

PD-ABC-844  
ISN 71735

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**UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D. C. 20523**

**COLOMBIA**

**PROJECT PAPER**

**ECONOMIC STABILIZATION PROGRAM**

**AID/LAC/P-606**

**PROJECT NUMBER: 514-9001  
GRANT NUMBER : 514-K-601**

**UNCLASSIFIED**

PD-ABC-844  
FEB 25 1991

CLASSIFICATION: UNCLASSIFIED

<p>AGENCY FOR INTERNATIONAL DEVELOPMENT</p> <p><b>PROGRAM ASSISTANCE</b></p> <p><b>APPROVAL DOCUMENT</b></p> <p><b>(PAAD)</b></p>		1. PAAD Number <i>514-K-601</i> 514-9001	
		2. Country Colombia	
		3. Category Cash Transfer	
		4. Date	
5. To AA/LAC: James Michel		6. OYB Change Number N/A	
7. From LAC/DR: Jeffrey Evans		8. OYB Increase N/A To be taken from:	
9. Approval Requested for Commitment of \$ 20,000,000		10. Appropriation Budget Plan Code LES191-35514-KG31, 72-111/21037	
11. Type Funding <input type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant	12. Local Currency Arrangement <input type="checkbox"/> Informal <input checked="" type="checkbox"/> Formal <input type="checkbox"/> None	13. Estimated Delivery Period N/A	14. Transaction Eligibility Date N/A
15. Commodities Financed  N/A			
16. Permitted Source U.S. only Limited F.W. Free World Cash 20,000,000		17. Estimated Source U.S. 20,000,000 Industrialized Countries Local Other	

18. Summary Description

The purpose of the proposed ESF program is to provide support to the Government of Colombia's (GOC) counter-drug and economic revitalization program. The dollar funds will be used primarily to service U.S. Government and multilateral debt, but may also finance eligible imports from the United States. The local currency proceeds of the program will be used as general sector/program support to assist the GOC "apertura" and counter-drug efforts in priority sub-sectors: trade expansion, regional development, and human resources development.

This authorization covers the first \$20 million of a \$41 million cash transfer program for FY91. The second \$21 million tranche will be authorized and obligated once the President has submitted the annual Certification to Congress required under Section 481(h) of the FAA and the Congressional review period has passed without objection. The Presidential determination required under Section 4(a) of the International Narcotics Control Act of 1990, and the required findings under Section 559(a)(2) of the FY 1991 Appropriations Act have been made.

"I certify that the methods of payment and audit plan are in compliance with payment verification policy."

*[Signature]*  
LAC/Controller

Date 2/19/91

19. Clearances ADAA/LAC:PBloom LAC/DPP:BSchouten GC/LAC:TGeiger LAC/SAM:NParker PPC/PB:TBarker STATE/ARA/ECP:CBryant PFM/EM/A:RBonaffon LAC/DP:BBrockie	Date <i>2/7/91</i> <i>2/11/91</i> <i>2/15/91</i> <i>2/15/91</i> <i>2/25/91</i> <i>2/20/91</i>	20. Action <input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED  Authorized Signature <i>James J. Michel</i> Title Date 25 Feb 1991
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## TABLE OF CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY	1
A. RECOMMENDATION	1
B. PROGRAM SUMMARY	1
I. INTRODUCTION AND PROGRAM SUMMARY	3
II. ECONOMIC ENVIRONMENT, PERFORMANCE AND POLICY	5
A. PRODUCTION, GROWTH AND ECONOMIC STRUCTURE	5
1. GDP GROWTH TRENDS	5
2. STRUCTURE OF THE ECONOMY	6
3. SECTORAL COMPOSITION OF GDP	8
4. SAVINGS AND INVESTMENT	9
5. LABOR FORCE AND EMPLOYMENT	9
B. MONETARY AND FISCAL POLICY	10
1. PRICE INFLATION	10
2. MONEY SUPPLY AND MONETARY POLICY	11
3. PUBLIC FINANCE AND FISCAL POLICY	12
C. THE EXTERNAL SECTOR	13
1. EXPORTS, IMPORTS AND THE CURRENT ACCOUNT BALANCE	13
2. TRENDS IN THE CAPITAL ACCOUNT	14
3. EXTERNAL DEBT MANAGEMENT	15
4. TRADE POLICY	16

	<u>Page</u>
III. PROGRAM CONCEPT AND STRUCTURE	18
A. CONSTRAINTS AND REQUIREMENTS	18
B. PROGRAM STRATEGY	18
C. ESF AS SUPPORT FOR A COLOMBIAN DESIGNED AND IMPLEMENTED, MULTI-YEAR PROGRAM: CONDITIONALITY REVISITED	19
D. USES OF LOCAL CURRENCY	20
E. USES OF CASH TRANSFER ESF DOLLARS	20
IV. COLOMBIA'S PROGRAM TO SUPPRESS NARCOTICS TRAFFICKING AND AND STIMULATE THE LEGITIMATE ECONOMY.	21
A. THE ANTI-NARCOTICS PROGRAM	21
1. ENFORCEMENT OPERATIONS	21
2. ADMINISTRATION OF JUSTICE	23
a. THE OVERALL GOC PROGRAM	23
b. U. S. ASSISTANCE	23
3. JUDICIAL PROTECTION	24
a. THE OVERALL GOC PROGRAM	24
b. U.S. ASSISTANCE	25
4. NARCOTICS AWARENESS	26
a. THE OVERALL GOC PROGRAM	26
b. U.S. ASSISTANCE	26
5. EXTERNAL TRAINING AND TECHNICAL CONSULTATIONS	27
a. Training	27
b. Technical Consultations	28

	<u>Page</u>
B. SPECIAL TOOLS OF THE ECONOMIC REVITALIZATION PROGRAM	29
1. "APERTURA"	29
2. THE "CORE ECONOMIC OPPORTUNITY BUDGET".	32
V. ESF DOLLAR AND LOCAL CURRENCY PROCEDURES.	35
A. PROGRAMMING, USE AND CONTROL OF U.S. DOLLARS	35
1. PROGRAMMING AND USE	35
2. SEPARATE DOLLAR ACCOUNT	36
B. PROGRAMMING, USE AND CONTROL OF COLOMBIAN COUNTER- PART FUND	37
1. PROGRAMMING AND USE-STEPS AND PROVISIONS	38
2. ACCOUNTABILITY AND CONTROL-STEPS AND PROVISIONS	39
C. REPORTS	39
D. AUDITS	40
E. FINANCIAL ASSESSMENT OF THE BANCO DE LA REPUBLICA DE COLOMBIA	40
VI. CONDITIONS AND COVENANTS	41
A. FIRST TRANCHE : US\$20.0 MILLION	41
B. SECOND TRANCHE: US\$20.0 MILLION	41

VII. NEGOTIATION STATUS AND SCHEULE FOR FUTURE ACTIONS

42

TABLES:

TABLE 1: TRENDS IN GROSS DOMESTIC PRODUCT, 1950-1990

TABLE 2: SECTORAL COMPOSITION OF REAL GDP, 1965-1988

TABLE 3: SAVINGS AND INVESTMENT, 1965-1990

TABLE 4: EMPLOYMENT, WAGES, AND LABOR PRODUCTIVITY,  
1980-1988

TABLE 5: INFLATION RATES, 1980-1990

TABLE 6: MONEY SUPPLY INDICATORS, 1983-1990

TABLE 7: PUBLIC SECTOR FINANCES, 1984-1990

TABLE 8: BALANCE OF PAYMENTS, 1984-1990

TABLE 9: COMPOSITION OF EXPORTS, 1984-1990

TABLE 10: EXTERNAL DEBT INDICATORS, 1984-1990

TABLE 11: EXCHANGE RATES, 1976-1990

ANNEXES:

ANNEX 1: DRAFT LETTER OF REQUEST; ENGLISH

ANNEX 2: GOC EXTERNAL DEBT SERVICE MONTHLY SCHEDULES

ANNEX 3: INITIAL ENVIRONMENTAL EXAMINATION

ANNEX 4: COUNTRY AND STANDARD CHECK LISTS

## EXECUTIVE SUMMARY

### A. RECOMMENDATION

The U. S. Country Team in Colombia recommends authorization of a FY 1991 Economic Support Fund grant of US\$50 million to the Government of Colombia to support the first year of a multi-year Colombian anti-narcotics and economic revitalization program.

### B. PROGRAM SUMMARY

In February 1990, Presidents Bush and Barco met in Cartagena, Colombia and discussed the broad outlines of the Colombian Government's plan to suppress narcotics trafficking and stimulate legitimate economic activity. President Bush applauded the Colombian program and pledged U.S. support. Subsequently, US\$50 million in ESF for Colombia was included in AID's FY 1991 budget request as a principal means by which the United States would support the Colombian effort. This PAAD sets forth the specific details of the proposed ESF program. These details have been influenced by special circumstances in Colombia. For obvious security reasons, and because Colombia is generously endowed with specialized expertise and extremely sensitive to sovereignty issues, the expansion of the U.S. program must occur without proportionate expansion of AID staff. This results in a program recommendation that will probably yield one of the lowest staff-to-dollars ratios in AID programs around the world.

This PAAD differs slightly from AID norms by encompassing the entire \$50 million program even though it is proposed to use \$9.0 million of the total to fund project activity. The reason for this is the linkage of the direct anti-narcotics projects to the economic growth and restructuring program. The project activities to be funded from the proposed ESF funds will extend and expand U.S. assistance in:

- 1) Administration of Justice;
- 2) Judicial Protection;
- 3) Narcotics Awareness; and
- 4) External Training and Technical Consultation.

The remaining US\$41.0 million would be provided in the form of a cash transfer. Given the desirability of program simplicity, it is proposed that these dollars be used exclusively for amortization and interest payments on external debt of the Government to multi-lateral financial institutions or to the United States. Thus, there is no sale of dollars to the Central Bank and, hence, no "generation" of new pesos.

As the Government withdraws dollars for debt service and amortization, it will simultaneously deposit equivalent quantities of pesos in a separate bank account. Except for the equivalent of approximately \$1.5 million, these pesos will be used exclusively for contributing to a sub-budget or sub-program of top priority, high impact public/private sector activities in support of the Government's anti-narcotics/economic revitalization program. This sub-budget or sub-program, the "Core Economic Opportunity Budget" (CEOB), will be financed by the Government using funds from a variety of sources. Its total size will be some multiple of the peso equivalent of US\$41 million, the financing for which will be some combination of funds from the special peso account and other funds made available through the GOC budgetary process. In addition, other donors will contribute to the sub-sectors supported by the CEOB.

The Core Economic Opportunity Budget will contain three categories of activities, which may be considered to be sub-sectors:

- 1) "Apertura" and Trade Expansion, the program through which the Government proposes to dismantle the policy and institutional remnants of the import-substitution era. This program seeks to convert the Colombian economy to one that is market directed and efficient, and to integrate it fully into the competitive international market economy. Significant expansion and diversification of Colombian exports will be an integral part of this initiative.
- 2) Decentralization/Regional Economic Development: This program's objective is to develop in regional centers the capacity to set public priorities and design, plan, implement, monitor and exercise stewardship over projects and programs to achieve public goals. It includes the development of basic public infrastructure and institutions and productive capacities in regional population centers to enable them to attract private investment consistent with market indications, and to respond to market-generated economic signals.
- 3) Development of Human Resources. As the Colombian economy shifts increasingly toward becoming an open, market directed economy, steady upgrading of its human capital base will be essential. Education, training and a basic standard of nutrition and health must be readily accessible nationwide to sustain an ongoing process of converting raw population to productive human capital.

The peso equivalent of approximately US\$1.5 million that will not be used to finance the Core Economic Opportunity Budget will fund two local currency trust funds. One fund will cover local currency expenses of project development and support, audits and project evaluations. The second will be applied to the operating costs of AID in Colombia.

The Country Team proposes that the US\$41.0 million cash transfer be disbursed in two equal tranches of \$20.0 million and 21.0 million, consistent with the President's narcotics certification as required under Section 481h and Congressional consideration, thereof. The first disbursement would occur as early in FY 1991 as funds are available and an agreement can be signed.

Disbursement of the second tranche will be requested by the Country Team following a successful USG-GOC review of progress under the GOC program. AID/Washington will be asked to provide a senior level economist to participate in the review.

#### I. INTRODUCTION AND PROGRAM SUMMARY

At the Cartagena Summit in February 1990, the Presidents of the United States, Colombia, Bolivia and Peru pledged to carry out programs of mutual cooperation in counter-narcotics, including law enforcement, demand reduction, and economic development. To lessen the economic burden, the United States agreed to increase economic assistance to the three countries. In its FY 1991 Congressional Presentation, the Agency for International Development (AID) requested \$200 million in Economic Support Fund (ESF) financing for this purpose, of which \$50 million was intended for Colombia. More assistance will be requested in FY's 1992-1994.

The United States Government agreed to provide this economic assistance within the context of sound economic policies and demonstrated law enforcement/interdiction performance. The Presidents agreed also to explore ways to expand trade and investment between the Andean countries and the United States.

Negotiations of the United States-Colombia program of \$50 million in ESF in support of counter-narcotics and related economic development programs are near completion. An equal or greater amount will most likely be requested for FY 1992-1994, provided that Colombia maintains sound economic policies and its strong law enforcement performance. The letter of request for assistance from the Colombian Government is expected to describe a multi-year program and explicitly requests U.S. support for the full program term. The Country Team strongly endorses this concept.

This Program Assistance Approval Document (PAAD) presents the Country Team's proposal for the structure and details of the FY 1991 ESF program in support of the first year of the Colombian Governments' program.

Proposed uses of these funds to support the Government's program include the following elements:

<u>Dollar Uses</u> (Millions)	<u>\$50.0</u>
1. Project Activities in Judicial Administration, Judicial Protection, Narcotics Awareness, External Training and Technical Consultation	9.0
2. Cash transfer for payment of interest and amortization of Official External Debt	41.0
<u>Peso Uses</u> (GOC Deposit to Separate Account of Peso Equivalent of Cash Transfer: millones of dollars).	<u>41.0</u>
1. Support of Core Economic Opportunity Budget Activities in Support of a) Apertura, b) Decentralization/Regional Development, c) Human Resource Development.	39.5
2. Local Currency Trust Funds (2) For: a) Local Operating Expenses of AID (\$500,000) b) Local expenses for Project Development and Support, Audit, Evaluation (\$1 Million).	1.5

## II. ECONOMIC ENVIRONMENT, PERFORMANCE AND POLICY

### A. Production, Growth and Economic Structure

#### 1. GDP Growth Trends

Over the past forty years the performance of the Colombian economy has been enviable. Real GDP growth between 1950 and 1980 averaged 5.1% annually, or well above 2% per capita (see Table 1). Although GDP growth slowed to an average of 3.3% a year between 1980 and 1989, this was still well above the average for countries in the LAC region.

Coffee continues to play a major role in the economy, although coffee export earnings are no longer the major determinant of overall GDP growth. Coffee's contribution to total export earnings has declined since the 1950s, despite increasing in both volume and value, as the Colombian economy has diversified its export base. Thus, coffee's share of total export earnings fell from 78% in 1950 to an average of 29% in 1987-89 (see Table 9).

The main sources of non-coffee export growth in the 1980s have been petroleum and coal. These new major exports have helped offset the impact of relatively depressed coffee prices during much of the 1980s. Successful petroleum explorations permitted dramatic export gains from \$8 million in 1960 to almost \$1.4 billion (23% of exports) in 1989, with most of this growth coming in the 1980s. Coal exports, which as late as 1984 were a modest \$38 million, rose to \$509 million (8% of total exports) in 1989. Other non-traditional exports also grew significantly during the 1980s, as discussed below.

As export diversification increased, international reserves grew steadily from \$39 million in 1950 to \$189 million in 1970, and reached a peak of \$4.7 billion in 1981. Favorable coffee prices in the 1970s and prudent macroeconomic management also contributed to the increase in reserves, which helped the nation weather the exceptionally poor export performance of the succeeding few years without going into recession. In the 1980-85 period, coffee prices declined from their 1975-80 average by 4.5% annually. Revenues slumped correspondingly, yet GDP growth remained positive because coffee no longer dominated the economy to the extent that it did in the 1950s.

Colombia's success in increasing and diversifying its export base, following generally sound fiscal and monetary policies, and prudently managing its external debt, nevertheless obscures some significant distortions in the economy that limit the country's growth prospects over the long run. In particular, the growth of total factor productivity in the economy has been declining since the 1970s and the manufacturing sector remains highly protected, with many industries not in a position to produce for the world market.

Since the opportunities for additional import substitution are relatively few, the growth of the manufacturing sector in Colombia is currently limited largely to the growth of the domestic market, except for those industries that are competitive internationally. With the economy still dependent on agriculture and mining/petroleum products -- with highly unstable prices -- for more than 80% of its export earnings, and with debt service now requiring more than 45% of export earnings (see Table 10), an acceleration of economic growth will require a more rapid expansion of manufactured exports over the long run.

A higher rate of economic growth is essential for overcoming Colombia's still-serious problems of poverty and social unrest. If the government is successful in combatting narco-trafficking, thus decreasing illegal sources of income, opportunities to earn income legally must be increased. Accordingly, the GOC announced in February 1990 a program of apertura (opening) to liberalize the economy and thus make possible a higher rate of economic growth.

## 2. Structure of the Economy

Structural characteristics of the economy are important on both the output and the input sides. As the process of apertura unfolds, its success will depend importantly on its ability to change the structure of production, the relative labor and natural-resource intensities of production, and the structure of input and final-goods demand.

While Colombia's policy stance in the 1960s could be described as moderately outward-looking, it shifted subsequently to moderately inward-looking. To open the economy effectively to international trade and investment opportunities, a number of policy biases will have to be eliminated or substantially reduced. These include a flat prohibition on imports of commodities also produced in Colombia; preferentially low tariffs on goods not produced in

Colombia; and exemption from taxation for incomes earned in favored industries. These policies have provided effective incentives to employ the relatively more sophisticated, high-technology and capital-intensive production processes that are characteristic of, and appropriate for, advanced industrial countries. But in those countries, labor and natural resources are comparatively scarce and expensive, while capital (owing to savings) is comparatively abundant and cheap; in Colombia, the reverse is true.

If Colombia is to become an effective player in tough international markets, the structure of production will have to change in favor of those goods that can be produced at competitive costs using the productive resource combinations that are consistent with the nation's comparative economic advantage.

The desired structural change should shift input demand in favor of labor and natural resources, while output demand shifts toward light capital goods that can be produced at prices and according to quality standards that make them fully competitive with imports in a liberalized trade regime. <sup>1/</sup> Owners of labor and natural resources will benefit materially in a more open economy as increased demand bids up their prices. Since all Colombian households own labor, while only a few own significant accumulations of capital, the resulting structural changes will yield a broader distribution of income than that occurring under protectionism. <sup>2/</sup>

Success of the GOC's apertura program would be expected to increase the GDP shares of the light manufacturing and service sectors, and, at least in the short run, to slow the decline in agriculture's share. On the input side, this would almost certainly be associated with increased employment and reduced imports and investment per unit of GDP growth, thus reversing the decline in the rate of growth of total factor productivity that has been apparent since the 1970s. Capital goods imports for the Colombian manufacturing sector during 1984-88 were over 23 times the value of increased output over this period.

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<sup>1/</sup> The GOC Department of Planning (DNP) plans to identify and underwrite research and development on capital goods that meet these criteria. This could contribute to Colombia's greater integration into the international economy.

<sup>2/</sup> Given the quantity and quality of economic data in Colombia, it is probably possible to quantify the relationship between the structure of production and the distribution of income. The generation and analysis of data of this kind, as well as its broad dissemination, should enjoy a very high priority claim on resources.

### 3. Sectoral Composition of GDP

Changes in the sectoral composition of GDP in Colombia since 1965 are shown in Table 2. Agriculture remained the largest sector of the economy in 1988 despite a decline in its share of output from 26.4% to 21.3%, a pattern that is normal in the process of economic development. The agricultural sector performed especially well between 1965 and 1980, growing at an annual rate of 4.4%. In the 1980s however, the agricultural growth rate slipped to 2.5% (1980-88), still positive in per capita terms but well below its potential. Part of this decline can be attributed to less rapid growth in demand for domestic foodstuffs due to the slowdown in the growth of incomes, and part can be attributed to conditions in world markets for some of Colombia's agricultural exports. At the same time, it can be argued that Colombia did not fully take advantage of opportunities to diversify its export base, despite successfully increasing the volume (and value) of its shrimp and cut-flower exports.

Mining's share of GDP has shown two distinct trends since 1965. Between 1965 and 1980 it fell from 3.4% to 1.3%, largely because of a decline in the volume of output in the petroleum sector. New petroleum discoveries, however, plus the exploitation of newly-discovered coal deposits, raised mining's share of the GDP to 4.5% in 1988, making it the most dynamic sector of the economy in the 1980s.

Changes in the manufacturing share of Colombia's GDP are particularly revealing. Between 1965 and 1975 the share of manufacturing in total output rose from 21% to 23.2%, as the sector grew at an annual rate of 6.6% over this period. Since then, however, manufacturing has grown more slowly than the rest of the economy, by 4.6% a year between 1975 and 1980, and by only 2.4% annually between 1980 and 1988. As a result, manufacturing's share of the GDP has fallen back to its 1965 level of approximately 21%.

Looking briefly at some of the other sectors in the economy, we see that the commercial sector has followed a trend roughly paralleling that of the manufacturing sector. There has been a modest secular rise in the relative share of the construction sector, whose growth tends to be highly volatile in the short run. Rapid growth of this sector in the early 1980s -- due in part to developments in coal mining and petroleum -- helped mitigate the effects of the economic slowdown during this period. Finally, it is worth noting the significant rise in the government sector's share of GDP from 7.0% in 1975 to 8.8% in 1988; this represents an annual growth rate of 5.9%.

#### 4. Savings and Investment

Table 3 shows that the ratio of investment to GDP rose in real terms from 15.8% in 1965 to 20.5% in 1970, then fell slightly, but irregularly, over the next decade. Given the economy's 5.5% real GDP growth rate between 1970 and 1980, the marginal capital-output ratio over this period was well under 4. During 1981-84, however, the real investment rate rose to 21.5%, while GDP growth averaged only 2.0%. Although these divergent trends are misleading, in that part of the increased investment in the early 1980s is associated with heavy expenditures in the highly-capital-intensive coal and petroleum industries, for which the payoffs lagged, there is other evidence that the economy as a whole was becoming less efficient. The World Bank has calculated that total factor productivity in the economy has declined since the mid-1970s by approximately 0.2% per year. Although the relationship between the real investment rate (17.6%) and average GDP growth (4.5%) improved during 1985-88, the efficiency of investment remains below what it was in the 1970s.

The second part of Table 3 shows trends in savings and investment in current prices since 1984. While the investment rate showed very little change between 1984 and 1989, averaging 19.2% of GDP, savings behavior shows significant changes between 1984-85 and 1986-89. In the early period, gross national savings averaged only 12.7% of GDP, with a significant part of investment (6.3% of GDP) financed by net foreign savings, which is equivalent to the current account deficit in the balance of payments (see Table 8). During 1986-89, on the other hand, all investment was financed with national savings, as net foreign savings were slightly negative (reflecting a current account surplus). Although net foreign savings are expected to amount to 1.9% of GDP in 1990 to help finance a slight increase in the investment rate, this level of foreign savings is not cause for concern.

