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**AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT**



# **DEVELOPMENT ASSISTANCE PROGRAM**

## **FY 1975**

### **COLOMBIA**

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**DEPARTMENT  
OF  
STATE**

DECEMBER 1973



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DEVELOPMENT ASSISTANCE PROGRAM  
FOR COLOMBIA  
FY 1975

Prepared by the United States AID Mission to Colombia  
December, 1973

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PART ONE: THE FUTURE OF AID IN COLOMBIA

The current status of the USAID's sectoral strategy, Colombia's balance of payments picture, the new AID legislation, and Colombia's political transition all suggest major changes in the USAID strategy. Each of these factors is discussed below.

A. The Current Status of USAID's Sectoral Strategy

The strategy in effect since 1970 has already achieved one of its primary objectives of substantially increasing government investment in the sectors and sub-sectors of high social priority. Using GOC sectoral definitions, the four sectors covered by current loans -- agriculture, education, health, and urban problems -- received 27.2% of the investment budget of the Central Government in CY 1970; in CY 1971 the percentage was 32.3; in CY 1972, 43.6; and it is expected to be 55% in CY 1973. During this same period, the total investment budget grew by 40% in real terms. The USAID sector strategy has always assumed that eventually the share of the GOC budget going to the four priority sectors would be satisfactory, and that therefore increases would be roughly proportional to increases in the total budget. We believe that we may now be reaching such a satisfactory level and therefore a point of diminishing returns on future sector lending. A reduction in the rate of growth of the four priority sectors may be necessary in order to absorb completely the impact of the big investment push of the last several years. In education, for example, the major short-run need may be improved organization, to allow the system to catch up with the investment push. (The health sector, however, may be an exception to the above generalization, in that the major short-run need may continue to be increased investment.)

B. Balance of Payments

Our balance of payments analysis suggests that our bilateral assistance can continue to decline. Colombia's external sector has been performing extremely well and is expected to continue to do so. Exports increased 30% in 1972, and are estimated to increase 22% in 1973 (both figures are on a registration basis). Foreign exchange reserves are around \$430 million, representing nearly five months' imports, the highest level in many years. However, satisfaction with recent export

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performance should be tempered with some concern about possible future trends. Much of the recent growth of exports is due to the increase in world commodity prices rather than to quantity increases. Commodity prices are historically unstable, and it is possible that volume increases in Colombian exports over the near term could be largely offset by decline in prices. A recession in the industrial countries over the near term would inevitably reduce Colombian export growth. Any of a large number of factors (e.g. coffee prices, capital flows, petroleum imports or exports, changed external credit terms) could cause wide swings in the balance of payment picture.

Multilateral assistance and bilateral aid from other countries has been increasing sharply. The World Bank and the Interamerican Development Bank have increased disbursements from about \$75 million per year during the 1965-71 period to more than twice that currently. Activity by other bilateral sources of aid has shown a similar increase. The change in external lending commitments is even more striking: Other than AID, these have increased from an annual average of \$100 million per year during most of the 1960s to an average exceeding \$300 million over the past several years. The 1973 level is expected to be even higher, with loan signings exceeding \$400 million.

In view of Colombia's growing economy, the increasing flow of external resources from other sources, and the many contingencies, it is difficult to make an arithmetic balance of payments justification of a specific AID assistance level. Our projected levels are consistent with the balance of payments analysis, which shows a continued but relatively small external resource gap. But, in view of the small magnitude of future AID lending in comparison with possible deviations from the projections, we consider balance of payments requirements to be an essentially neutral factor in determining the level of our bilateral assistance (within the limits of our recommended levels). The justification must be made on other grounds.

### C. The New AID Legislation

Since USAID/Colombia's program has long been heavily concentrated on direct benefits to lower-income groups in the three sectors stressed in the new legislation -- agriculture, education, and health and population --

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the necessity for change may be less than in other countries. Nevertheless, several questions are raised. Will it be necessary to phase out of the urban sector? Will substantial funding be available for health programs not related to population control? Will large-scale capital transfers for local currency financing still be available?

D. Colombia's Political Transition

National elections will be held in April, 1974. Since these elections mark the end of the National Accord that provided for the alternation of the Presidency between the two traditional parties, the election may have more impact on policies and programs than have recent elections. Nothing we have detected thus far in party platforms or campaign oratory would lead us to believe that either of the principal candidates would seriously question the basic elements and thrust of the ongoing sector programs. There could, however, be shifts in priorities and new initiatives. Thus, the election suggests the desirability of ensuring that new AID activity is in tune with the developmental priorities of the new government.

The first three factors discussed above suggest redefinition of AID's role in Colombia, while the fourth suggests a time-frame in which to make this redefinition. This leads us to propose two strategies: (a) an interim strategy, covering commitments during the remainder of FY 1974, and disbursement needs through CY 1975; and (b) a new relationship to be developed with the government elected in April, 1974, to consist essentially of a response to GOC initiatives in agriculture and nutrition, health and population, and education and human resource development.

E. The Interim Strategy

As indicated earlier, investment in our four priority sectors has reached historic levels both in absolute and relative terms. These levels provide the financing to carry out a series of policy changes, institutional reforms, and innovative pilot activities. We cannot, however, be sure that these new levels have become established practice and that a sufficient "vested interest" has developed to insure their maintenance without the spur and stimulus of AID lending. This is particularly true at present, when there are strong pressures against increases in the total investment budget for CY 1974, coupled with pressures from groups interested in physical infrastructure to recoup their earlier favored position. During

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a period of budget austerity, there is little doubt that the pressure would be felt most heavily by the innovative activities and in the execution of some of the new policies dealing with low-income groups, because they are the most difficult to implement and have less effective lobbies. Consequently, the interim strategy is simply one of attempting to ensure the maintenance of the new levels and the consolidation or solidification of the innovations embodied therein, as adjusted by experience. In short, we hope to induce the GOC to maintain the same relative budgetary allocations for USAID-supported priority programs. However, the USAID share of total disbursements for these programs would be reduced in CY 1974 and CY 1975 from the share in CY 1973 and previous years. Thus, the budgetary shock of an abrupt termination of USAID sector lending would be avoided.

This strategy was implicitly accepted by AID/W in authorizing Agriculture Sector Loan VI and Education Sector Loan V, which we expect to sign shortly. Both loans cover disbursements for CY 1974 and CY 1975 with USAID's contribution, both absolutely and relatively, substantially less than in CY 1973.

We are prepared to apply the same interim strategy to the health and urban sectors, assuming the GOC takes the necessary initiative. In the case of health, we expect to authorize another sector loan late in FY 1974 in the order of \$25 million to cover disbursements through CY 1975. We do not expect to make another urban sector loan as such, but we are prepared to be responsive to strong GOC interest in sustaining or increasing social programs such as slum clearance, sites and services, and labor-intensive small industry; we estimate that lending for these purposes might be \$15 million. We do not rule out modest GOC initiatives in new program areas (e. g. nutrition) which could lead to FY 1974 loans but we consider them unlikely.

Summary of Estimated FY 1974 Authorizations

Education	\$10 million (actual)	(\$15 million authorized 6/'73)
Agriculture	-0-	(\$33 million authorized 6/'73)
Health	\$25 million	
Urban	<u>\$15 million</u>	
Total	<u>\$50 million</u>	

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Since we already deobligated US\$12 million in FY 1974, and since it is likely that approximately US\$15 million of the \$33.5 million authorized for Agriculture Sector Loan VI will be deobligated, the net new authorizations for FY 1974 would only be about \$23 million.

In spite of the sharply reduced net lending level in FY 1974, its impact on the GOC budgetary cycle would be one of a very gently descending curve because of pipeline effects from current and already authorized loans. AID disbursements in the four sectors are estimated to be 1,600 million pesos in CY 1973; 1,550 million pesos in CY 1974; and 1,450 million pesos in CY 1975. This carryover should facilitate the transitional relationship with a new government and provide a desirable base from which to develop a new relationship without any feeling of crisis or undue pressure.

While we plan to move ahead with IRRs, CAPs, and Loan Authorizations, on the basis of discussions with the current GOC administration, we would not intend to sign Loan Agreements (except for the education and agriculture sector loans already authorized) until we have had an opportunity to discuss them with the government-elect (after the April elections) and to assure ourselves of its support.

Lastly, pending the installation of the new government, we intend to undertake an intensive review of development issues, policies, bottlenecks, etc., relying on extensive TDY assistance and on knowledgeable Colombians, both inside and outside government, and then, after the election, on representatives of the winning candidates.

F. The New AID Relationship

In approaching a possible restructuring of the AID program in Colombia, we are assuming a successful result of the interim strategy, i.e., a consolidation by the end of CY 1975 of the gains sought through the current sector programs. We are thus concerned here with FY 1975 and with implementation beginning in mid-CY 1975 at the earliest.

For Congressional presentation purposes, we are recommending an arbitrary FY 1975 obligation level of US\$40 million. While, for the reasons set forth earlier in this paper, we are currently assuming a downward trend in AID lending to Colombia, we would not want to rule out

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the possibility of a reversal in the trend should the new government (with Consultative Group endorsement) decide to try for an 8-10% growth rate, take the necessary steps concerning public sector domestic savings, import policy, etc., and also press forward with a substantially expanded and innovative social program consistent with AID's priorities.

The new AID legislation, specifically the statement of policy, will provide the basic criteria and limitations for the assistance relationship with the new government:

1. Agriculture and nutrition, health and population, and education and human resource development will be our areas of joint interest. Programs addressing other social problems (e.g. employment-generation, environment, public administration) will also be considered, subject to AID/W guidance.

2. USAID programs must directly benefit low-income groups.

3. USAID programs must be consistent with GOC plans and priorities. Initiative and strong support for USAID activities must come from the GOC.

4. Problem-solving rather than financial transfers will be the key characteristic. Budget support of existing activities will be de-emphasized. The concern will be with initiation and expansion of essential services to the poorer classes; with research and experimentation with new techniques of mass education, transfer of agricultural technology, rural health services, etc.

5. USAID may work in fewer areas but be more intensely involved. The USAID role may involve more technical assistance and qualitative objectives than in the recent past (but not necessarily with direct-hire staff).

6. USAID will avoid activities which the multilateral agencies are willing and able to handle.

At the earliest possible stage, the USAID intends to undertake a dialogue with the new government, to clarify our areas of interest and capabilities. We will make it clear that the level and nature of USAID

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assistance will depend, almost entirely, on the GOC's ideas, initiatives, and administrative capabilities. The USAID will be prepared to assist, on request, at any stage in the process, from planning, problem analyses, project formulation, administrative improvement, pilot projects, to the expansion of proven activities.

The USAID can continue to play a significant role in Colombian development, despite its lower level of resources. We believe that Colombia continues to offer an excellent opportunity to show real progress in addressing the problems stressed by the US Congress. But to capitalize on the opportunity will require not only a talented USAID, but also flexible mechanisms for drawing on scientific and administrative talents throughout the US.

We believe that AID has some special advantages not available to the multinational agencies:

(a) Flexible, local-cost financing. Clearly, the priority social sectors will continue to require local-cost financing. The financing method used in the present sector loans, because of its speed, flexibility, and relationship to the GOC budgetary cycle, offers an exceptionally effective device for affecting priorities and accelerating implementation of key social programs. We earnestly hope that we will keep this flexible tool even at the sub-sector and project level.

(b) Combination of capital and technical assistance. A problem-solving, or systems, approach to Colombian social goals will require more technical assistance than in recent USAID programs. Many of the problems will not lend themselves to a rigid project approach, with prescribed goals, but will rather involve an evolving process of analysis, testing, evaluation, readjustment, etc. The existence of a field mission and flexible programming techniques should facilitate such an approach.

(c) Extensive ties with US private and non-profit institutions and professionals. AID has made great progress in recent years in building a network of US intellectual and technical resources available to field missions. USAID/Colombia must make a special effort to tap this network and to increase its relevance to Colombia's development problems.

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In brief, Colombia can obtain capital transfers and conventional technical assistance from a variety of sources. If USAID/Colombia is to continue to play a significant role in Colombian development, it must develop a professional partnership with Colombian development leaders, linked to the best brainpower available in the US, to attack comprehensively and systematically the key social problems correctly cited by the US Congress.

The aggregate level of AID assistance in the future will tend to be determined by the extent to which specific problems or problem areas are identified and resource levels necessary to deal effectively with them are calculated. This may imply wide year-to-year fluctuations in AID levels and/or a permanently lowered average level of aid. The essential thing is that AID should no longer be thought of as a major source of across-the-board financial transfers to Colombia. The AID program will rather tend to be a source of professional and limited financial resources to solve special developmental problems.

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PART TWC: COLOMBIAN ECONOMIC PERFORMANCE, DEVELOPMENT STRATEGY, AND FUTURE PROSPECTS

I Current Status of the Colombian Economy

The Colombian economy performed very well in most respects in 1972. GDP grew by 7.1%, the second highest rate of increase in 25 years. The growth was characterized by a marked rise in the rate of increase of industrial and agricultural production, favorable coffee prices, the rapid expansion of minor exports (a 67% increase in the value of registrations), and serious inflationary pressures.

The economic boom appears to be continuing through 1973, and current expectations are that real GDP growth will exceed 7% during the current year. Minor exports have continued to grow rapidly (a 44% increase for the first nine months) and are expected to exceed coffee exports for the first time in history.

