity to meet local needs. Again the sector loan has been and will be a key instrument in focusing GOC attention on this important objective.

Although the GOC has committed itself to a "regional policy", there had been no agreement on precise actions to effect such a policy prior to the joint GOC/AID effort in developing the sector loan. The testing of the activities chosen during the implementation of the loan will determine the course of future GOC urban/regional development efforts and the validity of the principles on which the loan has been based.

c. Proposed Disbursement Plan

It is proposed to disburse US$8.8 million of the loan proceeds in 1971 and the balance ($20.2 million) in 1972. Of the $8.8 million, it is proposed to disburse 50% as initial advance upon satisfaction of conditions precedent. Successive advances will be conditioned on reports showing past and projected uses of comingled funds and on program progress.

Given the fact that this is the first loan for this sector, it is further proposed that the Mission be given flexibility to authorize reasonable shifts in funds from one implementing agency to another upon request of the GOC and its justification for the need of such action to move forward on sectoral objectives. (To a large extent, the nature and composition of local demand will be the determing factor).

With regard to the use of funds by each implementing agency, targets rather than binding conditions will be established for major components of that entity's program. It is proposed that each agency by authorized to make upward or downward compensating adjustments of not to exceed 10% of its total program with regard to these major program components on its own authority. This is considered normal flexibility needed for efficient management. Any adjustments over 10% would require Mission approval.

d. Interrelation Between Activities

The strategy section (Annex VI, Section V.B) should make it clear that the sector loan consists of a series of closely-related activities which cannot be divorced without seriously reducing capacity to achieve overall program goals. This is most true in regard to the activities for improvement of intermediate city infrastructure, development of intermediate city industry and improvement of local planning and administrative capacity. The complementarity of these programs requires adequate support for all if any is to be sufficiently useful as an element in achieving overall goals.

ICT's low-income improvement program may also have an important bearing on the achievement of the migration diversion goal. It is generally agreed that any significant diversion of rural to urban migration flows away from the big cities will be of low income, intra- rather than inter-regional nature. Public utility installation, shell housing, and other such programs carried out in intermediate cities, where, unlike major cities, there is no well-structured pattern of movement from center city slums to settlements on the city's margins, may have an immediate impact in regard to attracting migration. The crucial social and political significance of low-income housing and service programs, wherever they may be carried out, need not be stressed.

3. Loan Definition - The operational targets described immediately below indicate in each case the result to be achieved over the period of loan disbursement, and also show the approximate amount of loan proceeds which would be comingled with GOC funds to achieve the target. It is not intended that performance monitoring would take the form of focusing on U.S. inputs,

but rather would review the total investment identified in terms of either total GOC individual agency budgets or major subdivisions of those budgets as set forth in normal GOC budget documents, as appropriate. Performance would be monitored in terms of physical accomplishment as well as in fiscal terms, allowing for some shifting of U.S.-financed inputs as circumstances may justify.

The GOC inputs shown herein are not yet firm; however, they are based on DNP and BOR proposals which are now in the final process of being refined.

Performance Target 1:

To capitalize intermediate city valorization revolving fund so that they can operate on a self-sustaining basis without significant outside financing, except for major projects.

Operational Target 1:

To increase the capitalization of the FFDU from the current level of US$12.5* million level to US$29.5 through GOC and sector loan contribution of US$8.5 million each, and to increase the intermediate cities' share of its net outstanding credit from 20% to 40%-60%, to assist in financing municipal valorization projects.

The average annual amount budgeted for municipal valorization nationwide in the 1969-1970 period was US$20 million. Although actual valorization investment in the last few years has tended to be about 20% below budgeted figures, lack of financing has been the major constraint. Inquiries to the FFDU indicate that, if an adequate source of financing were available, a far higher level of valorization activity would be undertaken.

As of May 1, 1971, the FFDU had US$21.8 million in loan applications pending which have accumulated over the past ten months. These could not be serviced since all its original capitalization plus repayments thereon (approximately US$1.7 million) had been lent. Out of this US$21.8 million in applications, approximately 50% were submitted by intermediate cities (see Annex II, Table 2.A). On this basis, the financin requirement in intermediate cities for an 18-month period would be about US$15 million.

* Original capitalization converted at current peso value.

DNP deficit analysis supports a US$20 million annual national level investment requirement for valorization. They estimate that a substantial portion of the need for water and sewerage and street paving (not including investment required in illegal low-income settlements, i.e., tugurios and barrios piratas) could be met by an investment of US$50 million per year over the next five years. Of this total, they further estimate that about 50% is susceptible to financing via valorization programs. Since 20% of the cost of these activities will not be borrowed or rediscounted, the amount for which rediscount and/or loan funds are needed is US$20 million per year.

On the basis of demand for FFDU funds, 50% of which comes from intermediate cities, and on the basis of the deficit analyses (see Annex VI, Section III.A) which indicates that intermediate cities have over half the deficit in these valorization related activities, an acceptable division of resources between intermediate and major cities would seem to be in the 40% - 60% range. The fixing of a more precise target is now under discussion with the GOC and will be embodied in the Loan Agreement.

The GOC proposes to make US$8.5 million in new funds available to the FFDU, and requests a matching input of US$8.5 million. FFDU capitalization of an additional US$ 17 million will still be below the level required to meet national needs over the next 18 months; however, allocation of a significantly higher portion of credit to intermediate cities will be a major step toward achievement of the long-run performance target.

Since the BOR is legally a private institution in accordance with its current regulations, the GOC finds it convenient that AID funds destined for the FFDU be channeled through ICT, which would act as fiduciary, with strictly limited administrative functions. A more significant motivation for this arrangement is the GOC's intention to convert ICT into a national urban development agency which would ultimately incorporate the FFDU function. AID approval of a fiduciary contract between the Ministry of Finance and ICT and of the contract between ICT and the BOR will be a precondition to initial disbursement. In addition, since GOC contributions to the FFDU will also be channeled through ICT, an AID-approved accord between ICTand the BOR governing such transfer will also be a precondition to initial disbursement.

The DNP and FFDU are in accord with changing the terms for intermediate city loans as shown below:

	Present	Proposed
Interest	15%	14%
% rediscountable	65%	80%
Term (maximum)	10 years	10 years
Intermediaries margin	3%	3%

This will mean easier terms for local entities, and a greater incentive to financial intermediaries to promote and participate in the program (see Annex I, page 2, for analysis of impact of variation in rediscountable percentage on intermediaries profit regarding FFI loans; similar action in the case of the FFDU will have the same impact). The proposed new terms must receive final approval from the Monetary Board. Such approval will be a precondition for disbursement.

The FFDU is considered an efficient and well-run operation. Its past experience has disclosed no significant deficiencies in its operations. However, it has no monitoring capacity. The DNP and FFDU have been working on the development of a system to provide information flow and monitoring. Implementation of such a system, should begin shortly after initial disbursement under the loan.

The DNP is in accord with the Mission in regard to restructuring of INSFOPAL terms for intermediate cities so that they will be equivalent to FFDU terms. It is expected that such restructuring will be completed during the loan disbursement period.

(It should be noted that discussions with the FFDU and DNP have not disclosed any workable system for FFDU decentralization. Since all municipal loan applications must, under national law, receive DNP and Ministry of Finance approval, the operations of these entities would also have to be decentralized if such a step were to be meaningful. It seems highly unlikely that agreement for such decentralization couldbe attained during the loan disbursement period, since it would involve significant restructuring of these entities' operations.)

Performance Target 2:

To stimulate the creation of departmental and regional-level municipal development institutes on a nationwide basis so as to firmly establish a role for entities of this character in the Colombian governmental structure.

Operational Target 2:

To capitalize five municipal development institutes by December 31, 1972.

At present there is one entity, the Antioquia Development Institute (IDEA), which directs its efforts primarily toward municipal development (see Annex VI, Section II.A.3 above). In order to stimulate the creation and/or development of institutions of the type indicated, and to have them initiate operations in a serviceable way to the municipalities in their respective areas, the GOC proposes to: (i) require that not less than 20% of the assets of each institute to be assisted be liquid; and (ii) provide a capital contribution equivalent to about 1/3 of liquid assets, but with a fixed ceiling. The exact terms and conditions which a Department and its Institute must meet in order to qualify for a grant-in-aid from the GOC should be established, approved by the pertient authorities and publicized not later than 90 days after the signature of the loan agreement.

Based on IDEA experience, an investment of US$5 per capita of departmental population, would be necessary to adequately fund a municipal development institute. There are two recently created entities, the Caldas Revolving Fund and the Autonomous Regional Corporation of Quindio (neither of which have any significant capitalization), which are putting emphasis on municipal development, and are so structured that they might easily evolve into IDEA-type institutions (See Annex V, Table 7).

If three additional such institutes were to be created (there have been expressions of interest from Valle, Boyaca, and Tolima), this would amount to approximately US$26.2 million in capital requirements based on the populations of the five departments mentioned. Liquid capital at 20% of total assets would be US$5.2 million, and the GOC capital contribution on the above formula would come to approximately US$1.7 million.

In view of the potentially valuable but tentative nature of such a program, the Mission believes that approximately 5% of FFDU total capitalization (which will serve as channel for funding this activity) should be set aside to finance the program. An agreement as to a percentage target has not yet been reached with the GOC; however, this issue will be resolved prior to execution of the loan agreement.

In order to assist in stimulating and establishing municipal development institutes, funds will be provided through the DNP for promotional and technical services for this activity, possible under contract with a private entity. A detailed work plan (or contract containing same) should be submitted to AID for approval not later than 90 days after loan signature. Between the date of the signing of the loan and the submission of the work plan, a study should be conducted by the GOC to refine the present understandings concerning the financial basis, structure and method of operation for such entities and, consequently, the detailed regulations governing grants-in-aid from the GOC to individual entities.

Performance Target 3:

To substantially increase the proportion of ICT's total investment budget devoted to providing minimum housing solutions and related services for low-income families.

Operational Target 3:

To increase the level of funding of ICT's low-income programs (Barrios Jovenes) from US$17.2 million for the period January, 1970 - June, 1971, to US$39.4 million for the period July, 1971 - December, 1972, with help from a sector loan input of US$11.3 million, and for the following purposes:

a) Public Service Installation Fund (Fondo de Redes) - This finances the installation of public utilities in low-income neighborhoods. The programmed level for this activity over the loan disbursement period will be US$11.2 million. ICT now has pending loan applications for this program for $25 million, and the relevant deficit analysis (see Part I, Section III.A) indicates that this represents only a small part of the need. Since the Fondo de Redes is basically a banking operation, the expansion proposed for this activity (from $8.75 million in January, 1970-June, 1971 period) will not put significant pressure on ICT's operational capacity.

b) Habilitación de Barrios (improvement and replacement of slum housing) and Soluciones Mínimas (shell housing and site and service programs) - ICT plans to expend US$29.1 million equivalent on the programs as follows: $7.8 million for Habilitacion de Barrios, and $21.3 million for Soluciones Mínimas. Except for sites and service, housing construction is involved in all these programs. There is no doubt of the need for significant expansion of these programs in view of Colombia's substantial housing deficit. However, the proposed increase in the operations for these programs (from US$9.8 million in the base period to US$29.1 million in July, 1971-December, 1972) will put some pressure on ICT's operational capacity. ICT has already begun to handle a substantial increase in these programs over the last eight months, and since the bulk of loan funds will not be disbursed until 1972, ICT should have sufficient time to develop the necessary institutional capacity. Also, these are not new programs, but have been thoroughly tested out, and since they involve relatively simple construction operations, their implementation should present no great problem to ICT. Previous low program levels in this area reflect lack of financing, rather than lack of ICT capacity to carry out these activities.

The only aspect of this activity for which relatively detailed plans are not in being is the sites and services program (preliminary estimates of investment in this activity are US$1 million for pilot programs of 2,600 sites). The Mission will require that ICT design a program for the implementation of this activity and submit it to AID for approval, not later than 90 days after the signing of the Loan Agreement

Performance Target 4

To stimulate the direct creation of three to four thousand jobs in intermediate city industry by increasing credit flows sufficiently to produce a 2% acceleration in the growth of industrial value-added.

Operational Target 4A

To increase the capitalization of the Industrial Finance Fund (FFI) from its present level of U.S.$10.7 million dollar equivalent to U.S.$27.7 million through sale of U.S.$8.5 million of FFI Industrial Finance Bonds and another U.S.$9.5 million pesos equivalent from sector loan proceeds; and to increase the share of FFI credit flowing to intermediate cities from its present level of 20% to a higher level of between 35% to 40%.

Two adjustments to the above $360 million pesos of increased capitalization are necessary to estimate the volume of new FFI rediscounting during the disbursement period. First, approximately $100 million pesos of loan repayments will be available for relending and thus should be added. Secondly, approximately $20 million pesos of the increased capitalization will be used for development of regional industrial development foundations (See Operational Target 5A and therefore is a reduction from the capital available for new rediscounting. This leaves a total of $440 million pesos available for new rediscounting.

The use of 35% to 40% of the capital available for rediscounting in intermediate cities will produce $168-$192 million pesos for these cities and result in a flow of final credit (including the 20% non-rediscounted portion invested by the financial intermediary) of $210-$240 million pesos. These are the credit levels which are estimated (Section D of Annex I) to be necessary to accelerate the rate of growth of value-added in intermediate city industry by 2%. Such accelerated growth of output will in turn generate three to four thousand jobs in intermediate city industry. If normal employment multiplier patterns hold (the lack of firm information is discussed in Section E of Annex I), another six to eight thousand jobs would be created outside of industry, for a total range of nine to twelve thousand jobs created.

An increment of $225 million pesos of final FFI credit constitutes a 1.9% addition to the estimated autonomous flow of bank and financiera credit to manufacturing for the eighteen-month disbursement period (assuming this credit continues to grow according to the pattern shown in Table 17 of Annex II). If, as shown in Table 30 of Annex II, the

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autonomous share of national credit going to intermediate cities is between 14.0% to 16.3%, then $275 million pesos of additional FFI credit would amount to an increment of between 11.6% and 13.5% of the autonomous credit flow to intermediate city industry. Given the existence of severe working capital shortages, aggravated by the three types of credit discrimination described in the constraint analysis of Part One, there is no doubt that such an increase in credit would be easily utilized and result in high payoffs in growth of output and employment.

To the extent that the sector loan program results in FFI capitalization levels higher than would have otherwise occurred, and to the extent that the 35-40% share for intermediate cities does not absorb all the increased capitalization, there will be important spillover benefits in terms of increased availability of credit for small and medium industry in larger cities. Since these firms have also suffered credit discrimination due to their smaller size and lower capital intensity, increased availability of credit for them and the resultant employment generation impacts are consistent with the overall goals of this program.

FFI loans made to intermediate cities will be made at the same scale of final interest rates as loans to larger cities, thus seeking to maintain the same standards of efficiency and profitability. A more comprehensive discussion of FFI loan criteria is contained in Section B of Annex I. However, the FFI has agreed to change certain aspects of its operations to serve the objectives of the overall sector program. Most importantly, it has agreed to raise the rediscountable portion of FFI loans to intermediate cities from the present level of 65% up to 80%. As mentioned before, this change adopts the recommendation of a National Planning Department study, Development of Small Medium Industry Through Credit and Complementary Means. This increase in the discountable portion compensates intermediaries for what they, correctly or incorrectly, consider to be higher costs and risks of dealing with more distant borrowers. (Section A of Annex I and the constraint analysis of Part One deal with the risk minimization behavior of intermediaries in greater detail).

The FFI has also agreed to increase the sizelimit on loans which can be automatically approved by intermediaries from $50,000 pesos to $100,000 pesos. This could have an important impact in speeding the process of approval of a large portion of Agricultural Bank and CFP loans. It is recognized also by the FFI than its maximum loan period of five years may inhibit the use of FFI credit for fixed capital investments. Such loans now make up only 10-15% of its portfolio. Thus it has been agreed to experiment with an extension of the loan period to six or seven years only for fixed capital loans, with corresponding final interest rates of 16.5% and 17%. Also the FFI has learned from National Planning Department studies that some firms with more than $15 million pesos of total assets nevertheless

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have a high potential for employment generation, particularly in the branches of shoes, wood products, and finished clothing. Thus the FFI will study the demand for credit from firms of less than $15 million total assets, and if this demand is being adequately met, will consider raising the total asset ceiling for those firms which still pass the ratio test of having less than $100,000 pesos of total assets per employee.

The Industrial Development Institute (IFI) will serve as a fiduciary agent for the transfer of loan proceeds to the FFI (a fiduciary agreement now exists between the Ministry of Finance and IFI) and Mission approval of the contract between IFI and the BOR will be a condition precedents for initial disbursement of this portion of the loan.

The Bank of the Republic has indicated in letters to the DNP its agreement with the monetary characteristics of the industrial credit program outlined above. Confirmation of these features by the Monetary Board will also be a condition precedent for intial disbursement this portion of the loan.

Operational Target 4B

To provide seed capital for the establishment of a loan guarantee fund affiliated with the FFI.

Achievement of sector loan goals could be facilitated by the establishment of a Loan Guarantee Fund. Such a fund would reduce property guarantees (currently 100% or higher) by sharing some risks between the financial intermediary and the fund. A major sector goal is employment generation through expanded credit availability to profitable labor-intensive firms. These firms currently face two types of credit constraints. First, the process of approving credit applications is frequently delayed and complicated by the necessity of registering property guarantees. Secondly, these labor intensive firms often face a shortage of working capital, but are unable to obtain new credit because their limited fixed capital is already committed to guarantees for past loans. A Loan Guarantee Fund would enable the FFI to better reach certain profitable labor-intensive firms which might otherwise be prevented from fully utilizing their productive capacity.

At the suggestion of the Director of the FFI and the President of the Corporación Financiera Popular, meetings have been held with these officials and representatives of the National Planning Department to explore the possibility of capitalizing a Loan Guarantee Fund. Such a fund would, at least initially, be administered by the BOR's Development Credit Department, and would guarantee only FFI loans during the 18 month-disbursement period of this loan.

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It is recognized by everyone concerned with this proposal that design of the operational characteristics of a Loan Guarantee Fund is a particularly difficult job. For this reason, the GOC intends to have a qualified consulatant do a study and prepare recommendations before proceeding with implementation.

Subject to the results of the study and Mission approval of the consequent GOC plans, the BOR will be authorized to shift 10 million pesos of FFI capital for permanent capitalization of a Loan Guarantee Fund. In addition, the FFI would provide 10 million pesos for temporary capitalization (i.e. funds which would be gradually retired from the Loan Guarantee Fund and made available for ordinary loans). It is intended that the retirement of the temporary capitalization proceed in harmony with accumulation of insurance premiums or other capitalization contributions to the fund. However, retirement of the 10 million pesos of temporary capitalization will be automatic and not dependent on accumulation of such premiums or other contributions in the fund. Since the 10 million pesos of temporary capitalization is only a temporary use of part of the ordinary capitalization of the FFI program, it is a part of the overall increased FFI capitalization rather than an addition to it.

As indicated earlier the total anticipated lend of final credit from FFI rediscounting is expected to be $650-700 million over the loan period. Certainly, intermediaries will not choose to use the guarantee fund for all their FFI loans. Also the guarantee fund will underwrite only a certain portion of each loan. The other portion of risk would be carried by the intermediary. The size of the poition to be guaranteed by the fund is an important issue for the consultant study. Given all these considerations, an initial capitalization of $20 million pesos would be sufficient. If a guarantee fund could not be designed so that this level of capitalization would cover a guarantee volume of, say $500 million pesos, then a guarantee fund would not be feasible in any case.

Performance Target 5

To provide on a local matching basis up to $20 million pesos of comingled funds to be used for expanding the capacities of regional industrial development foundations.

Operational Target 5A

To alleviate the capitalization constraints facing the industrial development foundations.

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The foundations have achieved remarkable results with very limited sources of capital. The foundations serve as local representatives of IFI (all but two of the ten) and receive $120,000 to $240,000 pesos yearly for that service. Othersreceive minor representation fees from the Export Promotion Fund and commissions on FONADE loans. Their main sources of capitalization are donations from local firms, financial institutions, and business organizations. In February, 1971, the Monetary Board created a mechanism whereby potential donors could borrow money on favorable terms to make such donations. Although a step in the right direction, this mechanism is likely to have a very limited impact on the problem.

As mentioned in Section II B 8 of Annex VI, the foundations have insufficient capital resources to follow up ideas which come out of questionnaire and interview surveys, pre-feasibility studies, or the suggestions of local or national level financial institutions. It is uncertain how permanent or dependable their sources of local donations will be in the absence of additional incentives to contribute. For this reason the National Planning Department study mentioned above recommends the creation of a fund composed of national resources for matching local liquid capital donations. There would be upper limits on the amount of matching grants from the national fund, probably dependent on the population of the department or some similar formula. Transfer of funds to the foundations would be considered seed capital, and therefore, would not be expected to continue beyond two or three years. The transfers could be considered seed capital subsidies (the foundations have a quasi-public status in their respective departments), or they could be considered fees for local promotion, publicity, and coordination of the sectoral program. In any case they would not be on a loan basis.

Although the details of the mechanisms of financial support must wait finalization of National Planning Department studies, $20 million pesos of the increased resources flowing to FFI under the sectoral program will be earmarked for the above use. The GOC will be required to submit for Mission approval exact specifications of the legal and financial mechanisms involved within ninety (90) days of the signing of the Loan Agreement.

Operational Target 5B

To increase the stock of technical manpower and information available to the regional industrial development foundations.

The ten existent foundations listed in Part One have attracted energetic and talented yound professionals in almost every region in which they operate. In addition to their own very small staffs they draw upon human technical resources of local universities, financial institutions, and private firms. Under this operational target it is intended to increase the technical capabilities of foundation employees and provide better access for these employees to national and international sources of knowledge on technical and managerial problems.