#### 5. Labor Force and Employment

Colombia's labor force in 1986 numbered approximately 11.5 million persons, of whom 13.5% were estimated to have been unemployed (average rate for the four quarterly surveys). Of total employment of 9,944,000 in that year, 6,829,000 persons (68.7%) were in urban areas -- including 2,048,000 (20.6%) in the informal sector -- and 3,115,000 (31.3%) were in the agricultural sector.

The unemployment rate, after rising in the first half of the 1980s to an average of 13.9% in 1985, fell to 11.3% in 1988 (see Table 4). Employment growth has been fairly rapid during the 1980s, as the labor force participation rate rose from 39% in 1981 to 44% in 1988.

Despite the economic slowdown in the early 1980s, real wages in the manufacturing sector rose by nearly 18% between 1980 and 1984, although since then they have been roughly constant (see Table 4). At the same time, manufacturing employment fell steadily between 1980 and 1985, from 516,000 to 447,000 before recovering to 471,000 in 1987. Hourly productivity in manufacturing, meanwhile, rose by more than 50% between 1980 and 1988, with two-thirds of the gain occurring by 1985. Real unit labor costs in manufacturing thus declined by more than 22% during the 1980s (see Table 4).

If the above data are reasonably accurate, they suggest that there was a significant increase in the average capital intensity of the manufacturing sector. Additional research would be needed to determine how such an increase came about. One possible explanation is that relatively labor-intensive firms suffered the greatest setbacks during the economic slowdown of the early 1980s.

## B. Monetary and Fiscal Policy

As indicated above, Colombia's economy demonstrated a long-term, annual growth capacity of just over 5% for the three decades prior to 1980. While this may be an imprecise measure of growth potential under optimal policy conditions, it at least provides an indicative benchmark against which to evaluate demand management policies.

### 1. Price Inflation

Such an evaluation of demand management does not yield particularly high marks for Colombia, but neither is the performance a flat failure. An examination of the behavior of prices reveals that price inflation has been "too high" (which is bad), but not highly erratic (which is good in terms of minimizing a key area of uncertainty affecting private decisions).

Breaking the 1950-90 period into five-year intervals (after 1960) reveals an upward trend in the rate of price inflation from 6.6% a year during the 1950s to average annual increase of 24.3% between 1975 and 1980; but there has been no long-term rise in the inflation

rate since the late 1970s. Taking a more short-term view, however, there has been an upward trend from 18.9% in 1986 to a projected 25% (or perhaps higher) in 1990. <sup>3/</sup>

	<u>Change in Consumer Price Index</u>	<u>Change in GDP Deflator</u>	<u>Change in Period Aver- age of Peso Price of U.S. Dollars</u>
1950-60	6.6	7.8	13.0
1960-65	11.7	12.4	9.6
1965-70	10.4	10.5	12.0
1970-75	17.9	18.5	10.9
1975-80	24.3	24.6	8.9
1980-85	22.3	23.0	24.6
1985-90	24.2	26.0	

Recent price inflation in Colombia reflects excessive expansion of aggregate demand, relative to productive capacity and capacity to import. There is no plausible way to argue that the inflation has been "imported" or that productive capacity suffered shrinkage. Gross fixed capital formation remained high throughout the period, at 15% to 17% of GDP.

## 2. Money Supply and Monetary Policy

In the latter part of the 1980s at least, it is quite clear that domestic monetary expansion coupled with quantitative restrictions on imports underpinned the inflationary process. Table 6 shows the behavior over the 1983-89 period of the two most common measures of domestic money stock, along with the associated measures of expenditure velocity. The money supply (M1) expanded between 1983 and 1989 at an average rate of 27.0%, with a year of accelerated expansion alternating with one of decelerating expansion. The most rapid growth of the money supply was in 1987, when the figure reached 32.9%. After falling to 25.8% in 1988, money supply growth rose to 29.1% in 1989. Broad money (M2, which includes time and savings deposits) experienced a similar trend in the last three years, growing by 29.5%, 23.4%, and 31.4%, respectively, although in

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<sup>3/</sup> The 1990 figure may prove to be optimistic, as the inflation rate for the 12-month period ending in June 1990 was 29%.

this case the increase from 1988 to 1989 is more disturbing. For 1990, M2 is projected to increase at almost the same rate as in 1989.

That monetary expansion has been excessive is not evidence of uninformed policy choices by the Central Bank. A plethora of political-type pressures are brought to bear on the monetary authorities by both the private and public sectors. Slowing the rate of inflation will be difficult as it seems to be a consequence of actions favored by both unions (wage increases) and employers (increased and "cheap" credit).

Between 1983 and 1988, the Central Bank's holdings of paper reflecting loans to domestic borrowers (the principal source of monetary expansion) increased 185% or on average over 23% per year 4/. In acquiring these assets, the Central Bank increased the base of high-powered money (bank reserves and currency) over 200%. Thus, there is no question but that domestic credit expansion was a major factor in monetary expansion, although holdings of foreign assets also increased sharply over the same period, reflecting Colombia's strong export performance and ability to attract capital inflows on a sustained basis.

### 3. Public Finance and Fiscal Policy

Fiscal policy in Colombia has generally been relatively conservative, although there have been occasional periods of excessive fiscal expansion. This was the case, for example, in 1984, when financing the deficit of the non-financial public sector required 6.8% of the GDP, most of it (4.9%) from domestic sources (see Table 7). 5/. This expansion was reflected, with a brief lag, in a significant rise in the inflation rate from 16.2% in 1984 to 24.0% in 1985 (see Table 5). But fiscal policy tightened in 1985, and domestic financing of the deficit was held to only 0.4%, as the overall deficit of 4.2% (financing requirements) was met mainly with external financing. In 1986 a brief boom in coffee prices produced a fiscal surplus and helped bring the inflation rate down to 18.9%. In the next three years total financing requirements for the deficit

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4/ The similarity to the rate of price inflation is worthy of note.

5/ The overall fiscal deficit is shown in Table 7 to be 6.3%, but because of reporting lags and other statistical discrepancies it is more appropriate to focus on the financing requirement.

averaged 2.3% of the GDP, and domestic financing averaged 1.7%. The projected domestic financing for 1990 is 1.0%, and although the actual figure may be somewhat higher it is still likely to remain in the moderate range where it has been since 1985.

In summary, the common notion that excessive monetary expansion is always caused by deficit spending by the government does not fit the Colombian case. <sup>6/</sup> By far the greatest percentage of new credit from the financial system between 1983 and 1988 was accounted for by the private sector which received 86% of the total.

## C. The External Sector

### 1. Exports, Imports, and the Current Account Balance

Colombia has managed to keep its overall balance of payments deficit well within bounds—despite heavy debt servicing and amortization obligations that have averaged 44% of goods and services exports since 1984 (see Table 10); substantial dependence on export commodities such as coffee and petroleum recently experiencing significant price declines in international markets; and a significant outflow of short-term capital. In fact, there have been surpluses in four of the last five years (see Table 8). The current account balance, which showed a deficit averaging 6.3% of GDP during 1984-85, was converted to a surplus averaging 0.2% of GDP during 1986-89. International reserves, at about \$3-4 billion, have remained sufficient, despite year-to-year ups and downs, to cover four to six months of imports of goods and services (and, since 1986, 10-12 months of merchandise imports).

This excellent balance of payments performance in the last half of the 1980s has been due to a combination of factors: exchange rate and investment policies encouraging export development; sound macroeconomic management, including interest rate policy; and an ability to attract sizeable capital inflows from the IFIs and private commercial banks because of their continuing confidence in Colombia's economic management and ability to meet its debt servicing obligations.

The increase in GDP growth rates since the mid 1980s and the strong growth of total export earnings provide evidence that resources borrowed from abroad have been well-utilized to build productive capacity.

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<sup>6/</sup> This preliminary conclusion is consistent with the view of one Colombian economist who believes that de facto wage indexing by the private sector swells that sector's demand for credit, and that the Central Bank is unable to resist these pressures. This hypothesis deserves rigorous evaluation.

From 1984 to 1989, merchandise exports rose 67%, from \$3.6 billion to \$6.0 billion, despite a sharp decline in coffee prices following the 1986 boomlet (see Table 9). A major devaluation in real terms in 1985/86 stimulated exports, especially of nontraditional products, and there has been a further real depreciation of the currency since then (see Table 11). Important earlier investments in petroleum and coal began to yield a growing and large stream of exports, which rose from a combined total of \$482 million in 1984 to \$1,921 million in 1989. Nontraditional exports doubled over this period to more than \$2.1 billion.

Merchandise imports fell from \$4.0 billion in 1984 to an average of \$3.5 billion in 1985-86, but subsequently they were able to grow steadily to \$4.7 billion in 1989.

For 1990 the current account is projected to move from a tiny surplus to a deficit of \$817 million, a still-modest 1.9% of GDP. In order of importance, the factors explaining this deficit are a sharp reduction in net unrequited transfers, from nearly \$1.2 billion to \$800 million; a decrease of \$274 million in the merchandise trade surplus, as import growth is projected to outpace export expansion; and an increase of \$164 million in net outflows for services other than interest payments. The reduction in net transfers is linked to the GOC's efforts to counter narco-trafficking, and further declines in this line item are expected to occur during the 1990s.

## 2. Trends in the Capital Account

The capital account balance between 1984 and 1989 shows sharp annual fluctuations, but two distinct periods can be identified. During 1984-86, a large positive balance averaging \$1,117 million was recorded. These inflows were still insufficient to prevent a sizeable overall balance-of-payments deficit in 1984, but they did permit surpluses in 1985 and, especially, in 1986. By contrast, the capital account surplus during 1987-89 averaged only \$195 million (including a deficit in 1987).

Part of the volatility in the capital account is explained by official medium and long-term disbursements, although if one smooths out the 1986-87 figures there is a fairly steady upward trend. 7/

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7/ The sharp increase in disbursements between 1985 and 1986 is due virtually entirely to receipt of a \$1 billion commercial bank credit facility roughly offsetting amortization payments due to these creditors. A second facility, also for \$1 billion, was disbursed in 1988, and a third, for \$1.46 billion, is being disbursed in 1989-90.

Official short-term flows have been more volatile, but except for the large net outflow in 1986 the figures have been relatively modest. Amortization payments have risen annually since 1984, but most of the increase occurred between 1985 and 1988, with the outflow in the latter year (\$1.6 billion) exceeding that in the former by nearly \$1 billion.

Private capital flows, like official flows, have fluctuated widely. Direct foreign investment, which had averaged \$713 million in 1984-86, fell sharply to \$230 million annually in 1987-88, largely because of the completion of coal and petroleum projects, but then rose to \$546 million in 1989. The other notable item among private flows is short-term capital, including errors and omissions. Although fluctuating considerably from year to year, these flows have been consistently negative, with the net annual outflow averaging \$454 million. It is not clear what part of these capital flows are related to drug-trafficking operations.

For 1990, an improvement in the capital account surplus of nearly \$850 million is projected. This is attributable primarily to disbursements from the third commercial bank credit facility (see footnote 6) and, presumably, to increased official disbursements, as well as to a significant reduction in short-term private capital outflows. If the net inflows in the capital account materialize, the balance of payments in 1990 would again be in surplus. However, some of the expected official disbursements may be delayed, and unless fiscal and monetary policies are tightened somewhat the trade balance may be lower than expected.

### 3. External Debt Management

Colombia has not experienced the kind of external debt problems typically associated with Latin American and Caribbean countries since the early 1980s. The total debt outstanding as of December 31, 1989 was \$17.1 billion, including \$3.0 billion of private-sector debt (see Table 10). This is equivalent to 41% of GDP (compared with more than 100% in a number of LAC countries) and about \$525 per capita. Moreover, a significant percentage of the public-sector debt is owed to multilateral institutions (41% at the end of 1988) and foreign governments (19%), with commercial banks accounting for a relatively modest 35% of the total. Nevertheless, annual interest and amortization payments on the debt are substantial.

To help meet external debt service requirements that have averaged 44% of exports of goods and non-factor services since 1984, the GOC has obtained three credit facilities from a group of commercial banks. Colombia's ability, noted above, to continue receiving new commercial bank money -- a rare thing in the LAC region today -- is based on its sustained and generally solid record of macroeconomic

management. Formal debt rescheduling exercises have been avoided, although several individual loans from commercial banks and bilateral creditors have been rescheduled. The GOC's objective is to regain normal access to international capital markets.

Although Colombia's debt-service obligations are projected to fall from 47% of exports of goods and non-factor services in 1989 to 33% by 1994, the latter remains a significant figure, and the absolute level of annual debt service is projected to rise from \$3.5 billion to \$3.8 billion over this period. The success of apertura, as well as avoidance of unfavorable internal and external exogenous events, are thus essential if Colombia is to continue being successful in managing its external debt.

#### 4. Trade Policy

Colombia's trade policies are complex, involving both significant import restrictions and subsidies to exporters. Although there has been an import-substitution bias to the overall policy structure, it has never reached the extremes found in many LAC countries, partly because significant exchange-rate overvaluation has usually been avoided, except for relatively brief periods. On several occasions, beginning in the mid 1960s and continuing into the 1980s, efforts were made to shift to an outward-oriented trade strategy; but the policy reforms required to achieve this objective were not fully implemented or sustained. In 1966, for example, an import liberalization program failed because the exchange rate was not adjusted in the face of accelerating inflation and falling coffee prices.

It is possible to argue that Colombia's irregular but clear success in export diversification over the past several decades is due largely to luck -- i.e. the discovery of petroleum and coal deposits. However, these exports would not have been developed as quickly and extensively as they have been without favorable macroeconomic management and policies facilitating private foreign investment. Moreover, luck cannot explain the significant expansion that occurred during the 1980s in a wide range of nontraditional exports.

Major export incentives were introduced in the mid 1960s at the time of the failed import liberalization program. The main incentives were: (1) the Plan Vallejo system, providing exporters duty-free access to imported inputs; (2) tax credit certificates, originally providing a uniform 15% subsidy, although differentiated rates have been applied since 1974; and (3) subsidized credit programs. The basic structure of export incentives remains the same today,

although there have been a number of modifications. These policies have clearly contributed to export growth, but they have introduced a number of additional distortions into the economy, including excessive use of domestic credit. Other distortions on the export side include export prohibitions for some commodities and quotas for certain foodstuffs.

Imports are restricted in a variety of ways, as noted earlier in this macroeconomic overview. Foreign exchange for imports is rationed through the use of a foreign exchange budget established by the Junta Monetaria and managed by the Instituto de Comercio Exterior (INCOMEX). The demand for foreign exchange has consistently exceeded the foreign exchange budget level. This is not necessarily an indication of an overvalued exchange rate in the sense of exports not being competitive in international markets. It may mean instead that monetary policy is too expansionary given the availability of foreign exchange.

INCOMEX classifies imports into three categories for the purpose of granting licenses: free (licenses are automatically granted); prior license (licenses may be refused); and prohibited. In 1980, 69% of the total number of tariff items were on the free list and the remainder on the prior license list. In 1981, the relative positions of the two groups were reversed, and by 1983 more than 93% of the items were on the prior-license list. In 1984, in the face of a sharp decline in foreign exchange reserves (see Table 8), prohibitions were introduced for 828 items (17% of the total), and only 23 items (fewer than 1%) were retained on the free list.

Beginning in 1985 the GOC began a gradual process of trade liberalization. The prohibited list was pared to 69 items, and 27% of the items were moved to the free list. By 1988 the number of items on the prohibited list was down to 54; these consisted mainly of alcoholic beverages, cigarettes, specialty foodstuffs and other luxury items. The proportion of items on the free list was up to 39%. Prior import deposits were reduced modestly in 1989 from 95% to 85% but remained quite high, being equivalent to a tariff rate of about 2%.

Tariff policy has been another area in which significant distortions have been present. The mean tariff in 1984 was 61%, with a standard deviation of 29% and a range of 0 to 220%; the trade-weighted average tariff was 57%. However, because of various exemptions, trade taxes actually collected were only 9% of the value of imports. This figure jumped to 13.6% in 1985 with the introduction of a 10% surcharge on the CIF value of imports (raised to 18% in 1987).

A tariff reform introduced in 1987 lowered the mean tariff to 30% and the trade-weighted average tariff to 27% by 1988. The standard deviation was reduced to 17%, although the ratio of the standard deviation to the mean was somewhat higher than in 1984. The tariff range was still high -- 0 to 200%, with rates of 100-200% applying to automobiles -- as was the number of separate rates (25). There is some evidence, though, that effective protection was slightly reduced. The overall effect of the various import-regime reforms through 1989 is difficult to judge. The decline in tariff rates was more than offset by the introduction (and subsequent increase) of tariff surcharges. Moreover, the licensing system remains as a major binding constraint, especially for consumer-goods imports.

By contrast, the apertura program announced in early 1990 promises to be a more fundamental liberalizing reform program. The details of this program are discussed in a subsequent section.

### III. PROGRAM CONCEPT AND STRUCTURE

#### A. Constraints and Requirements

The introduction of a \$50 million dollar ESF program with Colombia in FY 1991 poses special design challenges. For a variety of reasons, the funds will have to be delivered and administered without a commensurate build-up in the AID presence in Colombia. Consequently, the program design cannot imply a significantly increased oversight, management or financial control responsibility for AID personnel in Colombia.

On the other hand, as a cooperative program initiated by Presidents Bush and Barco at the Cartagena summit, the proposed ESF program will be highly visible. It will be expected to produce concrete results that illustrate to the people of both countries the gains that can be realized from working together in defense of our common interests and values.

#### B. Program Strategy

The foregoing combination of requirements -- a modest AID presence along with a strong identification with specific objectives -- calls for a departure from the usual kinds of AID program structure. Specifically, projectization, whether of the ESF dollars or of Colombian pesos "purchased" with the dollars, must be held to a

minimum. Moreover, since the personnel and financial costs of project oversight include significant fixed costs, a smaller number of relatively large scale projects is clearly to be preferred to a larger number of relatively small projects. The principle, of course, is that for a given level of projectized outlays, oversight cost is minimized by minimizing the number of transactions.

The constraints outlined above, along with the modest size of the proposed program, have further implications for the program and its targetting of resources. Rather than focusing solely on delivering resources directly to areas of need, the program will be more effective if it also strengthens Colombian policy and institutions relevant to those needs. Thus, the channels through which the people of the country communicate their aspirations and expectations would be targets of the program. Similarly, enhancing the capability of Colombian institutions to respond to expressions of the popular will is an appropriate objective of a program for Colombia.

C. ESF as Support for a Colombian Designed and Implemented Program: Conditionality Revisited

Colombia is a very highly advanced developing country, blessed with a sizeable cadre of competent and active economic policy researchers, analysts and implementors. When national economic policy is deficient, it usually is not from lack of ability to analyze problems and prescribe appropriate solutions. In fact, that is precisely what the Government has done in designing its counter-narcotics/economic revitalization program.

In the case of Colombia, therefore, ESF is most appropriately seen as a vehicle through which the United States can provide support for a Colombian designed and implemented program. The program was presented to the United States as a plan of action by which the Government of Colombia expects to achieve objectives that manifest commitment to values shared with the United States.

Under this kind of ESF program, "conditionality" has a much different meaning than it would have in a situation in which there was host country innocence of and/or resistance to appropriate economic policy. In the Colombian context, "conditionality" refers only to the requirement that the Government program for which support is sought, is one whose goals and objectives the U.S. shares and whose methods, strategies and tools we believe are appropriate to achieving them. This program was negotiated by reaching agreement on the GOC description of their program as a whole, rather than on a series of specific actions to be taken or quantitative targets to be attained. Similarly, reviews of progress focus on specific targets only in the context of their implications for keeping the overall program on a path leading to its objectives.

The concepts set forth below are drawn from the GOC letter of request in which assistance is solicited in support of the statement of the Government's program against narcotics trafficking with emphasis on the components most directly related to U.S. assistance in areas in which projectized U.S. dollar assistance is being sought - Administration of Justice, Judicial Protection, Narcotics Awareness, and External Training, Education and Technical Consultations. Also included is a statement of the overall 1991 economic program, including demand management, foreign sector trade and commercial policy ("apertura"), and a presentation of the sub-budget called the Core Economic Opportunity Budget (CEOB).

This sub-budget consists of the GOC activities and projects in support of the notion that the best and strongest counter-attraction to employment in narcotics trafficking is robust, lawful economic activity and opportunity, combined with effectively implemented policy to raise the cost and risk of unlawful employment. General support of this budget as a whole is the use to which local currency identified by the GOC with the ESF cash transfer would be directed.

D. Uses of Local Currency

The GOC will commit to the CEOB an amount of local currency significantly in excess of the equivalent of the projected ESF cash transfer. This enables any local currency the GOC elects to identify with U.S. support to be administered through General Budget Support for the three areas or sub-sectors

E. Uses of Cash Transfer ESF Dollars

Colombia's external debt service interest and amortization reached \$3 billion and 48 percent of exports in 1988. Of this amount \$2.7 billion was to service public sector debt. Debt service obligations are projected to be only slightly less than this over the next few years. The letter of request from the GOC will include its proposal to use the balance of payments support portion of the ESF dollars for GOC interest and amortization payments to multi-lateral financial institutions and the United States.

IV. Colombia's Program to Suppress Narcotics Trafficking and Stimulate the Legitimate Economy

A. THE ANTI-NARCOTICS PROGRAM

Colombia has been a major source of both cocaine and marijuana for the United States market for over 15 years. In Colombia, it is estimated that the illegal narcotics industry generates upwards of \$600 million within the domestic economy, the equivalent of 2 percent of GNP. As many as 2.5 million people derive their livelihood from illegal narcotics. Most are rural peasants. The Government of Colombia employs both police and military forces to interdict and disrupt narcotics production and trafficking, and the United States government is providing assistance to enhance Colombian counter-drug intelligence and interdiction capabilities. Recognizing that law enforcement alone cannot solve the narcotics problem, the GOC is also funding several programs to strengthen democratic institutions such as the judiciary, and to stimulate the legitimate economy.

The following sections describe Colombia's program to suppress narcotics trafficking and stimulate the legitimate economy, and the type of U.S. assistance contemplated.

1. Enforcement Operations

Colombia, unlike Peru and Bolivia, does not have a tradition of cultivating coca, but it did witness a rapid increase in coca cultivation in the 1980's. It is estimated that there are 42,500 hectares under cultivation, mostly in Southeast Colombia, slightly less than Bolivia (45,000 hectares) and Peru (105,000 hectares). Cultivation in Colombia, however, is at a higher altitude, which yields a lower alkaline content and, therefore, less cocaine per hectare. Cocaine eradication in Colombia is done manually.

Anti-narcotics efforts of the Colombian National Police escalated throughout the 1980's as U.S. assistance increased. In 1989, combined GOC forces seized 37 metric tons of cocaine and two million gallons of essential chemicals (ether, acetone, methyl-ethyl-ketone), enough to process 500 metric tons of cocaine, or the equivalent of all the cocaine produced in the world in one year.

Colombian cocaine traffickers are believed to supply 75 percent of the cocaine hydrochloride consumed in the United States. Most smuggling of cocaine has been by private aircraft through the Caribbean and the Bahamas, where it is offloaded to other aircraft

or airdropped to "fast-boats" offshore. The largest quantities seized have been in falsely-manifested containerized cargo. Mexico is increasingly a transshipment entry point to the Southwest United States.