The country's external payments' position also improved substantially, with net international monetary reserves held by the Central Bank increasing from \$170 million at the end of 1970, to \$350 million at the end of 1972, and \$460 million in mid-1973.

The principal short-term problem during this period was the resurgence of rapid inflation. The rapid growth of the money supply, due principally to the sharp increase in international reserves, led to a 14.0% rise in consumer prices in 1972 and further 22% rise in prices during the first eleven months of 1973.

A. Economic Growth

Sectoral growth rates are shown in Table I. The most important change was the recovery of the agricultural growth rate, due principally to better weather and the growth of export commodities. Production of exportables such as cattle, cotton, sugar, and bananas grew at impressive rates, but production of commodities intended for the domestic market grew by only 3.2%. Table II shows a breakdown of the growth rate by major macro-economic categories. It is noteworthy that, due to the accumulation of reserves, total supply of goods and services grew by only 5%, or signi-

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ificantly less than GDP. Gross investment rose by 5%, while consumption increased by only 3.8%. Investment financed through the Central Government budget grew by about 24% in real terms, but this increase appears to have been largely offset by a decline in investment by decentralized government agencies from non-budget sources, so that total public sector investment grew only slightly in real terms. The bulk of the growth in investment, therefore, must be due to increased private sector activity.

Available information suggests that 1973 economic growth will probably exceed the 7.1% registered for 1972. The composition of the growth is expected to be relatively similar to 1972, with the exception that construction, in accordance with the National Plan strategy, should show a growth rate substantially higher than the 5% obtained in 1972. Investment is expected to show continued growth, again mainly as a result of increased private sector activity. The export boom is continuing, and reserve accumulations during the year should result in total supply growing less rapidly than total output.

#### B. Trade and Payments

Perhaps the most striking improvement in the economic situation of Colombia in 1972 was in the balance of payments. This is indicated by the balance of payments data for 1971 and 1972 shown in Table III.

The result was an increase in the country's net reserves of \$196 million compared to a loss of \$111 million in 1971. The improvement resulted from a strengthening of all major categories of the balance of payments except private capital flows. Although influenced by buoyant world demand, the significant rise in minor exports must be credited largely to government policies designed to diversify and expand them. Imports stagnated during 1972 despite the great rise in real income and domestic inflationary pressures.

The stagnation of imports during 1972 was due mainly to restrictive import licensing procedures followed by the Central Bank. This, in turn, was principally the result both of a desire to substantially increase international reserve levels and a slowness to respond to the increasingly favorable export earnings. Import controls were relaxed, however, during the first half of 1973, and import registrations for the first nine months of

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the year running about 40% higher than the corresponding period a year earlier. As a consequence, international reserves are expected to fall slightly during the last half of 1973, and perhaps somewhat more rapidly during the first half of 1974.

Exports have continued to boom, and are expected to exceed \$1 billion for the first time. On a registrations basis, exports for the first ten months are 44% above the 1972 level.

### C. Finance and Budgetary Developments

The outstanding feature of the national budget has been the sharp rise of investment expenditure and the lag in current receipts. Current receipts rose during 1972 only by 12%, considerably less than national income at current prices. One of the principal reasons was the significant improvement in Colombia's balance of trade. Stagnant imports resulted in only a 2% increase in customs revenues, while the export boom resulted in a 60% increase in the value of Tax Credit Certificates (CATs) submitted in payment of taxes. Developments during 1971 and 1972 as well as projected trends for 1973 are shown in Table V.

The deficit increased significantly in 1972 as a result of a sharp rise in investment; the deficit was financed largely by foreign borrowing. This had a net inflationary impact since it was largely used to increase foreign exchange reserves rather than to increase imports. In 1973 projected data reflect considerable restraint with respect to current expenditures, but the nearly 40% increase in investment causes the deficit to be about the same size in current terms as in 1972. Whether it, too, will be inflationary will depend on whether foreign borrowing raised to finance the deficit results in an equivalent rise of imports. As noted above, prospects are that reserve levels will begin to decline, so that the borrowing will not be inflationary.

Last year, the GOC borrowed on commercial terms and marketed bonds in international financial centers (for the first time in 40 years) and used the peso proceeds to fund budgetary deficits. This action has been criticized from various quarters as being unsound debt management. The Government has defended these operations on two grounds: (a) that it reestablished Colombia's reputation as a good credit risk in the international

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money market, and (b) given Colombia's relatively favorable debt-service ratio, it enabled the Government to maintain momentum of public investment programs without greatly increasing aggregate debt. In our view, the first point is valid; in future, Colombia doubtless will have to rely to a larger extent on tapping external commercial credit sources. However, such borrowing, except in highly unusual circumstances, should not be used to fill current budgetary gaps, but rather for economic projects which promise a high payout in a relatively short time span. The second defense is accurate: such borrowing did permit continuation of important development programs and, in the long run, will not make much difference in Colombia's total debt structure. However, it is obviously not a recourse to be used lightly and we doubt that it will be repeated soon.

The international agencies seem to agree on the need to improve the tax system in order to speed up the growth of current revenues.

The poor performance in 1972 and only moderately good performance in 1973 reflect difficulties with three major tax components -- income and wealth, customs, and sales. A number of tax reforms were instituted in 1972 and early 1973, which should raise revenues by about 1 billion pesos during 1973. New investment incentive measures, on the other hand, will probably result in tax rebates amounting to about 250 million pesos. In view of mounting inflation and the Government's interest in raising investment, sound budget policy would appear to require a significant increase in tax performance.

D. Price Inflation

After remaining relatively stable for several years at a rate of about 7% per year, inflation began to accelerate in 1971, reaching an annual rate of about 14% during 1971 and 1972. Due principally to rapid rises in food prices, a new acceleration in the rate of price growth took place during 1973, and consumer prices are expected to rise for the year by about 24%.

Monetary variables do not appear to have played a major role in the first phase of this acceleration, as monetary expansion for the three-year period up to the third quarter of 1972 appears to have been maintained at about the historical average. Rather, the phenomenon seems to be principally related to supply problems, including poor performance of some

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agricultural crops due to bad weather, tightened restrictions on the volume of imports, and rising import prices. The second phase of the acceleration, however, seems due in large part to the rapid growth of the money supply during the last half of 1972 and the first half of 1973. This money supply growth resulted primarily from the rapid accumulation of international reserves during the period, due to a combination of rapidly growing export earnings and stagnant imports. The Central Bank acted through a variety of means during the last half of 1972 to reduce domestic credit expansion, but these moves were insufficient to offset the monetary effect of the reserve accumulation.

The GOC took a number of additional measures during the first half of 1973 to attempt to slow down the inflation rate. Imports were liberalized somewhat during the first quarter, and then very substantially during the second quarter. Limitations were placed on export of some agricultural commodities, and additional food imports were authorized. Some efforts were made to reduce government spending, and measures were taken to temporarily suspend private sector borrowing from abroad and sterilize some export earnings through issuance of a "coffee bond." In addition, increased reliance was placed on direct price controls.

These measures appear to have had some impact. International reserves are expected to fall slightly during the last half of the year, monetary growth has slowed somewhat, and the rate of price increase appears to have decelerated. Inflation for the second half of 1973 appears to be running at an annual rate of about 14%.

The inflationary expectations built up over the past several years will hinder further progress, and a new adjustment of the minimum wage, due in December, will probably cause some additional upward pressure on prices. Since Presidential elections are due in April, 1974, no major new deflationary measures are likely before then. Finally, the construction boom resulting from implementation of the National Development Plan is only now beginning to have a substantial impact in aggregate terms, and the demand pressures thus created will lead to additional pressures on prices unless supply response, especially in agriculture, is better than it has been in the recent past. On the other hand, the import liberalization will mitigate somewhat these pressures, for import registrations during the third quarter were running nearly 60% above the level of a year earlier. It should be noted that a substitute, though imperfect, for the import liberalization would be a combination of increased taxes and reduced foreign borrowing. This approach would have the advantage of reducing future debt-service requirements.

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Since there seems to be an average lag between four and six months between registrations and arrivals, additional imports during early 1974 should be playing a significant anti-inflationary role. Taking all these factors into account, it seems unlikely that the inflation rate for 1974 can be held below 14%, and it seems possible that it may be higher. Consequently, inflation will have to continue to be a major concern of the Colombian Government, and attempts to control it through fiscal restraint may well lead to a continuation of the recent slow growth of government investment expenditures.

## II The Strategy of the Colombian National Development Plan

The current National Development Plan for Colombia represents a significant departure from past planning efforts in Colombia and most of Latin America in that it attempts to improve the quality of economic growth by focusing directly on the problems of employment and income distribution. The Plan focuses on four areas: (1) a substantial increase in construction activity; (2) promotion of exports; (3) increased agricultural production; (4) improvements in income distribution, especially through use of the progressive income tax. While these four areas of concentration appear superficially to be independent of each other, in reality -- as will be shown below -- they dovetail together into coherent strategy for speeding up the rate of growth of the Colombian economy through a rapid reduction in unemployment and underemployment rates and improvements in the distribution of income.

Before considering the strategy of the Plan in detail, the diagnosis of the economic problem in Colombia that underpins the Plan strategy merits some examination. The planners note that the economic growth process in Colombia over the past decade has not been satisfactory. Though total product has grown at an annual rate in excess of 5%, and industrial production at a considerably faster rate, unemployment, both absolutely and relatively, appears to have increased over the period. In addition -- though a shortage of capital has traditionally been considered to be the constraint on more rapid growth -- the planners find that much of the capital stock is underutilized, that many production processes, especially in the industrial sector, seem excessively capital-intensive, and that much of the manufacturing sector uses capital-intensive methods to produce consumer goods for the domestic market at prices far in excess of international levels.

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Finally, the planners note that the labor market appears increasingly to have split into two markets -- a traditional labor market where real wages remain stagnant at a low level, and a labor market for the modern industrial sector where wages are much higher and continually increasing. From these problems the planners conclude that the past strategy for economic development through import-substituting industrialization is not capable of breaking the structural bottlenecks that impede Colombian economic development, and that a new approach, based on more efficient use of capital and human resources, is needed.

A. Stimulus to Urban Construction

The planners note that there appears to be a huge unfilled demand for housing in Colombia. Nevertheless, this demand has not expressed itself effectively because of institutional barriers to the channeling of savings into investment in this area. The principal barrier in this field, of course, has been the fact that interest rates have been far too low to stimulate the necessary savings. The Plan proposes, therefore, to eliminate this structural bottleneck, thereby unleashing this potential demand for housing. Given the fact that housing construction is a very labor-intensive industry, especially for unskilled categories, the construction boom will result in rapid growth of urban employment. The income generated by this additional employment will then increase the demand for mass consumption commodities (i. e., food, clothing, and housing) stimulating increased production of these commodities. Since mass consumption goods generally tend to use more labor-intensive production processes than the "restricted consumption" commodities (principally consumer durables) that are consumed by the upper classes, the demand growth will result in faster growth of industrial employment, thus feeding back additional demand for mass consumer goods into the system.

B. Export Promotion

The second phase of the strategy is export promotion. Because sales on international markets require efficient production, exports will tend to use intensively the resources that are abundant in Colombia, and consequently will tend to be relatively labor-intensive, and generative of new employment. The increased export earnings resulting from the success of this phase of the Plan will then allow imports to be liberalized, both

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through tariff reductions and through elimination of administrative controls on individual categories of imports. The increased competition for the industrial sector that results from this liberalization will force producers of restricted consumption goods that were previously heavily protected to either increase their efficiency or go out of business. To some extent the industrial sector will find that it cannot compete with imports in the area of restricted consumption goods, and will tend to shift its output toward the types of goods that can be produced efficiently in Colombia. Thus, the composition of output from the industrial sector will gradually shift from one of import substitution regardless of the cost, to production of goods that can be produced efficiently by international standards. This shift in the production structure will further stimulate exports directly because of the increased efficiency of industry and indirectly by reducing the cost distortions that result to the finished-goods industry from having to purchase excessively priced intermediate goods and industrial raw materials.

Thus, the industrial sector will tend to be pushed toward efficiency by international standards by the competition of imports. In addition, however, it will tend to be pulled toward efficient production by the shift in demand for industrial products. As noted above, the employment generated by increased construction and export activity will stimulate demand for mass consumption goods, and thus increase the potential profitability of production of this type of commodity.

### C. Increased Agricultural Production

The third phase of the Plan is the stimulation of agricultural production. The planners argue that agricultural production for the domestic market has grown only slowly in the past because of insufficiency of effective demand for these products. Demand has tended to be relatively inelastic, so that increases in production led to reduced prices and lower amounts of income to the agricultural sector. By generating employment among wage earners and thus increasing the effective demand of the lower-income strata of the economy, the resulting increases in effective demand will induce increases in agricultural output and higher farm incomes. In addition to relying on this induced-demand mechanism, the Plan proposes increased efforts to directly increase agricultural productivity through technical assistance.

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D. Income Redistribution

The fourth phase of the Plan is the redistribution of income through the use of progressive taxation. The planners argue that the progressive income tax is the best mechanism for income redistribution. They argue, nevertheless, that the nominal income tax rates are already sufficiently or perhaps excessively progressive, and that the major thrust of tax reform should be towards the elimination of tax exemptions and other means of tax avoidance for those in high tax brackets. These proposed tax reforms point in the same direction as the other phases of the Plan strategy, since they would tax consumers of restricted consumption goods more heavily than consumers of mass consumption goods, thus further channeling the composition of demand toward the latter type of commodity. In addition, the heavier taxation would allow expansion of government programs in the social services aimed at improving the quality of life of the poorer strata of the population.