The National Planning Department has just completed a preliminary study of the assistance needed by these foundations in order to expand their capacities. Several tentative recommendations are made. A national level course in the technical methods of project evaluation would be very useful for the employees of the foundations. Secondly, the foundations need more ready access to national sources of statistical information. A national-level contact point could be charged with facilitating the flow of information from the many national sources to the foundations. Thirdly, perhaps the same national entity contact point could maintain a reference file of national agencies, institutes, consulting firms, industrial firms and international technical assistance organizationsable to provide assistance in given fields. Fourthly, efforts could be made to increase the number and quality of Colombian institutions capable of providing high quality feasibility and pre-feasibility studies for the foundations or private firms in their areas. Lastly, FONADE should be further encouraged to simplify its procedures and requirements for approving credit to smaller feasibility and pre-feasibility studies and to widen its scope to include more managerial as well as just technical studies.

The first three recommendations could probably be adopted and implemented with a low level of financing, and would result in significant payoffs in terms of increased capacities of the regional development foundations. The loan proceeds allocated to the DNP (see operational target No. 7) are intended to be used, in part, for these or a similar set of activities. The DNP will be required to submit for AID approval a suitable work plan within 90 days of the signing of the Loan Agreement.

Performance Target 6

Improve the quality of public administration at regional, departmental, and municipal levels through training and education of public officials.

Operational Target 6A

To provide short course public administration training for 2,250 departmental and municipal public officials in supervisory positions over a two-year period.

The program will be carried out by the Superior School of Public Administration (ESAP) and will consist of short courses covering as many as 67 subjects. The average training time is 40 hours of classes per person, based on individual needs and interests. A detailed plan of operations has been developed by ESAP with the help of an IDB financial technical assistance group from the Inter-American School of Public Administration. Personnel from this school and UN/financed advisors will assist in the implementation of the program.

This will be the first year that ESAP will be conducting this program. However, since their total function is limited to the field of public administration, in which they have had several years of experience, it is anticipated that the program will prove effective.

The total local currency cost of the 2-year program is estimated to be about U.S. $1.3 million equivalent, and is to funded roughly half from loan proceeds and half by the GOC. The AID loan proceeds destined for ESAP will be channeled through ICFES, which will act as the implementing agency for loan purposes. (See the Education Sector Loan Paper for more detailed information on the ICFES budget and organization).

Operational Target 6B

Establish two post-graduate university programs to train and educate persons in the field of urban and regional planning and administration.

In addition to the educational programs, the centers will seek to establish research and evaluation staffs that can study and evaluate the Urban/Regional effort.

It is estimated that each center will require four full-time and eight part-time professors. Since the schools have not been selected, ICFES will be required to submit the names of the universities selected, the programs, academic goals, and a time-phased work plan prior to the release of funds for this aspect of the program. Costs for the centers are estimated at U.S.$0.4 dollar equivalents, of which about 40% would be derived from this loan.

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Operational Target 7

To provide loan-related publicity services and promotional and technical assistance services necessary for the development of industrial promotion foundations and municipal development institutes.

U.S. $142,000 has been tentatively designated for the implementation of this activity. A detailed breakdown of the cost of the individual elements is now being developed.

Although the amount involved is small, the activity is important, as a back-up support for the sector as a whole and specific loan activities. The relationship of this activity to the municipal development institutes and industrial promotion foundations activities has already discussed in Targets 2 and 4C.

The publicity element will be designed to provide information as to loan programs (as well as other non-loan GOC urban/regional programs) through such devices as seminars, conferences, publications, etc.

This activity will be implemented by the Urban/Regional Unit of the DNP, possibly through contract with a suitable Colombian entity or entities. The DNP will be required to submit for Mission approval a work plan for the publicity and promotional aspects of its responsibilities, in addition to the work plans described under Targets 2 and 4C also within 90 days of the signing of the Loan Agreement.

The funds assigned to the DNP may also be used by its Urban/Regional Unit to supplement its staff, as needed, for monitoring purposes and to pay for DANE and other statistical services related to the studies and evaluation functions described earlier.

.II - IMPLEMENTATION AGENCIES AND FINANCIAL INFORMATION

A. Borrower

The borrower will be the Government of the Republic of Colombia which is authorized to enter into the Loan Agreement without further congressional ratification.

The Borrower's Representative (BR) for the purposes of coordination and managment of the Loan will be either the National Planning Department (DNP) or the Ministry of Development.

The GOC is now in the process of determining which of these institutions would be most appropriate for this role and one or the other will be designated in the Loan Agreement.

The BR will subdelegate implementation to the degree consistent with the loan agreement, to the following entities:

1. The National Housing Agency (ICT)

2. The Bank of the Republic (BOR), acting through the Urban and Investment Finance Funds of its Development Credit Department.

3. The Colombian Higher Education Development Institute (ICFES).

4. The National Planning Department.

Either the DNP or the Ministry of Development would be appropriate choices as BR and both have the basic capacity to fill this function. However, since management of the sector loan would mean a greatly increased work load for the BR, loan proceeds may be used to assist it in handling this function.

B. Sub-Implementing Agencies

1. Urban Development Finance Fund (FFDU)

a) Structure and Operation - The FFDU, created in October, 1968, is a rediscount line in the Development Credit Section of the Bank of the Republic. Its principal function is to rediscount loans made by financial

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intermediaries for municipal valorization projects. The staff consists of a manager who directs the Development Credit Section, an Assistant Manager who directs FFDU operations, and an accounting staff.

Loan applications are submitted first to the Ministry of Treasury and the National Planning Department to determine that legal and financial requirements are met. Upon approval by these entities, the financial intermediary is authorized to submit a formal loan request to the FFDU.

For more information of the operation of the FFDU see Annex VI, Section II.A.3.a.

b) Summary of FFDU Financial Status

URBAN DEVELOPMENT FINANCE FUND (BANK OF THE REPUBLIC)

	(Millions of Dollars)			
	1971		1972	Total 3/
Proposed AID Loan	1.896	1/2/	6.570	8.466
New GOC Capitalization	1.896	2/	6.570	8.466
Repayments from previous loans	1.469		1.469	2.938
TOTAL	5.261		14.609	19.870

The capital input shown in the above Table will increase FFDU total capitalization by US$17 million, from its current level of US$12.5 million (at current peso value) to US$29.5 2/. The loan input of US$ 8.5 represents 50% of the total expansion.

Since its creation the FFDU has rediscounted approximately US$14 million in loans (US$12.5 of its original capitalization and US$1.5 in repayments on loans). At the present time it has no funds to meet the heavy demand for loans (see Annex II, Table 2 and 2.A for further information on FFDU investment).

1/ Second semester of 1971.
2/ A small portion of this input will be used to provide capital support for municipal development institutes
3/ All allocations are for pesos use

c) Disbursement Schedule - Initial disbursement on an advance basis immediately after satisfaction of conditions precedent will be approximately US$0.9 million; subsequent disbursements, also on an advance basis, will be made on submission of documentation indicating proper usage of comingled funds and overall program performance

2. Industrial Finance Fund (FFI)

a) Structure and Operation - The Industrial Finance Fund (FFI) was created in November, 1968, specifically to alleviate the severe working capital constraints facing small and medium industry. Its initial capitalization was $100 million pesos (U.S.$4.74 million) and by June, 1971, will be $225 million pesos (US$10.66 million). The terms of its loans have been fully described in Annex VI and Section A of Annex I. Its loans are quite evenly distributed among branches of industry. A typical FFI loan is for three, four, or five years. This provides the borrower with more security in regard to availability of working capital, but also makes it difficult to estimate the economic impacts of FFI loans. Financieras use 55% of FFI credit and thus play a larger role in its operations than in the financial system as a whole.

FFI is part of the Development Credit Department of the Bank of the Republic, along with the Urban Development Fund (FFDU), and the Private Investment Fund (FIP). Although FIP carries out investigations of larger loans before they are approved, the Development Credit Department has not, for the most part, been a field operational unit. It relies upon the intermediaries for field work and operates as an efficient financial accounting organization. It is now expanding its number of employees and office facilities considerably. It recognizes the need to improve its methods of data management and monitoring of the economic impact of its loans. Plans are now being formulated to improve capacities inthese two areas.

b) Financial Data - The sources of resources available to the FFI during the 18-month disbursement period, July, 1971 to December, 1972, are as follows:

	(Millions of Dollars) 1/		
	CY-1971	CY-1972	TOTAL
Proposed AID Loan	2.844 2/	5.622	8.466
Capitalization from Sale of Bonds	-	8.466	8.466
Loan Repayments	1.564	3.175	4.739
Total	4.408	17.263	21.671

1/ Allocations for peso use only
2/ Second semester input.

The capital inputs of US$ 8.5 million from the sector loan and another US$8.5 million form bond sales will increase FFI capitalization by about US$17 million, from the present level of US$10.7 million to a level of US$27.7 million by December, 1972. Included in the US$17 million from all sources will be US$948,000 for the development of regional industrial development foundations (see operational target 5.A) and US$474.000 for permanent capitalization of a loan guarantee fund (see operational target 4.B).

c) Disbursement - Upon completion of conditions precedent, an advance of US$1.5 million of loan proceeds will be disbursed to the GOC. Thereafter, disbursements will be made on the basis of submission of documentation indicating past and proposed utilization of funds and overall program performance.

3. ICT - National Housing Agency

a) Structure and Operation - ICT is an autonomous dependency of the Ministry of Development responsible for the implementation of the GOC's public housing and related programs. This agency and its programs have been described in detail in Annex VI, Section II.A.2.

b) Summary of ICT Financial Status

(Millions of Dollars) 1/

	1971	1972	Total
Proposed AID Loan	3.791 2/	7.518	11.309
Current Loan Related Counterpart	3.318	-	3.318
GOC Budget and Internal Credit	14.180	21.184	35.364
Other Donors - Loan Related	100	-	100
Sub-Total	(21.389)	(28.702)	(50.091)
Non-loan related GOC inputs (including non-loan related counterpart)	32.119	44.905	77.024
Other donors - Non loan related	3.620	-	3.620
TOTALS	57.128	73.607	130.735

Total ICT investment in its Barrios Jovenes program over the loan disbursement period will be US$39.4 million (the 1972 plus 50% of the 1971 figures on the preceeding table). This is a US$22.2 million increase over the previous 18-month investment level of US$17.2 million. The sector loan investment of US$11.3 million, represents an increase of US$7.3 over the previous AID support ($4.0 million).

c) Disbursement - An initial advance of US$1.9 million will be disbursed as soon as conditions precedent of the Loan Agreement are met. Thereafter, disbursements will be made on the basis of submission of documentation indicating past and proposed utilization of comingled funds and overall program performance.

1/ Allocations for peso use. 2/ Second semester inputs. 3/Total for ICT low-income program.

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4. Colombian Institute for the Development of Higher Education (ICFES)

(a) Structure and Operation

ICFES is a semi-independent agency responsible to the Ministry of Education. One of its prime functions is to evaluate and accredit academic programs of universities. It also handles National Government subsidies to universities. (See the Education Sector Loan Paper for a full description). For purposes of this loan, ICFES will act as a channel for transmission of loan proceeds to ESAP and to the two universities where Urban/regional Centers are to be created and for GOC contributions to the latter. GOC contributions to ESAP will be made directly through normal GOC budgetary procedures.

While ICFES will have monitoring responsibilities for both programs, these will probably be more pronounced for the two universities than for ESAP.

ESAP itself was created by an Act of Congress in 1958 (Law 14). Article 1 and 2 of Decree No. 350 of 1960 define the nature of the school and its essential purpose in the following terms:

Article 1: The advanced school of Public Administration, shall be a public institution of University level, and as such, shall enjoy legal, adminstrative and endowment autonomy.

Article 2: The advance school of Public Adminstration shall have as its purpose the teaching, research and dissemination of the sciences and techniques relative to public adminstration and in particular, the training and prepartion of personnel required for the public service.

The staff consists of 8 Directors, 59 Teachers, 83 Technicians and Administrators and 34 aids, with a budget of 18,699,000 pesos for 1971.

(b) Financial Data

Insofar as the sector program is concerned, the activities for which ICFES has responsibility will be financed as follows:

PUBLIC ADMINISTRATION, EDUCATION AND TRAINING

(In millions of pesos)1/

	1971	1972	Total
1. Loan-Related Activity			
(a) For ESAP Program			
GOC	7.0	9.0	16.0 3/
AID	3.0 2/	6.2	9.2
(b) For University Centers			
GOC	1.8	3.7	5.5
AID	1.0 2/	2.8	3.8
(c) Totals			
GOC	8.8	12.7	21.5
AID	4.0 2/	9.0	13.0

1/ Allocations for peso costs only

2/ Second semester only

3/ Does not go throught ICFES Budget

(c) Disbursement

Upon satisfaction of conditions precedent, an advance of 1.5 million pesos from loan proceeds will be disbursed to ICFES for the account of ESAP. No funds for universit centers will be disbursed until the work plan and other data indicated in the previous section have been received and approved by the Mission. Subsequent disbursements will be made on the basis of submission of documentation indicating past and proposed utilization of comingled funds and overall progress performances.

5. National Planning Department DNP

(a) Stucture and Operation

A description of the DNP and of the Urban/Regional Unit, which will implement this activity, is given in Part I, Section II.C.

(b) National Planning Department - Summary of Costs
(Millions of Dollars) (All Allocations for Peso Use)

	1971	1972	TOTAL
Proposed AID Loan	.047*	.095	.142
GOC Budget**	.354	.354	.708
Other Non-Loan Related GOC Inputs	2.085	2.156	4.241
TOTAL	2.486	2.605	5.091

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* Amounts shown for proposed AID Loan Disbursements for 1971 apply only to the second semester of that year.

** Annual operating budget of DNP Urban/Regional Unit

(c) Disbursement

Initial disbursement on an advance basis, immediately following satisfaction of conditions precedent, will be for the full 1971 loan allocation of U.S.$47,000. Thereafter, disbursements will be made on the basis of submissions indicating past and proposed utilization of funds and overall performance.

C. Financial Presentation

1. Summary of Sector Loan Costs

The following two tables summarize proposed AID inputs by: (1) performance targets; (2) operational targets by implementing agencies; and (3) by operational targets. Each portion of the loan package as outlined in those tables is aimed at achieving the objectives discussed earlier in the paper.

2. U.S. Financial Role in the Urban/Regional Sector

a. Past Support - As indicated in Table 33, Annex V, AID has supported the urban sector with counterpart allocations for the equivalent of US $11 million annually in both 1969 and 1970. This past support has been directed primarily at the development of infrastructure and industrial credit.

b. Future Support Expectancy - The GOC has indicated that in 1973 it hopes to raise the total level of the activities under this program to almost US $130 million, of which it would hope for U.S. support of the magnitude of US $37 million. Estimates of needed support beyond CY 1973 are difficult at this time because they are so highly dependent on the level of progress which results from overall GOC macro-economic and sectoral efforts in the interim.

Table 10, Annex II shows total resources to the GOC Urban/Regional Sector and the portion of those resources provided by US assistance. The share provided from AID funds was a higher portion of the total in 1971 than in 1970. The US share of the total, however, will diminish in 1972 and is expected to be reduced still further in 1973 and subsequent years.

3. Past Expenditure-Colombian Urban/Regional Sector - Total expenditures by the principal agencies and organizations active in the Urban/Regional Sector are shown in Table 9, Annex II. These show an increased annual investment or planned investment from 1969 through 1972.

4. Budget Projections - Colombian Urban/Regional Sector Budget projections for the agencies and organizations in the Urban/Regional Sector show continued emphasis on those efforts or projects which the Mission considers to be of highest priority. Funds within Agency budgets for CY 1972 are, as presented in this paper, earmarked to make the maximum contribution to the objectives outlined in Part Two. It is expected that the 1973 budget will be directed even more clearly to much accomplishment of these sector objectives. It is anticipated that sector analysis capability will improve and that the GOC's ability to identify alternative opportunities in terms of priority objectives also will grow.

5. Other Donor/Lender Assistance - The allocation to the Urban/Regional Sector by year of disbursement of foreign lender assistance other than AID is shown in Table 10, Annex II.

TOTAL FINANCING BY PERFORMANCE TARGETS

(Millions of Dollars)

	1971	1972	TOTAL
Targets 1 & 2: Municipal Infrastructure Credit and Development:			
Proposed AID Loan	1,896	6,570	8,466
Current Loan Related Counterpart	--	--	--
New GOC Capitalization	1,896	6,570	8,466
Repayments of previous Loans	1,469	1,469	2,938
Other Loan-Related Donor Assistance	--	--	--
Targets 1 & 2 sub-totals	5,261	14,609	19,870
Target 3: Low Income ICT Program			
Proposed AID Loan	3,791	7,518	11,309
Current Loan-Related Counterpart	3,318	--	3,318
GOC Budget and Internal Credit	14,180	21,184	35,364
Other Loan-Related Donor Assistance	100	--	100
Target 3 sub-totals	21,389	28,702	50,091
Targets 4 & 5: Job Creation in Intermediate Cities and Support of Industrial Development Foundations			
Proposed AID Loan	2,844	5,622	8,466
Current Loan-Related Counterpart	--	--	--
New GOC Capitalization	--	8,466	8,466
Repayments of Previous Loans	1,564	3,175	4,739
Other Loan-Related Donor Assistance	--	--	--
Target 4 & 5 sub-totals	4,408	17,263	21,671

TOTAL FINANCING BY PERFORMANCE TARGETS (Cont.)

(Millions of Dollars)

	1971	1972	TOTAL
Target 6: Local Level In-Service Training and University Program			
Proposed AID Loan	190	427	617
GOC	417	602	1,019
Target 6 sub-totals	607	1,029	1,636
Target 7: Publicity-Promotion DNP			
Proposed AID Loan	047	095	142
GOC	354	354	708
Target 7 sub-totals	401	449	850
Targets 1 through 7 totals	32,066	62,052	94,118

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AID LOAN ALLOCATION BY TARGETS

(Millions of U.S. Dollars)

Operational Targets	Program	U.S.$	Implementing Agency
1	Intermediate City Infrastructure	8.0	FFDU
2	Municipal Development Institute	.5	FFDU
3	Low Income Program	11.3	ICT
4a	Intermediate City Job Creation	7.5	FFI
5	Regional Development Foundations: Financial Support	.9	DNP, FFI
6	Public Adminstrative Improvement	.6	ICFES
7	Promotion and Technical Assistance Related to Targets 2 and 5	.2	DNP
		29.0	

Section III. Program Justification and Related Matters

1. Contribution to GOC Development

The proposed program will provide assistance to the GOC Development effort by focusing attention on the role of the Urban/Regional Sector in the country's overall development strategy and contributing to GOC efforts to improve urban conditions generally, especially the reduction of urban unemployment. This is consistent with the policies of the Pastrana administration in furtherance of its "Social Front" program. Its importance is evidenced by the increasing budgetary attention being received by the sector. This budgetary and human resources investment in the sector is expected to increase in the future.

2. Impact on U. S. Economy

The impact of the proposed loan may be seen through an examination of the loan's effects on U.S. and Colombian trade patterns. Loan financing will stimulate U.S. exports to Colombia indirectly, through the increased demand for imports into Colombia resulting from the stimulation provided the Colombian economy by loan-financed expenditure flows. Imports into the U.S. will be affected by the loan to the extent that programs financed under the loan stimulate the production of Colombian products able to complete in the U.S. markets.

The impact of loan-financed local costs on the U.S. balance of payments will be affected by a recently negotiated change in disbursement procedures. As was the case in previous sector loans, Colombian imports will be stimulated through the injection of loan funds into the Colombian economy and the resultant trade stimulus these funds provide through the marginal propensity to import. This increased import demand will be met in part through the use of the loan provided dollars, and imports from the U.S. and from Colombia's other trading partners will be greater than they would be in the absence of the loan.

It is anticipated that the shift in disbursement procedures (See Three, A, 4) from a commodity import program to a direct purchase of local currency will reduce the total impact of the loan as regards imports from the U.S., since for the first time procurement will be completely untied and special credit facilities to importers will not be provided. The current U.S. share of total Colombian imports is about 45 percent. The U.S. share of the commercial import market (excluding AID, Ex-Im, and PL 480 financed imports) is presently about 38 percent. The degree to which elimination of the commodity import program and its related credit program will reduce the U.S. market share below 45 percent depends, to a great extent, on the durability of buying habits developed over the past four years of the commodity import program, and the ability of U.S. suppliers, in part assisted by other U.S. institutions such as the Ex-Im Bank, to become more aggressive salesmen, as well as to provide sufficient inducements to hold U.S. customers.

While a fall to a 38 percent purely commercial market share is not anticipated, some reduction in the relative U.S. share of the total market may result.

3. Consistency with CIAP Reviews

The Urban/Regional Sector Loan addresses the findings and recommendations made by the sub-committee of the Inter-American Committee on the Alliance for Progress (CIAP) in its February, 1971, review of the Colombian economy.

In this review, CIAP recognized with satisfaction the urban reform measures presented 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 governmental power to resolve conflicting priorities and regional centralization; the effectiveness and way of carrying out of control of the use of land; the criteria for identification of those cities whose growth should be encouraged or limited; and the constrictions which may exist relative to the capacity of the construction industry. CIAP 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-terms 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 this program may require.

4. GOC Capacity to Carry Out Sector Plan

As a result of the Intensive Review and the analyses described elsewhere in this Capital Assistance Paper, the Loan Committee concludes that the GOC and its implementing agencies has, or can develop in a timely manner, the human resource capability, budgetary requirements and other measures necessary to achieve the objectives of the loan.

