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

COLOMBIA

PROJECT PAPER

ECONOMIC SUPPORT FUND (ESF)
(PAAD)

AID/LAC/P-738

PROJECT NUMBER: 514-9005
GRANT NUMBER : 514-K-602

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AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

	1. PAAD Number Grant Number - 514-K-602 Project No. 514-900
	2. Country Colombia
	3. Category Cash Transfer
	4. Date
5. To AA/LAC:James H. Michel	6. OYB Change Number N/A
7. From LAC/DR:Peter J. BLoom	8. OYB Increase N/A To be taken from:
9. Approval Requested for Commitment of $ 36,000,000	10. Appropriation Budget Plan Code LES292-35514-KG31 72-112/31037 270-65-514-00-50-21
11. Type Funding ☐ Loan ☒ Grant 12. Local Currency Arrangement ☐ Informal ☒ Formal ☐ None	13. Estimated Delivery Period N/A 14. Transaction Eligibility Date N/A

15. Commodities Financed
N/A

16. Permitted Source		17. Estimated Source	
U.S. only		U.S.	$36,000,000
Limited F.W.		Industrialized Countries	
Free World		Local	
Cash	$36,000,000	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 programs. The dollar funds will be used to service official U.S. Government and multilateral debt.* The local currency proceeds of the program will be used as general sector/program support to assist GOC efforts in the priority areas of economic liberalization and revitalization, and alternative development. The GOC will be responsible for implementing the local currency program and providing accountability and reporting in accordance with A.I.D. local currency guidelines.

This authorization covers the entire $36 million cash transfer program for FY 92. 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 findings required under Section 559(a)(2) of the 1991 Appropriations Act, as made applicable by the terms of P.L. 102-145 (a Continuing Resolution), as amended, have also been made.

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

LAC/Controller   Date 6 Aug 92

*Non-military

19. Clearances:	Date
DAA/LAC:AWilliams	AW 8/21/92
LAC/DPP:JStepanek	7/30/92
GC/LAC:JDoyle	7/23/92
LAC/SAM:NParker	8/12/92
FA/B/PB:KMilow	7/29/92
STATE/ARA/ECP:VMorris	7/29/92
PFM/FM/A:RBonnaffon	8-21-92
LAC/DPP:RMeehan	

20. Action

☒ APPROVED   ☐ DISAPPROVED

Authorized Signature: James H Michel   Date 8/26/92

Title

CLASSIFICATION

A.I.D. COLOMBIA PAAD (514-9005)

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C O L O M B I A

P A A D

MAY, 1992

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I. BACKGROUND, SUMMARY, AND RECOMMENDATION

A. BACKGROUND

At the Cartagena Summit in February 1990, the Presidents of Colombia, Bolivia, Peru, and the United States pledged to carry out programs of mutual cooperation in counternarcotics, including law enforcement, demand reduction, and economic development. The Presidents of these countries, plus the Presidents of Ecuador and Mexico and the Foreign Minister of Venezuela, met again in February 1992 in San Antonio, Texas, to reaffirm their commitment to cooperate on counternarcotics efforts.

To lessen the economic burden of these measures, the United States developed a multi-year program of economic assistance for Colombia, Bolivia, and Peru. In Fiscal Year (FY) 1991, the Agency for International Development (AID) provided $50 (*) million in Economic Support Funds (ESF) to Colombia for this purpose, $41 million of which was provided as a cash transfer and $9 million in projectized ESF.

B. PROGRAM SUMMARY

This Program Assistance Approval Document (PAAD) sets forth the specific details of the proposed ESF program. It follows on the PAAD for 1991 and should be reviewed in that context. The program design responds to the conditions in Colombia which are radically different in many ways from those in Peru and Bolivia. Thus, the PAAD describes the entire $50 million program, although it is proposed that $14 million of the total be projectized for the AOJ, Training and Technical Assistance Support, and MIS Projects. The remaining $36 million will be provided as a cash transfer to the ~~the~~ Government of Colombia (GOC), which will be used initially for amortization and interest payments on the external debt of Colombia to multilateral financial institutions or to the United States. As was the case with the 1991 PAAD, the entire program is predicated (although not conditioned) upon Colombia's following two primary policies. One is economic liberalization. The other is rigorous enforcement of counternarcotics measures. Each is discussed below.

The other principle difference of this program is in the level of management oversight. Because Colombia is generously endowed with specialized expertise and is sensitive to sovereignty issues, and because of security concerns, the major portion of the program will continue to be implemented without a commensurate expansion of AID staff. Rather, we will continue to depend on the oversight of the National Planning Department and the Bank of the Republic staff to monitor implementation of the Colombian peso program and use of the dollar resources. USAID will continue to receive periodic, detailed reports on the program. Our experience with the FY 91 program

(*) <u>Note:</u> Throughout this document the symbol "$" signifies U.S.dollars. Colombian pesos are denoted as "Col.$".

demonstrates that this is a fully satisfactory system. Thus, this program will continue to result in one of the lowest staff-to-dollars ratios of any AID program.

As the GOC withdraws dollars for debt service and amortization, it will simultaneously deposit an equivalent amount of pesos in a separate bank account. Except for the peso equivalent of approximately $1.5 million (described below), the pesos will be used exclusively for contributing to a program of top priority, high impact public/private sector activities in support of the Government's programs for economic liberalization and revitalization, and alternative development.

The GOC's economic liberalization and revitalization program focuses on converting 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. The alternative development activities will focus on job creation as an alternative to narcotics related activities and assistance in removing infrastructure constraints to otherwise economically viable activities. This concentration represents a focusing of the peso funded activities with respect to last year's program in order to link the use of the funds more closely to our counternarcotics objectives, to contain the USAID management burden, and to respond to an initiative of the National Planning Department for reducing the number of project activities and to focusing their use on these national objectives.

The peso equivalent of approximately $1.5 million that will not be used to finance the these programs 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 trust fund will cover operating costs of USAID Colombia.

C. RECOMMENDATION

It is the recommendation of the Country Team, based on the GOC's commitment to sound economic policy and strong law enforcement performance, that an additional $50 million be provided in FY 92. In order to provide adequate funding this fiscal year for the high priority Administration of Justice Project, it is the Country Team's recommendation that funding for this project be accelerated. Therefore, approximately $36 million will be provided in FY 92 as a cash transfer and $14 million will be projectized. In subsequent years, it is anticipated that the cash transfer component of this program will be slightly larger.

The Country Team also proposes that the full $36 million cash transfer be disbursed as soon after authorization as is feasible. Tranching is not recommended, as the President's narcotics certification required under Section 481(h) of the Foreign Assistance

Act and Congressional consultation will already have occurred by the time the program is authorized. Additionally, our experience with the FY 91 program demonstrated no material concerns regarding management of the program by the GOC nor lack of commitment to our common counternarcotics objectives.

II. ECONOMIC ENVIRONMENT AND PERFORMANCE UPDATE

A. PRODUCTION, GROWTH, AND ECONOMIC STRUCTURE

At the end of 1990, the Gaviria Administration pushed a complete package of reforms through Congress which touched on practically every facet of economic and social policy: financial and tax laws, the exchange regime, and the labor code. The new laws eliminated almost all prior import license requirements, simplified import/export procedures, established a free market exchange regime, liberalized foreign investment rules, modernized the labor code to enhance job stability, and restructured the tax code. Other structural reforms included the restructuring of the Central Bank to make it more autonomous, conversion of the export promotion agency into an export-import bank, and creation of new ministries for foreign trade and the environment. These measures were complemented with administrative decrees which sharply cut tariff duties and surcharges and strengthened the financial system by reducing forced investments and increasing capital requirements. The GOC has also been undertaking an ambitious privatization program, targeting the ports, railroads, and financial sectors. Despite the above efforts which accord with the policy described, the country's overall economy has not responded fully to such stimuli, owing in large part to a number of other factors. However, we are convinced that the policy directions are sound, and that over time they will advance economic self-sustainability.

1. GDP Growth Trends

Real GDP growth fell to 2.2 percent in 1991, (down from 4.2 percent in 1990 - Table No.1), due mainly to the effects of guerrilla violence and the GOC's tight monetary policies. Strong growth in exports mitigated, to some extent, weak domestic demand.

2. Sectoral Composition of GDP

Industrial output fell 3.2 percent in 1991, depressed by high interest rates and by the uncertainty created by the Government's accelerated apertura program. Many businessmen delayed investment decisions due to expectations of further tariff reductions and the high cost of capital. Uncertainty over the outcome of the Constitutional Assembly also played a role.

The mining and petroleum sector grew by only 2.1 percent. The petroleum sector suffered approximately $200 million in damages from guerrilla attacks to its infrastructure, especially to the Cano Limon pipeline which carries crude for export. However, in a positive development, British Petroleum, Total (France) and Triton (U.S.) announced the discovery of a potential 3-4 billion barrel petroleum reserve at Cusiana 2, in the eastern plains (Llanos). The discovery will likely ensure petroleum self-sufficiency for the next 10 to 20 years and has generated a new wave of interest in the petroleum sector by multinational companies. Coal exports grew 14 percent, ferronickel exports by 11 percent, while gold export fell slightly from 1990 levels.

Agricultural production increased by only 2.9 percent in 1991. Uncertainty about the effects of apertura on agricultural policy reduced acreage under cultivation, while high interest rates and expectations of tariff cuts on agricultural products discouraged new investment. A price band mechanism was established for most agricultural products in June to set flexible tariff rates and make domestic production more responsive to international market conditions. Fishing and aquaculture faced a particularly difficult year with the spread of cholera from neighboring countries. Cattle numbers are at their lowest level in a number of years as ranchers are hesitant to increase herd size due to guerrilla activity.

Construction activity increased by 2.5 percent despite higher interest rates due in part to Colombian Government social housing programs. Commerce grew by about 2.3 percent, while the tourism industry recovered moderately from the effects of the highly publicized narco-violence of 1989-90.

3. Employment and Labor

The minimum wage in 1991 was increased 26 percent in line with inflation to the equivalent of $86 per month. Despite the slowing of economic growth, the national unemployment rate remained roughly steady at 9.6 percent (compared to 10.0 percent in 1990 - Table No.5). Employment in the industrial sector grew 3.3 percent. About 87 percent of the factories in Colombia are microenterprises (10 persons or less), employing 25 percent of the work force. Large businesses (100 or more employees) account for only 1.4 percent of the number of factories, but employ 44 percent of the work force. The Government continues its efforts to create legitimate job opportunities for members of disbanded insurgent groups and for youth, especially in Medellin. International financial institutions are providing loans to foster microenterprises which can generate additional employment.

A new labor code was enacted to attempt to improve labor stability. Previously, workers were often laid off just prior to completing ten years of service, after which strict tenuring rules made firing extremely difficult. New legislation stabilized the job market by providing more equitable treatment for employees before and after the tenure period. The new code also created an integrated salary (for higher-paid workers) for the first time, thereby making more transparent the numerous bonuses and benefits which make up the salary package and helping business better estimate its labor costs. It also increased maternity benefits for working women.

A new method of managing severance pay advances (cesantias) will have a positive effect on the overall economy. Previously these funds were accumulated in low-interest bank accounts or debt instruments. In addition, the GOC is establishing privately-managed pension funds, which will create a pool of funds available to invest in local companies, encouraging growth through equity financing. The pension funds should also provide a boost to Colombia s growing stock exchanges.

4. The Financial Sector

As an important part of the economic liberalization efforts, the Gaviria Administration enacted measures which have significantly modernized Colombia's financial sector. The financial reform completely opened up foreign investment in financial institutions to 100 percent. The GOC completed privatization of three banks which had been involved in the 1982 financial crisis (Bancos Ganadero, Tequendama, and Comercio) by selling shares to private investors. One U.S. bank (Citibank) repurchased 100 percent ownership of a bank it had wholly owned prior to changes in legislation in 1975.

The financial sector showed a healthy growth in 1991 of 5.5 percent. Decontrolling interest rates on savings, time and regular bank accounts did not have the hoped-for effect of stimulating competition and encouraging lower intermediation rates. The high interest rates offered by the Central Bank on open market operations and the 100 percent marginal reserve requirements kept peso lending rates hovering between 45-50 percent for most of the year.

B. MONETARY AND FISCAL POLICY

Faced with an accelerating inflation rate of 32.4 percent in 1990, the Gaviria Administration imposed severe austerity measures in its monetary and fiscal policies. The Finance Ministry established an inflation target of 22 percent for 1991, which was used as a cap for public sector wage adjustments. Despite its efforts, 1991 inflation reached 26.8 percent, due largely to unexpectedly large capital inflows which boosted money supply growth and undermined the GOC's monetary policies (Table No. 6).

1. Money Supply and Monetary Policy

The Government enacted a series of measures intended to reduce the rate of growth of the money supply (Table No.7): a) a 100 percent marginal reserve requirement on the banking system (excluding savings and loans), b) requirements to speed up payments for imports in order to draw down reserves, and c) greater open market operations. In June, the Government also imposed price controls on certain pharmaceuticals and on transportation tariffs.

Countering the Government's anti-inflation policy to some extent is its commitment toward structural adjustment in public sector entities. Prices for electricity, gasoline and cooking fuel, water and other public services will be raised in real terms over the next several years to fully cover marginal costs.

Restrictive monetary measures to curb inflation boosted real interest rates to 10-15 percent, attracting large amounts of flight capital back to Colombia. Net international reserves grew by $1.9 billion in 1991. Contributing factors also included: a strong export sector (including the oil bonanza resulting from Gulf War price increases), reduced interest rates in the United States, speculation on the belief that the peso would be revalued, extreme liquidity in the financial system which made repatriation of capital necessary to meet operating expenses, and a liberalized exchange regime which has also likely made laundering narcotics revenues easier.

2. Public Finance and Fiscal Policy

The fiscal deficit of the consolidated public sector was 0.5 percent of GDP in 1991, compared to 0.3 percent of GDP in 1990 (Table No. 8). The Government concentrated on improving tax collection and cutting expenditures, but efforts to reduce the deficit were hampered by a number of factors. The tax reform and lower import duties resulting from the *apertura* program, without a response in increased imports, will reduce fiscal revenues an estimated $700 million in the period 1990-1992. Finally, the cost of anti-guerrilla efforts and repairs to the country's infrastructure required as a result of guerrilla violence reduced GDP growth by C.6 percentage points in 1991.

Another aspect of the liberalization package, tax reforms, includes a phased-in reduction of taxes on foreign corporate dividends from 20 to 12 percent over the next four years. Tax collection efforts have concentrated on enforcing personal income tax collection and on broadening the base for value-added taxes to include the *San Andresito* contraband markets which exist in most Colombian cities. The VAT was expanded to include services such as long distance telephone charges, restaurants and hotels. To ensure collection of taxes from exports of goods and services, the Finance Ministry imposed a three percent "collection at the source" in June, which is collected and forwarded directly to the Tax Office by the banks. As a result of efforts to collect VAT and personal income taxes, 1991's direct tax collection increased almost 50 percent. Further efforts must be made to improve personal income tax collection, which at 10.3 percent of GDP remains among the lowest in Latin America.

Responding to a wave of guerrilla violence during the first six weeks of 1991, the Government imposed a special "war tax" in February. Funds generated from the tax, including surcharges on personal income (5 percent), international calls (2 percent), and coal and petroleum exports (5 percent), are intended to fund mobile Army brigades which protect the infrastructure targets most often attacked by guerrillas: pipelines, mining operations, roads, bridges, toll booths, telecommunications stations and electrical generating plants and transmission lines.

