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COLOMBIA

FY 1972 COUNTRY FIELD SUBMISSION

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URBAN/REGIONAL DEVELOPMENT

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ANNEX G

URBAN/REGIONAL DEVELOPMENT

I. Background, Objectives, and Rationale

A. Background

Colombia's three largest cities have been growing at rates of over 6% for the past two decades, and over 40% of the population of Colombia now lives in cities of 100,000 or more. Selective migration of young adults from the countryside has meant slow expansion of the rural labor force at an estimated rate of .4% annually between 1951 and 1964, while the urban labor force has increased at a rate of 4.4% annually. As of 1964, three-quarters of Bogota's population between the ages of 15 and 59 had been born outside of the city, and almost half had arrived in the capital within the past eleven years. (T. Paul Schultz, Population Growth and Internal Migration in Colombia, p. 5) Expansion of employment and urban facilities and services has not been able to keep pace with urban population growth. While the data are fragmentary, there is reason to believe that deficits in urban infrastructure, housing and social services are growing.

There is no reason to expect any substantial slowing of rural urban migration in the coming years. During the 1950s the violence in rural areas led many to seek the relative safety of the cities. This movement was particularly marked in Tolima, Caldas, and Valle. As rural violence was brought under control during the early 1960s, security became a less important motive for rural to urban migration. Nevertheless, the migration continued, prompted by desire for better jobs and living standards and for more opportunity for childrens' education. The growth rates of the largest cities during the past five years (1964-1969) are no lower than the rates during the period 1951-1964. While urban death rates may have fallen significantly since the early 1950s, the resulting acceleration of urban population growth is unlikely to be so large as to mask any significant fall in the rate of in-migration. Experience in other countries also strongly suggests that movement to the cities will continue. Measures designed to improve the quality of rural life, (See Annex C, Section VII) no matter how desirable on other grounds, are likely to only temporarily slow the pace of out-migration. In the long run, some of the key elements of rural improvement, such as education and feeder roads, tend to stimulate migration at the same time that they increase the productivity and well-being of those who stay on the land.

In short, the problems of migration and rapid urban growth will continue to be with Colombia for the foreseeable future. The relevant question is not how to stem these processes, but how best to cope with them.

B. Objectives

The Mission proposes three courses of action to assist the GOC to cope with problems of urban growth.

1. To encourage investment and employment expansion in some of Colombia's many medium-sized cities as alternative magnets for part of the continuing flow of migrants, thereby easing the pressure on the largest cities. 1/

2. To improve physical facilities and services in the metropolitan centers as well as in the intermediate cities.

i. In the largest cities the objective of this course of action is to help improve living conditions for the poorest third of the population.

ii. In the intermediate cities improved infrastructure and services are intended to help attract employment - creating industry, to encourage potential migrants to come to, or remain in, these cities rather than moving on to larger centers, and to enable the intermediate cities to avoid some of the problems of rapid growth which have afflicted the metropolitan centers.

3. To increase the capacity of the Colombian institutions involved in analysis of urban problems, formulation of urban policies, and planning and coordination of urban development programs.

1/ For our purposes, "medium-sized cities" are defined as those with a population of 30,000 or more, other than the four metropolitan centers of Bogota, Medellin, Cali and Barranquilla .

The rationale for these three major objectives is discussed below. Part II of the Annex examines the problems which must be overcome and identifies major lines of action which must be taken by the GOC to accomplish these objectives. Part III suggests possible activities which might effectively assist Colombia in pursuit of the objectives.

While measures to accelerate employment expansion in the metropolitan centers are not included in the scope of this program, such measures are clearly a crucial additional element in an action program designed to improve conditions in the cities. Aspects of this problem are discussed and possible lines of action are proposed in other sections of the CFS, especially in the analyses of agriculture, education and labor.

C. Rationale

1. Encouraging the growth of medium-sized cities in order to divert migration from the largest centers. - Geography and history have produced a pattern of urbanization in Colombia which is more dispersed than in most Latin American nations; however, the four largest centers, Bogota, Medellin, Cali and Barranquilla have steadily increased their proportion of the total urban population. The first three have maintained annual rates of population growth of 6 to 7% for the past twenty years, roughly tripling their size during this period. One or two of the medium-sized cities have matched these rates, but in genral the 14 cities with more than 100,000 people as of 1969 had grown considerably less rapidly than the 4 metropolitan centers.

TABLE NO. 1

Estimation of Population of the 30 Largest Cities for 1970-1975

		Rate of Growth (%) *	P.1970 (Thousands)	P.1975 (Thousands)
C.	Bogota **	7.00	2.540.1	3.605.4
C.	Medellin	6.58	1.400.8	1.946.1
C.	Cali	7.19	972.2	1.392.3
C.	Barranquilla	4.42	690.2	860.7
C.	Bucaramanga	5.60	314.1	415.2
	Cartagena	5.10	295.2	380.9
C.	Manizales	5.64	270.9	359.2
C.	Pereira	5.25	244.9	318.4
C.	Armenia	5.75	218.8	291.7
	Cúcuta	5.60	205.4	271.7
	Ibagué	6.33	182.6	250.6
	Palmira	5.11	144.4	186.4
	Santa Marta	6.67	132.7	185.2
	Pasto	3.98	104.7	127.7
	Neiva	6.31	110.5	151.5
	Montería	8.28	115.5	174.7
	Buenaventura	5.25	95.8	124.5
	Girardot	4.74	88.3	111.9
	Buga	5.43	90.6	119.0
	Barrancabermeja	6.58	88.2	112.6
	Popayán	4.61	77.0	96.8
	Tuluá	5.14	76.8	99.3
	Cartago	4.43	72.5	90.08
	Ciénaga	5.10	64.7	83.4
	Villavicencio	7.37	70.2	101.6
	Sincelejo	5.39	60.7	79.4
	Valledupar	11.95	88.8	161.3
	Tunja	4.28	52.2	64.7
C.	Sogamoso	6.88	52.7	74.3
	Duitama	10.75	60.5	103.5

* The 1951-1964 rate of growth has been utilized.

** The capital C indicates metropolitan area

Colombia shares this pattern of increasing urban concentration with many other developing nations. The pattern has caused much concern; yet, there has been little careful analysis of the relative advantages of larger and smaller cities in the development process.

Many people find large cities aesthetically distateful, or suspect that they are socially harmful. However, even if it were clear that Colombians as a people shared this distaste, aesthetic considerations alone would hardly support a major effort to alter the geographic pattern of urbanization.

The argument that the social costs of population growth are higher in the larger cities than in smaller centers to which migration might be deflected is a more pragmatic basis for such a policy. It is not easy to prove this hypothesis directly. Expenditures per capita on various services and physical facilities are lower in smaller cities, but this is partly because of less adequate revenues. Variations in the quality of services supplied by different cities also complicate any comparison of service costs in cities of different sizes. There is evidence that marginal costs of infrastructure improvement are generally lower in smaller cities primarily as a result of less intense demand for services. It is likely, therefore, that the cost of infrastructure improvement would be cheaper per capita in smaller cities until they grew to the point where marginal cost of improvements exceeded per capita cost by the same degree as in the major cities. The extent to which this analysis might apply in Colombia should be studied further. Some work in this area has been done for Pakistan by S. K. Bhatia, Deputy Chief of the Urban Development Division of the World Bank.

There are several reasons to believe that the social costs of added population in large cities are inherently greater than in smaller cities.

a. Certain services, most clearly transportation, need not be so costly on a per capita basis in medium-sized cities, because lower levels of service are adequate to meet needs. A higher proportion of the total population can walk to work, markets, and service centers.

b. The costs of land and unskilled labor are lower in smaller cities. Other things being equal, the costs of expanding some physical facilities should be lower.

c. The relation between the unit costs of providing various services (assuming constant quality) and city size is less clearcut. Clearly there are economies of scale in building and operating schools, clinics, and other services. However, these economies of scale are probably already largely realized in cities of 50 or 75,000. And as city size continues to expand the unit costs of certain other services such as fire and police protection, water supply, and garbage collection, may well rise.

d. While infrastructure and services are paid for from public coffers, other costs of concentrated urban growth take their toll in private inconvenience. Noise, air pollution, crowding, and commuting costs are all more serious problems in large than medium-sized cities.

By the year 2000 the population of Bogota is projected to reach 10 million and the populations of Cali and Medellín are projected to reach 4 million each. At those levels, based on U.S. larger city experience, social costs per capita of infrastructure are likely to be significantly higher than they would in smaller cities. Thus the benefits from a policy of deflection of migration to intermediate cities and the justification for such a policy can best be judged over the long run.

The modernizing impact of cities on their rural hinterlands also argues in favor of a somewhat dispersed pattern of urbanization. Impact in rural areas reflects both city size and distance. Impact fades with distance and larger cities have a stronger and more widespread impact than smaller, less diversified and highly developed urban centers. The rapid growth of Bogota, Cali, Medellín, and Barranquilla has repercussions throughout wide areas surrounding these metropolitan centers. In the more isolated regions of the country, accelerated growth of smaller but closer cities might have stronger effects on rural economic and social organization.

While these arguments in favor of less concentrated patterns of urban growth are persuasive, there are some countervailing considerations. The metropolitan centers may yield certain social benefits in greater measure than smaller cities. For example, the range of opportunity for jobs and education increases with city size. The largest cities are probably the best channels for upward economic and social mobility for talented and energetic individuals. In both the largest and medium cities, of course, the great majority of the poor remain so throughout their lives. The important question, however, is whether a higher proportion of the disadvantaged are able to rise in large than in small cities. Moreover, the gains from more widespread mobility are not only individual; efficient utilization of human resources is of course one of the foremost requirements for national development.

The probability that the per capita and marginal social costs of urban growth are lower in medium than in large cities argues in favor of encouraging the growth of the former. The most important drawbacks to the strategy focus on problems of expanding employment in medium-sized cities.

The largest cities in any country usually have certain natural advantages in attracting investment, hence in expanding employment. External economies -- relatively well-developed infrastructure and social services, supply and market relationship with related industry, information networks, supplies of semi- and skilled labor -- encourage firms to locate in the larger rather than the medium-sized cities. These factors also permit fuller utilization of economies of scale within the firm. The apparent strong preference that executives have for living in the metropolitan centers seems to be an important factor in the reluctance of industry to move to smaller cities.

In Colombia as in many countries, these "built-in" advantages of the big cities are supplemented by artificial advantages resulting from the structure of administration and the operations of various institutions. Credit is more readily available in larger than in smaller cities, even for equally promising investments. Similarly, access to the authorities who must approve licenses and otherwise expedite investment and business operations is much easier in the largest cities, and of course is easiest of all in the capital. In recent years, a number of firms have relocated their head offices from Cali to Bogota, largely to gain more convenient access to government offices. Infrastructure is a third area of discrimination: expenditure per capita on infrastructure is lower in the medium-sized than in the largest cities. Per capita expenditures on education are also lower in smaller cities, thereby contributing to lack of semi- and skilled labor.

In short, to the natural advantages of the largest cities in attracting investment are added a series of advantages which are not inherent in the economic structure, but which flow from governmental and institutional biases in their favor. In order to attract substantial investment in spite of these considerations, a smaller city must have very special advantages of resource base or geographic location (for example, at transportation transfer points).

Two sets of implications flow from these facts. On the one hand, under existing conditions it is more difficult, and may be more expensive, to create additional jobs in many of Colombia's medium-sized cities than to create an equal number of new positions in Bogota or the other metropolitan centers. To the extent that this is true, in the short run a strategy of attempting to divert migration to smaller cities would be justified only if and to the degree that the extra costs of job creation in these cities were off-set by reduced social costs.

However, the current biases against the medium-sized cities, in terms of access to credit and necessary official cooperation, infrastructure endowment, and more subtle biases of attitudes and information, suggest that investment (and resulting employment expansion) may be concentrating in the largest cities to the point of overlooking potentially more productive investments in the medium-sized cities. In other words, if some of the biases which now inhibit investment in the medium-sized cities were corrected, increased investment in these cities might be justifiable strictly in terms of direct returns from the investments, independently of possible gains from reduced social costs.

There is, then, a strong argument for attempting to correct institutional and administrative biases which discourage investment and job creation in the intermediate cities. Equal access to credit and to official processing of licenses and permits and improved infrastructure in these cities will not erase the large metropolitan areas' inherent economic advantages. But a strategy of "evening up" would let the middle-sized cities utilize more fully whatever advantages of resource base, location, or lower wage rates they might have to offer. The possibility of a sub-optional use of resources (both funds and equally scare political leadership and administrative energy) is reduced if the strategy is defined not as an effort to promote the growth of any and all medium-sized cities, but rather as a program to remove current artificial or unnecessary disabilities hindering those which have some real potential for growth.

Although there is no definite proof that more dispersed urbanization is beneficial, the general case for such a strategy is reasonably persuasive. The arguments in favor of such a strategy take on additional weight in Colombia, both because it is relatively decentralized in comparison to many other Latin American nations, and because the GOC leans strongly toward such a policy.

Colombia's marked regional divisions need no review in this document. The country now has sixteen cities of over 100,000 in addition to the largest centers of Bogota, Cali, Medellin and Barranquilla. Therefore, a strategy of less concentrated development can build upon an already existing base, rather than attempting to create industrial cities from small market towns.

Moreover, several institutions have been developed in particular departments which have proved effective in stimulating economic growth and expanding urban infrastructure in smaller cities. These natural pilot projects offer valuable experience which might be transferred or adapted elsewhere in the country.

Also important is the fact that the GOC leans towards this approach as one response to urban growth problems. The Regional and Urban Development Division of the National Planning Department has been developing a conceptual basis for a program of regional development for several years. Among the various working groups set up by President-elect Pastrana is one on urban development. Results of the early meetings indicate continued high interest in regional development approaches. The basic strategy developed by the GOC, which Dr. Pastrana seems to have adopted in his recent speeches, is to attempt to create jobs and to improve living conditions in intermediate cities so as to decentralize economic growth and distribute migration into less concentrated patterns, while at the same time attending to the social needs created by earlier growth of the large centers.

Both specific Colombian data, and more general knowledge regarding the relative merits for economic and social development of alternative patterns of urban growth are too fragmentary to permit a definitive argument in favor of the proposed strategy. We advocate the approach because it seems consistent with the evidence we have been able to marshall and because it coincides with probable GOC preferences. A flexible and closely monitored program geared to such a strategy would provide, over a period of a few years, much better information on which to judge the merits of the approach.

2. Improving conditions for the poorest third of the population of the largest cities. - In the long run, a successful strategy of promoting growth in medium-sized cities may alleviate problems of labor absorption and expansion of public services in the four largest cities. But Bogota, Cali, Medellin, Barranquilla already constitute over 40% of Colombia's urban population and they received a large proportion of total annual rural to urban migration.

At the very best, a successful program to stimulate the growth of the medium-sized cities will divert a fraction of this inflow. Therefore, the long-term strategy of diverting more migrants to smaller centers must be complemented by programs to improve conditions in the largest cities. The most pressing needs, and the problems for which present policies and programs are most clearly inadequate, are employment expansion and housing.

Unemployment rates in the four largest cities are estimated at between 10 to 20%, depending partly on definitions and on the dates of the surveys. The labor force in these cities is estimated to be growing faster than the general urban labor force growth rate of 4.4% due to heavy migration. If it is assumed that the large city labor force is growing at 4.8% and even if diversion of migration might reduce the annual rate of growth of the labor force in the largest cities by up to one-quarter to 3.6%, at current rates of job creation, it would still be impossible to absorb the unemployed plus the new additions to the labor force.

As noted in Section I.B. activities to expand employment in large cities have not been included within the scope of this program. However, the large public works element of the urban/regional program will have a significant impact on unemployment.

In the field of housing, current programs to assist financing and construction cannot help families earning less than Col. 700 pesos a month. Such families are assumed to have to spend virtually all their income on food. Yet families with incomes below Col. $700 constitute approximately 45% of the urban population.

Continued failure to address the most basic needs of so large a fraction of the urban population would be compatible neither with equity nor with political stability. As mentioned above, President-elect Pastrana's recent speeches indicate a commitment to improve conditions in the largest cities, at the same time that efforts are made to spur the growth of medium-sized cities and to encourage a more decentralized pattern of rural-to-urban migration.

In recent years the proportion of housing investment devoted to low-income programs has decreased substantially, and it is now estimated that only about 20% of the national housing budget is invested in such programs. The programs available to satisfy low-income housing needs are well formulated; however, they are limited in scope and do not begin to fill the needs of this income group. Although there are many critical needs for infrastructure improvement in major cities the percentage of sub-standard housing and the paucity of programs to remedy the situation indicates that major emphasis should be placed on expansion and improvement of such programs.