III - LOAN IMPLEMENTATION AND EVALUATION

A. Administration and Implementation Plan

1. Execution Plan

Major execution steps of the Program are described below. The Loan Agreement 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 the loan procedures considered acceptable as conditions precedent and the covenants contained in the Loan Agreement 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 either the Ministry of Development or the National Planning Department. The primary responsibility of fulfilling A.I.D.'s part of the implementation functions rests with USAID/Colombia, assisted by AID/W personnel as appropriate. Disbursement requests and guidelines for dispersion of disbursements will be reviewed by USAID Urban Regional, Capital Resources Development, and Controller Divisions. Qualitative progress of the Program will be monitored by the USAID Urban Regional Division.

3. Disbursement Plan

Disbursements of the Sector Loan are planned to be effected over an 18-month period, subsequent to the signing of the Loan, in accordance with the Sector Plan. We now estimate that to start up the $29.0 million Loan Program, approximately $4.4 million will be disbursed upon fulfillment of conditions precedent a total of $4.4 million during the last half of CY-1971 with the balance of $20.2 million disbursed during CY-1972. These amounts may vary somewhat in their actual utilization. The amounts and timing of disbursement releases will be determined as described in Disbursement Procedures below.

4. Disbursement Procedures

(a). Local Currency Costs (Colombian Pesos)

(1) The Loan Agreement will continue to be denominated in United States dollars insofar as repayment to the U.S. is concerned, but will clearly state that (except for US$ amounts set aside for procurement of goods and services directly related to the sector program) the US$ are being loaned for the purpose of converting them into pesos so as to satisfy stipulated peso needs of the sector programs. The agreement will also indicate the uses for which the pesos are destined, the executing agency which will be responsible for expending them, and the time period over which they are to be expended. In conformity with this, the agreement will provide that peso disbursements will be released to a given sector in concert with the program of the specified activities in that sector and evidence of satisfactory progress.

(2) Peso Generation Procedure: To implement the direct conversion procedure, the following system would be employed:

(i) Upon satisfaction of conditions precedent, Borrower would request disbursement for the Local Currency Costs of goods and services procured for the loan program in accordance with the terms and conditions of the Loan Agreement by submitting to AID such supporting documents as the Mission would prescribe in Implementation Letters.

(ii) Approximately two weeks in advance of the date on which local currency payments are to be made to the GOC, the USAID/Bogota will send the following information to AID/W by telegram: (a) The amount of the payment in pesos; (b) the date of the payment; and (c) the approximate dollar equivalent of the peso amount.

(iii) AID/W will pass this information on to Treasury.

(iv) Treasury will send to the U.S. Embassy in Bogota dollar checks in various amounts which cover, in total, the peso payment. These checks which Treasury calls "pre-position checks" are payable to the Regional Disbursing Officers and are endorsed, in substance, as follows:

"Payable only to the Central Bank of Colombia for the purchase of pesos for deposit to the account of the Regional Disbursing Officer, Department of Treasury in the First National City Bank, Bogota."

(v) On the date the payment is to be made:

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Alternative A: The Embassy will present the checks in an appropriate amount to the Central Bank which will credit to the account of First National City Bank with the equivalent amount of pesos, and City Bank will credit these pesos to the account of the Regional Disbursing Officer. The Embassy (or USAID Controller) will present to City Bank Treasury Form WR-DP127, which requests and authorizes City Bank to issue a draft in pesos, to the GOC entity to which the payment is to be made.

Alternative B: The Embassy will present checks in an appropriate amount to First National City Bank which will credit the dollars to the account of the Central Bank. The Central Bank will credit the account of City Bank with the equivalent amount of pesos and account of the Regional Disbursing Officer. The Embassy (or USAID Controller) will present to City Bank Treasury Form WR-DP127, which requests and authorizes City Bank to issue a draft, in pesos, to the GOC entity to which the payments should be made.

(vi) The dollars will be paid or credited to the Central Bank, the peso draft issued, and the loan charged, all at the same exchange rate and on the same day.

(vii) To minimize delays in the availability of the pesos above generated for implementation of designated sectoral programs, (and to minimize a float of loan disbursements in the Cuenta General del Tesorero), the Loan Agreement (to which the Ministry of Hacienda will be a signator) will contain standard Loan provisions for "disbursement for Peso Costs" and "Other forms of Disbursement" with the addition of language to the effect that "Procedures for the making of disbursements hereunder immediately available to the agencies in question shall be more fully described in Letters of Implementation."

(viii) At such time as AID may specify in Implementation Letters, the GOC Sector central implementing agency shall provide evidence satisfactory to AID of its receipt of loan generated pesos from the Treasury of the Republic. Upon receipt of pesos allocated to the GOC sector Borrower's Representative, the funds will lose their separate identity and be merged with other funds of that entity.

(ix) 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 comingled 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.

(x) 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.

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(xi) Justification for advances, after the initial ones, will be reports showing progress on overall execution of the specified activity as evidenced by disbursement of comingled funds reported in (vii) above.

(xii) The timing of disbursement will be reflected by sector needs and requirements, and such disbursement will be approved subject to (1) GOC's requests for disbursements based on needs, and (2) USAID/C's careful periodic review of these needs and overall sector fiscal and qualitative performance.

B. Evaluation

Successive evaluations of the Loan Targets and current status of each Group objective will be made by USAID/C's Implementation and Evaluation Committee (I & E) at each of the following steps:

(a) At the time of CFS (or its equivalent is developed;

(b) When IRR's for possible future loans to the Urban/Regional sector are prepared, and

(c) When Intensive Review of a possible future Capital Assistance Paper is undertaken for the Urban/Regional Sector.

Since it is current practice and policy of USAID/C to develop the above-mentioned documents with the GOC in line with the "mature partnership" concept, the GOC and its implementing agencies will be participants in all such evaluations.

The procedures to be used internally by the GOC for monitoring, studies and evaluation is described in Section V of Annex VI.

TABLE 1

TOTAL URBAN HOUSING INVESTMENT

(Million of Pesos)

	1968	1969	1970	1971	1972
BCH 1/	1.040.0	1.494.7	2.600.0	N.A.	N.A.
ICT 2/	395.0	399.6	642.3	1.195.4	1.510.[illegible]
SPECIAL FUNDS 3/	N.A.	N.A.	433.0	249.0	240.[illegible]
MUNICIPAL HOUSING AGENCIES 4/	41.0	48.7	41.9	N.A.	N.A.
PUBLIC LAND DISTRIBUTION PROGRAMS					
Intermediate Cities	N.A.	N.A.	11.0 5/	N.A.	N.A.
PRIVATE INVESTMENT	119.8	970.9	N.A.	N.A.	N.A.
TOTAL INVESTMENT	2.736.6	2.946.2	--	--	--

1/ The BCH does not publish city size breakdowns; however, in 1969, 93% of its total mortgage credit was invested in the departments containing the four largest cities.

2/ Over the period 1942-1969, 63% of ICT investment was in the four largest cities.

3/ Includes Military Revolving Funds.

4/ Estimates based on 1969 and 1970 proposed budgets, ICT loans not included. Bogotá 1%, Medellin 1.5%, Cali 1.5% of Municipal Current Income. Cartagena 5% of Departmental Liquor Industry net income. Information on Cartagena investment not available.

5/ Ibagué, Manizales, Pereira.

SOURCES: ICT, Vivienda y Desarrollo Urbano en Colombia, 1970, DNP, Plan de Desarrollo Económico y Social 1970-1973, Anexo I.

TABLE 2

FONDO FINANCIERO DE DESARROLLO URBANO

Applications Approved by City up to March 31, 1971

(Thousands of Pesos)

	Amount Approved	% of Total
Bogotá	119,000	21.0
Medellín	90,000	18.1
Cali	201,000	40.5
Sub-Total	410,000	82.6
Armenia	15,000	3.0
Bucaramanga	15,000	3.0
Cajamarca (Tolima)	168	-
Cartagena	22,500	4.5
Guamo (Tolima)	350	0.1
Ibagué	13,500	2.7
Neiva	600	0.1
Pasto	8,000	1.6
Santa Marta	850	0.2
San Vicente (Santander)	300	0.1
Socorro	500	0.1
Tuluá	5,000	1.0
Total Applications Approved	496,768	
Amount Recountable	244,750	
Rediscounts made as of March 31, 1971	281,557	
Applications which could not be financed	63,193	

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TABLE 2 A

URBAN DEVELOPMENT FINANCE FUND

PENDING LOAN APPLICATION

AS OF MAY 1, 1971

City	Ps. $ 000
Barranquilla	50.000
Bucaramanga	3.000
Manizales	61.000
Montería	10.000
Neiva	8.000
Sincelejo	10.000
Palmira	10.000
Buga	8.000
Medellín	150.000
Cúcuta	60.000
Associated Municipalities of the Valle del Aburrá	15.000
Bogotá	50.000
	435.000

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TABLE 3

NATIONAL WATER AND SEWERAGE INVESTMENT, 1970 - 1973

(Millions of Pesos)
(% of Total)

	1970 1/		1971 1/		1972 2/		1973 2/	
Major Cities 3/	635.5	(66%)	900.0	(69%)	808.0	(54%)	909.1	(60%)
Intermediate Cities 4/	149.9	(15%)	213.6	(16%)	368.5	(24%)	300.9	(20%)
Public Service	(95.3) 5A/		(114.0) 5B/		(153.5)		(147.9)	
Insfopal	(54.6)		(99.6)		(215.0) 6/		(153.0) 6/	
Small Towns 5/	179.1	(19%)	200.3	(15%)	334.4	(22%)	312.3	(20%)
Insfopal	(110.9)		(143.9)		(215.0) 6/		(153.0) 6/	
Inpes (also rural)	(78.2)		(56.4)		(119.4)		(159.3)	
TOTALS	964.5		1,313.9		1,510.9		1,522.3	

1/ National Budget, operation expenses not included.

2/ 1970 - 1973 Economic and Social Development Plan.

3/ Bogotá, Medellín, Cali, Barranquilla.

4/ Cities above 30,000 population excluding the four largest cities.

5/ Cities under 30,000 population.

5A/ For lack of information this figure does not include investment by Public Services in the following intermediate cities: Manizales, Pereira, Neiva, Buga, and Sogamoso.

5B/ For lack of information this figure does not include investment by Public Services in the following intermediate cities: Cúcuta, Buga, and Sogamoso.

6/ These totals are divided on the basis of the 1971 Budget division as investment funds are not assigned to individuals communities for 1972 - 1973 in the GOC Plan.

TABLE 4

INVESTMENT IN TRANSPORTATION

(Millions of Pesos)

	1970	1971	1972
Fondo Vial Nacional 1/ (Highway Construction only)	642.7	707.7	1.256.8
Instituto Nacional de Transportes 2/	7.4	7.6	12.6
Corporación Financiera de Transportes 2/	40.1	240.5	494.0
TOTAL	690.2	955.8	1.763.4

1/ Approximately 46% of total FVN investment in 1970, 42% in 1971 and 51% in 1972 relates to highway construction between intermediate cities and major cities or other intermediate cities.

2/ Due to budget organization, these entity's investments cannot be directly related to urban development or city size.

SOURCE: 1970, 1971 GOC Budget Law.
GOC 1970-1973 Economic and Social Development Plan.

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TABLE 5

FINANCING OF INVESTMENT IN ELECTRIC POWER

(Thousands of Pesos)

	1970	1971	1972	1973
Entity Resources	430.7 19.5%	373.755 19.0%	484.219 20.2%	881.301 29.8%
External Credit	1.248.8 55.7%	994.085 50.7%	1.279.661 53.3%	1.360.065 46.0%
Internal Credit	149.3 6.6%	248.728 12.7%	324.580 13.5%	516.900 17.5%
National Budget	236.8 10.6%	278.126 14.2%	231.257 9.6%	131.544 4.5%
Others	169.9 7.6%	66.621 3.4%	79.807 3.4%	96.659 3.2%
TOTAL	2.235.5	1.961.315	2.399.524	2.953.409

NOTE: Due to the organization of the investment budget for this sector it is impossible to accurately determine investment directly related to urban development. It is estimated that approximately 10% of the sectoral budget is so related. Most funds in this sector are channeled through the Instituto Colombiano de Energía Eléctrica to regional and department power companies.

SOURCE: 1970 Budget Law
1970-73 Economics and Social Development Plan

TABLE 6

INVESTMENT IN URBAN COMMUNICATIONS

	1970	1971	1972
TELECOM 1/	348.7	214.6	14.9
CORPORACION AUTONOMA REGIONAL	0.5	64.9	16.8
EMPRESA DE TELEFONOS DE BOGOTA	50.0	225.2	264.6
OTHER LOCAL TELEPHONES CO. 2/	70.4	143.7	114.6
EMPRESA DEPARTAMENTAL DE ANTIOQUIA	41.3	40.3	4.6
	510.9	688.7	411.5

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1/ Due to the structure of its investment budget if cannot be determined exactly what portion is directly related to urban development or what size cities will benefit from it. However, review of its projects indicates that the largest part of the budget is expended in urban areas.

2/ These figures include Medellín and Cali, although we do not have investment figures for '70-'72 for these cities, their '68-'69 investment was:

	1968	1969
MEDELLIN	46.5	51.0
CALI	10.5	26.2
	57.0	77.2

On this basis we assume that the greatest part of local telephone Co. investment will be made in these two cities.

SOURCE: GOC '70-'73 Economic & Social Development Plan.

Public Service Corporation Statistics - Medellín, Cali.

TABLE 7

RESPONSIBLE ENTITY AND FINANCING METHODS OF DEPARTMENTAL SERVICES

FUNCTION-PROGRAM-SERVICE	RESPONSIBLE ENTITY		FINANCING METHODS	
	CAPITAL RESOURCES	OPERATION AND MAINTENANCE	CAPITAL COSTS	MAINTENANCE COST OF OPERATION
Education 1/	Department (Secretary of Education) Nation (Institute of School Construction) - National Coffee Growers Federation - Municipalities - Communities	Department - Nation - Municipalities	Department - Nation - National Coffee Growers Federation - Community	Department - Nation - Municipalitie
Public Health 2/	Department (Health Service) Nation (Colombian Institute of Social Security)	Department - Nation - Colombian Institute of Social Security	Department - Nation - Colombian Institute of Social Security -	Department - Nation - Colombian Institute of Social Security
Water Supply Lines and Sewerages	Department (Health Service) Water Supply Corp. (Acua)	Department - Acua	Nation - (Municipal Development Institute) - Department	Department - Acuavalle
Slaughterhouses and Market places	Department (Health Service)	Department	Department	Municipalities
Electricity	Regional Development Corp. Instituto Colombiano de Energía Eléctrica	Regional Development Corp. - Municipalities	Nation - Department - Municipalities Community	Regional Development Corp.' Public Services
Public Works 3/	Valorization - Department - Neighborhood Roads Fund - (National) - National Coffee Growers Federation	Department - Nation	Valorization - Department (Municipal Development Institute)-Neighborhood Roads Fund (National)-National Coffee Growers Federation	Department - Nation
Agrarian Development	Regional Development Corp.	Regional Development Corp.	Regional Development Corp. - Department - Nation	Regional Development Corp. - Department
Natural Resources Conservation	Regional Development Corp.	Regional Development Corp.	Regional Development Corp. - Department - Nation	Regional Development Corp. - Department -
Governmental Buildings	Department -(Secretary of Public Works and Pro-Departmental Palace) Nation	Department - Municipalities	Department - Nation	Department - Nation

1/ School Construction.

2/ Hospitals, Health Centers, Health Campaigns.

3/ Road, Road Paving, High Ways, Road Conservation, Bridges.

TABLE 8

PLANNING/STATISTICAL EXPENDITURE NATIONAL ENTITIES

(Millions of Pesos)

	1970	1971	1972	1973
National Planning Department 1/	53.0	47.0	48.5	50.5
National Fund for Development Projects 2/	82.6	95.0	85.0	65.0
National Admin.Dept.of Statistics 2/	48.0	58.5	68.0	79.5

1/ Operating Expenses

2/ Investment

Source: 1971 GOC Budget
70/73 GOC Plan

TABLE 9

TOTAL RESOURCES TO COLOMBIAN URBAN/REGIONAL SECTOR BY IMPLEMENTING AGENCY
(Millions of Dollars)

Entity	1969 1/	1970 2/	1971 2/	1972 2/
Electrificación Municipal 3/	9.2	12.3	12.0	12.3
Empresa de Teléfonos de Bogota	-	2.7	11.4	12.5
Empresas Depto. de Antioquia	-	2.2	2.0	0.2
Instituto de Fomento Industrial 4/	18.3	20.4	25.0	27.5
Pro-Expo 5/	2.2	2.7	2.8	3.0
Artesanías de Colombia	-	-	1.4	1.5
Corporación Financiera Popular 6/	-	1.0	1.0	1.0
Instituto de Crédito Territorial	34.9	38.4	57.8	73.6
Corporación de Vivienda El Minuto de Dios	0.1	0.8	0.2	-
Caja de Vivienda Militar	7.6	2.6	2.4	2.3
Caja de Sueldos de Retiro Policía Nacional	3.6	3.0	2.0	1.4
Fondo Rotatorio Fuerza Aérea	3.0	0.2	0.5	0.4
Caja de Retiro Fuerzas Militares	13.1	1.8	1.6	1.7
Fondo Rotatorio Policía Nacional	6.0	-	0.2	-
Fondo Nacional del Ahorro	0.1	15.0	5.6	5.5
Fondo Rotatorio Armada Nacional	5.2	-	0.1	-
INSFOPAL	11.4	9.1	13.8	24.2
Empresas Públicas de Cartagena	0.4	0.4	0.2	0.2
E A A B	23.1	25.3	28.1	18.4
Empresas Públicas de Montería	0.5	0.3	0.4	0.3
Empresas Públicas de Cali	6.9	3.2	11.1	15.6
Empresas Públicas de Barranquilla	2.0	3.9	2.8	1.1
Empresas Públicas de Armenia	-	0.6	0.3	-
Empresas Públicas de Neiva	0.2	-	0.4	0.4
Empresas Públicas de Palmira	-	0.1	1.0	1.5
Empresas Públicas de Tulua	-	0.6	0.5	0.5
INPES	9.9	6.3	6.7	7.4
Corporación Defensa Mesita - Bucaramanga	0.8	2.6	2.7	2.5
Ciudades de tamaño medio - Empresas Públicas	4.6	2.1	1.7	2.2
CAR 7/	2.2	2.0	3.0	2.1
Instituto Geográfico Agustín Codazzi 8/	1.8	1.8	2.5	2.0
IDEA	0.8	1.1	0.8	0.8

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TABLE 9 (Cont.)

TOTAL RESOURCES TO COLOMBIAN URBAN/REGIONAL SECTOR BY IMPLEMENTING AGENCY (Cont.)
(Millions of Dollars)

Entity	1969	1970	1971	1972
Fondo Rotatorio de Valorización - Neiva	-	-	0.2	0.4
Fondo Rotatorio Depto. de Caldas	-	-	0.3	0.4
Fondo de Desarrollo Regional	-	-	4.0	4.7
FONADE 9/	0.7	0.9	1.0	0.8
Corporación Autónoma del Quindio	-	1.6	0.2	0.2
Other Local Telephone Companies	-	3.8	7.3	5.4
Fondo Vial Nacional	-	16.7	15.0	30.4
Valorización Local 10/	25.4	20.0	18.0 12/	35.0 12/
Agencias Locales de Vivienda	2.8	2.3	2.5	2.5
FFI Loans 11/	7.9	7.8	10.6	13.4
TOTAL DOLLARS	204.7	215.6	263.1	300.9
Exchange Rate Utilized	17.36	18.48	19.79	21.10

1/ Plan de Desarrollo Económico y Social. Plan de Inversiones 1969 - 1973
2/ Plan de Desarrollo Económico y Social. Plan de Inversiones 1970 - 1973
3/ 10% of total Budget
4/ 30% of total Budget
5/ 20% of total Budget
6/ 30% of total Budget
7/ 50% of total Budget
8/ 30% of total Budget
9/ 20% of total Budget
10/ FFDU financing is reflected as a part of total municipal valorization programs.
11/ These figures are net of Corporacion Financiera Popular loans rediscounted with FFI in order to avoid double counting. The gross amounts of FFI loans are 160 million pesos for 1969, 200 million for 1970, and an estimated total of 300 million for 1971 and 450 million for 1972.
12/ Estimates based on previous relationships between FFDU availabilities and total investment.

TABLE 10

FINANCIAL ASSISTANCE TO THE URBAN/REGIONAL SECTOR

(Thousands of Dollars)

	1969	1970	1971	1972
AID Loan Assistance	11,711	11,889	21,725 1/	20,200
Other Donor Assistance	13,830 2/	27,688 3/	32,172 3/	38,758 3/
GOC Resources	179,159	176,043	209,203	251,442
Totals	204,700	215,600	263,100	300,900
AID Assistance as a % of Totals	5.7%	5.5%	8.25%	6.71%

1/ Includes U.S. $8.8 million from proceeds of proposed sector loan.

2/ Figure is from Annex III, Table 2

3/ Derived from 1970-1973 GOC Investment Plan for same entities listed in Annex II, Table 10, and using same percentage formula for selected areas, e.g. electricity.