The Government's efforts to cut expenditures include price hikes in public services and goods produced by parastatals, cuts in subsidies, and reduced government investment. The state oil company, ECOPETROL's, surplus of 0.7 percent of GDP helped offset losses in the state coal company, CARBOCOL, the electrical sector, and the Metro Medellin (the Medellin subway currently under construction). Further pressure on the central government budget comes from the new Constitution's requirement that 40 percent of tax revenues be shared with the municipalities and departments. Since fiscal constraints limit increases in central government investments necessary to improve the country's infrastructure, the Colombian Government intends to privatize the ports and railroads. Savings will also be realized through privatization of parastatal enterprises held by the Institute of Industrial Development (IFI).

C. THE EXTERNAL SECTOR

1. Exports, Imports, and the Current Account Balance

The merchandise trade balance in 1991 increased to $2.8 (Table No.9) billion, led by strong growth in coal, agricultural products, and nontraditional exports. Exports of Colombia's leading export products (petroleum and coffee), however, fell sharply (Table No.10).

Petroleum exports totaled almost $1.5 billion, a drop of 25 percent compared to 1990's level of $2 billion, due to losses from guerrilla attacks and lower world prices. Petroleum is still Colombia's leading export product, just ahead of coffee ($1.4 billion). Coal exports increased to $613 million in 1991, as output continues to expand at the Cerrejon mine operated by a U.S-Colombia joint venture.

Colombia supplied approximately 34 percent of the world's mild arabica coffee in 1991. The lack of an International Coffee Agreement (ICA) and oversupply continues to depress prices, negatively affecting Colombia's important coffee industry. While coffee production grew 17.5 percent in 1990, 1991's growth was only about 6 percent. Exports in the 1990/91 harvest year are lower than expected, only about 12.2 million 60-kilo bags, because of stockpiles in consumer countries and lower demand. With world prices lower than the internal support price, the National Coffee Fund's income is insufficient to cover the expense of the producer price subsidy. The Colombian Coffee Federation strongly favors negotiation of a new ICA with economic clauses in order to reverse the Fund's deteriorating situation.

Banana exports increased 5 percent due to output growth. Flower exports grew 14 percent in 1991, mostly due to duty-free treatment under the EC's four-year Andean preference program which has expanded Colombia's markets for non-traditional products. Other important agricultural exports include fresh fruits and vegetables.

Non-traditional exports (including leather products, printed materials, and textiles) again showed strong performance in 1991, growing 21.1 percent. However, statistics are distorted by the illegal practice of over-invoicing non-traditional exports in order to obtain extra tax reimbursement certificates (CERTS) provided as an export subsidy. In addition, some exporters may be beginning to report the true value of their exports now that the incentive to hide dollar earnings abroad through underinvoicing has been eliminated by the liberalization of Colombia's exchange regime.

Colombia's major trading partners are the United States (the destination for 44 percent of Colombia's exports, and the source of 35 percent of its imports); the EEC (25 and 21 percent, respectively); and the Andean Pact countries (6 and 8 percent, respectively).

Despite deep reductions in import duties, imports as shown by customs manifests fell by 7.2 percent ($5.2 billion in 1991 versus $5.6 billion in 1990 - Table No.9). Factors inhibiting imports include the uncertainty over the level of future tariff duties, high interest rates, and the overall lower aggregate demand caused by tight monetary policies.

In January 1991, Colombia along with other Andean countries became eligible for special EEC four-year tariff reductions for many of their important export products, including coffee and flowers. The U.S. Andean Trade Preference Act was passed in late November, not providing time for its effects to be felt in 1991, but which should help increase non-traditional exports to the U.S. in 1992.

2. <u>Exchange Rate Policy</u>

Also following policy dictates, the Gaviria Administration enacted a financial reform law which liberalized the exchange market, permitting any financial institution which has been approved by the Banking Superintendency to engage in foreign currency transactions. In June the Government closed the exchange windows of the Central Bank and turned exchange transactions over to the private financial markets. Exchange rates are now determined by market forces (with some government intervention to keep it within a band). The Government continues to post an "official exchange rate," which is only a reference figure, as no transactions take place at that rate.

In order to delay the monetization of foreign exchange earnings, exporters are issued exchange certificates tradable in the in October). Despite maintenance of a crawling peg devaluation for the official rate, the peso revalued by about seven percent in real terms during the year due to market forces.

The Central Bank no longer holds a monopoly over either foreign exchange or gold purchases. The new code also permits Colombians to cover foreign exchange risk in futures and options markets. The GOC declared a limited tax amnesty until June 1992 for all capital held abroad before September 30, 1990, and legalized the holding of off-shore bank accounts.

3. Trends in the Capital Account

Colombia's net international reserves increased by $1.9 billion in 1991, due mainly to unexpectedly large inflows of flight capital repatriated in response to the GOC's tight monetary policies which boosted real interest rates to 10 to 15 percent. This large influx forced the GOC to institute sterilization measures to slow down the monetization, and created severe pressures for a sharp appreciation of the peso. Contributing to the inflow of dollars were a liberalization of the foreign exchange and tax regimes, strong export sales, and a series of monetary measures which flight capital encouraged repatriation and investment in short term money instruments. Some drug revenues may be commingled with these inflows.

4. External Debt Management

Multilateral banks hold 40.7 percent of Colombia's $17.2 billion external debt, commercial banks 38 percent. At the end of 1991, the ratio of total debt to GDP had decreased to 35.7 percent, and the ratio of debt service to exports also dropped to 41.4 percent (Table No.11). The first disbursement of the $1.775 billion Hercules syndicated commercial loan, which meets Colombia's external financing needs until 1994, occurred in April.

While Colombia has maintained prudent foreign debt management policies, sectoral debt problems do exist. Loans from the World Bank and Inter American Development Bank are conditioned on improvements in efficiency by electrical companies to reduce transmission losses, cut bloated payrolls, and privatize the generation and distribution of electricity. Ministry of Finance officials and CARBOCOL are actively engaged in developing a privatization plan to separate CARBOCOL's regulatory activities from its mining activities. The Metro Medellin project continues to experience financial problems, and the Government and the contractors (Spanish and German firms) are seeking ways to conclude the project. Finally, the situation of the National Coffee Fund will continue to deteriorate under current free market prices. The Fund will need to take advantage of its $200 million line of credit with the international banks in 1992, and is seeking additional credits both domestically and externally to keep it solvent.

5. Impact of Narcotics Revenues

Though difficult to estimate, the most widely accepted range of the yearly income from drug trafficking repatriated to Colombia is about $400 to 600 million. Under the free market exchange regime, repatriating drug profits to the country has been made somewhat easier, and some categories of services exports may mask inflows of narcotics revenues. (In 1991, services expor⁺⁻ increased by over $1.2 billion -- a 75 percent growth -- representing repatriated flight capital and some narcotics money). Narcotics trafficking significantly hurts the legitimate Colombian economy and imposes significant costs: high expenditures for defense and police units to fight the drug war as well as damage to Colombia's ability to attract touris⁻ and new foreign investment. Contraband financed by narcotics revenues has depressed domestic industry as the cheaper goods crowd out legitimate domestically manufactured goods. Construction, which saw a narco-influence boom in 1984-85, has been severely depressed for the past four years, and is only beginning to show growth again.

6. Trade Policy

As emphasized, the administration of President Gaviria has greatly accelerated the economic reform program begun by the Barco Government. The program, called apertura, is opening up the Colombian economy to increased international trade and investment, privatizing state-owned companies such as the ports and railroads, and liberalizing Colombia's foreign trade and investment, financial, foreign exchange, and labor codes.

Reforms that have already been enacted include the complete elimination of the prohibited import list, virtual elimination of the prior licensing requirement, replacement of almost all quotas with tariffs, deep reduction in tariffs, and reductions in the import surcharge. On investment the Colombian Government has opened up nearly all sectors of the economy to foreign investment, eliminating restrictions in the financial sector, and has "demonopolized" the telecommunications sector, permitting private companies to compete in providing value-added services. New investment regulations eliminated the ceiling on profit remittances for foreign investors. Foreign capital funds have been authorized to operate in Colombia and may invest in the shares of local companies. Administrative procedures for foreign trade and investment has been streamlined, with the elimination of prior GOC approval for most transactions.

A new Foreign Trade Ministry was created to centralize the trade policy apparatus, while the export promotion agency PROEXPO was converted into the Bank of Foreign Trade. The GOC has focused on improving the country's infrastructure by privatizing the ports and railroads and by opening up civil aviation through an Andean "open skies" policy. Maritime transport has been liberalized through the elimination of cargo reserve requirements.

Colombia has been a driving force in the reactivation of the Andean Pact. The Pact members intended to establish a free trade zone, a common external tariff, and harmonization of subsidies. (However, as of April 1992, only Colombia and Venezuela had implemented these measures.) In anticipation of these decisions and to encourage imports, the Colombian Government consolidated all duties into four tariff levels in August: 0 percent for primary goods, inputs, and intermediate and capital goods not produced in country; 5 and 10 percent for the above categories produced in country; and 15 percent for final consumer goods. The import surcharge was reduced from 10 to 8 percent (compared to 18 percent in December 1990). Tariffs on automobiles were reduced from 300 percent in November 1991 to just 40 percent in January 1992.

The GOC cut tariffs three times in 1991, greatly accelerating the apertura program schedule. By year-end, some forty percent of the tariff lines entered duty-free. As a consequence of the tariff reductions, the average duty including surcharge fell from 24.7 percent to 14.8 percent, the weighted average from 20.2 percent to 12.6 percent, and the effective level of protection dropped from 44 percent to 25 percent. The Colombian Government virtually eliminated the prior import license requirement; only three percent of tariff lines now remain under import licensing. However, the GOC has not bound these tariffs or non-tariff measures in its Uruguay Round market access offer, which means the Government of Colombia retains the flexibility to raise them at some later date.

While some reforms have occurred in the agriculture sector, it remains protected. The GOC monopoly on imports of most agricultural products (except wheat) has been eliminated, permitting the private sector to compete with the state agricultural marketing agency IDEMA. Direct governmental control of imports has been replaced by a variable levy "price band" system covering rice, sorghum, soybeans, corn, oats, and products derived from them. The price floor is set by the Government of Colombia based on production costs, and the price ceiling is based on a five-year international average price, adjusted every six months. In addition, U.S. agricultural products must compete with products from member states of the Latin American Integration Association (ALADI) and the Andean Pact, which enjoy tariff preferences.

As a result of the apertura program and commitments made in the context of the GOC's adherence to the GATT subsidies code (as well as in compliance with Andean Pact reforms), Colombia will phase out export subsidy programs that are inconsistent with the code. Specifically, the Government has pledged to reduce the export tax rebate (CERT) program to match the actual incidence of indirect taxes; increase interest rates on export lines of credit to commercial rates; and to eliminate the duty exemption program on imports of capital goods and raw materials used for export production (Plan Vallejo).

In sum, the country is in a transition phase, in application of its economic liberalization efforts (coupled with continued austere monetary and fiscal policies). We believe this course continues to be a sound one, although it clearly poses adjustment difficulties over the short run. We are impressed with the GOC's commitment and actions in this regard and conclude that U.S. Government (USG) support continues to be fully justified.

III. UPDATE ON COLOMBIA'S PROGRAM TO SUPRESS NARCOTICS TRAFFICKING

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 in revenues that the illegal narcotics industry generates from $400 to $600 million within the domestic economy, the equivalent of 1-2 percent of GNP. 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 counterdrug intelligence and interdiction capabilities. Recognizing that law enforcement alone cannot solve the narcotics problem, the GOC is also funding major 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, stimulate the legitimate economy, and strengthen the domestic institutions, as well as the type of U.S. assistance contemplated.

A. ENFORCEMENT OPERATIONS

Colombia, unlike Peru and Bolivia, does not have a strong tradition of consuming coca, but it did witness a rapid increase in coca cultivation in the 1980's. It is estimated that there are 37,500 hectares under cultivation, mostly in Southeast Colombia, less than Bolivia (47,900 hectares) and Peru (120,800 hectares). Cultivation in Colombia 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 1991, combined GOC forces seized over 89 metric tons of cocaine and 566 thousand gallons of essential chemicals (ether, acetone, and methyl-ethyl-ketone).

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 off loaded to other aircraft or airdropped to "fast-boats" offshore. The largest quantities seized have been in falsely-manifested containerized cargo. Mexico has become a major transshipment entry point to the Southwest United States.

A new phenomena in 1991 was confirmation of commercial-level cultivation of opium poppy, perhaps 8,000 to 10,000 hectares. Fortunately, the GOC embraced a policy of poppy fumigation in early January, 1992.

A bevy of U.S. federal agencies assist the Colombian Government in carrying out its anti-drug strategy, including the Narcotics Affairs Section (FY 92 $20 million), US Military Group (FY 92 $58 million), and USIS, for which this is the number one program priority and on which they spend about 30% of their budget.

U.S. assistance to the Colombian National police and Armed Forces has increased substantially under the Andean Counterdrug Initiative, and it is being used to help Colombia: 1) identify and capture trafficking ring-leaders; 2) destroy illegal crops including coca, marijuana, and opium poppy; 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.

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.

B. ADMINISTRATION OF JUSTICE

1. <u>The Overall GOC Program</u>

A serious problem facing Colombia, especially as it affects the prosecution of narco-traffickers, has been the absence of a strong and reliable legal system. The Colombian courts have been 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.

However, the GOC made significant strides in 1991. Among the most important are the establishment of the Public Order Court System (special narcotics jurisdictions) composed of 5 regional courts and an appeals tribunal. The most difficult and severe public order cases -- narcotrafficking, terrorism, guerrilla activities, paramilitarism -- are handled in that system which includes special security measures for judges and some witnesses, such as anonymity. The public order courts in 1991 had an almost 79% conviction rate against drug-traffickers, compared to a 12% conviction rate in the regular courts.

A further step was the publication of a series of decrees promoting surrender of major drug figures, while controversy still exists as to their ultimate effect -- non have been tried as yet -- nevertheless former drug potentates such as the Ochoa brothers currently are behind bars, in the hands of GOC authorities.

Another development in 1991 was the institution of a Prosecutor General's Office in Colombia's new Constitution. Planned to begin operating in July 1992, the Prosecutor General will gradually move the Colombian criminal Justice system toward a modified prosecutorial system in contrast to the former inquisitorial mode.

2. U.S. Assistance

Between 1986-1991, AID provided $1,574,000 to improve the Colombian judicial system through the Foundation for Higher Education (FES), a Colombian private institution. AID grant funds have been used to fund studies and research on judicial reform, particularly that leading to and supporting the Public Order courts; 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).

Comprehensive reform of the judicial sector has progressed rapidly since then. Starting in FY 91, AID proposed 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 included establishment of the Special Corps of Public Order Judges dedicated to prosecution of the narco-terrorist leadership in country. Shortly thereafter, the Gaviria Government proposed and obtained legislative approval for a comprehensive program of judicial reform. This program enacted in mid-1991, includes:

- A strengthened system of Regional (Special) and Ordinary Courts administered by judges and their staff.
- An effective National Prosecutor General's Office performing administrative, financial, security, monitoring, and case management functions.
- A strengthened investigative capacity.
- An effective Public Ministry (Procuradoria General) with strengthened administrative, monitoring, and security capacity.
- An effective Ministry of Justice.

In support of this program, AID/Colombia has authorized a $36 million project using NSD-18 counternarcotics economic assistance to support a six year comprehensive judicial reform effort. The Government of Colombia is providing counterpart support equivalent to $10 million.