Urban transportation service in major cities is also a serious problem. Transportation systems tend to be insufficient to meet demand. This insufficiency weighs most heavily on low-income persons who generally travel from marginal areas to center city jobs or facilities.

3. Increased Colombian Capacity for Analysis and Planning for Urban and Regional Development. - The governmental planning structure at the regional level in Colombia is still relatively new, and if it is to adequately plan and program for public investment a series of structural and substantive problems must be overcome.

There are three major problem areas in which assistance to improve planning capacity will be necessary. These areas are: training of professional staff; improvement of planning techniques and methodology; and improvement of coordination between different governmental planning bodies and implementation agencies.

Although most intermediate and large cities have municipal planning departments, these departments are limited in effectiveness due to the small size of the professional staff. In addition there are very few departments which include trained planners or professionals with background in such fields as economics or programming. Therefore, the first priority must be to increase the number of trained professionals with skills necessary to carry out prefeasibility studies for public investment, economic basic studies and to program public investment.

Improvement in the supply of professionals to staff government planning bodies will ultimately improve technical skill levels, and result in an improvement of planning techniques and methodology. However, short-run assistance may be required in this area to provide for immediate improvement in the operations of planning bodies.

II Analysis of Problems and Prospects

A. Diverting Migration to Medium Cities

1. Considerations Regarding Feasibility. -- Section I stated as one major objective of the proposed program the diversion of part of the flow of migration from the largest to the medium-sized cities. Before turning to a discussion of problems and prospects of employment expansion in these cities, it is important to consider the relationship between employment expansion and the rate and distribution of migration.

First, a number of studies suggest that economic motives are the dominant reason for rural-to-urban migration, but that a significant portion of migrants -- some 30 to 40% in various surveys -- are primarily motivated by other considerations, including education, training, and health care facilities for themselves or for their children.

If the medium cities are to compete with the largest centers, they must offer more than jobs.

Second, in Colombia as elsewhere there is a correlation between migrants' level of education-skill, and the distance they will travel to their city of destination. The more highly educated and trained come further, and usually come from smaller cities rather than from rural areas or towns. They come seeking not only employment but a style of life. Better job opportunities in the intermediate cities are not likely to divert migrants of this type from going to the metropolitan centers, and are only slightly more likely to induce those already in the intermediate cities to stay there.

In contrast, unskilled rural migrants coming into the major cities are drawn heavily from the surrounding region.. They lack the information, contacts, and funds to travel to other regions in response to greater job opportunities. In short, the bulk of unskilled migration is intra-regional.

What are the implications of this pattern for the strategy of diverting migration from Colombia's four largest cities? The intermediate cities which offer the most promise for diverting migration are those located sufficiently near the metropolitan centers so that they draw on the same potential pool of migrants. Barranquilla is fortunate in the sense that Cartagena and Santa Marta are both fairly close and comparatively dynamic. Manizales and Pereira may well be able to attract some migrants who would otherwise go to Medellin. Palmira, Buga, and Tulúa in the Cauca Valley may be able to absorb some of the migration from Valle, Cauca, and Nariño which would otherwise flow into Cali. Among the four metropolitan cities, the one which stands out as relatively isolated is Bogota. The intermediate cities in its general vicinity include the frontier town of Villavicencio; the not very dynamic departmental capitals of Tunja, Girardot, and (at a greater distance) Neiva; and the somewhat more promising capital of Tolima, Ibague. Even Ibague, however, ranked only 15th among Colombia's cities in 1967 in value added in manufacturing, and 14th in number employed in industry, well behind Cartagena, Pereira, Manizales, and Palmira. Bucaramanga, half again as large as Ibague in population and with an industrial sector several times greater than that of Ibague, is far to the north; the extent to which it can pull migrants from Bogota is problematical. In short, the table below indicates that while the strategy of developing "alternative magnets" might offer substantial relief for Barranquilla and Medellin based on the comparative size of population and industry in nearby intermediate cities, the prospects for Cali are not as good, and those for Bogota appear considerably less promising.

TABLE 2

Size of Intermediate Cities Relative to their Metropolitan Neighbors

	Population (1970 est)1/	Value added in manu.('67)	Persons Emp'd in manu.('67)
	%	%	%
Cartagena/Barranquilla	49.8	46.7	22.2
Santa Marta/Barranquilla	23.1	7.8	4.1
	(72.9)	(54.5)	(26.3)
Manizales/Medellin	26.2	7.2	7.5
Pereira/Medellin	21.4	9.1	9.7
Armenia/Medellin	17.1	3.2	2.7
	(64.7)	(19.5)	(19.9)
Palmira/Cali	16.2	10.8	12.5
Buga/Cali	9.3	5.9	3.8
Tulua/Cali	8.4	1.8	0.2
	(33.9)	(18.5)	(16.5)
Ibague/Bogota	7.4	2.9	2.2
Tunja/Bogota	2.6	1.2	0.9
Girardot/Bogota	3.8	1.8	1.6
Villavicencio/Bogota	2.7	1.1	0.7
	(16.5)	(7.0)	(5.4)
Bucaramanga/Bogota	13.1	10.0	9.3

1/ Data for Cali, Bogota, and surrounding cities based on 1966 population estimates.

A different way of assessing the feasibility of significant diversion of migration focuses on the scale of the task and the order of magnitude of resources required. Given an estimate of the volume of migration into the four largest cities, it is possible to derive the number of new jobs needed to reduce that flow by a stated (arbitrary) amount, and to estimate very roughly the implied investment required.

There is no direct count of the annual flow of migrants into the metropolitan centers, nor are city-specific estimates of rates of natural increase available. Therefore, we have estimated in-migration by subtracting a uniform 2.8%, assumed to be the rate of natural increase in the largest cities[1], from the estimated rates of city growth between 1964 and 1970. These calculations suggest an annual flow of migrants to these cities of roughly 150,000.

About three-quarters of these migrants, or 112,500, are of working age. On the assumption that only two-thirds of those in the active age brackets wish to enter the labor force, we reach an estimate that migration adds about 75,000 each year to the labor force in the four largest cities.

As a check, this fugure can be compared with Planeacion Nacional's estimate that 180,000 people are added annually to the labor force in cities of 20,000 or more. Planeacion also states that the four metropolitan centers account for 58% of the urban population thus defined. These cities receive a disproportionate share of total migration, and migrants are concentrated in the active age brackets. Therefore, it is reasonable to assume that the ratio of labor force to total population is somewhat higher in the largest than in the smallest cities. Assume, therefore, that the metropolitan cities account for 63% of the urban labor force (as compared to 58% of the urban population). The yearly increment in the labor force in these four cities would then equal .63 x 180,000 = 113,400 persons. Thus, if 75,000 migrants enter the labor market in these cities each year they account for two-thirds of the total increment. In terms of general scale, this appears to be a reasonable estimate.

1/ The estimated national rate of natural increase is 3.0%. We are assuming a slightly lower rate in the largest cities. This assumption is supported by direct estimates by DANE of natural growth rates in 10 cities for 1967. While the estimated natural growth rates are not sufficiently reliable to warrant showing inter-city differences, figures for the major four cities and six intermediate cities are in the neighborhood of 2.4 to 2.8%. Under-reporting of births is estimated to run roughly 15%. An assumed rate of roughly 2.8% therefore seems reasonable.

Since we have no information on migration trends over time, we will assume a constant volume over the next few years.

We will set as an arbitrary goal a reduction of 25% in the annual increment to the metropolitan labor force resulting from migration, or the equivalent of 16.5% of the total annual increment. This implies the creation of some 18,750 jobs a year in medium and small cities if it is assumed that the number of migrants diverted from the largest cities will equal the number of new jobs created in intermediate cities. Although this assumption may not be completely justified in the short run the long tendency would be to approximate this ratio. Not all jobs created, however, have to be in manufacturing. A significant number are likely to be in construction, in view of the expanded infrastructure program proposed in this Annex. New jobs in manufacturing and construction will also support additional jobs in services. While the data is fragmentary and the figures vary from city to city, manufacturing accounts for more than 10% of the labor force in very few Colombian cities. However, since services are saturated and undoubtedly mask considerable underemployment, it is not advisable to gauge the desirable share of manufacturing in new employment by the current distribution of the urban labor force. Let us assume, for the purposes of roughly gauging feasibility, that one out of five new jobs or 3,750 jobs must be created in manufacturing.

According to DANE, 79,000 people were employed in manufacturing in firms of 5 or more persons as of 1967; in 1966, before import restrictions reduced employment, the figure was 84,840. An increment of 3,750 jobs therefore represents an increase of 4.7% over the 1967 level, or 4.4% over the (less temporarily depressed) 1966 level.

These jobs must, of course, be additional to the current annual increment in manufacturing employment outside of the major cities, since we are considering the amount by which employment expansion in manufacturing must be accelerated to meet our objectives. Between 1958 and 1966 the total number of persons employed in manufacturing in Colombia increased at an annual average rate of 2.9%. Data disaggragated to the level of individual cities is available only for 1964 and later years, so that it is hard to tell whether the metropolitan cities have maintained or increased their share of the total. (It seems highly unlikely that their share has diminished.) If we assume that the medium-sized cities have

managed to expand employment in manufacturing at rates equal to those in the largest centers, then the total rate of growth required by our immigration diversion targets comes to 7.3%
While these rates may be in error by several points, it is nonetheless clear that we are talking about more than doubling the rate of increase in industrial employment outside of the metropolitan centers -- no small task.

A closer look at the geographic distribution of jobs in manufacturing outside of the four largest cities suggests that the task may be still more ambitious than the flat figure for "required rate of employment expansion" suggests. Employment in manufacturing is spread over twenty or thirty medium and small cities. Of the 79,000 persons employed in these cities in 1967, roughly a third were concentrated in the five sizeable and comparatively dynamic cities of Cartagena, Bucaramanga, Manizales, Pereira, and Palmira. While it would be desirable to stimulate employment in some of the more traditional centers such as Popayan or Pasto, their record of virtual stagnation suggests that the lion's share of whatever new jobs are created will have to be located in the more dynamic cities. The implied rates of job expansion for this smaller selection of promising cities approach 25% a year.

A second dimension of the assessment of feasibility concerns investment needed to create the increase in manufacturing employment. Estimates of investment are complicated by inability to predict the distribution of new jobs among larger and smaller firms (capital per worker is roughly 6 times as great in the former), and by varying estimates of average capital per worker in firms of different sizes. The calculations which follow are merely a crude first check.

According to DANE, in 1969 large firms (employing over 100 workers) accounted for 57% of employment in manufacturing. It is plausible that an effort to stimulate employment expansion outside the major metropolitan centers might produce a pattern weighted slightly more in favor of smaller firms. Let us assume either a 50-50 division between large and small firms, so that our targets call for creating 1875 workers in each annually, or alternatively a continuation of the present ratio. Using three alternative estimates[1] of capital required per worker in large and in small firms, we arrive at the following orders of magnitude of total direct investment required to meet our employment expansion targets:

1/ Jack Eddison of the Harvard Advisory group estimates capital requirements per worker in large firms at roughly 384,000 (current-1969) pesos, but notes that this is perhaps 30% above the 1966-7 level, due to reduced employment in manufacturing. R. Nelson, in the RAND study, estimates capital per worker at roughly $ 7,000 or $140,000 pesos based on 1966 data.

TABLE 3

Alternative Estimates of Maximum and Minimum Capital Requirements to Create 3750 New Jobs in Manufacturing (millions of pesos)

Estimated Capital per Worker (pesos)		Division of Employment in Manufacturing between Smaller (less than 100 employees) and Larger Firms			
		50 - 50		57 - 43	
Large firms:	150,000	281)	328	320)	361
Small firms:	25,000	47)		40)	
Large firms:	250,000	469)	544	534)	599
Small firms:	40,000	75)		65)	
Large firms:	300,000	562)	656	641)	722
Small firms:	50,000	94)		81)	

At a minimum, 328 million pesos or roughly U.S. $16 million a year is required to create the desired number of new jobs in manufacturing. If the higher estimates of capital per worker are more accurate, the investment required is on the order of 722 million pesos or U.S. $36 million a year.

These rough approximations of required inestment are substantial in comparison with the actual volume of investment in industry outside of the major metropolitan centers in recent years. Net fixed investment in manufacturing in Colombia as a whole was 2,365 million pesos in 1967 1/. Direct data on the geographic distribution of this investment is not available. However, we know that industry located outside of the four metropolitan centers accounted for about 33% of the value added in manufacturing in 1967 2/. We also know that roughly 16% of all new loans to industry extended through both the commercial banking system and the corporaciones

1/ Thoumi, op.cit, Table 22
2/ Ibid, Tables 16 and 54

financieras in 1969 was directed outside of the largest cities. (See Tables 8 and 9 below). If the geographic distribution of net investment in industry is roughly similar to the distribution of value added and of new industrial credits, we can estimate that 20 or 25% of net investment in industry, or 591 million were directed to areas outside of the metropolitan centers in 1967.

In other words, in order to make a significant dent on the rate of growth of the labor force in the largest cities by diverting part of migration to intermediate cities, the total annual volume of net investment in manufacturing in the latter must, at a minimum, increase by 56% over 1967 levels. If the higher estimates of capital per worker are closer to the truth, the volume of investment would have to increase by an increment of 122% or more than double. These are formidable increases.

The analysis above is no more than a first approximation. It highlights the need for better information as much as it casts light on the feasibility or lack of feasibility of the strategy under consideration. To recapitulate: rough estimates of the most fundamental data had to be made, including the approximate volume of in-migration into the largest cities, the proportion of migrants who enter the urban labor force, the relationship between expansion of employment in manufacturing and the employment multiplier outside of manufacturing, and the costs in terms of direct investment of creating additional jobs in large and in small firms. Our data on actual investment are for 1967; the past two or three years may have seen an upsurge in investment, thereby reducing the relative size of the added requirements. The target of reducing migration induced additions to the metropolitan labor force by 25% was wholly arbitrary: more or less ambitious targets would of course alter the scale of the task.

The figure of 25% would seem to provide for the maximum deflection of population that could be reasonably expected. Over a 10 year period, if 25% deflection were continued, the total population of the major cities which is now projected at 10 million for 1980, would be reduced by approximately 1 million, and the populations of the intermediate cities would be increased by the same amount. The 1970 population of the 8 largest intermediate cities is approximately 2 million, and these cities have a present average growth rate of 4.7%. At this rate, the 1980 population is estimated at 3,150,000. If this were to be increased to 4,150,000 a growth rate of over 7.5% would be implied. Deflection on this scale is substantial and would have a significant impact on urban growth in Colombia. If a smaller percentage figure for deflection of migration were utilized, the scale of the task as analyzed would be significantly reduced. For example, if 15% of the migration were to be deflected only 2,250 manufacturing jobs would have to be created and the range of minimum and maximum investment would, on the assumptions utilized herein, be 197 million pesos or $10 million and 433 million pesos or $22 million, respectively. Total population deflection over a 10 year period would be 622,000 which would imply a growth rate in intermediate cities of approximately 6.5%.

Despite the lack of data, some sense of the order of magnitude of resources implicit in a strategy of diverting migration in order to relieve pressure on the largest cities is an important in-put to policy formation, as much or more for the GOC as for AID. A more thorough and careful analysis along the lines suggested above should be undertaken in the near future by appropriate divisions of Planeación. Looking toward the longer term, the data needed for an initial assessment of feasibility are also essential for later evaluation of the effectiveness of the programs adopted. Measures to make such data available will need to be agreed with the appropriate Colombian institutions (both government and university groups) as an integral part of the further development of the proposed program.

2. <u>Current status, recent trends, and possible lines of development for manufacturing in medium-sized cities</u>.- A brief examination of the current status and recent trends in manufacturing outside of the major metropolitan cities is essential background for assessing prospects for growth in this sector.

Manufacturing in Colombia is, of course, more concentrated in the four largest cities than is the urban population.

TABLE 4

Geographic Concentration of Manufacturing in Colombia

Index	Four Metro Cities	Percent Share in Total Located in: Bogota/ Soacha	Medellin/ Ibague/Bello Entregado	Cali/ Yumbo	Barranquilla
Value added in manu., 1967	66.9	22.8	21.8	14.3	7.5
Employment in manu., 1967	68.9	25.3	22.8	12.5	8.2

Sources: Francisco Thoumi, Industria Manufacturera Fabril, 1958-1967, C.I.D., National University 1970. The total value added and employment in manufacturing figures for these cities had risen to well over 70% by 1969.

There are, however, five or six medium-sized cities with a reasonably sizeable and diversified manufacturing sector. Table 5 suggests the distribution among large and medium-sized cities of production and employment in manufacturing.