A bevy of U.S. federal agencies assist the Colombian Government in carrying out its anti-drug strategy, which was described by President Barco 8/ as consisting of:

- o Ratification and implementation of the Vienna Convention
- o Collaboration of intelligence services and sharing of satellite information
- o Improving capacity to intercept shipments of cocaine and precursor chemicals
- o Searching for ecologically acceptable methods to eradicate coca cultivation
- o Continuation of action against money-laundering
- o Sharing knowledge and experience in the war against drugs
- o Improving logistics and communications capacity of the police and armed forces
- o Designing and financing programs for crop substitution
- o Control and reduction of the demand for drugs in the industrialized countries.

Colombia has backed up words with actions, including the issuance of a Presidential Decree in August 1989 allowing administratively determined extradition of major narco-traffickers to the United States for trial; later upheld as constitutional by Colombia's Supreme Court. A decree authorizing confiscation of seized assets was struck down in part by the Supreme Court.

U.S. assistance to the Colombian National police and Armed Forces will increase substantially under the Andean Counter-Drug Initiative, and it will be used to help Colombia: 1) identify and capture trafficking ring-leaders; 2) destroy illegal crops such as coca and marijuana; 3) intercept the shipment of cocaine and precursor chemicals; 4) locate and destroy clandestine laboratories and airstrips; 5) increase surveillance of air and sea ports; and 6) accelerate efforts with the international community to trace and seize assets gained illegally.

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8/ April 14, 1989, Washington, D.C., American Society of Editors

To be more effective in carrying out its anti-drug program, Colombia recognizes that it must take steps to strengthen its judicial system and domestic demand reduction programs. The protection of judges and other judicial officials from kidnapping and assassination is also a very high near-term priority.

2. Administration of Justice

- a. The Overall GOC Program - A serious problem facing Colombia, especially the prosecution of narco-traffickers, is the absence of a strong and reliable legal system. The Colombian courts are unable to enforce justice. Administrative systems are weak, and the judiciary lacks adequate training in investigative, prosecutorial and administrative functions. Judges are very susceptible to corruption and intimidation.

A recent A.I.D.-funded report highlights an increasing awareness in Colombia of the need to reform the judicial sector. <sup>9/</sup> The GOC has already taken some important steps, including creating additional positions; simplification of procedures and introduction of automatic data processing; creation of new institutions with jurisdiction over family and agrarian law; and modification of personnel rules. The GOC has also prepared constitutional reform legislation which would grant greater autonomy to the court system and create a new prosecutor's office. Although the entire reform package has not been adopted, several changes have been made. The court system, for example, is now responsible for preparation of its own budget. The Office of Criminal Instruction, which coordinates the work of the investigating judges and the Technical Police, has also been strengthened.

b. U.S. Assistance

Since 1986, A.I.D. has provided \$1.574 million to improve the Colombian judicial system through the Foundation for Higher Education (FES), a Colombian private institution. A.I.D. grant funds have been used to fund studies and research on judicial reform; to systematize data gathering and analysis, especially in regional capitals; train judicial officials, including the establishment of a Judicial Training School; and for the upgrading of judicial information (legal texts, law libraries).

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<sup>9/</sup> June 1990, Checci and Company Consulting, Inc. "Extension of Grant to Foundation for Higher Education (FES)."

A.I.D. believes that the prospects for comprehensive reform of the judicial sector have improved in Colombia. Starting in FY 1991, A.I.D. proposes a multi-year project, funded with NSD-18 ESF, to assist the incoming Gaviria government build on existing experience to reform the sector. Priority activities under discussion with the outgoing Barco government and Gaviria advisors, include establishment of a Special Corps of Judges dedicated to prosecution of the narco-terrorist leadership in country. Without such host-country capacity, the Colombian people may never have confidence in their own judicial system.

While FES may continue to play an important role, A.I.D. believes it appropriate to work directly with some agencies of the Colombian Government to optimize the chance of permanent institutional reform. Close advisors to President-elect Gaviria have indicated their preference for government-to-government assistance. A decision as to the division of effort between the public and private sectors will be made during the project design process. It will be based in great part on the results of studies undertaken under the current project amendment.

Activities under discussion which the expanded project would assist include: 1) training and equipping a cadre of investigative specialists to serve under the special judges; 2) creating a Higher Council of Judicial Administration to guarantee an independent judiciary; 3) streamlining Colombian law schools; 4) creating a National Bar Association; and 5) establishing a network of "conciliation courts" to handle small claims within the community, thus, relieving case load burden on the higher courts. Training at all levels in prosecutorial and investigative skills remains a very high priority.

A.I.D. proposes life-of-project funding for an expanded Administration of Justice project of \$23-25 million, of which \$5 million is earmarked for continuation of support for Judicial Protection. A total of \$5.5 million for overall judicial strengthening will be obligated in FY 1991.

### 3. Judicial Protection

- a. The Overall GOC Program - In Colombia, the intimidation and assassination by narco-terrorists of judges, other judicial officials, witnesses and jurors is a tragic reality. Narco-traffickers are arrested but seldom come to trial. In recognition of the inability of the judicial system to prosecute and sentence major traffickers in country, Colombia is compelled to extradite them to the United States for trial and sentencing. As of early July 1990, 17 Colombian narco-traffickers were in U.S. custody.

The Bush Administration and the U.S. Congress recognized the need to improve the Colombian situation. Thus, in November 1988, the Anti-Drug Abuse Act of 1989 included \$5 million "to provide to the Government of Colombia such assistance as it may request to provide protection against narco-terrorist attacks on judges, other government officials, and members of the press". Utilizing these funds, the GOC and the U.S. Embassy began a joint program to assist Colombian institutions improve their capacity to provide protection to judges and others under threat. Under a transfer of funds agreement between A.I.D. and the Department of State, GOC Judicial Police and National Police officers were selected for special training in the United States and in Colombia provided by the U.S. Department of Justice's International Criminal Investigative Training Assistance Program (ICITAP). Equipment and armoured vehicles were procured by the Embassy/Bogota.

As discussed in Section IV B, the GOC is giving serious consideration to the creation of a Special Corps of Judges, who would handle the prosecution of narco-traffickers, and with a trained cadre of investigative specialists at their disposal (the Italian model). Such a tribunal will be successful only if judges, other court officials, jurors and witnesses are protected. It is not clear how such a protection program can be established, although some options have been discussed including sequestering trials in safe military installations, or in ships off-shore. Another major question is the safety of jurors and witnesses after trials are complete. In Colombia, there is no effective witness protection program as in the United States.

- b. U.S. Assistance - As of July 1990, ICITAP had given training courses in 1) personal security awareness to 479 threatened individuals; 2) techniques of protection to 309 bodyguards in Colombia and 186 in the United States; 3) building security techniques to 136 police officials; and 4) threat assessment and investigation to 37 police officials.

A.I.D. believes that creating a GOC capability to provide judicial protection is inexorably linked to overall administration of justice objectives. The Special Corps of Judges concept is a good example.

A.I.D. proposes total additional funding of \$5 million from NSD-18 ESF for Judicial Protection in Colombia, including \$2.5 million in FY 1991. These funds may be included in an "umbrella" Administration of Justice project and would be used by A.I.D. to pay for technical assistance, training and equipment.

#### 4. Narcotics Awareness

Colombia not only has a drug trafficking problem, but a drug abuse problem, exacerbated by the proximity of supply. Of a total population of approximately 30 million, it is estimated that there are as many as 500,000 drug users in Colombia, of whom a large number are teenagers or younger. Drug abuse crosses social and economic lines. Alcohol is the most widely-abused legal drug; and the most widely-abused illegal substance is bazuco (smoked cocaine base - roughly equivalent to crack). Like crack, it is highly addictive, and in addition is unpurified and contains the remains of processing chemicals, such as kerosene, which cause a wide range of physiological damage. Marijuana is also abused, along with glues, paints, thinners, and other inhalants.

Perhaps the main obstacle in fighting the drug abuse problem in Colombia is public apathy. For most Colombians, drugs are ugly and immoral, as well as illegal, and they do not want to talk about the subject. However, a 1987 survey showed that 85 percent of the Colombians in four major cities saw drug use as a serious problem, and 72 percent felt that the problem was increasing.

- a. The Overall GOC Program - The GOC and the private sector increasingly seem determined to deal more effectively with a growing drug addiction problem. The government has established a National Directorate for Drug Abuse Prevention, which includes the Institute of Family Welfare, the Ministries of Health, Education and Communications, as well as private institutions. However, narcotics awareness activities have not been focussed or coordinated properly.

On a positive note, the wife of President-elect Gaviria apparently intends to take an active role in drug prevention programs. The Embassy and A.I.D. believe her participation may result in better coordination of private and public sector efforts.

- b. U.S. Assistance - Within the U.S. Embassy, A.I.D., the Narcotics Assistance Unit (NAU) and USIA all provide assistance to increase Colombian narcotics awareness. A number of promising activities have been started with the Bogotá Mayor's Office, the Colombian Family Welfare Agency, the Fulbright Foundation, the

Partners of the Americas, and with the private anti-drug Fundacion Accion Solidaria. Pilot activities run the gamut of educational programs in the schools, public media messages, workshops, symposia and external training of public and private sector officials involved in drug education and prevention.

A.I.D. wants to build on the experience to date and proposes an expanded Narcotics Awareness project with life-of-project funding of \$4 million, of which \$1 million is to be obligated in FY 1991.

5. External Training and Technical Consultations

a. Training

A.I.D./Bogota believes strongly in the value of participant training, a view shared by Colombian public and private institutions throughout the country. In addition, as the expanded NSD-18 ESF program unfolds, there will be a need for special, quick-reaction technical assistance to be responsive to GOC requests and take advantage of targets of opportunity in private sector development. A proposed multi-year project will provide funds for expanded training and PD&S-type technical consultancies.

i. The Overall GOC Program

In 1989, A.I.D./Bogota sent 207 participant trainees to the United States under the LAC I/II and CLASP/Andean Peace Scholarship training projects. Sixty were long-term academic or technical trainees, and 146 were short-term. A.I.D./Bogota has built an enviable record in selection of government and private sector participants. Over 40 percent have been women, and 85 percent are from lower-income/disadvantaged segments of Colombian society. Short-term, intensive training has focused on the social sectors (health, population, child survival, drug prevention), as well as provision of technical training for teachers, artisan women, agriculture/cooperative leaders, and rural mayors. By the end of FY 1990, A.I.D./Bogota plans to send 366 participants for training abroad, of whom some 77 will be academic long-term students in public and judicial administration, education, health, natural resource management, and the social sciences.

All of A.I.D./Bogota's participant trainees are selected according to strict criteria. They are oriented and processed by two private institutions, the Fulbright Commission and the Foundation for Higher Education (FES). Placement and reception in the United States has been handled through contracts with Development Associates Inc. and Partners in Education and Training (PIET).

11. U.S. Assistance

A.I.D./Bogota plans a significant expansion of participant training using NSD-18 ESF in FY 1991-94. Training will be designed to support overall GOC counter-drug priorities and is focussed on 1) administration of justice; 2) public and financial management; 3) development economics; 4) natural resource/agricultural management; 5) education management; and 6) social work. This will be complemented by short-term training in export promotion, drug prevention, and related fields. The project will also provide funds for in-country training, including U.S. experts to conduct the training. The entire training program will be coordinated very closely with related activities sponsored by USIS, the GOC and several private sector organizations, including a highly promising initiative by former scholarship recipients.

A.I.D. proposes life-of-project funding of \$9-10 million for an External Training and Technical Consultations project, of which \$2 million will be obligated in FY 1991.

b. Technical Consultations

The proposed ESF program represents a major change in the size and form of the A.I.D. program with Colombia. In addition, the program structure is unique in A.I.D. For both reasons it is clear that implementation issues will arise that have not been anticipated. In a real sense the design of the overall program will to some degree change as the program unfolds. It is important therefore to have the ability to bring in technical experts or to send Colombians out to seek consultation in and advice. This project activity will provide that flexibility.

One particular activity that could typify the kinds to be supported with technical assistance would be the preparatory activities for establishment of a Colombian Policy Research Institute. This has been discussed with several key policy level officials in the GOC. The idea is to establish an institution that would have a serious academic research capability and an agenda consisting exclusively of policy issues. What would make it unique would be that this institution would include a direct, explicit conduit through which policy level officials would both contribute to the research agenda and would be recipients of the findings of the research.

In discussing such an institute, it was widely agreed that its members should include officials and individuals with economic policy interests and high level competence, from academia, the

private sector and government. The institute's directors would be a blue-ribbon group of such individuals, such as the head of the Central Bank, the Minister of Finance, a Dean of a distinguished economics faculty and similarly prestigious representatives of the private sector.

Activities of the institute would conceivably include undertaking and publishing research, managing a program of external scholarships, staging seminars and workshops that would include outside experts, scholars and policy makers, and managing a system for disseminating knowledge to the community at large.

While the institution described above is more than an abstract notion, much work would be needed to bring it into being. Thus because the activities in which it would engage are similar to those that could very well prove to be needed in other areas, it is a good example of the purposes for which this project activity is proposed.

Another example of where technical assistance would be an important input would be in facilitating the creation of a "Center for Improving Colombian Competitiveness", which will seek to enhance quality control, as well as organization and strategy, for making Colombian products more competitive in the world market. Presently being planned, the center will be managed by the private sector, and will receive support from both the private and public sectors.

## B. SPECIAL TOOLS OF THE ECONOMIC REVITALIZATION PROGRAM

### 1. "Apertura"

In February 1990 the Barco government announced a wide-ranging program of apertura to gradually reduce or eliminate market distortions so that production for both domestic and foreign markets could become more efficient and Colombia could be more closely integrated into the world economy. While some might think of apertura as intensifying the condition of "external dependence," successful implementation of the program should reduce Colombia's dependence on external capital to finance the imports needed for economic growth. Furthermore, a more efficient economy can be expected to generate both a more rapid rate of economic growth and a more equitable distribution of income. As economic opportunities expand in the legal economy, the temptation for individuals to seek income from illegal activities can be expected to decline. President-elect Gaviria has pledged his government's intention to fully support the implementation of apertura.

The principal features of the program are the following:

- o Competitive Exchange Rates. Real devaluations of 4% a year are being sought until purchasing power parity is established with Colombia's major trading partners. This is expected to take about five years. The argument can be made, however, that the exchange rate per se is already fairly competitive and that the principal barriers to exporting lie elsewhere. On the other hand, a more favorable exchange rate would be needed to offset the effects of reducing export subsidies. Similarly, the reduction of import barriers will require an offsetting real devaluation to prevent an excess demand for imports.
- o Import Liberalization. The process of import liberalization is to be carried out in two phases over a five-year period. Under the first, two-year phase, the emphasis will be on replacing prior import licenses with tariffs. The second, three-year phase will seek to reduce the average tariff rate to 25% (including the import surcharge, to be reduced to 10%), compared with 45% (including an 18% surcharge) before the announcement of apertura. Details are provided below.
- o Infrastructure. Transportation and port facilities are considered inadequate and a significant obstacle to the further expansion of nontraditional exports. A major investment program is planned to relieve this bottleneck.
- o Price Policy. Price controls will be gradually eliminated over a five-year period that already began in 1989.
- o Tax Policy. Reforms will be sought to provide greater horizontal and vertical equity and to eliminate structural distortions induced by uneven tax treatment.
- o Interest Rate Policy. Interest rates subject to control are to be kept positive in real terms and eventually decontrolled.
- o Miscellaneous Policies. Credit lines, quality control, and research and development initiatives to make domestic industry more competitive, all under the initial sponsorship of the public sector with significant private sector participation, are planned for 1991 and beyond. A key objective is to diversify production in general, and production for export in particular. Agriculture and industry are included in the plans. In the industrial sector, the idea is that Colombia can eventually produce some of the relatively light capital goods it now has to import. A note of caution is in order with respect to public

sector-provided initiatives. Finding the line between compensating for market failure and externalities on the one hand, and introducing anti-market distortions on the other, can be difficult. The GOC economic team is clearly aware of this. Nevertheless, its members may need support and reinforcement on this issue to avoid introducing new distortions, and this possibility will merit a vigilant attitude as apertura unfolds.

In March 1990 the GOC began to implement the first phase of the import liberalization program. The following specific measures were approved:

Elimination of prior import licenses for 864 tariff items and their transfer to the free list, which now includes 56% of all tariff positions (and about 50% of the value of imports, compared with 36% in 1989). This measure is less significant than may be apparent because most of the items transferred were intermediate and capital goods for which licenses had been granted relatively easily.

Near-automatic approval of prior licenses on 786 items, although tariffs were increased marginally on 80 items competing with Colombian products.

An allocation of \$150 million within the foreign exchange budget (now covering only imports subject to prior licenses) for imports of some 700 items that effectively had been prohibited because they compete with domestic production. Access to this amount will be determined through an auction system in which bids take the form of a premium over the tariff rate applicable to a particular item. The dollar amount available is to be gradually increased through 1991. Once the premium stabilizes, the intent is to eliminate prior licenses and to raise the tariff rate by the applicable premium.

The maximum tariff rate was lowered from 200% to 100% (or 100% to 50% if two luxury automobile categories are excluded) and tariffs have been modified on nearly half the tariff items. The effect of these changes was to reduce the weighted average tariff from 27% to 24% and to modestly reduce tariff dispersion.

2. "The Core Economic Opportunity Budget"

In an effort to bolster its war against drug production and trafficking, the GOC has put in place a Special Program to be funded by the national budget and international donors and coordinated by the DNP. Special Program areas are as follows: International Trade, Industrial and Agro-Industrial Development, Substitution of Illicit Crops, National Rehabilitation Plan, Associative Rural Development, Support to Justice, and Freedom of Press Defense Fund. Noteworthy is the National Rehabilitation Plan, a fundamentally regional development approach aimed at bringing about integration of the most isolated and poverty-stricken areas into the mainstream of the economy.

The Core Economic Opportunity Budget (CEOB) is a new instrument, related to the Special Program. Funding for the CEOB will come from ordinary revenues as well as funds associated with international cooperation programs. The CEOB is designed to assure that top priority public sector activities in support of economic revitalization are executed with agility and tight financial control. It assembles into a sub-budget or sub-program package those activities from the general national budget that have the highest priority ranking because they form part of the foundation on which economic restructuring will be built.

More specifically, the CEOB contains three categories, or sub-sectors, of public investment projects:

- 1) Support for "apertura" and trade expansion.
- 2) Support for decentralization and regional economic growth.
- 3) Support for investment in human resources development.

The information and infrastructure requirements for full integration into the competitive international economic environment are vast. It is clear that sea and air ports, roads, telecommunications facilities and policy-related research, will require continuous upgrading as the volume and variety of trade change and grow. Knowledge of markets around the world will be indispensable, as will quality control, standards and research and development. In all of these areas, the public sector will necessarily interact collaboratively with the private sector. To assure that the associated budgeted activities receive the appropriate financial and administrative priority, their key elements will be included in the CEOB.

Decentralization and regional economic development are indispensable to broadening and expanding economic opportunity in such a manner that it reaches all parts of Colombia. Particularly important in helping the extra-urban areas to become full participants in the legitimate economic life of the country is the upgrading of infrastructure such as water and sewage systems, secondary and tertiary roads and institutions capable of developing greater local and regional community capacity to select, plan, design and manage the public infrastructure and services they require. Those activities must receive the highest priority as they are preconditions to the establishment of regional centers of legitimate economic activity. Once the elements of infrastructure and basic institutional capacity are in place in these centers, they can more effectively attract private investment that is appropriate in terms of the basic economic advantages of each (terrain, soil, work force, natural resources, etc.). Accordingly with the high priority of public activities in this category, they are included in the CEOB.

The third category of public investment outlays to be included in the CEOB is investment in human capital. A work force that is healthy, disciplined and capable of being trained quickly for whatever kind of legitimate employment is dictated by market signals, is a necessary condition of international competitiveness. Of equal importance, it is precisely investment of this kind that converts plain population mass to human capital, and enables peoples' incomes to rise toward international market standards. As studies around the world have demonstrated repeatedly, investment in human capital yields exceptionally high returns.

The philosophy that guides the priority being given to this class of public investment is that the nation's richest potential natural resource is its people. This, following the dictates of conscience and humanity to establish and provide for a floor to a quality of life to which all Colombians are entitled, makes good economic sense for a nation moving aggressively to integrate itself into the international market economy.

#### Operation of the Core Economic Opportunity Budget

Criteria for inclusion of an activity in the Core Economic Opportunity Budget are the following:

- 1) The candidate project must fall into one of the three categories just described --- "apertura", decentralization/ regional development or human resources development.
- 2) The candidate project must have been fully vetted including having had its completed feasibility study evaluated and approved by the CEOB Committee.
- 3) It must be judged by the CEOB committee to be in the highest priority class, based at least in part on its being a necessary condition for further activity in the same category.

LAC Host Country Owned Local Currency (HCOLC) guidance (88 state 313159) stipulates that when HCOLC is programmed in general support of a Host Government's budget or for a sector or sub-sector, AID must be satisfied with the Host Government's programming and monitoring systems. A.I.D./Bogotá has reviewed those systems and is satisfied that the management of the CEOB can effectively be based on those systems. Therefore, the CEOB will be managed as a separate sub-program, but will be incorporated into the GOC's system for managing the Special Program and the National Rehabilitation Plan.

Under that system an inter-ministerial committee meets once a week to approve and/or review implementation of programs and activities. The committee is composed of the following officials, at the Vice Minister level: Vice-Minister of External Relations, Vice-Minister of Agriculture, Vice-Minister of Development, Vice-Minister of Justice, General Secretary of Finance, Deputy Director of the National Planning Department, and the Economic Secretary to the Presidency. Other members of the Committee are the Chief of the Technical Cooperation Division of DNP and the National Director of Anti-Narcotics. In addition, meetings to approve/review programs and activities are attended by the backstop officer of DNP and the technician(s) from the technical ministry and private sector individuals, as appropriate.

The joint cooperation between the Government of Colombia and the United States Government represents significant support for this government's overall anti-narcotics and economic growth program. The CEOB will be among the principal instruments of that program. In recognition of the support of the United States for the program, and in the hope that we can sustain the United States' interest and support can be sustained in the succeeding years of the program, the GOC intends to present periodic briefings on the program's overall progress. These briefings will include a careful review of experience and progress in implementing the CEOB.

## V. ESF DOLLAR AND LOCAL CURRENCY PROCEDURES

The U.S. dollar funds will be used to finance servicing of official Government of Colombia (GOC) debt to the U.S. and to the World Bank and the Inter-American Development Bank. This will be consistent with the ESF Cash Transfer Assistance-Amplified Policy Guidance, i.e. service of debt owed to the U.S. Government will have first priority, followed by debt to multi-lateral development banks. Service of debt for military imports or other military requirements and other items A.I.D. cannot finance because of specific legal prohibitions will be ineligible. The detailed procedures for the programming and control of the dollar funds is described in the following sections. The primary rationale for allowing the use of dollars for debt repayment is that that it entails minimum A.I.D. management responsibility, while offering simplicity, optimum internal control and low vulnerability. The Banco de la Republica de Colombia (BRC) will be the managing agency for the separate dollar account and dollar transactions.