Program outputs have been identified that are concerned with building institutional capacity in the public sector. Each program output focuses on a different component within the judicial system which must be strengthened if there is to be increased effectiveness in the judicial system itself. Though some of these components may be more important than others, to ignore any one of the components could have serious negative consequences.

C. JUDICIAL PROTECTION

1. The Overall GOC Program

In Colombia, the intimidation and assassination by narco-terrorists of judges, other judicial officials, witnesses, and jurors has been 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 in the past was compelled to extradite them to the United States for trial and sentencing. However, extradition of Colombian citizens was banned under the provisions of the new Colombian Constitution which went into effect beginning in late 1991.

The Bush Administration and the U.S. Congress recognized the need to improve the Colombian situation. Congressional awareness was increased following the assassination in August 1989 of presidential candidate Luis Carlos Galan. Thus, in November 1989, 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 AID 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 armored vehicles were procured by the Narcotics Affairs Section (NAS) Bogota.

As discussed above, with strong USG support, a special Public Order Court system began to function in January 1991. Resources previously spread throughout the justice sector were concentrated on these courts, with armored vehicles and a special radio communication system provided to the system by NAS Bogota.

2. U.S. Assistance

As of July 1990, ICITAP had given training courses in 1) personal security awareness to 479 threatened judicial officials; 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. In 1991 this training was expanded to provide $2.6 million. For 1992, it is projected that approximately $4.5 million (of the 36 million justice program) will be devoted to similar efforts.

AID believes that creating a GOC capability to provide judicial protection is inexorably linked to overall administration of justice objectives. While NAS Bogota has in the past taken the lead in providing security commodities to the judicial sector, this responsibility is being shifted to AID in FY 92. NAS will continue to provide some financial assistance in FY 92, $250,000, but will phase out such assistance completely in FY 93. NAS and INM will remain active in leading their considerable administrative expertise in commodity procurement, but AID will fund and direct judicial protection projects.

D. NARCOTICS AWARENESS

Colombia not only has a drug trafficking problem, but also 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 real, surveys have shown that Colombians see drug use as a serious problem, and feel that the problem is increasing.

1. <u>The Overall GOC Program</u>

The GOC and the private sector increasingly seem determined to deal more effectively with a growing drug addiction problem. In 1991, the National Directorate on Dangerous Drugs (DNE) assumed an increasingly important role in coordinating narcotics prevention and awareness projects.

2. <u>U.S. Assistance</u>

Within the U.S. Embassy, AID, NAS and USIS all provide assistance to increase Colombian narcotics awareness. In 1991 the DNE and NAS co-sponsored a number of demand reduction activities, including prevention and public awareness workshops and conferences on epidemiological research. NAS is sponsoring a National Household Survey on Drug Use, which is being carried out by the Fundacion Santa Fe and the Escuela Colombiana de Medicina. The results of this national survey will be released on early 1993. NAS has also been active in printing educational materials for distribution through the Colombia Education Ministry and the Colombian Family Welfare Institute (ICBF).

AID will build on this experience with the Drug Awareness and Education Project with life-of-project funding of $4 million, which has been approved and will obligate an initial $2 million in FY 93.

E. CONCLUSIONS

The GOC has adopted and is carrying out a strong anti-narcotics policy. It is the recognized leader in counternarcotics efforts in the hemisphere. Its reform measures in undertaking such profound efforts as completely revamping the justice system -- in part to facilitate handling major narcotics cases -- and its continued significant interdiction of cocaine and heroin products, place it in the forefront of anti-drug activities.

IV. PROGRAM CONCEPT AND STRUCTURE

A. CONSTRAINTS AND REQUIREMENTS

The introduction of a $50 million dollar ESF program with Colombia in FY 91, and the continuation in FY 92 poses special design challenges. For a variety of reasons, the funds will have to continue to be delivered and administered without a commensurate build-up in the AID presence in Colombia. Consequently, the program design does not 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 Barco and Bush at the Cartagena summit, and reaffirmed at the San Antonio summit between Presidents Gaviria and Bush, the proposed ESF program will be highly visible. It will be expected to continue 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 continued departure from the usual kinds of AID program structure. Projectization, whether of the ESF dollars or of Colombian pesos contributed by the GOC, 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. Thus, the FY 92 program will further focus the activities both by reducing the number of activities and concentrating these geographically. The program this FY will focus the activities on economic liberalization and revitalization and alternative development, principally in the areas most affected by counternarcotics activities.

C. ESF AS SUPPORT FOR A COLOMBIAN DESIGNED AND IMPLEMENTED PROGRAM, CONDITIONALITY REVISITED

Colombia is a highly advanced developing country, blessed with a sizeable cadre of competent and active economic policy researchers, analysts, and implementors. In designing its counternarcotics/ economic revitalization program, the GOC has utilized this talent well.

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 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.

As with last year's program, 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, Narcotics Awareness, Training, and Technical Consultations. Also included is a statement of the overall 1992 economic program, including demand management, foreign sector trade, and commercial policy (apertura), and a presentation of the program headings eligible for funding.

Similar to the FY 92 program, this program 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 policies to raise the cost and risk of unlawful employment. General support of this program as a whole will be the use to which the ESF local currency is directed.

D. USES OF LOCAL CURRENCY

Except for the peso equivalent of approximately $1.5 million (described below), the pesos will be used exclusively for contributing to a program of top priority, high impact public/private sector activities in support of the Government's programs for economic liberalization and revitalization and alternative development.

The GOC's economic liberalization and revitalization program focuses on converting 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. The alternative development activities will focus on job creation as an alternative to narcotics related activities and assistance in removing infrastructure constraints to otherwise economically viable activities. This concentration represents a focusing of the peso funded activities with respect to last year's program in order to link the use of the funds more closely to our counternarcotics objectives, contain the USAID management burden, and respond to an initiative of the National Planning Department to reduce the number of project activities and to focus their use on these national objectives.

The peso equivalent of approximately $1.5 million that will not be used to finance the these programs will fund two local currency trust funds. The FY 92 Program Agreement Trust fund provisions will establish a level of $800,000, equivalent, for project development and support (PD and S) requirements and $700,000, equivalent, for OE needs. The increased level of PD and S will provide funding for pre-award surveys for new activities, as well as for general evaluation of the cash-transfer agreements, and base line studies for activities complementary to the general program presently approved for Colombia.

E. USES OF CASH TRANSFER ESF DOLLARS

This Program Assistance Approval Document sets forth the specific details of the proposed ESF program. The program design responds to the conditions in Colombia which are radically different in many ways from those in Peru and Bolivia. Thus, the PAAD includes the entire $50 million program, although it is proposed that $13 million of the total be projectized for the AOJ, Narcotics Awareness, and Technical Assistance and Training Projects.

The U.S. dollar funds will be used to finance servicing of official GOC debt to the United States and to the multilateral development banks (MDB). 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 MDBs. Service of debt for military imports or other military requirements and other items AID 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 Section VI. The primary rationale for allowing the use of dollars for debt repayment is that it entails minimum AID 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.

Colombia's external debt service (interest and amortization) reached $3.1 billion, equivalent to 44 percent, of exports of goods and services in 1988. In 1989 it was $3.7 billion, equivalent to 48%, in 1990 $3.7 billion, equivalent to 41%, and in 1991 $3.7 billion, equivalent to 38%. Of these amounts $2.78 billion in 1988, $2.9 billion in 1989, $3.15 billion in 1990, and $2.4 billion in 1991 were 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 proposes to use the $36 million cash transfer portion of the ESF dollars for GOC interest and amortization payments to multilateral financial institutions and the United States.

V. PROGRESS UNDER THE FY 91 PROGRAM

A. USE OF THE U.S. DOLLARS

After complying with the initial CPs for the FY 91 program, which included the establishment of a separate dollar account in the name of the BRC at the Federal Reserve Bank in New York (FRB), the first disbursement of $20 million took place on July 23, 1991. The second disbursement of $21 million took place on January 3, 1992. To date the full $41 million dollars has been used for debt amortization. Prior USAID approval for the use of the dollars was not required by the program agreement, and the GOC and the BRC complied with the requirement of prior deposit of the Colombian pesos to the separate peso account (except for one occasion which has been corrected). As of the end of April 1992, the BRC, acting as the financial agent for the GOC, has used 12.5 million to reduce official GOC debt with the USG and $28.5 million for reduction of GOC multilateral debt with the World Bank and the Inter-American Development Bank. Data concerning the use of the dollar funds has been provided to us by the BRC and verified through examination of monthly account statements and the other required financial reports.

B. USE OF THE COLOMBIAN PESOS

The peso equivalent of $41 million has been deposited to the interest bearing separate account at the BRC as of April 30, 1992. As of March 31, 1992, of this amount the peso equivalent of $20 million has been used for activities which support the three areas defined in the FY 91 PAAD -- trade expansion, regional development, and development of human resources -- and the USAID program and OE trust funds. These funds provided budget support to these programs and were deposited into a general account managed by the National Planning Department (DNP). As described in the program agreement, the funds deposited in the account were commingled with other funds that the GOC also deposited and end use of these funds occurred when the funds from the separate peso account were withdrawn from that account for deposit into this account.

Through periodic meetings with the DNP, we have reviewed the general program guidelines established in the Program Agreement and the Planning Department's experience in the use of these funds. We have also reviewed the monthly financial reports provided by General National Treasury (GNT). Based on these reviews, we are satisfied that the system being followed presents no material deficiencies in the process.

However, while we had no problems with the procedures used, the FY 91 local currency (LC) program was not implemented through a Core Economic Opportunity Budget (CEOB). The concept of a CEOB was one which seemed feasible at the time the FY 91 PAAD was written and reviewed in February 1991. However, further examination of these procedures during negotiations with the GOC demonstrated that a more feasible alternative was one which focused directly on the three areas of interest -- trade expansion, regional development, and development of human resources. LC funds were, thus, contributed directly to the GOC's budget, to an account managed by the DNP to which other GOC funds were also deposited. These commingled funds were then disbursed to finance specific projects.

C. THE TRUST ACCOUNTS

A Trust Account Agreement was signed on June 18,1991, with the GOC as provided for in the Program Agreement. This Agreement established two accounts and was fully funded from the first tranche of funding. One account in the amount of $700,000, equivalent in pesos, was established to fund PD and S evaluations, audit and financial reviews. There has been no programming of these funds through April 30, 1992. Another account was established for $300,000, equivalent in pesos, to help defray the operating and administrative (OE) costs of the Mission. As of April 30,1992, $115,000 has been expended. However, as the costs of expanded administrative needs are exceeding original projections, the amount of $350,000, equivalent in pesos, will be spent by September 30, 1992. To provide for these costs, the Mission will request an Amendment to the two Trust Fund Agreements transferring $200,000 equivalent from the account for PD and S uses to the account for OE use. This transfer of funds will cover the anticipated shortfall for FY 92 as well as provide funds for the first quarter of FY 93.

D. REPORTS

To date, we have received the required monthly reports from the National Treasury on the dollar and peso accounts. We have also received information on the debt paid with the FY 91 funds. Receipt of MDB telexed confirmation of receipt of payments continue to be a problem, but we are discussing this with GOC. This implies, however, no doubt as to the use of the funds.

E. AUDITS AND FINANCIAL REVIEWS

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 examined by an external internationally accredited CPA firm, in accordance with GAO auditing standards. We are now in the process of contracting with a CPA firm to perform a financial review of the funds movement and documentation of both accounts. We expect the audit review to begin in June.

VI. FY 92 ESF DOLLAR AND LOCAL CURRENCY PROCEDURES

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

1. Programming and Use

Program dollars will be used to service official debt of the GOC to the USG and to the two multilateral development banks. As the Presidential certification to Congress that Colombia has complied with counternarcotics measures and the notification period for Congress will expire before the obligation of funds, the full amount of the grant will be disbursed as soon as the project is authorized and the agreement signed. 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 over a relatively short period of time. 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 have been used successfully for the FY 91 Program and will be continued for management of the separate dollar account:

- The GOC has established 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.

- Once the GOC meets the standard conditions precedent contained in the agreement, disbursement of $36 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 or 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 will become part of the principal balance.

- The BRC will make payments on GOC official debt to the USG and/or multilateral debt to the MDBs 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 (we continue to expect to be able to obtain this information); 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 PESOS

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 BRC. The separate peso account will be managed by the DNP, according to normal practices and controls. As described above, local currencies will be programmed to finance activities in two sub-sectors (economic liberalization and alternative development) included in the GOC budget.

The GOC will commit to the two sub-sectors of the budget for such activities an amount of local currency significantly in excess of the equivalent of the projected ESF cash transfer. This will permit USAID to adopt a less involved, less detailed programming approach, at a higher level of aggregation, consistent with the 1991 supplemental guidance on managing of Host Country-Owned local currency (91 State 204855), and the General AID Local Currency Policy Guidance (91 State 202944). Therefore, in terms of the guidance (contained in the two referenced guidance and policy cables), programming, monitoring, and accounting requirements will be consistent with general budget support. In addition to the requirements for general budget support, the AID Representative will require quarterly reports on the progress of the two sub-budget sectors given support.

The general budget support approach will minimize AID management requirements. The AID 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 two areas supported will be achieved. The process of packaging assistance to the two areas, 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 AID to monitor the program at a project-specific level; the high level of sophistication and the low level of vulnerability inherent in the GOC's budgetary and financial management systems obviates this need. On the implementation side, the Department of National Planning, the implementing entity of the grant, currently has a general monitoring system in place. AID will be working with the Planning Department over the next year to further refine this system.

On a periodic basis, DNP sits down with technical implementing entities and donors and reviews progress under the activities. The same system will be applied in reviewing progress for the two general areas provided support by this grant.

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 areas as being USG-supported. Again, this in no way reflects an intention for AID to manage the program on a project-specific level, but merely public relation and political priorities.

In addition to local currency support for the development budget there will be two local currency trust funds, one for local operating expenses of AID and the other for local expenses for project development and support, audit, and evaluation.

1. Programming and Use-Steps and Provisions

- The GOC will identify activities within the general budget, where host country owned local currencies (HCOLC) provided under this program will be directed, which fall into categories related to: (1) economic liberalization, and (2) alternative development, with special emphasis on the departments in which Cali and Medellin are located.

- Programming, implementation, monitoring, accountability, and control of the HCOLC was developed by the GOC as a condition precedent to the FY 91 Agreement, and these processes and procedures will continue to be applied for the proposed FY 92 program. The requirement for programming pursuant to joint agreement between the host government and AID will be met through the signing of the ProAg.

- Amendments to the current Trust Fund agreements for (1) OE and (2) PD and S, auditing, and evaluation will also be executed between the GOC and AID.

- For the express and only purpose of determining that the two general development budget areas are consistent with the FAA, AID will review their contents and will respond to the GOC with Program Operational Letters 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 two budget areas supported, and the periodic reports will also make note of the estimated value of contributions by other donors and the GOC.

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 the dollar cash transfer will be deposited 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 general budget support and its activities in the two designated areas, 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 AID on a quarterly basis. Such reports will include information on budgetary allocations and on the overall progress on the two general budget areas being supported.

C. REPORTS

As described above, the Grantee will provide reports to AID 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 for the local currency will provide reports on the budget areas supported 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 AID on a monthly basis. The DNP, as managing GOC entity, will be responsible for the submission of all reports on a timely basis.

D. AUDITS AND FINANCIAL REVIEWS

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 examined by an external internationally accredited CPA firm, in accordance with GAO auditing standards. The AID Rep will arrange for the annual financial reviews, develop the scope of work and contract using trust funds provided under this agreement.