TABLE 5

Distribution Among Cities of Value Added and Embployment in Manufacturing

Cities by size as of 1969	Estimated Population (1969) (000s)	Value Added in Manu. (1967) (000s ps.)	Rank	Emp't Manu. (1967)	Rank
Bogota, D.E.	2,400	3,537,120	1	74,442	1
Medellin	1,030	3,372,212	2	67,109	2
Cali/Yumbo	870	2,223,093	3	36,831	3
Barranquilla	620	1,172,996	4	24,274	4
Cartagena	310	548,466	5	5,406	7
Bucaramanga	300	352,777	7	6,872	5
Manizales	280	243,706	9	4,983	8
Pereira/Sta Rosa	230	305,660	8	6,501	6
Cucuta	230	118,320	13	1,910	11
Ibague	200	100,759	15	1,569	14
Armenia	180	108,469	14	1,790	12-13
Palmira	160	239,525	10	4,648	9
Monteria	150	10,326	22	237	22
Santa Marta	140	90,669	16	1,026	18
Pasto	130	58,921	19	1,059	17
Neiva	110	52,337	21	813	19
Valledupar	-	53,355	20	293	21
Girardot	-	64,793	18	1,154	16
Popayan	100	65,994	17	697	20
Buga	75	132,344	12	1,408	15
Barrancabermeja	-	391,002	6	1,790	12-13
Nobsa	-	222,387	11	1,974	10

Source: Francisco Thoumi, Industria Manufacturera Fabril, 1958-1967, CID, National University, February 1970, Tables 46 and 54. Population Data, DANE.

While the data are adequate to permit rough comparisons of levels of industrial development in various cities, it is much more difficult to assess comparative patterns of growth. Data on manufacturing disaggragated to the level of individual cities is readily available only for the four-year period 1964-1967. 1/ Four years is a short span for gauging trends. Moreover, the import constraints imposed in 1966 retarded the growth of investment and production in manufacturing, and caused an absolute drop in employment in this sector, thereby depressing rates of growth calculated on the basis of this particular four-year period. Nonetheless, the data does permit us to identify certain cities which were able to sustain their growth despite the adverse national economic climate. Table 6 suggests that Medellin and Cali were markedly more dynamic than Bogota and Barranquilla during this period, and spotlights Cartagena, Manizales, Pereira and Armenia as the most dynamic of the medium-sized cities.

What do these barebone, figures suggest by way of clues for future prospects? Two of the cities which show up in Tables 5 and 6 as having significant manufacturing sectors are in fact single industry towns. Barrancabermeja's growth is based on petrochemicals; Nobsa on steel production. Not only is their experience irrelevant for other cities, but their contribution to employment expansion is minor, since their industries are heavily capital-intensive.

1/ This data covers all cities which produced 100 million pesos or more of gross industrial product in 1965, plus the capitals of departments not already included under the first criterion. In practice, the data covers all cities of 100,000 population or more with the exception of Buenaventura, and also includes a number of smaller cities. We have omitted seven of these from the tables presented here, since their share in manufacturing is so minor.

TABLE 6

Growth in Population, Value Added in Manufacturing, and Employment in Manufacturing by City
1964 - 1967
(constant 1958 pesos)

Cities by Size as of 1969	Percent Rate of Pop. Growth, 1951-64	Growth in Value Added in Manu.	Percent Growth in Employment in Manu.
Bogota, D.E.	6.8	-2.6	-7.8
Medellin	6.0	15.0	6.7
Cali/Yumbo	6.3	42.1	17.5
Barranquilla	4.5	9.8	1.5
Cartagena	4.9	40.8	11.2
Bucaramanga	5.6	0.8	-1.2
Manizales	4.4	50.2	14.4
Pereira/Sta. Rosa	3.8	84.7	29.7
Cucuta	5.4	58.1	5.8
Ibague	3.9	47.9	-4.3
Armenia	5.4	51.8	26.5
Palmira	4.3	19.3	8.5
Monteria	3.8	12.2	-12.5
Santa Marta	6.2	135.1	-8.5
Pasto	2.5	5.0	-13.8
Neiva	6.3	22.5	13.7
Valledupar	11.9	36.1 1/	-16.7 1/
Girardot	4.7	24.0	0
Popayan	4.6	25.6	1.9
Buga	5.4	-32.8 1/	-6.7 1/
Barrancabermeja	6.6	30.5 1/	0.9 1/
Nobsa	-	37.9	-16.3 1/

Source: Thoumi, op.cit., Tables 46 and 55.

1/ Data available only for 1965/6/7

Setting aside these two, most of the remaining 23 medium-sized cities for which data are available (including seven omitted from our tables) fall into one of two groups: traditional regional centers where manufacturing is of little importance and is stagnant or growing very slowly, and sizeable centers with somewhat diversified industrial sectors. Monteria, Pasto and Popayan (as well as Quibdo, Riohacha, Sincelejo, and Tunja, not included in our tables) are clear examples of the first type. Cartagena, Bucaramanga, Manizales, Pereira/Santa Rosa, and Palmira are clearly in the second group. Armenia, Cucuta, Ibague, and Buga are intermediate both in size and in growth performance. Among the second group, Bucaramanga stands out for its lack of growth in the mid-1960s. Palmira (fairly diversified, including metal, furniture, synthetic fabrics, electrical supplies and food processing) slowed its manufacturing development substantially in the mid-1960s, after a decade of very rapid growth. Its smaller neighbor, Buga, (large scale agricultural processing) was still harder hit after 1965. It is possible that more recent data would show that these cities' troubles during the 1960s largely reflected national economic conditions, and that they are now resuming their growth. However, it would be instructive to investigate the reasons why they were unable to sustain their growth while other cities in the same size brackets succeeded in so doing. Conversely, the fairly dynamic performance of Cartagena, Manizales, and Pereira/Santa Rosa should be explored both to assess their future prospects and for possible lessons applicable to other cities.

In the absence of more detailed information about the factors underlying the more successful medium cities' growth, we can only suggest several possible lines of economic expansion open to the cities outside of the major metropolitan centers. Presumably their ability to attract investment in competition with the largest centers must rest on one or more of three types of advantages: agricultural or other natural resources, favorable location for serving regional and major city markets, or inexpensive labor.

a) Resource based industries include possibilities for processing of agricultural and livestock products, expansion of saw milling and lumber based plants, and of course industries based on mineral resources such as coal and iron or oil. While the last named probably needs no promotion, both agricultural and forest products processing could probably be stimulated by a variety of devices. For example, the Foundation for

Industrial Development in Cali has been trying to identify new crops, suitable to the soil and climate of Valle, which might provide a base for processing industries and might also supply an export market. Among crops being explored are Muscat grapes for raisons, and black beans for the Caribbean market.

b) Where a city is well located to service a regional or major city market in principle it might attract both independent small and light consumer or producer goods manufacturers, and branches of national firms. Aside from enterprises like bakeries, however, it seems probable that improvements in transportation and the spread of mass media and advertising will give larger regional or national producers the lion's share of expanding local demand. Therefore, branch firms would seem a more likely line of growth than establishment of independent enterprises. Lower costs in factors of production may make it feasible to establish industry in nearby intermediate cities to complement major city large scale industry such as parts or components supply, or industry which utilizes the product of the major city industry.

3. Problems Impeding Investment in Medium Cities.- As discussed in the Rationale, the larger metropolitan centers in any country offer advantages of scale and external economies which smaller cities cannot hope to match. Limited markets, a smaller pool of both unskilled and skilled labor, the difficulty of arranging for supplies and spare parts, less full and timely market information, the reluctance of executive and professional personnel to live outside of the large cities -- all these are handicaps which can be reduced but never eliminated.

However, we argued earlier that to these natural disadvantages are added various artificial and unnecessary handicaps which further hamper investment and employment expansion in middle-sized cities. These handicaps are especially marked with respect to infrastructure, labor law, credit, and access to the authorities.

a. Infrastructure - The two most important types of infrastructure to consider with respect to attracting investment are power and transport. But since both are provided on a regional or departmental basis, rather than to individual cities, it is difficult to assess whether cities outside of the metropolitan areas have received less than their proportionate share in public investment in power and transport, funded from all levels of government.

The capacity of individual cities to provide adequate physical facilities and services to industry as well as all other groups in their population is probably a less important factor in attracting industrial investment. This question in regard to attraction of industry is discussed in the analysis of urban infrastructure in Section II.B. In general, the knowledge that a city is clean, well-administered, and well-maintained and has good public facilities may help persuade a wavering investor to locate there. To this limited degree, less than proportionate assistance from the national government in expansion of water supplies, sanitary facilities, paving, education, health, and other services may constitute an unnecessary deterent to investment in the medium-sized cities. The extent to which the allocation of public funds for investment in infrastructure is skewed against the medium-sized cities and in favor of the largest metropolitan areas is discussed in detail in Section II.B.

b. Labor - Lower labor costs and possibly more tractable labor are inherent advantages which might be expected to attract investment on the part of labor-intensive industries. However, Colombian labor law currently prevents the medium-sized cities from capitalizing on this potential asset. The law stipulates that in certain conditions a firm must pay equal wages for the same work performed anywhere in the nation, regardless of differences in the local labor market. Therefore, firms which already have one or more plants in operation often cannot set up new branches and take advantage of lower local wages, unless they are willing to go to the expense and trouble of organizing subsidiaries.

A second possible type of bias affecting investments via the labor market is expenditures on education. In most regions of the nation, the municipalities pay the capital costs of primary schools and the departments pay the current costs of secondary schools, while the national government funds construction of secondary school buildings. There is evidence that installed capacity, as measured by classrooms relative to the school-age population, and the level of service, as measured by the proportion of school-age children in school, are much lower in medium than in large cities. If lower levels of education contribute to a less trainable labor force, this may constitute a partial deterrent to investment.

It may be, however, that differences in the average education of the native labor force in medium and in large cities are largely vitiated by migration flows. There is, of course, a steady drain of more highly educated persons from the smaller to the larger centers. Focusing on the less educated who constitute the bulk of the labor force, however, the disproportionately heavy inflow to the largest cities of unskilled and uneducated workers from surrounding rural regions may so dilute the better educated pool of workers native to the city as to produce an average level roughly equal to that in the medium-sized towns.

The investor is in any case probably more concerned about availability of skilled than unskilled labor. On this point, SENA (the major technical training institution) seems to give cities outside of the major metropolitan centers a share of its attention roughly commensurate with their share in manufacturing employment. If the yardstick by which SENA's efforts are measured is the distribution among cities of the economically active population, rather than the distribution of workers already in manufacturing, SENA has shown a slight bias against the smaller centers. However, this tendency is hardly so marked as to suggest that absence of training facilities and programs has been a serious deterrent to investment in these cities.

TABLE 7

Distribution Among Cities of SENA Training Programs

Cities	Percent Share of Economically Active Population (1966)	Percent Share of Total Employment in Manufacturing (1967)	Percent Share of Total Graduates of SENA Programs (1966)
Bogotá	27.3	25.3	29.6
Medellin	12.9	22.8	21.7
Cali/Yumbo	9.9	12.5	9.6
Barranquilla	7.0	8.2	6.9
(Total Met. Areas)	(57.2)	(68.8)	(67.8)
Bucaramanga	3.8	-	4.2
Cartagena	3.0	-	3.8
Manizales	3.1	-	2.3
Pereira/Sta. Rosa	3.6	-	1.9
Armenia	2.6	-	0.6
Cucuta	2.4	-	2.3
Ibague	2.3	-	2.6
Palmira	2.1	-	0
18 Other Cities	19.9	-	14.6
TOTAL	100.0 (2,125.303)		100.0 (47,292)

Sources: Economically active population: Planeación, Modelo de Regionalización, II, Equipos Urbanos, P. 12 A, Column 8 and 6. Employment in manufacturing, Thoumi, op.cit.

c. Credit - Credit to manufacturing industries is provided through the commercial banking system and the ten Corporaciones Financieras, which operate as private development banks. 1/ Data on the distribution of credit by cities are not readily available, but estimates can be based on allocations among departments. In 1969, 7.5% of the new loans extended by the commercial banking system were placed in departments other than Cundinamarca, Antioquia, Valle and Atlantico--those where the four metropolitan cities are located. To this 7.5% should be added a small increment to cover credit placed in Valle but directed not to Cali but to Palmira, Buga and Tulua. These three together accounted for 3% of value added in manufacturing in 1967 2/. Assuming that their share in total commercial banking credit was roughly equal to their share in value added, and that some small additional amounts of credit in the four metropolitan departmentments were to miscellaneous smaller cities, we estimate that perhaps 10 to 12 % of banking credit for manufacturing flows to all cities in Colombia other than the four major centers.

Data on the geographic distribution of loans extended through the Corporaciones Financieras are even more fragmentary than information on the distribution of commercial bank credit. Figures are available on the allocation by department of development loans from the largest of the Financieras, the Colombiana, which accounted for 30% of all Financiera lending in 1968. More limited date on the other major Financieras, summarized in Table 8, provides some basis for the estimate that the Corporaciones as a group place roughly 26% of their loans for industrial development outside of the major metropolitan departments.

To recapitulate the comercial banking system directs roughly 10 to 12% of its loans outside of the four metropolitan cities, while the Corporaciones Financieras place perhaps 26% of their funds in the intermediate and smaller cities. Since total credit for manufacturing is divided in a ratio of 56-44 between these two major categories of financing institutions, cities other than the metropolitan centers claim a share of roughly 17% of total industrial credit. This share is about half their contribution to value added in manufacturing, (33% in 1967). 3/

1/ Two additional Corporaciones Financieras specialize in loans for transportation, and agriculture and livestock.

2/ Thoumi, op.cit. Table 55.

3/ Thoumi, op.cit.

TABLE 8

Geographic Distribution of Loans for Manufacturing - 1969

	Financial Institutions	(1) Outstanding Loans to Manufacturing 1969 Million Ps.	(2) Share of Total Loans for Manufacturing %	(3) Share of Loans Placed Outside 4 Metro. Areas (estimated) %	(4) Share of Total Loans for Manufacturing placed outside 4 metro politan areas (3) x (2)
I.	Banking system including official banks, excluding financieras	2531	55.7	7.5	4.2
II.	Nine Major Corporaciones Financieras	2012	44.3	29.9	13.2
	Corp. Fin. Col. Bogota	546	12.0	(30.0)	(3.6)
	Nacional (Medellin)	493	10.9	(15.0)	(1.6)
	Valle (Cali)	307	6.8	(5.0)	(.3)
	Norte (Barranquilla	167	3.7	(10.0	(.4)
	Gran Colombiana (Bogotá)	80	1.8	(10.0)	(.2)
	Popular (Bogotá)	70	1.5	(20.0)	(.3)
	Caldas (Manizales)	251	4.2	(90.0)	(3.8)
	Occidente (Pereira)	44	0.7	(90.0)	(0.6)
	Santander (Bucaramanga)	54	0.7	(90.0)	(0.6)
III.	TOTAL ALL SOURCES	4543	100.0		17.4

SOURCES: 1. Geographic Division for Corp. Fin. Colombiana estimated from statistics on loans 1960-69 from ten Year Report.

2. Allocation of Loans from other financieras guessed from list of loans in Prendergast/Holguin, Report on Resources for the Corporaciones Financieras Colombianas.

SOURCES : (Continued)

3. Data on banking system locans from the Revista Superintendencia Bancaria.

4. Data for the commercial banking system cover loans outstanding through November 1969.

5. Data for the Financiera exclude one small corporation (Caribe), plus two Corporaciones Financieras which specialize in loans for development of transportation and for agriculture and livestock. However, the data on the Financieras covered here are for "development loans", which include not only loans for manufacturing but much smaller amounts for construction and agriculture. In 1968 loans through these nine Financieras for projects other than manufacturing comprised 30% of the total.

6. The text estimates that the commercial banks place 10-12% outside the metropolitan centers. That estimate includes this 7.5% plus an additional 2.5-4.5% for loans inside the metropolitan departments but in cities other than the four largest.

Interpreting this picture is more difficult than discerning its outlines. Problems of access to credit bear differently on firms of different sizes, and on potential investors from outside as compared with local groups in the smaller cities. Large, established firms considering branch plants in medium-sized cities are not likely to suffer seriously from lack of access to credit. If they choose not to invest in medium-sized cities, it is probably for other reasons, or because they simply failed to consider the possibility. Local investors interested in establishing a sizeable enterprise, in contrast, may well find difficulty getting adequate credit. However, interest in such investments is probably rare.

Local investors interested in establishing or expanding small or medium-sized industries (defined in Colombia as establishments with between 5 and 99 employees, and with less than Ps$10 million in total assets) face a different set of problems.