E. Comment on The Strategies

Thus, the four aspects of the Plan complement each other, and together amount to a concerted plan for stimulating economic growth through employment creation and better utilization of available resources. In addition, the Plan appears to be generally feasible, relying as it does largely on market forces to achieve the structural changes that are proposed. No impossible planning or implementation targets are set for government by the Plan strategy. Finally, the Plan -- as a growth strategy -- appears to embody the existing state of knowledge of how to promote rapid and broad-based economic development. This is not to say that all of the mechanisms outlined above will work in practice in the expected manner, or that implementation of the Plan strategy will inevitably lead to rapid growth, but only that, given the current state of understanding of the development process, the Plan as a general strategy is a serious effort.

III The Development Strategy in Practice

The Development Strategy of Colombia, described in the previous sections, uses the "four strategies" to seek three principal goals: (1) to attain a growth of GDP in the range of 6.8% to 7.3% per annum as contrasted to the historical rate of 5.1%; (2) to reduce both unemployment

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and underemployment, especially in urban areas, during coming years; (3) to achieve a more equitable distribution of income. The purpose of this section is to consider what has been achieved during 1972 and 1973 and to what extent it can be attributed to the Plan strategy. Because of the short period of time under consideration, it is indeed difficult to give a fair appraisal. Lack of data makes an assessment of developments in the area of unemployment and income distribution impossible. But even if the data were available, it is likely that the 18-month period since initiation of the Plan is insufficient to reflect the impact of new development policies. This is especially true in the sector of housing, where the program has been under way only since late 1972, and where inherent lags exist between investment decisions and their implementation. Consequently, an effort will be made to impute results from such data as is available and from our knowledge of implementation of Plan strategy.

A. Realization of Plan Goals for Growth in GDP and Employment

As for GDP growth, the 7.1% recorded for 1972 falls within the range of the Plan objective. The increase can hardly be attributed to the construction sector, which grew at the somewhat slower rate of 5.0% in 1972. Even consolidated public sector investment increased only from 19.6 billion pesos in 1971 to 22.9 billion pesos in 1972 (17%) in current prices. Adjusting this for the increase in the GDP deflator (13.4%) results in a mere 3% increase in public investment. On the other hand, the real increase in 1971 was 17.7%. Consequently, public investment in 1972 does not appear to have been important in stimulating growth, though the healthy 1971 increase may have favorably influenced growth in 1972, given the lag effects of public investment.

It appears that the increase in exports was the prime mover in development in 1972. Commodity export registrations, which declined from \$664 million in 1970 to \$635 million in 1971, rose to \$820 million in 1972, an increase of 29%. The increase was concentrated almost entirely in minor exports (about half of which are agricultural products) which means that the stimulative effects were widespread and were of pronounced importance in agriculture. Consequently, unemployment and underemployment should have been reduced during 1972, although there are no national data to prove it.

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During the first nine months of 1973, registered exports were at an annual rate of \$1,100 million (compared to \$820 million in 1972), pointing to annual growth in 1973 greater than in 1972 in absolute terms. Thus, exports should again be a leading sector in achieving plan objectives for GDP growth and employment in 1973.

In 1973, however, housing construction activity appears to have increased much more rapidly than in 1972. Construction for the six major cities of the country, which presumably account for the major portion of all construction activity in the country, increased by 33% during the first semester of 1973 compared to the first semester of 1972 on the basis of area being constructed. The increase is not as impressive as the percentage suggests, however, since housing construction during 1972 had declined by about 12% from the 1971 level.

Thus, in accordance with Plan precepts, construction now vies with exports as a leading sector in development. Moreover, except for Bucaramanga, growth in construction is well spread among the six major cities and is no longer concentrated in Bogota as in the past. The Plan (as well as the AID Urban/Regional Sector Loan) emphasized diversification of construction among the various cities as a means of reducing unemployment. The Savings and Loan Corporations established to finance an expansion of home construction activity have contributed in a very important way to that expansion. By October, 1973, savings under the UPAC system of assuring a real rate of return on deposits of from 5.0% to 5.5% had resulted in 4.5 billion pesos in savings and 5.9 billion pesos in approved loans. Moreover, as shown in Table VI loan disbursements under the savings and loan system have tended to double every quarter. Disbursements during the first quarter of 1974 should be only slightly lower than the total credit for housing during the full year 1972. One can only conclude that by 1973 the Plan strategy was working and that goals for exports and investment in construction were being met. If the other assumption of the Plan that other sectors would continue to grow according to historical rates were to be realized in 1973, then Plan goals for raising GDP by about 7% and for reducing unemployment should easily be attained.

#### B. Goal of a More Equitable Income Distribution

The IBRD Report for 1973 contains an annex on income distribution, which concludes that evidence of changes in income distribution over time is inconclusive given the limitations of data. Little can be said as to what

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has occurred in this regard since the beginning of the Four-Year Development Plan in 1971. Nevertheless, employment creation among unskilled workers would clearly tend to improve income distribution. It must be added, however, that the GOC has made no progress toward the Plan goal of improving income distribution through increases in the progressivity of the income tax. Its expenditure patterns have, however, tended to improve income distribution, as discussed in Part IV.

The Plan strategy developed during 1971 against a background of relative price stability (consumer prices increased by about 7% per year from 1968-1970) failed to come to grips with the difficult question of reconciling goals for economic development with the maintenance of price stability. No plans were made to treat with the explosive rise of exports during 1972-1973 and its effects on the growth of money income and prices. Had this been done, the GOC might have been persuaded to institute its forceful anti-inflation program at an earlier date than the spring of 1973, and the rather unprecedented rise of prices during the first half of 1973 might have been avoided.

### C. The UPAC System

The most important implementation measure taken with respect to the National Plan is the stimulation of savings through interest rate reform. The interest rate on savings deposits was raised from 4% per year to 8% in early 1973. Tax incentives were given to earnings from equities, thus increasing their effective return. Interest rates on Mortgage Bank bonds have been raised from 11% to 14.5%, both rates free of taxes. By far the most important measure, however, was the creation on the Unidad de Poder Adquisitivo Constante (UPAC), or inflation-corrected deposit, used by the savings and loan system. The UPAC pays a rate of interest up to 5 1/2% fully corrected for changes in the cost of living. The cost-of-living adjustment is not considered to be real income, and therefore is not taxable. Given the rapid inflation during 1973, UPAC's held for the year would pay a nominal interest rate of nearly 30%, of which only 5% is taxable. Consequently, UPACs are currently much more attractive than any other generally available financial instrument.

The effect of these reforms appears to have substantially increased financial savings. The securities market seems to be recovering from depressed conditions that had existed during 1971 and 1972, savings

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deposits have grown somewhat, and savings in UPACs have grown at a phenomenal rate. A significant decline has occurred, however, in holdings of BCH bonds, probably due to shifts of funds from these bonds to UPACs. It seems highly likely that diversion of funds from other savings instruments to UPACs has also occurred. In fact, some estimates place the percentage of UPAC deposits that represent new savings as low as 20-30%, suggesting that new savings may be only 1 billion to 1.4 billion pesos, rather than the 4.5 billion in system deposits.

Nevertheless, even this lower figure does represent a very substantial amount of new savings. In addition, it is quite possible that, because of the recent rapid inflation, the existence of the UPAC system captured large amounts of savings that would have moved out of other instruments anyway because of the recent rapid inflation and into such less desirable uses as land speculation and sumptuous consumption.

There are two major problems with the system as it currently operates. The first is that the new interest rate structure may not be stable, and that a slow down in the rate of inflation might cause large movements of funds out of UPACs and into other instruments because of higher nominal interest rates. The second, and more serious, problem is that the diversion of funds from other instruments to UPACs may impede investment in sectors other than housing by drying up sources of funds for investment. Nevertheless, it is true that the Plan does envisage some shift of funds from other uses to housing investment, and that the monetary authorities have an adequate supply of instruments with which to allocate credit to other sectors.

The other aspects of the stimulation of the savings and loan system through the UPAC system seem to be working well. In contrast to some predictions when the Plan was published, there has yet been no indication of a shortage of demand for housing under the program. Requests for housing financing have continued to grow rapidly, and the system has considerable flexibility to counteract any future slowdown in demand through the reduction of down payment requirements and the lengthening of maturities of mortgage loans (currently limited to 15 years). Another area of concern, that of building materials and supplies, has performed reasonably close to the planners' expectations. There had been considerable doubt that the construction increase indicated by the Plan could be undertaken without encountering supply bottlenecks in the building supplies industry. Neverthe-

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less, few such bottlenecks have yet occurred, and prices for building materials have risen less over the past year than the consumer price index. Prospects for 1974 are less bright, however, for it appears that the building supplies industry, in general, is currently operating at very near capacity.

D. Conclusion

In the construction sector, the Plan appears to have operated in much the fashion envisaged by the Plan.

Construction activity is booming and appears to be having a positive impact on employment creation. Nevertheless, another year will be needed before quantitative indications of the magnitude of the impact of the strategy will be available. The second phase of the Plan, export expansion, is also working well, though the dynamic export performance is due to the continuation of the incentive arrangement existing at the outset of the Plan, and not to any measures taken under the Plan. The third phase, promotion of agriculture, has not been implemented in any major way. Agriculture continues to be given about the same emphasis as it was before the Plan by the GOC. Nevertheless, agricultural prices have risen over the past year considerably faster than the general price index, so that some significant stimulation to the sector is occurring through market forces.

Finally, as noted above, the Plan's fourth strategy -- that of improving income distribution through progressive taxation -- has not been implemented, though Government investment has clearly operated in this direction.

In aggregate terms, then, the implementation of the Plan has been concentrated primarily on the first phase -- housing construction. The failure so far to make any progress on more progressive taxation has, as indicated elsewhere in this document, reduced the Government's ability to carry out investment programs, but it has not had a serious impact on the central focus of the plan. The failure to make faster progress in agriculture does, however, seem to be more serious. Since both supply and demand for food in the short run tend to be rather inelastic, failure

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of agricultural output to rise rapidly as the new demand is created can cause food prices to move upwards very quickly. This in turn, because food makes up such a large part of the average worker's income, can set off demands for wage increases that finally result in serious inflationary pressures.

Thus, the Plan as presently implemented seems to be meeting two serious problems: first, that supply response in agriculture may be inadequate, causing mounting inflationary pressures; and second, that the attractiveness of the UPAC system for savings may be diverting credit from more productive uses into housing. The extent to which the GOC can successfully deal with these two problems will largely determine the long-run success or failure of the Plan.

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TABLE I

COLOMBIAN SECTORAL GROWTH RATES

(In Constant Prices)

	<u>Annual Rate of Growth (%)</u>		
	<u>1965-1970</u>	<u>1971</u> <u>1/</u>	<u>1972</u> <u>1/</u>
Agriculture	4.8	2.4	5.8
Mining	1.5	2.5	- 6.0
Manufacturing	6.4	8.0	9.6
Const ruction	12.3	9.9	5.0
Electricity, Gas, and Water	5.6	4.9	6.4
Transport and Communications	6.6	6.3	8.4
Commerce	6.8	7.3	9.4
Government	4.9	4.0	5.5
Housing Property	5.8	6.0	6.0
Other Services	4.7	7.0	7.5
	<hr/>	<hr/>	<hr/>
GROSS DOMESTIC PRODUCT	5.8	5.5	7.1

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TABLE II

AGGREGATE SUPPLY AND DEMAND

(In constant Prices)

	<u>Annual Rate of Growth (%)</u>		
	1965-1970	1971 <u>1/</u>	1972 <u>1/</u>
Total Supply	<u>6.3</u>	<u>5.4</u>	<u>4.9</u>
Gross Domestic Product	5.8	5.5	7.1
Imports	10.7	5.2	-9.6
Total Demand	<u>6.3</u>	<u>5.4</u>	<u>4.9</u>
Exports	5.5	5.1	11.0
Consumption	6.1	7.1	3.8
Investment	8.1	-1.1	5.0

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TABLE III

COLOMBIAN BALANCE OF PAYMENTS

(Millions of US Dollars)

	<u>1971</u>	<u>1972</u>
A. Goods & Services (net)	-448.8	-265.7
Exports	754.7	946.6
of which coffee	(404)	(445)
Imports (f. o. b. )	-878.6	-875.9
Services and private transfers (net)	-325.3	-336.4
B. Private Long-term capital	59.4	37.3
C. Official Capital	175.7	318.1
D. Total (A & B & C)	-243.7	89.7
E. Short-term private capital		
net plus errors, etc.	86.1	88.1
F. Allocation of SDR's	16.8	18.0
G. Total (D & E & F & G)	-110.8	195.8
H. Change in net assets (- = a net increase)	110.8	-195.8

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TABLE IV

COLOMBIAN BALANCE OF PAYMENTS

(Millions of US\$)

	<u>1st Semester</u>	
	<u>1972</u>	<u>1973</u>
<u>Current Income</u>	480.4	630.8
Exports:	403.4	516.7
Coffee	(207.7)	(287.6)
Others	(195.7)	(229.1)
Gold	7.9	6.9
Services	69.1	107.2
<u>Current Expenses</u>	488.9	
Imports	341.2	365.0
Services	147.7	175.4
<u>Current Balance</u>	-8.5	90.2
<u>Net Capital Account</u>	29.4	26.8
Change in International Reserves	20.9	117.0

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TABLE VCOLOMBIAN GOVERNMENT FISCAL PERFORMANCE

(Million of Pesos)

	<u>1971</u>	<u>1972</u>	<u>1973 (proj.)</u>
Current Receipts	14,388	16,085	20,170
Current Expenditures	10,173	11,397	13,815 <u>1/</u>
Current Surplus	4,215	4,688	6,355
Investment	5,903	8,362	9,940
Net Deficit	1,688	3,674	3,585
<u>Financing</u>			
Net Foreign Borrowing	1,236	3,291	3,354
Net Domestic Borrowing	505	353	231
Gov't Deposits (increase-) -	53	30	-

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1/ Includes 2,400 million pesos in transfers to local and state government that are classed by GOC as investment.