E. INSTITUTIONAL ASSESSMENT OF PARTICIPATING GOC AGENCIES

A comprehensive assessment of the BRC, Treasury, and DNP were made as a condition precedent to first disbursement under the FY 91 Program Agreement. The assessment provided assurance that there was low risk in the process and procedures developed by the GOC to manage the Program.

VII. CONDITIONS AND COVENANTS

A. CONDITIONS PRECEDENT

The Country Team proposes that the full $36 million cash transfer be disbursed as soon after authorization as is feasible. Tranching is not recommended as the President's narcotics certification required under Section 481(h) and Congressional consultation will already have occurred by the time the program is authorized. Additionally, our experience with the FY 91 program demonstrated no material concerns regarding management of the program by the GOC or lack of commitment to our common counternarcotics and economic objectives. Therefore, no conditionality other than the normal standard CPs regarding the legal opinion, the establishment of the dollar and peso separate accounts, provisions regarding the use of the dollar and peso funds, and designation of authorized representatives, as well as the execution of amendments to the two trust accounts, will be required.

B. COVENANTS

The program agreement will contain two covenants. The first will relate to the GOC's continued commitment to the implementation of sound economic policies in accord with those currently in place. The second covenant will describe the GOC's commitment to the continued implementation of a mutually agreeable counternarcotics strategy.

VIII. NEGOTIATION STATUS

Negotiations on the program have progressed satisfactorily with the National Planning Department and we anticipate no problems in concluding a program agreement as described in this document soon after program authorization.

TABLE No. 1

TRENDS IN GROSS DOMESTIC PRODUCT (GDP) AND IN GDP PER CAPITA, 1950-1991

YEARS	GDP (Millions of current pesos)	Var %	GDP (Millions of 1975 pesos)	Annual Real GDP Growth (Percent)	Population (3)	GDPxINH (Current pesos)	Var %	GDPxINH (1975 pesos)	Var %
1950-60				4.6 (2)					
1960-70				5.2 (2)					
1970-80	1,579,130 (1)		525,765 (1)	5.5 (2)	26,905,950 (1)	58,691 (1)	29.8	19,541 (1)	1.7
1981	1,982,773	25.6	537,736	2.3	27,475,957	72,164	23.0	19,571	0.2
1982	2,497,298	25.9	542,836	0.9	28,058,041	89,005	23.3	19,347	-1.1
1983	3,054,137	22.3	551,380	1.6	28,652,455	106,593	19.8	19,244	-0.5
1984	3,856,584	26.3	569,855	3.4	29,259,463	131,806	23.7	19,476	1.2
1985	4,965,883	28.8	587,561	3.1	29,879,330	166,198	26.1	19,664	1.0
1986	6,787,956	36.7	621,781	5.8	30,459,098	222,855	34.1	20,414	3.8
1987	8,824,408	30.0	655,164	5.4	31,058,145	284,125	27.5	21,095	3.3
1988	11,731,348	32.9	681,791	4.1	31,677,178	370,341	30.3	21,523	2.0
1989	15,126,718	28.9	705,068	3.4	32,316,933	468,074	26.4	21,817	1.4
1990	20,234,050	33.8	734,050	4.2	32,978,170	613,559	31.1	22,259	2.0
1991(p)			750,199 (p)	2.2 (p)	33,600,000 (p)			22,327 (p)	0.3

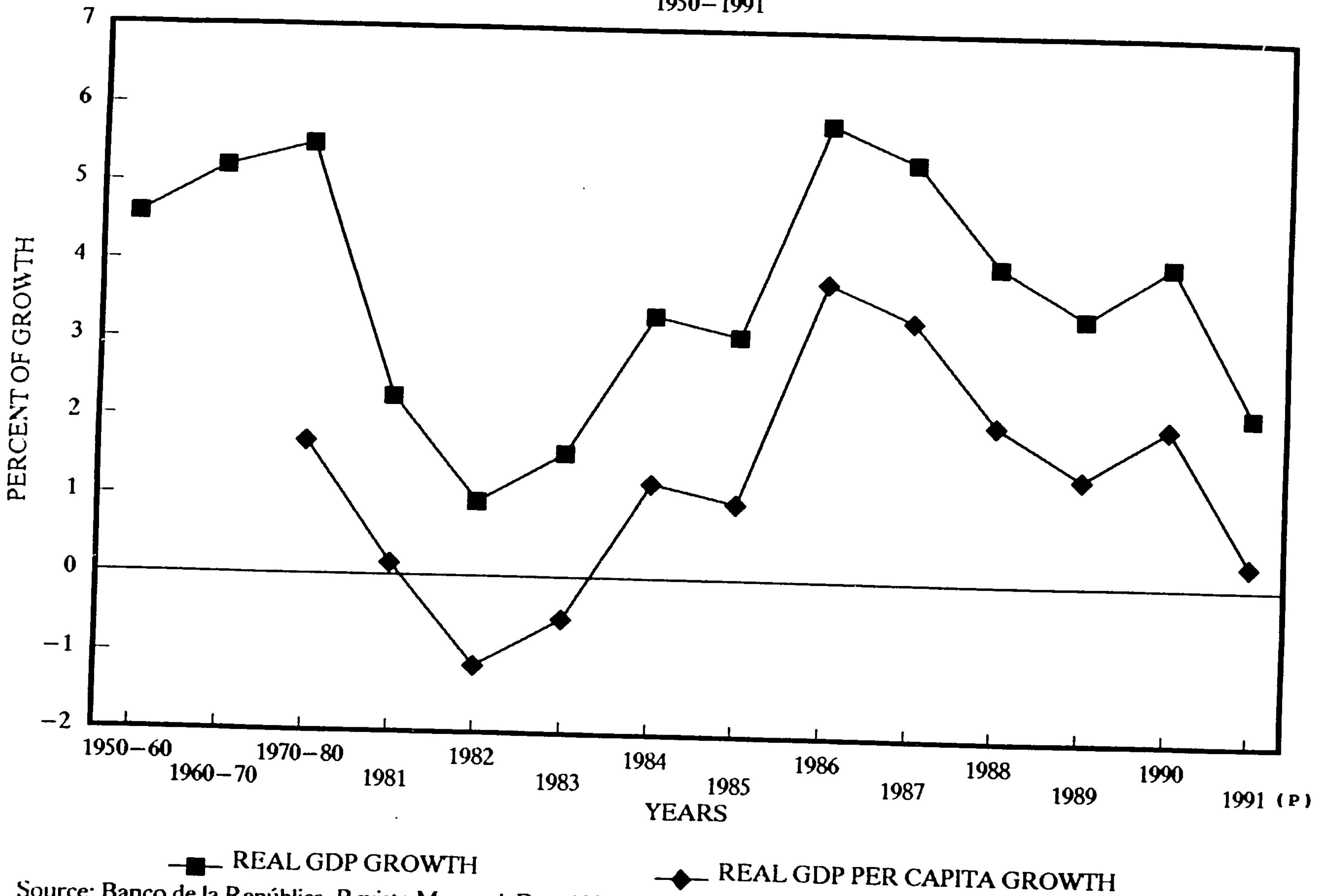
Source: Banco de la República. Revista Mensual. Dec. 1991

Notes:

(1) 1980
(2) Geometric mean growth rate over a 10-year period
(3) According to Departamento Nacional de Estadística (DANE)'s Demography Division
(p) Projection

REAL GDP AND GDP PER PERCAPITA ANNUAL GROWTH

1950–1991



Source: Banco de la República. Revista Mensual, Dec. 1991

TABLE No. 2

SECTORAL COMPOSITION OF REAL GDP,1965-1991
1975 PESOS
(Percent)

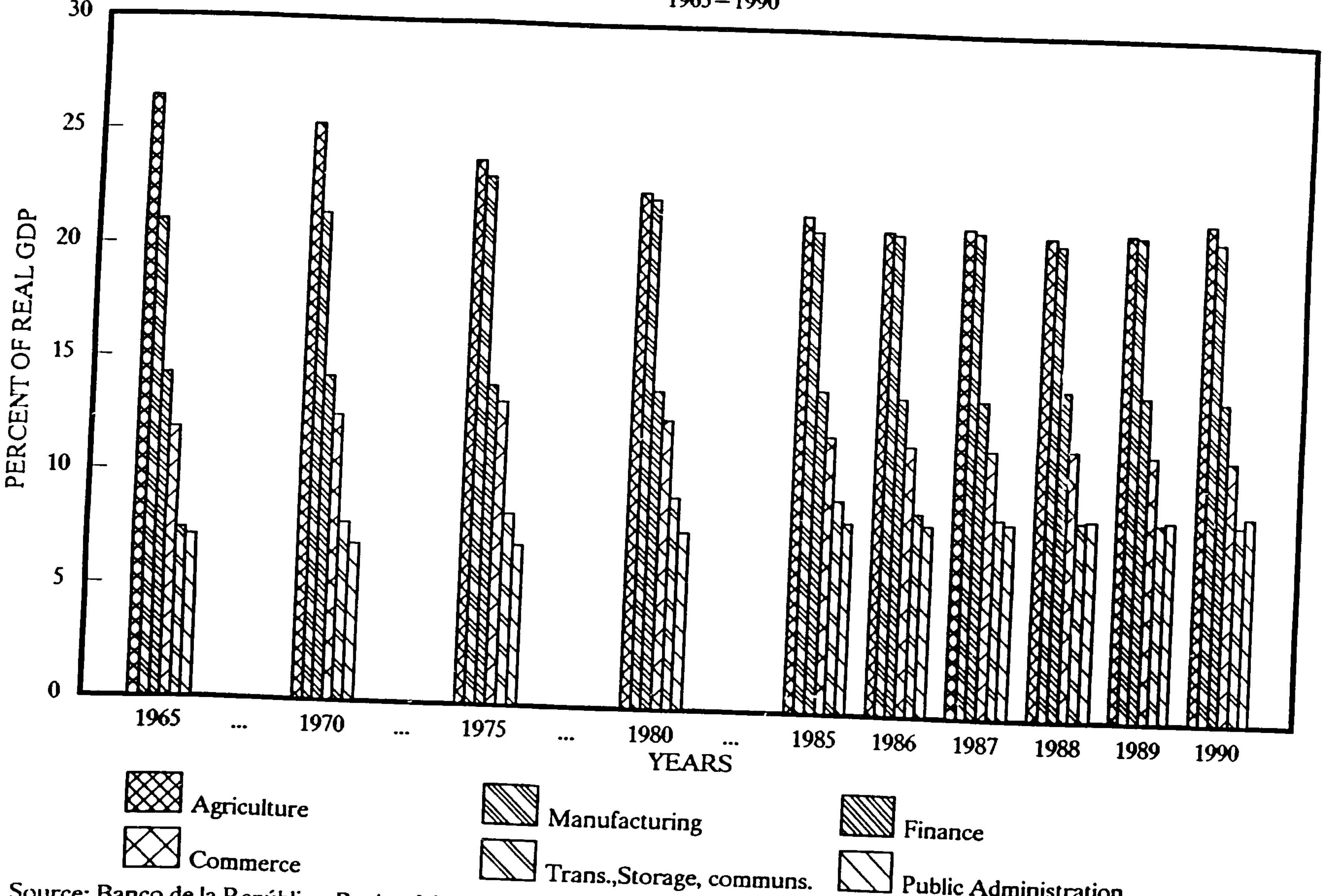
SECTOR / YEARS	1965	...	1970	...	1975	...	1980	...	1985	1986	1987	1988	1989	1990(p)	1991(p)
Agriculture	26.4		25.3		23.9		22.7		21.9	21.3	21.6	21.3	21.5	22.0	21.3
Mining	3.4		2.7		1.7		1.3		2.3	3.7	4.2	4.2	4.6	4.5	4.2
Manufacturing	21.0		21.4		23.2		22.4		21.2	21.2	21.4	21.0	21.4	21.2	21.0
Public Utilities	0.7		0.7		0.9		1.0		1.0	1.0	1.1	1.1	1.1	1.1	
Construction	3.0		3.5		3.3		3.4		4.4	4.3	3.7	4.0	3.6	2.9	4.0
Commerce	11.8		12.5		13.3		12.7		12.1	11.9	11.8	11.9	11.7	11.6	11.9
Trans., Storage, Comm	7.4		7.8		8.4		9.3		9.4	8.9	8.8	8.7	8.7	8.7	
Finance	14.2		14.2		14.0		14.0		14.2	14.0	14.0	14.5	14.3	14.2	
Public Administration	7.1		6.9		7.0		7.8		8.4	8.4	8.5	8.8	8.8	9.1	
Other Services	4.7		4.5		5.0		- 4.9		4.8	4.7	4.7	4.6	4.6	4.5	
Adjustments (1)	0.3		0.5		-0.7		0.7		0.3	0.5	0.3	-0.1	-0.2	0.1	
Rest of Sectors(2)															37.6
TOTAL GDP AT 1975 PRICES	100.0		100.0		100.0		100.0		100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Banco de la República. Revista Mensual. Dec. 1991

Notes:
(p) Projection
(1) Minus imputed bank services;plus import taxes
(2) Only for 1991

SECTORAL COMPOSITION OF REAL GDP

1965 – 1990



Source: Banco de la República. Revista Mensual, Dec. 1991

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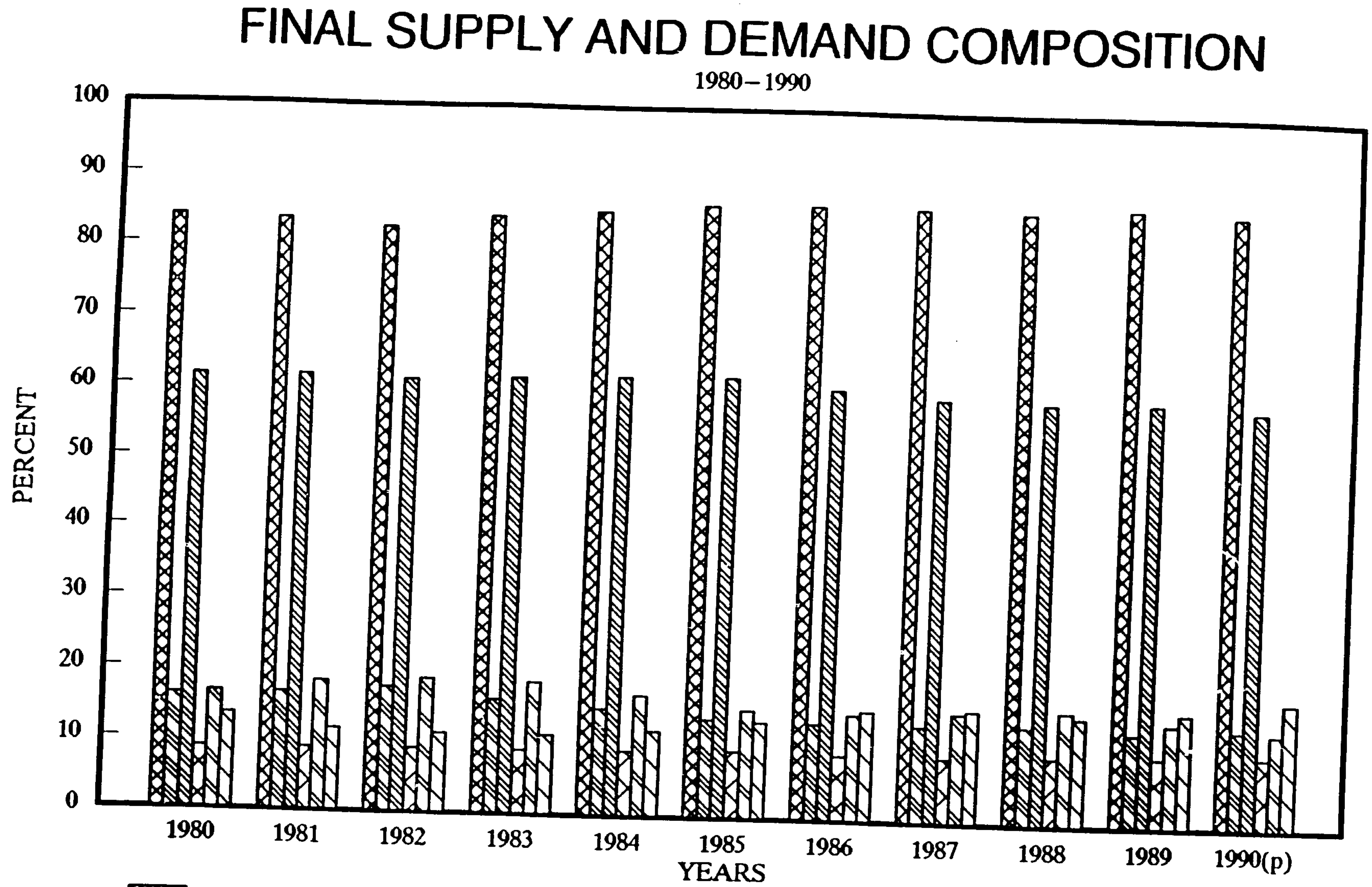
TABLE No. 3