A.I.D. Loan No.: 514-L-

DRAFT
LOAN AUTHORIZATION

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 twenty-nine million United States dollars ($29,000,000) 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 the four major cities, and improving local planning and administrative capacity. More specifically, and as further described in the Loan Paper, the Loan shall finance (a) activities to be implemented by the Urban Development Finance Fund ("FFDU") in the amount of approximately eight million five hundred thousand United States dollars ($8,500,000); (b) activities to be implemented by the National Housing Agency ("ICT") in the amount of approximately eleven million three hundred thousand United States dollars ($11,300,000); (c) activities to be implemented by the Industrial Finance Fund ("FFI") in the amount of approximately eight million four hundred thousand United States dollars ($8,400,000); and (d) activities to be implemented by other agencies in the amount of approximately eight hundred thousand United States dollars ($800,000). 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) Prior to the execution of the Loan Agreement, Borrower shall designate the entity to be responsible for the overall control and coordination of the Program.

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

____
Administrator

____
Date

In accordance with these concepts, the loan-assisted programs will provide funds through national level credit channels to capitalize local financial mechanisms and/or respond to local determinations of the need for particular projects. The ultimate objective, as reflected in the long-run loan targets, is to capitalize both national and local level revolving funds to provide for eventual self-sustained financing in areas of key importance for urban growth. This is consistent with the overall program strategy of eliminating the artificial bias which now prevents regional centers (especially intermediate cities) from realizing their development potential.

2. In developing this strategy, the Loan Committee has had almost continuous negotiating sessions with key officials of the National Planning Department and other key agencies for the past several months. The basic GOC document used in these negotiations was its GOC Three-Year Plan for Economic and Social Development. The loan was structured in accordance with GOC stated policy and objectives for urban/regional development and in close conformity with the Mission's Country Field Submission, which was also developed in close collaboration with GOC officials. The amount of the loan application and proposal was not pre-determined, but grew out of decisions on a case-by-case examination of individual activities which met the above criteria and where the GOC was both interested in U.S. assistance and able to finance its reasonable share of the costs.

3. There are consistent increases in GOC resource allocation to the sector programmed for 1971 and 1972. While counterpart from Program Loans signed in previous years has been allocated by the GOC to activities which fall within this sector, since this is the first loan designed specifically for the sector, it could prove misleading to compare the U.S. share of total sector investment for the loan period with previous inputs from counterpart. For information purposes, however, the relationships are as follows:

(000 of US$)

	1969	1970	1971	1972
Total Sector Investment	204,700	215,600	263,100	300,900
U.S. share (%)	5.7%	5.5%	8.25%	6.71%

The 1971 figure includes both counterpart from previous sector loans and $8.8 million dollar equivalent from the proceeds of the proposed loan. This is in response to urgent GOC requests to enable Colombia to move forward faster in dealing with critical sector problems than would be the case if initial disbursement did not begin until CY 1972. In this connection, while due precautions have been taken to ensure a full GOC contribution over the proposed 18-month disbursement period, given the fiscal stringencies which the GOC is facing in 1971, we have structured the disbursement schedule to put a lesser requirement on them in 1971 and a heavier one in 1972.

H. Alternative Sources of Financing

The Inter-American Development Bank, the International Bank for Reconstruction and Development, and the Ex-Im Bank have been informed of this project and have not indicated an interest in providing this financing. The former two have been active in providing project loan support to urban development in the past, and continue to give emphasis to programs complemented by the proposed AID sector loan.

I. Loan Administration

All activities to be supported by the Loan are local currency items. Local currency utilized under the loan shall be Colombian pesos obtained by AID with U.S. dollars. (See Part III for a more detailed description of the recommended procedures for generation of local currency to be utilized under the loan.)

J. Views of the Country Team

The Country Team continues to regard the development of the Urban/Industrial sector as one of the basic requisites for the orderly development and growth of the Republic of Colombia. This loan will be the principal instrument of the FY 1971 United States assistance program for stimulating the development of this critical sector. The loan program will have a measurable effect on the Republic of Colombia's development capacity and thus will support the achievement of U.S. objectives. The Country Team recommends approval of the loan.

K. Statutory Criteria

All statutory criteria have been met. (See Supplement Two.)

L. Issues

1. GOC Capacity to Meet Fiscal Problems

Despite steady annual increases in the share of GNP directed to government revenues and a rising level of public investment in the past, there is some doubt concerning the ability of the GOC to raise the domestic resources required for all its ambitious 1971 and 1972 investment programs.

During 1970 a number of events have cast a shadow over the fiscal panorama. The close elections of April have demonstrated the urgency of social problems with the implication that increasing amounts of resources will be required for their resolution. Heavy rains in the last months of.

In point of fact, the GOC request for this loan which was received in April, 1971, was for $45 million. The GOC was advised that AID would, at best, entertain a request calling for a maximum of 50% of U.S. support for the increment in each major activity: accordingly, the GOC reduced its request to $33.9 million. Due to internal U.S. consideration the amount has now been further reduced to $29 million.

In terms of both the urgent needs of one sector and its absorptive capacity, we feel confident that what was stated in the CFS is still valid, i.e., the total level of financing proposed for the program is needed and can be applied usefully.

3. GOC Capacity to Provide Adequate Technical Assistance

This loan does not provide any dollar financing for technical assistance. This is partly a result of the policy adopted by the GOC in its current Development Plan of diversifying the sources of its technical assistance and of obtaining such help on a grant rather than loan basis wherever possible. The Mission would prefer to have in hand a specific overall technical assistance plan which would clearly describe the sources from which required assistance would be forthcoming. We believe this deficiency can and will be remedied in the course of program implementation.

The key aspects of the program where outside technical expertise is likely to be needed are the in-service training component, the setting up of an evaluation system and the feasibility study regarding a loan guarantee fund. There is sufficient GOC capacity, on the whole, to handle the remaining loan financed activities without technical advice. Since the National School of Public Administration, which will manage the in-service training function, is receiving substantial UNDP and OAS technical assistance in just this area, we believe the needs will be met. We think it likely that the technical assistance requirements in the other two areas can be satisfied by short term consultants and plan to provide this on a grant basis, by AID/W TDY, or from regionally-funded contracts. In any case, one important aspect of the Mission's monitoring responsibilities will be to focus GOC attention on technical assistance needs as they are identified.

M. Recommendations

Authorization of a loan to the Government of the Republic of Colombia in an amount not to exceed US $29 million subject to the following terms and conditions:

1. Interest and Terms of Repayment

Borrower shall repay the loan to AID in United States dollars within forty (40) years including a grace period of not to exceed ten (10) years.

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1970 and early 1971 resulted in widespread damage to roads, public servies, and crops placing an unexpected additional burden on the treasury for reconstruction and repairs. In the face of these new demands, a treasury deficit of 1.2 billion pesos at the end of 1970 demonstrated that Colombia's fiscal situation was beginning to and would continue to face difficult challenges. Increases in operating expenditures that cannot be postponed and continued low coffee prices and sales threaten to reduce investment availability below that reasonably anticipated for 1971. Not only is a portion of the planned 1971 investment, therefore, still unfinanced, but looking toward 1972, the expected level of current revenues and foreseen credit resources fall short by 502 million pesos of the planned 1972 investment program. (See Supplement No. 1 for full discussion.)

It is clear that the government is faced with the choice of sacrificing part of its investment program or taking the politically difficult step of raising additional taxes.

While these fiscal developments are of deep concern to the GOC, other lenders and the Mission, the approval of the Urban/Regional Sector Loan appears justified, since even if the current and prospective 1972 deficit is not totally financed by the end of that period, which it may well be, the GOC will be committed to carrying out the Urban/Regional program and letting the consequential cuts in spending fall elsewhere, presumably in areas of lesser priority. Alternatively, should spending for the Urban/Regional sector not proceed exactly as planned, the time-phased nature of disbursements, coupled with a disbursement procedure which would allow some of the loan-financed programs to advance while others are temporarily delayed, allows the Mission to assist the Government in carrying out those aspects of the program which it considers highest priority, even in the face of GOC budgetary stringency. This latter possibility, while drawing out the disbursement period under the loan, would not in the Mission's opinion be seriously detrimental to the major objectives of the program.

2. Amount of the Loan

The FY 1971 CFS in discussing this loan indicated a range of financing of between \$15 and \$30 million, indicating at the same time that "our preliminary estimate of the requirement is somewhat larger..." The IRR showed a figure of \$24 million. At that point in time, it was hoped that the GOC would be able to finance entirely the programmed expansion of the ICT low income program, with the exception of a small deficit in its "Fondo de Redes" activity, while making suitable contributions to the other program elements. Further review has shown this would not have been possible, even under more healthy fiscal circumstances than now appear likely for 1971 and 1972, as described in the preceding issue.

Borrower shall pay to AID in United States dollars on the disbursed balance of the loan interest of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

2. <u>Other Terms and Conditions</u>

(a) Local currency shall be made available to Borrower or its designee in Colombian pesos obtained by AID with U.S. dollars.

(b) Disbursement of advances and other releases shall be conditioned upon USAID determination described in Part Two, Sections I and II and in Part Three, Section A.

(c) The loan shall be subject to such other terms and conditions as AID may deem advisable.

AID LOAN ALLOCATION BY TARGETS

(Millions of U.S. Dollars)

Operational Targets	Program	U.S.$	Implementing Agency
1	Intermediate City Infrastructure	8.0	FFDU
2	Municipal Development Institutes	.5	FFDU
3	Low Income Program	11.3	ICT
4	Intermediate City Job Creation	7.5	FFI
5	Regional Development Foundations: Financial Support	.9	DNP, FFI
6	Public Administrative Improvement	.6	ICFES
7	Promotion and Technical Assistance Related to Targets 2 and 5	.2	DNP
		29.0	

SUPPLEMENT ONE May 27, 1971

ON

MACRO-ECONOMIC PERFORMANCE AND PROSPECTS

Summary

The Mission finds Colombia currently in its most difficult economic and political situation since the pre-Carlos Lleras years, with its fiscal difficulties especially troublesome. President Pastrana personally has confirmed the GOC's determination, expressed earlier both to CIAP and the CG, to make every effort to improve the tax situation, as political possibilities permit, so that by the end of 1972 Colombia will have substantially found the financing to carry out its Plan and its international commitments for the period involved. (See Embtel 2483, dated April 27, 1971). If the fiscal measures anticipated are to become reality, the necessary steps will probably have to be taken this year, before the political situation heats up further, looking forward to elections in 1974.

On other economic fronts, the Mission believes that Colombia will continue to achieve generally satisfactory performance where key factors are within its control. It will seek to keep import levels high, while following a prudent foreign exchange reserve policy. Much will depend on earnings from coffee exports, essentially exogenous to Colombian influence. Foreign exchange rate policy will stress flexibility; monetary policy will remain cautious.

President Pastrana has been in office less than a year. His predecessor, strong as he was, took almost as long to initiate the first of his reforms. While confidence in some Colombian circles has dropped because of inaction sensed in the GOC's dealing with diverse issues, it must be remembered that neither has the President committed any grievous mistakes; overall development progress continues to be good.

If Colombia is not to lose the momentum built up in the past several years, the continued support, not just of U. S. assistance, but of the entire lending community, is essential. The IMF has already responded with a new standby arrangement for the April 1971-March 1972 program year. The IBRD and IDB are going forward more or less on schedule with their own loan programs, each one larger than our own. Thus far in 1971 they have signed or have in an advanced stage of negotiation agreements respectively totaling $131 million and $85 million (see Table 11). Even with this high level of composite assistance one cannot forecast a sufficient level of achievement this or next year to satisfy fully Colombia's great economic and social

needs. Without this assistance, however, serious and costly shortfalls are almost assured. In this connection, reference is made to the Colombia FY 1972 CASP, especially the political and economic assessment included therein.

A. Policy Documents and Monitoring

The GOC program to be supported by proposed U. S. loans, as well as by approximately $300 million annually of assistance from the IBRD, IDB and individual country members of the Consultative Group, is described in a series of documents and formal GOC statements of policy. The most important of these is the 1970-73 Economic and Social Development Plan (DNP-675-J, December 1970). Aside from describing general sectoral policies and outlining the key macro-economic policies to be followed in this time period, the Plan places considerable emphasis, and is in fact based on, an analysis of the important problem of unemployment in Colombia. While employment creation has always been an implicit goal of economic development in Colombia, there has not been until now a coordinated effort to enlist employment creation as a major criteria in all aspects of economic policy control.

In addition, Colombia has again submitted a letter of intent to the IMF in connection with a new standby arrangement for the period April 1971-March 1972. The standby arrangement defines the major elements of the financial program which Colombia intends to follow during this period. In addition to the usual reserve targets and binding monetary ceilings included in such an arrangement, there are also reasonable targets for import registrations and a mention of a goal for minor export registrations.

The formal statements of the GOC to the Consultative Group and to CIAP are consistent with the general thrust of the request for the IMF standby and also form a part of the backdrop of policy elements to be supported by the proposed U. S. lending program. These, in turn, are related to the detailed 1970 IBRD study of the Colombian economy, the 1970 CIAP staff study, the recommendations emanating from the February 1971 CIAP review on Colombia, and the Chairman's Concluding Statement at the meeting of the Consultative Group on Colombia, also of February 1971.

In the absence of formal program loan commitments, as in the past, expressed in a specific document to the IBRD, the question arises as to how the macro-economic performance described in the above documents is to be monitored. The Mission naturally will continue to receive and evaluate GOC financial and balance of payments data on all the major elements of the program and, as in the past, will send periodic reports to Washington. Continuing dialogue between Mission personnel and Government officials at both the technical and policy levels will assure that the GOC is made aware of USAID concern with shortfalls or other problems with respect to Colombian performance. The Mission will not have a legal mechanism to insist on good performance, but GOC anticipation of U. S. and multilateral responses to future requests for assistance will continue to be the principal means by which U. S. influence on performance will be exerted. The IMF will monitor the commitments included in the standby arrangement. As leader of the Consultative Group, the World Bank, through its resident representative and periodic visits of Washington personnel, will continue to discuss the major elements of overall economic performance with Colombian officials. The Bank is particularly concerned with adequate peso contributions to its project assistance and so has a special interest in good fiscal performance, which is currently viewed as the most problematical aspect of Colombian performance in 1971 and thereafter.

B. Background

During the past four years, while U. S. economic assistance has been flowing fairly evenly and consistently, and the assistance of the IBRD and IDB has been increasing, Colombia's economic performance has been steadily improving. This is not to say that the improvement has come about only because of the foreign aid; more importantly, the internal effort has been strong. At the same time, without foreign assistance in the form and quantity made available, Colombia clearly would not have been stimulated to set and reach the targets achieved.

Annual real increases in GNP have climbed from 4.2% in 1967 to 6.1-.4 in 1968 and 1969 and, it is estimated, to between 6.5% and 7.0% in 1970. Prices, as measured by the workers' cost of living index, until recently have been rising at a decreasing rate, at about 7% from 1968 to 1970, as against an annual rate of over 10% from 1960 to 1967. Central government revenues have been rising rapidly, as has public investment, both in real terms. In 1970 all numerical fiscal targets -- for tax receipts, public sector savings and total investment -- were met or exceeded, despite the fact that no important new revenue measures were enacted. At the same time, the year ended with a considerably increased Treasury deficit, that is, a build-up in floating debt. Minor export registrations increased at an annual average rate of 28% from 1967 through 1969, though only 4% in 1970, still more than doubling in a four-year period. This effort, with the addition of significant levels of foreign assistance, has allowed import registrations to increase by 19.3% in 1968, 20.8% in 1969 and 20.7% in 1970, to a total of $921 million in 1970. While there was a slight shortfall in import registrations in 1970 from IMF targets, this was largely a technical miss, and the overall import level was more than on target. Meanwhile, the composition of imports has remained healthy, with consumer imports remaining at 10% or less of the total. Exchange rate policy has been reasonably flexible, with the rate keeping pace, more or less, with internal costs. Monetary policy has been orthodox and conservative, despite a temporary violation of the IMF standby credit ceilings in late 1970 and early 1971.

Finally, businessmen uniformly report that 1970 was the best year in memory, with sales and profits up in almost every sector of activity. Most expect 1971 to be another good year, despite the fact that foreign investors are planning very little new investment or reinvestment of profits for the moment, mainly because of uncertainties with respect to the Andean Pact Foreign Investment Code.

C. Current Situation and Prospects

Various other uncertainties have arisen. Minor export registrations in early 1971 have declined below 1970 levels, although there was improvement in March. A very severe "winter", with heavy rains and flooding in various parts of the country, not only clouds the picture for agricultural production in 1971, but has put a strain on GOC finances because of efforts to clear roads and assist a large number of immediate victims of the emergency.

The major uncertainty, therefore, for the immediate future at least, lies in the fiscal area. While the GOC has listed various tax measures it is interested in enacting this year, it is questionable whether any important new taxes will be passed by ordinary legislative means before late 1971, at best. Should this prove to be the case, it is possible, though not necessarily probable, that President Pastrana may be willing to use Article 122 of the 1968 Constitution by which he can declare an "economic emergency" and by executive decree enact legislation considered indispensable. He must later submit his decrees to the Congress, which then has the opportunity to reject the action taken.

The President has used an obscure legislative mechanism to decree an increase in sales and stamp taxes ostensibly to finance increased government pensions. The measure is expected to produce considerably more than enough for this purpose, but not enough to relieve an initial investment deficit of over one billion pesos. (This deficit is largely attributable to higher than "normal" inevitable increases in operating expenditures, e.g. teachers' salaries, not sufficiently compensated by real revenue increases of the order of prior years -- good, but not good enough.) Also, 345 utility rate increases quietly have been put into effect around the country. These actions plus other measures, e.g. estimated yield from improved tax administration, are calculated to represent about 800 million pesos or US$40 million equivalent in increased revenues during 1971 -- again, good, but not good enough. The 1972 full year effects will be greater, of course.

Much has been said in recent years about the steadily-improved effectiveness of the planning effort in Colombia, the high quality of technical capacity introduced into the planning function, and the full political support given to the National Planning Department by President Lleras. In the last few months, since the Pastrana Government took office, political attacks on the so-called "technicians" have increased; the result was the resignation of the carry-over Planning Director and all his top staff. A pall was cast over the future role of this important activity. More recently a new top staff has been named, and a new Director, with better political credentials but perhaps fewer technical qualifications than his predecessors, may be better able to deal with the top levels of government. This is, of course, essential. Moreover, the new unit chiefs in the Planning Department are uniformly well trained and, in recent dealings with Mission personnel, have shown themselves more flexible than their immediate predecessors and quick to grasp the nature of their problems. But all in all, one gets the impression that there is less coordination and collaboration throughout the government on economic policy than was achieved under the Lleras Administration.

D. The GOC Program

At the meeting of the Consultative Group for Colombia in February 1971, in the wake of the CIAP reviews, the IBRD representative in his concluding remarks "attached particular importance to the Colombian delegation's statement of their Government's intention to carry out the following policies:

> "1. To increase public revenues by Ps 1 billion for the financing of the public investment program in 1971, by means such as improved tax administration, increasing rates of sales tax, taxing presumptive income of agriculture producers and unifying the petroleum exchange rate.

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"2. To employ flexible exchange rate policies as the prime incentive for the development of exports other than coffee.

"3. The maintenance of monetary policies required to continue Government achievements in restraining domestic price increases.

"4. The continuing effort on the part of the Colombian authorities to expedite the preparation of projects for external financing."

This statement is probably the clearest brief reflection of stated Colombian policy in the areas of greatest concern to AID and the other members of the international assistance community.

1. Employment Policy - Underlying almost all the elements of the GOC development program is the theme of employment creation. With a population of over 21 million, growing at 3.2 to 3.3 percent per year, and a labor force of six million, estimates of unemployment range from 7.1 to over 10 percent of the labor force. Estimates for underemployment, as defined by the Direction of Statistics, are only slightly lower. Although there are no truly reliable statistics on employment in Colombia, these estimates indicate that there may be about half a million people unemployed and only slightly fewer underemployed. Despite the fact that recent surveys indicate that the percentage of unemployment and underemployment declined in 1970, the Colombian government still considers the problem to be central to its handling of the development process. Naturally the Pastrana government believes this approach to be good political strategy, aimed, in conjunction with its "Social Front" program, at demonstrating that his government views development in "compassionate, human terms", as distinct from the past Lleras Restrepo government which, one is supposed to conclude (we believe erroneously), was "coldly technocratic".

In any event, the Three-Year-Development Plan includes a number of the recommendations contained in a report of an ILO World Employment Program mission which, in 1970, used Colombia as an early model for a detailed study of employment creation. A major emphasis in the report was the need for income redistribution as an economic tool leading to fuller employment. To this end the report and the GOC Plan call for more tax progressivity and for greater efforts toward agrarian reform. The Report calls for encouragement of labor-intensive industries as opposed to the earlier prevailing practice of artificially cheapening capital equipment relative to labor both through import duty policy, on the one hand, and labor legislation on the other. As a further example, the Industrial Development Institute (IFI) has not in the past worried too much about the labor intensivity of the projects it has supported. Employment generation has been only one of several criteria by which applications for registration of foreign investment has been judged. Now it is the first. The Institute for Foreign Trade (INCOMEX) now examines applications for import licences with employment generation well in mind. Monetary and credit policy are to be developed with a conscious effort to favor labor-intensive activities.

The 1970-73 Plan stresses that at least 7.5 % real GNP growth per year is required to stabilize unemployment at its present numerical magnitude, meaning that only thus could enough new jobs be created to assure a relative reduction in unemployment. Given levels of total investment are postulated as associated with such growth, and alternative levels of public investment are set forth. The Plan has the approval of the Economic and Social Policy Council, chaired by the President.