As described below, local currency will become available through a process which the GOC currently uses to pay its official debt, i.e. the GOC will purchase dollars with local currency from existing budgetary resources. In this case, the local currency will be deposited into a separate account in the Banco de la Republica de Colombia (BRC). The separate Peso account will be managed by the Department of National Planning (DNP), according to normal practices and controls. As described above, local currencies will be programmed to finance activities in three sub-sectors (Apertura or trade development, regional development, and human resources development) included in the Core Economic Opportunity Budget (CEOB).

### A. PROGRAMMING, USE AND CONTROL OF U.S. DOLLARS

#### 1. Programming and Use

As stated above, Program dollars will be used to service official debt of the GOC to the U.S.G. and to the two multi-lateral development banks. The FAA requires that not more than 50% of the OYB be made available prior to Presidential certification to Congress that Colombia has complied with counter-narcotics measures. For FY 1991 assistance, the notification period for Congress will probably expire sometime in early May, 1991. Therefore, the first tranche of \$20 million dollars will

be available sometime between November, 1990 and February, 1991, and the second tranche of \$21 million will be available after May, 1991.

Accordingly, the GOC will group together payments due in the time periods in which the dollar disbursements are expected to take place, i.e. November-December, 1990 and May-June, 1991. In this way, disbursement of dollars to the separate account, deposit of local currency, and withdrawal of dollars from the separate account to effect payment of official debt of the GOC, in that order, is expected to take place within one to two weeks. As described below, this is the simplest and least vulnerable system possible for managing dollars.

## 2. Separate Dollar Account

The following are the steps and/or provisions which relate to management of the separate dollar account:

- The GOC will establish a separate U.S. dollar account in the name of the BRC at the Federal Reserve Bank of New York (FRB), exclusively for the ESF program, to be managed by the BRC as part of the GOC's official reserves.
- Upon the GOC meeting conditions precedent to disbursement, disbursement of \$20 million will be made to a separate account of the GOC in the FRB.
- The transfer of funds by the U.S. Treasury to the BRC separate dollar account in the FRB will be made within 48 hours, without any intermediary banks nor accounts.
- The funds in the separate dollar account at the FRB will be placed in U.S. Treasury Bills of short-term maturity to provide interest income while there are not public debt calls on the balance. The interest income would become part of the principal balance.
- The BRC will make payments on GOC official debt to the U.S.G. and/or Multilateral Development Bank (MDB) debt directly out of the separate account in FRB.

- The Grantee (i.e. the GOC) will submit quarterly reports to support disbursements made for each payment of debt (principal and/or interest).

The following documentation will be submitted in the reports: (1) copies of BRC authorization to the FRB (in which the separate account has been established) which authorized payment to the approved creditor (i.e. USG Agency or MDB) and telexed confirmation of payment from such creditor; and (2) name of creditor to which payment was made and the amount involved.

The Grantee will re-deposit into the separate dollar account at the FRB, any amounts, in dollars, equivalent to payments made to service debt which have been determined to be ineligible.

#### B. PROGRAMMING, USE AND CONTROL OF COLOMBIAN COUNTERPART FUNDS

As described in previous sections, the GOC will commit to the CEOB an amount of local currency significantly in excess of the equivalent of the projected ESF cash transfer. This will permit the Country Team to adopt a less involved, less detailed programming approach, at a higher level of aggregation, consistent with the 1987 supplemental guidance on programming local currency (State (87) 327494), and the LAC Host Country owned Local Currency Guidance (State (88) 313159). As described above, the CEOB will support three areas of the GOC's efforts in counter-narcotics: Apertura or trade expansion, regional development and development of human resources. Therefore, in terms of following the guidance (contained in State (88) 313159), programming, monitoring and accounting requirements will be consistent with sector or sub-sectoral support. In addition to the requirements for general budget support, the A.I.D./ Representative will require quarterly reports on the progress of the CEOB in the three sub-sectors.

The sub-sectoral approach will minimize A.I.D. management requirements. The A.I.D. Representative will be able to rely on the GOC's sophisticated programming, budgetary and financial management systems which provide a high level of assurance that the objectives of the CEOB and the three sub-sectors contained thereunder will be achieved. The process of packaging assistance to the three sub-sectors, per se, provides assurances that objectives will be achieved. In addition, the GOC will be able to account for all funds, including those which come out of the separate peso account and those emanating from the normal budgetary process, down to the project level. This does not reflect any intent on the part of

A.I.D. to monitor the program at a project-specific level, but rather the high level of sophistication and the low level of vulnerability inherent in the GOC's budgetary and financial management systems. On the implementation side, the Department of National Planning, the implementing entity of the CEOB, currently has an effective monitoring system in place. On a periodic basis, DNP sits down with technical implementing entities and donors and reviews progress under activities. The same system will be applied in reviewing progress under the three sub-sectors of the CEOB.

Given the need to present a balanced approach in the provision of USG assistance, i.e. to emphasize economic assistance vis-a-vis military and interdiction-related assistance, occasionally it may be necessary for the Embassy to identify specific efforts or achievements under the sub-sectors as being USG-supported. Again, this in no way reflects an intention for A.I.D. to manage the program on a project-specific level, but merely public relation and political priorities.

In addition to Local Currency support for the CEOB there will be two local currency trust funds, one for local operating expenses of A.I.D. and the other for local expenses for project development and support, audit, and evaluation.

#### 1. Programming and Use-Steps and Provisions

- The GOC will establish a program entitled Core Economic Opportunity Budget, consisting of general budget categories related to: (1) apertura and trade expansion, (2) regional economic development, and (3) human resource development.
- Programming, implementation, monitoring, accountability and control of the CEOB will be described in the side letter from the GOC, as outlined above. The requirement for programming pursuant to joint agreement between the host government and A.I.D. will be met through the signing of the ProAg.
- Two separate Trust Fund agreements for (1) OE and (2) PD&S, auditing and evaluation will also be executed between the GOC and A.I.D.
- For the express and only purpose of determining that the CEOB is consistent with the FAA, A.I.D. will review its contents and will respond to the GOC only on an exception basis, i.e. if an element does not appear to be consistent with the FAA.

- Funds from the Special Account will be combined with other budgetary resources in the CEOB, and the CEOB will also make note of the estimated value of contributions by other donors.

## 2. Accountability and Control-Steps and Provisions

- Prior to making payments for debt-servicing, i.e. prior to disbursement out of the separate dollar account, the GOC will deposit a local currency amount equivalent to the debt payment, into a separate Peso account at the BRC, which will be the managing agency for the program dollar transactions.
- To the extent possible, the BRC will group together the GOC's debt service payments, so that a peso amount equivalent to each tranche (\$20 million) will be deposited at one time or within a short time period.
- The Peso deposit for each debt service will be required prior to release of dollars from the separate account to make debt payments.
- Peso deposits will be made into a special separate Peso account at the BRC. As the overall managing agency for the CEOB and its activities in the three sub-sectors, the DNP will manage the special account and provide authorization to the National Treasury to transfer funds (including funds from the Special Account and other GOC funds) to implementing entities or to a government Procurement Service Agency.
- The GOC (through DNP) will provide reports to A.I.D. on a quarterly basis. Such reports will include information on budgetary allocations and on the overall progress on the sub-sectors included in the CEOB.

## C. REPORTS

As described above, the Grantee will provide reports to A.I.D. on a quarterly basis, for the GOC fiscal year, which is the same as the calendar year. The BRC, as the managing entity for dollars, will report on the servicing of debt, while the DNP, as managing agency will provide reports on the CEOB and the special local currency account. Content of such reports is outlined above. In addition to the quarterly formal reports, the BRC has agreed to provide reports to A.I.D. on a monthly basis.

#### D. AUDITS

The GOC has its own audit procedures under its Controller General and both the separate dollar account and the special local currency account will be subject to these procedures. In addition, the GOC has agreed that both accounts will be audited by an external internationally accredited CPA firm, in accordance with GAO auditing standards. The AID/Rep. will consult with the Office of the Regional Inspector General in Honduras on the process of selecting an audit firm, and the capabilities of any firm selected to perform the audits.

#### E. FINANCIAL ASSESSMENT OF THE BANCO DE LA REPUBLICA DE COLOMBIA

The Financial Management Guidance on Dollar Separate Accounts, contained in State 194322, requires that the PAAD contain identification of the Host Country agency responsible for managing the dollar separate account and a conclusion as to the capability of that agency to effectively carry out its responsibilities. During the development of the PAAD, the BRC was visited by the USPSC Financial Analyst, Office of the Controller, USAID/Peru (former USDH controller in USAID/Colombia) to discuss, in depth, the process by which the BRC, as legal agent of the Colombian government, would manage the cash transfer account.

The BRC has had no prior experience with managing a dollar separate account; however, it was intimately involved with the prior bilateral A.I.D. program and is acutely aware of the requirements for audit and program oversight. High officials of the BRC proposed a cash management system that is impressive in its simplicity.

The merits of the proposal are multiple. First, the funds transfer requested by A.I.D. through the U.S. Treasury would be to a separate account maintained at the Federal Reserve Bank/New York (FRBNY). This would be the account of first and last deposit prior to disbursement in payment of eligible official debt. The BRC's internal controls would preclude unauthorized use of the funds in the dollar special account.

To draw down on the dollar special account to pay official debt, a government entity must present its request for foreign exchange to the BRC, accompanied by a transfer of local currency to the BRC equal to the debt payment at the official exchange rate of the day. For this program, the local currency will be directly transferred to the CEOB Special Peso Account. Upon the receipt of the local currency equivalent to the debt payment, the BRC will issue payment of debt instructions to the FRBNY. At this point, the dollar special account will be debited.

There appears to be integrity as well as simplicity in the procedures. The BRC is accustomed to being audited by the international financial institutions and have had no objection to periodic non-Federal audits performed by local CPA firms. It will provide monthly status reports on the dollar separate account balance, with interest earnings which accrue to the program separately identified.

In the opinion of the Financial Analyst, Office of the Controller, USAID/Peru, based on discussions with the BRC and prior personal ~~experience~~ under the previous bilateral A.I.D. program, the internal controls of the BRC are adequate to protect the integrity of the procedures proposed.

## VI. Conditions and Covenants

### A. FIRST TRANCHE: US\$20.0 MILLION

Prior to the disbursement of the first tranche (expected to be effected between November, 1990 and February, 1991), the COC will comply with the standard conditions precedent (legal opinion and authorized representatives), as well as with the following conditions:

- Establishment of a separate account and a special account for the deposit of the US dollar and Colombian peso proceeds of the grant, respectively;
- Provision of the procedures governing how the dollars and pesos will be handled;
- Execution of two trust account agreements, between the GOC and A.I.D., providing the equivalent in US\$ 1.0 million in each agreement, will be made available by the GOB to finance the A.I.D. Representative's (1) operating expenses and (2) program, development and support, audit and evaluation costs.

### B. SECOND TRANCHE: US\$21.0 MILLION

Prior to the disbursement of the second tranche, tentatively scheduled to be effected by or before July 31, 1991, the GOC will have attained progress, based on joint review by the GOC and AID, in implementing the programs described by the GOC in the letter requesting ESF support for this program.

## VII. Negotiating Status and Schedule for Future Actions

As discussed above, a draft side letter/letter of request is being negotiated with the current government. However, the Country Team does not expect to receive the letter until after the new government is in place, i.e. after the first week of August, 1990. In addition to a description of the CEOB and the three priority areas or sub-sectors, the draft letter contains descriptions of the GOC efforts to suppress narcotics trafficking, anti-narcotics law enforcement, narcotics education, etc. The letter also sets forth the GOC's program for opening, restructuring and reinvigorating the the economy, macro-economic policy for 1991 and beyond, and structural economic policy. The Country Team expects that the new administration will be in agreement with the general content of the letter.

The GOC is in full agreement with the operation of the CEOB, the separate dollar account and the special peso account, although the GOC may prefer to treat the CEOB as a program composed of line items extrapolated from the national budget, rather than a sub-budget in the strict sense. The Country Team does not have any objection to this, since the management and monitoring capabilities of the DNP (which will manage the CEOB) are highly developed, and GOC financial management systems provide a high degree of assurance that program associated pesos will be efficiently channelled to the priority sub-sectors.

The Country Team believes that the PAAD should be reviewed sometime in August, 1990 and views final negotiation of the letter of request with the new administration as being a step between review of the PAAD and drafting of the ProAg.

The Country Team does not believe it is necessary to execute a Memorandum of Understanding for the CEOB, since the local currencies are being programmed for general budgetary purposes and priority sub-sectors. Agreement on use of local currencies and operation of the CEOB will be contained in the ProAg.

Finally, the Country Team believes that obligation of funds can take place as early in FY 1991 as funds become available.

T A B L E S

TABLE 1

## TRENDS IN GROSS DOMESTIC PRODUCT, 1950-1990

	GDP (millions of <u>current pesos</u> )	GDP (millions of <u>1975 pesos</u> )	Annual Growth of Real GDP <u>(percent)</u>
1950-60			4.6 <u>2/</u>
1960-70			5.2 <u>2/</u>
1970-80	1,579,130 <u>1/</u>	525,765 <u>1/</u>	5.5 <u>2/</u>
1981	1,982,773	537,736	2.3
1982	2,497,298	547,836	0.9
1983	3,054,137	551,380	1.6
1984	3,856,584	569,855	3.4
1985	4,965,883	587,561	3.1
1986	6,787,956	621,781	5.8
1987	8,779,383	654,853	5.3
1988	11,689,819	679,345	3.7
1989 <u>3/</u>			3.2
1990 <u>4/</u>			3.0

1/ 1980.

2/ Geometric mean growth rate over a 10-year period.

3/ Preliminary.

4/ Projection.

TABLE 2

SECTORAL COMPOSITION OF REAL GDP, 1965-1988 1/  
(percent)

	<u>1965</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1985</u>	<u>1988</u>
Agriculture	26.4	25.3	23.9	22.7	21.9	21.3
Mining	3.4	2.7	1.7	1.3	2.3	4.5
Manufacturing	21.0	21.4	23.2	22.4	21.2	20.9
Public Utilities	0.7	0.7	0.9	1.0	1.0	1.1
Construction	3.0	3.5	3.3	3.3	4.4	3.8
Commerce	11.8	12.5	13.3	12.7	12.1	11.9
Trans., Storage, Communs.	7.4	7.8	8.4	9.3	9.4	8.8
Finance	14.2	14.2	14.0	14.0	14.2	13.5
Public Administration	7.1	6.9	7.0	7.7	8.4	8.8
Other Services	4.7	4.5	5.0	4.9	4.8	4.5
Adjustments <u>2/</u>	0.3	0.5	-0.7	0.7	0.3	0.9
(Total GDP at Market Prices)	100.0	100.0	100.0	100.0	100.0	100.0

1/ Based on 1975 prices.

2/ Minus Imputed bank services; plus import taxes.

TABLE 3

## SAVINGS AND INVESTMENT, 1965-1990

## A. REAL INVESTMENT/GDP RATIO (percent)

<u>Year or Period</u>	<u>1975 Prices</u>	<u>1986 Prices</u>
1965	15.8	15.0
1970	20.5	19.8
1975	17.0	17.2
1980	19.7	19.1
1981-84	21.5	20.2
1985-88	17.6	17.8

## B. CURRENT INVESTMENT AND SAVINGS RATIOS (percent)

<u>Year</u>	<u>Gross Domestic Investment</u>			<u>Gross National Savings</u>			<u>Net Foreign Savings</u>
	<u>Total</u>	<u>Private</u>	<u>Public</u>	<u>Total</u>	<u>Private</u>	<u>Public</u>	
1984	19.0	10.2	8.8	11.4	8.1	3.3	7.6
1985	19.0	10.7	8.3	14.0	8.4	5.6	5.0
1986	18.0	11.3	6.7	19.6	12.0	7.6	-1.6
1987	19.5	13.4	6.1	19.5	13.5	5.9	0.0
1988	20.6	14.3	6.3	20.0			0.6
1989	19.4			19.5			-0.1
1990	20.1			18.2			1.9

TABLE 4

## EMPLOYMENT, WAGES, AND LABOR PRODUCTIVITY, 1980-1988

<u>Year</u>	<u>Employment</u>		<u>Unemploy- ment Rate (%) 1/</u>	<u>Manufacturing Wages and Productivity (1980=100) 2/</u>				
	<u>'000s</u>	<u>% Chg</u>		<u>Nominal Wage</u>	<u>Real Wage</u>	<u>Hourly Pro- ductivity</u>	<u>Nominal Unit Labor Cost</u>	<u>Real Unit Labor Cost</u>
1980	8,578	--		100.0	100.0	100.0	100.0	100.0
1981	8,700	1.4		129.9	101.5	102.8	126.4	98.8
1982	9,962	3.0		169.4	106.2	108.0	156.9	98.4
1983	9,085	1.4		210.9	110.4	114.8	183.7	96.1
1984	9,318	2.6	13.2	261.2	117.8	128.1	203.9	91.9
1985	9,636	3.4	13.9	319.7	115.7	134.5	237.7	86.0
1986	9,944	3.2	13.5	394.8	120.3	144.6	273.0	83.2
1987			11.8	482.1	119.2	150.1	321.2	79.4
1988			11.3	598.6	117.6	151.5	395.1	77.6

1/ Average of March, June, Septiembre y Diciembre.

2/ Excludes workers in coffee husking.

41

TABLE 5

INFLATION RATES, 1980-1990  
(percent change, yearly averages)

<u>Year</u>	<u>Consumer Price Index</u>	<u>Wholesale Price Index</u>	<u>GDP Deflator</u>
1980	26.6	24.2	27.6
1981	27.5	24.1	22.8
1982	24.6	25.6	24.8
1983	19.7	21.7	20.4
1984	16.2	18.3	22.2
1985	24.0	24.9	24.9
1986	18.9	22.0	29.2
1987	23.3	24.9	22.8
1988	28.1	28.2	27.1
1989 <u>1/</u>	25.9		25.7
1990 <u>2/</u>	25.0		25.0

1/ Preliminary.

2/ Projection.

TABLE 6  
MONEY SUPPLY INDICATORS, 1983-1990

A. MONEY SUPPLY, 1983-1990

Year	Money Supply (M1)		Time and Savings Deposits		Broad Money (M2)		GDP in Current Prices	
	Billions of pesos	% Change	Billions of pesos	% Change	Billions of pesos	% Change	Billions of pesos	% Change
1983	406						3,054	
1984	501	23.4	696		1,197		3,857	26.3
1985	642	28.2	974	39.9	1,617	35.0	4,966	28.8
1986	788	22.8	1,263	29.6	2,052	26.9	6,788	36.7
1987	1,048	32.9	1,610	27.4	2,658	29.5	8,779	29.3
1988	1,319	25.8	1,960	21.8	3,279	23.4	11,695	33.2
1989	1,702	29.1	2,605	32.9	4,307	31.4	15,086	29.0
1990	n.a.	n.a.	n.a.	n.a.	5,629	30.7	19,310	

B. VELOCITY

Year	Velocity of Narrow Money (M1)		Velocity of Quasi-Money		Velocity of Broad Money (M2)	
	Level	% Change	Level	% Change	Level	% Change
1983	7.52					
1984	7.70	2.4				
1985	7.73	0.5	5.10		3.07	
1986	8.61	11.3	5.37	5.4	3.31	7.7
1987	8.38	-2.7	5.45	1.5	3.30	-0.2
1988	8.87	5.9	5.97	9.4	3.57	8.0
1989	8.86	-0.1	5.79	-2.9	3.50	-1.8
1990	n.a.	n.a.	n.a.	n.a.	3.43	-2.1

C. M-TO-GDP RATIOS

Year	M1/GDP	(M2-M1)/GDP	M2/GDP
1984			
1985	0.129	0.196	0.326
1986	0.116	0.186	0.302
1987	0.119	0.183	0.303
1988	0.113	0.168	0.280
1989	0.113	0.173	0.285
1990	n.a.	n.a.	0.292

Note: 1990 figures are projections.

TABLE 7

PUBLIC SECTOR FINANCES, 1984-1990 1/  
(percent of GDP)

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>Prel.</u> <u>1989</u>	<u>Proj.</u> <u>1990</u>
Total Revenue	19.2	21.0	23.8	22.1	22.1	22.2	22.8
Taxes	12.4	13.7	15.3	14.9	14.7	14.6	14.9
Operating Surplus	3.7	4.1	6.7	4.5	4.8	5.5	6.0
Other	3.1	3.2	1.8	2.7	2.6	2.1	1.9
Total Expenditure & Net Lending	25.5	24.5	24.1	24.1	24.2	24.4	25.4
Current	15.9	15.3	16.2	16.3	16.7	16.6	16.9
Interest	2.4	2.9	3.1	4.0	4.2	3.7	4.1
Other	13.5	12.4	13.1	12.3	12.5	12.9	12.8
Capital	9.6	9.1	7.6	7.7	7.4	7.6	8.2
Net Lending	0.0	0.1	0.3	0.1	0.1	0.2	0.3
Overall Balance	-6.3	-3.5	-0.3	-2.0	-2.1	-2.2	-2.6
Net Residual <u>2/</u>	-0.5	-0.7	0.9	0.2	-0.8	0.1	0.3
Financing	6.8	4.2	-0.6	1.8	2.9	2.1	2.3
Foreign	1.9	3.8	2.1	-0.7	1.5	0.8	1.3
Domestic	4.9	0.4	-2.7	2.5	1.4	1.3	1.0

1/ Operations of the consolidated nonfinancial public sector.

2/ Statistical discrepancy.