First, the total supply of credit readily available for small and medium industries is limited. Small firms are at a disadvantage competing with larger firms for credit from the commercial banks and the Financieras in general. The Corporacion Financiera Popular and the industrial section of the Caja Agraria specialize in loans to smaller business, and the Banco de la República operates a rediscount line of credit for working capital (the Fondo Financiero Industrial) available to smaller firms through the commercial banks, the financieras in general, IFI, and the Corporación Financiera Popular. However, in 1969, these sources together loaned a total of Ps$248.9 million 1/ to small and medium-sized manufacturing firms (regardless of location). In other words, such loans comprised only 5% of the total credit of Ps$5,429 million 2/ provided for manufacturing industry in that year. In contrast, small and medium industries contributed 28% of total value added in manufacturing in 1967, and in 1965 such firms accounted for 40% of all employment in manufacturing. (DANE, 1965, Producción y Trabajo.)

In terms of geographic distribution, credit earmarked for smaller firms is not much more widely dispersed than total industrial credit flowing through the banking system and the financieras. The Caja Agraria does direct more than half of its loans outside the metropolitan departments, but it provides only a fraction of the total available to small firms. 15% by value of the loans funded by the Fondo Financiero Industrial of the BOR in 1969 were placed outside of these departments. The Corporación Financiera Popular in 1969 placed roughly 20% of its loans for manufacturing outside the metropolitan departments; since the Popular receives a substantial part of its funds from the Fondo Financiero Industrial, some double-counting is involved in the two figures just cited. While these figures are too fragmentary to support an estimate of the geographic division of total credit for small industry, the metropolitan centers appear to receive a disproportionate share of these as well as larger loans.

1/ Source: DNP Study, 532

2/ Source: Draft Study, Money and Credit, by José Teigeiro, IBRD

TABLE 9

DISTRIBUTION BY DEPARTMENT OF LOANS FOR SMALL AND MEDIUM MANUFACTURING FIRMS

(% by value of new loans in 1969)

Department	Caja Agraria (Sample of 193 loans)	Fondo Financiero Industrial (Sample of 98 Loans)	Corporacion Financiera Popular (Sample of 285 Loans)
Cundinamarca (Bogotá)	18.0	42.0	41.6
Antioquia (Medellin)	12.8	16.6	16.5
Valle (Cali)	4.8	16.6	10.1
Atlántico (Barranquilla)	12.5	9.2	10.8
Total Share of Loans going to four metropolitan areas	48.1	84.4	79.0
Total Funds (Million of Pesos)	54.6	160.8	56.5 1/

Source: Planeación, Report on Credit to Small and Medium Industry, DNP-532, June, 1970.

1/ Includes 33.5 million pesos in own resources and 23.0 million pesos in FFI resources.

Many small and medium firms also have a greater need for technical assistance than larger firms. Those located outside of the metropolitan cities must often rely largely on their credit sources for such aid. The Caja Agraria has twenty loan officers who assist with development of investment possibilities and supervise loans already made. The Corporación Financiera Popular also offers some technical assistance, but the scope is limited. The national apprentice service, SENA, provides some administrative assistance to small and medium firms throughout the country, and is expanding its operations along these lines. The Institute for Technological Research (IIT) and the Colombian Administrative Institute (INCOLDA) offer a variety of services to manufacturing, but are oriented primarily toward large firms.

d. Access to National Authorities - Businessmen in any part of Colombia must deal with national authorities on import transactions as well as on labor and tax matters. The relevant offices are located in Bogotá only, and businessmen from Medellin, Cali and Barranquilla as well as those from smaller cities, have to travel back and forth to the Capital to expedite this affairs. The costs in terms of travel, executives' time, and delays can be so substantial that (as mentioned earlier) some firms originally based in Cali have moved their head offices to Bogotá. Clearly the problem is more acute in smaller cities with less direct and frequent transportation service to Bogotá. Access to the authorities therefore constitutes a real and important, though unquantifiable obstacle to investment outside the motropolitan areas.

4.- Measures to Expand Investment and Employment in Medium-Sized Cities.

a. Policies Relating to Manufacturing as a Whole - Whatever measures may be taken to stimulate industrial expansion and spur employment in smaller cities will be dwarfed by measures and conditions at the national and international levels which affect the health of Colombian industry as a whole. The success or failure of efforts in the smaller cities will depend not only on the measures discussed in this annex, but also on monetary, fiscal, and trade policies which affect the availability of intermediate goods, the expansion of domestic demand, and export promotion.

In short, the programs discussed here are only part of a larger framework, and cannot operate independently from that framework.

b. Improving Infrastructure - (Power, Transport and other Services) Within the category of infrastructure, power and transport links are the major determinants of a city's economic attractiveness.

As noted above, these networks are regional in scope and are funded largely from national and international sources. The IBRD and the IDB have been active in these fields.

A word of caution regarding the impact of roads on smaller cities may be in order. Improved road links with other cities, and particularly with the largest metropolitan centers, may indeed enhance the attractiveness to investors of the smaller place. However, the contrary effect is also not unlikely. Roads run two ways. A center which serves as a regional marketing and service center for surrounding small towns and rural areas may find that once a better road is built to the nearest large metropolitan city, its former customers desert it in favor of the larger market and more varied services of that city. This possibility should be seriously considered before the national government decides to invest in improved or expanded road linkages primarily to stimulate the growth of medium and smaller centers.

While power and inter-city transport are outside of the authority and funding capabilities of individual cities, a few cities have attempted to attract industry by establishing industrial parks. For example, in Sogamoso, the Empresa de Desarrollo de Sugamuxi has set up a park with facilities for water, sewerage, telephone, and telex services. Streets are lighted but not yet paved. There is a railroad station one kilometer from the park. The Empresa has constructed two model buildings to demonstrate to potential investors the type of construction planned and also offers technical assistance for industries locating in the park. At the time of writing, only one building is occupied, by a metal working firm and a prefabricated cement construction materials company. The manager of the Empresa cites feasibility studies, low cost credit, and equity capital for high priority businesses as the major bottlenecks to fuller utilization of the facilities. The Sugamuxi experience strongly suggests that while industrial parks may add a marginal inducement for potential investors, other factors are likely to prove more decisive.

c. Measures to Attract Outside Investment.

(i) Information - The lack of interest on the part of established firms in locating branch plants in medium cities may partly reflect simple lack of information. This possibility could be checked by discussions with the officials of a small sample of firms with national markets, such as soft drink and beer manufacturers, tire firms, and the like. To the extent that lack of information and lack of interest form a vicious circle, both the national government and the medium cities themselves might find it worthwhile to launch publicity and promotion campaigns as have states and cities in the United States.

(ii) Credit and Tax Incentives - Firms already established in the metropolitan centers and interested in investing in medium cities are not likely to be blocked by lack of access to credit. However, given the prevailing lack of interest in investing outside of the metropolitan centers, some form of special credit or tax advantage might serve to direct more attention to the possibilities, and/or to persuade the potential investor who is already interested but needs a marginal inducement.

Many of the medium-sized cities already offer tax inducements principally in the form of ten-year tax holidays. However, it is our impression that the same or similar inducements are also provided by so many cities that their efforts at inducement cancel each other, and the net effect is to deprive them of much needed revenue.

If this impression is accurate, the possibility might be explored of tax concessions at the national level for investment outside of the metropolitan centers. Ideally, such concessions should be substituted for the present ineffective and costly local inducements.

(iii) Labor Legislation - Wage differentials might provide a significant attraction for certain categories of industry. Therefore, the possibility should be explored for revising current legislation regarding uniform wages to permit preferential waiving of the requirement for industries locating branch plants outside of metropolitan areas.

(iv) Access to Authorities - To some extent Bogotá's advantages in terms of access to authorities are inherent. However, a system of branch offices or circuit officers might substantially reduce the degree of centralization now existing. Such arrangements would benefit industrialists in all locations outside of Bogotá., but might be particularly helpful for those located in the medium and smaller centers who are currently the most severely handicapped.

d. Measures to Stimulate Local and Small Industry - In the case of smaller and local potential investors, more credit, improved access and technical assistance are much more important than is true for large and well established firms.

An increased volume of credit can be supplied through central financing mechanisms, as discussed in Section III of this Annex.

Improved access involves more aggressive promotion efforts by the Caja Agraria and the Corporaciones Financieras, especially the Corporación Financiera Popular which specializes in industrial credit for small and middle-sized firms. Several types of constraints probably limit current efforts of these institutions to identify and help develop investment prospects in the medium and smaller cities. First, the limited total volume of credit available for small and medium business undercuts the incentive to seek out a wide range of possibilities. This problem would of course be eased by increased central funding.

Second, taking the initiative in development of prospects puts a heavy burden on limited staff, both in the early stages of identifying possibilities and in later stages of implementation and supervision. Third, there is probably some correlation between the extent to which the financing agency must take the lead in developing a project, and the riskiness of the project itself and the lack of experience of its managers. Therefore, the expected returns on such projects may be lower. In view of the higher administrative costs and risks associated with more aggressive action, it may well be necessary to offer inducements to the intermediate lending institutions in order to make it worth their while to seek out prospects in the medium and smaller cities. Such inducements might take the form of lending to them at lower rates, or of permitting a greater point spread between the cost to the intermediate institutions of borrowing funds and their rate of return on funds loaned out. These questions are discussed more fully in Section III.

Fourth, even where intermediate lending institutions have taken initiative and have tried to mobilize local capital outside of metropolitan areas, they have sometimes encountered local apathy, suspicion, or lack of realism. For example, a development corporation based in Cali recently attempted to establish branch offices in Popayan and Neiva. However, the corporation insisted that local groups raise a stated amount of equity capital, as evidence of their capacity and willingness to participate. The local groups were unable to raise the required funds. It is not clear whether the money truly could not be mobilized, or whether the local groups had qualms about losing control to the larger and more aggressive Cali-based institution. In a slightly different vein, a series of efforts to organize a local investment institution in Pasto have proved abortive for a variety of reasons, including potential local investors' lack of enthusiasm for the prosaic agricultural processing ventures which offer almost the only economically viable possibilities for Pasto. By contrast, Buga and Palmira, respectively 1 hour and 1/2 hour from Cali by road, have successfuly mobilized local and attracted outside capital, building up fairly diversified industrial sectors which are quite independent of Cali (although they undoubtedly benefit from being close to Cali as a market and a source of supplies). Clearly, an expanded total volume of credit and increased initiative on the part of the lending institutions would facilitate mobilization of local capital in medium-sized cities, but local responsiveness is also an essential ingredient which varies widely among cities.

B. ANALYSIS OF PROBLEMS AND PROSPECTS REGARDING URBAN INFRASTRUCTURE AND SERVICES

This section deals with urban infrastructure problems in relation to the major goals of the program on two different levels: (1) the programs and institutions which are managed at the departmental or municipal level, which are mostly of a multi-purpose nature and which receive across-the-board financial support from certain national entities; and (2) the functional problem areas (e.g. housing and related services, education, water and sewerage facilities, urban transport) where, in addition to the multi-purpose local level institutions there are also specialized national agencies which work with and provide support to the local level agencies.

The purpose of the analysis is two-fold: (1) to identify the difference in problems and needs between the large cities and the intermediate sized cities; and (2) to identify the most appropriate instruments through which to channel additional resources to both types of cities.

In broad, general terms, the comparative situation of the big cities and the intermediate cities is shown in Table No. 10 which shows that per capita expenditure on public services and infrastructure is almost five times as high in the large cities as in the medium sized. We have no basis on which to judge what an appropriate ratio might be, although probably 5 to 1 is too high. This is an area where further research is needed. We are assuming, however, that some shift in the ratio, in the context of a large total allocation of overall public sector resources to regional and municipal budgets is in order.

The second purpose of the analysis, i. e. identifying instruments through which to channel additional resources to urban areas is based on an assumption for which we have limited quantitative data. The assumption is that the relative share of public revenues, including transfer payments from the national budget, going into urban areas expenditure is lower than is desirable. Table 10A indicates the disproportion in division of total national revenues. Municipalities with almost 50% of Colombia's population receive about 15% of total national revenue and this proportion may have declined in the last few years. There are qualitative indicators that support this assumption, e.g. the Musgrave Commission findings and recommendations on municipal taxes, the steps which the national government has already found it desirable to take with regard to increasing transfer payments for education, the difficulties which departmental and municipal entities have in securing loans, etc. However, this also is an area where there is an urgent need to develop quantitative data on a national basis.

TABLE 10

MUNICIPAL PUBLIC EXPENDITURES 1965

(pesos)

City	Municipal Public Services	Education and Culture	Hygiene and Public Health	Economic Dev. (See Notes)	Total Per Capita Expenditures for Listed Items in 1965	
BOGOTA	173,209,000	52,261,000	19,657,000	291,605,000	316)	Average 360 pesos Capita
MEDELLIN	96,100,000	7,600,000	16,600,000	238,000,000	460)	
CALI	105,049,000	3,594,000	5,750,000	80,320,000	305)	
BARRANQUILLA	31,371,000	1,149,000	1, 122,000	19,016, 000	10 5)	
CARTAGENA	33,375,000	559,000	721,000	4,713,000	162)	Average 77 Pesos Capita
BUCARAMANGA	3,688,000	914,000	1, 380,000	5,532,000	50)	
MANIZALES	3,867,000	1, 010,000	712,000	11 , 642,000	78)	
PEREIRA	12,199 ,000	1, 375,000	1, 702,000	3, 861,000	101)	
CUCUTA	3,020,000	1, 798,000	4, 177 ,000	17 ,036,000	150)	
IBAGUE	2,607,000	258,000	415,000	4,816,000	49)	
PALMIRA	6,116,000	545,000	239,000	3,999,000	77)	
ARMENIA	5,058,000	808,000	1, 105,000	6,484,000	99)	
MONTERIA	2,327,000	362,000	129,000	4, 577,000	58)	
CIENAGA	141, 000	138,000	25,000	275,000	6)	
PASTO	1,233,000	140,000	46,000	1, 503,000	25)	
SANTA MARTA	1,374,000	389,000	43, 000	2, 016,000	37)	

The figures are taken from Estadisticas Fiscales, DANE, 1965.

- Definition of Terms - Fomento Economico (Economic Development) includes the construction and improvement of capital investments of all kinds, including schools, health care institutions, transportation structures, sanitary constructions, public buildings, etc. References in other accounts suggest that these expenditures are total investments, including those, for example, of the Empresas Municipales.
- Education and Culture and Hygiene and public Health include only operating expenses in those two areas, both broadly conceived to include special programs.
- Municipal Public Services is nowhere specifically defined. It presumably includes operating costs in water, sewerage, electricity, trash collections, etc. as well as other costs which impinge on the other listed topics. It is hard to justify as a residual from the other listed topics, since the amounts are so high.
- Population figures used to calculate per capita expenditures are those of the 1964 census. They are per capita expenditures of all listed accounts together.

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TABLE 10 A

NATIONAL INCOME BY GOVERNMENTAL LEVEL

(Millions of Pesos)

	1965	1966	1967	1968	1969 1/
NATIONAL					
Total Revenue	5366	7889	8264	11851	10841
Direct Taxes	(2371)	(2689)	(3650)	(4428)	(4395)
Indirect Taxes	(1797)	(3468)	(3269)	(4035)	(4759)
Credit	(1376)	(1911)	(1305)	(1999)	(1748)
Less Transfers to Municipalities and Departments	(461)	(509)	(528)	-	(521)
DEPARTMENTAL					
Total Revenue	1626	1908	2131	2491	2713
Direct Taxes	(47)	(57)	(63)	(74)	(106)
2/ Indirect Taxes	(815)	(977)	(995)	(1066)	(1163)
3/ Non-Tax Revenue	(450)	(538)	(633)	(794)	(863)
Transfers	(397)	(440)	(444)	(469)	(490)
4/ Capital Revenues	(47)	(39)	(153)	(88)	(91)
Less Transfers to Municipalities	(130)	(142)	(157)	-	(152)
8/ **MUNICIPAL**	2335	2629	3395	-	4858
5/ Direct Taxes	(388)	(477)	(496)	-	(833)
6/ Indirect Taxes	(168)	(183)	(213)	-	(248)
7/ Non-Tax Revenue	(1038)	(1200)	(1849)	-	(3399)
8/ Transfers	(215)	(230)	(269)	-	(251)
9/ Capital Revenues	(526)	(533)	(568)	-	(127)
TOTAL REVENUES	9327	12426	13790	-	18412 1/

PERCENTAGE OF TOTAL PUBLIC RECEIPTS BY GOVERNMENTAL LEVEL

	1965	1966	1967	1968	1969
NATIONAL	58%	64%	60%		59%
DEPARTMENTAL	17%	15%	15%		15%
MUNICIPAL	25%	21%	25%		26%

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Source

Boletín de la Dirección General de Presupuesto, 1969.

1. Data is not available for municipal revenues for 1968 and 1969. The 1969 column reflects municipal revenues and transfers to municipalities for the departmental capitals only which have about 70% of the total urban population.