2. The Investment Program - The GOC Plan associates given levels of public investment with overall growth targets. It postulates a total of public investment in the 1971-73 period of 46 billion pesos. This is not a budgetary figure, however, and includes official bank credit allocated for private sector investment and public sector investment which does not go through the budget, e.g., autonomous agency investment financed by bond sales. The Plan calls for total budgeted investment of 7.3 billion pesos in 1971. The initial budget as passed indicated only 6.3 billion pesos. GOC officials have indicated that they intend to submit supplemental budgets for the additional 1 billion pesos, subject to available financing. Mission estimates of cash investment for 1971 (always below budgeted investment figures, because of normal lags) indicate that only 5.8 billion pesos will actually be expended unless a residual unfinanced cash deficit now foreseen at over 400 million pesos can somehow be financed. In terms of constant pesos, this still represents an increase of 3.2 percent over 1970 cash investment expenditures.

Given this situation, the GOC will have shortfalls from both budgeted investments and those included in the Plan. However, the cash flow deficits for 1971 and 1972 as currently estimated are not large in relation to total government revenues and action on even one of the needed fiscal measures, e.g., petroleum exchange rate, if taken in 1971, would probably come close to closing the gaps. Even if the gaps are not closed, GOC

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officials have stated that local contributions to foreign-financed projects as well as contributions to sectoral programs partly financed with AID loan-generated funds will be fully supported. To a considerable extent the strategy underlying the nature and manner in which U. S. assistance will be provided in the latter half of 1971 and in 1972 is designed to assure this end. This U. S. assistance is related to over 50% of the total GOC investment and is concentrated in the sectors considered of highest priority both by the GOC and the USAID. The loans should, therefore, help to ensure that there will be incentives for the government to perform. Nevertheless, there have been shortfalls and delays even in these categories in the recent past, and it is evident that some important programs, at least in other areas, are likely to fall behind or may even be abandoned unless new fiscal measures are enacted quickly.

3. Foreign Trade and Exchange Rate Policy - The GOC expects to continue to follow a flexible exchange rate policy, although it has not formally linked, this year, the expression of this policy to export promotion.

A new minor export policy was recently announced. It somewhat ambitiously calls for a level of minor export registrations of $600 million by 1974, as opposed to actual performance of $213 million in 1970. This is to be achieved by a concentration of effort by the export promotion authorities on a few number of items which show the greatest promise, and an assurance that these will be supplied with sufficient export credit and insurance. By 1974 new lumber and nickel exports are expected to supply a large share of this incremental growth. There is no indication that existing fiscal incentives to minor exports will be modified. For 1971 the GOC is still aiming for a 20% increase in minor export registrations. This goal is expressed in the Plan and in IMF document EBS/71/79 of March 23, 1971, Colombia - Request for Standby Arrangement. The IMF balance of payments projections in connection with the standby targets indicate a level of $260 million in exchange receipts for minor exports in 1971. Despite the fact that 1970 showed little improvement over 1969, and these goals derive from a modest base, minor export performance in early 1971 shows that Colombia will be hard put to achieve these targets without considerable additional effort.

One of the chief means of stimulating minor exports is to move more rapidly toward a parity exchange rate. The GOC has announced that it will continue to follow a flexible exchange rate policy. In a recent speech President Pastrana stated that the rate would move about 8-10% this year, consistent with internal price expectations. Even faster movement, however,

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In 1970 there were also expansionary pressures resulting from a rapid growth in short-term external borrowing on the part of commercial banks. Measures designed to reduce private borrowing abroad have now been instituted. Owing to these and other steps, there has already appeared in 1971 a relative scarcity of credit to the private sector. In April the commercial and specialized banks found themselves under-reserved to the extent that it has become difficult in recent weeks to make new loans even to established customers. It is expected that there will be greater overall private credit stringency throughout 1971 than in 1970.

The entire monetary system, with its complex of interest rate controls and forced bank portfolio investments, is in need of overhaul. The GOC is aware of this and a commission was formed in March, after a series of studies had been completed, to make recommendations for the reform of reserve and portfolio requirements as well as the activities of non-bank financial institutions.

E. Fiscal Program and Performance

1. Current Fiscal Situation and Outlook - In 1970 the GOC met the fiscal targets it set for itself in its 1970 IMF Standby request, with current revenues well above estimates, a current account surplus also well above projections, and investment expenditures approximately on target. The level of investment made in 1970 represents an increase of 31.2% above 1969, or 22.7% in real terms.

For 1971, the projections in Tables 1 and 1A show a further planned increase in investment of 19.1% above 1970 levels (6.5% in real terms). However, our current estimate is that 416 million pesos are as yet unfinanced.

In part the unfinanced gap for 1971 results from the carryover of financial obligations incurred in 1970. At the beginning of this year, the GOC found itself with a so-called "fiscal surplus", but really faced with a cash deficit of 1.2 billion pesos needed to cover outstanding orders for payment, debt amortization and other obligations.

/This paradox is primarily a result of the legal obligation to make the budget balance, and, consequently, the practice of adding to the budget over the course of the year both appropriated items and income, the latter calculated by the Controller General to be due the government. It is estimated may prove necessary to effect a significant promotion of minor exports, but residual fears of the domestic price effects make a speedier devaluation unlikely.

The agreed IMF target for reimbursable import registrations in program year 1971-72 is $777 million, as opposed to $802 million in the 1970 Standby (April 1-March 31) period. One reason for the decline is a bulge in import payments associated with unusually high 1970 registrations. However, even this target may be optimistic unless the 1971 average coffee price reaches 52 cents per pound as estimated by the IMF. Moreover, net international reserves are projected by the IMF to decline by over $34 million in the Standby period and even more in the most recent Mission's projections.

At the same time, it remains GOC policy to continue the process of import liberalization. In past years the Colombians have defined this mainly as increasing the import budget, but retaining most of the associated controls, e.g., prior licensing, prior deposits, import credit availability. This year it will not be possible to increase the import budget, so if the GOC is to make effective its aim of import liberalization, it would have to be through a further relaxation of the controls, along with faster devaluation of the peso so as to make imports relatively less attractive in a free market.

Inasmuch as economic growth in Colombia is very closely linked to increasing import arrivals, and import arrivals will be hard put to exceed the 1970 value, it seems clear that the balance of payments will continue to act as a constraint on growth.

4. Monetary Policy - Monetary policy remains the most important single element of GOC economic control. The monetary authorities have remained orthodox and rather conservative in the application of policy. Money supply increased by approximately 17% in 1970, or just about as expected. The GOC policy of no new net borrowing from the Bank of the Republic continued to be followed in 1970 and forms a part of the 1971 Standby Arrangement as well. The Standby Arrangement also contains the usual set of net domestic asset ceilings.

A certain amount of unwieldly monetary expansion took place late in 1970 and early 1971, as the BOR was obliged to finance large coffee purchases by the Coffee Federation, because the domestic support price had not been reduced in timely fashion to reflect actual export prices. The internal price was reduced in February, and the GOC intends insofar as possible to avoid further large expansionary pressures from this source.

Nevertheless, in the absence of additional fiscal measures, given the currently expected level of current revenues in 1972 and anticipated credit resources, the 1972 investment program of the 1970-73 development plan would result in an unfinanced cash deficit of 502 million pesos.

2. Financing the Deficit - There are several possible courses of action open to the government to obtain the resources needed to cover the unfinanced portion of the investment program. These include: (a) raising additional tax revenues; (b) increased domestic borrowing from non-BOR sources; (c) borrowing from the BOR; and (d) increased external borrowing. Reducing expenditures significantly in an already modest operating budget is not a reasonable alternative.

The Pastrana government has indicated that it will press for additional tax resources to enable it to meet its investment goals. In addition to the sales and stamp tax increases already enacted, revenue and other tax reform measures which have been proposed include:

a. A presumptive tax on rural property. The major purpose of this tax would be to take in an important group of tax evaders and to encourage agricultural production by raising the cost of non-or under-utilization of land. The Musgrave Commission, which included this tax among its recommendations, has estimated that it would have brought in 250 million pesos in additional revenues in 1971, using a presumed 12% rate of return on assessed value of the land, or 430 million pesos, using a 15% rate of return. However, current discussion of this measure within the GOC indicates that the rate proposed might go as low as 6%. Cadastral surveys now being made by the Instituto Geográfico "Agustin Codazzi", and an authorized AID project loan, will facilitate implementation of such a tax.

b. Equalization of the cattle tax. It has been proposed that the tax on males slaughtered would be raised to the rate now paid on females (i.e., from 50 to 100 pesos per head). It is unlikely that added revenues from this source would exceed 100 million pesos a year.

c. Equalization of the petroleum exchange rate with the certificate rate. Because this new measure might have several politically dangerous side effects, especially that of raising public transportation costs, it may be desirable that other measures, such as a bus subsidy and increased taxes on petroleum companies, be taken at the same time to offset these effects.

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however, that as much as 20% of taxes due the government are not collected. In 1970, 988 million pesos of the resulting prior year "fiscal surplus" were added to the original revenue budget. At the same time, the Ministries and government agencies are in general authorized to incur expenditures on the basis of their budgets and not actual cash receipts, and thus there is inherent in the system the potential for the kind of fiscal crisis the government found itself in at the end of 1970. The GOC is aware of the nature of the problem, the Minister of Finance has indicated the government will seek to revise its budgetary administration to avoid a similar occurrence in future years.7

The need to cover the cash deficit from 1970 will add about 500 million pesos to current expenditures to be financed out of 1971 current revenues. Pay raises have been approved for the military and teachers, which will also increase operating expenditures above the level originally budgeted for. Finally, early in 1971 the GOC issued a decree implementing legislation passed by Congress authorizing increases in retirement pensions.

However, taking advantage of a provision in the retirement bill authorizing the government to "establish all necessary means of financing /the pension increases/, the implementing decree also modified the sales and stamp taxes, in effect, a major fiscal coup. The sales tax rates have now been increased from 3, 8, 10 and 15% on the various categories of goods to 4, 10, 15 and 25%, respectively, and added some previously exempt activities to the tax rolls. The tax on stamped paper was trebled, and most other stamp rates on paper covered by the tax were doubled. Total additional receipts in 1971 are likely to be in the neighborhood of 610 million pesos, of which only about 200 million would be needed to cover the pension increases, thus affording significant relief to the Treasury. Thirty percent of gross sales tax receipts are automatically transferred to the Departments, and this measure will, therefore, also increase Departmental revenues by an additional 115 million pesos, of which about 70% is expected to be used for educational expenditures. From a technical point of view, these measures leave much to be desired. The sales tax measures did not include the reform of the categories themselves which the Ministry of Finance had desired. The stamp tax, while inelastic and easily administered, is generally considered an undesirable nuisance tax on private firms and persons doing business with the government. Nevertheless, from a revenue point of view, the measures will be very useful, and it required considerable courage on the part of the government to make this unpopular move.

Opposition in Congress and among the taxpaying public to any increase in taxes is strong, and getting any legislation passed will be difficult at best. Nevertheless, as mentioned earlier, the President and other senior officials of the GOC have confirmed publicly as well as direcly to us their belief that additional revenues are necessary and that they intend to make a strong effort to take further fiscal measures.

Several points are worth keeping in mind in this regard: (1) given the increased likelihood of even more political resistance as Pastrana's term in office moves along, whatever new tax measures are enacted will probably have to be accomplished this year; (2) there is no probability that all or even most of the six measures listed above will be acted upon; and (3) only the unification of the petroleum and certificate exchange rate and accompanying measures, if enacted by mid-1971, could by itself provide sufficient additional revenue to close half of the 1971 investment gap and all of the currently foreseen 1972 gap, through some combination of the petroleum rate change with the other measures or of these latter alone might make up the total shortfall by end-1972.

It is believed that the GOC is approaching the limits for borrowing from domestic, non-BOR sources, at least for 1971. The Budget Law for this year provides for new issuances of development bonds of up to 700 million pesos; this is considerably above the level issued in recent years, and it is unlikely that this volume of bonds will be sold. Mission estimates are that 400 million pesos of bonds can be placed, but this is only a guess.

The GOC also contemplates borrowing 200 million pesos from the BOR during 1971. While this will not imply new net borrowing, and therefore is within the terms of the GOC's understanding with the IMF, it is substantially above recent levels (81 million in 1968, none in 1969, and 90 million in 1970), and it is unlikely that significant additional borrowing from this source could be obtained without seriously limiting the ability of the banking system to fill other credit needs or creating strong inflationary pressures.

It does not appear likely that substantial foreign borrowing for investment/purposes beyond that already shown in Table 1 will be forthcoming during 1971.

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The sensitivities in much of Latin America attaching to bus fares represent a challenge to any government. The net revenue gain from such a step, therefore, would depend on how this problem is resolved, and whether the rate is allowed to float or is set at a new level. Were the full adjustment made July 1, Planeacion projects the 1971 gross yield before any compensating measures to be about 250-300 million pesos, rising to over 600 million for the full year 1972.

d. Revision of business taxes. The primary purpose of this legislation would be to equalize the tax burden on limited liability companies and sociedades anónimas, and the revenue effects are expected to be neutral. The draft bill sent to Congress last year contained substantially the same measures as those proposed by the Musgrave Commission, and are designed to eliminate the existing tax discrimination against sociedades anónimas. It is believed this measure would encourage private investment, as this type of organization appears to be more efficient at accumulating savings than the limited liability companies.

e. Automobile import taxes. Duties have been reduced on parts for assembly in Colombia. In order to offset the negative revenue effects, the GOC will increase moderately the duties on licensed imports of higher-priced vehicles. While the stated intent of these two measures is to neutralize changes in revenue, the GOC expects that the measure will in fact bring in about 190 million pesos in added customs revenues and sales taxes in 1971.

f. Urban Reform Bill. An urban reform bill, containing substantially increased taxes on real urban property, was presented to the 1970 Congress but not acted upon. A joint legislative/executive committee is currently revising the bill for presentation again to the 1971 Congress. Although no estimate of added revenue to the municipalities can yet be made, the bill, if passed, could provide indirect fiscal relief to the national budget as pressures for transfers from this budget to the municipalities decline.

In addition, the GOC is in the process of developing a more efficient tax audit system and is taking other administrative measures which are expected to increase revenues through better tax enforcement. Legislation passed late in 1970 granted an amnesty on payment of penalty interest by delinquent taxpayers meeting certain repayment requirements. It is believed that over the year improved collection measures could bring in as much as 234 million pesos in added revenues in 1971. This income is included in the revenue figure shown in Table 1.

The budget includes 145 million pesos for military equipment, which will be used for part payment of jet aircraft and a submarine (or possibly two). Suppliers' credits, repeat credits, for US $47.3 million, equivalent to 874.6 million pesos, for the purchase of military hardware, have already been added to the 1971 budget, most of it from Avions Marcel Dassault de Paris. This, presumably, is the loan portion of the jet aircraft purchase, the cash downpayment for which is already included in the budgeted 145 million pesos mentioned above.

5. Fiscal Trends - Table 5 evaluates the GOC's record of revenues and public savings as a percentage of gross national product for the years 1967-71. Several concepts, e.g. IBRD and CIAP and AID Form 1074 were used. Under all formulae, the table shows an increasingly greater percentage of gross product has been channeled to government revenues each successive year.

Government revenues in Colombia absorb a relatively small percentage of GNP when compared with other developing countries, as has been shown in several recent attempts to compare tax efforts. 1/ These statistical studies do not take into account, however, factors inherent in the Colombian situation which affect the level of revenues collected. First, the private sector plays a relatively more important role in savings and investment

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1/ See, for example, Lotz and Morss, Measuring "Tax Effort" in Developing Countries, IMF Staff Paper, Vol. XIV, No. 3; AID Administrator's Review of Development Performance, 1970; and Jacob Meerman, Fiscal Research Summary Papers (ERP III 293).

It will be noted that the unfinanced cash deficit for 1972 reported in the covering paper for the IRRs came to 1,506 million pesos. This was the figure shown also in the cash projections of the Three-Year Investment Plan. The current projections agreed to by USAID and Planeacion reduce this deficit to 502 million pesos in the following manner:

		(In Millions of Pesos)
Original Deficit Estimated		1,506
Plus: Increased expenditures	533	
Revised Counterpart Yield	100	
	633	
Less: Additional yield from sales and stamp taxes	950	
Additional from income tax	450	
Elimination of "Plan Educativo"	240	
Other	-3	
	1,637	
Revised Deficit Estimated		502

3. U. S. Input - It will be noted in Table 1 that 12.0% of the total 1971 budget and 7.3% of the total 1972 budget will be financed from AID loans and PL 480 local currency generations. The higher 1971 input (2,100 million pesos) results in part from increased 1971 PL 480 sales and also from scheduling US$15 million from the proposed new sector loans for disbursement during the last half of 1971. These disbursements under the proposed sector loans are conditional on performance in the various program elements described in the loan papers and are necessary to the accelerated action called for in these sectors. As a consequence, while the U. S. share of sector financing in 1971 may exceed that of 1970, the effect will be temporary, since it will be more than compensated for by a reduced U. S. contribution to these sectors in 1972, and a much larger 1972 GOC contribution. The net effect is to ensure that: (1) within available resources priority is given to accelerated activity in the three sectors under consideration; and (2) pressure on the GOC to take adequate fiscal measures over the entire 1971-72 loan period is not relieved. At the same time, over the 18-month loan period, the two conditions attached to the Presidential approval of the Colombian loan program will have been met.

patterns in the Colombian economy than in many developing countries; private sector investment has accounted for about 15% of gross domestic product in recent years. Thus total savings and investment in Colombia are better than average, as noted in the AID studies referred to previously. Insofar as a greater tax effort results in a reallocation of resources, a decision on the social and economic priorities which this involves is inherent in any new tax measures. Second, the relative efficiency of government expenditures in the countries examined is also highly relevant. Unfortunately, statistical analysis of this question is virtually impossible to undertake, but both the World Bank and the Mission judge the Colombian record to be better than average for LDCs. Finally, income in Colombia is very unevenly distributed, and many social groups with high incomes are politically powerful and therefore difficult to tax. This is a common problem in developing countries, but it is believed by some economists who have studied the issue (e.g., Richard M. Bird and Albert Berry) that the disparities are even greater in Colombia than in other Latin American countries.

It is also worth noting that beginning in 1968, the GOC has ceded to the Departments and municipalities the authority to collect directly certain taxes formerly collected by the central government. To make the time series of revenue effort in Table 2 consistent, the value of the revenues from these taxes should be added to total revenues, although the amount is relatively small. On this basis, fiscal performance since 1968 is slightly better than it appears in Table 2. The effect of adding these taxes is as follows:

	Current Revenues (Table 2)	Current Revenues (Adjusted)
1968	8,195.5	8,307.5
1969	9,581.4	9,728.4
1970	11,950.0	12,113.0
1971	14,131.0	14,307.0
1972	16,411.0	16,601.0

While the above considerations might lead one to conclude that fiscal performance has been better than that indicated in the comparative studies referred to above, there is little doubt that Colombia would still rank relatively low compared with most other developing countries insofar as its overall fiscal effort is concerned, and that there is scope for additional tax revenues within the existing economic structure. Indeed, tax measures such as those under study designed to improve the equity of the system by taxing groups now avoiding their fair share of the tax burden and by increasing the progressivity of the tax structure would not only increase revenues but would be socially desirable.

Furthermore, the redistributive effect of government expenditures, particularly those on education and other social services, justify the diversion of greater resources to the public sector.

Sectoral allocation priorities are shown in Table 4 The categories most relevant to proposed AID sectoral assistance are agriculture, education, housing, and water and sewerage. The budgetary allocations to these sectors show an increasing trend in terms of constant 1968 pesos.

The report of the Musgrave Commission on fiscal reform, which was submitted to the GOC in mid-1969, was intended to revise the tax system to meet both the equity and fiscal goals of the government. Widespread opposition to the report, coming at a politically difficult time for a government and Congress already concerned about national elections to be held in April 1970, prevented Colombia from adopting major Commission proposals. Nevertheless, the report is being utilized for technical background within the Ministry of Finance, and features of tax measures now in force or being considered have benefitted from recommendations of the Commission.

F. Coffee Policies.

During August 1969, international coffee prices began a steep climb, responding to news of heavy frosts in Brazil and later, an attack by coffee rust in the same country. Prices remained high throughout much of 1970, and it was widely expected that they would remain so for another two years until, in accordance with the normal coffee planting cycle, new trees would come into production.

In late 1970, however, it became apparent that stocks would be adequate to meet consumers needs, and much of the "panic buying" ceased. At the same time, uncertainty as to the fate of the U. S. legislation enforcing the coffee agreement's import provisions created an expectation of a general price decline after June of 1971, when the legislation was due to expire. The result of these factors was a substantial reduction in purchases in the last quarter of 1970. Thus while prices remained relatively high, coffee export earnings were very low.

In response to a deteriorating market, Brazil began offering special discounts to buyers, which were not reflected in the ICO indicator prices; as a result, the normal operation of the quota system was impeded. In February 1971, an extraordinary meeting of the Coffee Council agreed, in effect, to accelerate quota reductions in return for tacit agreement by Brazil to permit the market price to reflect actual sales transactions, thus returning the quota mechanism to normal operation. As market prices returned to more realistic levels, and stocks in consuming countries were reduced, normal buying operations were once again resumed. News late in March that the soluble coffee issue between the United States and Brazil had been resolved, presumably clearing the way for renewal of the U. S.

necessary for it to do so.) Private exporters were not buying coffee under market conditions then existing, thus putting an added burden on the Federation. Also, the internal support price, set early in 1970 when the New York price was over 57 cents a lb., was not lowered until February of 1971, long after the international price had fallen well below that level. It is estimated that net credit extended to the coffee sector by the BOR during October 1970-March 1971 was about 860 million pesos, 743 million above the net credit extended over the same period in 1969-70. At a time when other demands for credit were also strong, this borrowing added to inflationary pressures plaguing the Colombian economy at the end of the year.