TABLE 8

BALANCE OF PAYMENTS, 1984-1990  
(millions of dollars)

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>Prel.</u> <u>1989</u>	<u>Proj.</u> <u>1990</u>
CURRENT ACCOUNT	-2,088	-1,596	535	-50	-232	23	-817
Exports	3,623	3,782	5,433	5,255	5,343	6,050	6,338
Imports	-4,027	-3,673	-3,409	-3,794	-4,515	-4,726	-5,288
Interest, net	-1,070	-1,212	-1,213	-1,196	-1,207	-1,233	-1,262
Other Serv., net	-913	-954	-1,061	-1,316	-817	-1,241	-1,405
Transfers, net	299	461	785	1,001	964	1,173	800
CAPITAL ACCOUNT	662	1,863	825	-160	620	126	975
Official, M-T/L-T	1,214	1,147	1,879	-43	620	403	732
Disbursements	1,764	1,793	2,807	1,202	2,247	2,109	2,572
Amortization	-550	-646	-928	-1,245	-1,627	-1,706	-1,840
Official, S-T, net	-220	239	-1,079	-136	-4	5	0
Private, net	-39	495	560	87	-201	-248	119
Dir. For. Invest.	561	1,016	562	287	173	546	420
Long-Term, net	47	-193	189	-59	45	-180	34
Short-Term, net	-647	-714	-191	-141	-419	-614	-335
Financial, net	-293	-18	-535	-68	205	-34	124
OVERALL BALANCE	-1,426	267	1,360	-210	388	149	158

51'

TABLE 9

## COMPOSITION OF EXPORTS 1984-1990

(millions of dollars)

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	Prel. <u>1989</u>	Proj. <u>1990</u>
Coffee	1,734	1,702	2,742	1,633	1,621	1,470	1,261
Hydrocarbons	444	409	619	1,342	988	1,412	1,613
Coal	38	126	201	263	304	509	564
Nonmonetary Gold	286	372	465	387	413	365	381
Nickel	62	55	48	76	161	160	115
Nontraditional	1,059	1,118	1,358	1,554	1,856	2,134	2,404
Agricultural	463	434	484	518			
Industrial	559	644	819	962			
Mineral	37	40	55	74			
TOTAL	3,623	3,782	5,433	5,255	5,343	6,050	6,338

TABLE 10

## EXTERNAL DEBT INDICATORS, 1984-1990

(millions of dollars, end of year)

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>Prel.</u> <u>1989</u>	<u>Proj.</u> <u>1990</u>
Debt Outstanding	12,110	14,226	15,699	17,080	17,383	17,126	18,134
Public Sector	8,515	10,745	12,636	13,897	13,968	14,133	14,865
Med.- & Long-Term	7,776	9,529	12,408	13,792	13,780	13,897	14,629
Short-Term	739	1,216	228	105	188	236	236
Private Sector	3,595	3,481	3,063	3,183	3,415	2,993	3,269
Med.- & Long-Term	1,511	1,642	1,681	1,622	1,627	1,310	1,344
Short-Term	2,084	1,839	1,382	1,561	1,788	1,683	1,925
Debt Outstdg./GDP (%)	44.1	44.2	44.9	47.3	45.7	41.4	41.1
Debt Service/Exports of G&NFS (%)	43.5	45.8	38.0	42.6	47.6	47.0	45.7

TABLE 11  
EXCHANGE RATES, 1976-1990

<u>Year</u>	<u>Pesos Per Dollar</u>	<u>Nominal Effective Exchange Rate <sup>1/</sup> (1985=100)</u>	<u>Real Effective Exchange Rate <sup>1/</sup> (1985=100)</u>	
<u>Annual Average</u>				
1976	34.7	194.1	92.8	
1977	36.8	186.8	106.6	
1978	39.1	168.5	104.1	
1979	42.6	156.2	106.9	
1980	47.3	148.6	109.5	
1981	54.5	145.8	117.9	
1982	64.1	141.5	125.6	
1983	78.9	134.1	125.1	
1984	100.8	122.8	114.6	
1985	142.3	100.0	100.0	
1986	194.3	70.2	74.6	
1987	242.6	58.2	66.5	
1988	299.6	54.0	64.1	
1989	382.6	53.8	61.8	
1990 (Proj.)	505.3	40.7	59.4	
<u>Monthly Average</u>				
1989	Jan.	339.6	54.0	62.4
	Feb.	346.8	53.6	62.2
	Mar.	354.1	53.6	62.3
	Apr.	361.8	53.3	62.1
	May	369.9	53.6	62.8
	June	377.9	53.6	62.9
	July	385.7	54.5	65.9
	Aug.	393.4	54.9	65.9
	Sept.	401.8	54.6	64.9
	Oct.	410.6	53.8	63.4
	Nov.	419.8	52.8	61.7
	Dec.	429.3	52.9	61.4
1990	Jan.	440.8	54.0	62.2
	Feb.	451.7	53.6	62.1
	Mar.	463.4		
	Apr.	474.6		
	May 25	489.4		

<sup>1/</sup> Based on trade-weighted relationships between the peso and the currencies of 18 trading partners, with the real effective exchange rate also reflecting trends in relative consumer prices. An increase means currency appreciation.

ANNEX 1

Dear Mr. Ambassador:

The purpose of this letter is to request the support of the United States of America for the Colombian Government's program to combat narcotics trafficking while simultaneously promoting a restructuring and a vigorous expansion of legitimate economic activity. This is the program discussed by Presidents Barco and Bush in Cartagena and for which President Bush pledged the cooperation and financial support of the United States.

Fundamentally, our program reflects a strategy comprised of three parts:

- 1) To strengthen our law enforcement, public order and judicial institutions in the areas required to deter narcotics-related criminal terrorism.
- 2) To reorient our national economy to enable it to be fully and competitively integrated into the international economy through our "apertura" program.
- 3) To expand briskly the opportunity for all Colombians to participate in legitimate economic activity, through public investment in human capital, regional development and economic diversification, using our newly created "Core Economic Opportunity Budget."

Our specific request for your fiscal year 1991 (the first year in our multi-year program) is for a grant of U.S. \$50 million from your Economic Support Fund. We would expect to seek this amount or more in each of the succeeding three years. Of the U.S. \$50 million we propose to use approximately US\$10 million to finance our collaborative project activity, in the areas of Administration of Justice, Judicial Protection, Narcotics Education and External Training. The remaining sum of approximately US\$40 million we propose to use for the amortization and servicing of official external debt. In addition we

53

propose to make available, for financing a portion of our newly developed Core Economic Opportunity Budget, the peso equivalent of approximately US\$40 million, which will be identified in our budget as funding associated with the U.S. assistance.

Finally, the peso equivalent of approximately US\$ 1 or 2 million that we associate with the United States support will be used to establish trust funds to cover local operating expenses, for our program for project development and support, audits and evaluations related to the broader Colombian program, as well as local operating expenses of the U.S. Agency for International Development

In the following sections of this letter I am pleased to present a more detailed description of the program my Government is undertaking and in support of which United States financial cooperation is requested.

#### Conceptual Framework of the Program

Given the choice, the vast majority of Colombians will seize the opportunity to contribute responsibly to the legitimate economic life of the nation. Without that opportunity, no amount of exhortation, or force that is consistent with a democratic political system, is likely to succeed. Until the most basic needs for survival are met, the distinction between lawful and unlawful means of obtaining a livelihood is largely academic. These propositions are at the conceptual heart of our program.

The strategy we have adopted recognizes that it is not sufficient to concentrate on the use of state force (police, military, courts and the penal system) to prevent and punish the implementation of criminal choices. While these instruments are important and necessary, it is also indispensable to operate on the factors that influence people who make those choices. Our program embraces both kinds of initiatives.

By strengthening our judicial and public order institutions and making them more effective, we will increase sharply the degree to which we interdict and penalize criminal acts. Our successes will make it clear that criminal choices are increasingly risky. At the same time, our economic program will begin a dramatic expansion of opportunity for all Colombians to participate productively in lawful economic activity. By making unlawful activity less attractive and lawful activity more attractive, we will shift the balance in favor of the legitimate mainstream of Colombian life.

We have embarked upon this program with a sense of hope, prudently tempered by realism. The task we have set for ourselves is to supplant a state of being that took years to develop. This will not be accomplished in a year or two. Accordingly we have conceived of the program as being of four years' duration. We hope that Colombia's friends will be with us for the duration of the effort. In our Fiscal Year 1991 we will move further toward institutionalizing the program. The component to revitalize the economy will receive increased emphasis. In addition to advancing the program to open the economy increasingly to world market forces ("apertura"), we will begin a concentrated four-year program of public investments to boost legitimate economic opportunity — the "Core Economic Opportunity Budget.

We have been encouraged by the expressions of support we have received recently from our friends in the Americas and in Europe. The early support of President Bush has been most helpful to us in this respect. We feel confident that we can count on the United States' continued support as our medium-term programs are being put into place and begin to take root. We are particularly pleased to note that the Colombian program will be greatly reinforced by, and indeed could be said to have anticipated, the proposal recently announced by President Bush for what in effect is a hemispheric "apertura."

Initiatives to Suppress Narcotics Trafficking

The vast majority of Colombians are honest, hard working, decent citizens doing their best for their families and their country. They deplore crime, violence and corruption. Most have legitimate jobs or businesses and do not depend even indirectly on narcotics trafficking for their livelihood. The "value added" in illegal narcotics production is a small porportion of Colombian GDP and Employment. Thus while narcotics trafficking and related violence is a major problem that influences the quality of life, it is not an activity that provides a livelihood for a significant proportion of our population.

Contrary to what is sometimes implied in the foreign press, an assault on illicit narcotics is not contrary to the interests of a significant proportion of Colombia's people. The dominion enjoyed by narcotics traffickers in small sections of the community is in fact a case of a comparatively small minority seeking to bully and intimidate the overwhelming majority. This is why we believe our program will succeed. It is an expression of our faith in the ability of our institutions to be reinforced and made strong enough to meet even the most scurrilous challenge to the democratic traditions of which we are so justly proud.

Nevertheless, few democracies have been subjected to assaults of the intensity of those now being directed against Colombia by narco-terrorists. Unquestionably our democratic institutions will have to be fortified commensurately with the ferocity of the offensive. The international community has come to recognize the problems of narco-trafficking and narco-terrorism in Colombia as, in every meaningful sense, truly international problems. Colombia accepts the burden and responsibility of confronting these problems on its national

territory. But we also welcome the cooperation and support of the international community of nations who share the benefits of our efforts. We are grateful for the leadership role the United States has taken in helping to secure and consolidate international support for our program.

Our initiatives to suppress narcotics trafficking and its associated terrorism directly, are concentrated on strengthening the institutions charged with enforcement of the law, preservation of public order and national security, and administration of justice. Activities in these areas include:

- 1) The acquisition of the most appropriate technology, commodities and equipment (particularly related to transport and communication);
- 2) Training and technical assistance in the specialized, terrorism-specific methods of organization for and management of enforcement, investigation, information administration, adjudication and judicial protection. Our efforts in these areas particularly lend themselves to the cooperation and assistance of countries with specialized expertise and equipment, through sharply focused projects. Many such projects are under way at the present and will be expanded as implementation capacity and funding permit. Specific activities of the foregoing category are already in progress. Brief descriptions of these categories of activities are presented below.

#### Anti-narcotics Law Enforcement

The Colombian armed forces and police will continue to interdict narco-traffickers at every opportunity. They will identify, track, and capture ring-leaders for prosecution. Illegal crops such as coca and marijuana will be destroyed, and the flow of pre-cursor

59

chemicals stashed . We will continue to locate and destroy clandestine laboratories which manufacture cocaine, as well as the airstrips used by the narco-traffickers. We will continue to provide diligent surveillance of air and sea ports to disrupt narco-trafficking networks. We intend to accelerate joint efforts with the international community to trace assets gained illegally, and to seize such assets wherever possible.

We hasten to point out that Colombian law enforcement efforts alone do not provide the final solution to the narcotics problem. We must provide alternative employment and income opportunity for many who are involved in the growing and processing -- not trafficking -- of illegal narcotics. The United States must also take necessary steps to strengthen its domestic demand reduction efforts.

#### Customs Administration

The Government of Colombia believes that it must continue to make every effort to prevent the shipment of illegal narcotics to international markets. Likewise, we will continue to identify and seize pre-cursor chemicals destined for narcotics processing. Efficient operation of the air and sea ports of the country, as well as highways to neighboring countries, is essential to this effort. Key to its success is a well-trained and dedicated National Customs Service. Toward that objective, we envision an expansion of joint cooperation between our two governments in strengthening the Colombian Customs Service.

#### Judicial Administration

In our view, a strong judicial system is a cornerstone of a comprehensive counter-drug strategy. Much has been accomplished to strengthen the Colombian judicial system. More needs to be done.

60

For example, we would like to move quickly to establish a special corps of judges dedicated solely to the prosecution of the narco-terrorist leadership. We welcome assistance from the United States and the international community in establishing this special corps of judges, and in the training and equipping of a cadre of investigative specialists who would serve in parallel with them.

We must find ways to guarantee the independence of the judiciary and strengthen its operations at all levels. We envision a Higher Council of Judicial Administration to make this a reality. Streamlining judicial operations, revamping our law schools, and the creation of a National Bar Association, are also priorities of the Colombian public and private sectors.

In the near-term, we want to relieve the case load burden on our Colombian judges. One idea, which we need to explore, is to establish a network of "conciliation courts" which can handle small claims, family disputes, minor disturbances and civil matters at the community level before they reach the court system. We envision a corps of "Justice-of-the-Peace" police in our local communities to make this a reality.

#### Judicial Protection

We must move immediately to strengthen efforts to provide adequate protection for our dedicated judges and judicial officials. Assistance in this area from the United States and the international community is appreciated. The establishment of a special corps of judges to prosecute and punish narco-terrorist leadership will contribute greatly. Likewise, the assignment of investigative specialists will help the judges gather evidence and prepare strong cases. We ask the United States for additional assistance, particularly in strengthening forensics, mobility and communications capacity.

61

Narcotics Education

Colombia and the United States, as well as the international community, must face the reality of domestic addiction to psycho-tropic drugs. In Colombia we recognize this problem, and we are taking steps to educate the public about the dangers of illegal drug addiction. To remedy the problem, we see increased public and private sector cooperation under the aegis of the National Council on Drugs. We see an expanded partnership in every community to rid the country of the scourge of addiction. To accomplish this, we plan to utilize the media, the school system, opportunities in the work place, in our churches, wherever we can to educate our people, particularly the younger generation.

Part of the solution to domestic addiction is the expansion of employment opportunity through improvements in vocational training, provision of credit and training for small business, and easing the burden of red-tape for our Colombian exporters. As to the latter, we would like to establish more efficient export regulations and documentation requirements.

External Training

In Colombia, we pride ourselves on the quality of education in various fields. There remains, however, a need to expose our people to technological and management innovations elsewhere in the international community. The United States has contributed to a greater exposure of Colombians to the American education and management experience. Under the Andean Initiative, we believe that a significant expansion of external training may be required in the United States, and in other countries which may have special expertise to offer.

-62-

We request that a significant portion of resources be reserved for external training of both an academic and technical nature. Our government has considerable experience in the selection, processing and tracking of overseas scholars and trainees. We offer our experience and services in this expanded effort. Priority fields of study include, but are not limited to, judicial/law enforcement administration, public management and public policy, economics, natural resource and agricultural development, education, and social program management.

The United States has been a critical and valued collaborator with us on Judicial Administration, Judicial Protection, Narcotics Awareness and External Training Projects. For 1991, as noted earlier, we are requesting that approximately U.S.\$10 million of the US\$50 million Economic Support Fund grant, be made available to expand bilateral project activities in these areas.

#### Opening, Restructuring and Reinvigorating The Economy

The economic program for which U.S. support is solicited will influence the national economy through two classes of initiatives -- harmonization of public policy consistently with the objective of integrating the economy into international markets, and public expenditures to improve public infrastructure and institutions, and the human capital base.

Policies relevant to integration into competitive world markets may be subdivided under two headings -- macroeconomic policies and structural economic policies. Macroeconomic policies include, most importantly, monetary policy, fiscal policy and foreign sector policy (primarily the selection of exchange rate and foreign payments regimes under which

69

commerce with other countries is conducted). We consider a consistency of domestic macroeconomic policies with those policies in major trading partner countries, increasingly important.

Macroeconomic Policy Objectives For 1991 and Beyond

Colombia's accustomed rate of price inflation (25 to 30 percent) is higher than the rates in the industrial countries that are Colombia's major trading partners. Ideally, our price inflation would be closer to theirs, so that trade patterns would not be unduly influenced by purely inflation-induced variations in relative prices, costs and rates of return.

Realistically, however, to eliminate abruptly the differences in price inflation would introduce shocks to the system the costs of which could easily outweigh their benefits. In the period during which adjustments to the new conditions were expected to take place, reactions could occur which would prevent their ever taking place. Thus to offset the potential distortions related to inflation differentials, it is our intention in the coming year to manage the supply of foreign exchange so as to achieve a modest real devaluation.

In each of the next four years, our objective will be to repeat that performance while simultaneously reducing the inflation differential. Consistently with this objective, our domestic monetary and fiscal policy will be managed to achieve a lowering each year of the rate of increase in aggregate nominal expenditures. By 1995, we would hope that no inflation-induced currency devaluations would be necessary to preserve our external competitiveness.

In terms of our foreign exchange flows, we expect that the "apertura" program will result in an upturn in imports while successful anti-nar-

otics efforts will reduce foreign exchange inflows. Increased capital inflows however will provide the additional financing required and permit a very modest net accumulation of international resources.

### Structural Economic Policy

The structural change our program supports is expected to result in intensification of demand for those productive Colombian resources that are relatively abundant, productive and inexpensive. This should imply greater demand, and incomes, for labor. This shift, however, will only occur as policies that protect domestic industry, reward import-intensive production techniques, and artificially inflate prices of imports, are phased out. As this occurs, changes will be induced in the structure of both production and input demand. The changes will in the long run favor higher productivity and efficiency, greater international competitiveness, lower consumer prices, higher household incomes and a more equitable distribution of income, both geographically and in terms of factor shares. Between the policy change and the long-run adjustment, however, the public sector must be -- and will be -- prepared to finance special efforts to ease the pain and smooth the transition. This is the main purpose of the Core Economic Opportunity Budget, as will be seen in the next section of this letter.

The "apertura" program introduced by this Government is the other principal vehicle through which the strategy described above will be implemented. This program will focus on dismantling the policies that block and distort market signals based on international relative intensities of consumer preferences, country-by-country factor endowments and the state of technology.

In the first two years of "apertura" (1990 and 1991) emphasis will be placed on switching the form of protection from physical restrictions on

65

imports to tariff protection. Following this, we will begin the process of reducing tariffs in such a manner that both the average of import duties and their dispersion are significantly reduced.

The "apertura" program, in addition to reforming structural economic policy, will also include public sector budgetary outlays in support of strengthening market-related public and private institutions, and assuring the availability of related infrastructure. These public sector supporting activities, such as trade and investment information dissemination, quality and standards assurance, research and upgrading of transport and communications facilities, will be included in the Core Economic Opportunity Budget. This sub-budget is an integral part of the program for which we seek United States support, and is the subject to which we now turn.

#### The Core Economic Opportunity Budget

The Core Economic Opportunity Budget (CEOB) is a new instrument, funding for which will come from ordinary revenues as well as funds associated with international cooperation programs. This core budget is designed to assure that top priority public sector activities in support of economic revitalization are executed with agility and tight financial control. It assembles into a sub-budget package those activities from the general national budget that have the highest priority ranking because they form part of the foundation on which economic restructuring will be built.

More specifically, the CEOB contains three categories of public investment projects:

- 1) Support for "apertura" and trade expansion.
- 2) Support for decentralization and regional economic growth.
- 3) Support for investment in human capital development.

66'

The information and infrastructure requirements for full integration into the competitive international economic environment are vast. It is clear that our sea and air ports, roads, telecommunications facilities and policy-related research, will require continuous upgrading as the volume and variety of trade change and grow. Knowledge of markets around the world will be indispensable, as will quality control, standards and research and development. In all of these areas, the public sector will necessarily interact collaboratively with the private sector. To assure that the associated budgeted activities receive the appropriate financial and administrative priority, their key elements will be included in the CEOB.

Decentralization and regional economic development are indispensable to broadening and expanding economic opportunity in such a manner that it reaches all parts of Colombia. Particularly important in helping the extra-urban areas to become full participants in the legitimate economic life of the country is the upgrading of infrastructure such as water and sewage systems, secondary and tertiary roads and institutions capable of developing greater local and regional community capacity to select, plan, design and manage the public infrastructure and services they require. Those activities must receive the highest priority as they are preconditions to the establishment of regional centers of legitimate economic activity. Once the elements of infrastructure and basic institutional capacity are in place in these centers, they can more effectively attract private investment that is appropriate in terms of the basic economic advantages of each (terrain, soil, work force, natural resources, etc.). Accordingly with the high priority of public activities in this category, they are included in the CEOB.

The third category of public investment outlays to be included in the CEOB is investment in human capital. A work force that is healthy, disciplined and capable of being trained quickly for whatever kind of legitimate

employment is dictated by market signals, is a necessary condition of international competitiveness. Of equal importance, it is precisely investment of this kind that converts plain population mass to human capital, and enables peoples' incomes to rise toward international market standards. As studies around the world have demonstrated repeatedly, investment in human capital yields exceptionally high returns.

The philosophy that guides the priority being given to this class of public investment is that the nations' richest potential natural resource is its people. Thus, following the dictates of conscience and humanity to establish and provide for a floor to a quality of life to which all Colombians are entitled, makes good economic sense for a nation moving aggressively to integrate itself into the international market economy.

#### Operation of the Core Economic Opportunity Budget

Criteria for inclusion of an activity in the Core Economic Opportunity Budget are the following:

- 1) The candidate project must fall into one of the three categories just described --- "apertura", decentralization/regional development or human capital.
- 2) The candidate project must have been fully vetted including having had its completed feasibility study evaluated and approved by the CEOB Secretariat.
- 3) It must be judged by the CEOB Secretariat to be in the highest priority class, based at least in part on its being a necessary condition for further activity in the same category.

68

Given the high priority of CEOB activities, this instrument will be managed as a separate program. A special six-member Commission, appointed by the President and chaired by the National Planning Department, which acts as the Secretariat, will oversee the implementation of the CEOB as a whole. In addition, this Commission will include one member each from the Ministries of Development, Economy and Hacienda, and one ex officio member from the Office of the Presidency. The final position on the Commission will be filled on a rotating basis, by the project managers in the ministries having responsibility for management of each project or activity. These latter representatives will meet with the commission only when the purpose of the meeting is to deal with his or her project. The commission will be responsible for selecting the projects submitted by the relevant ministries that are of sufficient priority to be part of the CEOB.

The joint cooperation between the Government of Colombia and the United States Government represents significant support for my government's overall anti-narcotics and economic growth program. The CEOB in turn is among the principal instruments of that program. In recognition of the support of the United States for our program, and in the hope that we can sustain the United States' interest and support in the succeeding years of the program, we wish to have the opportunity to present to you or your representatives periodic briefings on the program's overall progress. These briefings would include a careful review of our experience and progress in implementing the CEOB.

68

We are enthusiastic and determined in our approach to the Colombian Program described in this letter, and we believe that United States support is important to its success. We appreciate that support and look forward to a continuation of the constructive and collegial relationship we have enjoyed in pursuing our mutual interests.

Yours,

*República de Colombia*  
*Departamento Nacional de Planeación*

SJ- 015  
Bogotá, agosto 15 de 1990

Excelentísimo Señor  
Thomas Edmund McNamara  
Embajador de los Estados Unidos  
Ciudad

Estimado señor Embajador:

Como es de su conocimiento, Colombia tiene una voluntad irrestricta de enfrentar la producción y el tráfico de drogas ilícitas. Esta voluntad se ha expresado en las más decididas acciones de represión y control, adelantadas conjuntamente con programas de desarrollo social y económico tendientes a mitigar las secuelas destructivas del enfrentamiento y elevar el nivel de vida de las comunidades más directamente afectadas.

La nación colombiana y su Gobierno no cejarán en el propósito de erradicar el narcotráfico y garantizar condiciones para el desarrollo de su economía y el bienestar colectivo, en el marco de la democracia y de la convivencia entre los pueblos, como ha sido reiteradamente expresado por el Presidente César Gaviria.

El Gobierno de los Estados Unidos ha comprometido su apoyo económico a los programas mencionados, como fué reiterado por el Presidente Bush en la reunión sostenida con el Presidente Barco durante el pasado mes de febrero en la ciudad de Cartagena. Colombia ha entendido ese apoyo como una compensación parcial por los costos en que ha incurrido internamente, en el marco de un empeño que compete a toda la comunidad internacional.

En desarrollo del compromiso del Presidente Bush, una misión de la AID visitó Colombia durante los meses de febrero y julio del presente año, con el objetivo de establecer con las autoridades nacionales los criterios y mecanismos para el desembolso de la ayuda ofrecida por el Gobierno de los Estados Unidos.