FINAL SUPPLY AND DEMAND AT 1975 PRICES
1980-1990
(Percent)

YEARS	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990(p)
FINAL SUPPLY :											
1. GDP	83.9	83.5	82.6	84.1	85.1	86.3	86.5	86.5	86.2	86.9	86.2
2. IMPORTS OF GOODS AND SERVICES	16.1	16.5	17.4	15.9	14.9	13.7	13.5	13.5	13.8	13.1	13.8
TOTAL FINAL SUPPLY	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
FINAL DEMAND:											
1. CONSUMPTION	61.4	61.5	61.1	61.6	62.0	62.1	60.7	59.8	59.4	59.8	59.0
2. GOVERNMENT SPENDING	8.7	8.8	9.0	8.9	9.1	9.4	9.0	9.0	9.5	9.8	10.0
3. INVESTMENT	16.5	18.2	18.8	18.4	16.9	15.1	14.9	15.4	16.0	14.4	13.3
TOTAL DOMESTIC DEMAND	86.5	88.4	88.8	88.9	88.0	86.5	84.6	84.3	84.9	84.0	82.2
4. EXPORTS OF GOODS AND SERVICES	13.5	11.6	11.2	11.1	12.0	13.5	15.4	15.7	15.1	16.0	17.8
TOTAL FINAL DEMAND	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Banco de la República. Revista Mensual. Dec. 1991

(p) projection



Source: Banco de la República. Revista Mensual, 1991

TABLE No. 4

SAVINGS AND INVESTMENT

1984-1990

YEAR	1984	1985	1986	1987	1988	1989	1990
A. REAL INVESTMENT/GDP RATIO AT 1975 PRICES(Porcent)	19.9	17.5	17.2	17.8	18.5	16.6	15.4
B.CURRENT INVESTMENT/GDP AND SAVINGS/GDP RATIOS (Percent)							
1. INVESTMENT							
a. Gross Total	19.9	17.5	17.2	17.8	18.5	16.6	15.4
b. Domestic Private	10.2	10.7	11.3	13.4	14.3	n.a.	n.a.
c. Investment Public	9.7	6.8	5.9	4.4	4.2	16.6	15.4
2. SAVINGS							
a. Gross Total	11.4	14.0	19.6	19.5	20.0	19.5	18.2
b. National Private	8.1	8.4	12.0	13.6	n.a.	n.a.	n.a.
c. Savings Public	3.3	5.6	7.6	5.9	n.a.	n.a.	n.a.
d. Net Foreign Savings	7.6	5.0	-1.6	0.0	0.6	-0.1	1.9

Source: Banco de la República. Revista Mensual. Dec. 1991

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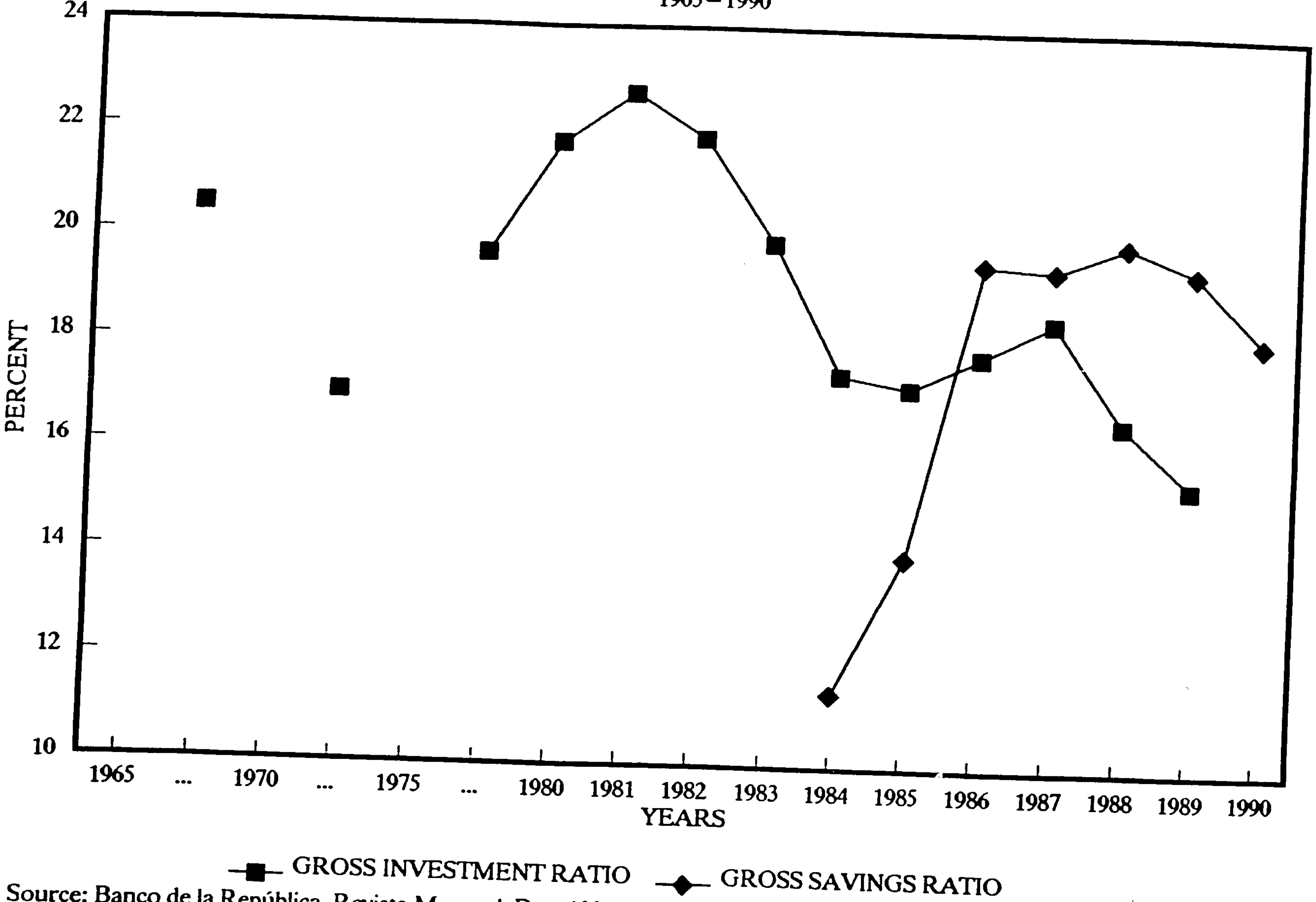
CURRENT INVESTMENT AND SAVINGS RATIOS

1965 – 1990



Source: Banco de la República. Revista Mensual, Dec. 1991

TABLE No. 5

EMPLOYMENT, WAGES, AND LABOR PRODUCTIVITY
1980-1991

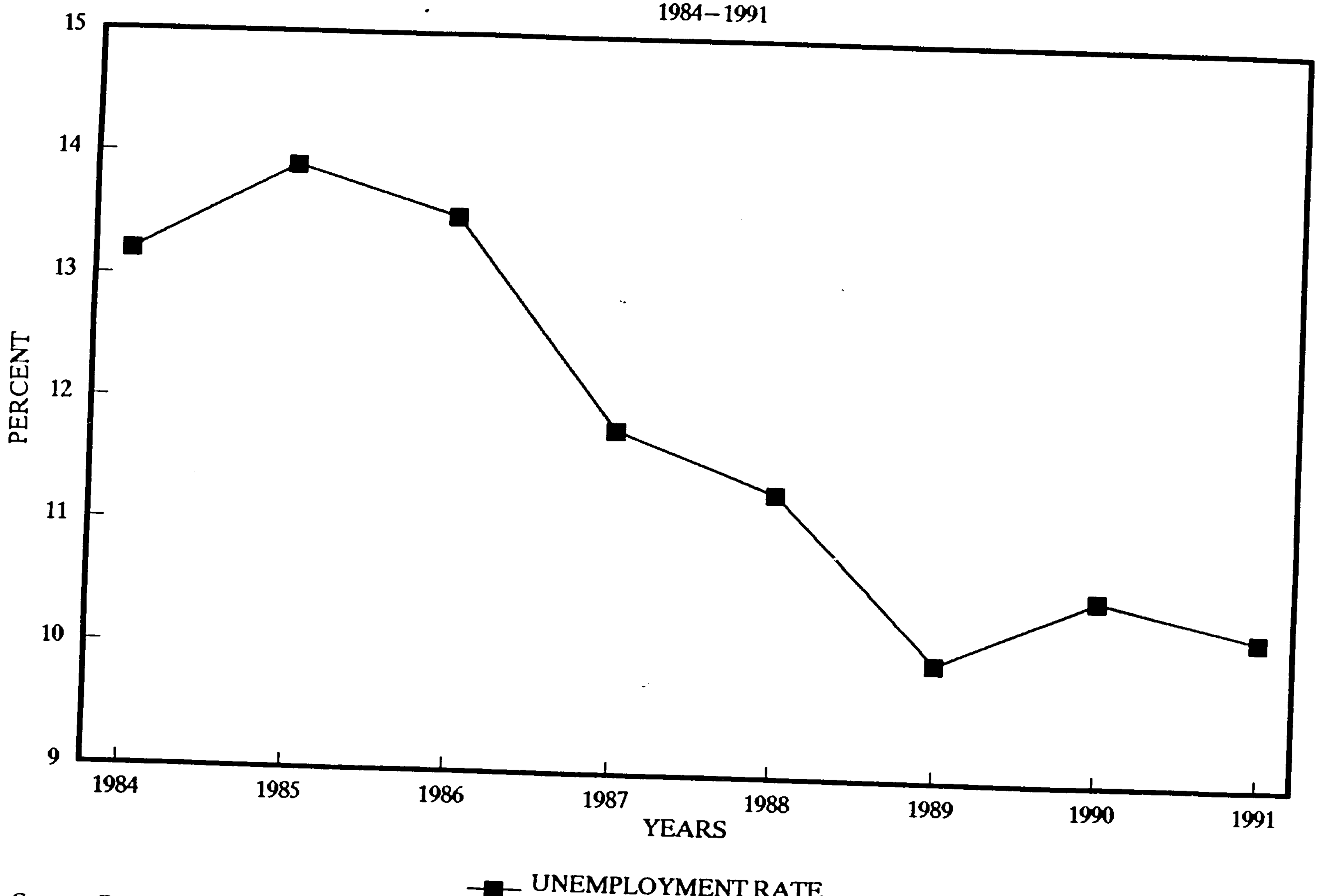
YEAR	UNEMPLOYMENT RATE (%) (1)	Var. %	REAL WAGE	Var. %
1984	13.2		117.8	
1985	13.9	5.3	115.7	-1.8
1986	13.5	-2.9	120.3	4.0
1987	11.8	-12.6	119.2	-0.9
1988	11.3	-4.2	117.6	-1.3
1989	10.0	-11.9	110.3	-6.2
1990	10.5	5.5	115.6	4.8
1991	10.2	-2.9	112.6	-2.6
Mar/91(2)	10.5	n.app.	n.a.	n.app.
Dec/91(2)	9.6	n.app.	n.a.	n.app.
Mar/92(2)	10.7	n.app.	n.a.	n.app.

Source: Banco de la República. Revista Mensual. Dec. 1991

Notes:
(1) Average of March, June, September, and December
(2) At the end of the month
n.a. : non available
n.app. : non applicable

UNEMPLOYMENT RATE

1984–1991



Source: Banco de la República. Revista Mensual, Dec. 1991

TABLE No. 6

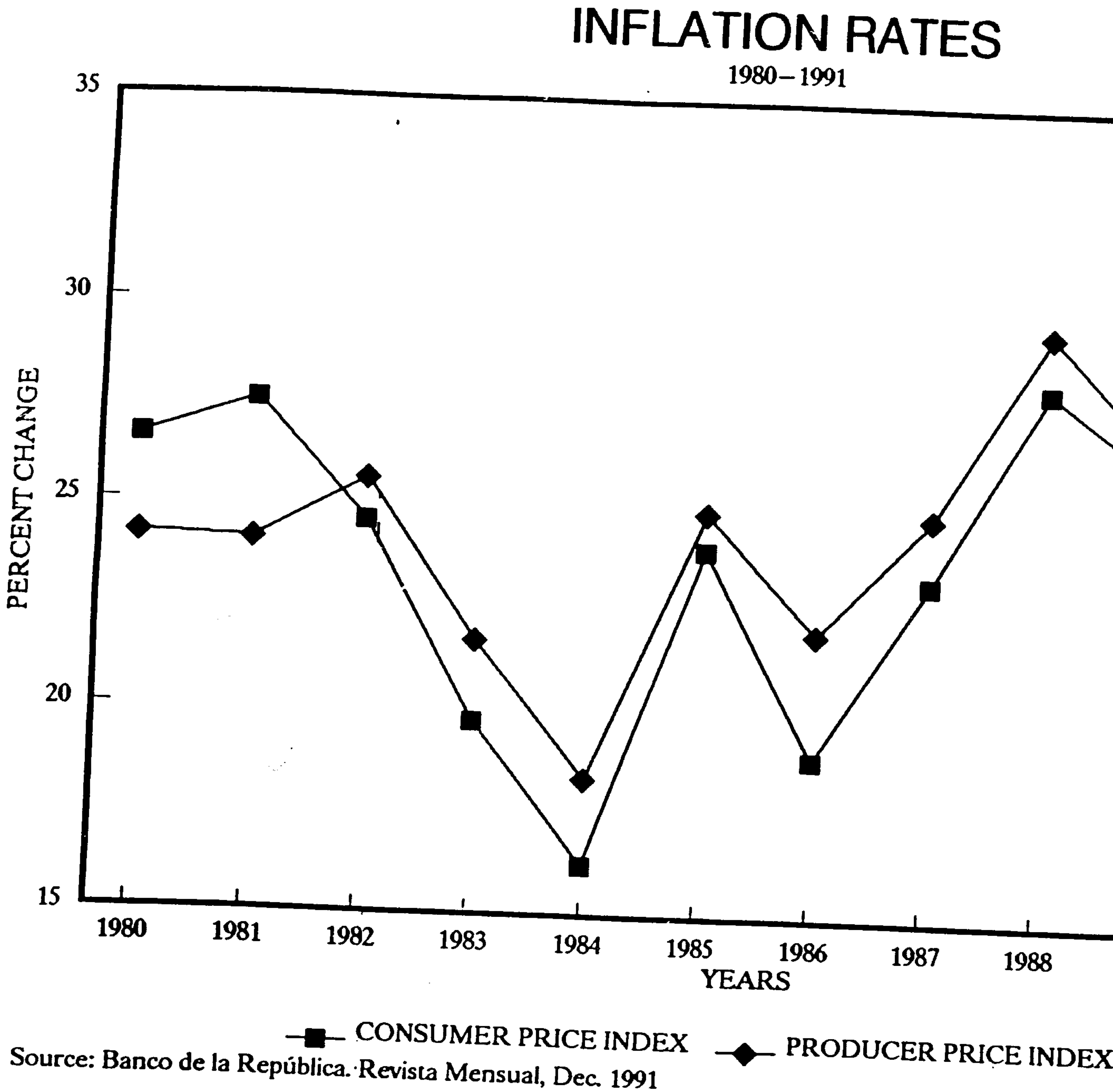
INFLATION RATES
1980-1991

(Percent change)

YEAR END OF:	CONSUMER PRICE INDEX	WHOLESALE PRICE INDEX (Producer Price Index)	GDP DEFLATOR
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	29.5	27.1
1989	26.1	26.6	25.7
1990	32.4	29.9	25.0
1991	26.8	23.1 (1)	n.a.