Coffee production during the current coffee year is expected to be considerably below normal (variously estimated between 20 and 35% below), owing to heavy rains which have damaged the flowering of the trees. While Colombia has more than adequate stocks to offset the shortfall, it creates economic problems in the coffee zones, and it is expected that demands for credit to farmers will also be very heavy this year.

The Coffee Federation has taken over direct control of the coffee diversification fund, formerly an independent agency The program is currently undergoing a change of emphasis. While "diversification" was formerly interpreted to mean diversification of production within the farm, the Federation now plans to direct its efforts to taking farms in marginal growing areas out of coffee production altogether. Progress on this program has been limited by the fact that the ICO Diversification Fund (to which Colombia has contributed about US$7 million and which will provide a major share of the financing) has been unable to agree on rules for its administration. There are indications that this problem is now being resolved, and this important activity should soon get underway in earnest. In the meantime, experimental work and pilot farm projects in possible diversification crops are continuing.

G. Economic Growth

In both 1968 and 1969, Colombia recorded an increase in the real rate of economic growth of over six percent (6.1% and 6.4% respectively). It had been hoped that this rate might be raised to seven percent in 1970. While data for 1970 are not yet available, it appears likely that this rate was not achieved (an estimate of 6.5% has been used in computing Table 6). Two major reasons for this were, as earlier described, a substantial slowdown in coffee exports toward the end of the year (about 500,000 bags out of a 1,500,000 bag quota remained coffee legislation, also added stability to the market. Prices remained relatively low, probably a result of the fact that slow sales in the last quarter of 1970 added substantially to supplies available in 1971, despite the quota cuts agreed to in February.

Most of the economic forecasts for Colombia for 1970 and 1971 had been made on the assumption that coffee earnings would remain at very high levels. While the 60 cents per lb. price forecast for Colombian coffee by the IBRD had not been generally accepted, most estimates were in the 54-56 cent range for 1971. More serious than the price decline was the shortfall in actual shipments in the last quarter of 1970. As of December 31, 500,000 bags out of Colombia's adjusted quarterly quota of 1,500,000 bags remained unsold. The full quota for the January-March quarter was reportedly sold, but by this time the price had declined to an average of about 50 cents during the quarter. Prospects for the coffee year ending this September 30 are that the price will stay around 50 cents a pound, and that sales will continue at a normal rate. Whether the unsold portion of the October-December quota will be fully sold is, however, problematical.

The domestic response has been, in general, to follow the international price movements, but not by as much. Thus, when the price rises began in late 1969, it was announced that the grower would receive about 35% of any price increases over 57 cents a pound, the Coffee Federation 35%, and the Departmental Committees 30%, through the mechanisms of the domestic support price and retention tax rates. This agreement has not been strictly adhered to, and the price did not long remain above 57 cents, but it is indicative of the philosophy governing domestic pricing policies.

With high coffee earnings, the Coffee Federation took steps to reduce its heavy domestic and international debt obligations. During the 1969-70 coffee year, the domestic debt was reduced by 145 million pesos. The federation renegotiated its international debt to repay the entire amount within 2 1/2 years time; as of September 30 the outstanding debt had been reduced to US$47.6 million, and payments are continuing as scheduled despite coffee prices considerably below the level at the time the debts were rescheduled.

As a result of the low level of sales at the end of 1970, at a time when an exceptionally large crop was being harvested, the Coffee Federation was forced to resort to heavy borrowing from the BOR to enable it to meet its purchasing obligations.. (The Federation must buy all coffee of acceptable quality brought to it; at the same time, the BOR is obligated to extend any credit unsold at the end of the October-December quarter), and the slowdown in the rate of growth of minor exports. Also, there has been some indication that private investment was lower this past year than had been anticipated.

Estimates of the Planning Department project a rate of economic growth of 7.5% for 1971 and 1972. It is unlikely, however, that this goal will be met, if for no other reasons (there are obviously many others) than that coffee export earnings will probably be less than those used in developing the targets, as will earnings from minor exports, at least in 1971. While Table 6 has reduced the rate of growth to 7.0% in real terms, it is possible that this figure will also prove too high.

On the basis of price data available to date, an 8.0% increase in the cost of living is assumed for 1971, and a 7.5% price increase for 1972. 1970 indexes are available, and showed a 7.2% increase in prices in that year.

Estimates of imports and exports for 1970-72 were based on data from the balance of payments section of this paper.

The division of the utilization of resources for 1970-72 is admittedly precarious, as little data are available. The Planning Department's estimates of the real increase in private investment were used; these estimates may be optimistic. Government investment was adjusted to take into account the projected shortfall in the investment plan shown in the fiscal tables.

While a recovery of Colombia's export markets would help to sustain the rate of economic growth, it is unlikely that the desired 7.5% rate could be achieved without additional investment expenditures above those now foreseeable.

H. Balance of Payments

1. Introduction - In 1970 Colombia enjoyed a balance of payments surplus for the third consecutive year. The high world coffee price which obtained throughout the year permitted simultaneous improvement in net foreign exchange reserves and significant expansion of imports and service payments. In contrast the Bank of the Republic suffered a significant loss of foreign reserves in the first quarter of 1971 and the outlook for the near future is not bright. The decline in coffee prices, a disappointing performance of minor exports, and an adverse impact anticipated from the Andean Group's foreign investment code are the main factors responsible for currently projected balance of payments deficits in 1971 and 1972. None of these developments was foreseen in earlier projections by the GOC or the various international lenders. The significantly changed circumstances which have arisen in recent months have serious implications for Colombia's development goals and foreign exchange position. Prospects for rapid expansion of exchange receipts from minor exports are not great owing to internal supply and demand constraints. Disbursements of most new international lending agency loans will occur only after considerable time lags. The GOC has had to respond to the situation by reducing import registrations well below the levels implied as essential in the Three-Year Development Plan. Nonetheless, import arrivals and payments will continue to rise in 1971 because of the increased level of licenses issued in 1970. According to our projections Colombia will have balance of payments deficits in 1971 and 1972 of $46 million and $40 million, respectively, even assuming relatively rapid disbursement of the proposed FY 1971 AID sector loans.

2. Progress in 1970 - Net foreign exchange reserves increased by $55 million in 1970 and import arrivals were an estimated 31 percent higher than in 1969. Official gross reserves remained unchanged at $257 million because the Bank of the Republic reduced its foreign liabilities by $55 million, including net repurchases of US$ 43 million in pesos from the International Monetary Fund. Gross reserves at the end of the year were equivalent to approximately 2.7 months of imports of goods and services. During the year the GOC took several steps toward liberalization of the import and exchange control system. They reduced prior import deposits for selected goods, removed others from the restricted and prior licensing lists, and facilitated access to foreign exchange

for legitimate foreign debt payment purposes. The proportion of total import registrations represented by goods on the free list increased from 17 percent in 1969 to 19 percent in 1970. Payments of interest, dividends, royalties and other services increased by 32 percent compared to 1969. The high coffee price of 56-57 cents per pound and the resulting 22 percent rise in coffee exchange earnings were mainly responsible for the willingness of the authorities to raise import levels and to adopt exchange liberalization measures in 1970. Disbursements of both private and official loans also increased somewhat but the 4 percent growth in registrations of exports other than coffee and petroleum was disappointing. The main factors that contributed to non-fulfillment of the minor export targets were certain shortfalls in agricultural production, increasing internal demand, and the increase in relative cost of Colombian exports owing to the gap between the 6.9 percent depreciation of the exchange rate and the 7.7 percent rise in non-food wholesale prices.

3. Difficulties Foreseen for 1971 and 1972 - Tables 8 and 9 project that Colombia's overall foreign exchange operations will result in balance of payments deficits of $46 million in 1971 and $40 million in 1972. The reduction in net foreign reserves in 1971 is in contrast with the small surplus projected in the Intensive Review Request just several months ago. The deficit projected for 1972 is consistent with the IRR but the components are quite different; i.e., both export earnings and imports are significantly reduced. The principle difference is that coffee exchange earnings are now expected to be approximately $80 million each year below the levels anticipated in the IRR owing to the abrupt and significant decline in world prices. Given the low level of minor export registrations in 1970 and during the first two months of 1971, projected earnings from minor exports have been reduced by $12 million in 1971 and $14 million in 1972. The totals still represent optimistic growth rates of 9.5 percent in 1971 and 15 percent in 1972. Projected inflows of new private direct foreign investment also have been reduced by $10-20 million in accordance with the reluctance expressed by foreign businessmen to invest in Colombia under the conditions of the recently announced common foreign investment code of the Andean Group. Imports are now projected on the basis of the reduced financing capacity, as reflected in the GOC/IMF agreed levels for reimbursable import registrations set forth in the GOC Request for a 1971-72 Standby Arrangement. The implied rates of growth are 3.0 percent in 1971 and 2.5 percent in 1972. A final

major assumption in the projected payments deficits is the inclusion of relatively rapid disbursement of the proposed FY 1971 AID sector loans.

4. Coffee - The behavior of the world price for coffee, as earlier described, is perhaps the most uncertain and certainly the most critical factor influencing Colombia's balance of payments. In 1970 coffee accounted for 60 percent of total export earnings and any change in prices seriously affects the nation's capacity to finance imports. The value of coffee exports in 1970 is estimated by the National Planning Department (DNP) to have been $479 million, deriving from total shipments of 6.5 million 60 kg. bags and an average New York price of 57 cents per pound. It is assumed that the 400,000 bags placed in non-quota markets sold for somewhat less than the New York price. Table 8 projects coffee earnings of $433 million in 1971 and $434 million in 1972 on the basis of shipments of 6.9 million bags and 6.5 million bags and New York prices of 50 cents per pound and 53 cents per pound in 1971 and 1972, respectively. In the unlikely event that actual shipments vary significantly from the projected volumes without any change in the average price in 1971, Colombia's exchange earnings would rise or fall approximately $6.3 million for every 100,000 bag increase or shortfall in shipments. Much more possible would be an unpredictable movement of prices. At the projected levels of coffee exports an estimated $8.5 million variation in exchange earnings will occur for every 1 cent change in the average New York price during the year. Revival of the price to an average of 53 cents per pound would raise earnings by approximately $25 million. On the other hand, if prices continue below 50 cents, Colombia's foreign exchange situation could become considerably more difficult in 1971-1972 than even the current projections imply.

5. Minor Exports - While the coffee price is virtually an independent variable not readily affected by short-term GOC policy, the GOC is able to influence exchange earnings from minor exports and to directly execute changes in the existing restrictive import and exchange system. Growth of minor exports is particularly essential in view of the projections of reduced coffee earnings and overall foreign exchange deficits. It should be noted also that petroleum exports are expected to decline as production levels off and internal demand increases. Both the CIAP and the lenders of the Consultative Group have expressed serious concern with the disappointing growth of minor exports in 1970 (see Table 9). The GOC has

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responded with statements of its intent to intensify its efforts to promote increased exports of a selected number of products other than coffee and petroleum which appear to have the greatest potential for growth. During 1970 the GOC increased the real value of the C.A.T. slightly by reducing its maturity, but more significant steps such as more rapid movement of the exchange rate, increased availability of credit, improved promotional activities, and priority handling of minor exports in the ports will be necessary if the GOC is to achieve its new annual growth targets.
The importance of these efforts is clear when it is noted the projections already assume that such a growth performance will be forthcoming in 1972. In any case, minor exports clearly have a limited capacity in the short-run to offset the projected decline in coffee earnings. Even in the unlikely event that the annual growth of minor exports could be raised to 15 percent in 1971 and 20 percent in 1972 by arbitrarily redirecting goods from domestic consumption to foreign markets (adversely affecting internal prices), exchange earnings would exceed current projections by only $19 million in 1971 and $38 million in 1972.

6. Liberalization Measures - The inclination and ability of the GOC to take further steps toward import and exchange liberalization under the conditions foreseen are questionable. It appears that the main objective in 1971 and 1972 is to arrive at some acceptable combination of net reserve loss and increased imports without instituting new restrictive measures. The GOC has already reduced the level of reimbursable import licenses from last year's highs by employing the registration procedures administered by INCOMEX. Our import projections are based on the registration levels agreed to by the GOC and IMF, which imply some levelling off of imports.

Reimbursable Import Registrations

(Millions US$)

Standby Quarters, Standby Years	1969	1970	1971	1972
A. Non-AID				
I.	117	160	175	180 (proj.)
II.	130	176	171 (proj.)	-
III.	139	181	174 (proj.)	-
IV.	156	169	180 (proj.)	-
Sub Total	542	686	700 (proj.)	-
B. AID	97	99	74	-
C. Total	639	785	774	

Actually both import payments and arrivals are still expected to increase, but at reduced rates, in 1971 and 1972. The explanation is the high level of import registrations in 1970. Given the 25-month payments schedule for most imports, payments for imports are projected to rise 16 percent in 1971 and about 1.5 percent in 1972. More relevant for the growth of the economy are the projections of actual physical imports, which are based on an assumed five-month lag between registrations and arrivals. The implicit percentage increases are 3.0 percent in 1971 and 2.5 percent in 1972, both considerably below the expansion which the Three-Year Development Plan states as essential to support the 7.5 overall economic growth target. This clearly implies a significant external investment gap, particularly in view of recent conclusions by CIAP and the GOC itself that even the higher import levels called for in the Three-Year Development Plan would not be adequate. Reimbursable imports are actually projected to decline slightly in absolute terms in 1972. Rising non-reimbursable imports are expected to compensate somewhat and permit the small projected overall increase.

Some GOC officials have voiced a preference for significant import growth at the cost of large losses of foreign reserves. The import registrations levels set forth in the Request for an IMF Standby indicate that, to the contrary, the GOC has in fact opted for reduced import expansion in order not to draw down reserves to what they consider dangerously low levels. Simultaneously the GOC appealed to the Consultative Group in Paris in February for increased foreign assistance. The inadequate import levels already are increasingly dependent on international agency disbursements. A positive response to the GOC request would help little in the short-run since the project loan nature of all official capital other than AID implies a several year lag between authorization and disbursement of funds. Analysis of existing official loans resulted in total projected non-AID disbursements of $148 million in 1971. Disbursements are projected to increase to $173 million in 1972, assuming approval of new loans totalling $329 million in 1971, a total above the annual level of foreign project assistance called for in GOC presentations to CIAP and the Consultative Group. The sources of these loans include the IBRD, the IDB, the Export-Import Bank, and non-U.S. official bilateral entities (see Table 10). In the case of the first two institutions, projected new loans are based on review of the GOC project list presented to the Consultative Group and discussions with the Banks' representatives in Bogotá.

If these materialize opportunely, approval of the proposed FY 1971 AID sector loans would assure total official loan authorizations in excess of the original GOC targets. Disbursement rates, however, are even more critical to the short-run GOC needs than absolute loan levels. Deterioration of the current account has created a situation where more rapid disbursing loans such as those AID contemplates are necessary in order to maintain even the projected inadequately low import levels without serious loss of reserves. If coffee prices were to rebound to 1970 levels the demand would be greatly relieved; however, this would not be sufficient to eliminate the projected payments deficit much less permit an increase in imports to levels called for in the Three-Year Development Plan. The Request for a new IMF Standby Arrangement acknowledges that a cutback in the growth of imports is going to be necessary. The $38 million Standby itself will permit Colombia to avoid excessive losses of gross reserves. The new AID loans will similarly cushion the impact of the projected shortfall on exchange receipts. Specifically, projected AID disbursements of $96 million in 1971 consist of $74 million of the remaining program/sector loans funds, $7 million from project loans, and $15 million from the proposed FY 1971 sector loans. In 1972 total disbursements would be $66 million, of which $9 million would be project loans (including one loan just signed in April 1971) and $57 million would be the balance of the FY 1971 sector loans.

I. Monetary and Credit Policy

1. During the past several years Colombia's monetary authorities have pursued essentially responsible policies. Their objective has been to permit sufficient expansion of credit to support satisfactory economic growth while, at the same time, preventing excessive inflationary pressures. These policies have been largely successful, but in late 1970 the money supply expanded sharply and prices suddenly rose much faster than in previous months. The GOC has attempted to dampen the pressures associated with inadequate supply of goods in the market. The Bank of the Republic responded to the broader problem of excess demand with measures to reduce credit available to the private sector. It also organized a series of studies and meetings aimed at desirable reform of the entire capital markets structure. The principal cause of the overall monetary expansion, however, was considerable financing extended by the Bank of the Republic to the GOC and to the Coffee Federation. Credit outstanding for purchasing the current coffee crop has begun to decline somewhat, but the difficult fiscal situation of the GOC promises to have increasingly serious implications for the proposed capital market initiatives and overall monetary management and stability.

2. Under consecutive IMF Standby Arrangements the Colombian authorities consistently have maintained the growth of net domestic assets of the Bank of the Republic within designated limits. Central Bank credit to the non-coffee private sector expanded 28 percent in 1969 and nearly 20 percent in 1970 in nominal terms. However, more than half of this growth was offset by increased deposits of the commercial banks and imports in the Bank of the Republic. Moreover, the real increase of credit extended by the banking system has not exceeded overall economic growth; i.e., as a

proportion of total investment, private bank credit has declined somewhat. The money supply increased only 17.3 percent in 1970 compared to 19.5 percent in 1969. Prices rose approximately 7 percent in 1970 compared to an annual average increase of 11 percent from 1960 to 1969. Despite these improvements in macro-economic performance, for partially different reasons both the money supply and prices increased very rapidly in late 1970 and early 1971. The main factor in the price rises was the combination of holiday season increased demand and sudden insufficient supply of goods owing to the damage to crops and transport by the exceptionally heavy and persistent rains. Internal demand was augmented by abnormally large borrowing of the GOC from the Bank of the Republic and even more so by an unexpected and substantial increase in central bank credit to the Coffee Federation. These two factors contributed to a sharp increase in the money supply and resulted in the Bank of the Republic exceeding slightly at year-end the IMF ceiling on its net domestic credit.

3. In its request for a 1971-72 IMF Standby the GOC states its intention to cope effectively with the pressures generated at the end of 1970. To date prices in 1971 are still rising at nearly a 12 percent annual rate, but expansion of the money supply has been effectively and sharply reversed. The Government clearly cannot in the short-run make up the production shortfalls and resolve the marketing difficulties associated with the "winter emergency." It is attempting to alleviate speculative pressures on prices by stepping up the activities of the official food marketing agency and by more strict enforcement of price controls. The Col $675 million increase in financing by the Coffee Federation in the last quarter of 1970 was made necessary by the drop of the world price and the inactivity of private exporters. The exceptionally high level of credit outstanding obtained through the first quarter of 1971, but the GOC reduced the internal coffee support price by 7 percent in February, and credit to the Federation began to decline in April. The GOC has stated to the IMF that the indebtedness of the Federation shall be reduced, or at least not permitted to increase, during the program year. The IMF Standby also calls once again for no net increase in Government borrowing from the Bank of the Republic during the year. A balance of payments deficit thus far this year and several specific measures to discourage private bank foreign borrowing have been most important in contracting credit in the private sector and halting the expansion of the money supply.

qv

4. Efforts to bring about necessary changes in overall capital markets operations began with the discussion of a series of studies at a recent conference in Bogotá sponsored in part by the OAS and IDB. It is widely acknowledged that unrealistic restrictions on interest rates and the channeling of resources by "forced" bank investments have contributed to inadequate mobilization of private savirgs and distortions in the cost and distribution of credit. The conclusions of the capital markets conference were conveyed to an assemblage of ministers and other high level officials. The many recommendations included higher bank interest rates, incentives to invest in common shares, reduction of forced investments required by banks and insurance companies, creatio of employees' mutual funds, and encouragement of underwriting operations by finance corporations. A special commission has been established to undertake basic reform of the laws governing the private banks and it is hoped that additional such working groups will lead to early implementation of other recommendations of the capital markets conference.

5. In spite of the encouraging initiatives to increase private savings and the GOC's expressed intentions to adhere to certain IMF monetary guidelines, the future presents several potentially serious problems. As mentioned before, there is little the Government can do in the short run to relieve the pressures on prices caused by inadequate production. Also, if the world price of coffee declines further the authorities will have to reduce the internal price again and will face much political opposition in their efforts to reduce the expansionary impact of continued Coffee Federation financing. Even more critical are the implications of the current and projected difficult fiscal situation of the GOC. The projected shortfall in revenues from the levels required to permit programmed public investments will create strong incentives to place additional instruments with the banking system through more forced investment. It will also present obstacles to desirable changes in the capital markets. In short, ambitious public sector targets may result in additional contraction of credit to the private sector. One example of possible affect on developments in the private sector is the GOC reluctance to stimulate the stock market by reducing taxes on investment income, because of the revenue loss in the short term. Another example suggests the complex interdependence of capital market reforms and the Government fiscal needs. It is commonly accepted that banks must pay more on savings accounts than the current negative annual interest rate of 4 percent if they

Table 1

Fiscal Performance
1968-1970
Projections 1971-1972

	Current Pesos				
	1968 1/	1969 1/	1970 1/	1971 2/	1972 4/
I. Revenues	8,195.5	9,470.2	11,950.0	14,131.0	16,411.0
II. Operating Expenditures	5,122.0	6,417.8	7,857.4	10,164.0	10,885.0
Ordinary Expenditures	4,753.1	6,005.0	7,227.4	9,061.0	9,828.0
Interest on Debt	368.9	412.8	630.0	1,103.0	1,057.0
III. Surplus on Current Account	3,073.5	3,052.4	4,092.6	3,967.0	5,526.0
IV. Less Non-Bor Amortization	717.2	567.6	855.2	1,105.0	1,086.0
Domestic	456.3	316.3	475.0	748.0	741.0
Foreign	260.9	251.3	380.2	357.0	345.0
V. Residual Current Account Surplus	2,356.3	2,484.8	3,237.4	2,862.0	4,440.0
VI. Plus Domestic Borrowing	29.6	-20.9	158.0	483.0	453.0
Non-BOR	426.2	121.1	233.3	601.0	665.0
BOR (net)	-396.6	-142.0	-75.3	-118.0	-212.0
VII. Non-Foreign Financed Investment	2,385.9	2,463.9	3,395.4	3,345.0	4,893.0
VIII. Plus IDB, IBRD & Others	-2.2	179.9	197.1	379.0	425.0
IX. Non-AID-Financed Investment	2,383.7	2,643.8	3,592.5	3,724.0	5,318.0
X. Plus AID Counterpart	1,324.1	1,343.5	1,640.7	2,100.0 5/	1,400.0 5/
XI. Investment Expenditures	3,646.4	3,987.3	5,233.2	5,824.0	6,718.0
Plus: Unfinanced Planned Investment				416.0	502.0
XI. Total Planned Investment				6,240.0 3/	7,220.0 3/

are to attract increased funds from the small saver. In order to offer better earnings the banks must be able to charge higher interest on their loans and also be relieved of at least part of the non-profitable forced investments which currently claim nearly 20 percent of their total resources. However, the Three-Year Development Plan calls for the sale of nearly Col. $700 million in bonds in 1971 to help finance the investment budget. (As indicated earlier, it is anticipated that only 400 million will be placed and, in effect, the net fiscal deficit and the shortfall in placement of bonds authorized are close to equal.) Should the Government decide to achieve the $700 million level, although this now seems unlikely, it would raise the possibility of increased forced investments at the very time that the private banks are experiencing a relative scarcity of resources with which to service the demands of their clients. Given these obstacles to structural and procedural improvements in the capital markets, it must at least be hoped that the BOR will resist pressures to extend increased credit to the GOC at the cost of either serious restraints on private sector credit and/or creating inflationary pressures.