La misión se reunió con los organismos públicos que tienen responsabilidad en materia de planificación, cooperación técnica internacional y manejo presupuestal. Conjuntamente se acordó que los proyectos financiados con la ayuda estadounidense estuviesen directamente relacionados con una o varias de las siguientes áreas:

*República de Colombia*  
*Departamento Nacional de Planeación*

- Internacionalización de la economía y modernización de la base productiva,
- desarrollo de la capacidad exportadora,
- desarrollo regional y descentralización,
- formación y calificación de recursos humanos, y
- fortalecimiento de la administración de justicia.

El programa de ayuda ofrecido por el Gobierno de los Estados Unidos tiene una duración inicial de cuatro años, durante los cuales Colombia aspira a recibir una ayuda no inferior a US\$400 millones. En el primer año, los desembolsos previstos ascienden a US\$50 millones.

Se convino destinar, en esta primera fase, US\$10 millones a la administración de justicia, que ha sufrido dramáticamente el impacto de la lucha contra el narcotráfico y el narcoterrorismo y está siendo modernizada para incrementar su eficiencia. Con tales recursos se ha previsto reforzar la protección a los jueces y su capacitación.

Los US\$40 millones restantes se destinan a proyectos en las demás áreas mencionadas. El Departamento Nacional de Planeación realizó su selección a partir de una clara definición de prioridades y un detallado estudio de la capacidad operativa de las entidades responsables de su ejecución y de los mecanismos previstos para el efecto, con el fin de asegurar la máxima eficacia en la aplicación de los recursos comprometidos. Sobre esta base, la misión de la AID sostuvo reuniones con las entidades públicas y privadas que serán responsables de la ejecución.

Cabe destacar que la mayoría de estos proyectos se encuentra actualmente en curso, financiados con recursos nacionales, y que se han definido con las entidades responsables y la misión sus necesidades de recursos externos. En algunos casos, dadas las características y la magnitud de los proyectos, se prevé el apoyo de otros gobiernos u organismos internacionales de cooperación.

Las autoridades económicas nacionales, conjuntamente con la misión, acordaron el mecanismo para el ingreso de los recursos asignados al programa de cooperación. Los recursos en dólares que no sean utilizados para la compra de equipos en el exterior y el

12

*República de Colombia*  
*Departamento Nacional de Planeación*

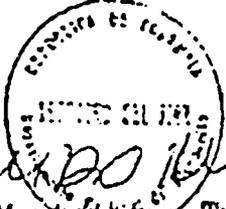
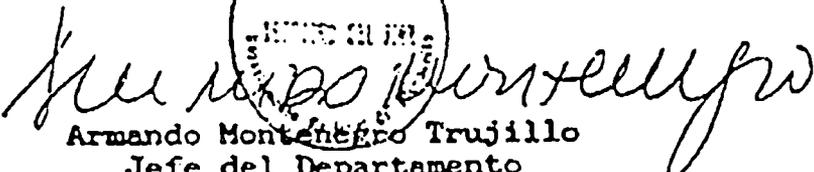
pago de servicios técnicos a consultores extranjeros serán empleados para atender compromisos de deuda externa. Su equivalente en moneda nacional será acreditado al presupuesto de las entidades ejecutoras y transferido a éstas con la máxima celeridad. Además del estricto seguimiento y control que tiene en nuestro país la ejecución de los recursos presupuestales, el Departamento Nacional de Planeación hará un seguimiento paralelo especial de la ejecución física y financiera de los proyectos. Utilizaremos el instrumento del "Core Economic Opportunity Budget", bajo los criterios acordados con la misión. Este núcleo tendrá un comité directivo integrado por sendos representantes de los Ministerios de Hacienda y Crédito Público y Desarrollo Económico y del Departamento Nacional de Planeación, con la secretaría técnica de éste último organismo.

Bajo estas consideraciones, en torno a las cuales existe pleno acuerdo de la misión destacada por el Gobierno de los Estados Unidos, comedidamente me permito solicitarle, en nombre del Gobierno de Colombia, que sean realizadas las gestiones necesarias para la aprobación final y el desembolso de la cooperación ofrecida.

Estamos seguros de que esta cooperación permitirá el desarrollo de actividades de beneficio común. La ejecución de los proyectos escogidos permitirá afianzar la contribución de muchos colombianos a la vida económica de la Nación, mejorar nuestra inserción en el mercado mundial, crear nuevas oportunidades de desarrollo regional y fortalecer nuestra democracia, con lo cual se garantiza el máximo efecto de las decididas acciones de fuerza emprendidas contra el cultivo y el tráfico de estupefacientes.

Reciba usted, señor Embajador, y por su intermedio el Gobierno de su país, nuestro agradecimiento por su apoyo al compromiso colombiano de garantizar las condiciones sociales y económicas necesarias para erradicar definitivamente el tráfico de estupefacientes y afianzar sus relaciones constructivas y fraternales con las demás naciones.

Cordialmente,

  
  
 Armando Montenegro Trujillo  
 Jefe del Departamento

002339

**MINISTERIO DE HACIENDA Y CREDITO PUBLICO**

Financiamiento  
Oficial  
**DEPENDENCIA:**

**NUMERO:**

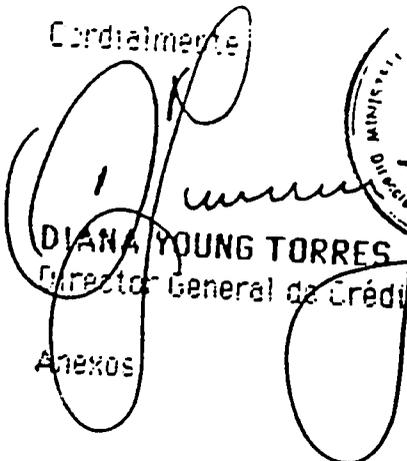
Bogotá, 12 JUL. 1990.

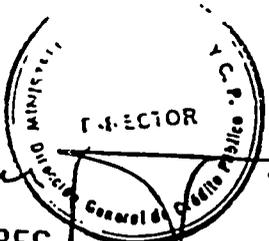
Doctor  
**PETER LAPERA**  
Representante de la AID  
c/o Miguel Angel Botero  
División de Cooperación Técnica  
Departamento Nacional de Planeación  
Ciudad

Estimado doctor Lopera:

De acuerdo con su solicitud, atentamente remitimos información referente a las proyecciones del servicio mensualizado de la deuda correspondiente a los préstamos que la República de Colombia ha contratado con el BID, BIRF, AID, Commodity Credit Corporation y el Eximbank de los Estados Unidos, para los años fiscales 1990 y 1991.

Cordialmente

  
**DIANA YOUNG TORRES**  
Director General de Crédito Público (E)



Anexos

SERVICIO DE LA DEUDA DEL GOBIERNO CENTRAL  
POR FUENTES PRESTAMISTAS  
(USA Millones)

1990			
PRESTAMISTA	AMORTIZACIONES	INTERESES	TOTAL
Banca Comercial	408.9	248.9	657.8
Gobiernos	51.6	31.8	83.4
Gobierno USA *	30.4	10.1	40.5
Otros	21.2	21.7	42.9
Multilateral	123.7	123.7	247.4
Proveedores	58.8	34.2	93.0
Total	653.7	407.7	1061.4
1991			
PRESTAMISTA	AMORTIZACIONES	INTERESES	TOTAL
Banca Comercial	342.2	268.0	610.2
Gobiernos	73.9	39.8	113.7
Gobierno USA	29.2	12.3	41.5
Otros	44.7	27.5	72.2
Multilateral	174.7	118.2	292.9
Proveedores	65.1	38.2	103.3
Total	661.1	462.5	1123.6

Fuente: DNP

\* Incluye: AID, Eximbank USA, Tesorería USA, Secretaría Defensa USA  
y Federal Financing Bank

75

Agency for International Development  
Washington, D.C. 20523

LAC-IEE-91-18

ENVIRONMENTAL THRESHOLD DECISION

Project Location : Colombia  
Project Title : Economic Revitalization Program  
Project Number : 514-9001  
Funding : \$40 million (ESF)  
Life of Project : 1 year (FY 91)  
IEE Prepared by : Carrie Thompson  
LAC/DR/SA  
Recommended Threshold Decision : Categorical Exclusion  
Bureau Threshold Decision : Concur with Recommendation  
Comments : Concurrence subject to condition  
stated in IEE and placed in  
approval documents that no  
pesticides will be procured or  
used without first doing an  
environmental assessment and  
having it approved by the LAC  
Bureau Environmental Officer.  
Copy to : James Smith, Director  
USAID/Colombia  
Copy to : Carrie Thompson, LAC/DR/SA  
Copy to : Howard Clark, REA/SA  
Copy to : IEE File

John O Wilson Date FEB 11 1991

John O. Wilson  
Deputy Chief Environmental Officer  
Bureau for Latin America  
and the Caribbean

INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Colombia  
Project Title: Economic Revitalization Program  
Project Number: 514-9001  
Funding: \$40 million (ESF)  
Life of Project: 1 year (FY 91)  
I/E Prepared by: Carrie Thompson  
LAC/DR/SA

Recommended Threshold Decision:

This program consists of a cash transfer to provide balance of payments assistance to support economic revitalization in Colombia in FY 1991. The dollar funds will be used to service USG and multilateral debt, and the local currency equivalent to the dollar assistance will be programmed as general sector/program support to assist the COC apertura and counter-drug efforts under a "Core Economic Opportunity Budget." The "Core Economic Opportunity Budget" will consist of three inter-related priority areas or sub-sectors in the GOC budget: trade expansion, regional development, and human resources development. These economic development initiatives constitute an important part of the the GOC's war against drugs. Availability of funds under this program is made contingent upon compliance with the conditions mutually agreed upon between the Government of Colombia and A.I.D. on the 1991 program.

In all cases, the funds made available under the PAAD will be programmed through either the Bank of the Republic of Colombia (dollar assistance) or the National Planning Department (local currency).

Pursuant to A.I.D. environmental regulations [22 CFR 216.2(c)(1)(ii)], an IEE is generally not required when:

A.I.D. does not have knowledge of or control over, and the objective of A.I.D. in furnishing assistance does not require, either prior to approval of financing or prior to implementation of specific activities, knowledge of or control over, the details of the specific activities that have an effect on the physical and natural environment for which financing is approved by A.I.D.

Moreover, Handbook 3, Chapter 2, Appendix 2D, Section 216.2(c)(2)(vi) states that "Contributions to international, regional or national organizations by the United States which are not for the purpose of carrying out a specifically identifiable project or projects" are not subject to

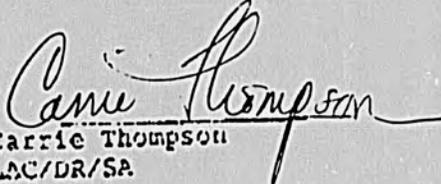
- 2 -

A.I.D.'s environmental procedures. The above exemptions do not apply, however, to assistance for the procurement or use of pesticides.

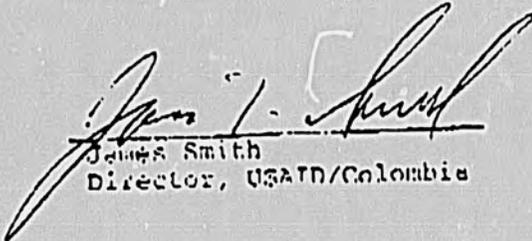
The FY 1991 Balance of Payments program will not provide support for the import, purchase or use of pesticides. A condition will be placed in the program agreement between the GOC and A.I.D. that no pesticides will be procured or used without first doing an Environmental Assessment and having it approved by the LAC Bureau Environmental Officer.

Based on A.I.D. regulations in Handbook 3, Chapter 2, the A.I.D. Mission to Bolivia recommends that no further environmental study be undertaken for this PAAD and that a "categorical exclusion" be approved.

IEE prepared by

  
Carrie Thompson  
LAC/DR/SA

Concurrence:

  
James Smith  
Director, USAID/Columbia

18

COLOMBIA

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1990 Appropriations Act Sec. 569(b). Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

The President has not so certified.

2. FAA Sec. 481(h); FY 1990 Appropriations Act Sec. 569(b). (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs

The Secretary of State has determined that Colombia has met the criteria established per 2(a). Regarding 2(b), only 50% of the funds requested for Colombia are being obligated as permitted by law.

79

are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) Has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance?

3. 1986 Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to

The President has not so determined.

- 80 -

Congress listing such country as one:  
(a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

4. FAA Sec. 620(c). If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where:  
(a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

The Government is not so indebted.

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any 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?

The Government has not taken such action.

6. FAA Secs. 620(a), 620(f), 620D; FY 1990 Appropriations Act Secs. 512, 548. Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?
- The recipient is not a Communist country.
7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?
- The country has not failed to take adequate measures.
8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC?
- Colombia has an OPIC agreement.
9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?
- The country has not taken such action.
- 92

10. FAA Sec. 620(q); FY 1990 Appropriations Act Sec. 518 (Brooke Amendment). (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds?
- The Government is not in default.
11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)
- Yes, taken into account at the time of approval of Agency OYB.
12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?
- The country has not severed diplomatic relations.
13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)
- The country is not in arrears.

43

14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?  
The President has not so determined.
  
15. FY 1990 Appropriations Act Sec. 564. Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?  
The President has not so determined.
  
16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?  
The Secretary of State has not so determined.
  
17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?  
The country does not so object.
  
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)  
The country has not so delivered.

84

19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device?
- The country has not so exported or attempted to export.
20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)
- Yes, taken into account at the time of approval of Agency OYB.
21. FY 1990 Appropriations Act Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?
- The Head of Government has not been so deposed.
22. FY 1990 Appropriations Act Sec. 539. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?
- The country so cooperates.

**B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY**

**1. Development Assistance Country Criteria**

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

N/A

b. FY 1990 Appropriations Act Sec. 535. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

N/A

**2. Economic Support Fund Country Criteria**

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

It has not been so determined.

b. FY 1990 Appropriations Act Sec. 569(d). Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking?

The Secretary of State has determined that the country has met this criteria.

### 3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

#### A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

- |   |  |
|---|--|
| <p>1. <u>FY 1990 Appropriations Act Sec. 523; FAA Sec. 634A.</u> Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.</p> <p>2. <u>FAA Sec. 611(a)(2).</u> 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 purpose of the assistance?</p> <p>3. <u>FAA Sec. 209.</u> Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.</p> | <p>1. Congress will be duly notified prior to obligation of FY '91 ESF Funds.</p> <p>2. No legislative action is required.</p> <p>3. No.</p> |
|---|--|

4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to:  
(a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.
5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
6. FAA Sec. 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?

4. (a) Yes, by improving Colombia's balance of payments situation and by supporting U.S. exports to Bolivia.  
(b) Yes  
(c) Unknown  
(d) No effect  
(e) Yes  
(f) Unknown
5. The local currency program will increase the flow of trade both ways. In both agricultural and manufacturing export areas, the L program will access U.S. private sector expertise and will seek to promote U.S. investment in Colombia.
6. N/A

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

1. a. Yes,  
Yes.

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities?

b. No.

- c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? c. Yes, Yes
- d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? d. Commodities will not be granted under this program assistance.
- e. FY 1990 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 592. If assistance is in the form of a cash transfer: (a) Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements? (c) Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available? (d) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance? e. Sec. 575 of the FY'91 AA.  
(a) Yes  
(b) Yes, the FY'91 ESF Agreement will so provide  
(c) Yes, per the Agreement.  
(d) Congress will be so notified.

PROGRAM AGREEMENT

Dated February 25, 1991

BETWEEN

The Government of the United States of America, acting through  
the Agency for International Development  
("A.I.D.")

AND

The Government of the Republic of Colombia ("Grantee"),  
acting through The Ministry of Foreign Relations and  
The National Department of Planning  
("D.N.P."),

WHEREAS, in February 1990, President George Bush met with President Virgilio Barco and pledged U.S. support for the Government of the Republic of Colombia's plan to suppress narcotics and trafficking and stimulate legitimate economic activity; and

WHEREAS, the Government of the United States of America, acting through A.I.D., desires to assist the Government of the Republic of Colombia in its program for opening, restructuring and reinvigorating the economy and its anti-narcotics trafficking program;

WHEREAS, the Government of the United States of America, acting through A.I.D., desires to grant to the Government of the Republic of Colombia a total of \$41 million to carry out these programs and to provide this amount in tranches of \$20 million and \$21 million, the second tranche of which is subject to the availability of funds and the mutual agreement of the Parties to proceed at the time of such availability;

NOW THEREFORE, the Parties hereto agree as follows:

ARTICLE I

THE ASSISTANCE

A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant to the Grantee under the terms of this Agreement, an amount not to exceed Twenty Million United States Dollars (US\$20,000,000) (the "Grant") for balance of payments support, as further defined in Article V of this Agreement.

90

ARTICLE II

TERMS OF THE ASSISTANCE

The amount of the assistance specified in Article I above is provided on the terms and conditions of this Program Agreement, including the Program Description, Annex 1, which is attached hereto and forms part of this Agreement.

ARTICLE III

CONDITIONS PRECEDENT TO DISBURSEMENT

SECTION 3.1 - Conditions Precedent to Disbursement. Prior to any disbursement of funds under this Agreement, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee shall, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

- a. A legal opinion of the Legal Secretary to the Presidency stating that this Agreement has been duly authorized, or ratified by, and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms and conditions;
- b. A statement of the name of the person(s) holding or acting in the office of the Grantee specified in Section 6.2, and of any additional representative, together with a specimen signature of each person specified in such statement;
- c. The establishment of a Separate Account in dollars ("Separate Dollar Account") in the Federal Reserve Bank of New York by the Bank of the Republic of Colombia ("BRC") in which A.I.D will deposit cash transfer dollars of the Grant, and a Special Account in Pesos ("Special Peso Account") in Colombia in the BRC in which the Grantee will deposit the peso equivalent of US\$20,000,000;
- d. The procedures governing the Separate Dollar Account and the Special Peso Account, including the terms and the procedures for deposit and disbursement from each account; and

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e. The execution of a Trust Agreement between the Grantee, acting through the National Department of Planning and one of its dependencies, and A.I.D., providing that an amount of pesos equivalent to \$300,000 of the pesos disbursed from the Special Peso Account shall be provided to A.I.D. in support of administrative and operating costs of the A.I.D. program in Colombia, and that an amount of pesos equivalent to \$700,000 of the pesos be disbursed from the Special Peso Account shall be provided to A.I.D. in support of future development and support activities for Colombia and A.I.D. programs, audit and evaluation activities in Colombia. It is understood that the resources referred to herein are considered indispensable for the execution of the programs for which the resources from the Special Peso Account are destined.

SECTION 3.2 - Terminal Date for Meeting Conditions Precedent to Disbursement. If the conditions specified in Section 3.1. have not been met within sixty (60) days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Grantee.

SECTION 3.3 - Notification. When the Conditions Precedent to disbursement specified in Section 3.1 have been met, A.I.D. will promptly notify the Grantee.

#### ARTICLE IV

#### DISBURSEMENT

SECTION 4.1 - Deposit of Disbursed Funds. After satisfaction of the Conditions Precedent to Disbursement and receipt by A.I.D. of a written request for disbursement by the Grantee, A.I.D. will deposit the U.S. dollar proceeds of the Grant in a Separate Dollar Account of the Grantee in the Federal Reserve Bank of New York as per Section 3.1.c.

SECTION 4.2 - Date of Disbursement. Disbursement by A.I.D. will be deemed to occur on the date the U.S. dollar proceeds of the Grant are deposited in the bank specified pursuant to Section 4.1.

SECTION 4.3 - Terminal Date for Requesting Disbursement. Except as A.I.D. may otherwise agree in writing, the terminal date for requesting disbursement of the Grant proceeds shall be September 30, 1991.

SECTION 4.4. Separate Account. A.I.D. shall deposit the proceeds of this Grant into a Separate Dollar Account as per Section 3.1.c. Funds deposited in the Separate Dollar Account and interest earned on these funds may not be commingled with other funds. The Grantee agrees to use such funds from the Separate Dollar Account and all interest earned for purposes as are agreed by the Parties hereto, as provided in Article V.

92

SECTION 4.5. Special Account. The Grantee shall make deposits into a Special Peso Account as per Section 3.1.c, and funds deposited in the Special Peso Account and interest earned on these funds may not be commingled with other funds. The Grantee agrees to use such funds from the Special Peso Account and all interest earned for purposes as are agreed by the Parties hereto in the Program Description Annex 1 which forms part of this Agreement.

## ARTICLE V

### PURPOSE AND USE OF THE FUNDS

SECTION 5.1. Purpose of the Funds. The Grantee agrees that except as A.I.D. may otherwise agree in writing, the Grant will be used to support the Grantee's Economic Revitalization Program by providing financial support to the Grantee to be used exclusively for amortization and interest payments on external debt of the Grantee to multi-lateral financial institutions or to the United States.

SECTION 5.2. Use of the Funds. Funds in the Separate Dollar Account may not be used for financing military, paramilitary, or other police requirements of any kind, including the procurement of commodities or services for such purposes or the servicing of debt that originally financed such requirements, and may not be used for surveillance equipment, abortion equipment and services, luxury goods, gambling equipment, or weather modification equipment. None of the funds in the Separate Dollar Account shall be used for any activity that will result in any significant loss of the tropical forest.

## ARTICLE VI

### MISCELLANEOUS

SECTION 6.1. Communications. Any notice, request, documents, or other communications submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such Party at the following addresses:

A) To the Grantee:

Departamento Nacional de  
Planeación  
Calle 26 No. 13-19  
Bogotá, Colombia

B) To A.I.D.:

Agency for International Development  
United States Embassy  
Calle 38 No. 8-61  
Bogotá, Colombia

Cable Address:

U. S. Embassy  
Bogotá, Colombia

All such communications will be in English or Spanish, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon giving the written notice.

SECTION 6.2. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of Chief of the National Department of Planning and A.I.D. will be represented by the individual holding or acting in the office of A.I.D. Representative Colombia, each of whom, by written notice, may designate additional representatives. The names of the representatives of the Grantee with specimen signatures will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in the implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 6.3. Language of the Agreement. This Agreement is executed in both the English and Spanish languages. In the event of ambiguity or inconsistency between the two, the English language version will control.

SECTION 6.4. Taxation and Fees. This Agreement and the amount of the Grant hereunder shall be free from any taxation or fees imposed under any laws in effect, or which may become effective during the term of this Agreement, within Colombia.

94

SECTION 6.5 - Program Implementation Letters.

To assist the Grantee in the implementation of this Agreement, A.I.D., from time to time, will issue Program Implementation Letters that will furnish additional information about matters stated in this Agreement. The Parties may also use jointly agreed upon Program Implementation Letters to amend the Program Description Annex 1, consistent with Article V, Section 1 of this Agreement.

ARTICLE VII

REPORTS, RECORDS, AUDIT AND REFUND

SECTION 7.1. Reports. The Grantee shall furnish to A.I.D., in form and substance satisfactory to A.I.D., such information and reports indicating that the funds deposited in the Separate Dollar Account and the Special Peso Account pursuant to Section 4.4 and 3.1 herein were used for agreed upon purposes, as described more fully by Program Implementation Letters.