TABLE VI

DISBURSEMENT OF LOANS UNDER UPAC  
(Millions of Pesos)

<u>Quarter</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
1	--	220	3,500 (P)
2	--	480	
3	--	1110	
4	90	1600(P)	
Annual Total	90	3,410	

P= Projected

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IV Economic Prospects for Colombia and Implications for External Assistance

A. Development of a Macro-economic Model

Although the AID program is not focused specifically on Colombia's macro-economic performance and prospects, the magnitude of our assistance levels suggest we should take these into consideration. To put our proposed AID assistance strategy into a macro-economic context we have attempted to develop estimates of what the Colombian economy might look like over the next several years. To accomplish this objective, a very simple macro model was constructed. The model consists of balance of payments and national income accounts projections, and its format is very similar to the model presented by the World Bank to the Consultative Group in April, 1973. It examines both the import-export and savings-investment gaps. From the model one can infer a rough idea of the likely external assistance requirements, debt service implications, as well as the level of domestic savings required to sustain the postulated 7% real growth rate.

The model deals with many of the key variables such as coffee prices, terms of new debt, and private capital flows which will affect the direction the economy is likely to take in the future. A detailed list of assumptions for both the balance of payments and national income accounts are presented as Annex A of the DAP.

Consistent with the IG request that the Mission begin to prepare an independent assessment of the direction and scope of our AID program to Colombia, this year's assessment of the economic prospects is less dependent on the World Bank analysis than last year's FBS statement, although we did consult informally with the Bank staff. In Annex B, we have attempted to analyze the major differences between our own projections of Colombia's economic prospects and those of the latest World Bank report on this subject.

B. Limitations of the Model

The model as presently structured does not address specifically the important issue of the public sector revenue constraint and, therefore, we will deal with this problem separately. In addition, the model does not provide for an analysis of GOC exchange rate policy which could become an

issue if increases in domestic prices continue at a more rapid rate than devaluation of the peso. Furthermore, since the national income accounts projections are made in constant prices, it is not possible to take directly into account the effects of inflation on the economy nor does it deal with the important issues related to agriculture sector production.

In addition to the things it is not designed to do, the model has two major shortcomings which decision-makers in Washington should keep in mind when reviewing the economic trends and policy implications the model suggests. First is that relatively small changes in any one of the key variables (See Section D 5 below) can have a substantial impact on external assistance requirements. In this connection our model is not unique, and it is useful for us to keep in mind how these key variables change over time either in response to direct government policies or market forces. We hope to run some sensitivity analysis on these key variables in conjunction with the Bank's next model run in March of 1974. The second shortcoming is that, with a few specific exceptions, the model assumes that trends established in the past will dictate the direction the economy will take in the future. In a sense it represents a static view of Colombia's economic prospects. However, on balance, the alternative projection techniques tend to be less attractive because they are even more difficult to justify.

### C. Economic Prospects

It is believed that Colombia's balance of payments prospects are fairly good through 1980. We are predicting that there will be an external resource gap (the difference between imports and exports of goods and services) each year, but it will be relatively small. This can be seen from Table A which shows our projections based on the assumptions outlined in Annex A. If coffee prices should drop precipitously, or should the growth of non-traditional exports slow down appreciably from the projected trends, the resource gap could be quite substantial. Furthermore, should real growth exceed the postulated 7% rate, imports would be expected to increase more quickly than exports in the short run which would also tend to increase the size of the resource gap. Largely as a result of a 250% increase in net factor payments projections between 1972 and 1980, which is anticipated to result from the rapid growth of interest payments on external debt, the current account deficit (the level of foreign savings

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required to meet the postulated growth rate) is projected to grow from \$183 million in 1972 to \$463 million by 1980.

To finance this growing current-account deficit we are anticipating that disbursements on public debt contracted in the post-1972 period will also grow from an estimated \$132 million in 1974 to \$491 million by 1980. This trend is somewhat discouraging, and results from an assumption that most new capital requirements will be met by additional public sector borrowing. It implies that external public assistance requirements will have to increase each year through 1980. In a sense this trend is somewhat misleading because it implicitly assumes that the GOC is faced with a debt service constraint and is unable or unwilling to borrow more through the private sector. Table B shows that Colombia's projected debt service ratio is not likely to be a constraint to a 7% growth path, and suggests that some additional private sector borrowing over and above the amounts shown in our balance of payments projections could be absorbed, thereby reducing somewhat the need for external public assistance. Therefore, we should view our requirements for new public sector disbursements as upper limits. Assuming (a) all new public borrowing through 1980 is at the same terms as new commitments in 1972 (22 years repayment period including a five-year grace period at 5.7% interest per annum), and (b) exports grow at the rates suggested in our balance of payments, we are projecting the debt service to decline over time from approximately 14% in 1972 to 10% by 1980.

Our national income accounts projections are shown on Table C. The accounts were set up to reveal what the domestic savings requirements would be required to achieve the postulated growth rates. The model suggests that domestic savings will have to grow from 19% of GDP, which is the historical average, to between 23 and 24% to meet investment requirements. Table D shows the short-fall in dollars of domestic savings assuming the historical savings rates are not improved over the projection period. The short-fall is projected to increase from about \$370 million in 1974 to \$730 million by 1980. This suggests that the bottleneck to Colombia's development is likely to be the lack of domestic savings. This view is consistent with the conclusion the Mission came to in the 1972 CFS.

It should be noted that the domestic savings gaps postulated should be viewed only as upper limits. This is so because we have assumed the ICOR will remain constant over time. This is not consistent with the historical experience which suggests that ICORs have been falling (see Annex A). Had we assumed declining ICORs, investment requirements to achieve the assumed growth rate would be reduced which would mean less requirements for domestic savings. Based on information supplied in the World Bank Annual Report for 1973, we come to the conclusion (Table I of the Historical Annex) that Colombia's past domestic savings performance has been about average for LDCs in the western hemisphere. To achieve a postulated real growth rate a little higher than that achieved in the region as a whole, Colombia would have to provide a considerable increase in domestic savings. Though recent measures have probably stimulated savings, it is not likely that Colombia will be able to completely achieve these domestic savings targets in the foreseeable future.

One place where there is clearly room for improvement is in the area of public savings. As can be seen from Table E the income elasticity of real tax revenues in 1972 and 1973 was not particularly impressive. Real growth in collections in 1972 was negative. For 1973 we are anticipating some improvement; but we expect that 1% increase in real GDP is likely to generate only a .85% increase in real revenues. It appears that the combination of inefficient tax administration, structural flaws which permit tax avoidance, and tax evasion are becoming increasingly important as a brake on revenue generation. It is impossible to determine at this time what tax policies the GOC is likely to follow in the post-election period but, if recent performance continues, domestic revenue performance could become a major bottleneck to real growth as evidenced by (a) the reduction in aid targets this year which resulted in part from a lack of GOC pesos to match our sector contributions, and (b) the relatively high levels of domestic savings suggested by the model for the future.

D. The Parameters of Foreign Aid Requirements As Suggested by the Model

Our analysis suggest certain implications for our assistance program to Colombia over the next few years.

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### 1. The AID Assistance Level

While the analysis itself does not recommend specific levels, it is clear that, viewed strictly from a balance of payments point of view, our bilateral assistance flows might be reduced more rapidly than we had originally thought possible. Our projections show that the foreign resource gap will be relatively small in the foreseeable future. We are anticipating that Colombia can meet most of its import requirements from its own export capabilities and does not need to rely too heavily on new concessional assistance from AID.

Table F shows the requirements for disbursements of external public capital over the next few years. For example, our analysis suggests that Colombia will require \$132 million in new disbursements in 1974 to grow at 7%. This is about half the level projected by the Bank in its May, 1973, report. If we accept the proposition that AID is the lender of last resort, and if we assume (a) 1974 IDB and IBRD new programs of \$250 million (new disbursements of \$32 million), (b) \$30 million this year in additional AID sector loan carryovers, and (c) \$50 million in public loans from suppliers' credits, bank loans, and bond issues (about the 1972 and 1973 disbursement levels), there will be need for only \$20 million in new US bilateral concessional disbursements including any PL 480 Title I. This assumes the full amount of domestic savings is forthcoming -- which is rather unlikely.

### 2. The Domestic Savings Bottleneck

We do not believe that the GOC will be able to improve domestic savings performance to the upper levels suggested by the model. In any event, we believe it is necessary for the GOC to undertake new tax initiatives and/or other measures to improve domestic savings and dampen inflationary pressure in the post-election period. In this regard, and as noted in the following chapter, both leading Presidential candidates have spoken out on the need to increase revenues and reduce tax exemptions and subsidies. The major macro-economic justification for continued AID lending appears to be to provide local currency counterpart to supplement public savings. We must be careful that AID loans and other external assistance flows do not have the effect of taking the pressure off the GOC to

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increase domestic savings. This suggests that the aid donors ought to study the possibility of using our collective influence in the post-election period to encourage improved GOC performance in the public savings area perhaps by specifying specific performance criteria in conjunction with new assistance.

3. Colombia Enters Period of Transition

From a balance of payments point of view, Colombia can sustain a 7% real growth rate through 1980 without adverse effects on its ability to repay foreign loans. Based on projected strong export performance on non-traditionals we are anticipating that the debt service ratio will decline. An important implication is that somewhat larger flows of new capital can come from private sources with harder terms. Therefore, the analysis suggests that in the future we should encourage more EXIM leading in Colombia, where appropriate, i. e. for projects yielding rather short-term economic payoff.

4. Alternative Growth Rates

It is possible that the GOC and the Bank, after reviewing their projections of early 1973, may come to the same balance of payments conclusions as we have with regard to a 7% real growth rate. On this basis next year's Bank projections might assume a growth rate above 7%. It might do so because (a) higher growth rates will mean more prosperity for Colombia, (b) the Bank is under some pressure to increase its lending levels, and (c) the Bank does not wish to see the bilateral donors contribution fall off too sharply.

5. Meaning of the Model: Indicative But Not Conclusive

From a balance of payments point of view, our macro-economic model suggests that our bilateral assistance flows should decline over time. As is the case with other foreign exchange gap projections, and as noted in the introductory overview, our analysis is sensitive to some key variables such as:

- a. Wider fluctuation in coffee prices than the model suggests;
- b. Greater or lesser private foreign capital flows than the model assumes;

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c. Higher payments for oil imports or new petroleum discoveries which might mean further exports or reduced import requirements in the longer term; and

d. Harder or softer terms on public external credits.

In addition, a possible recession in the industrialized countries could adversely affect the Colombian balance of payments prospects. Therefore, Colombia's need for concessional external assistance could vary widely from our projections. However, if one assumes offsetting errors in the key variables for the next few years, our proposed bilateral assistance requests are consistent with our balance of payments projections.

Our balance of payments projections can be viewed as neutral in determining the level of our bilateral assistance. On the one hand, it does not provide a justification in itself for the levels we are suggesting, because these levels are relatively small when compared to the new external assistance requirements suggested by our model (see Table F). Furthermore, as stated earlier, our proposed levels of aid are consistent with the resource gaps we are projecting.

In any event, it is clear that the Colombian economy needs additional imports to grow, and the more it can import, the higher the growth rate will be. The level of Colombian imports is determined more by the amount of foreign exchange available than by any other factor. If Colombia, in the years ahead, receives a large flow of foreign exchange, it will maintain reasonable levels of reserves, and utilize the balance for imports, with salutary effects on economic development.