Table 1.A. 6/

Fiscal Performance
1968-1970
Projections 1971-1972

	Constant Pesos (1970)				
	1968 1/	1969 1/	1970 1/	1971 2/	1972 2/
I. Revenues	9,452.7	10,128.5	11,950.0	13,084.0	14,135.0
II. Operating Expenditures	5,907.7	6,864.0	7,857.4	9,411.0	9,376.0
Ordinary Expenditures	5,482.2	6,422.5	7,227.4	8,390.0	8,465.0
Interest on Debt	425.5	441.5	630.0	1,021.0	910.0
III. Surplus on Current Account	3,545.0	3,264.6	4,092.6	3,673.0	4,760.0
IV. Less Non-BOR Amortization	827.0	607.1	855.2	1,023.0	935.0
Domestic	526.3	338.3	475.0	693.0	638.0
Foreign	300.9	268.8	380.2	330.0	297.0
V. Residual Current Account Surplus	2,717.8	2,657.5	3,237.4	2,650.0	3,824.0
VI. Plus Domestic Borrowing	34.1	22.4	158.0	447.0	390.0
Non-BOR	491.6	129.5	233.3	556.0	573.0
BOR (net)	-457.4	-151.9	-75.3	-109.0	-183.0
VII. Non-Foreign Financed Investment	2,751.0	2,635.2	3,395.4	3,097.0	4,214.0
VIII. Plus IDB, IBRD & Others	-2.5	192.4	197.1	351.0	366.0
IX. Non-AID-Financed Investment	2,751.9	2,827.6	3,592.5	3,448.0	4,581.0
X. Plus AID Counterpart	1,527.2	1,436.9	1,640.7	1,944.0	1,206.0
XI. Investment Expenditures	4,205.8	4,264.5	5,233.2	5,393.0	5,786.0
Plus: Unfinanced Planned Investment				385.0	432.0
XI.A. Total Planned Investment				5,778.0	6,219.0

Ps

Footnotes to Tables 1 and 1.A.

1/ From BOR cash flow statements.

2/ From Projections Submitted to IMV, adjusted by Mission (see Table 1.B.).

3/ From 1970-1973 Economic Development Plan.

4/ Calculated by Planning Department on basis revised estimates of 1971 revenues and expenditures.

5/ Total counterpart generations for 1971/1972 estimated at 3,500 million pesos, as follows:

Estimated 1971 generations for which allocation agreement now in force	1,500
New Sector loans	1,500
Unallocated PL-480 generations	370
Unallocated generations estimated from existing loans	130
	3,500

These amounts are expected to be distributed between the two years as follows:

	1971	1972
Allocated 1971 generations	1,500	-
New sector loans	310	1,190
PL-480	160	210
Unallocated generations from existing loans	130	-
	2,100	1,400

6/ Based on Table I. Assumes price increases of 8 percent in 1971 and 7½ percent in 1972.

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Table 2

GOC 1971 Cash Operations
ation of Projections in GOC's Memorandum to the IMF, March 12, 1971
With 1971 Projections Contained in Table 1

	IMF Projections	Adjustments	New Estimates
I. Current Revenues	13,615		14,131
Income Taxes	6,590		6,590
Customs	2,678		2,678
Import Surcharge	375		375
Special Exchange Account	900	-94 1/	806
Gasoline Tax	910		910
Sales Tax	1,250	385 2/	1,635
Stamp Tax	660	225 2/	885
Inheritance Taxes	185		185
Other	815		815
- CATs	-748		-748
II. Operating Expenditures	9,359		10,164
Ordinary Expenditures	8,346	715 3/	9,061
Interest	1,013	90 4/	1,103
Internal	520	20 4/	540
BOR	75	70 4/	145
External	418	-	418
III. Current Surplus	4,256		3,967
IV. Investment	5,945		5,824
V. Net Financing	1,689		1,857
External	1,522		2,122
AID	1,500	600 5/	2,100
IBRD	262		262
IDB	117		117
- Amortization	-357		-357
Domestic	178		-147
Econ Dev. Bonds	700	-300 6/	400
Agrarian Bonds	77		77
Law 21/63 Bonds	70		70
Other	54		54
- Amortization	-723	-25 7/	-748
BOR Credit (net)	+11		-118
Change in Treas. Cash Pos.	-		-
Gross Lending	200		200
- Amortization	-211	-107 7/	-318
VI. Unfinanced Planned Investment			416
VII. Planned Investment (= IV + VI)			6,240 8/

Footnotes to Table 2

1/ Earnings from coffee tax revised downward on basis of Mission estimates Price/volume relationship.

2/ Estimate of earnings from tax changes effected by Decrees adjusting pensions.

3/ Includes: 400 million pesos estimated carryover of unpaid bills from 1970; 200 million pesos estimated cost of pension increases (Mission estimates); and 115 million pesos (30 percent of increase in sales taxes) representing automatic transfer to Departments.

4/ Estimated interest payments carried over from 1970 for payment.

5/ See footnote 5/ to Table 1.

6/ Assumes all 700 million pesos of bonds authorized will not be sold (Mission estimate).

7/ Estimated carryover of amortization payments scheduled to be paid in 1970. (Mission estimate).

8/ Per 1970-73 Economic Development Plan.

TABLE 3

PUBLIC REVENUE AND SAVING

	1967		1968		1969		1970		1971		Elasticity 1967-70
	Level	%of GNP	Level	%of GNP	Level	%of GNP	Level	%of GNP	Level	%of GNP	
A. National government Revenue (Excluding 2/ decentralized agencies)	6,688	8.0%	8,195	8.6%	9.581	8.7%	11,950	9.6%	14,131	9.9%	1.65
B. Domestic Revenue (Including Decentralized agencies. State Form 1074)	7,348	8.7%	8,942	9.3%	11,348	10.3%	13,380	10.8%	NA	NA	1.72
C. Public Sector Income (Includes decentralized agencies and local government: IBRD definition) 1/	13,958	16.7%	17,126	18.0%	20,476 est.	18.7%	24,528 est.	19.9%	28,032 proj.	19.5%	1.58
D. Public Sector Saving (Includes decentralized agencies and local government: IBRD definition) 1/	4,474	5.4%	5,972	6.3%	6,352 est.	5.8%	7,665 est.	6.2%	8,327 proj.	5.8%	1.49

1/ IBRD, Economic Growth of Colombia: Problems and Prospects, Volume II, Table 5.2. Both domestic and foreign borrowing is excluded from IBRD definition of income.

2/ Cash flow figure, Source: National Planning Department, Plan de Desarollo Economico y Social 197-73, Chapter II, Table 2, and Chapter XI, Table 3.

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TABLE 4

INCOME AND EXPENDITURES OF THE PUBLIC SECTOR IN REAL TERMS, 1966-72

(In millions of 1968 Pesos)

	1966	1967	1968	1969	1970	1971	1972
	- - - A	c t u a	l- - -	Est.	- - -	-Projected-	- - -
Current Accounts							
Direct Taxes	3,426	3,808	4,552	5,338	5,813	6,133	6,664
Indirect Taxes	5,144	4,909	5,264	5,554	6,786	7,238	7,473
Other Taxes and Dues	1,003	1,333	1,551	1,618	1,779	1,957	2,153
Sales of Goods and Services	2,722	3,186	4,208	4,906	5,341	5,817	6,324
Other Income	1,401	1,684	1,828	2,029	2,246	2,390	2,546
Profit or Loss (-) of Commercial Operations	124	73	-139	19	-87	-82	-76
Tax Credit Certificates (CAT)	-	-	-138	-310	-437	-551	-699
Total Current Account Income	13,820	14,993	17,126	19,154	21,441	22,902	24,385
Personal Services	5,848	6,222	6,690	7,456	8,032	8,603	9,202
General Expenditures	1,478	2,000	2,316	2,834	3,195	3,595	4,057
Transfers to the Private Sector	1,368	1,341	1,447	2,110	2,336	2,651	2,939
Interest on Debt	728	624	701	812	1,178	1,250	1,336
Total Current Account Expenditures	9,422	10,187	11,154	13,212	14,741	16,099	17,534
Current Account Surplus	4,398	4,806	5,972	5,942	6,700	6,803	6,851
Investments (by sectors)							
Transport	1,938	1,961	1,957	2,152	2,600	2,442	2,396
Energy	691	833	944	1,104	1,946	1,601	1,888
Communications	167	221	256	313	578	387	407
Water and Sewerage	423	453	591	689	776	970	1,086
Housing	312	414	577	599	633	588	657
Education	209	259	374	341	441	518	527
Health	80	153	148	243	199	266	231
Agriculture	578	842	1,127	1,179	1,647	1,873	2,125

TABLE 4, Cont'd

	1966	1967	1968	1969	1970	1971	1972
	- - Actual -		- - - - -	Estimate	- - - Projected- - - -		
Industry	188	214	392	552	854	851	777
Tourism	-	-	10	28	48	71	81
Studies and Research	5	14	25	47	88	108	111
Other	266	293	423	435	580	540	521
Total	4,317	5,657	6,824	7,682	10,390	10,215	10,807
Financial Investments	46	198	558	702	437	408	458
Total Investments	4,363	5,855	7,382	8,384	10,827	10,623	11,265
Current Account Surplus	4,398	4,806	5,972	5,942	6,700	6,803	6,851
Deficit or Surplus	35	-1,049	-1,410	-2,442	-4,127	-3,820	-4,414

Source: IBRD, Economic Growth of Colombia: Problems and Prospects Volume II, Table 5.3

Table 5

Expenditures
(percent of total budget) 1/

	1969 1/			1970 1/			1971				
	O.P *	I.E.*	Total	O.P.*	I.E.*	Total	O.P.* 2/	I.E.* 2/	Total	Inv. Plan	Revised Total 4/
National Congress	1.1	-	.7	1.2	-	.7	1.1	-	.7	-	.6
Controller General	1.2	-	.8	1.3	-	.8	1.3	-	.8	-	.8
Presidency	.2	-	.1	.2	-	.1	.1	-	.1	-	.1
Planning Department	-	.6	.3	.1	1.2	.6	.1	1.2	.5	1.3	.5
DANE	.3	.3	.3	.4	.8	.6	.4	.9	.6	1.0	.6
Civil Service	.1	.1	.1	.1	.2	.1	.1	.2	.1	.2	.1
DAS	.7	.3	.5	.9	.3	.7	1.0	.3	.7	.3	.7
Civil Aeronautics	.2	.6	.4	.3	1.6	.8	.2	1.3	.6	1.3	.6
General Services 5/	.3	-	.2	-	-	-	-	-	-	-	-
Ministry of Government	.7	2.9	1.6	1.1	3.4	2.3	.6	4.1	2.0	1.9	1.9
Ministry of Foreign Relations	1.4	.1	.9	1.5	.1	1.0	1.4	.1	.9	.1	.9
Ministry of Justice	2.5	.6	1.7	2.4	.6	1.6	2.4	.8	1.7	1.0	1.8
Ministry of Finance (Ordinary)	15.3 6/	1.8	10.0	8.5 6/	2.1	5.9	8.4 6/	1.5	5.7	1.6	5.6
Ministry of Finance (Public Debt)	18.9	-	11.5	20.6	-	12.2	23.4	-	14.3	-	14.0
Ministry of Defense	16.1	1.0	10.2	16.3	3.6	11.1	15.5	2.7	10.5	2.6	10.3
National Police	10.2	.2	6.3	10.1	.7	6.3	10.1	.5	6.4	.6	6.3
Ministry of Agriculture	.1	9.9 7/	4.0	.2	14.9 7/	6.2	.2	15.8 7/	6.2	18.3 7/	7.1
Ministry of Labor	3.9	.1	2.4	3.6	.2	2.2	3.6	.2	2.3	.3	2.3
Ministry of Public Health	2.9	10.2	5.8	3.9	12.5	7.4	4.5	12.7 9/	7.7	13.8	8.0
Ministry of Economic Development	.5	10.2	4.3	.5	6.8 8/	3.1	.7	8.0	3.6	8.7	3.8
Ministry of Mines & Petroleum	.1	.7	.3	.2	.7	.4	.2	.9	.4	1.0	.5
Ministry of Education	16.6	8.2	13.2	20.0	7.9	15.0	17.8 10/	9.5	14.6 10/	10.0	14.5 10/
Ministry of Communications	.8	.3	.6	.9	.6	.7	1.0	.5	.8	.5	.8
Ministry of Public Works	.6	51.9	20.8	.7	41.8	17.5	.8	39.0	15.6	35.6	15.3
Judicial Branch	4.4	-	2.7	4.4	-	2.6	4.3	-	2.6	-	2.5
Public Ministry	.6	-	.4	.5	-	.4	.9	-	.5	-	.5
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* O.P. - Operating Expenditures
I.E. - Investment Expenditures

1/ Budget figures from which this table derives are not on a cost flow basis, but also include budgetary reserves.

Footnotes to Table 5

1/ From Controller General's Reports.

2/ From 1971 Budget Law.

3/ From 1970-73 Development Plan.

4/ Revised Investment Expenditures use target from Development Plan or actual appropriation, whichever is higher.

5/ Functions transferred to decentralized agency; GOC appropriation now included in Ministry of Finance.

6/ Less budgetary appropriation for CAT's (not a cash expenditure).

7/ Less 200 million pesos agrarian bonds, annual allotment to capitalization of INCORA.

8/ Less 900 million pesos "Bonos de Ahorro Nacional," capitalization of National Savings Fund.

9/ Less 250 million pesos "Bonos de Bienestar Familiar," capitalization of Family Welfare Fund.

10/ Does not include salary increases to teachers authorized subsequent to passage of Budget Law, estimated at 500 million pesos in 1971.

Table 6

National Accounts
Expenditure on Gross Domestic Product
(At Current Prices, Millions of Pesos)

	1967 1/	1968 1/	1969 1/	1970 2/	1971 2/	1972 2/
Gross Domestic Product	83,082.7	96,421.7	110,953.3	126,675.4	146,386.1	168,344.0
Imports (+)	9,521.4	13,779.5	15,947.2	17,374.5	18,819.0	20,513.8
Exports (-)	-9,950.3	-12,519.6	-14,675.1	-14,210.0	-15,887.5	-17,679.8
Total Available Resources	82,653.8	97,681.6	112,225.4	129,839.9	149,317.6	171,178.0
Total Consumption	67,312.8	77,275.4	89,062.9	102,179.2	119,257.0	135.997.8
Private	61,596.0	70,695.6	81,230.1	92,599.7	106,862.0	122,722.8
Government	5,716.8	6,579.8	7,832.8	9,579.5	12,395.0	13,275.0
Total Investment	14,729.1	18,815.1	21,230.1	25,701.3	29,049.1	32,930.6
Private	10,392.1	13,454.5	14,590.1	16,968.3	19,846.1	22,823.0
Government	4,337.0	5,360.6	6,640.0	8,715.0	9,203.0	10,107.6
Change in Stocks	611.9	1,591.1	1,932.4	1,959.4	1,011.5	2,249.6

(At Constant Prices, 1969, Millions of Pesos)

	1967 1/	1968 1/	1969 1/	1970 2/	1971 2/	1972 2/
Gross Domestic Product	98,322.7	104,352.5	110,953.3	118,167.3	126,434.7	135,281.3
Imports (+)	11,267.9	14,912.9	15,947.2	16,207.6	16,254.1	16,484.9
Exports (-)	-11,775.5	-13,549.4	14,675.1	-13,255.6	-13,722.1	-14,207.5
Total Available Resources	97,815.2	105,716.0	112,225.4	121,119.3	128,966.7	137,558.6
Total Consumption	79,660.1	83,631.4	89,062.9	95,316.4	103,003.1	109,287.8
Private	72,894.7	76,510.4	81,230.1	86,380.3	74,607.3	98,620.1
Government	6,765.4	7,121.0	7,832.8	8,936.1	10,705.6	10,667.8
Total Investment	17,430.9	20,362.7	21,230.1	23,975.1	25,089.9	26,463.0
Private	12,298.3	14,561.1	14,590.1	15,828.6	17,141.2	18,340.1
Government	5,132.5	5,801.5	6,640.0	8,129.7	7,948.7	8,122.5
Change in Stocks	724.1	1,722.0	1,932.4	1,827.8	873.6	1,807.8

1/ From Bank of the Republic, National Accounts, 1967-1969.
2/ Mission estimates. Assumed rates of increases are: 1970, 6.5 percent real, 7.2 percent price; 1971, 7.0 percent real, 8.0 percent price; 1972, 7.0 percent real, 7.5 percent price.

Table 7

Exchange Market Balance of Payments
(Millions of dollars)

	Actual 1969	Actual 1970	Projected 1971	Projected 1972
1. Export Receipts	562	670	700	735
Coffee	333	405	413	414
Minor	208	238	255	291
Petroleum Capital	21	27	32	30
2. Import Payments	-507	-598	-692	-702
Ordinary	334	393	508	575
AID Program/Sector	66	82	74	-
Compensation	64	58	52	60
IBRD	9	25	12	15
Petroleum	34	40	46	32
3. Service Receipts	123	114	124	133
4. Service Payments	-198	-245	-293	-297
Freight & Insurance	39	44	54	56
Interest	60	76	89	93
Other	99	125	150	148
5. Current Account Balance	-20	-59	-161	-131
6. Private Capital (net)	30	43	34	41
Net Direct Investment (L.C.)	13	16	14	12
Loan Inflow	87	105	130	120
Amortizations	-56	-65	-100	-81
Other (net)	-14	-13	-10	-10
7. Official Capital (net)	51	71	81	50
AID-Existing Program/Sector Loans	68	85	74	-
AID-FY 1971 Sector Loans	-	-	15	57
Local Cost Project Loans (incl. AID project loans)	17	21	25	29
FIF/IBRD	11	13	15	15
Amortizations	-39	-56	-59	-62
Other (net)	-6	-13	-6	-6
SDR	-	21	17	17
8. Capital Account Balance	81	114	115	91
9. Balance of Payments	61	55	-46	-40

	Actual		Projected	
	1969	1970	1971	1972
10. Net Foreign Reserves (minus = inc.)	-61	-55	46	40
Gross Reserves (minus = inc.)	-40	-	55	40
Liabilities (minus = reduc.)	-21	-55	-9	-
11. Net Reserves end of Period	97	152	106	66
12. Gross Reserves end of Period	257	257	202	162

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Footnotes to Exchange Market Balance of Payments
(Table 7)

1. Export Receipts - The projected levels of receipts represent annual growth of 19.2 percent in 1970, 4.5 percent in 1971, and 5.0 percent in 1972. The main reason for the difference between these rates and those in the Resource Flow Balance of Payments is that crude petroleum exports in the latter are expected to decline faster than petroleum capital payments in the exchange market balance. The minor export projections are in the inclusion of pre-export financing in the exchange market treatment. This is projected to decline to a negligible amount from 1970 to 1972. Projected coffee export receipts are less than in the resource flow presentation by $20 million, which represents Coffee Federation expenses abroad and are netted out of both export receipts and service payments. See footnote to Resource Flow Balance of Payments (Table I) for details.

2. Import Payments - The main difference with the Resource Flow import projections is that the Exchange Market presentation excludes non-reimbursable imports which are financed and thus do not imply a claim on the country's foreign exchange reserves. AID program/sector loans are included under reimbursables for accounting purposes. The same is true of imports financed on a bilateral compensation basis and by certain IBRD loans for which the Bank of the Republic has special administrative responsibility. Ordinary reimbursable import payments are based on projected registrations as set forth in the GOC request for an IMF Standby Arrangement. Actual projected payments are derived from a schedule of payments distributed over the 25 months following issuance of the license. Import payments financed by AID program/sector loans are projected at $74 million (assuming the same five-month lag between registration and payment and that applied to arrivals), which would exhaust existing loans. In contrast to the IMF Projections, we do not project AID-financed imports under the proposed FY 1971 loans. The new method of disbursement in response to peso needs will effectively untie dollar disbursements from imports. The loan dollars will in practice be used to finance imports, but in theory could be attributed to foreign reserves. Projected import payments under compensation agreements and IBRD

[redacted]

loans for industrial commodity imports are based on import registration levels cited in the Request for IMF Standby. Import payments by petroleum companies are taken directly from the GOC/IMF projections of the exchange market balance of payments in the Request for Standby.