Source: Banco de la República. Revista Mensual, Dec. 1991

Notes:
(1) Since January, 1991, the producer price index replaced the wholesale price index
n.a. : non available



Source: Banco de la República. Revista Mensual, Dec. 1991

TABLE No. 7

MONEY SUPPLY INDICATORS
1983-Feb 1992

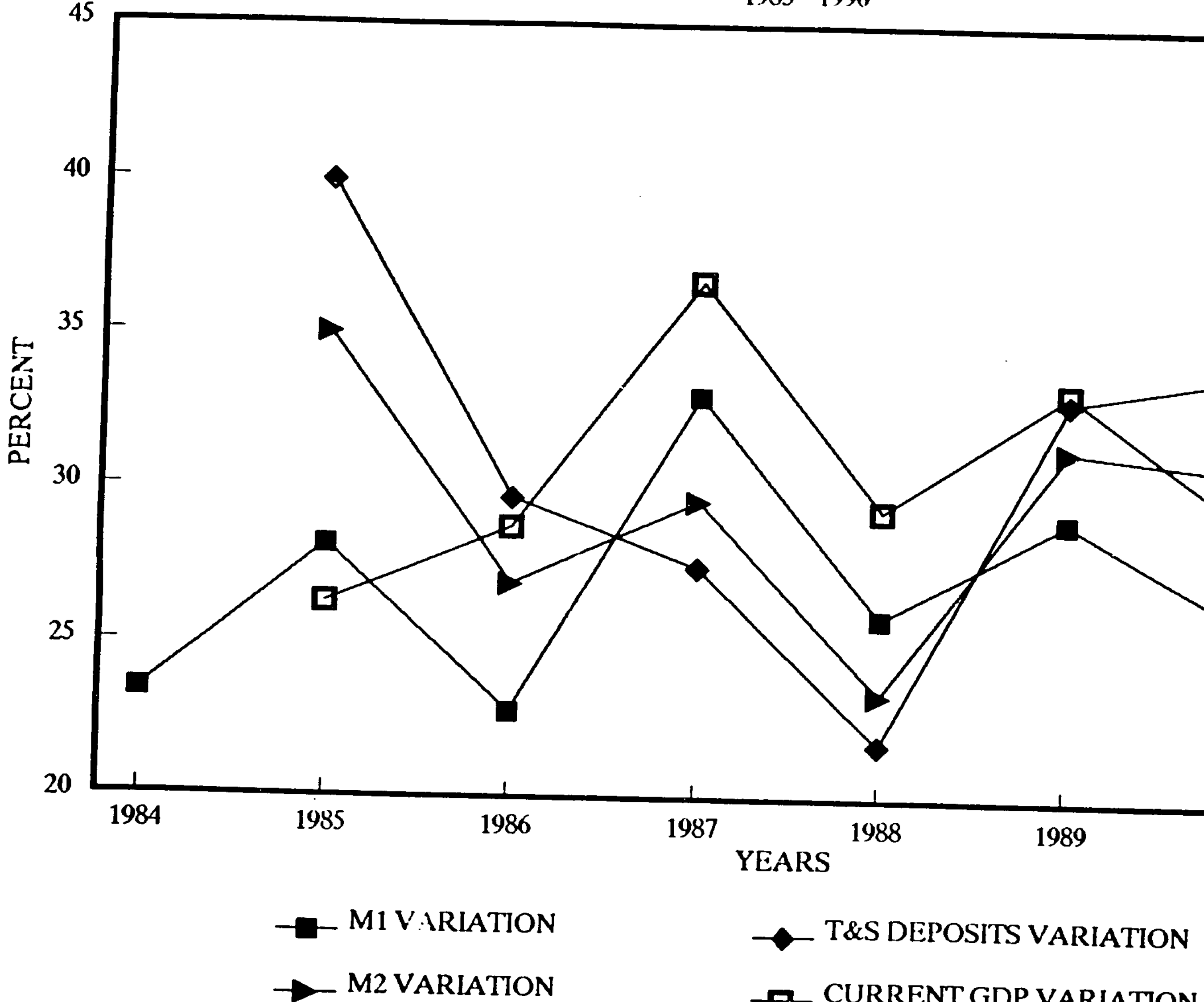
YEAR	MONEY SUPPLY(M1) Billions of pesos	% Var	TIME AND SAVINGS DEPOSITS Billions pesos	% Var	BROAD MONEY(M2) Billions pesos	% Var	GDP IN CURRENT PRICES Billions pesos	% Var
1984	501		696		1,197		3,857	
1985	642	28.1	974	39.9	1,616	35.0	4,966	28.8
1986	788	22.7	1,263	29.7	2,051	26.9	6,788	36.7
1987	1,048	33.0	1,610	27.5	2,658	29.6	8,779	29.3
1988	1,319	25.9	1,960	21.7	3,279	23.4	11,695	33.2
1989	1,702	29.0	2,605	32.9	4,307	31.4	15,086	29.0
1990	2,141	25.8	3,488	33.9	5,629	30.7	19,310	28.0
1991	2,913	36.1	4,632	32.8	7,545	34.0	n.a.	n.a.
Feb 1992	2,569	(11.8)	5,807	25.4	8,376	11.0	n.a.	n.a.

Source: Banco de la República. Revista Mensual. Dec 1991

Notes:
n.a.: non available

MONEY SUPPLY

1983 – 1990



Source: Banco de la República. Revista Mensual, 1991

TABLE No. 8

PUBLIC SECTOR FINANCES, 1988-1991 (1)
(Percent of GDP)

	1988	1989	1990	1991
Total Revenue	37.6	37.5	36.3	38.5
Taxes	13.4	14.2	14.6	15.4
Operating Surplus	6.1	5.1	4.9	4.8
Other	18.2	18.2	16.8	18.3
Total Expenditure & Net Lending	49.3	39.8	44.7	38.5
Current	39.9	31.0	37.3	31.1
Interest	3.9	4.0	3.6	3.9
Other	12.5	27.1	26.3	27.2
Capital	9.1	8.6	7.4	7.3
Net Lending	0.3	0.2	0.0	0.1
Overall Balance	-2.3	-2.3	0.3	0.5
Net Residual (2)	-0.8	0.0	n.a.	n.a.
Financing	2.9	2.3	1.0	-0.0
Foreign	1.5	1.3	0.0	-1.1
Domestic	1.4	1.0	1.0	1.0

Source: National Planning Department, Banco de la República, y Contraloría General de la Nación.

Notes:
(1) Operations of the consolidated nonfinancial public sector
(2) Statistical Discrepancy
n.a. : non available

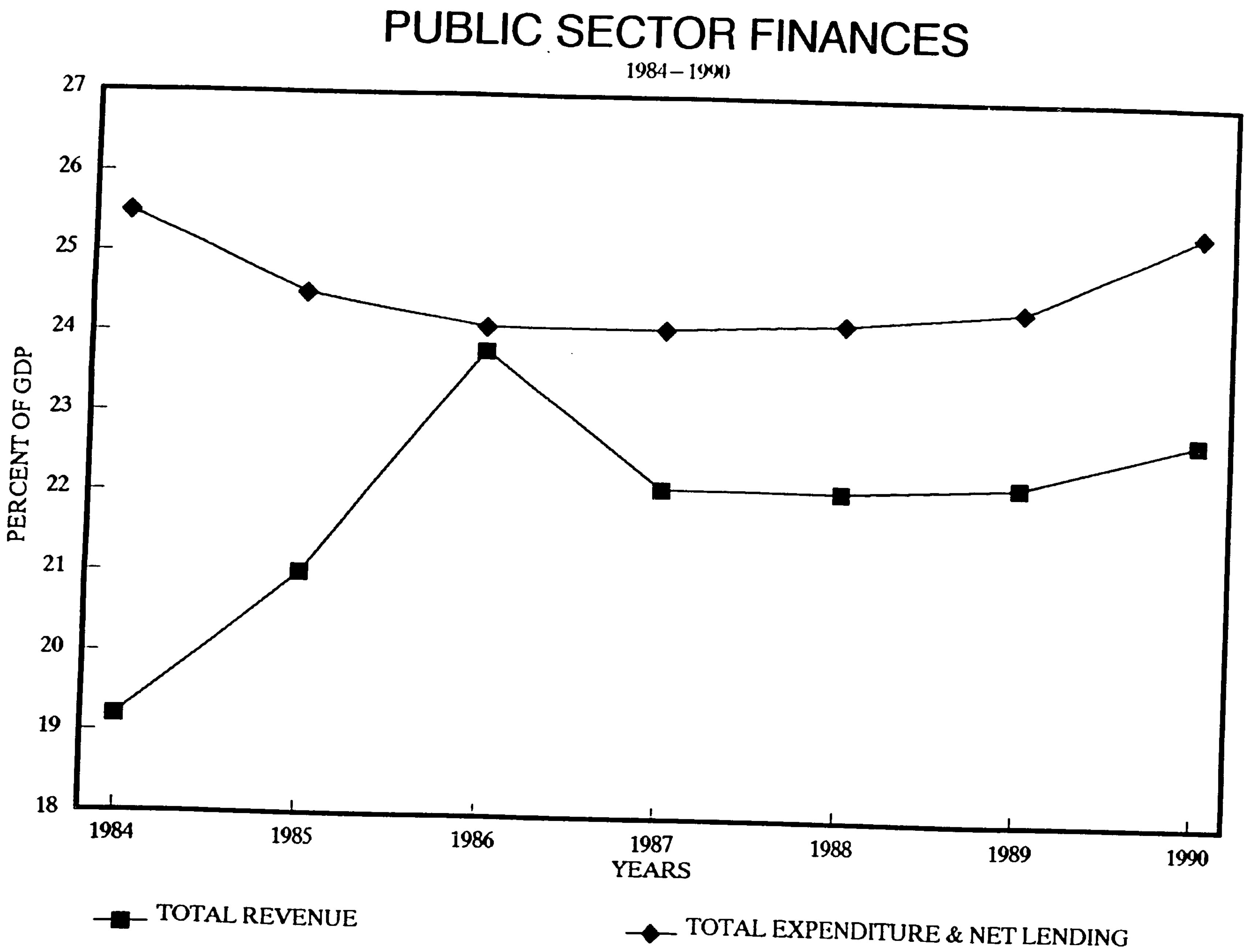

PUBLIC SECTOR FINANCES
1984 – 1990
PERCENT OF GDP
27
26
25
24
23
22
21
20
19
18
1984
1985
1986
1987
1988
1989
1990
YEARS
TOTAL REVENUE
TOTAL EXPENDITURE & NET LENDING

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TABLE No. 9

BALANCE OF PAYMENTS, 1984-1991
(Millions of US $)

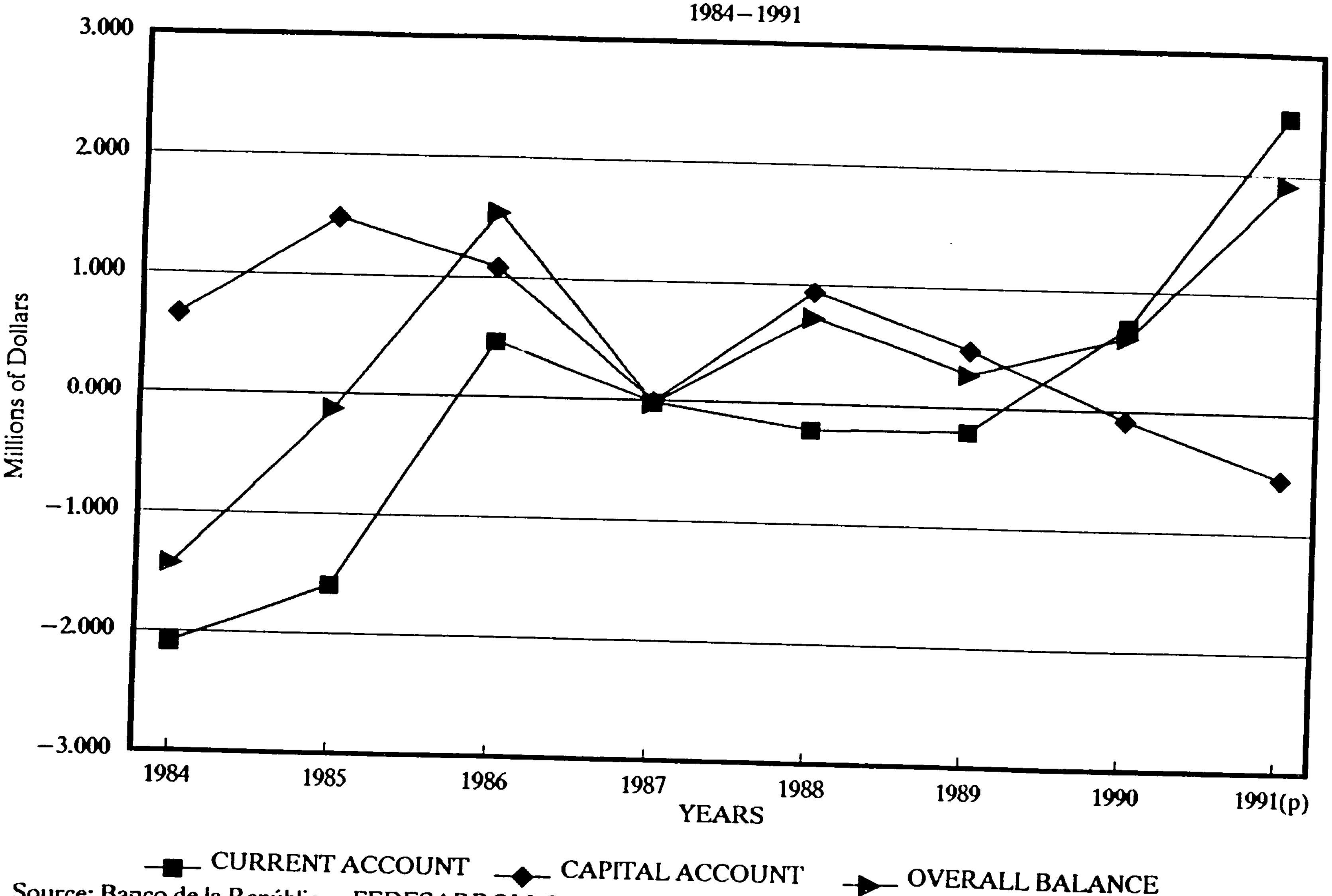
	1984	1985	1986	1987	1988	1989	1990	1991(p)
CURRENT ACCOUNT	(2,088)	(1,596)	463	(20)	(215)	(201)	699	2,473
Exports	3,623	3,782	5,332	5,254	5,343	6,032	7,079	7,707
Imports	(4,027)	(3,673)	(3,409)	(3,793)	(4,515)	(4,558)	(5,108)	(4,694)
Interest,net	(1,070)	(1,212)	(1,184)	(1,165)	(1,170)	(2,019)	(2,088)	(1,724)
Other Serv., net	(913)	(954)	(1,061)	(1,317)	(837)	(554)	(211)	(549)
Transfers, net	299	461	785	1,001	964	898	1,027	1,733
CAPITAL ACCOUNT	662	1,477	1,081	(9)	938	480	(81)	(554)
Official, M-T/L-T	1,214	1,147	1,850	(91)	620	224	(27)	3,910
Disbursements	1,764	1,793	2,786	1,164	2,257	1,940	1,819	1,852
Amortization	(550)	(646)	(936)	(1,255)	(1,637)	(1,716)	(1,846)	2,058
Official, S-T, net	(220)	239	(1,025)	(130)	(5)	171	(105)	(792)
Private, net	(39)	109	791	280	118	69	(36)	n.a.
Dir. For. Invest.	561	1,016	592	335	159	726	478	479
Long-Term,net	47	(193)	189	(59)	55	(296)	(176)	(36)
Short-Term,net	(647)	(714)	10	4	(96)	(361)	(338)	n.a.
Financial, net	(293)	(18)	(535)	(68)	205	16	87	n.a.
Contributions to Inta'l Org.			(3)	0	0	0	(81)	0
OVERALL BALANCE	(1,426)	(119)	1,544	(29)	723	279	618	1,919