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TABLE A  
 CALENDAR YEAR  
 B.O.P. PROJECTIONS  
 (in millions of current US dollars)

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	Actual		Preliminary		Projected						
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
<u>Exports Goods &amp; Services</u>	1000	972	1167	1430	1549	1682	1843	1994	2168	2370	2570
Goods f.o.b.	788	750	936	1175	1268	1373	1503	1620	1757	1918	2080
Coffee	(468)	(399)	(430)	(594)	(606)	(632)	(659)	(658)	(660)	(667)	(670)
Petroleum Crude	(59)	(51)	(31)	(21)	(12)	(0)	(0)	(0)	(0)	(0)	(0)
Other Merchandise	(261)	(300)	(475)	(560)	(650)	(741)	(844)	(962)	(1097)	(1251)	(1400)
Services	212	222	231	255	281	309	340	374	411	452	497
<u>Imports of Goods &amp; Services</u>	-1149	-1285	-1198	-1438	-1697	-1744	-1840	-2008	-2191	-2392	-2610
Goods f.o.b.	-802	-900	-816								
Services	-347	-385	-382								
<u>Resource GAP (I-II)</u>	-149	-313	-31	-8	-148	-62	+3	-14	-23	-22	-11
<u>Net Factor Payments</u>	-180	-176	-186	-213	-246	-280	-308	-355	-374	-420	-470
Interest	-89	-101	-124	-148	-176	-205	-228	-250	-284	-325	-370
Receipts	(16)	(9)	(8)	+12	+12	+12	+12	+13	+14	+15	+16
Payments	(-105)	(-110)	(-132)	NEW	-6	-14	-23	-35	-53	-75	-99
OLD-67					-73	-77	-78	-76	-72	-68	-64
PRIVATE-93					-109	-126	-139	-152	-173	-197	-238
Direct Investment Income	-91	-75	-62	-65	-70	-75	-80	-85	-90	-95	-100
Receipts	(3)	(2)									
Payments	(94)	(77)									
<u>Net Transfers</u>	26	34	34	+33	+32	+31	+30	+29	+28	+27	+26
<u>Current Account (III + IV + V)</u>	-303	-455	-183	-188	-362	-311	-275	-320	-369	-415	-440
<u>Net Public Capital</u>	170	119	243	243	252	196	145	237	285	330	370
On debt Outstanding Through 1972	170	119	243	133	120	33	-41	-80	-100	-96	-90
(Amortization)	(-58)	(-84)	(-101)	(-118)	(-104)	(-108)	(-108)	(-110)	(-116)	(-103)	(-90)
(Disbursements)	(228)	(203)	(344)	(251)	(224)	(141)	(67)	(30)	(16)	(7)	(0)
On Debt Contracted After 1972	0	0	0	110	132	163	206	317	385	426	467
(Amortization)	0	0	0	(0)	(0)	(0)	(0)	(0)	(-6)	(-14)	(-24)
(Disbursements)	0	0	0	(110)	(132)	(163)	(206)	(317)	(391)	(440)	(491)
<u>Net Private Capital</u>	115	126	-29	+105	+110	+115	+120	+125	+130	+135	+140
<u>SDR Allocations</u>	21	17	18	0	0	0	0	0	0	0	0
<u>Reserve Accumulations</u>	6	10	-125	-60	0	0	-10	-42	-46	-50	-55
Short-Term Capital Movements (including errors & Omissions)	-9	183	62	100	0	0	0	0	0	0	0
<u>Gross Reserves at Years End</u>	257	265	390	450	450	450	460	502	548	598	652

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TABLE B

NATIONAL INCOME ACCOUNTS  
(CONSTANT 1970 MILLIONS OF DOLLARS)

	P r o j e c t i o n s										
	Actuals	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Gross National Product	6884	7283	7817	8360	8934	9549	10216	10932	11690	12500	13366
Net Factor Payments	180	168	171	187	211	236	254	271	297	327	358
Gross Domestic Product (1 + 2)	7064	7451	7988	8547	9145	9785	10470	11203	11987	12827	13724
Gross Investment (5 + 6)	1487	1624	1953	2089	2236	2393	2560	2738	2934	3133	3356
Inventory Changes	123	166	153	163	175	187	200	214	229	245	262
Gross Fixed Investment	1364	1458	1800	1926	2061	2206	2360	2524	2705	2888	3094
Imports of Goods & Services	1149	1227	1102	1259	1457	1468	1518	1624	1738	1860	1990
Exports of Goods & Services	1000	928	1073	1252	1330	1416	1521	1613	1720	1843	1975
Resource Gap (7 - 8)	149	299	29	7	127	52	3	11	18	17	15
Net transfers Receipts	26	32	31	29	27	26	25	23	22	21	20
Foreign Savings (2 + 9 - 10)	303	435	169	165	311	262	226	259	293	323	353
Gross National Savings (4-11)	1184	1189	1784	1924	1925	2131	2334	2479	2641	2810	3003
Gross Domestic Savings (2 + 12 - 10)	1338	1325	1924	2082	2109	2341	2563	2727	2916	3116	3341
<u>NATIONAL INCOME ACCOUNTS INDICATORS</u>											
Gross Domestic Savings as Percent of GDP	18.9	17.8	24.1	24.4	23.1	23.9	24.5	24.3	24.3	24.3	24.3
Resource Gap as Percent of GDP	2.11	4.01	.36	.08	1.39	.53	.03	.10	.15	.13	.11
Gross Investment as Percent of GDP	21.05	21.80	24.45	24.44	24.45	24.46	24.45	24.44	24.48	24.43	24.45
GDP Growth Rate	6.7	5.5	7.2	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Overall ICOR	3.52	2.72	3.22	3.22	3.22	3.22	3.22	3.22	3.22	3.22	3.22
Dollar Deflator	100.00	104.72	108.72	114.18	116.50	118.80	121.21	123.64	126.07	128.59	131.17

TABLE C

COLOMBIA'S PROJECTED DEBT  
SERVICE RATIO

(Millions of Current U. S. Dollars)

	Projected										
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Interest Payments Public Debt	43.0	45.6	58.3	67	79	91	101	111	125	143	162
Interest Payments on Private Debt	62.0	64.4	73.7	93	109	126	139	152	173	197	224
Amortization on Public Debt	58.0	84.0	101.0	118	104	108	108	110	116	103	90
Exports of Goods and Services	1000	972	1167	1430	1549	1682	1843	1994	2168	2370	2591
Traditional Debt Service Ratio	10.1	13.3	13.7	12.9	11.8	11.8	11.3	11.1	11.1	10.4	9.7
$(1) + (3) \times 100$ 4											
Debt Service Ratio Including Interest on Private Debt	16.3	20.0	20.0	19.4	18.9	19.3	18.9	18.7	19.1	18.7	18.4
$(1) + (2) + (3) \times 100$ 4											

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TABLE D

GROSS DOMESTIC SAVINGS  
COMPARISON OF TWO COMPUTATION SYSTEMS  
(Constant 1970 Million Dollars)

	P R O J E C T I O N S										
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Gross Domestic Product	7064	7451	7988	8547	9145	9785	10470	11203	11987	12827	13724
Gross Domestic Savings: System A <sup>1/</sup>	1338	1325	1920	2082	2109	2341	2563	2727	2916	3116	3341
System B <sup>2/</sup>			1518	1624	1738	1859	1989	2129	2278	2437	2608
System A as Percent of GDP	18.9	17.8	24.0	24.4	23.1	23.9	24.5	24.3	24.3	24.3	24.3
System A Minus System B			402	458	371	482	574	598	638	679	733
System B as Percent of System A			79.1	78.0	82.4	79.4	77.6	78.1	78.1	78.2	78.1

<sup>1/</sup> Net Factor Payments plus Gross National Savings Minus Net Transfer Receipts (Mission MACRO Model).

<sup>2/</sup> Nineteen percent of GDP. Historical Average (1960-71).

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TABLE E

## INCOME ELASTICITY OF REAL CURRENT REVENUES

Elasticity =  $\frac{\text{Percentage increase in normal terms from preceding year minus GDP price deflator}}{\text{Real Growth Rate}}$

	<u>Nominal Terms</u> (Billion Pesos)	<u>Real Terms</u>
1970	11.967	$\frac{26.4 - 10.3}{6.7} = 2.40$
1971	14.387	$\frac{20.2 - 10.8}{5.5} = 1.71$
1972	16.085	$\frac{11.8 - 13.4}{7.2} = -.22$
1973	20.010	$\frac{24.4 - 18.0}{7.5} = .85$

\* Estimated projection for 1973.

1. Real Growth Rate: 7.5
2. GDP Deflator Estimate: 18.0
3. Current Revenue Based on Embassy Estimates

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TABLE F

PROJECTION OF DISBURSEMENTS OF  
EXTERNAL PUBLIC CAPITAL  
(Millions of U.S. Dollars)

<u>Disbursements</u>	Actual <u>1972</u>	Projected					
		<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Net Capital	243	243	252	196	145	237	285
Amortization	101	118	104	108	108	110	122
Gross Disbursements	344	361	356	304	253	347	407
Pipeline	---	251	224	141	67	30	16
New Requirements (model)	---	110	132	163	186	317	391
New Requirements (Projected by Bank Table VII.2 May 1973 Report)	---	132	265	345	463	556	
Difference Bank New Disbursements Minus Our Own Estimates	---	<u>22</u>	<u>133</u>	<u>182</u>	<u>277</u>	<u>239</u>	

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PART THREE:THE ECONOMIC AND SOCIAL PLATFORMS OF MAJOR PRESIDENTIAL CANDIDATES

As previously noted, the obvious dilemma we face in writing this DAP is our inability to forecast with precision the substance of the economic and social policy of the next Colombian administration. Given this dilemma, it is of course a speculative exercise to attempt a prognosis of the future role of AID in a policy context which is currently unknown. Nonetheless, we have peered into two crystal balls, seeking a preview of the alternative paths which Colombian policy could take. One crystal ball is a relatively simple macro-economic model found in Part Two above. The other is the following survey of the economic and social planks of the major presidential candidates,\* insofar as they have been revealed to date.

Before examining the positions of the Liberal and Conservative candidates on specific issues, we will venture several generalizations:

First, in terms of ideology and general economic goals, a government led by either party would be "moderate"; a Liberal administration would tilt moderately to the left of a Conservative one in many respects, but the distance between "left" and "right" would not be great.

Second, despite some differences between the two parties in priorities, emphases, and means, there would be substantial continuity in developmental activity because of the character of Colombia's problems, the momentum of ongoing programs, and the fact that both parties are committed to similar fundamental principles, e.g. evolutionary change through democratic processes.

Third, relations with the United States, under either party's leadership, would remain friendly and constructive, with Colombia continuing to play the role of "Latin American common denominator" (as our Ambassador to the OAS has described it).

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\* We limit this discussion to the platforms of the Liberal and Conservative candidates. There are three other parties which have candidates in the presidential race: ANAPO, the Social Christian Democratic Party, and the Union of National Opposition. The latter two are expected to win few votes. ANAPO, whose candidate, Maria Eugenia Rojas de Moreno is the first woman presidential candidate in the history of the Western Hemisphere, can still be characterized as a "major" party though it is beset by ideological dissention and defections. ANAPO's political line is generally described as "populist," which means opposition to the two traditional parties and promises of quick prosperity for all the people. ANAPO has a platform, but it defies useful analysis. Thus, we have not attempted one herein.

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Both Liberal candidate, Alfonso Lopez Michelsen, and Conservative, Alvaro Gomez Hurtado, have taken economic and social development as their major theme in the campaign. Each has spoken out on a wide gamut of economic topics such as inflation, income distribution, taxation, rural development and agrarian reform, education, health, urban problems, natural resources policy, and governmental finance including the role of subsidies and borrowing. For the time being, at least, the candidates have chosen not to show their hands on certain important subjects: e.g. Lopez has largely ignored the question of foreign private investment, while Gomez has been noncommittal on family planning.

Admitting the risk of oversimplification, we would sum up the essence of each candidate's orientation as follows: in seeking "economic and social development," Gomez has looked to greater improvement through overall growth, and Lopez has emphasized the need for more equitable distribution of national income.

The strategic differences between the two, therefore, appear to lie in the model each would choose to move toward essentially the same objectives.

The structure of the Lopez model is still vague at this point. Being the challenger of the party in power, rather than expose concrete propositions to early sniping by opponents, he has unsurprisingly opted for the role of critic, carrying the message that all is not well in the land. He proclaims that suffering and inequality abound and the policies of the Conservative Party are not effective in ameliorating them. His specific remedies are yet to be clearly defined, but his rhetoric tends to imply more direct attacks on the basic causes of economic and social inequity than that of Gomez. For example, he speaks of income redistribution as a task to be undertaken now, while Gomez explicitly and stoutly adheres to the classical line that the pie must be enlarged before it can be cut up into more just proportions.

Gomez is exhorting Colombians "not to fear growth," by which he means headlong economic development along lines similar to the "Brazilian Model" (though he would disown any such analogy). He rejects what he calls "false dilemmas," e.g. between industrial paralysis and pollution; freezing the GNP vs. further concentration of wealth; reduction of exports vs. rising cost of living; banishment of foreign investment vs. "imperialism."

Gomez does recognize the social costs of high-speed economic development, and says the time will come when these must and can be redressed. But, "in certain circumstances, it may be necessary to give all emphasis to

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growth," and he leaves no doubt that he thinks Colombia is currently in that phase. In this respect, Gomez argues, "We are a poor country -- a country whose wealth, whatever its distribution, does not suffice to provide acceptable levels of welfare. Without high growth, achievement of social objectives is impossible." His prescription: "Growing investment, stimulus to entrepreneurs, broadening of markets, and favorable capital/output and capital/employment ratios."

Gomez maintains that neither the domestic savings gap nor the foreign exchange gap has been closed. He advocates more attractive returns on savings instruments to stimulate domestic savings, and welcomes foreign private investment and more external borrowing. He affirms that Colombia's ability to borrow abroad in large amounts and on good terms "is a success which many other countries have not achieved." He denies that Colombia's foreign exchange reserves are excessive, contending that high reserves are essential to maintain adequate import levels in the face of contingencies such as the energy crisis and the uncertainty of coffee prices. Thus, Colombia must press forward with its export drive to take advantage of lucrative world demand, and permanently establish itself as a reliable and attractive supplier. Moreover, Gomez goes so far as to argue that Colombia must export even at the cost of "painful discipline" in domestic consumption. (This is a bold and highly controversial stance to take at a time of steeply rising prices and shortages of food.)