3.4. Service Receipts and Payments - These data are GOC/IMF projections for 1971 and extentions of those projections through 1972. Services associated with non-reimbursable imports are excluded and interest payments and earnings of the Bank of the Republic are included as a net item under interest payments.

6. Private Capital - The projection of direct private foreign investment is only that part which finances local costs expenditures. Import financing is excluded as are the imports from the import payments category. The projections for 1971 and 1972 reflect the expected dampening effect of the Andean Investment Code and are somewhat less optimistic than the GOC/IMF projections. Projection of loan inflow, amortizations, and "other" (swaps and foreign currency deposits) are consistent with the GOC/IMF projections. Loan inflow is expected to continue to increase in 1971 as more longer-term loans compensate for reduced short-term borrowing. Given rising amortizations associated with the high level of short-term loans in 1970, however, net private loan inflow is expected to decline from $40 million in 1970 to $30 million in 1971.

7. Official Capital - All projections are essentially consistent with the GOC/IMF exchange market projections. Assuming an advance disbursement followed by an additional disbursement in the fourth quarter, an estimated $15 million of the proposed $72 million FY 1971 AID sector loans would be disbursed in 1971. These funds and the remaining $57 million in 1972 would enter directly into the Bank of the Republic's reserves as the GOC demonstrates the need (and eligibility) for pesos to be applied in the three sectors. With the exception of certain IBRD loans and project loan disbursements for local costs, disbursements of international agency project loans (and imports financed by those disbursements) do not enter into the exchange market presentation of the balance of payments.

10. See footnote to the Resource Flow Balance of Payments (Table I) for explanation of changes in gross reserves and official liabilities.

[redacted]

[redacted]

Table 8

Resource Flow Balance of Payments
(Millions of dollars)

	Actual 1969	Est. 1970	Projected 1971	1972
1. Exports	673	812	775	811
Coffee	353	479	433	434
Minor Exports	207	231	253	291
Petroleum	57	67	54	51
Other	56	35	35	35
2. Imports	-679	-891	-917	-941
Reimbursables	-	-	-756	-745
Non-Reimbursables	-	-	-162	-196
3. Services (net)	-237	-249	-277	-291
Freight Insurance	-33	-43	-44	-46
Income Payments	-144	-156	-168	-180
Other	-60	-50	-65	-65
4. Transfer Payments (net)	38	25	30	35
5. Current Account Balance	-205	-303	-390	-386
6. Private Capital (net)	127	185	163	175
Long-term Loans (net)	39	50	58	65
Short-term Loans (net)	38	78	55	60
Direct Investment (net)	50	55	50	50
7. Official Capital (net)	139	175	181	171
Loans-Inflow	193	234	244	239
AID-Existing Loans	(75)	(89)	(81)	(9)
AID-FY 1971 Sector Loans	-	-	(15)	(57)
Other	(118)	(145)	(148)	(173)
Amortizations	-54	-78	-80	-85
SDR	-	21	17	17
8. Capital Account Balance	266	358	344	346
9. Balance of Payments	61	55	-46	-40
10. Net Foreign Reserves (minus = inc.)	-61	-55	46	40
Gross Reserves (minus = inc.)	-40	-	55	40
Liabilities (minus = reduc.)	-21	-55	-9	-
11. Net Reserves end of Period	97	152	106	66
12. Gross Reserves end of Period	257	257	202	162

[redacted]

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[redacted]

Footnotes to Resource Flow Balance of Payments

1. Exports General - The estimated growth in shipments of total exports in 1970 is 21 percent. Exports are projected to decline 0.5 percent in 1971 and regain the 1970 level in 1972. The projected decline in petroleum exports is from the GOC National Planning Department (DNP) and reflects growing internal demand and no increase in production. DNP projects "other" exports (unregistered contraband) to remain constant.

Minor - The annual growth rates for minor export shipments (plus monetary gold) are 11.6 percent in 1970, 9.5 percent in 1971, and 15.0 percent in 1972. Shipments in 1970 exceeded the 4.1 percent increase in registrations but lagged behind the 14.6 increase in receipts, the latter owing to continued pre-export financing. Projected growth in 1971 assumes 15 percent increase from April through December to compensate for absolute decline in the first quarter compared to the same period of 1970. The projected increase in 1972 constitutes a downward adjustment from the GOC 20 percent target.

Coffee - The coffee export projections assume a N.Y. price of US.50 per pound in 1971 and US.53 per pound in 1972. These price levels assume a relatively significant recovery from the US.48 that prevailed during most of the first quarter of 1971. Projected volume of shipments are 6.9 million 60 kg. bags in 1971 (0.5 million carryover from 1970 and 6.4 million under new quota) and 6.5 million bags in 1972.

Coffee Exports

	1970	1971	1972
N.Y. Price	.57	.50	.53
Export Volume (millions 60 kg. bags)	6.6	6.9	6.5
Price per bag (US$)	75.02	65.80	69.75
Minus Freight-Insurance (US$/bag)	3.00	3.00	3.00
Net Earnings perbag (US$)	72.02	62.80	66.75
Export Value (millions US$)	479.1	433.3	433.8

[redacted]

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[redacted]

2. Imports - Data which discriminate between actual reimbursable and non-reimbursable import arrivals are not available. Arrivals are projected on this basis because of the timely availability of data on the issuance of licenses (registrations) for imports. The implied annual growth rates are 31 percent in 1970, 3 percent in 1971, and 2.5 percent in 1972. Projections of reimbursable imports assume a five-month lag between registration and arrival and 4 percent cancellation or non-use of licenses. They are based on actual registrations through February 1971 and registration targets for ordinary, compensation, and IBRD financial reports set forth in the Request for IMF Standby Arrangement (March 23, 1971) for the Program Year 1971-72. Projected reimbursable imports include $74 million in 1971 and no such identifiable imports in 1972 financed by AID Program/Sector loans. (The assumption is that existing funds will be exhausted in 1971 and disbursements under the new loans will be linked to peso needs and will not result in identifiable AID-financed imports per se.) Arrivals of non-reimbursable imports are projected on the basis of actual registrations through February and projected levels of foreign investment, grants, and project loan disbursements. While reimbursable imports are expected to decline from 1971 to 1972, non-reimbursable imports should increase, largely owing to higher project loan disbursements and some increase in petroleum companies' imports as exploration operations pick up.

3. Services - All projections are based on the most recent estimates by the DNP. Income payments and "others" are DNP projections. DNP projections of freight and insurance were adjusted upward slightly in accordance with the Embassy's expected levels of imports which are higher than those of the DNP. The net figures in the table result from the following receipts and payments.

	Freight & Insurance		Income Payments		Other Services	
	Receipts	Payments	Receipts	Payments	Receipts	Payments
1969	90	123	10	154	108	168
1970	95	138	10	166	113	163
1971	102	146	10	178	115	180
1972	109	155	10	190	122	187

4. Transfer Payments - Based on DNP data and adjusted for Embassy projections of P.L. 480 Title II grants.

[redacted]

1/2

6. Private Capital - Long-term loans (i.e., maturity in excess of one year) are projected to increase in accordance with DNP projections of project capital flows. Short-term loans are expected to decline as repayments of the higher level in 1970 come due in 1971. Also recent monetary measures including ceilings on interest rates and new marginal reserve requirements on foreign borrowing are expected to discourage new short-term foreign loans. Direct investment levels are not projected to reach DNP estimates because of the dampening effects of the Andean Investment Code.

7. Official Capital - Projections of non-AID project loans are based on a loan-by-loan analysis of disbursement rates and assumed new authorizations consistent with the GOC project list and actual plans of the lending agencies (see Table IV for details). AID loan flows consist of disbursement of "existing" loans (including one project loan yet to be signed in FY 1971) and the proposed FY 1971 sector loans. Existing program/sector loans are expected to be fully utilized with the disbursement of $74 million in 1971. For projection purposes it is assumed that $15 million of the proposed $72 million FY 1971 package of three sector loans will be disbursed in the second half of 1971. The remaining $57 million is projected for disbursement in 1972. Projected amortizations are taken from recently revised DNP data. Colombia already has received its allocations of IMF Special Drawing Rights in 1970 and 1971 and is scheduled to receive $17 million more in January 1972.

10. Foreign Exchange Reserves - The 1971 projected $46 million balance of payments deficit (i.e., loss of net reserves) is expected to result in a $55 million gross reserves loss in order to finance the deficit and reduce official liabilities by $9 million. The latter is based on scheduled repayment of remaining outstanding debts to European creditors and projected use of the new IMF Standby Arrangement to meet maturing obligations. The GOC anticipates drawing in 1971 $30 million of the Standby total of $38 million, which against peso repurchases of $32 million will result in net repayment to the IMF of $2 million. By 1972 virtually all of the debt to private creditors will be liquidated and it is assumed for projection purposes that IMF maturities will in effect be rolled over. Thus the loss in gross reserves is projected as equivalent to the balance of payments deficit.

Table 10

Official Loan Capital Flows 1/
(Millions of US$)

	Actual 1970	Projected 1971 3/	Projected 1972 4/
I. Disbursements 2/			
Non-AID	144	148	173
IBRD	57	58	72
IDB	50	57	62
Eximbank	14	6	9
P.L. 480 - I	13	15	15
Non-U.S. Bilateral	10	12	15
AID	89	96	66
Existing Program/Sector	85	74	-
FY 1971 Sector	-	15	57
Project	4	7	9
Total	233	244	239
II. Authorizations 5/			
Non-AID	127	329	301
IBRD	77	171	108
IDB	22	111	143
Eximbank	2	21	15 6/
P.L. 480 - I 7/	16	14	12
Non-U.S. Bilateral	10	12	15
AID	72	77	-
Program/Sector	70	72	-
Project	2	5	-
Total	199	406	301

1/ Gross inflows only. Do not include amortizations.
2/ Disbursements are based on project-by-project analysis using agency loan statements showing amounts outstanding and recent disbursements and DNP survey data on disbursement rates by agency and by sector.
3/ Disbursements include projected disbursements of all existing loans as of December 31, 1970, and a portion of the proposed FY 1971 AID sector loans.
4/ Disbursements include projected disbursements of both existing loans as of December 31, 1970, and estimated new loans to be authorized in 1971.
5/ Projected new loans in 1971 and 1972 are based on GOC project list presented to the Consultative Group meeting in February 1971 and discussions with representatives of the IDB and IBRD in Bogotá. An IBRD loan for $88 million already has been signed in 1971 and IBRD-IDB loans totalling nearly $130 million are expected to be signed within the next three months.

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Table 9

Minor Exports, 1969-1970
(US$ Millions)

	Registrations			Receipts		
	1969	1970	Change	1969	1970	Change
Traditional	74.6	70.6	-4.0	81.6	86.9	+5.3
Cotton	34.9	31.5	-3.4	36.4	38.6	+2.2
Sugar	16.8	14.4	-2.4	17.5	21.8	+4.3
Bananas	15.6	17.2	+1.6	18.6	17.7	-0.9
Tobacco	7.3	7.5	+0.2	9.1	8.8	-0.3
Non-Traditional	129.7	142.1	+4.4	126.4	151.5	+25.1
Live Animals/Cattle	13.4	16.4	+3.0	11.1	19.8	+8.7
Paper Boxes	5.8	4.7	-1.1	4.4	6.6	+2.2
Beef	4.6	9.0	+4.4	6.4	10.6	+4.2
Cement	3.5	3.7	+0.2	3.2	3.4	+0.2
Emeralds	*	*	*	3.9	3.4	-0.5
Textiles	17.4	21.8	+4.4	15.1	21.8	+6.7
Tires/Tubes	*	*	*	0.9	0.9	-
Books/Paper	3.8	4.6	+1.2	1.9	4.1	+2.2
Wood	6.9	5.6	-1.3	7.2	6.3	-0.9
Mechan./Elect. Manufact.	*	*	*	4.7	6.6	+1.9
Stone/Cement Manufact.	*	*	*	1.0	1.2	+0.2
Seafood	4.2	4.2	-	4.6	5.0	+0.4
Metal/Metallic Manufact.	4.9	5.5	+0.6	4.1	4.4	+0.3
Gold	4.4	9.1	+4.7	5.0	5.4	+0.4
Hides/Skins	8.0	5.6	-2.4	8.7	7.0	+1.7
Platinum	*	*	*	5.9	3.0	-2.9
Chemical Products	7.5	8.0	+0.5	8.1	9.3	+1.2
Glass	4.1	4.1	-	2.3	4.9	+2.6
Petroleum Products	*	*	*	5.5	3.3	-2.2
Various	41.2	39.8	-1.4	22.3	23.7	+1.4
Total	204.3	212.7	+8.4	208.0	238.4	+30.4 2/

1/ Percentage increase: 4.1%.
2/ Percentage increase: 14.6%.
* Breakdown of registrations and receipts based on different definitions of categories. This category of registrations is not identifiable and therefore is included under "various."

[redacted]

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6/ Not based on specific project proposals. Rather simply assumes some decline from the level of new lending expected in 1971.
7/ Provided by the Agricultural Attaché's Office. The 1971 total consists of a \$3.1 million amendment of the agreement signed in 1970 and \$11.3 million of a two-year agreement to be signed in 1971. The 12.0 million balance of the latter agreement is shown for 1972.

AID-DLC/P-966

May 27, 1971

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, 1971.

MMA - Merchant Marine Act of 1936, as amended.

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. FAA S. 208; S. 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, Colombian Agricultural Institute, and its Agricultural Reform Program implemented by INCORA. These efforts are more fully described in Parts One and Two of the 1971 Agricultural 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 has resulted in a reluctance on the part of foreign investors to invest in Colombia (see Supplement One, Section II 3 for a fuller treatment of this problem).

[redacted]

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 to small and middle-sized farmers. The efforts being supported by the Urban Regional Sector Loan, as more fully described in Parts One and Two of the 1971 Urban Regional Loan Paper, will also assist in increasing the public's role in the development process by decentralizing Public Administration outside of the major urban concentration areas.

4. a) Allocating available budgetary resources to development.

The GOC is allocating available budgetary resources to development. (Part Two, Sections I and II)

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 engaged in 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. (Part Two, Sections I and II)

[redacted]

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[redacted]

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 by such government?

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

3. FAA S. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) 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 S. 620(o); Fishermen's Protective Act. S. 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

[redacted]

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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 Section E of Supplement One. Colombia's extensive program of land reform, which is assisted by the 1971 Agricultural Sector Loan, is discussed in detail in Parts One and Two of the Capital Assistance Paper for that Loan. The development plans of the GOC recognize the importance of industrial freedom, initiative and private enterprise. Freedom of press, speech and religion continue.

7. Adhering to the principles of the Act of Bogota and Charter of Punta del Este.

Colombia is adhering to the principles of the Act of Bogota 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.

[redacted]

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 S. 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 S. 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 S. 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 S. 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.

[redacted]

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 detentions 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 S. 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?

It is not anticipated that the small and medium sized businesses which will be assisted by loan funds will compete in the U.S. with U.S. enterprise.

6. FAA S. 620(j). 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 S. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID administration within the past year considered denying assistance to such government for this reason?

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One, p. B-16). In addition, there are 120 million pesos left over from last year's budget available for these purposes. Lastly, the budget provides another 14 million pesos for the purchase of military equipment in general, a portion of which may be spent overseas.

CONDITIONS OF THE LOAN

General Soundness

17. FAA S. 201(d). Information and conslusion 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 S. 251(b)(2); S. 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 S. 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.

[redacted]

12. FAA S. 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 S. 620(f). Is recipient country a Communist country?

No.

14. FAA S. 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 S. 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.

Military Expenditures

16. FAA S. 620(s). 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 systems?

a) 10.3% (see Table 5, Supplement One).

b) In this Fiscal Year, the GOC has budgeted 145 million pesos for the purchase of sophisticated military equipment (see Supplement

[redacted]

We understand that the IDB, IBRD and Ex-Im Bank are not interested in financing this program; however, the Mission has not received to date final letters to this effect. 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 obtain and productively utilize credit and technical assistance.

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 both at the management and worker level in small industries. Also training in public administration is contemplated.

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.

[redacted]

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

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

Since this loan is to an entity of the GOC, acting as a financial intermediary by redistributing the proceeds of the loan to other agencies in the Urban-Regional sector, engineering plans are not required. With respect to financial planning, the total cost of the program is based on an analysis of quantitative demands and absorptive capacity of the Urban-Regional sector (see Part Two). Organizational plans are set forth in Part I, Section II. The Mission has, as yet, not ascertained what organization will be utilized for the purposes of providing overall monitoring responsibility for the Loan. However, the loan agreement will not be signed until an arrangement with an appropriate entity can be made. Preliminary implementation plans for the loan are contained in Part Two 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

21. FAA S. 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.

22. FAA S. 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 Supplement.

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

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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 S. 209. Is project susceptible of execution as part of 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 S. 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realiable 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 S. 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 S. 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.

[redacted]

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 S. 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 describes 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 S. 601(a). Information and conclusions whether loan will encourage efforts of the country to:

a) increase the flow of international trade;

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, and by encouraging the GOC to foster the exportation of Colombian goods. The Balance of Payments section of the macro-economic analysis, Supplement One, discusses 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

[redacted]

private sector's productivity, and by supporting the GOC's development plans which contain many measures designed to stimulate private initiative.

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 S. 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 S. 251(h). Information and conclusion on whether the activity is consistent with the

findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.

The proposed loan is consistent therewith (Part Two, Section III)

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

In view of the nature of the project, it is not appropriate to utilize the loan to assist in promoting the cooperative movement in Latin America.

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.

N.A.

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.

[redacted]

The Mission does not contemplate any adverse effect on U.S. economy. (See Supplement One.)

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 business will participate equitably in the furnishing of goods and services financed by the loan.

N.A.

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

[redacted]

No.

40. FAA §. 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 provided 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.

[redacted]

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.

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

N.A.

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?

[redacted]

N.A.

47. FAA S. 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 S. 611(b); App. S. 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 S. 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 S. 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.

[redacted]

51. FAA §. 612(b); s. 636(h).
Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of constractual 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. App. §. 104. Will any loan funds be used to pay pensions, etc., for military personnel?

No.

53. App. §. 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 educational sector. The contracting procedures and criteria for selection of contractors of these governmental agencies are approved by AID.

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

No.

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

N.A.

[redacted]

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

N.A.

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

No.

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

N.A.

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

No.

60. MMA S. 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.

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SUPPLEMENT TWO

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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 capabilities and the human resources effectively to maintain and utilize 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 $33.9 million, which discussed in detail the capabilities of the various governmental agencies which will implement the loan, and finds that they possess adequate financial and human resources capability effectively to maintain and utilize the project.

Marvin Weissman

Marvin Weissman
Mission Director

May 7, 1971
Date

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Mission Analysis of Compliance with Presidential Criteria

For purposes of comparing sectoral expenditure in different time periods we have computed for 1969 through 1972, as shown in Table 9 of Annex II, the following:

A. For entities whose functions are directly and almost entirely related to provision of municipal public services and development of small and medium industry in intermediate cities, the entirety of the amounts shown in the national budget, irrespective of supervising Ministry and including transfer payments.

B. For entities or groups of entities which perform the above functions, but only as a part of their investment programs, a percentage of the amounts shown in the national budget, based on an examination of the detailed budgets of a sample of these agencies.

C. The budgets of a few national level quasi-public agencies where the expenditure does not pass through the national budget, but whose functions are as in "A" above.

D. Estimates of the investment made by certain specialized types of local level entities, but not departmental or municipal budgets per se to avoid double counting.

This method of computing sector investment probably understates the national total, but since the concept is unchanged from year to year, it does seem to show the trend in investment as follows:

	Millions of Dollar Equivalent	Percentage Increase Over Previous Year
1969	204.7	----
1970	215.6	5.3
1971	263.1	22.0
1972	300.9	14.4

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Table 10 of Annex II shows how the above investment was financed from GOC resources, other donor assistance and U.S. assistance.

The following percentage breakdown indicates that around 80% of total sector investment is financed from GOC resources.

(Percentages)

	1969	1970	1971	1972
AID	5.7	5.5	8.3	6.7
Other Donors	6.7	12.8	12.3	12.8
GOC	87.6	81.7	79.4	80.5
TOTALS	100	100	100	100

Since approximately 75% of the proposed loan will be disbursed in connection with the GOC 1972 budget, we have compared the U.S. percentage of the total sector investment for 1972 with the preceding GOC budget year, 1971, and found that the U.S. share of the total decreases from 8.25% to 6.75%. Were we to compare the U.S. percentage of total investment for the 18 month loan disbursement period (7/71-12/72) with the previous 18 month period (1/70-6/71), we would find the U.S. share increasing slightly from 7.1 to 7.2% -- a not unreasonable position for this first period of activity in a new sector.

Turning to the individual program for which the proposed loan will provide support it is considered useful to compare the two 18 month periods in order to determine the portion of the increment in activity financed by the U.S. for ongoing activities. Since in some instances AID financing (in the form of counterpart) was included in the base period, we calculated the change in AID support and related that change to the change in the total of the activity. For all major activities the U.S. share of the increment in program expansion is 50% or less. For two minor activities, where the loan input totals $300,000, the reasons for exceeding 50% are given in the footnotes to the Table in this section.

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