Source: Banco de la República y FEDESARROLLO

Notes:
(p) projection
n.a. : non available

BALANCE OF PAYMENTS

1984 – 1991



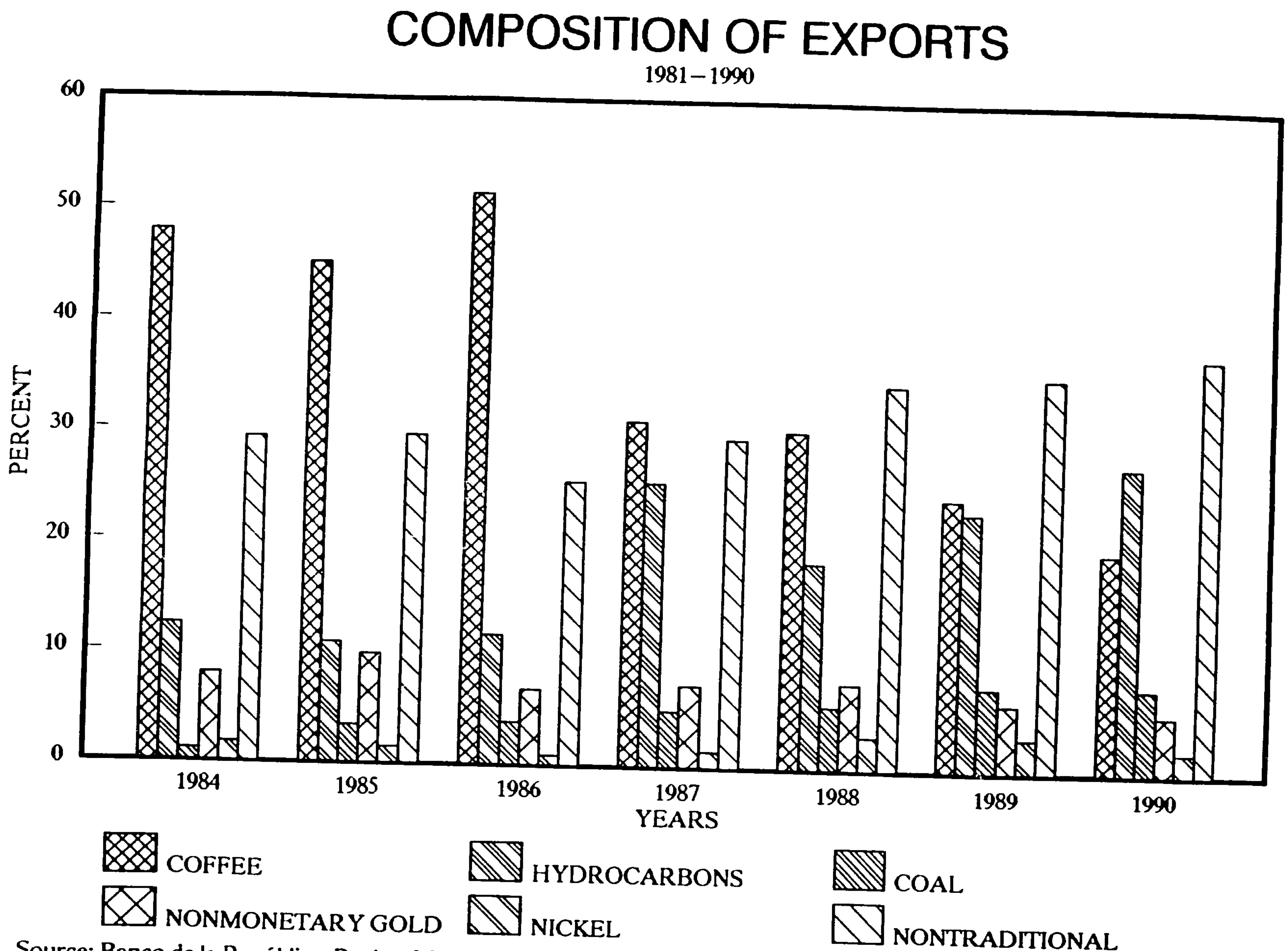
Source: Banco de la República y FEDESARROLLO

TABLE No. 10

COMPOSITION OF EXPORTS, 1984-1991
(Percent)

YEARS PRODUCT	1984	1985	1986	1987	1988	1989	1990	1991
Coffee	47.9	45.0	51.4	31.1	30.3	24.5	19.8	18.3
Hydrocarbons	12.3	10.8	11.6	25.5	18.5	23.2	27.6	18.5
Coal	1.0	3.3	3.8	5.0	5.7	7.6	7.7	7.8
Nonmonetary Gold	7.9	9.8	6.7	7.3	7.7	6.1	5.3	5.3
Nickel	1.7	1.5	0.9	1.4	3.0	3.1	2.1	1.8
Nontraditional	29.2	29.6	25.6	29.6	34.7	35.6	37.6	48.4
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source : Banco de la República y FEDESARROLLO



Source: Banco de la República. Revista Mensual, 1991

TABLE No. 11

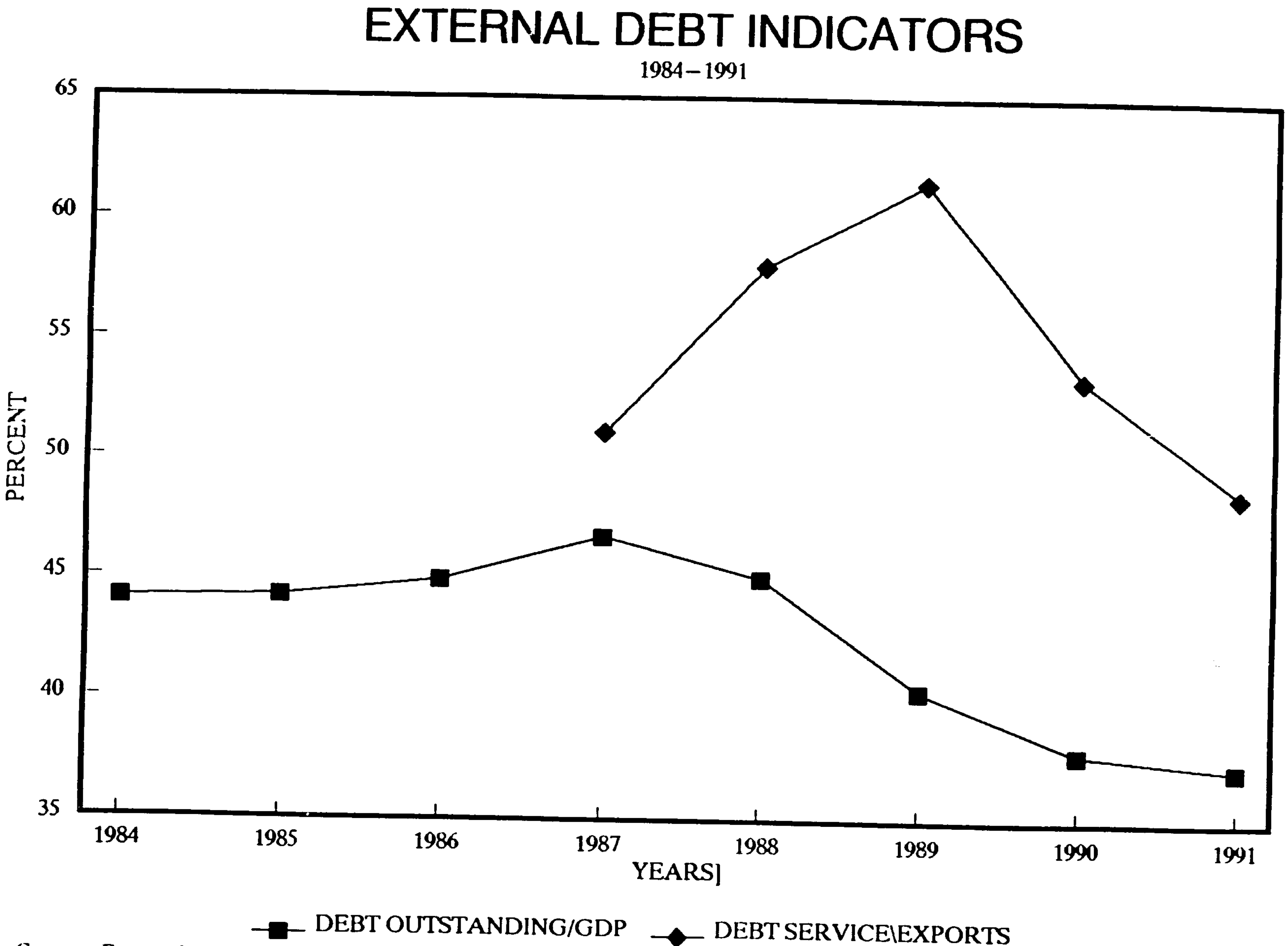
EXTERNAL DEBT INDICATORS
1984-1991
(Millions of Dollars, end of year)

YEAR ITEM	1987	1988	1989	1990	1991
Debt Oustanding	17,047	17,359	17,007	17,556	16,986 (p)
Public Sector	13,947	14,011	14,071	14,809	14,721 (p)
Med. & Long-Term	13,841	13,822	13,835	14,587	13,489 (sep)
Short Term	106	189	236	222	n.a.
Private Sector	3,100	3,348	2,936	2,747	2,265
Med. & Long Term	1,622	1,627	n.a.	n.a.	n.a.
Short Term	1,561	1,788	n.a.	n.a.	n.a.
Debt Outstanding/GDP (%)	46.7	45.0	40.4	37.8	35.7 (p)
Debt Service/Exports of G&NFS	42.6	47.6	38.1	35.1	41.4
Total Debt Service/Exports of G	51.1	58.0	61.5	53.4	48.6

Source: Banco de la República y FEDESARROLLO

Notes:

(p) projection
n.a. = non available



Source: Banco de la República. Revista Mensual, Dec 1991

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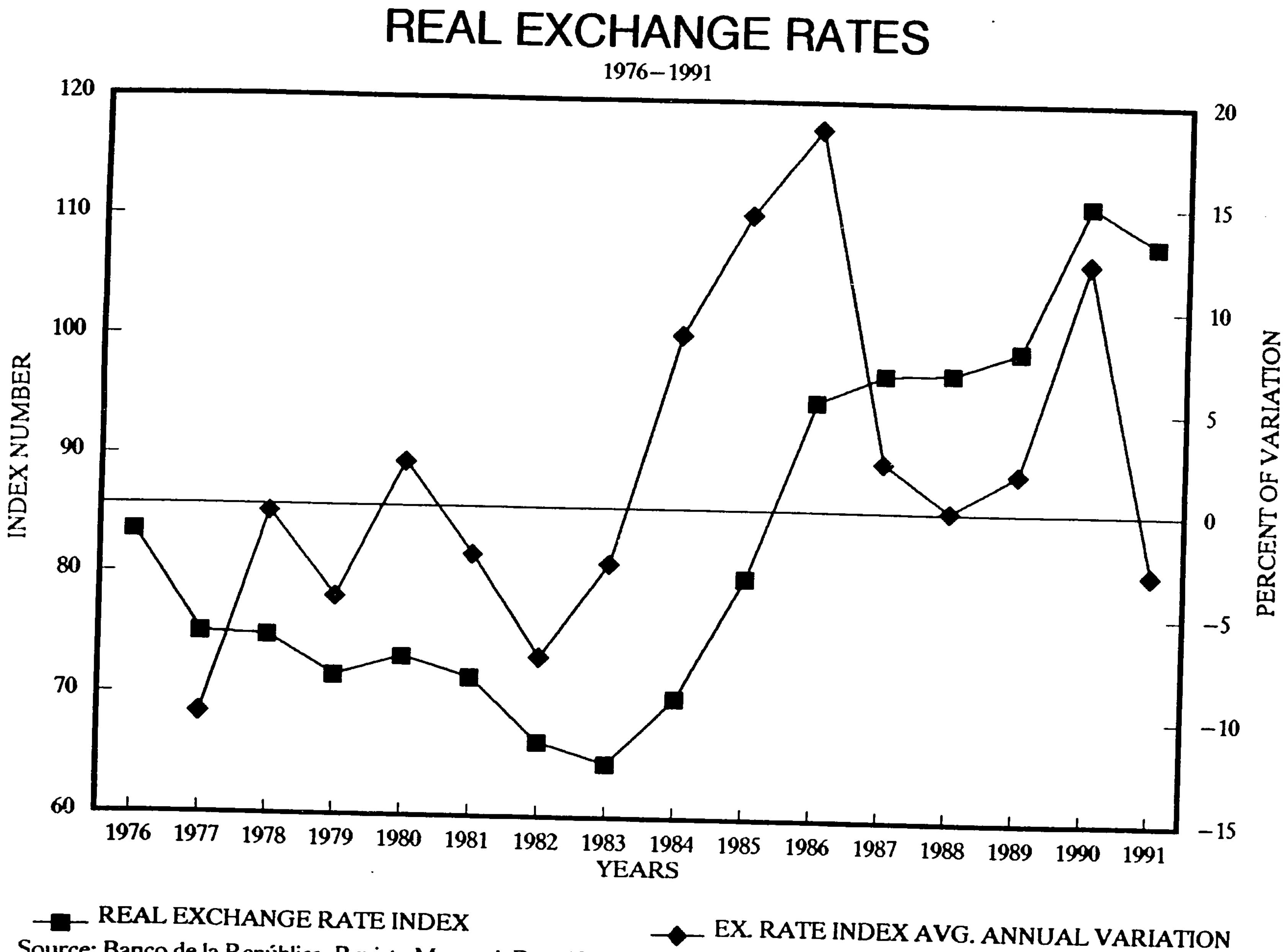
TABLE No. 12
EXCHANGE RATES, 1976-1991