As concerns agrarian reform, Gomez labels it a "failure" and says Colombia "must recuperate these twelve lost years" by "winning external markets for our campesinos," building roads, improving marketing, and opening new lands. He proposes "mixed agro-industrial" enterprises in which the state and the private sector join forces to develop Colombia's land resources, and new forms of rural labor contracts to protect the workers and give them a fairer share of earnings. Land redistribution per se apparently does not figure in Gomez' scheme of things.

On income redistribution, Gomez would expand public investment in education, health, and other services. However, his main thesis on this issue is that his strategy of galloping growth would raise incomes, and provide income to more people by creating employment and spreading development to depressed areas. He has said little to indicate his support for one of the present Government's (his own party's) "Four Strategies": Income redistribution through progressive taxation to finance services for the mass of the people.

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Gomez notes that taxes already are quite progressive, but that evasion is widespread. Thus, the poorer taxpayers are probably financing most of the services they receive. However, Gomez has not spelled out what he would do to attack evasion and close loopholes.

The growing fiscal costs and market distortions caused by numerous subsidies, tax exemptions, and price controls have become the subject of widespread debate in Colombia. Gomez' view on this topic is that such subsidies have accumulated without reference to any coherent policy or criteria. He observes, with obvious disapproval, that "invisible" subsidies are tolerated, while explicit and accountable subsidies are opposed; subsidies for consumers are considered good, but for producers they are bad. Gomez suggests a major analysis to identify, classify, and quantify existing subsidies as a prerequisite to adoption of a systematic policy whereby subsidies and exemptions can be used as "instruments of development" and retained only so long as they serve that purpose. The implication here seems to be emphasis on selected producers', rather than consumers', subsidies; this would be consistent with his general economic philosophy.

Gomez' outlook, then, reflects the traditional model of development and is best summarized in his own words: "We must first increase the national income before we can distribute it. Between a country which gives its people the opportunity to produce and earn more, and a country which only distributes what already exists, I choose the first." This, of course, is a simplistic formulation of complex alternatives. In practice, any Colombian President, including Gomez, would have to seek both growth and distribution and, in fact, the Conservative platform is replete with allusions to "equal opportunity." The questions are: Where Gomez would strike the balance, and what instruments he would use to promote more equal opportunity.

As noted above, the Liberal candidate, Alfonso Lopez Michelsen, thus far has offered more diagnosis of, than prescription for, Colombia's growth pains. But from his critique, it is possible to infer some general ideas about economic and social policy under a Lopez administration.

Apparently, Lopez has been influenced far more than Gomez by that school of developmental theorists who repudiate "trickle down" strategies, and call for substantial reallocation of resources directly to meet the most essential needs of the poorer strata of the population. When Lopez takes

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a respite from criticizing the present state of affairs, his central positive theme is income redistribution, which he would pursue by increased outlays on education, health, and other services for the poor, "wider access to the means of production," increased use of installed capacity, profit sharing for workers, and cost-of-living adjustments in salaries.

Since such a program obviously implies rising public expenditures, it may seem odd that Lopez, in attacking the present administration, has charged that public spending is a major cause of inflation (another issue he stresses).

In fact, however, Lopez has not criticized public spending per se (except where he considers it wasteful), but rather the methods and sources of financing it. In this respect, he reproaches the current administration for using short-term foreign commercial bank loans to fund current government budgetary deficits, though not for long-term developmental loans of which he approves. He also blames inadequate tax performance, and emphasizes the need for increased revenues especially through progressive direct taxation, and the reduction of some tax expenditures (exemptions) that only benefit special interest groups.

On subsidies, Lopez cites the incongruity of Colombia's cheap gasoline in the face of the energy crisis, especially the disincentive effects of low domestic prices on oil exploration. He recommends less subsidies on imported foods and greater stimuli to local food production. Similarly, he criticizes tax exemptions (CATS) which favor agricultural exports, calling for their reduction in order to increase domestic supplies.\* (On this issue, his position is diametrically opposed to that of Gomez; see above.)

Lopez' "private" views on agrarian reform are the subject of much speculation. His party's platform demands "immediate implementation of the revised agrarian reform law" which would accelerate land acquisition procedures and impose a "presumptive tax" on the assessed value of agricultural and livestock lands. That platform, however, was adopted before Lopez' nomination, and doubtless was influenced by ex-President Carlos Lleras Resurrepo, whom Lopez defeated for the nomination and who is Colombia's most prominent champion of land reform. Lopez has proposed the division of INCORA (the Agrarian Reform Institute) into two separate

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\* Note: The present administration has already reduced CATS on many agricultural products.

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agencies: one to deal with land tenure problems, and the other to carry out land reclamation. Ostensibly, this proposal is consistent with Lopez' criticism of INCORA's performance, i. e., that it has diverted its funds and attention away from land reform and into expensive land development projects. Despite this vague indicator of support for land redistribution, it is not yet clear whether Lopez would press for vigorous action in this area. However, he has ordered his agricultural advisors to formulate a program to stimulate output of "basic foods" for domestic consumption. Since most such foods are produced by small farmers, it appears likely that a Lopez government would give high priority to improvement of productivity and income of the traditional farming sector.

As concerns urban development, Lopez has called for greater emphasis on low-cost housing, and modifications in the UPAC system (constant value savings instruments) -- possibly imposition of a tax on gains from monetary correction, which presently are tax exempt.

Alfonso Lopez also publicly expressed grave concern about population growth and promises to strengthen family planning services.

#### Comment

From the above summary of the candidates' economic and social programs, it seems obvious that the Presidential policies of either candidate would be "moderate." Neither proposes fundamental changes in the ownership of the means of production. Neither is pushing blatant economic nationalism. Both are policy-oriented, rather than agitators of strife among classes or seekers of local or foreign "devils" to castigate for Colombia's troubles. Both recognize many of the same problems and, while their proposed approaches to such problems may differ, the difference (with a few exceptions) are matters of emphasis and tactics, rather than widely diverging alternatives. Of course, as the campaign heats up, one or both candidates might be provoked into less moderate positions on certain issues, but we consider this unlikely because the vast majority of both Liberal and Conservative voters prefer the middle of the road.

Let us now hazard some speculation about probable effects on Colombian economic and social development of the implementation of the two candidates' programs.

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Were Gomez to win and be successful in operating his "model," a period of bullish private sector activity resulting in high GNP growth would be likely to ensue. Whether the employment generation effects of his strategy would be as strong as he predicts might be questioned, as his program appears to favor modern capital-intensive industry and mechanized commercial farming. However, he also proposes to "export at any cost" and to continue the stimulus to urban construction begun under the present administration. Since both of the latter tend to be more labor-intensive, Gomez' package might well create substantial new employment. At the same time, it is reasonable to assume that a massive export drive would be inflationary and cause shortages and other hardships, especially among the lower-income groups. Moreover, his opposition to direct income redistribution measures could redound in social unrest, since incomes are still extremely unequal in Colombia, and the Gomez strategy implies further concentration of wealth before redistribution could be undertaken. However, there are mitigating elements in Gomez' program such as vigorous public investment in education, health and other services, and cost-of-living adjustments on salaries. How these sweeteners could be financed without adding more fuel to inflation is a question, for although Gomez has spoken out on the need to reduce tax evasion, he has not set forth a coherent proposition for raising the substantial new revenue that would be required. If his strategy works, the tax bonus from high growth might suffice, but the tax system requires reforms and severe enforcement to become more elastic. Moreover, an important segment of Gomez' natural constituency (large landowners and wealthy business and professional groups) are highly skilled in the art of not paying taxes. Yet Gomez, because he is "their man" might be able to turn the screws on them as the price they must pay for his congenial policies.

In sum, Gomez' program most probably would generate rapid economic growth, but also would impose heavy burdens on the majority of the people and carries the risk of further inflation.

A Lopez administration is likely to be more flexible, experimental, and eclectic in economic and social policy. He would attempt to ride two horses: growth and equity. Accordingly, the signals received by the modern private sector would be less go-go than Gomez would transmit,

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and their response in savings, investment, and production therefore may be less bullish. Furthermore, Lopez has made it clear that he would not sacrifice domestic consumption on the alter of exports. So the effervescence of the export sector might simmer down a bit.

Investment in the "social sectors" (education, health, low-cost housing, urban services) under a Lopez government probably would not be much greater than under Gomez. However, Lopez has acknowledged, far more clearly than Gomez, that such investment must be financed by increasing direct tax revenue, and by diminution of subsidies. In other words, Lopez sees certain sacrifices required for growth and equity in terms of more rigorous fiscal discipline while Gomez envisages an opportunity for creaming the dividends off the top of a high growth situation.

Lopez would, we believe, strive to carry out his campaign promises to improve income distribution, reduce tax evasion, control inflation, stimulate more plentiful supplies of staple foods and other wage goods and, in general, seek to place the burden of development on those best able to bear it. On balance, then, the Lopez program probably would produce somewhat lower economic growth than the Gomez strategy, but with less inflation, movement toward greater equity, and more attention to the basic needs of the poor.

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PART FOUR: RELATIONSHIP OF AID SECTORAL LENDING TO COLOMBIAN DEVELOPMENT STRATEGY

After years of neglect by economists and planners (in Colombia and elsewhere) who tended to emphasize investment in physical infrastructure and industry, investment in the social sectors has recently received considerable attention from government policy-makers. This neglect was the result of a feeling that investment in the social sectors was "unproductive," and was due, at least in part, to the fact that calculations of economic returns to such investment were seldom undertaken. At the same time, planners have begun to question whether the results of the traditional approach to development through industrialization -- with a consequent increase in the gap between the modern industrial sector and the rest of the economy, worsening income distribution, and growing unemployment -- were really unavoidable. Recent developments in economic thought suggest that they are not, and suggest further that tremendous waste is implicit in any developmental approach that ignores employment generation. This reorientation owes much to Colombian economists and planners, who have done considerable pioneering work in this area over the past five or six years.

This new attention to social investment is due in part to the fact that current research is tending to indicate strongly that investment in health, education, and nutrition can have very high returns in terms of increased productivity for the recipients of this investment. Thus, at the same time that economists have begun to realize that the human resources available from the poorer strata of society can be productively used, they have also begun to realize that substantial increases in the potential productivity of these resources can be achieved through investment in the social sectors. It may be noted that the above line of reasoning operates in addition to the traditional basis for investment in the social sectors -- that of reducing social tension, improving income distribution as an independent goal, and improving the quality of life.

These revised conceptions of the role of social investment have gradually come to be accepted by the Colombian Government. Nevertheless, considerably more than intellectual acceptance is required for translation of a point of view into a concrete action. In our view, changes in the composition of government expenditure tend to occur rather slowly in the absence to strong stimulus to do otherwise. There are several reasons for this. First, this inertia is due to the fact that individual entities have a strong

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vested interest in their own programs, and will tend to oppose shifts in the sectoral pattern of expenditure away from their sector. Secondly, the demands on government for increased resource flows by government agencies tends to be much larger than the possible supply of resources. Consequently, it is difficult to justify supplying resources to entirely new programs in preference to articulated needs for increases in existing ones. Third, new programs tend to lack the concrete basis for demanding resources that existing programs have. Studies of high rates of return are impressive, but translation of these into tangible programs is often difficult, and may suffer in comparison to existing programs, where concrete results are already present and it is relatively clear what the impact of additional funding would be.

In essence, then, an external stimulus of some magnitude is required to cause major shifts in government policy and resource allocation. This line of reasoning provides the theoretical basis for the AID sector approach to lending in Colombia. An analysis of the structure and problems of a particular sector provides the basis for establishment of a program to deal most effectively with the problems of the sector, and an AID loan to support a major increase in government expenditure in the sector provides the stimulus to the government to make the necessary resource shift. As the program develops, the concrete achievements of the program and the vested interests created cause further increases in government support for the sector, and the AID component of the investment can gradually be reduced and eventually eliminated. The expected results of the sector loan, then, are an integrated approach to the problems of the sector, and a permanently higher level of government concentration of resources in the sector.

The experience to date has indicated that this approach has been sound. The individual sectoral papers which follow outline the concrete achievement of the programs in terms of improved quality of life for the poorer strata of Colombian society, and the attached tables indicate the magnitude of the shift to the social sectors in aggregate terms. Central Government investment in health and education have increased from .13% of GDP to .93%, while total public sector spending in these sectors has increased from 4.3% of GDP to nearly 7%. Because of the requirements of the other sectors of the economy, the shift toward the social sectors has had to take place in an environment of rapid growth of total government spending. In order to

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finance the demands on it, the government has simply been forced to increase its fiscal effort, with the result that tax revenues increased from 8.6% of GDP in 1965 to 12% in 1972.

While the above figures are impressive, they still need to be translated into concrete terms. In this regard, it is important to be aware that, in a developing country, improvements in the quality of life for the poorer strata of the population cannot be expected to come in the near term from massive shifts in the proportion of national income that is received by the poorest third of the population. Rather, improvements in income distribution (broadly defined) must come in the short run, principally from improvements in the quality of social services received by the poor. Without such improvements, the sons of the poor tend to be forced to continue to be poor because of a lack of education, poor health, and inadequate nutrition which result in a lack of social mobility and economic opportunity. Thus, the extension of primary education to all segments of the population is an important step toward breaking the vicious circle of poverty. Equally important is better nutrition, especially during infancy, so that the children of the poor are not condemned to be less intelligent than their middle-class counterparts. Nevertheless, the production side cannot be ignored.

Access to the means of increased productivity through such channels as credit availability and technical assistance needs to be obtained for the poorer strata of society. It is through these complimentary means, then, that the sectoral approach is expected to yield long-run improvements in the status of the poorer strata, allowing them to share more equitably in the benefits of economic growth.