SECTION 7.2 - Records and Audit. As described more fully by Program Implementation Letters, the Grantee shall maintain financial documentation, books and records covering the use of dollar funds and the pesos deposited in the Special Dollar Account provided by this Agreement in accordance with generally accepted accounting principles and practices consistently applied, and shall make such records available for inspection by A.I.D. or any of its authorized representatives at all times as A.I.D. may reasonably require for a period of three (3) years after the date of last disbursement by A.I.D. under this Grant.

SECTION 7.3. Redeposit of Funds. In the event A.I.D. determines that any disbursement from either the Separate Dollar Account or the Special Peso Account has been made for a use other than as authorized under the terms of this Agreement, or which is unsupported by valid documentation as required by A.I.D., or which is in violation of United States law, the Grantee will redeposit into the account from which it was taken a sum in the same currency equal to the amount of such disbursement plus all interest within sixty (60) days after receipt of a request therefore from A.I.D. This right of refund shall continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement of Grant funds under this Agreement.

ARTICLE VIII

TERMINATION

Either Party may terminate this Agreement by giving the other Party thirty (30) days written notice. Termination of this Agreement shall terminate any obligations of the Parties to provide financial or other resources pursuant to this Agreement. Notwithstanding any termination

95

under this section or any other, the obligations of the Grantee under this Agreement shall continue in full force and effect with respect to any portion of the Grant disbursed prior to such termination.

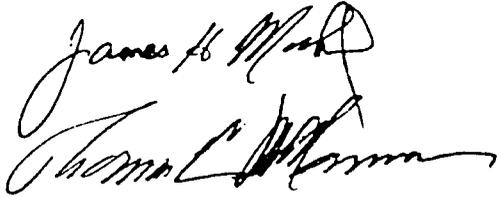
ARTICLE IX

APPROVAL

To become effective, this Agreement requires the approval of the Council of Ministers and the legal approval of the Council of State.

IN WITNESS WHEREOF, the Government of the United States of America and the Government of the Republic of Colombia, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the date and year above written.

FOR THE GOVERNMENT OF  
THE UNITED STATES OF AMERICA:

Two handwritten signatures in cursive script, one above the other, representing the United States of America.

FOR THE GOVERNMENT OF  
THE REPUBLIC OF COLOMBIA:

A single handwritten signature in cursive script, representing the Republic of Colombia.

## PROGRAM DESCRIPTION

### A. PURPOSE OF THE PROGRAM

The purpose of the program is to assist the Government of the Republic of Colombia (GOC) in suppressing narcotics trafficking and stimulating economic growth in Colombia. The grant of \$41 million\* is for balance of payments support and will be used for GOC interest and amortization payments to multilateral financial institutions and the United States. The initial grant (first tranche) will be for \$20 million. It is anticipated that A.I.D. will amend the Program Agreement to add an additional \$21 million provided funds become available to A.I.D. for this purpose. Subject to the availability of funding, the program description herein is intended to apply to both tranches of funding. The GOC will deposit an equivalent amount of money in pesos at the highest rate that is not unlawful in Colombia on the date of the deposit into the Special Peso Account. That amount plus all interest earned thereon will be used to support (1) its Core Economic Opportunity Budget (CEOB), which will target high impact private/public sector activities that support the GOC's anti-narcotics and economic revitalization program, and (2) two trust accounts to help defray part of A.I.D.'s cost of administering its program in Colombia and for audit, evaluation and future program support activities for Colombia.

In addition to the transfer of \$41 million\* in resources under this Agreement, the Government of the United States of America acting through A.I.D. intends to support certain Colombian activities directly related to the struggle against drug trafficking. These initiatives include strengthening Colombia's administration of justice and judicial protection efforts, support for anti-drug abuse activities, increased opportunities for training abroad, and support to a Management Information system (MIS) to track project performance. The total amount of this support is anticipated to be approximately \$9 million, subject to the availability of funds to A.I.D. for these programs and the mutual agreement of the Parties to proceed at the time of such availability. Provided these funds become available, this will bring the total of A.I.D. narcotics-related support for Colombia to \$50 million for Fiscal Year 1991.

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\* This Program Agreement only obligates \$20 million for the grant and the remaining \$21 million is subject to the availability of funds to A.I.D. for this purpose and the mutual agreement of the Parties to proceed at the time of such availability.

## B. PROGRAM DESCRIPTION

### 1. Background

At the Cartagena Summit in February 1990, the Presidents of the United States, Colombia, Peru and Bolivia pledged to carry out programs of mutual cooperation in counter-narcotics, including law enforcement, demand reduction and economic development. To lessen the economic burden, the United States agreed to increase economic assistance to the three countries within the context of sound economic policies and demonstrated law enforcement/interdiction performance.

Colombia has been a major source of illegal narcotics trafficking for over 15 years. Over two million people are estimated to derive their livelihood from illegal narcotics. The GOC deploys both police and military forces to interdict and disrupt narcotics production and trafficking, but law enforcement alone cannot solve the problem. To this end, the GOC is also funding programs to strengthen democratic institutions such as the judiciary and to stimulate the legitimate economy.

Over the years, Colombia has enjoyed an enviable growth rate but in recent years the growth rate has declined considerably. If the government is to be successful in combatting narco-trafficking, thus decreasing illegal sources of incomes, opportunities to earn incomes legally must be increased. Thus, a higher rate of economic growth is essential for overcoming the country's serious narcotics problems.

One of the major drags on the economy has been the huge external debt, which at the end of 1990 was \$17.1 billion, or 41% of GNP. External debt service requirements now average 44% of goods and non-factor services. Attacking the problem head-on, in February 1990 the GOC announced a wide-ranging program of apertura to liberalize the economy and thus make possible a higher rate of economic growth. This program is intended to change the structure of production, the relative labor and natural-resource intensities of production, and the structure of input and final-goods demand and thereby gradually reduce or eliminate market distortions so that production for both domestic and foreign markets can become more efficient and Colombia can be more closely integrated into the world economy.

The principal features of apertura are the following: competitive exchange rates (real devaluations), import liberalization (replacing import licenses with tariffs and reducing tariffs), infrastructure (investments in transportation and port facilities), price policy (gradually eliminating price controls) tax policy (changes to provide greater equity and fewer distortions), and interest rate policy (changes to encourage positive rates in real terms).

98

On the drug front, over the past decade Colombia has been the leader of the Andean countries in fighting narcotics trafficking. Throughout the 1980's, anti-narcotics efforts of the Colombian National Police escalated as U.S. assistance increased. In 1989, combined GOC forces seized 37 metric tons of cocaine and two million gallons of essential chemicals, enough to process 500 metric tons of cocaine, or the equivalent of all the cocaine produced in the world in one year. In the same year, the President of Colombia issued a Presidential Decree allowing administratively determined extradition of major narco-traffickers to the United States for trial, and that decree was subsequently upheld as constitutional by the Supreme Court. In addition, the GOC has created a special corps of judges who will handle the prosecution of narco-traffickers, with a trained cadre of investigative specialists at their disposal. In the meantime, hundreds of army and police personnel have lost their lives in the drug war, which has been bloodiest of any Andean country. It is clear, therefore, that Colombia is giving not just lip service to fighting narco-traffickers but is backing up its strong words with equally strong action.

In an additional effort to bolster its war against drug production and trafficking, the GOC has put in place a Special Program to be funded by the national budget and international donors. The Special Program areas are as follows: international trade, industrial and agro-industrial development, substitution of illicit crops, National Rehabilitation Plan, associative rural development, support to justice, and Freedom of Press Defense Fund. CEOB is a new instrument, related to the Special Program, and designed to assure that top priority public sector activities in support of economic revitalization are executed with agility and tough financial control. It supports various sub-sectors of public investment projects, such as:

- 1 - Trade expansion;
- 2 - Decentralization and regional economic growth (including the National Rehabilitation Plan);
- 3 - Investment in human resources development.

Under the trade expansion sector, for example, it is clear that sea ports, airports, roads, telecommunications facilities and policy-related research will require continuous upgrading as trade grows. To accomplish this, the public sector will have to work collaboratively with the private sector. As for regional growth, it is clear that infrastructure (water and sewerage systems, secondary and tertiary roads, etc.) must be upgraded as they are preconditions to the establishment of regional centers of legitimate economic

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activity. So this sector too will need public support. Finally, regarding investments in human capital, Colombia needs a workforce that is healthy, disciplined and capable of being trained quickly; public investment in that sector can make this a reality.

Once a week, an inter-ministerial committee meets to approve and/or review implementation of CEOB programs and activities. The Grant is designed to support these new initiatives of the GOC.

2. Programming and Use of U.S. Dollars

a) A.I.D. Assistance and the Separate Dollar Account

Dollars under this Program Agreement will be used to make payments on official debt of the GOC to the United States Government and multilateral financial institutions. The GOC will open an interest bearing separate U.S. dollar account ("Separate Dollar Account") in the name of the Bank of the Republic of Colombia ("BRC") at the Federal Reserve Bank in New York ("FRB") to be managed by the BRC as part of the GOC's official reserves. Funds for this account will be provided under this Program Agreement and will not be commingled with other funds. The initial grant of \$20 million will be disbursed to this Separate Dollar Account after the Conditions Precedent described in Article III of the Program Agreement are met. Subject to the availability of funds, it is anticipated that A.I.D. may subsequently amend this Agreement to provide an additional \$21 million, which also will be disbursed to the Separate Dollar Account. The funds in the Separate Dollar Account at the FRB will be placed in U.S. Treasury Bills of short-term maturity to provide interest income while there are no public debt calls on the balance. The interest income will become part of the principal balance.

b) Withdrawals from the Separate Dollar Account

The BRC will be the financial agent for the Republic of Colombia. Withdrawals from the Separate Dollar Account will be carried out only under the instructions of the BRC and will be used only to make payments on GOC official debt to the United States Government and multilateral financial institutions. Prior A.I.D. approval of the withdrawal of funds from the Separate Dollar Account will not be required; however, no dollars will be released from the Separate Dollar Account until the GOC has deposited an equivalent amount in

pesos in the Special Peso Account referred to in Section 3.a. below. If a withdrawal is made from the Separate Dollar Account prior to such peso deposits or for an ineligible use, the GOC will redeposit the equivalent amount in dollars plus interest in the Separate Dollar Account in accord with Section 7.3 of Program Agreement.

3. Programming and Use of Local Currency

a) The Special Peso Account

For each dollar provided under this Grant, the GOC will deposit an equivalent amount in pesos, at the highest rate of exchange that is not unlawful in Colombia on the date of the deposit into the Special Peso Account, to be used to support the CEOB. Specifically, the GOC will open an interest-bearing Special Peso Account in the BRC exclusively for this program to be managed by the National General Treasury. Prior to each withdrawal from the Separate Dollar Account, the GOC will deposit the equivalent amount in pesos into this Special Peso Account. The National Treasury will manage the Special Peso Account, including all interest earned thereon, and will provide authorization to transfer funds to CEOB implementing entities. The purpose of the local currency deposited in the Special Peso Account is to provide budget support to the CEOB, and the end use of these funds will occur when funds from the Special Peso Account are withdrawn from said account and deposited in the CEOB account managed by the National Department of Planning (D.N.P.). Such funds deposited into the CEOB account will be commingled with other funds that the CEOB may deposit therein. The National Treasury will have the responsibility for monitoring and accounting for all deposits into and withdrawals from both the Special Peso Account and the CEOB Account. More complete programming, implementation, monitoring, accountability and control of the CEOB will be described in Program Implementation Letters.

b) The Trust Accounts

A Trust Agreement between the Grantee, acting through D.N.P. and its dependency, the National Fund for Development Projects (FONADE), and A.I.D. will be executed prior to the disbursement under the Grant Agreement as per Section 3.1.e. therein. This Agreement will provide for the opening of two Trust Accounts to be managed by A.I.D. for the purposes and in the amounts stated in the following subparts (1) and (2). These two Trust Accounts will be fully funded prior to any amendment of this Agreement to add the second tranche of funding referred to in Section A herein but in no event later than June 30, 1991 unless the Parties otherwise agree in writing. The management and reporting to the Grantee on the use of these Trust Account funds will be the subject of a separate Program Implementation Letter.

101

- (1) Program Development and Support, Evaluations, Audit and Financial Reviews. From the funds deposited into the Special Peso Account, an amount equivalent to \$700,000 will be used and controlled by A.I.D. Colombia to support future general program development, design and implementation needs in Colombia. These needs are defined to include evaluations of implementation (performance), audits and financial reviews.
- (2) Operating and Administrative Costs. From the funds deposited into the Special Peso Account an amount equivalent to \$300,000 will be used and controlled by A.I.D. Colombia to help defray the operating and administrative costs of A.I.D.'s program in Colombia.

C. REPORTS

1. Reports on Withdrawals from the Separate Dollar Account

The BRC will submit monthly reports, for the GOC fiscal year, to A.I.D. to support withdrawals made for each payment of debt (principal and/or interest). The following documentation will form part of the reports: (a) copies of the account statements received from the FRB showing the movement of funds and interest earned, (b) copies of the BRC authorization to the FRB which authorized payment to the approved creditors and telexed confirmation of payment to such creditors and (c) the name of the creditors to which payment was made and the amount.

2. Reports on Disbursements from the Special Peso Account

Monthly reporting will be made to A.I.D. Colombia as follows: (a) The BRC will provide an account abstract on the movement of funds in the Special Peso Account, as well as an abstract of the movement of funds invested, including the interest earned; (b) the National General Treasury will provide a reporting on the movement of funds from the Special Peso Account to the National Budget Account for the CEOB; and (c) the D.N.P. will provide reporting on the request for the monthly Treasury allocation to the CEOB account and achievements on the overall progress of the sub-sectors included in the CEOB. The reports by the D.N.P. will act as a trigger mechanism for release of pesos from the Special Peso Account to the CEOB account.

3. Reports on CEOB Program Progress

The D.N.P. will provide A.I.D. Colombia with quarterly reports that address the progress of the CEOB in meeting its targets and goals, including progress in expanding the CEOB through the attraction of funds from other donors and government sources.

D. AUDITS

In accordance with Section 7.2 of the Grant Agreement, A.I.D. will establish a program of audits of the flow of funds, as well as eligibility of disbursements, of the Separate Dollar Account and the Special Peso Account. The audits will be performed under the guidance of the A.I.D. Inspector General and according to U.S. Government audit standards. Financial Reviews may be performed from time to time in accordance with specific needs and requirements.

The audits and financial reviews will be coordinated with the Grantee and will be financed from the Trust Funds transferred to the Program Trust Fund Account. The findings of the audits and financial reviews will be shared with the Grantee during the process of their development, and copies of the formal reports will be provided upon issuance.

103

## CONVENIO DE PROGRAMA

De fecha 25 de Febrero de 1991

ENTRE

El Gobierno los Estados Unidos de América,  
actuando a través de la Agencia para el  
Desarrollo Internacional  
("A.I.D.")

Y

El Gobierno de la República de Colombia (el "Beneficiario"),  
actuando a través del Ministerio de Relaciones  
Exteriores y del Departamento Nacional de Planeación  
("D.N.P."),

POR CUANTO, en Febrero de 1990, el Presidente George Bush se reunió con el Presidente Virgilio Barco y se comprometió a brindar apoyo al Plan del Gobierno de la República de Colombia para controlar el narcotráfico y estimular las actividades económicas lícitas;

POR CUANTO, el Gobierno de los Estados Unidos, actuando a través de la A.I.D. desea cooperar con el Gobierno de la República de Colombia en su programa de apertura, reestructuración y revitalización de la economía y en el programa de control del narcotráfico;

POR CUANTO, el Gobierno de los Estados Unidos de América a través de la A.I.D., desea donar al Gobierno de la República de Colombia un total de \$41 millones de dólares para llevar a cabo estos programas. Esta suma se entregará en dos contados de \$20 millones y de \$21 millones cada uno. El segundo contado está sujeto a la disponibilidad de fondos y al acuerdo mutuo entre las Partes a proceder al momento de dicha disponibilidad.

POR LO TANTO, las Partes por este medio acuerdan:

### ARTICULO I

#### LA ASISTENCIA

A.I.D., de conformidad con el Acta de Asistencia al Exterior de 1961, y sus enmiendas, conviene en entregar fondos no reembolsables al Beneficiario dentro de los términos de este Convenio, una suma que no exceda los Veinte Millones de Dólares de los Estados Unidos (\$20,000,000) (los "Fondos No Reembolsables") para el respaldo a la balanza de pagos, según se define mas adelante en el Artículo V de este Convenio.

ARTICULO II

TERMINOS DE LA ASISTENCIA

Se conceden los Fondos No Reembolsables especificados en el Artículo I bajo los términos y condiciones de este Convenio, incluyendo la Descripción del Programa, Anexo 1, el cual se anexa y forma parte de este Convenio.

ARTICULO III

CONDICIONES PREVIAS AL DESEMBOLSO Y  
COMPROMISOS

SECCION 3.1. - Condiciones Previas al Desembolso. Antes de efectuar cualquier desembolso de los Fondos No Reembolsables o de la emisión por parte de la A.I.D., de documentación de conformidad a la cual se harán los desembolsos, el Beneficiario deberá proporcionar a la A.I.D., en forma y sustancia satisfactorias para la A.I.D., a menos que la A.I.D. y el Beneficiario dispongan otra cosa por escrito:

- a. Un dictamen de la Secretaría Jurídica de la Presidencia indicando que este Convenio ha sido debidamente autorizado, o ratificado por, y ejecutado a nombre del Beneficiario, y que este constituye una obligación válida y legalmente exigible del Beneficiario, de conformidad con todos sus términos y condiciones.
- b. Una declaración del nombre de la(s) persona(s) titular(es) o su(s) reemplazante(s) en el despacho del Beneficiario especificado en la Sección 6.2, y de cualquier representante adicional, junto con un facsimil de la firma de cada persona especificada en dicha declaración;
- c. El establecimiento de una Cuenta Separada en Dólares ("Cuenta Separada en Dólares") en el Federal Reserve Bank de Nueva York, por parte del Banco de la República de Colombia (BRC), en la cual A.I.D. depositará los fondos de transferencia en dólares, correspondientes a la Donación y una Cuenta Especial en pesos, ("Cuenta Especial en Pesos") en el BRC, en la cual el Beneficiario depositará en Colombia el equivalente de \$20,000,000 dólares en pesos;

105-

d. Los procedimientos que regularán la Cuenta Separada en Dólares y la Cuenta Especial en Pesos, incluyendo los términos y los procedimientos para depósito y desembolso de cada cuenta; y

e. La ejecución de un Acuerdo entre el Beneficiario actuando a través del Departamento Nacional de Planeación y una de sus dependencias, y la A.I.D., siempre y cuando se provea a la A.I.D. de una cantidad en pesos equivalentes a US\$300.000 de los pesos desembolsados de la Cuenta Especial en Pesos, deberá ser suministrado a la A.I.D. como apoyo de los costos administrativos y operativos del programa de la A.I.D. en Colombia, y un segundo acuerdo estableciendo que un monto en pesos equivalente a US\$700.000 de los pesos desembolsados de la Cuenta Especial en en Pesos, deberá ser suministrado a la A.I.D. como ayuda para su programa en Colombia, y apoyo a sus actividades de auditoria y evaluación en Colombia. Es entendido que los recursos de que trata este punto se considerarán indispensables para la ejecución de los programas a los cuales se destinen los recursos de la Cuenta Especial en Pesos.

SECCION 3.2 - Fecha Límite para Cumplir las Condiciones Previas al Desembolso. Si las condiciones especificadas en la Sección 3.1 no han sido cumplidas dentro de los sesenta (60) días a partir de la fecha de este Convenio, o en una fecha posterior que A.I.D. haya convenido por escrito, A.I.D., a opción suya, puede rescindir este Convenio mediante notificación escrita al Beneficiario.

SECCION 3.3. - Notificación. Cuando las condiciones previas al desembolso especificadas en la Sección 3.1 hayan sido cumplidas, la A.I.D. notificará a la brevedad posible al Beneficiario.

#### ARTICULO IV.

##### DESEMBOLSO

SECCION 4.1. Depósito de los Fondos Desembolsados. Una vez que se haya cumplido las Condiciones Previas al Desembolso, a solicitud escrita del Beneficiario, la A.I.D. depositará los recursos en dólares de los Estados de los Fondos No Reembolsables en una Cuenta Separada en Dólares del Beneficiario, en el Federal Reserve Bank de Nueva York, de acuerdo a la Sección 3.1.c.

SECCION 4.2. Fecha de Desembolso. Se considerará que el desembolso de la A.I.D. se efectuó en la fecha en que los Fondos No Reembolsables en dólares de los Estados Unidos hayan sido depositados en el banco designado, según la sección 4.1.

SECCION 4.3. Fecha Límite para la Solicitud del Desembolso. A menos que la A.I.D. solicite de otra manera por escrito, la fecha límite para solicitar el desembolso de los Fondos No Reembolsables será Septiembre 30, 1991.

SECCION 4.4. Cuenta Separada en Dólares. La A.I.D. deberá depositar los recursos de estos Fondos No Reembolsables en una Cuenta Separada en Dólares, en cumplimiento de la Sección 3.1.c. Los fondos depositados en la Cuenta Separada en Dólares y los intereses producidos por estos, no podrán ser mezclados con otros fondos. El Beneficiario acuerda utilizar tales fondos de la Cuenta Separada en Dólares y todos los intereses percibidos en dicha Cuenta Separada en Dólares, solamente para los propósitos que las Partes del presente Convenio han acordado, conforme al Artículo V.

SECCION 4.5 Cuenta Especial en Pesos. El Beneficiario hará depositos en una Cuenta Especial en Pesos, según la Sección 3.1.c.; y tanto los fondos depositados en dicha Cuenta Especial en Pesos como los intereses producidos, no podrán ser mezclados con otros fondos. El Beneficiario acuerda utilizar los fondos de la Cuenta Especial en Pesos y todos los intereses percibidos para los propósitos que las Partes han acordado, en la Descripción del Programa, Anexo 1, la cual forma parte del presente Convenio.

#### ARTICULO V.

##### OBJETIVO Y USO DE LOS FONDOS

SECCION 5.1 Próposito de los Fondos. El Beneficiario conviene, a menos que la A.I.D. acuerde de otra manera por escrito, que la Donación será empleada para respaldar el Programa de Estabilización y Recuperación Económica, proporcionando respaldo al Beneficiario para amortizar pagos de capital e intereses de su deuda externa con organismos financieros multilaterales, o con los Estados Unidos.

SECCION 5.2. Utilización de los Fondos. Los Fondos de la Cuenta Separada en Dólares no serán empleados para el financiamiento de requerimientos militares o paramilitares de ningún tipo, incluyendo la adquisición de artículos o servicios para propósitos militares o paramilitares, ni para el servicio de la deuda si esta hubiera financiado su adquisición original, ni para equipos de vigilancia; servicios o equipos para abortos, lujos, juegos, o equipos de modificación del clima. Los fondos de la Cuenta Separada en Dólares no podrán ser utilizados para ninguna actividad que pueda redundar en la pérdida de bosques tropicales.

ARTICULO VI.