2. Departmental indirect tax revenues consist primarily of taxes on beer and tabacco.

3. Non-tax revenue consists of revenues from departmental businesses, rental of departmental properties and sale of services, basically educational, communication and printing services.

4. Departmental capital revenues include sale of assets and credit resources.

5. Municipal direct taxes are made up basically of valorization and real estate taxes. From 1964-1967 the real estate tax made up approximately 11% of municipal revenues. In 1967 it declined to 8.3% of municipal revenues and for the departmental capitals in 1969 it had declined to 6.6% of total municipal revenues. The substantial increase in revenue from direct taxes in 1969 consisted almost entirely of an increase in valorization tax revenue, with 50% of this increase coming from Bogotá. (Bogotá has about 20% of the total urban population and 25% of the population of departmental capitals). The valorization tax varied between 3.2 and 5.5% of municipal revenue between 1964-1967. In 1969 for the departmental capitals it had risen to 9.1%.

6. Municipal indirect taxes are primarily derived from taxes on industry and commerce. This tax averaged approximately 5% of municipal revenues from 1964-1967, and dropped to 3.6% for the departmental capitals in 1969.

7. Municipal non-tax revenues derive primarily from sale of municipal services such as electricity, water, telephone, etc. This source of municipal revenues, which is basically earmarked (See Table No. 12 which indicates that 84% of revenues in this source are devoted to the payment of operating expenses), rose steadily from 35% of municipal revenues in 1964 to 43% in 1967 and jumped to 68% of municipal revenues in departmental capitals in 1969. The large increase in 1969 came primarily as a result of a substantial increase in revenue derived from electricity, water and telephone. However 52% of electricity; 67% of water and 86% of telephone revenue increases were from increases in Bogotá. From 1965 to 1967 an average of 35% of non-tax revenue was derived in Bogotá. In 1969 this rose to 55% taking into account only departmental capitals.

8. Between 1964 and 1967 41% - 51% of governmental transfers to municipalities went to Bogotá. In 1969 this rose to 59%.

9. Municipal capital revenues have a similar composition as departmental capital revenues. The substantial decrease in 1969 seems to be attributable basically to a lack of utilization and/or availability of credit.

In summary, this table seems to indicate that growth in municipal revenues has taken place primarily as a result of a growth in public service revenue, and that growth seems attributable, in large part, to heavy investment in Bogotá. From 1964-1969 tax revenue increased approximately 25%, and transfers increased approximately 17% with the bulk going to Bogotá. Although capital revenue increased 22% between 1964-1967 it had declined substantially in 1969. From 1964-1967 municipal revenues increased 64%. During the same period operating expenses had increased 80%, and capital investment had increased 49%. The percentage division of total public receipts is shown at the bottom of the table. If Bogotá is not included in municipal revenue between 1965-1967 and 1969 the municipal percentage is decreased to 16%, 14%, 16% and 13%, respectively for those years.

1. Local Level, Multi-Purpose Institutions

The principal institutions of this type are the Departamentos (corresponding roughly to states); the Municipalities (corresponding roughly to counties); the Municipal Public Service enterprises; the Valorization Funds or Offices; and the local or regional development corporations, institutes or banks.

a) Departamentos - There are 21 Departamentos in Colombia. They are headed by Governors who are appointed by the President of the Republic, but whose budget has to be approved by an elected Departmental Assembly. While there is some variation from Department to Department, in general the functions and responsibilities exercised at this geographical level include planning, construction and maintenance of departmental roads, construction of secondary schools and some health facilities. In addition, the Departmental governments assign primary school teachers and health personnel in the department.

The funds which Departments have available to carry out these functions derive principally from national Government transfer payments and revenues from departmental businesses, the most common of which are liquor businesses. Table 11 shows that approximately 75% of the funds which pass through Departmental budgets go for current operating expenses. The largest item in the current expense account is teachers' salaries.

Legal and financial relationships between Departments and Municipalities are limited. Mayors are appointed by Departmental Governors. In planning Departmental public works and assigning teachers and health personnel, the Departments do have some impact on municipal development. In addition, the departmental governments act as an intermediary for national transfer payments and may themselves, in some cases, make transfer payments to municipalities from their business revenues. However, at least in regard to intermediate cities, the Departments have no operational role in the planning for or expenditure of investment financed through transfer payments.

Since they are not involved in implementation of municipal public works, provide only minor investment in such activities and merely act as a channel for national transfer payments, Departmental Governments would not have a role to play in the transfer of additional resources to intermediate cities.

TABLE 11

COMPOSITION OF TOTAL DEPARTMENTAL EXPENDITURE

FOR THE PERIOD 1960 - 1966 (Current Prises)

DEPARTAMENTOS	GASTOS: Operating Costs Thousends of Ps.	%	Investment Thousends of Pesos	%	Total Thousends of Pesos
ANTIOQUIA	1.348.720	77.5	392,101	22.5	1.740.821
ATLANTICO	270.492	79.3	70.490	20.7	340.982
BOLIVAR (1)	393.430	70.8	139.989	29.2	479.509
BOYACA	378.744	75.3	124.139	24.7	502.883
CALDAS	620.956	89.0	76.877	11.0	697.833
CAUCA	209.288	74.0	73.628	26.0	282.916
CORDOBA	166.477	75.6	53.587	24.4	220.064
CUNDINAMARCA	1.313.549	80.4	319.888	19.6	1.633.437
CHOCO	58.082	89.3	6,989	10.7	65.071
HUILA	154.117	76.0	48,600	24.0	202.717
MAGDALENA	235.684	81.0	55,233	19.0	290.917
META (2)	95.951	73.6	34.460	26.4	130.411
NARIÑO	221.785	81.9	49.039	18.1	270.824
NORTE DE SANTANDER	222.645	72.0	86.756	28.0	309.401
SANTANDER	527.770	70.5	220.945	29.5	748.715
TOLIMA	385.515	79.2	101.228	20.8	486.743
VALLE	843.462	74.8	285.533	25.2	126.995

(1) The data refers to the period 1960-1965
(2) The data refers to the period 1961-1966

Source: Departamento Administrativo Nacional de Estadística DANE

b. Municipalities and Municipal Services - The number of municipalities range from a high of 109 in the Department of Antioquia to an average of 30-40 in most other Departments. While as indicated earlier, their responsibilities cover county sized areas and include about 1,000 communities, we are concerned in this paper only with the capitol city of the Municipalities (cabeceras) and within this group primarily with those which have population of 30,000 or more.

The administrative pattern for municipalities is similar to that for Departments as noted above mayors are appointed by the Governors, but have to deal with an elected municipal council on budgetary and other matters.

At this level (i.e., the intermediate and large city urban complexes), the extension of infrastructure services is basically the responsibility of the individual community. Responsibility for construction of public services, including streets, water, electricity, and sewerage is generally divided between the Oficina de Valorización and Municipal Public Service Corporations (Empresas Municipales) in the typical Colombian municipal government pattern. Both these entities normally exist in most cities in Colombia of over 50,000 population.

1. Municipal Governments - The Municipal Government, per se, normally provides through its budget for operating costs of the police, and fire departments, maintenance of streets and perhaps some public works. Depending on the scope of authority of the Empresas Municipales, either they or the municipality may construct and operate public markets, parks, and recreational facilities and provide sanitation service and garbage collection. In addition intermediate cities construct primary schools.

Table 12 shows that total municipal revenues as a percent of municipal operating expenses is an average of 70% for fifteen of the largest cities. Since Municipalities are responsible for the capital costs of primary schools this undoubtedly takes a major portion of their investment budget. The table also provides a comparison between municipal and Empresas Publicas budgets. Excluding the few cities which clearly do not have significant Empresas Públicas the general pattern is that the municipal budgets tend to be about equal to the Empresa Publica budgets. No information is available on valorización budgets, but if these were added to the Empresa Pública budgets, it would demonstrate the relative lack of importance of the municipality as reflected by the operating budget.

TABLE 12

ANALYSIS OF SELECTED MUNICIPAL AND MUNICIPAL PUBLIC SERVICE CORPORATION REVENUES AND OPERATING EXPENSES

1965-1968 inclusive except as noted.

(000 pesos)

City	Total Municipal Revenue	Total Municipal Operating Expenses	Municipal Operating Expenses Expenses as a % of Total Revenue	Municipal Public Service Corporation Revenues	Municipal Public Service Corporation Expenses	Municipal Public Service Corporation Expenses as a % of Revenues	Municipal Revenue as a % of Municipal Public Service Corporation Revenues
Bogota	1,924,236	1,628,620	85%	-	-	-	-
Medellin	803,203	477,996	60%	1,246,940	933,814	75%	64%
Cali	448,637	328,663	73%	1,009,022	863,187	86%	44%
Barranquilla	201,150	102,485	51%	223,792	192,561	86%	89%
Armenia	53,462	34,722	65%	54,431	45,405	83%	98%
Bucaramanga	227,920 (65-69)	169,683 (65-69)	74%	11,619 (65-67)	5,666 (65-67)	49%	1961% (65-67)
Cartagena	102,451	44,107	43%	207,033	190,027	92%	49%
Cucuta (65-69)	132,032	99,930	76%	132,247	133,161	101%	99.8%
Ibague (65-69)	69,554	48,179	69%	29,107	29,239	100%	239%
Manizales	78,975	51,943	66%	86,063	91,648	106%	92%
Neiva	41,862	31,744	76%	20,818	15,983	77%	201%
Pasto (65-69)	50,057	33,753	67%	10,383	8,965	86%	482%
Pereira (65-69)	157,147	125,683	80%	134,740	93,638	69%	117%
Popayan (65-69)	51,391	49,580	96%	-	-	-	-
Santa Marta	37,179	28,188	76%	-	-	-	-
TOTALS (Ave. %)	Unweighted Average		70%		Unweighted Average 84%		

SOURCE: Revista del Banco de la Republica, Febrero de 1970.

The municipalities' legal scope to carry out public works investment is limited since responsibility for the greatest part of the municipal investment budget lies with the empresas municipales and oficina de valorización. In addition, the municipalities' source of revenues is limited, so it rarely contributes significantly to municipal investment. The real estate tax is the major source of tax revenues. National limitations are set on real estate tax charges for various size municipalities; however, the most significant restriction on greater derivation of revenue from the real estate tax has been the failure of the national institute (Institute Augustin Codazzi) responsible for property tax valuation to keep assessments up to date. Thus, there has not been a significant real increase in revenue derived from taxes in many municipalities for the last several years.

In view of the legal limitations on municipal action and their lack of capacity to make a significant financial contribution to public investment, they would not appear suited to play a significant role in a program to substantially increase such investment.

2. Valorization Offices - These offices may either be part of the municipal government or autonomous municipal agencies. In any event, they administer a separate revolving fund which does not depend to any great extent on other municipal revenues for support. The relationship with the municipality and the degree of municipal control of their operations differs substantially throughout the country.

Ordinarily the major function of the Oficina de Valorización is the construction of streets and roads for the municipality, financed by the collection of assessments from adjacent property owners. In addition, however, they have constructed water and sewer lines and other public improvements which can be financed on a valorization basis. The basis for collection of such an assessment is the presumed increase in value of the property to be benefited by the proposed improvement. Such a system places the cost on those who benefit from the improvement. Rapid urban growth in developing countries and resultant spiraling land values ordinarily provides a sound basis for the operation of the valorization fund. However, it appears that valorization also operates successfully in urban areas which are not experiencing rapid growth.

The capitalization of the valorization funds is undertaken in various ways. Sometimes, the municipal government makes the initial capital endowment; sometimes the national government constructs a road and allows the Office of Valorizatión to collect and keep the assessments.

In at least one case, the Departmental government makes transfer payments to municipalities on a matching basis for valorization funds.

While no empirical data is available as to the number of Valorization Offices, their assets, or projects postponed due to lack of financing, etc., there are indications that they are, in general, underfinanced. Due to the limited municipal and Departmental investment budgets, these entities cannot provide support for expanding the operations of Offices of Valorization. The technique of national government construction with collection by the local Office of Valorization has been used infrequently and is no longer available.

In 1968 a special rediscount line, The Fondo Financiero de Desarrollo Urbano, was set up in the Bank of the Republic (BOR) for financing valorization projects. This fund provides a rediscount line for financing municipal public work projects carried out on valorization basis. The Fondo deals through banks and corporaciones financieras and for a 3 point charge will rediscount up to 65% of the value of the public work at terms of 15% for 10 years. Offices of Valorization are often legally constituted so that they can enter into lending agreements with banks. The banks, in turn, have access to the Fondo. This arrangement is the first real attempt to finance valorization operations and offers a promising solution to their credit problem. One clear indication that they do not have access to sufficient credit is that, as of June 1970, the requests for rediscounting at the Bank of the Republic from only 11 municipalities exceeded available resources for this purpose by 60% (see Table 13). In addition, the table indicates that 81% of the approved applications to the Fondo were received from the three largest cities and 79% of the total amounts approved for rediscount went to these same cities.

The operation of the Valorization Offices, e.g., experience with collections, import on normal tax receipts of municipalities, needs to be studied further. In principle, however, it is believe that they are the most suitable instruments through which to channel additional resources, particularly to the intermediate cities. It appears that this could best be accomplished by increasing the rediscount lines of the BOR set up for this purpose and, possibly, giving the Valorization Offices direct access to a central GOC line of credit.

TABLE 13

FONDO FINANCIERO DE DESARROLLO URBANO

APPLICATIONS APPROVED BY CITY UP TO JUNE 15, 1970
(Thousands of Pesos)

	Amount Approved	Percent	Rediscountable Amount
Bogota	40,000	85	34,000
	40,000	65	16,000
	9,000	80	7,200
Cali	50,000	80	40,000
	95,000	65	61,750
	6,000	65	3,900
Medellin	60,000	65	39,000
	30,000	85	25,500
Sub-Total	330,000		227,350
Armenia	15,000	65	9,750
Bucaramanga	15,000	65	9,750
Cartagena	22,500	65	14,625
Ibague	9,000	65	5,850
Neiva	600	80	480
Pasto	8,000	65	5,200
San Vicente (S.)	300	65	195
Tulua	5,000	65	3,250
TOTAL	405,400		286,450
Revenue from Bonds			173,000
Applications which could not be financed			113,450
Rediscountable Obligations			167,725

The rapidity with which these entities appear to be springing up all over the country indicate that there is probably no need to consider stimulation by the central government in the form of equity investment.

3. Municipal Enterprises - These "Empresas Municipales" are ordinarily autonomous municipal agencies in charge of the construction and operation of municipal water and sewer systems, and less often telephone systems. The empresas municipales frequently operate and maintain the local electrical system although construction is the responsibility of the regional or departmental electrical corporation. Private power companies also operate in some cities although this is less common. These entities, in addition to receiving capital financing from the national government via direct transfer payments and from other external sources for construction activities, also carry out valorization type projects in which the benefited properties are charged for the construction cost of the public improvement. All large cities and most intermediate sized cities have one or more municipal enterprises of the above type.

Table 14 gives a detailed breakdown of the planned investment of those municipal enterprises responsible for water and sewerage services by source of financing. In terms of the relative allocations from all sources of financing (transfers from the national budget, other internal financing, and foreign borrowing) as between large, intermediate and small cities, the GOC's plans are as follows:

	Percentage of total		
	1970	1971	1972
Large Cities	72	61	53
Intermediate Cities	7	8	9
Small Cities	21	31	38

From 25 to 35% of the planned investment is programmed for financing from foreign borrowing, with the bulk slated for the larger cities. Also, the bulk of the transfer payments from the national budget are slated for INSFOPAL, an agency which services only small municipalities.

We are unable to account for the apparent low priority given to water and sewerage investment in the intermediate cities, especially when one considers the relative rates of population growth in small and intermediate cities. Again due to limited Departmental and Municipal capacity to provide capital, and to the fact that an average of 84% of their revenues are spent on operating expenses, the empresas municipales especially in the intermediate cities lack adequate sources of investment capital. These institutions can operate on a valorization basis, and therefore the Fondo Financiero de Desarrollo Urbano may be helpful in providing funds.

Since these entities have operational responsibility for a wide variety of municipal investment activities, and in view of their need for additional support, it is appropriate to consider them as recipients of additional resources at a minimum in terms of access to increased lines of credit for their valorization projects.