Currently, the limiting factor in AID's sectoral approach in Colombia is the ability of the Government to generate additional revenues to support an increased government involvement in the sectors of interest to AID. Government tax performance in 1972 and 1973 has not been especially good, and -- while an improvement in revenue performance may be expected in 1974 -- it appears that major increases in government expenditure possibilities will require new tax measures as well as administrative improvements for current taxes. There seems little likelihood of any such measures before the April, 1974, Presidential elections, so that short-term prospects for the continuation of the sectoral approach are rather limited.

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However, as pointed out earlier, both major Presidential candidates have emphasized the need to decrease tax evasion and reduce or rationalize subsidies which currently represent a substantial drain on resources that could otherwise be utilized for investment in social development.

The following chapters summarize current performance and problems as well as future opportunities in the four major sectors with which AID is associated.

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PART FIVE  
SECTORAL DISCUSSIONS

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SECTION ONE: HEALTH, NUTRITION, AND POPULATION

We have chosen to deal with these three subjects in one paper since they are closely related and reciprocally influential. However, we recognize that many of the implications of population and nutrition, both in consequence and solution, are much broader than any individual sector such as health. Despite the multisectoral character of these problems, we will generally treat population, nutrition, and health as individual areas of concern.

I Health

A. Trends in the Health Sector

The health status of the Colombian people is still low by Latin American standards, and is far below the potential implicit in the current level of economic development. Significant advances have been made, however, in lowering rate of mortality from 19 per 1,000 in 1945 to 8.5 per 1,000 in 1968, and the rate of infant mortality from 114.4 per 1,000 in 1951 to 69.4 per 1,000 in 1968. Communicable diseases such as malaria, smallpox, tuberculosis, whooping cough, and measles have been greatly reduced, primarily through massive national campaigns supported in part by international financing. Within the last five to ten years, there has been a major effort to extend sewer systems and aqueducts to both urban and rural populations, and currently about 45% of the population is served by aqueducts and 35% is served by sewer systems. As might be expected, the ratios in urban areas are much higher than those in rural areas.

The development of the health service system has until recent years been slow and uncoordinated. Since about 1960 there have been impressive advances in undertaking and complementing health system studies, experimentation with alternative system design, and in moving toward an integrated regionalized system. The regionalized system has been introduced and rather well developed in some regions, but in others has only started to take form.

The rate of increase in health facilities and health manpower has, for the most part, been offset by the rapid population growth, so that per capita rates have shown only moderate improvement. The current



rates for both facilities and manpower are far below the South American average. Thus, the GOC's rising priority for health investment is justified almost prima facie. The following table sets forth the relative position Colombia now holds:

	<u>Colombia</u>	<u>South America</u>
Hospital beds	2.5/1,000	3.4/1,000
MDs	4.4/10,000	6.4/10,000
Dentists	2.1/10,000	2.0/10,000
Nurses	0.7/10,000	2.7/10,000
Auxiliary Nurses	6.0/10,000	7.7/10,000

The adoption of a well formulated, comprehensive health plan and strategy in the mid-1960s will, no doubt, result in an improved relative position, particularly as refers to human resources. Much of the current and future effort, however, will be directed to non-institutional health prevention and health maintenance services so that availability of hospital beds might continue to fall below rates in other South American countries.

## B. Colombia Health Policy and Strategy

### 1. Health Policy

Government programs originally concentrated on health protection and eradication of communicable diseases, with programs directed at environmental control (potable water, sewage, and garbage collection), vaccination campaigns, and isolation of groups which are dangerous to the community. The development of the system of medical care services occurred within many agencies and in the private sector resulting in an uncoordinated approach with various organizations and institutions pursuing their own goals.

In 1963, Decree 3224 established the legal basis for advancing the integrated health concept and transformed the preventive and eradication philosophy into an explicit policy objective.

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In 1971, the Colombian National Council for Economic and Social Policy, chaired by President Pastrana, adopted a new public health policy. The official policy document sets forth a number of postulates which are to orient the formulation of health strategy and programs. An examination of some of these postulates is useful to understand how the Colombian Government conceives of health in terms of overall national priorities and development goals, and the principles which should govern the creation and use of health resources. This set of governing principles asserts that health "is an end in itself, an indispensable component of well-being and an important means of achieving the economic development of the country. The development process, in turn, seeks as a goal individual and collective well-being, and consequently must be capable of increasing the level of health." It states that health is "one of the indispensable goals of man and a right which extends to each person above any institutional and financial limitation." It argues that a primary object of health policy must be "the welfare of mothers and children, since they constitute a high percentage of the population and form the most vulnerable group." It characterizes Colombia's population growth as excessive, says fertility must be reduced, proclaims family planning as a "human right," and affirms that the government has a duty to provide "adequate information and services to enable couples to make a conscious decision on paternity." It recognizes the difficulty of attaining health goals under traditional philosophies and methods, calls the "self-sufficient physician" obsolete, and advocates much greater emphasis to preventive measures, use of "health teams" and large numbers of auxiliary personnel, and the integration and regionalization of all public health services. Finally, it recommends increased research on the health situation and on more efficient and less costly health delivery system.

These postulates form the basis for Colombia's new health policy and, if they are adhered to in practice, would significantly elevate health on the scale of national priorities and substantially reorder the use of health resources from the traditional patterns.

This brings us to the policy itself. The basic policy is: "To broaden the present scope of coverage, achieving by phases, coverage of the totality of the population. The programming and expansion of services will then be sustained by quantification and analysis of demands and the establishment of defined objectives with appropriate priorities to satisfy them. Among current priorities, according to the study of the health situation of the country, it is obviously necessary to expand maternal/child health services in the rural area without deterioration of the programs which are developing in urban zones."

The new health policy, in our view, is consonant with the Government's precepts of the role of public health in development. The set of propositions from which the Colombian Government derives its new health approach is rational. It encompasses principles which public health experts have advocated for some time, but which have rarely in developing countries been brought together and incorporated in a comprehensive and formally adopted national policy.

As will be seen, the program formulated to implement that policy is designed to move the nation part of the way toward the policy objective in its first phase, and improved systems of measuring achievement and productivity will be used for management and continuous refinement of planning.

### C. Health Sector Strategy

Provision of health services to an increasingly large proportion of the population will be achieved through the creation of a regionalized and integrated health delivery system and through priority attention to disease prevention, especially in maternal and child care.

Regionalization will improve the efficiency of the delivery system by delegation of functions to para-medical personnel, rationalization of the location, use and staffing of facilities, and unification of planning and management of all public health services, both curative and preventive. Extended MCH programs through the system will require use of additional para-medical personnel appropriately trained, functioning in new inter-professional relationships.

This strategy requires human resource development, bio-social and operational research, improved planning, environmental sanitation, preventive campaigns for communicable and vector born disease control, appropriate construction and equipment of health facilities, and health "promotion" through child welfare and nutrition programs.

One of the most significant aspects of this integration/regionalization strategy is the emphasis placed on integrating the efforts of various health related institutions and programs into a comprehensive and coherent health plan at the regional level. The directors of regional hospitals are charged not only with the responsibility of running their medical care institutions, but also formulating a health plan for the region and supervising and coordinating the various preventive and curative health care programs in the district.

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A vital tool in the integrative process was the creation of sectional health services, at the state or departamento level, which integrated the multitude of local charity groups and various institutional efforts involved in health delivery. This concept is now being expanded into the regionalized health system. A recent decree has given authority to integrate, among others, the social security health system operated as a social service of the Department of Labor, and the Public Health Service of the Ministry of Health to evolve a unified national health system. Little action has as yet been taken under this authority. Partly this is due to the time necessary to formulate concrete plans in response to the decree. However, the sensibilities of politicians and of workers presently participating in the social security system and vested interests of its medical personnel can be expected to further delay the process. The public health system, however, has a clear line of authority from the local hospitals and health posts through the sectional (departmental) health services to the Ministry. Connected to the Ministry are several institutes set up to accomplish specific tasks. Thus, what had been a group of locally autonomous facilities and institutions are now linked in an increasingly integrated and mutually reinforcing public health system.

This strategy is being tested by the development of a mathematical model which will help determine where investments are likely to have the greatest payoff. Operational research on several aspects of the regionalized system such as supervision, referral of patients, incentives to personnel, use of para-medical personnel, involvement of the community, etc., is being planned to further clarify the most effective alternatives in the health delivery system.

The strategy in the health sector for developing programs and activities has been to relate alternatives to the stated policies of the sector and of the National Development Plan. In considering alternative strategies, the following issues are recognized as needing and, to a greater or lesser extent, receiving consideration. They will be dealt with in more depth in the review of the health sector assessment.

- What level of health should be defined as a system objective?  
What percentage of the national resource should be committed to health?  
What resources mix among health programs, agricultural productivity, education, and general economic development will maximize health?

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- What steps and processes should be followed to assure that health programs and activities are developed and implemented which do carry out the health policies objectives and plans of the Government? How can obstructions to policy and program development and implementation be identified and dealt with?

- How can the Ministry of Health more effectively influence activities in non-health sectors (agriculture, education) and among other health providers (social security, military, police, private, religious) for health promotion and effective coordination?

- What health service delivery organization or organizations (e.g. national campaign, regionalized decentralized system) will be most effective in extending services to populations currently under-served? What criteria must be developed to make these decisions, and what vested interests will modify them?

- What health manpower mix is required for most effective efforts within the chosen delivery system(s)? Is there sufficient understanding of personal requirements (numbers and job descriptions) by the training institutions in order that proper quantity and quality of personnel will be available when needed? What methods of supervision, both of training programs and in services, are necessary?

- What should be the relative emphasis in nutrition programs in expanding purchasing power, production, marketing, improved quality of food, subsidized consumption, and supplementary feeding programs? To what degree are nutrition intervention (feeding) programs palliative, humanitarian efforts, and to what degree are they essential elements of human resource development to achieve long-term solutions to the problem?

- What will be the change in demands on the health system if communicable and infectious diseases are significantly reduced? What types of disease patterns will emerge, and what type of system will be needed to control them?

- What means exist of financing total health efforts, and how can the most appropriate and effective means be identified?

- What part should consumer participation play in development of health services? At what level, and in what manner should this participation occur?

- What mechanisms should be developed to better evaluate the appropriateness, effectiveness, and efficiency of the policies, objectives, programs, and activities in the health sector?

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D. Health Sector Development Programs

1. General Description of Health System

The Colombian health system consists of three distinct sub-systems: (a) private health care; (b) the various social security programs; and (c) the public health service. Perhaps as much as three-fourths of all health expenditures in the country are presently used in serving the approximately 20% of the population which have access to private care, social security, and other special privilege services. AID has chosen, of course, to focus on the "public health service" which is attempting to extend coverage of health services to the socially and economically deprived 80% of the population who do not have access to these special programs.

The National Planning Department Health Unit provides a coordination mechanism in planning and approval of the health investment budget. The Ministry of Health serves a planning, normative function and, in such programs as direct health campaigns, an implementing function. It also supervises the planning and activities in various related institutes such as: the Malaria Eradication Service organizes direct health campaigns of vaccination, and control of malaria, yellow fever, yaws, etc.; INPES (the Special Programs Institute) supervises research, production of biologicals, and rural environmental sanitation; INSFOPAL (included in urban sector loan) supervises water and sewage in larger cities; ICBF (the Family Welfare Institute) develops health "promotion" programs -- care of minors, nutrition campaigns, etc.; the National Hospital Fund supervises health facility construction.

These actions are more or less coordinated with and/or implemented by the Servicios Seccionales de Salud at the state level.

The centerpiece of the Colombian Government's new health strategy is a decision to reorganize the public health system along lines of "regionalization" and "integration."

The Government maintains that regionalization already has been consummated in four departments, and is partially established in eighteen departments, intendencias, and territories (out of a total of 30). We have verified that the new system has already been organized in several areas and is beginning to take shape in others.

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In analyzing the potential of regionalized integration, it is essential to have a clear description of what is envisaged by these concepts, how the system will be organized, what the institutional interrelationships and lines of authority will be, and who will have responsibility for which actions and services. Many of these questions, in fact, have been resolved, at least in theory. However, in our search for a clear and complete understanding of the system, we have concluded that the task of definition is still in process.

The general objectives have been determined. The broad avenues that must be travelled to attain those objectives have been mapped, and much progress also has been made in specifying the mechanics of the system, e.g. the specific functions of each level of the system have been precisely set forth, and what is known in the military as a "Table of Organization and Equipment" is available in great detail. Nevertheless, there remain many definitional and conceptual lacunae which may not be filled until further experience in actual operations has been gained, and the results of evaluation are available to ascertain where "debugging" is necessary.

Briefly, the system contains provisions for health care at the following levels:

a. Home Care: Utilizing mass training programs, the GOC is preparing promotoras (connected to the health posts), sanitary technicians (connected to the Special Health Projects Institute), and malaria teams (connected to the Ministry Malaria Service) to go into the homes and assist the families with the following services: vaccinations, water and sewer services, insect spraying, nutrition information, child birth and child care services, and family planning information. Plans and programs exist to train neighborhood leaders, comadronas (midwives), community motivators, and pharmacists in assisting the above approach. Among the organizations with such programs now are: the Ministry of Health, PROFAMILIA (the Colombian Family Planning Association), SENA (the Colombian Skill Training Institute), the League of Campesino Women, the Coffee Federation, the Campesino Union, CARITAS, the Special Health Projects Institute, Malaria Service, Acción Cultural Popular, and others. Between 5,000 and 10,000 persons are being trained every year in private and public efforts. These persons provide much of the basic health care in the country, and are being better utilized in the current system.