VARIOS

SECCION 6.1. Comunicaciones. Cualquier aviso, solicitud, documentos u otra forma de comunicación presentada por una de las Partes a la otra dentro de este Convenio, deberá efectuarse por escrito o mediante telegrama o cable, y se considerará haber sido debidamente efectuado o enviado cuando haya sido entregado a dicha Parte en las siguientes direcciones:

A) Al Beneficiario:

Departamento Nacional de Planeación  
Calle 26 No. 13-19  
Bogotá, Colombia

B) A la A.I.D.:

Agencia para el Desarrollo Internacional  
Embajada de los Estados Unidos  
Calle 38 No. 8-61  
Bogotá, Colombia

Dirección Cablegráfica:

U. S. Embassy  
Bogotá, Colombia

Toda comunicación se efectuará en inglés o español, a menos que las Partes convengan otra cosa por escrito. Se puede sustituir cualquiera de las direcciones antes indicadas mediante notificación escrita.

SECCION 6.2. Representantes. Para todo propósito relacionado con este Convenio, el Beneficiario estará representado por el titular o su reemplazante del Departamento de Planeación Nacional, y la A.I.D. estará representada por el titular o su reemplazante del Representante de la A.I.D./Colombia, quienes mediante notificación escrita, podrán designar representantes adicionales. Los nombres de los representantes del Beneficiario, y los facsimiles de sus firmas, serán suministrados a la A.I.D., la cual puede aceptar como debidamente autorizado, cualquier documento firmado por tales representantes en la implementación de este Convenio, hasta recibir una notificación escrita de la revocatoria de su autoridad.

102

SECCION 6.3. Idioma del Convenio. Este Convenio ha sido suscrito tanto en Inglés como en Español. En caso de discrepancia o inconsistencia entre las dos versiones, la versión en Inglés tendrá validez.

SECCION 6.4. Impuestos y Gravámenes. El presente Convenio y los fondos provenientes del mismo, estarán exentos de todo impuesto y/o gravámen bajo las leyes vigentes o las que puedan entrar a regir durante el término del presente Convenio.

SECCION 6.5. Cartas de Implementación del Programa. Para ayudar al Beneficiario a desarrollar el presente Convenio, la A.I.D. hará Cartas de Implementación del Programa dando información adicional acerca de asuntos relacionados con el mismo. Así mismo, las Partes podrán utilizar las Cartas de Implementación del Programa para efectuar cambios o modificaciones a la Descripción del Programa, Anexo 1, de acuerdo con el Artículo V, Sección 1 de este Convenio.

## ARTICULO VII

### INFORMES, REGISTROS, AUDITORIA Y REEMBOLSO

SECCION 7.1. Informes. El Beneficiario deberá proveer a la A.I.D. informes, en forma y sustancia satisfactorias para la A.I.D., los datos e informes que indiquen que los fondos depositados en las Cuentas Separada en Dólares y Especial en Pesos, de acuerdo con las Secciones 4.4. y 3.1., respectivamente, fueron utilizados para los propósitos convenidos, como se describe más ampliamente en las Cartas de Implementación del Programa.

SECCION 7.2. Registros y Auditoría. Como se describe en mayor detalle en las Cartas de Implementación del Programa, el Beneficiario deberá mantener documentación, libros y registros financieros que respalden el uso de los fondos en dólares y los pesos depositados en la Cuenta Especial en Dólares previstos por este Convenio, de acuerdo con principios y prácticas contables generalmente aceptadas, aplicadas consistentemente, y hará que dichos registros esten disponibles para inspección de la A.I.D. o cualquiera de sus representantes autorizados, en cualquier momento que A.I.D. pueda razonablemente solicitarlos por un periodo de tres (3) años posteriores a la fecha del último desembolso de parte de la A.I.D. bajo esta Donación.

SECCION 7.3. Reembolso de Fondos

En caso de que la A.I.D. determine que un desembolso de la Cuenta Separada en Dólares o de la Cuenta Especial en Pesos haya sido utilizado para usos no autorizados bajo este Convenio, no haya sido justificado por la documentación requerida por la A.I.D., o que sea violatorio de las leyes de los Estados Unidos, el Beneficiario deberá reembolsar a la Cuenta de la que el retiro hubiera sido efectuado, en la misma moneda, la suma del desembolso más intereses causados dentro de los sesenta (60) días de recibida solicitud por parte de la A.I.D. al respecto. Este derecho a reembolso continuará sin tener en cuenta los efectos de las demás cláusulas, por tres años a partir de la fecha en que se efectuó el último desembolso de fondos bajo este Convenio.

ARTICULO VIII

TERMINACION

Cualquiera de las partes podrá dar por terminado el presente Convenio mediante notificación escrita de treinta (30) días. La terminación de este Convenio implicará la cesación de cualquier obligación de las partes a dar recursos financieros o de otra naturaleza establecidos bajo el mismo. No obstante la terminación del Convenio bajo este Artículo, o bajo cualquier otro, las obligaciones adquiridas por el Beneficiario permanecerán en efecto en cuanto se refiere a fondos que hayan sido desembolsados previa su terminación.

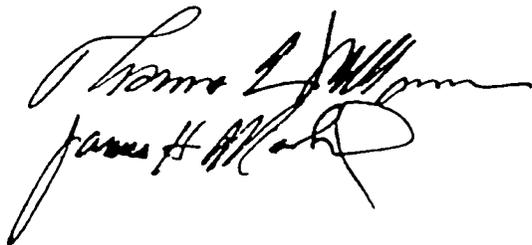
ARTICULO IX

APROBACION

El presente Convenio requiere para su perfeccionamiento revisión del Consejo de Ministros y revisión de legalidad del Consejo de Estado.

EN TESTIMONIO DE LO CUAL, el Gobierno de los Estados Unidos de América y el Gobierno de la República de Colombia, cada cual actuando a través de sus representantes debidamente autorizados, celebran y entregan el presente convenio en el día y año indicados al principio del mismo.

POR EL GOBIERNO DE LOS  
ESTADOS UNIDOS DE AMERICA:

Handwritten signatures of Thomas L. Shannon and James H. Akers.

POR EL GOBIERNO DE LA  
REPÚBLICA DE COLOMBIA:

Handwritten signature of D. H.

## DESCRIPCION DEL PROGRAMA

### A. PROPOSITO DEL PROGRAMA

El propósito del programa es el de asistir al Gobierno de la República de Colombia (GOC) en la supresión del narcotráfico y estimular el crecimiento económico en Colombia. La donación de US\$41 millones\* es un soporte para la balanza de pagos será utilizado para los pagos de intereses y amortización del Gobierno de la República de Colombia ante las instituciones financieras multilaterales y los Estados Unidos. La donación inicial (primera partida) será de US\$20 millones. Se anticipa que la A.I.D. hará una enmienda al Acuerdo del Programa para adicionar US\$21 millones siempre y cuando haya existencia de fondos para la A.I.D. para este fin. Sujetos a la disponibilidad de fondos, la presente descripción del programa tiene el fin de aplicarse a las dos partidas de éstos. El Gobierno de la República de Colombia depositará en pesos, una suma de dinero equivalente utilizando la tasa no ilegal más alta disponible en Colombia a la fecha del depósito en la cuenta especial en pesos. Esta suma con los intereses ganados será usada como soporte de (1) su Presupuesto Central de Oportunidad Económica (PCOE), el que buscará un alto impacto en las actividades del sector privado/público que apoyen los programas de revitalización de anti-narcóticos y económico, y (2) dos cuentas fiduciarias para ayudar a sufragar parte de los costos de la A.I.D. para administrar su programa en Colombia y para auditoría, evaluación y apoyo a las futuras actividades del programa para Colombia.

Adicional a la transferencia de US\$41 millones\* en recursos bajo el presente Acuerdo, el Gobierno de los Estados Unidos de América, actuando a través de la A.I.D., busca apoyar algunas actividades colombianas directamente relacionadas con la lucha contra el narcotráfico. Estas iniciativas incluyen el fortalecimiento en la administración de Justicia y protección a los jueces, apoyo a las actividades contra el abuso de las drogas, aumentar las oportunidades para entrenamiento en el exterior, y apoyo a un sistema de información de manejo para hacer seguimiento al desarrollo del proyecto. El monto total de este apoyo se anticipa será de aproximadamente US\$9 millones, sujetos a que haya fondos disponibles para la A.I.D. para estos programas y al acuerdo mutuo entre las Partes para proceder en el momento de tal disponibilidad. Una vez existan dichos fondos, el total del apoyo de la A.I.D. para la lucha contra el tráfico de drogas será de US\$50 millones para el Año Fiscal 1991.

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\* Este Acuerdo de Programa obliga solamente US\$20 millones para la donación y los restantes US\$21 millones están sujetos a la disponibilidad de los fondos para la A.I.D. para este propósito y al acuerdo mutuo entre las partes para proceder en el momento de dicha disponibilidad.

B. DESCRIPCION DEL PROGRAMA

1. Antecedentes

En la Cumbre de Cartagena en Febrero de 1.990, los presidentes de los Estados Unidos, Colombia, Perú y Bolivia acordaron llevar a cabo programas de cooperación mutua para combatir el narcotráfico, incluyendo la ejecución de la Ley, reducción de demanda y desarrollo económico. Para disminuir la carga económica, los Estados Unidos acordaron incrementar su asistencia económica a los tres países dentro de un contexto de políticas económicas firmes y demostrar la ejecución de la ley/interdicción de desempeño.

Colombia ha sido la mayor fuente para el narcotráfico ilegal por más de 15 años. Se estima que más de dos millones de personas obtienen sus ingresos del narcotráfico ilegal. El Gobierno de la República de Colombia despliega tanto a la Policía como a las Fuerzas Militares para prohibir y desbaratar la producción de narcóticos y el narcotráfico, pero la implementación de la Ley no es suficiente para solucionar este problema. Con este fin, el Gobierno Colombiano también está patrocinando programas para fortalecer las instituciones democráticas tales como la rama judicial y para estimular la economía legítima.

A través de los años, Colombia ha gozado de una rata de crecimiento económico envidiable pero en años recientes ésta ha disminuido considerablemente. Si el gobierno tiene éxito en combatir el narcotráfico, y así disminuir las fuentes ilegales de ingresos, debe aumentar las oportunidades para obtener ingresos legales. Así, una mayor rata de crecimiento económico es esencial para solucionar los serios problemas del narcotráfico del país.

Uno de los mayores pesos en la economía ha sido la inmensa deuda externa, la cual a finales de 1990 era de US\$17.1 mil millones, o 41% de PIB. Los requisitos del servicio de la deuda externa ahora promedian el 44% de los bienes y servicios no-factorizados. Al atacar el problema de frente, el Gobierno de la República de Colombia anunció en Febrero de 1990 un amplio programa de apertura para liberar la economía y así hacer posible una mayor rata de crecimiento económico. Este programa tiene el fin de cambiar la estructura de la producción, el trabajo relativo e intensidades de recursos naturales de producción y la estructura de insumos y demanda de bienes terminados y así reducir o eliminar gradualmente las distorsiones del mercado para que la producción de los mercados tanto domésticos como extranjeros sean más eficientes y para que Colombia pueda integrarse más a la economía mundial.

113-

Los factores principales de la apertura son los siguientes: ratas de intercambio competitivo (devaluaciones reales), liberalización de las importaciones (reemplazando las licencias de importación con tarifas y reduciendo tarifas), infraestructura (inversiones en transporte y facilidades portuarias), políticas de precios (gradualmente eliminando control de precios), política tributaria (cambios para ofrecer una mayor equidad y menores distorsiones), y una política de ratas de interés (cambios para motivar las ratas positivas en términos reales).

En el frente de la droga, durante la última década Colombia ha sido el país líder del grupo Andino en la lucha contra el narco- tráfico. Durante los años 80's los esfuerzos anti-narcóticos de la Policía Nacional Colombiana aumentaron a medida que aumentaba la asistencia de los Estados Unidos. En 1989, fuerzas combinadas del Gobierno de la República de Colombia incautaron 37 toneladas métricas de cocaína y dos millones de galones de químicos esenciales para la producción de drogas, suficientes para procesar 500 toneladas métricas de cocaína, o el equivalente al total de la cocaína producida en el resto del mundo en un año. Durante el mismo año el Presidente de Colombia expidió un Decreto Presidencial permitiendo la extradición por resolución administrativa de los principales narcotraficantes hacia los Estados Unidos para ser juzgados, decreto que fue ratificado por la Corte Suprema de Justicia. Adicionalmente, el Gobierno de la República de Colombia ha creado un cuerpo judicial especial que se encargará de juzgar a los narcotraficantes, con un grupo de especialistas en investigación a su disposición. Entretanto, cientos de personal perteneciente a las fuerzas de la policía y militares han perdido la vida en la guerra contra el narcotráfico, la cual ha sido la más sangrienta de los países Andinos. Por lo tanto queda claro que Colombia no solo está prestando un servicio de palabra contra el narcotráfico sino que está respaldando sus serios pronunciamientos con una acción igualmente fuerte.

En un esfuerzo adicional para impulsar su guerra contra la producción de drogas y su tráfico, el Gobierno de la República de Colombia ha establecido un Programa Especial que será financiado por el presupuesto nacional y donantes internacionales. Las áreas del Programa Especial son las siguientes: Comercio internacional, desarrollo industrial y agro-industrial, sustitución de los cultivos ilícitos, Plan de Rehabilitación Nacional, desarrollo rural asociativo, apoyo a la rama judicial y un Fondo de Defensa a la Libertad de Prensa. El Presupuesto Central de Oportunidad Económica (PCOE) es un instrumento nuevo, relacionado con el Programa Especial, diseñado para asegurar que las actividades de mayor prioridad del sector público, en apoyo de la revitalización del sector económico sean ejecutadas con agilidad y un fuerte control financiero. Este apoya varios sub-sectores de proyectos de inversión pública, tales como:

- 1- Expansión del comercio;
- 2- Descentralización y crecimiento económico regional (incluyendo el Plan Nacional de Rehabilitación);
- 3- Inversión en el desarrollo de recursos humanos.

Bajo el sector de expansión de comercio, por ejemplo, es claro que los puertos marítimos, aeropuertos, vías terrestres, facilidades de telecomunicaciones y las políticas relacionadas con la investigación requerirán actualizaciones continuas a medida que crezca el comercio. Para lograr esto, el sector público tendrá que trabajar conjuntamente con el sector privado. En cuanto al crecimiento regional, es claro que la infraestructura (sistemas de acueducto y alcantarillado, vías secundarias y terciarias, etc.) deben ser modernizadas ya que son condiciones esenciales para el establecimiento de centro regionales de una actividad económica legítima. De esta manera este sector también necesitará del apoyo público. Para finalizar, en cuanto a las inversiones en capital humano, Colombia necesita un cuerpo de trabajo sano, disciplinado y capaz de ser entrenado rápidamente; la inversión pública en ese sector puede hacer de esto una realidad.

Un comité inter-ministerial se reunirá una vez a la semana, con el fin de aprobar y/o revisar la implementación de los programas y actividades del PCOE. La donación está destinada para apoyar estas nuevas iniciativas del Gobierno de la República de Colombia.

## 2. Programación y Uso de los Dólares Americanos

### a) Asistencia de la A.I.D. y de la Cuenta En Dólares Separada

Los dólares bajo este Acuerdo de Programa serán utilizados para efectuar pagos sobre la deuda oficial del Gobierno Colombiano al Gobierno de los Estados Unidos y a las instituciones financieras multilaterales. El Gobierno de la República de Colombia abrirá una cuenta separada en dólares que genere intereses ("cuenta separada en dólares"), a nombre del Banco de la República de Colombia (BRC) en el Federal Reserve Bank (FRB) de Nueva York, la cual será manejada por el BRC como parte de las reservas oficiales del Gobierno de la República de Colombia. Los fondos para este programa serán suministrados bajo este Acuerdo de Programa y no serán mezclados con otros fondos. La donación inicial de US\$20 millones será desembolsada a esta cuenta en dólares separada una vez se cumplan las condiciones precedentes descritas en el Artículo III del Acuerdo del Programa. Sujetos a la disponibilidad de fondos, se anticipa que la A.I.D. puede hacer subsecuentemente una enmienda a este Acuerdo para otorgar US\$21 millones adicionales, los cuales también serían desembolsados a una

cuenta en dólares separada. Los fondos en la cuenta separada en dólares en el FRB serán colocados en Certificados Americanos de madurez a a corto-plazo para generar intereses mientras que no existan requerimientos por pago de deuda pública en el balance. El ingreso por intereses formará parte del balance principal.

b) Retiros de la Cuenta en Dólares Separada

El BRC será el agente financiero para la República de Colombia. Los retiros de la cuenta separada en dólares en el FRC se efectuarán únicamente bajo las instrucciones del BRC y serán utilizados solamente para efectuar pagos sobre la deuda oficial del Gobierno de la República de Colombia al Gobierno de los Estados Unidos o con instituciones financieras multilaterales. Previo el desembolso de fondos de la cuenta en dólares separada, no será necesario obtener aprobación de la A.I.D.; sin embargo no se autorizará desembolso de dólares de la cuenta separada en dólares hasta que el Gobierno de la República de Colombia haya depositado el valor equivalente en pesos en la cuenta especial en pesos mencionada en la Sección 3.a. a continuación. Si se efectúa un retiro de la cuenta en dólares separada antes de efectuar dicho depósito en pesos o para un uso no elegible, el Gobierno de la República de Colombia redepositará el valor equivalente en dólares más los intereses en la cuenta separada en dólares de acuerdo a en dólares la Sección 7.3 del Acuerdo del Programa.

3. Programación y Utilización de la Moneda Local.

a) Cuenta Especial en Pesos

Por cada dólar suministrado bajo esta donación, el Gobierno de la República de Colombia depositará un valor equivalente en pesos, a la tasa de cambio no ilegal más alta en Colombia a la fecha del depósito en la cuenta especial en pesos el cual será utilizado como soporte del PCOE. De manera específica el Gobierno de la República de Colombia abrirá una cuenta especial en pesos que genere intereses en el BRC exclusivamente para este programa, la cual será manejada por la Tesorería General de la Nación (TGN). Antes de cada uno de los desembolsos de la cuenta separada en dólares, el Gobierno de la República de Colombia depositará el equivalente en pesos en esta cuenta especial en pesos. La Tesorería General de la Nación manejará la cuenta especial en pesos, incluyendo todos los intereses generados y dará autorización para transferir los fondos de entidades ejecutoras del PCOE. El propósito de la moneda local depositada en la Cuenta Especial en pesos es el de dar apoyo presupuestal al PCOE, y el uso final de estos fondos ocurrirá cuando los fondos de la cuenta especial en pesos sean retirados de dicha cuenta y depositados en la cuenta del PCOE manejada por el DNP.

Tales fondos depositados en la cuenta del PCOE serán mezclados con otros fondos que el PCOE pueda depositar en ella. La Tesorería General tendrá la responsabilidad por el monitoreo y registro de todos los depósitos y retiros de tanto (1) la cuenta especial en pesos y (2) la cuenta PCOE. Una programación, implementación, monitoreo, contabilización y control de la PCOE más completas serán descritas en las Cartas de Implementación del Programa.

b) Cuentas Fiduciarias

El Acuerdo Fiduciario entre el beneficiario, actuando a través del Departamento de Planeación y sus dependencias, Fondo Nacional para el Desarrollo de Proyectos (FONADE) y la A.I.D. será ejecutada antes del desembolso bajo el Acuerdo de la Donación de acuerdo a la Sección 3.1.e allí especificada. Este acuerdo proveerá la apertura de dos cuentas fiduciarias que serán manejadas por la A.I.D. para los fines y sumas establecidas en las siguientes sub-secciones (1) y (2). Estas dos cuentas fiduciarias serán totalmente financiadas antes de cualquier enmienda a este Acuerdo para adicionar una segunda partida de fondos como se refiere en la Sección A del presente, pero en ningún caso después de Junio 30, 1991, a no ser que las Partes acuerden lo contrario por escrito. El manejo y reporte al donatario en el uso de los fondos de las cuentas fiduciarias estarán sujetas a una carta separada de implementación del programa.

(1) Desarrollo y Apoyo del Programa, Evaluaciones, Auditoría y Revisiones Financieras. De los fondos depositados en la cuenta especial en pesos, un valor equivalente a US\$700.000, será utilizado y controlado por la A.I.D. Colombia para apoyar el desarrollo de su programa general, necesidades de diseño e implementación en Colombia. Estas necesidades están definidas para incluir las evaluaciones de implementación (desempeño), auditorías y revisiones financieras.

(2) Costos Operacionales y Administrativos. De los fondos depositados en la cuenta especial en pesos un valor equivalente a US\$300.000, será utilizado y controlado por la A.I.D. Colombia para ayudar a sufragar los costos operacionales y administrativos del programa de la A.I.D. en Colombia.

C. INFORMES

1. Informes sobre Retiros de la Cuenta Separada en Dólares

El BRC emitirá informes mensuales, para el año fiscal del Gobierno de la República de Colombia a la A.I.D. para respaldar los retiros realizados para cada pago de la deuda (principal y/o intereses). La siguiente documentación será presentada en los informes: (a) copias de los extractos de las cuentas recibidos del FRB que muestren el movimiento de los fondos y el interés ganado; b) copias de la autorización del Banco de la República al FRB autorizando el pago al deudor aprobado y confirmación por telex del pago de dicho deudor, y (c) el nombre del deudor a quien se le efectuó el pago así como la suma involucrada.

2. Informes Sobre Desembolsos de la Cuenta Especial en Pesos.

Informes mensuales serán enviados a la A.I.D. Colombia como sigue: a) el BRC proveerá un extracto de cuenta del movimiento de los fondos de la cuenta especial en pesos así como un extracto del movimiento de los fondos invertidos incluyendo los intereses devengados; b) la Tesorería General de la Nación enviará un reporte del movimiento de los fondos de la cuenta especial en pesos a la Cuenta de Presupuesto Nacional para el PCOE y c) el DNP proveerá reportes sobre los requerimientos para la ubicación mensual de la Tesorería a la cuenta del PCOE y logros sobre el progreso global de los sub-sectores incluidos en el PCOE. Los informes del DNP actuarán como mecanismo de disparo para la liberación de los pesos de la cuenta especial en pesos a la cuenta de PCOE.

3. Reportes Sobre el Progreso del Programa del PCOE

El DNP proveerá a la A.I.D. Colombia con reportes trimestrales relacionados con el progreso del PCOE en cuanto al cumplimiento de sus metas, incluyendo progreso en la expansión del PCOE atrayendo fondos de otros donantes y de fuentes gubernamentales.

D. AUDITORIAS

De acuerdo con la Sección 7.2 del Acuerdo de la Donación, la A.I.D. establecerá un programa de Auditorías sobre el flujo de fondos, así como la elegibilidad de desembolsos, de la cuenta separada en dólares y la cuenta especial en pesos. Las auditorías se llevarán a cabo bajo la guía del Inspector General de la A.I.D. y de acuerdo a las normas de Auditoría del Gobierno de los Estados Unidos. Las revisiones financieras serán realizadas esporádicamente de acuerdo con las necesidades y requerimientos específicos.

Las Auditorías y Revisiones Financieras serán coordinadas con el donatario y serán financiadas con las Cuentas Fiduciarias transferidas a las cuentas fiduciarias del programa. Los resultados de las auditorías y revisiones financieras serán compartidos con el donatario durante el proceso de su desarrollo, y copias de los reportes formales serán entregadas a su expedición.

115