YEAR	Pesos per Dollar	Real Exchange Rate Index (1) (Dec. 1986=100)	Avg. Annual Var. %
Annual Average			
1976	34.7	83.5	
1977	36.8	75.1	-10.1
1978	39.1	74.9	-0.3
1979	42.6	71.5	-4.4
1980	47.3	73.1	2.2
1981	54.5	71.4	-2.3
1982	64.1	66.2	-7.3
1983	78.9	64.4	-2.7
1984	100.8	69.9	8.5
1985	142.3	80.0	14.4
1986	194.3	95.0	18.7
1987	242.6	97.3	2.5
1988	299.6	97.4	0.1
1989	382.6	99.4	2.0
1990	502.3	111.5	12.2
1991	633.0	108.3	-2.9

Source: Banco de la República. Revista Mensual. Dic. 1991

Notes:
(1) Based on trade-weighted relationships between the peso and the cur of 18 trading partners, with the real effective exchange rate also ref trends in relative consumer prices. An increase means currency appreci



Source: Banco de la República. Revista Mensual, Dec. 191

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TABLE 13
COLOMBIA
NARCOTICS SEIZURES
(1990-FEB 1992)

PERIOD / ACTIVITY	1990	1991	YTD 1992 (FEB)	FEB 1992
1. Laboratories Destroyed				
1.1 Cocaine	354	292	61	27
1.2 Morphine/Heroin	0	2	1	1
2. Arrests	6,845	1,499	368	173
3. Illegal Drugs Seized/Destroyed				
3.1 Cocaine (Kg)	47,271	77,465	6,125	4,497
3.2 Cocaine Base (Kg)	5,801	10,969	1,175	669
3.3 Basuco (Kg)	655	1,235	19	5
3.4 Coca Leaves (MT)	528	140	11	0
3.5 Morphine/Heroine (Kg)	0	0	6	6
3.6 Opium gum/morphine base (kg)	0	9	1	1
3.7 Opium plant seeds (Kg)	0	407	58	22
3.8 Marijuana (MT)	669	348	24	429
4. Crops Destroyed (Hectares/manual)				
4.1 Coca	1,027	687	20	39
4.2 Opium	30	1,186	1,180	309
4.3 Marijuana	36	13	4	12
5. Crops Sprayed (Hectares)				
5.1 Coca	0	0	0	0
5.2 Opium	0	0	1,343	1,343
5.3 Marijuana	66	2	0	0
6. Precursor Chemicals				
6.1 Ether (55-Gallon Drums)	12,990	4,396	679	526
6.2 Acetone (55-Gallon Drums)	16,641	4,150	1,088	713
6.3 M.E.K. (55-Gallon Drums)	8,029	1,136	156	152
6.4 Sulfuric Acid (55-Gallon Drums)	256	615	82	54
6.5 Potassium Permanganate (Kg)	24,000	15,146	23,325	21,471
6.6 Acetic Anhydride (Gallons)	0	0	1	1
7. Airstrips Destroyed	129	90	14	1
8. Aircraft seized/destroyed	42	24	6	3
9. Vehicles seized/destroyed	298	111	7	3
10. Boats seized/destroyed	68	44	1	1
11. Weapons Seized	375	0	0	0
11.1 Pistols/shotguns/rifles	708	301	54	24
11.2 Automatic Weapons	0	8	0	0

Note: Information taken from NAS, US Embassy/Bogotá, monthly reports 12/91-2/92
Combined data from Colombian National Police, Army, Navy, Air Force, and
Security National Department

INITIAL ENVIRONMENTAL EXAMINATION

Project Location:	Colombia
Project Title	Economic Revitalization Program
Project Number:	514-9005
Funding:	$36 million (ESF)
Life of Project:	1 year (FY 92)
IEE Prepared by:	Carrie Thompson LAC/DR/SA

Recommended Threshold Decision:

The FY 92 Colombia Economic Revitalization Program provides balance of payments support to Colombia to promote economic revitalization. The dollar funds will be used to service USG and multilateral debt, and an equivalent amount in local currency will be deposited into a general development budget and programmed by the GOC for general sector support in the areas of economic liberalization and revitalization, and alternative development. These economic development initiatives constitute an important part of 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. for the 1992 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 A.I.D. environmental procedures. The above exemptions do not apply, however, to assistance for the procurement or use of pesticides.

The FY 1992 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 Colombia recommends that no further environmental study be undertaken for this PAAD and that a "categorical exclusion" be approved.

IEE prepared by ______________
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COLOMBIA

5C(2) - ASSISTANCE CHECKLIST - For FY92 ESF Cash Transfer

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. **Host Country Development Efforts** (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.

Assistance is conditioned on Colombia continuing its program of economic liberalization and private sector-led growth. Program will not specifically encourage GOC efforts in areas c, d, e and f.

2. **U.S. Private Trade and Investment** (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).

Program will not specifically encourage U.S. private participation.

3. **Congressional Notification**

a. **General requirement** (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

Congress has been so notified.

b. **Notice of new account obligation** (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

Funds are not being so obligated.

c. **Cash transfers and nonproject sector assistance** (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic poolicy reforms to be promoted?

Yes, Congress has been so notified.

4. **Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes.

5. **Legislative Action** (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action

No such legislative action will be required.

will be completed in time to permit orderly accomplishment of the purpose of the assistance?

6. **Water Resources** (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, _et seq._)? (See A.I.D. Handbook 3 for guidelines.)

Assistance is not for such purpose.

7. **Cash Transfer and Sector Assistance** (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

Yes, per FY92 ESF Agreement.

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (_e.g._, construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

Not capital assistance, N/A.

9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects 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.

Assistance is conditioned on Colombia continuing its program of economic liberalization and private sector-led growth. Program will not specifically encourage GOC efforts in areas c, d, e and f.

10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project 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).

Program will not specifically encourage U.S. private participation.

11. **Local Currencies**

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The GOC will set aside the equivalent of $36 million in local currency; $34.5 million for general sector support and $1.5 million as additions to two trust funds for evaluation, audit and operating expenses.

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

U.S. does not own excess foreign currency of the country.

c. **Separate Account** (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) **Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?**

a) Yes.
b) Yes, per FY 92 ESF Agreement.
c) Yes, per FY 92 ESF Agreement.

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

Yes.

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

Yes.

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

Yes.

12. **Trade Restrictions**

a. **Surplus Commodities** (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

Assistance is not for such production.

b. **Textiles (Lautenberg Amendment)** (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of

Assistance is not for such purpose.

textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

a) No.
b) No.

14. **PVO Assistance**

a. **Auditing and registration** (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A

b. **Funding sources** (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A

15. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

Such confirmation will be cabled.

16. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

N/A

17. **Women in Development** (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Local currency program will encourage participation by women.

18. **Regional and Multilateral Assistance** (FAA Sec. 209): 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.

No. Assistance will not specifically encourage participation of developing countries in regional development programs.

19. **Abortions** (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

a. No.

b. Will any funds be used to lobby for abortion?

b. No.

20. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

Local currency program will provide such assistance.

21. **U.S.-Owned Foreign Currencies**

a. **Use of currencies** (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

The U.S. does not own excess foreign currency of the country.

b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

U.S. does not own excess foreign currency of the country.

22. **Procurement**

a. **Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

No procurements will be required under assistance.

b. **U.S. procurement** (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

N/A.

c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

N/A.

d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

N/A.

e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

N/A.

f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

N/A.

g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the

N/A.

facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

h. **U.S. air carriers** (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? N/A.

i. **Termination for convenience of U.S. Government** (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? N/A.

j. **Consulting services** (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? N/A.

k. **Metric conversion** (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest N/A.

documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

1. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

N/A.

23. **Construction**

a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

Not a capital project.

b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

N/A.

c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

N/A.

24. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

N/A.

25. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

Such arrangements exist.

26. **Narcotics**

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

No such reimbursements are planned.

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

1) Yes.

2) Yes.

27. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?

Yes.

28. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

Yes.

29. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities?

Yes.

30. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?

Yes.

31. **Military Personnel** (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?

Yes.

32. **Payment of U.N. Assessments** (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues?

Yes.

33. **Multilateral Organization Lending** (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?

Yes.

34. **Export of Nuclear Resources** (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?

Yes.

35. **Repression of Population** (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

Yes.

36. **Publicity or Propoganda** (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

No.

37. **Marine Insurance** (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? N/A.

38. **Exchange for Prohibited Act** (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? No.

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment)** (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers? N/A.

2. **Tied Aid Credits** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits? N/A.

3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? N/A.

4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government. N/A.

5. **Economic Development** (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? N/A.

6. **Special Development Emphases** (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries N/A.

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and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

7. **Recipient Country Contribution** (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

N/A.

8. **Benefit to Poor Majority** (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

N/A.

9. **Abortions** (FAA Sec. 104(f); FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 535):

N/A.

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?

f. Are any of the funds to be used 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?

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

10. **Contract Awards** (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — N/A.

11. **Disadvantaged Enterprises** (FY 1991 Appropriations Act Sec. 567): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)? — N/A.

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12. **Biological Diversity** (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas? — N/A.

13. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) & (g)): — N/A.

a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded

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forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

d. **Sustainable forestry:** If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

e. **Environmental impact statements:** Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

14. **Energy** (FY 1991 Appropriations Act Sec. 533(c)): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

N/A.

15. **Sub-Saharan Africa Assistance** (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage

N/A.

private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) to be provided in a manner that takes into account, during the planning process, the local-level perspectives of the rural and urban poor, including women, through close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) to be implemented in a manner that requires local people, including women, to be closely consulted and involved, if the assistance has a local focus; (e) being used primarily to promote reform of critical sectoral economic policies, or to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities; and (f) to be provided in a manner that, if policy reforms are to be effected, contains provisions to protect vulnerable groups and the environment from possible negative consequences of the reforms?

16. **Debt-for-Nature Exchange** (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management. N/A.

17. **Deobligation/Reobligation** (FY 1991 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified? N/A.

18. **Loans**

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. N/A.

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

19. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from N/A.

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cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

20. **Agriculture, Rural Development and Nutrition,** and **Agricultural Research** (FAA Secs. 103 and 103A): N/A.

a. **Rural poor and small farmers:** If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

b. **Nutrition:** Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

c. **Food security:** Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

21. **Population and Health** (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A.

22. **Education and Human Resources Development** (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

N/A.

23. **Energy, Private Voluntary Organizations, and Selected Development Activities** (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

N/A.

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

c. research into, and evaluation of, economic development processes and techniques;

d. reconstruction after natural or manmade disaster and programs of disaster preparedness;

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (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?

Yes.

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?

No.

3. **Commodity Grants/Separate Accounts** (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? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).)

Commodities will not be granted under this assistance.

4. **Generation and Use of Local Currencies** (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? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).)

ESF funds will be used to repay GOC debt. Exception in parenthesis applies (See answer to 11c).

5. **Cash Transfer Requirements** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)). If assistance is in the form of a cash transfer:

a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?

Yes.

b. **Local currencies:** 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?

Yes, the FY92 ESF Agreement will so provide.

c. **U.S. Government use of local currencies:** 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?

Yes, per the Agreement.

d. **Congressional notice:** 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?

Yes, Congress has been so notified.

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5C(1) - COUNTRY CHECKLIST - COLOMBIA

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. **Narcotics**

a. **Negative certification** (FY 1991 Appropriations Act Sec. 559(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.

b. **Positive certification** (FAA Sec. 481(h)). (This provision applies 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

The Secretary of State has determined that Colombia has met the criteria established per b(1). Regarding b(2), the President has made the required certification to Congress.

source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement?

(2) 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 (a) 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 (b) the vital national interests of the United States require the provision of such assistance?

c. **Government Policy** (1986 Anti-Drug Abuse Act of 1986 Sec. 2013(b)). (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 Congress

The President has not submitted such a report.

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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?

2. **Indebtedness to U.S. citizens** (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.

3. **Seizure of U.S. Property** (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.

4. **Communist countries** (FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545): 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 recipient is not a Communist country.

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, 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?

5. **Mob Action** (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.

6. **OPIC Investment Guaranty** (FAA Sec. 620(l)): Has the country failed to enter into an investment guaranty agreement with OPIC?

Colombia has an OPIC agreement.

7. **Seizure of U.S. Fishing Vessels** (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.

8. **Loan Default** (FAA Sec. 620(q); FY 1991 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.

9. **Military Equipment** (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.

10. **Diplomatic Relations with U.S.** (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 with the United States.

11. **U.N. Obligations** (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.

12. **International Terrorism**

a. **Sanctuary and support** (FY 1991 Appropriations Act Sec. 556; FAA Sec. 620A): 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.

b. **Airport Security** (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.
13. **Discrimination** (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.
14. **Nuclear Technology** (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? 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? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)	The country has not so delivered, transferred, exported or attempte to export.
15. **Algiers Meeting** (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.

16. **Military Coup** (FY 1991 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.

17. **Refugee Cooperation** (FY 1991 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.

18. **Exploitation of Children** (FY 1991 Appropriations Act Sec. 599D, amending FAA Sec. 116): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services?

The country does not fail to take such measures.

B. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")

1. **Human Rights Violations** (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.

2. **Abortions** (FY 1991 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

N/A.

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?

C. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

Human Rights Violations (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.

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USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

LAC-IEE-92-43

REQUEST FOR A CATEGORICAL EXCLUSION

Project Location	:	Colombia
Project Title	:	Economic Revitalization Program
Project Number	:	514-9005
Funding	:	$36 million (ESF)
Life of Project	:	1 year (FY 92)
IEE Prepared by	:	Carrie Thompson LAC/DR/SA
Recommended Threshold Decision	:	Categorical Exclusion
Bureau Threshold Decision	:	Concur with Recommendation
Comments	:	Concurrence subject to condition placed in Program Agreement between GOC and A.I.D. that there will be neither: (1) the procurement nor use of pesticides; nor (2) support for activities or for the procurement or use of equipment that could lead to deforestation, such as commercial timber extraction or road construction, without first conducting an Environmental Assessment and having it approved by the LAC Bureau Environmental Officer.

John O Wilson Date JUL 31 1992

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

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Copy to	:	James Smith A.I.D. Representative USAID/Colombia
Copy to	:	Sharon Epstein, LAC/SAM
Copy to	:	Carrie Thompson, LAC/DR/SA
Copy to	:	Howard Clark, REA/SA
Copy to	:	IEE File

INITIAL ENVIRONMENTAL EXAMINATION

Project Location:	Colombia
Project Title	Economic Revitalization Program
Project Number:	514-9005
Funding:	$36 million (ESF)
Life of Project:	1 year (FY 92)
IEE Prepared by:	Carrie Thompson LAC/DR/SA

Recommended Threshold Decision:

The FY 92 Colombia Economic Revitalization Program provides balance of payments support to Colombia to promote economic revitalization. The dollar funds will be used to service USG and multilateral debt, and an equivalent amount in local currency will be deposited into a general development budget and programmed by the GOC for general sector support in the areas of economic liberalization and revitalization, and alternative development. These economic development initiatives constitute an important part of 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. for the 1992 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,

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

The FY 1992 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 Colombia recommends that no further environmental study be undertaken for this PAAD and that a "categorical exclusion" be approved.

IEE prepared by Carrie Thompson
Carrie Thompson
LAC/DR/SA

Concurrence: Edward Kadunc, Jr.
Edward Kadunc, Director
USAID/Colombia