TABLE 14

PLANNED INVESTMENT OF MUNICIPAL ENTERPRISES RESPONSIBLE FOR WATER AND SEWAGE BY SOURCE OF FINANCING 1970-72[1/]

(Millions of Pesos)

	1970	1971	1972
A. Major Cities			
1. Bogota	383.9	428.3	337.8
Transfers - From National Budget	(80.0)	(50.0)	(10.0)
Other Internal Financing	(194.6)	(267.4)	(193.5)
Foreign Borrowing	(109.3)	(110.9)	(134.3)
2. Cali	72.9	157.8	195.4
Transfers - From National Budget	(20.0)	(20.0)	(20.0)
Other Internal Financing	(32.1)	(62.9)	(58.1)
Foreign Borrowing	(20.8)	(74.9)	(117.3)
3. Medellin	67.1	91.4	80.0
Transfers - From National Budget	-	-	-
Other Internal Financing	(38.3)	(55.2)	(47.6)
Foreign Borrowing	(28.8)	(36.2)	(32.4)
4. Barranquilla	28.2	34.5	16.6
Transfers - From National Budget	-	-	-
Other Internal Financing	(25.1)	(19.2)	(16.1)
Foreign Borrowing	(3.1)	(15.3)	(.5)
5. Subtotals	552.1	712.0	629.8
Transfers - From National Budget	(100.0)	(70.0)	(30.0)
Other Internal Financing	(290.1)	(404.7)	(315.3)
Foreign Borrowing	(162.0)	(237.3)	(284.5)
B. Medium-Sized Cities			
1. Cartagena	9.0	4.0	4.0
Transfers - From National Budget	(4.0)	(4.0)	(4.0)
Other Internal Financing	(5.0)	-	-
Foreign Borrowing	-	-	-

(continued)

TABLE 14 (continued)

	1970	1971	1972
2. Monteria	13.4	8.2	9.8
Transfers - From National Budget	(6.0)	-	-
Other Internal Financing	(7.4)	(8.2)	(9.8)
Foreign Borrowing	-	-	-
3. Tulua	6.0	-	-
Transfers - From National Budget	(6.0)	-	-
Other Internal Financing	-	-	-
Foreign Borrowing	-	-	-
4. Cucuta	1.5	-	-
Transfers - From National Budget	-	-	-
Other Internal Financing	(1.5)	-	-
Foreign Borrowing	-	-	-
5. Palmira	9.9	-	-
Transfers - From National Budget	(5.0)	-	-
Other Internal Financing	(.4)	-	-
Foreign Borrowing	(4.5)	-	-
6. Barrancabermeja	10.5	34.5	40.3
Transfers - From National Budget	-	-	-
Other Internal Financing	(5.8)	(19.2)	(22.8)
Foreign Borrowing	(4.7)	(15.3)	(17.5)
7. Other Medium-Sized Cities	-	49.8	49.6
Transfers - From National Budget	-	(24.0)	(24.0)
Other Internal Financing	-	(7.7)	(9.4)
Foreign Borrowing	-	(18.1)	(16.2)
8. Subtotals	50.3	96.5	103.7
Transfers - From National Budget	(21.0)	(28.0)	(28.0)
Other Internal Financing	(20.1)	(35.1)	(42.0)
Foreign Borrowing	(9.2)	(33.4)	(33.7)

(continued)

TABLE 14 (continued)

	1971	1971	1972
C. Small Cities			
Instituto de Fomento Municipal	163.3	361.0)	459.0
Transfers - From National Budget	(151.0)	(216.0)	(309.0)
Other Internal Financing	(8.3)	-	-
Foreign Borrowing	(4.0)	(145.0)	(150.0)
D. Overall Totals	765.7	1,161.5	1,192.5
Transfers from National Budget	(272.0)	(314.0)	(367.0)
Other Internal Financing	(318.5)	(445.6)	(357.3)
Foreign Borrowing	(175.2)	(401.9)	(468.2)

SOURCE: "Planes y Programas de Desarrollo 1969-72."

4. Regional Infrastructure Financing Institutions - In addition to the three types of basic, multi-purpose implementation institutions dealt with above, there are a variety of local level institutions which are of interest from the point of view of infrastructure financing. These include such entities as the Fondo Rotatorio de Fomento y Desarrollo de Caldas, the Corporación del Desarrollo de Uruba, and the Instituto de Antioquia (IDEA).

The most interesting of these institutions is perhaps IDEA. This is a departmental level municipal bank which might serve as a model for similar institutions in other departments, although other types of institutions should not be ruled out.

IDEA was established in 1964 by the Department of Antioquia as a mixed corporation, and financed by the sale of the Departmental owned railroad to the national government for 156 million pesos. Thirty million pesos were obtained from other sources for a total initial capital of $186 million.

IDEA provides loans to municipalities, generally on five year terms, at 11 or 12% interest for the construction of all types of public works including electric and sewer, water lines, schools, clinics and roads. It also perfoms a series of other financial functions, e.g., acting as fiduciary agent for small municipalities, extending lines of credit to institutions that have received foreign loans.

Possibly more important than its financial support to small municipalities is the technical assistance provided to these entities. Of a total of 30 employees, 12 are professionals. Seven of the latter are assigned to a specific area of the Department and, in connection with on-going and requested loans, work closely with Mayors and Municipal Councils in such areas as municipal administration, financial management, implementation of valorization systems and preparation of specific projects.

Loans are released to Municipalities on a tranche basis, after the technical visits just referred to have confirmed that the previous tranche has been properly expended. The result is that over the past 5 years loans have been made to over 90 of the 109 municipalities in Antiochia; no project has been unfinished; and repayments are over 95%.

Departmental level municipal banks, or other institutions which serve similar purposes, would seem worth stimulating. A qualitative and preliminary check in several Departments indicates that they have sufficient resources in the form of stock in economic enterprises of various sorts to make available funds for a significant portion of the initial capitalization of entities like IDEA.

The support the Central government might provide to stimulate such moves could take the form of a one time equity investment in the Departmental Bank, plus lines of credit for continuing operations.

In order to provide some indication of the magnitude of funds which might be required to support such a program, we have developed the following tentative formula:

Assume that 5 of the largest departments decided to organize municipal banks and that they were required to set their capitalization on the basis of 100 pesos per capita. For Boyaca, Cundinamarca, Santander, Valle del Cauca, and Tolima, this would amount to 768 million pesos. Assume further that the amount in liquid capital when the bank was organized amounted to 20% of total assets. If the central government were to take an equity position corresponding to 50% of the initial liquid capital, the requirement would amount to approximately 75 million pesos (U.S. $3.75 million). The various parameters used above can be adjusted in many ways, e.g., to decrease per capita capitalization requirements for poorer departments.

2. Functional Problem Areas Where Local Efforts are Supported by Specialized National Agencies

a. Housing and Related Services - The data available on infrastructure deficits indicate that improvement of the housing situation for the poorest third of the population should receive high priority in a program designed to improve the quality of life in large cities. The population of Colombia is increasing by about 60,000 families per year, and roughly half of this increase is in Bogota. It is currently estimated that about 30,000 houses per year are built in the country by all investors, and that the current national housing deficit is about 400,000 units. (See Table 15.) About 70% of the poorly housed population earn less than 800 pesos/month and almost no public housing programs are designed to reach them.

TABLE 15

HOUSING DEFICIT

City	Housing Deficit 1969	Annual Population Growth Rate in families/year	Number of ICT Housing Solutions Planned in 1969 for 1969 and 1970
Bogota	152,000	29,000	9,209
Medellin	40,000	11,200	3,313
Cali	49,000	10,100	4,522
Barranquilla	50,000	4,850	1,773
Cartagena	20,000	1,520	1,700
Bucaramanga	20,000	2,970	945
Manizales	9,000	2,140	1,018
Pereira	8,000	1,500	880
Cucuta	9,000	2,240	706
Ibague	9,000	1,420	873
Palmira	n.a.	-	-
Armenia	10,000	1,730	794
Monteria	10,000	-	340
Cienega	n.a.	-	-
Pasto	6,000	-	671
Santa Marta	11,000	1,590	928
TOTALS	403,000		27,672

NOTES ON TABLE 15

The Housing Deficit figures are from a brief ICT publication of 1969. The figures represent registered requests for housing units in the respective cities. They are therefore presented as effective demand. The extent to which they represent confirmed competence to pay for housing in existing programs must be held in some question until further knowledge is gathered from the ICT about its application procedures.

The annual population growth rate applied was the average of rates between 1964 and 1970. The number of persons per family assumed was 5.8.

Numbers of ICT solutions are the numbers as of June, 1969, which had been completed or were to be completed during 1969 and 1970. Volumes of activity recorded suggest that more operations would begin during the rest of the two-year period, such that the number of solutions presented should represent some 2/3 of the total two-year output.

It is quite clear that investment required to actually construct housing for the low-income population of Colombia is so enormous as to be beyond the country's capacity. In addition it has become clear in recent years that the policy of supplying housing on a subsidized basis to those who cannot afford to pay for it is not only expensive but may result in the loss of the investment through deterioration of the housing or re-sale to higher income persons. In view of this, and the demonstrated capacity of low-income people to provide adequate shelter for themselves on a gradual basis with the proper support, a more reasonable approach to the housing problem is to provide services which assist and may be utilized by the occupant to construct the type and quality of house which suits his needs. The types of services which may be of interest to the residents of low-income areas and their ability to take advantage of the services that may be offered is a complex problem which varies from a situation to situation, however such services may include public utilities, streets, credit to improve housing on a gradual basis, provision of materials on a credit basis, architectural and technical assistance and assistance in obtaining appropriate land tenure.

The need for low-income housing services varies with the housing situation of which there are three basic patterns in Colombia. These are: center city slums, tugurios or squatter settlements, and barrio piratas or illegal low income sub-divisions.

Inner city slums or "inquilinatos" have generally served as reception areas for migrants, although there is some suggestion that this is not a consistant pattern. The slums generally consist of deteriorated houses or apartment buildings which have been sub-divided until densities are quite high and the sanitary facilities are insufficient to meet minimum standards. To our knowledge no government programs have been under-taken to improve center city slums. Such programs would be an inefficient way of increasing the housing stock when the problem is one of great shortage, and the cost of such programs would be quite high. In addition the general pattern has been for families to move out of the center city slums into marginal settlements when they become acclimated to the city.

Although it has not been established that this pattern will provide an eventual solution to the problem, it is reasonable to believe that the improvement of marginal settlements will reinforce the pattern. Therefore, a policy of lack of attention to center city slums may be justified for the time being or at least until feasible programs can be designed. Since these areas do provide a reception center service, and may be valuable as part of the permenent low income housing supply since they are close to employment areas the problem of improvement deserves study.

The second major pattern of low-income housing is the tugurio which is generally an invasion settlement on the outskirts of the city on completely un-urbanized land. The site picked for invasion is generally one which seems unlikely to provoke the authorities sufficiently to take the necessary steps to prevent the invasion or dispurse the settlers. Income levels in Tugurios have been fairly well documented. The great bulk of the families earn approximately 600-700 pesos a month with approximately 10% above this level and 10% below it. Departamento de Planeación Nacional analysis indicates that an income below 700 Ps. a month effectively excludes a family from participating in any ICT housing construction program.

The extent of tugurio settlement in major cities in Colombia is very difficult to estimate and no studies have been done on this. As a rough approximation, however, 25% of the housing stock in these cities is tugurios. In order to get a clear picture of the housing improvement effort that is necessary, housing deficit figures which take general housing quality into account must be referred to. Data on deficits of basic services such as water, sewer and electricity in the major cities as of 1964 provide additional information regarding the scale of the tugurio problem.

	Total Housing Units	Total Houses Without One Or More Basic Service	% of Housing Units Without One or More Basic Services 1/
Cali	86,727	19,881	22.9%
Medellin	106,612	6,058	5.7%
Barranquilla	67,762	15,318	22.6%
Bogota	206,245	11,154	5.4%
Cartagena	28,716	11,063	38.5%

(ICT Vivienda y Desarrollo Urbano. Boletin #4)

1/These figures may be badly understated. For example a 1961 study of housing conditions by the Secretary of Health in Bogota showed that 20% of the housing units lacked sewarage and 13% lacked water. There was no major effort to improve conditions in the period between 1961 and 1964.

These deficit figures have undoubtedly increased since 1964 in view of the rapid growth of these cities and the slow pace of housing construction and improvement. 1969 figures developed by the city of Medellin indicate that 11% of the housing units were without one or more basic services.

The third major low-income housing pattern is the Barrio Pirata which results from private sub-division and sale of land to low income persons without the installation of public utilities as required by law. This phenomenon is apparently becoming common in the largest cities due to the attempts of land owners to dispose of their property before it is invaded. The income levels of people who purchase sites in Barrios Piratas is generally higher than that of tugurio and the housing should be in better condition. The basic problem, therefore, is probably the provision of streets and public utilities, although no comprehensive analysis has been made.

The major Colombian institution which now provides low-income housing services is the Instituto dé Crédito Territorial (ICT). The ICT is an autonomous institution under the direction of the Ministry of Development, responsible for implementing Colombian low and moderate income housing programs. Since its creation in 1942, approximately

50% of ICT's investment has been in low-income programs. The bulk of these programs have been self-help housing although ICT also carried out a number of site and service projects in the early 60's whereby urbanized sites were provided at low cost. Due principally to criticism that the site and service projects were government created slums, ICT gave up this program, and since that time has placed most of its low income housing emphasis has been on heavily subsidized self help construction projects. These projects have been slow, of poor quality, and disproportionately expensive as a result of high administrative expenses and ICT is now moving away from this type of program.

In the last two years, ICT activities in the low-income housing field have fallen off significantly and it is now estimated that in 1969 and 1970 approximately 20% of ICT's investment will be in this area. It appears that the major factor which has resulted in this decline is decapitalization, as a result of the high subsidies that must be provided for low-income housing construction and the collection problems on low-income programs.

The GOC has never developed a coherent policy or comprehensive program in regard to tugurios. Eradication has been attempted sporadically with little success, and city governments have vacillated in their policy of supply public services to tugurios. The complicating factors which underlie this governmental ambivalence, in spite of the illegal nature of the settlement, has been the tenacity of the settlers and the obviously substantial investment in housing in these settlements, which becomes apparent in the first few years of their existence.

The major programs, at this time, which provide services for tugurio and barrio pirata improvement are the Fondo de Redes and Habilitación de Barrios programs.

Fondo de Redes - In the Fondo de Redes program, the ICT lends money from a revolving fund to municipal public service corporations for the construction of public services for marginal neighborhoods. Services are provided in the following order of priority: (a) sewer lines; (b) water lines; (c) electrical lines; (d) sidewalks; (e) streets.

ICT finances up to 80% of the value of the sewer and water lines and up to 60% of the value of electrical lines, streets and sidewalks. Three and four year terms are offered with respective interest rates of 8% and 9%. These projects may be carried out utilizing neighborhood self-help, provided without payment or with food payments. Although it is not clear, it appears that this program has been utilized mainly to complete ICT's own projects which did not receive public services due to administrative or technical problems. In 1969 and 1970 ICT plans to expend Ps. $42,425,000 on Fondo de Redes projects. Approximately 50% of these funds will be invested in intermediate size cities.

Fondo de Habilitación de Barrios - Under the Fondo de Habilitación de Barrios program ICT makes loans to cities, municipal public service corporations or private, non-private organizations for improvement of marginal neighborhoods or re-location of unsuitable housing or housing located in areas to which public services cannot be provided. ICT will invest up to 80% of the total value of the program once an initial 20% of local capital has been provided. This capital is usually provided in the form of a land contribution. Terms of up to 20 years are offered at 4% interest. The maximum loan per family is PS. $15,000. In 1969 and 1970, ICT plans to invest PS. $54,183,000 in this program.

As noted above the self-help housing program in which families construct their own houses in accordance with ICT plans on urbanized land has been the major ICT low-income program, although in recent years it has not been as significant as previously. In 1969 and 1970 ICT plans to invest PS. $193,461,000 in this program. ICT is now experimenting with a shell housing project in Medellin which appears to be successful. This project involves the construction of a basic one-room unit with sanitary facilities and a materials warehouse has been established on the site so that residents may, with appropriate technical supervision, complete their own homes.

In addition to ICT there are a number of local municipal institutions in Colombia which deal with problems of low-income housing. The Caja de Vivienda Popular, which is part of the Municipal government of Bogota and is now funded in part by ICT, is a particularly effective local housing agency and its program is a good example of a type of service program suited to the needs of low-income groups.

In the tugurio of Las Colines in Bogota, the Caja has developed a loan program to assist the improvement of living conditions. The Caja owns the property on which the tugurio is located and has installed public utilities. If a resident wished to obtain title to his site, he is required to borrow Ps.$ 6,500 at terms of 4% and 8 years, for the construction of sanitary facilties. Thereafter he may borrow up to another Ps. $12,000 at the same terms in order to improve his home as he wishes.

It must be recognized that low-income housing programs of any type are a social service requiring a degree subsidization. One of the reasons that such programs have been avoided in many countries (including Colombia), in the past, is that the expenditures cannot be recouped in revenue from sales, rentals or services. This problem is exacerbated by the fact that it is notoriously difficult to collect rents from very low-income families in Colombia as well as in most other countries.

The revenue situation can be measureably improved by greater systemization of the collection procedures, as suggested by the experience in Chile where collections were increased by some 80% by a computerized billing system. The ICT has now installed such a system. The subsidy and collection problems may also be dealt with through program design. For example the avoidance of direct loans to low-income persons makes the Fondo de Redes a feasible approach for ICT, because part of the subsidy and risk is shared by the Municipality. Minimum cost programs such as site and service and shell housing also substantially reduce the institution's risk.

The improvement programs already underway and new service approaches to housing present a number of possible problems. The improvement of existing squatter settlements should be an important part of the program and an effort of this sort has been through ICT and local housing agency programs. However, if heavy investments are to be made in the squatter communities, it will be necessary to establish which of these are in fact improvable, rather than destined for desintegration or abandonment in spite of any effort to the contrary. Many may be in this latter category, due to problems in reaching them with services, excessive densities, precarious physical situations, etc. Secondly, it will be necessary to establish the most effective inputs to improve the quality of life in low income settlements. Public utilities are certainly an important element, but could well be an ineffective expenditure if they are to be the only service. Provision of small loans to squatters to install available services in their homes, and for home improvement might be an important component. Organized technical assistance may be required to provide construction skills for home improvements. Programs which combine the provision of sites and services or minimum housing units with training in construction skills and organization of construction material production cooperatives would be valuable as job training as well as housing improvement devices. Some form of community organization and social service program to assist people in taking best advantage of available opportunities would be a necessary element of any service program that went beyond simple provision of public utilities.

Site and service programs may provide a partial situation to the problem of establishing new low-income areas which can eventually develop into adequate neighborhoods. As noted above site and service projects were part of ICT's low-income housing program in the early 60's and were abandoned for a number of reasons. However, it is believed that it may be feasible to introduce this type of program again. Experts have recognized the value of the site and service approach which provides basic services and grants the occupant freedom to construct his house as he wishes. The loans are low in amount and therefore can be relatively short-term, which decreases the risk of decapitalization. In addition, little administrative input is necessary to manage such a program, since technical assistance would be offered on a limited and voluntary basis. This approach has been utilized with a good deal of success in Chile and this experience should be studied for application in Colombia.

ICT has programmed a total of 290 million pesos for its low-income programs, Fondo de Redes, Habilitación de Barrios and Auto-construcción, for 1969 and 1970, which constitutes less than 20% of its total budget. Without a doubt this investment meets only a small portion of the need for programs of this type. However, taking into account institutional capacity to program and carry out such activities it might be reasonable to think of increasing the proportion of investment in such programs back to the previous level of 50% over a three year period based on the 1969-70 spending levels. The cost of such an increase would come to U.S.$17,845,000 over the three year period 1971-1973.

ICT resources have been divided 68% - 32% between the major and smaller cities respectively. In addition ICT estimated that the national housing deficit is divided in exactly the same proportion.

It is unlikely that ICT will be either able or willing to decrease the absolute value of its current level of investment in medium income housing. Therefore, if it is to substantially increase the ratio of its investment for low-income families, it will need additional resources. Whatever additional resources are made available should be used in both the large and the intermediate sized cities.

b. Other Infrastructure Problems - In addition to ICT, there are a series of national institutions which work with and support municipal and regional efforts in specialized areas, i.e., transportation, electricity water and sewerage, health, and education. The GOC believes that an urban/regional development program should include support to, or participation of national entities. The Mission believes that, in terms of priorities, assistance should be channeled to the local level, multi-purpose institutions discussed in Section II.B.1. above. However, we do not wish at this time to rule out the possibility of channeling resources through some of the national entities. We simply do not know enough about some of the national agencies involved, e.g., whether or not they operate on a decentralized basis as does ICT, to form a definitive judgment.

A brief discussion follows of the subject matter areas and the national institutions involved:

1. Transportation - A problem which has a serious impact on the quality of life in major cities is the condition of the public transprotation systems. Although it is difficult to develop analytical measures for the quality and service of a transportation system it appears that the systems in Colombia's major cities are in poor condition and that the

lowest economic classes receive the worst service. Low-income areas are often on the outskirts of the city and residents have long waits for bus service and long slow trips to their jobs or to center city facilities. The buses that serve them are often in very poor condition and there are usually far fewer buses on routes to low-income areas in proportion to the population served, resulting in severe overcrowding.

The institution relevant to this problem area is the Corporación Financiera de Transportes which is a public private-financiera organized to promote, develop and give technical assistance to all types of transportation companies. The Financiera gives credit to transportation companies to purchase and repair their equipment; to build service stations, repair centers and terminals; and to provide parts and equipments necessary to maintain their fleets. We have limited information on the operation of this institution. However, it is our understanding that it has not been active in the field of improvement of municipal public transportation.

The Financiera's budget declined from 150 million pesos in 1969 to 108 million pesos in 1970, basically as a result of a decline in national budget support.

2. <u>Electricity</u> - The GOC has identified the Instituto Colombiáno de Energía Eléctrica (ICEL) as an institution which would play a role in financing and implementation of improvement of intermediate city electrical distribution systems. The GOC has also recognized the role to be played by departmental municipal development banks such as IDEA in financing such improvements.

ICEL is generally responsible for construction and maintenance of the national power network except in areas where independent entities such as the Corporación del Valle del Cauca (CVC) handle this function. ICEL is cooperating with the CVC, Empresa Publicas de Medellin, Empresa de Energía de Bogota and the Corporación Hidroelectrico de Caldas in installing the national inconnection grid which should greatly increase total energy supply available to Colombian cities. This project already has financing, and should be completed next year.

On the local level, except in the major cities which have their own power companies, installation and improvement of the power system is handled by independent departmental or regional power companies of which ICEL is generally a major stock holder.

In view of the pending improvements in the total energy supply situation, local electrical system improvement is likely to be the major area of investment in regard to achievement of the goals of the urban/regional development program. In this connection the most relevant institutions are likely to be the IDEA type entities, and the departmental and regional power companies, although ICEL might be involved in a coordination or advisary capacity.

3. Water and Sewerage - The GOC has identified the Instituto de Fomento Municipal (INSFOPAL) and the Instituto National para Programas Especiales de Salud (INPES) as entities which might play a financing and implentation role in improvement of water and sewerage systems for intermediate cities.

However, it is our understanding that INPES performs such a function only in cities of under 2500 population, and INSFOPAL operates only in cities larger than 2500 which do not have public service entities to carry out such work. INSFOPAL may also provide financing to public service entities in intermediate cities; however, we have no information at present on this function.

In view of the nature of INSFOPAL and INPES, and the existence of adequate local level institutions dealing with water and sewerage, utilization of these national institutions would seem unnecessary.

4. Health - The GOC has identified the Fondo Nacional Hospitalario as a financing institution for the improvement of health facilities in intermediate cities. The Fondo finances the construction of hospitals and health centers throughout the country.

We have no information as to the extent of the deficit in health facilities in intermediate cities as measured against actual need. In comparison with major cities the intermediate cities seem to be well off. According to a DNP study the four major cities had an average of 29.4 hospital beds per 10,000 inhabitants in 1966 (33.1 if Barranquilla is not included) while the next twenty-six cities had an average of 39.5 beds per 10,000 inhabitants. These figures indicate that if any effort is to be made in hospital construction, it should probably be made in the major rather than the intermediate cities.

The area in which the intermediate cities seem to suffer is lack of medical personnel. According to the DNP the major cities had an average of 9.43 doctors per 10,000 inhabitants in 1966, while the average in intermediate cities was 5.82. Insofar as this disproportion is a result of higher salaries and better opportunity in the major cities it can only be remedied by the long run growth and development of intermediate cities.

5. Education - As noted in Section II.A. we consider improvement of educational and training facilities in intermediate cities to be a key factor in promoting their growth.

Information on the general quality of educational facilities in intermediate cities is difficult to obtain since available analysis is broken down on a rural-urban basis. Further study is necessary in this area to determine the problems and needs of intermediate cities. There are indications, however, that the major problem area may not be the lack of physical facilities, but the difficulty of attracting and/or keeping teachers in the intermediate cities. As is generally the case better educated people tend to migrate to the major cities due to greater opportunities, and the inherent attractiveness of the large city.

Insofar as it may be desirable to channel additional resources for education to intermediate cities via national entities, e.g., the Instituto Colombiano de Construción Escolar (ICCE) which is a decentralized institution that helps finance and construct municipal schools, we believe this should be handled under the Education Sector Loan, rather than under this program. As noted earlier in the analysis, IDEA type institutions do assist in providing financing for municipalities' contributions to a sharing arrangement with entities like ICCE. This, it seems to us, is the appropriate channel for educational investment under the Urban/Regional program.

The Analysis in Section II.A. of the job training institute, Servicio Nacional de Aprendizage (SENA) indicates that it is generally well financed and already operates on a well-distributed regional basis. The one area of activity in which consideration might be given to channeling additional resources through SENA would be in connection with special training offered as an incentive to large firms to establish branches in intermediate cities.

C. Planning

1. Current Institutional Setting - At present, there are a wide variety of institutions in Colombia which perform planning functions that bear on the problems of regional and urban development. As used herein, the term planning comprehends general physical planning, identification and programming of public investment, prefeasibility studies for public investment, economic analysis and base studies, and budget preparation. These planning bodies break down into three groups:

- Local level entities (Municipal, Departmental, and Public Service Corporations planning bodies)
- National entities (Department of National Planning, and specialized agencies)
- Private Consulting entities (Universities and private firms)

A brief description of the principal characteristics of each group of institutions and of their interrelationships follows:

a. Municipalities - The major cities have municipal planning offices, which are a staff arm of the Mayor, and which have professional staffs of 35 to 40 professionals. The larger intermediate cities also have planning departments attached to the Mayor's office, but with staffs of 4 to 6 professionals. The type of professional and the functions of the Planning Unit are similar for both large and intermediate cities. The professionals generally include engineers, architects, and at times someone with an economics background. The duties of the planning department may include physical planning, budget preparation and certain responsibilities in the area of construction standards and sub-division and land use control.

b. Public Service Corporations - Both at the municipal and departmental level, autonomous public service entities such as Municipal Enterprises, and the Cauca Valley Authority (CVC) have the equivalent of their own planning departments. This usually consists of a small group of engineers who are responsible for planning and designing and doing economic feasibility studies concerning the utilities for which the entity is responsible. In the case of regional development authorities such as the CVC, the scope of work is broader and may include feasibility studies for agricultural and industrial investment. Because of their autonomy and also because in most cities where there are autonomous public service entities, they control as much as 70% of the investment budget, the planning units of public service corporations have greater power and impact on municipal development than the municipal planning departments. For any given municipality or department, the degree of coordination between the autonomous corporation planning units and their municipal or departmental counterparts is largely a matter of personal relationships. As far as we can ascertain at this time, there is normally no legal requirement for the autonomous agencies to submit their investment plans to the governmental bodies for review.

c. Departments - Almost all departments have planning offices which are basically advisory to the departmental governor and their real power is based on the governor's power. As in the case of municipal planning departments, the areas of responsibility of the departmental planning offices are physical planning for the department, budget preparation and perhaps economic analysis. The size of the planning staff may vary from 4 professionals in smaller departments to approximately 20 to 30 professionals in the more important departments. It appears that there is little direct relationship or coordination between the departmental and municipal planning bodies. It seems that in a number of cases the departmental planning office may gather information, for example, on migration, which bears on municipal problems. However, this information may not be made available to the municipal planning departments as a matter of course.

d. Department of National Planning (DNP) - While this Agency is primarily concerned with matters on the national level, it has a Regional and Urban Development Division which is composed of the following divisions:

1. Departmental and Municipal Studies
2. Regional Studies
3. Urban and Housing Studies
4. Frontier Development

This Division has been engaged for the past several years in the development of a methodology for a regional development program. It also gives technical assistance to departmental and municipal level planning bodies in the preparation of plans and projects.

The Department has underway a project to break down national government expenditure on regional lines, an essential tool for coordinating local level and national investment.

e. Other National Entities - In addition to assistance from the Department of National Planning, departmental and municipalities have recourse to the Instituto Augustin Codazzi for assistance in comprehensive planning. They can also seek assistance in specialized functional areas from such entities as the Colombian Electric Power Institute (ICEL).

f. Private Consulting Entities - The Centro de Estudios sobre el Desarrollo Economico of the University of Los Andes, and the Centro de Investigaciones Para el Desarrollo of the National University have provided comprehensive planning services under contract to a series of municipalities. There are also several private consulting firms which provide this type of service, one of which is "Planificadores Asociados," located in Cali.

2. New Developments -

a. Creation of Regional Planning Bodies - Legislation has been introduced before Congress to create a regional planning system in Colombia. The Department of National Planning now has power under Decree 2996 of 1969 to establish regional planning offices. The proposed legislation (which has passed the Chamber of Deputies, and is now before the Senate) significantly broadens this power. The legislation gives the president power to divide Colombia into regions and provides for the creation of Regional Development Committees composed of public officials of the departments of the region. The Committee would be in charge of developing program and projects on a coordinated basis for the region. One of the departmental planning units of the region would act as secretariat to this Committee.

The major purpose of the Committee would be to coordinate planning on regional basis; their power to control implementation activities is unclear. The law also provides that municipalities and departmental planning bodies would be guided by the Committee, and would prepare plans and programs on the basis of the regional planning framework established by this body.

The basic principal underlying this planning system is that information would flow up from the local to the regional to the national level, and planning direction would flow down from the national to the local level. The DNP would retain ultimate control of the system.

b. Metropolitan Areas - In addition to the regional planning body legislation, the DNP plans to introduce legislation which would provide a legal framework for the creation of metropolitan area governments in the nation's largest cities. This would not involve the creation of a unitary government for the cities in the metropolitan area, but rather would provide for coordination in carrying out governmental activities.

c. National Urban Studies Institute - A group of Colombian public and private institutions concerned with urban problems have recently been involved in the creation of a National Urban Studies Institute. The principal functions of such an Institute would be data collection and analysis on urban problems, training of professionals in the urban problem area and coordination of the activities of the entities in the urban field.

3. Conclusions - There is an adequate network of planning entities concerned with regional and urban problems. However, except for large cities and departments, these entities lack depth of professional staff. While outside services can be contracted, it is likely that many municipalities lack the resources to do so.

Based on impressionistic data, it also seems that there is great variation in the level of competence amongst planning units as regards the procedures and methodology of planning.

The problem of coordination among planning bodies, and especially the provision of an adequate legal framework towards this end, is quite serious. Further analysis is necessary to indicate the possibilities and direction for structural reform in the planning system in regard to legal status of the agencies, administrative and procedural reform, and coordination between planning bodies. If the regional planning legislation described above becomes law or if decentralized regional bodies are created under the DNP's decree authority, this would significantly reduce the problems of achieving coordination.

As concerns the problems of lack of personnel and quality of techniques used, there is a strong case to be made for the creation of in-service training program for Colombian professionals concerned with urban and regional planning and also for strengthening university faculties which deal with planning and with urban and regional affairs.

III. ACTION PROGRAM

A. Basic Principles and Method of Operation

Certain basic principles have guided the design of a program structured to fulfill the goals spelled out in Section I, viewed in the light of the Analysis in Section II.

The first principle is that the program should be a national level program designed to channel funds for development activities to any community or entity which can meet established requisites. An alternative to this approach will be discussed below. The basic motivation for choosing such a system is: (1) the political difficulty of favoring any one particular region of the country, and (2) its innate relationship to principle No. 2.

The second major principle is that funds for new regional and urban projects whether infrastructure or industrial investment should be made available in response to local initiative and efforts, rather than being programmed from above. Thus, the final allocation of resources will be determined on a market basis. By setting suitable criteria on how to determine the adequacy of the local effort and by adjusting same as necessary, it should be possible to prevent too wide a dispersion of effort.

The third major principle is to utilize for program implementation existing institutions, or to encourage multiplication of institutions for which Colombian prototypes already exist, rather than attempt to create new and untested institutions. Within this context, considerable emphasis would be placed on institutional development.

Within the above framework, AID funds would be channeled into two or three national level institutions which have the present or potential capacity for disbursing funds to regional entities, intermediate credit institutions, or other action agencies. The GOC has suggested two such national vehicles: The Bank of the Republic's (BOR) Fondo Financiera Industrial for activities relating to the job creation objective, and the BOR's Fondo de Desarrollo Urbano for activities.

The role of these institutions will be discussed later in this section. The funds allocated for the technical assistance and evaluation componenets of the program would be administered by the DNP, which would also provide overall supervision of the program on the part of the GOC.

The national institutions which receive AID funds would release them in block form to local level institutions which met the agreed criteria, and would control disbursement on the basis of relatively general criteria. Allocation between entities would be provisional and there should be great flexibility to shift allocations. This is necessary since local initiative in identifying possible projects and requesting assistance would finally determine the allocation of funds. Such a system would promote felxibility, minimize bureaucratic delay, and be responsive to local initiative.

In setting criteria for release of funds, the terms and conditions for public investment in infrastructure should be relatively easy so as to provide the widest possible utilization of such funds. However, the criteria for industrial investment should be close to market critieria so as to ensure that uneconomic investment will be avoided.

It should also be noted that the specific activities which are proposed in following sections are intended as illustrative only. Considerable further discussion with the GOC will be necessary before firming this up.

B. Alternative Approaches

As an alternative to the relatively flexible and open system described above, the Mission has considered the possibility of channeling all or a high proportion of loan funds to one region. The benefit to be achieved from such an approach is a focus of investment in one area to produce easily measurable results rather than disbursement of funds on a national basis that might result in a series of unrelated projects.

The Mission has decided against the one region approach for two reasons. Placing all or a major portion of investment funds in one region with relatively limited opportunities for development would probably result in investment in uneconomic enterprises due to the pressure to utilize funds. Moreover, since there seems to be a small number of dynamic intermediate cities which will very likely make first claim on funds for both industrial and infrastructure projects, the program structure described above will probably result in de facto geographic concentration of investment in three or four areas, producing cumulative and measurable results in these areas. It is clear that a good deal of infrastructure investment may be made in less dynamic cities which may or may not have the potential for development such that they would have an impact on migration. However, some of these cities may in time develop to the point where they will be ready to "take off." In any event there is an intrinsic social value in such investment.

C. Other Donors

The IDB has recently developed a set of loan standards for urban programs, which it seems to us are in general agreement with the proposals in this document. Also, the IBRD has recently created an Urban Development Division. We understand that the IBRD plans to send a team of experts to Colombia and to other countries towards the end of this year as part of a research effort to determine what role the Bank might play in urban development projects. Finally, the local representatives of the Ford Foundation have been doing preliminary studies in this area of activity in an attempt to familiarize themselves with the local problems.

Since the achievement of the objectives set forth for this program, plus other urban development needs which it is not proposed to deal with in this context, are enormous, an essential part of the strategy should be to invite the participation of other donors.

D. Activities for Promoting Investment and Job Creation in Medium-Sized Cities

Activity #1 Expansion of credit available for industrial investment in intermediate cities.

1. Purpose of the activity - Section II-A of this Annex suggests that expansion of small and medium industries in general, and particularly in smaller cities, is constrained by lack of access to credit. Both a larger total volume of credit, and more aggressive promotion efforts on the

part of intermediate credit institutions might significantly increase this type of investment in intermediate cities. Such investment is particularly desirable because it is usually labor intensive. (Industries employing between 5 and 99 workers on the average use roughly one-sixth the capital per worker as do larger firms.)

Larger firms in general have better access to credit. However, in view of their lack of interest in investing outside of the metropolitan cities, preferential credit terms may be useful as an inducement for them to explore such possibilities more vigorously.

The funding mechanism proposed under this activity should therefore have the capacity to channel more funds to small and medium manufacturing firms in intermediate cities, to encourage intermediate credit institutions to promote such investments more energetically, and to induce larger firms to consider more seriously the possibilities of investing outside the metropolitan area.

2. Description of the Activity -

a. The Central Financing Mechanism - As indicated earlier, the GOC has proposed using the Bank of the Republic's Fondo Financiera Industrial (FFI) for this purpose. At present, this program administers a rediscount line of credit for small and medium sized industries with total assets of less than 15 million pesos. With some modifications it could serve as an appropriate mechanism for the action listed below. The other potential candidate for this Central Financing Mechanism is the Instituto de Fomento Industrial (IFI).

In either case, its role would be to channel funds to intermediate credit institutions, including commercial banks, pursuant to criteria designed to develop the purposes of the activity as indicated above.

b. The Intermediate Lending Institutions - These should be encouraged to take a much more active role not only in the supervision of the use of the credit, but in the initial identification and development of investment projects of the type the activity is intended to promote. As noted in Section II, lending institutions currently are less active than they might be in promoting new investment outside of the major metropolitan areas, in part because such loans are costlier to administer and riskier than loans to big firms located in the largest centers. In order to induce the intermediate lending institutions to take a more active role, it is desirable to provide special incentives designed to compensate them for the added administrative burden and risk. This could be accomplished by offering the intermediary institution a commission of up to six percentage points off of the interest charges on the sub-loan instead of the three percentage point maximum allowed at present by the FFI. Another way in which this could be accomplished is by establishing a system of variable rediscount limits depending upon the objective of the proposed loan. In this way an intermediary could possibly rediscount greater than the current 65% maximum of a loan if certain overall regional-urban program objectives were to be accomplished with the project being financed.

Increased capacity to undertake feasibility studies and related promotional and technical assistance is an essential complement to an increased volume of credit for intermediate cities, along with incentive devices designed to encourage more aggressive identification and development of potential opportunities. It may be desirable to set aside funds to assist with feasibility studies and promotional and technical assistance operations. These funds could be administered by the Central Financing Mechanism, as an adjunct to provision of loan funds.

Activity #2 Provision of Equity Capital to Select Intermediate Financial and Development Institutions.

1. Purpose of the activity - Apart from the lending functions of the Central Financial Mechanism there may also be a need for the provision of equity capital to assist in the formation of intermediate credit institutions and development corporations as well as to round out the capital structure of existing institutions. A means of augmenting the availability of equity capital for these purposes is an important complement to the flow of credit proposed under Activity #1.

2. Description of the Activity -

The operations of existing intermediate credit institutions extend to many regions of the country, but provide little or no service to some regions. To serve more isolated areas, branch offices of established corporations or development banks or the creation of new corporations may be desirable. If the national government were willing to put up a minority share of the equity capital required, existing institutions might be induced to establish branch offices or local groups might be stimulated to mobilize sufficient capital to establish a new financing institution in areas presently poorly served. Also, this type of action would enable intermediaries, in their turn, to take larger equity positions in firms in intermediate cities than at present. In this fashion, financing of industrial parks, where this was indicated, could also be facilitated. The Central Financing Mechanism would administer funds available for equity investment, and would assess applications for equity capital in terms of economic viability and the difficulty or ease of access to alternative sources of credit for investors in the area to be served.

Activity #3 Development of Industrial Promotion and Development Institutes.

1. Purpose of the activity - Locally based and organized promotional institutions other than intermediate credit institutions can play an important role in identifying and carrying out pre-feasibility studies with regard to new industries. These institutions would be formed and supported by associations of businessmen, financial entities, chambers of commerce, etc. A functioning example of this type of institution is the Fundación para el Desarrollo Industrial del Valle (FDI) which carries out studies to identify problems impeding industrial growth, possible solutions to these problems, and overall industrial growth potential.

2. Description of the activity - The Central Financing Mechanism would be authorized to make grants to entities of the type indicated above on a matching or other ratio basis relating to local subscriptions to the promotion institute. Criteria regarding organization, scope of operations, etc. which the local institution would have to meet in order to be eligible for grants will have to be developed.

Activity #4 Special Incentives to Promote the Establishment of Large Firms in Intermediate Cities.

1. Purpose of the activity - As indicated in Section II above, there may be other factors than credit which could influence the decisions of large firms to establish new or expansion plants in intermediate cities. These include such items as tax benefits and labor law preferences. Another item which could be considered for financing under the proposed program would be the training of the work force of the new plant in the selected city at no cost to the firm.

2. Description of the activity - For firms which met the criteria indicated above, the Central Financing Mechanism would make available to SENA the funds necessary to carry out a training program previously agreed to between SENA and the interested firm.

E. Activities for Improving Infrastructure and Services in Large and Intermediate Cities

Activity #1 Stimulate Creation of Publically Owned Departmental Municipal Development Banks or Development Corporations

1. Purpose of the activity - The purpose of this activity is, through stimulation of the development of publically owned departmental development entities, similar to the Instituto para el Desarrollo de Antioquio described in Section II.B, to assist Colombian efforts to provide or improve basic infrastructure (especially power, water, sewerage disposal, streets and schools) in urban areas and on a departmental level. In coordination with the financial activities of the Banks or similar entities, technical assistance would be provided to enable the urban centers assisted to increase their revenue base and collection services, to improve their management and to provide project guidance to insure successful problem solving at the local level.

2. Description of the activity -

a. Central Financing Mechanism - The entity proposed by the GOC through which to channel funds either for credit or equity investment in departmental level municipal banks, development corporations, public service entities and, in general, all implementing agencies for infrastructive activities is the Fondo Financiero de Desarrollo Urbano (FFDU). The FFDU is part of the Bank of the Republic (BOR) and would require some modification of its functions if it were to carry out the proposed series of activities. In principle, however, the FFDU, or perhaps in the case of equity investment the BOR itself, would seem to be an appropriate instrument through which to channel AID generated local currency.

b. <u>The Regional Banks or Development Corporations</u> - The Central Financing Mechanism would provide a line of credit for the operations of these banks and corporations. This might be in the form of direct loans, or a rediscounting facility, or both. In addition, the Central Financing Mechanism would take an equity position in these institutions.

The criteria for assistance in the form of equity investment to the proposed development banks is predicated on providing additional resources proportionate to departmental provision of resources for such entities. While the exact formula is yet to be determined it would probably reflect the following principles:

1) That the amount should be substantially less than that provided from non-central government sources to insure that the entities would represent efforts and commitments to development at other than the central government level.

2) That additional increments should be provided for efforts in the poorer departments.

3) That the Central Government taking up of stock should be a one-time operation.

4) That the first call on the bank's resources should be reserved for investment in intermediate and smaller cities, with standards which set population limits defining such cities and the proportion of fund they may receive determined on the basis of departmental conditions.

Activity #2 Strengthening Public Service Entities -

1. Purpose of the activity - The basic purpose of strengthening the operation of valorization funds and Empresas Municipales will be to support the installation of infrastructure in intermediate cities and secondarily in major cities; basically the same major objectives to be achieved through the establishment of departmental municipal banks. The purpose of providing a mechanism through which these public service entities can expand their operations is to establish an alternative and complimentary system for financing urban infrastructure in view of the fact that it may not be feasible or desirable to establish departmental municipal banks in all areas of the country.

2. Description of the activity - The Central Financing Mechanism would, as it presently does, provide a rediscounting facility for loans made by financial intermediaries to valorization revolving funds maintained by Oficinas de Valorization and by Municipal Enterprises. For municipalities located in departments whose GNP is in the lower quartile, the possibility of direct loans from the Central Financing Mechanism to the revolving fund could be considered.

Activity #3 Strengthening National Housing Agency Low-Income Programs -

1. Purpose of the activity - The national housing agency with which this activity is concerned is the Instituto de Credito Territorial (ICT). There are two basic purposes to be achieved by strengthening the low income housing and related services operations of the ICT:

- Improvement of living conditions in major urban cities.

- Expansion of low income accommodations in intermediate cities.

The ICT has two programs which can be expanded and/or adapted to achieve the above objectives. These are its service programs, the Fondo de Redes and the Habilitación de Barrios. In the case of the large cities, these instruments would be utilized to improve existing housing conditions in marginal neighborhoods. Concentration would be on improvement of existing conditions rather than expanding the housing supply. The idea is to avoid involvement in housing construction programs and to avoid a significant increase in housing supply that may stimulate counterproductive increases in migration to the major cities. The programs supported will generally involve installation of electric, sanitary and water lines, paving of streets, and improvement of existing housing. Also in the large cities, in addition to existing programs new approaches to the provision of low-income housing should be considered. Such approaches may include the development of site and service projects within the Habilitación de Barrios program, or the development of a shell housing program with a construction materials cooperative. SENA would be called upon for the latter activity. Finally, a loan program on easy terms to private sub-dividers may be useful to avoid the creation of unurbanized neighborhoods or "barrios pirates." If financing on relatively easy terms were available it might be feasible to enforce sub-division regulations. Such an activity might be included as part of the Fondo de Redes program.

For the intermediate cities, the objective is to provide accommodations to migrants. Again the aim will be to avoid involvement in housing construction programs, but rather to insure that people arriving in a city will be able to obtain homesites with appropriate land tenure and necessary public services. Site and service projects could be utilized for this purpose. Also in the intermediate cities, the possibility of establishing an ICT revolving fund from which communities could borrow to purchase land for future population growth so that they will be in a position to deal with immigrants in an organized manner, should be considered. The city of Buga for example has avoided the formation of tugurios because it distributed unused municipal land to immigrants and installed necessary public services.

2. Description of the activity - Funds for the purposes indicated above could be either channeled to ICT through the Central Financing Mechanism or made available directly to ICT. Since ICT is organized on a decentralized basis and maintains offices in most departmental capitals, it has direct contact with local conditions and can work directly and effectively with concerned local institutions which, under present ICT rules, are required to make a contribution of from

20 to 40% of the costs of projects. (Other activities indicated earlier would, of course, assist municipalities in securing the funds for the local contribution if they considered these ICT programs to be of sufficient priority.)

In general, it would appear reasonable to make assistance to major cities available on a first-come first-serve basis. Assistance to intermediate cities to expand accommodations for migrants should be available to all intermediate cities which can demonstrate a need for such assistance. It would be expected that only cities experiencing relatively rapid growth would utilize these programs.

4. Other Activities - The description of activities above is not intended to be exhaustive. Several additional possibilities for program activities are worth investigation. The GOC has identified several areas that are of interest including improvement of large city public transportation and improvement of health facilities.

F. Activities for Improving Planning Capacity

As indicated in Section II.C, planning agencies and entities at the local level need strengthening via a variety of technical assistance and other inputs. The GOC shares this conviction, but has reserved its position with regard to the suitability of financing the technical assistance which would have to be paid for in foreign exchange under a loan. Conceivably, other donors might be willing to provide all or part of the requirement on a grant basis.

The following activities should be considered as illustrative methods of:

- Strengthening the Colombian capacity for undertaking urban and regional planning, the ability to train personnel, establish effective administrative procedures and achieve coordination in planning and among planning and implementation agencies.

- Identifying opportunities for private and public investment and performing necessary economic base and social analysis to support request for funds; and thereby allowing intermediate cities to overcome the disadvantages they face compared with large cities, in identifying development opportunities and supporting their requests for improvement funds and credit.

1. Planning Assistance - Two basically complimentary approaches to developing planning structures and capacity to fulfill the above objectives are proposed. These are:

a. To distribute funds and consultative personnel (using the National Planning Department as the central mechanism), to public planning agencies at all government levels within a single region. The goal of such program would be to demonstrate techniques for structural improvement of planning institutions and improvement of planning methodology. Structural improvement might include strengthening analysis and evaluation techniques, administrative procedures, training programs, and coordination of programs and improvement of legal and administrative relationships among governmental bodies. Consultant services could be provided by regional and urban interdisciplinary teams of specialists in financial management, planning, training and project design and implementation.

b. To provide grant funding to local communities in connection with the provision of credit so that the community may hire consultants to study local problems and develop programs and project proposals. Such a program would have the advantage of providing for the exercise of local initiative and optimization in the utilization of existing expertise. In addition, it would provide a means for stimulating the development of private Colombian planning firms.

2. Training Programs - In support of the planning assistance component of the program, training programs should be developed for personnel at the professional and sub-professional level. These might include:

a. The establishment of an in-service training program. The training program might be carried out within a government agency an autonomous urban affairs center, or in an existing planning department of a Colombian university.

b. A program to strengthen various aspects of programs of Colombian universities related to urban and regional development. A substantially expanded corps of trained professionalsin urban and regional affairs will be required to carry out national development goals. Current university programs may be expanded by provisions of in-country scholarships and augmenting teaching services by the utilization of visiting consultants of the urban-regional development program.

c. A program of scholarships for participant training in United States universities to provide prompt expansion of professional resources available for teaching of planning and for use in the program. It is proposed that such training be structured on a work-study basis in 3 to 4 months periods if possible so that the participants can return for job training with an appropriate agency.

G. Promotional and Informational Activities

Since the basic approach used in designing the preceding groups of activities is one of National Agencies being in a position to respond to local initiatives, it is important that officials and businessmen at the local level be aware of the possibilities open to them, and of means by which they can get assistance in developing local initiatives. With this end in mind, the program should include funds for such activities as sponsoring seminars in intermediate cities, conducting round table sessions with appropriate professional associations, e.g. of mayors, small businessmen, heads of intermediate credit institutions. Provision should also be made for publicity, preparing and distributing brochures, and similar informational devices.

H. Evaluation

Both the Mission and the GOC are agreed that the program must make provision -- from its inception -- for a carefully structured evaluation mechanism, designed both to measure results and also to serve as a management tool for redirecting the activities of the program as necessary. Time has not permitted developing specific proposals for this aspect of the program at this time.