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b. Health Posts: One thousand three hundred public health posts provide the Ministry's first line of institutional care. To these must be added charitable and community health posts which are not included in the system. CARITAS (the Catholic Welfare Service) operates at least 150, and other institutions also provide care. Most of these have a physician in attendance at least part of the week. They provide a base for the Ministry promotoras, sanitary technicians, and malaria teams mentioned above, as well as the first referral center for all the persons providing home care. Primary health care is provided at these posts including vaccinations, pre-natal/postnatal care, nutrition programs, and family planning services. Usually the auxiliary nurse in charge is in communication with and has access to transportation to move patients to the nearest local hospital. All doctors must serve at least one year in these local posts as part of his medical training. The Government is building additional centers, updating equipment, providing communication and transportation equipment, and training and contracting the services of additional promotoras and auxiliary nurses in a massive effort to improve this first line of health care.

c. Hospitals: In a carefully drawn plan, the National Hospital Fund is improving and adding to local, regional, and university hospitals, so that they may provide a scale of medical services based on referrals from below, that they might offer quality outpatient services to the community around them, and that they might provide supervision and training to personnel and institutions at lower levels. These institutions will play a key role in determining regional strategies, and serving as the hub for the integrating and centrifugal efforts of the regionalized health delivery system. As stated in other sections of this paper, the social security hospital-based medical care system which serves about 10% of the people (with more than 50% of the health resources) is not yet integrated into this regionalized system.

## 2. Salient Development Elements Within the System

The regionalized health system that is being developed in Colombia has as its primary objectives the extension of preventive, health maintenance, and medical care services to population groups currently receiving little or no care, and provide for the more efficient functioning of the health system through a regional planning, implementation effort that attempts to integrate and coordinate all health delivery activities in this

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region. There are several major experimental activities that are being tested or planned to improve effectiveness in achieving the above objectives:

- Personnel incentive programs are being designed to test if incentives can be developed to retain health personnel in remote (primarily rural) areas and to retain personnel in the health system.

- The delegation of functions from health professionals to release scarce and costly human resources for more effective involvement in the provision of intensive care. This program will test how well auxiliary and support personnel are accepted in their expanded role by the community and by professional personnel. A related program is the recruitment and training of additional auxiliary personnel.

- The supervision of auxiliary personnel is a program related to the delegation of functions and is designed to test if quality services can be maintained in the system using auxiliary personnel, and to experiment with ways in which personnel of the health team can be coordinated to provide comprehensive and integrated care.

- The referral of patients in the health system is to be tested to ensure that continuity of care from low-intensity services, e.g. home consultation by promotoras to high-intensity care, e.g. university hospital, will be maintained in the system.

- Greater community involvement in decision making and the management of the system will be explored as a means for developing maximum acceptance and utilization of the system and an approach to providing services of a type and in a manner most relevant to the community.

- An improved system of information gathering and analysis is being developed to provide more accurate, current data to assess health needs of the population and to evaluate effectiveness of program.

#### E. Institution and Program Development

##### 1. National Institute of Special Health Programs (INPES)

Increased funds will be allocated to expand rural sanitation in an effort to extend services to a greater number of the population. In 1974, thirty-five percent of the rural population will be served by water

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and sewerage services. This well-run program has priority because of the demonstrated effectiveness of sanitation services in reducing infectious parasitic diseases.

A study has been completed on the possibility of expanding the role of sanitation workers in rural areas to involve them to a greater extent in health education, particularly in sanitation.

Increased attention will be given to improving a presently questionable capacity in bio-social research which is important to achieving health sector goals.

2. Malaria Eradication Service (SEM)

In addition to its relatively effective operation of the ongoing programs of immunization, V. D. control, and malaria, yaws, and yellow fever control, SEM has under study the cost and acceptability of expanding the service role of SEM personnel, especially in rural areas, to provide health education and basic health care services.

3. Family Welfare Institute (ICBF)

The Institute's primary responsibilities are: to set standards for activities to improve the welfare, physical and mental development, and family structure for Colombian children; distribute funds, and evaluate social welfare programs for children; create, direct, and administer family welfare pilot centers and homes for minor children; train child care and rehabilitation personnel for the program; and teach nutrition, and operate nutrition feeding programs for target populations.

Recent indications of program development suggest that efforts to improve planning and budgeting procedures are beginning to bear fruit. ICBF is grappling with decisions as to the most efficient, cost-effective method of expanding its welfare services, particularly to low-income maternal/child program. Pressures toward the construction of attractive multipurpose community centers for family attention are in some conflict with other efforts to seek expansion with more emphasis on programs that can be carried out in already existing facilities.

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4. National Hospital Fund

The regionalized system of health care is built around medical care institutions which are to provide not only patient care but to serve as the network for planning, coordination, supervision, and implementation of all health service delivery throughout the system. The National Hospital Fund has received emphasis in the health sector because it is primarily responsible for developing criteria for hospital location and for hospital design and construction, and to supervise the actual design, contracting, and construction work. To carry out this function, it was necessary to reorganize the agency and increase the staff from 25 to 47 people. Much of the impressive improvement has been the result of health loan requirements and technical assistance.

5. Ministry of Health (MOH)

The Ministry of Health, charged with the planning of the health sector and implementing or contracting the implementation of health programs, is presently being strengthened through legislation and external assistance. The health sector program has had a salutary effect on the Division of Medical Attention and Ministry of Health Planning Office through requiring detailed analytic and organizational effort under the health loan. The combined MOH/USAID efforts have resulted in a definite solidification of ideas concerning the integrated regionalized delivery system and have more clearly delineated areas requiring external assistance, such as operational research and design, information requirements, personnel incentives, system administration, and more effective use of health personnel. One project presently under way is to test certain concepts of the delivery system in a population of 100,000 in Cali.

6. National Department of Planning (DNP)

The DNP has a major responsibility for developing Colombia's investment budget. In the early 1970s a health division was incorporated. USAID communication with the Colombian Government in health matters is through DNP which has resulted in increased investment effectiveness through more detailed information.

Considerable interest in the development of a mathematical health model has resulted in the DNP supplying qualified personnel for this

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purpose from other sections as needed. The project directors have been very receptive to staffing and project implementation suggestions made by USAID technicians.

An excellent communication bridge has been developed between USAID and DNP allowing easy and fast comment and reaction between the two offices. Much of the success of health program planning and progress can be attributed to this continuing relationship.

F. Health Sector Analysis

1. Evaluation of Health Sector Assessment

The current health sector assessment is in the process of review and evaluation. Although the evaluation will not be completed until spring of 1974, it will include a schedule for providing a more thorough and systematic health sector assessment, and for arriving at programs and activities that are the result of a more systematic evaluation of various alternatives directed at meeting the health sector objectives.

2. Model of Health Sector

Currently the GOC and AID are developing an analytical model of the health sector designed to establish a scientific basis for comparing various health sector strategies, for selecting alternative programs and activities within the sector, and for coordinating the health sector with other sectors having an influence on social welfare. This activity will take approximately two years to complete, but will have some component models developed by October, 1973, for introduction into the health system. This activity will require a considerable technical assistance from abroad.

G. The following chart indicates the health sector expenditures and principal activity targets which were agreed to in AID Sector Loan 514-L-069.

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Summary Health Sector Budget and Sources of Funding  
Colombian Health Sector Agencies  
Investment Budget for Source of Funds and Activity Targets  
1973 and 1974  
(Millions of Pesos)

	<u>1973</u>	<u>1974</u>
<u>Ministry of Health</u>		
<u>Source of Funds</u>		
Borrower	142.3	236.6
AID	<u>35.1</u>	<u>73.4</u>
Total	177.4	308.9
 <u>Activity Targets</u>		
Training	93.5	108.5
Improvement of Planning	18.2	35.1
Other	24.7	115.3
Maternal and Child Care	<u>41.0</u>	<u>50.0</u>
Total	177.4	308.9
 <u>Malaria Eradication Service (SEM)</u>		
<u>Source of Funds</u>		
Borrower	152.9	166.0
AID	<u>30.0</u>	<u>31.0</u>
Total	182.9	197.0
 <u>Activity Targets</u>		
Malaria, Yaws, Yellow Fever	97.9	112.0
Immunizations	40.0	60.0
Polio/Measles	30.0	-
V. D. Control	<u>15.0</u>	<u>25.0</u>
Total	182.9	197.0
 <u>Institute for Special Health Programs (INPES)</u>		
<u>Source of Funds</u>		
Borrower	238.5	282.5
AID	<u>87.0</u>	<u>103.0</u>
Total	325.5	385.5
 <u>Activity Targets</u>		
Research	31.0	48.5
Rural Sanitation	240.0	275.0
Other	<u>54.5</u>	<u>62.0</u>
Total	325.5	385.5

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	<u>1973</u>	<u>1974</u>
<u>National Hospital Fund (FNH)</u>		
<u>Source of Funds</u>		
Borrower	198.0	273.2
External Credits	220.0	110.0
AID	<u>32.2</u>	<u>55.5</u>
Total	450.2	438.7
 <u>Activity Targets</u>		
Construction	225.7	314.0
Equipment	220.0	110.0
Other	<u>4.5</u>	<u>14.8</u>
Total	450.2	438.8
 <u>Institute of Family Welfare (ICBF)</u>		
<u>Source of Funds</u>		
Borrower	433.0	499.7
AID	<u>12.9</u>	<u>6.3</u>
Total	445.9	506.0
 <u>Totals</u>		
Borrower	1,164.7	1,458.0
External Credit	220.0	110.0
AID	<u>197.3</u>	<u>269.2</u>
TOTAL	<u>1,582.0</u>	<u>1,837.2</u>

Sizeable other donor programs exist in the sector. A partial list includes the following:

- United Kingdom - Concessional loan to purchase hospital equipment.
- UNICEF - Donation of health center equipment.
- World Bank - Loan to build health centers in rural concentrations.
- PAHO - Donation for maternal/child care program.

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Colombia doubtless will be able to obtain additional loans and grants from such sources for specific health projects. However, AID is likely to be the only source at present which is able and willing to provide broad sectoral lending.

## II Nutrition

Preoccupation with nutrition in Colombia has grown at a rate similar to that on the overall health area. From scattered efforts of charities, Volagencies, and the Nutrition Institute, nutrition has become the cross-sectoral concern of several Ministries (primarily education, health, and agriculture), Institutes (Family Welfare, Technological Research, Agricultural Marketing), and the National Planning Office. This major cause of death and illness in children and adults has finally been recognized as an important priority in government planning. Although it is in the health sector where symptoms of poor nutritional status are most likely to be identified, it is clearly understood by the GOC and USAID that solutions to the basic problem require multisectoral approaches. The GOC has established a multisector committee to deal with the problem, and the USAID has an informal multisectoral working group (health, agriculture, education, and program) giving it attention as well.

These fairly recent Government programs have not yet achieved tangible effects, since a recent study estimated that 40% of Colombian families cannot afford a minimum diet.

Increased emphasis on this problem is likely as a result of the nutrition analysis document completed in Colombia in 1973 as a basis for developing a nutrition policy. The document recommends that five approaches to the problem of malnutrition be examined: (1) expanding purchasing power of the population, (2) change agricultural policy to produce more nutritious and increased amounts of food, (3) change food processing and marketing procedures to market more nutritious and higher quality food, (4) nutrition education in communities, and (5) food supplement programs. Future policies and programs are still not clear, and it is obvious that further refinement of the policy document is necessary before the present conceptualization is translated into vigorous governmental action to improve the nutritional status of people.

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Some efforts are being directed at producing low-cost, high-quality protein vegetable mixes for commercial sale and subsidized distribution to vulnerable groups. Studies of food fortification have been carried out. Attention is also being given to the production of more nutritious foods such as high lysine corn. Nutrition education of a traditional type is an important element in supplemental feeding programs. The GOC has significantly increased its support for supplemental feeding programs over the past several years. Results to date have been limited. It is expected that the analysis presently being carried out to identify the most effective and efficient points of intervention in the nutrition system will provide the necessary information for a more vigorous implementation of selected projects.

Institutions which provide strength in this sector are those which are concerned with the commercial marketing of agricultural crops. Those which mount supplementary feeding programs and provide food at lower cost have long experience in the field, but probably are weaker in management systems. Thus, it would assist nutrition programs if the commercial sector can be increasingly involved in solving this problem.

It appears that a major constraint in this area, again, is attitudinal. That is, the attitude that everyone can be well nourished if only they had enough income and ate the right foods. In addition, there is a serious dilemma in agricultural policy about where to strike the balance between encouraging agricultural exports and stimulating production for domestic consumption. In recent months, the attractiveness of exporting has caused domestic shortages of agricultural products, and the GOC has moved to reduce some export subsidies and establish export quotas. Current price controls which limit production and unwise subsidies should be further examined to create a sound domestic market for the farmer and to generate surpluses of food which could be provided to those who cannot afford an adequate food supply.

Other donors, such as the World Food Program, UNICEF, OAS, and FAO, have provided much in the way of supplemental foods and research funds. It is expected that some of these efforts will continue. However, strong emphasis now must be placed on Colombian efforts to solve its own problems. This country has the capacity to provide itself with a wide variety of foodstuffs. However, vigorous efforts must be brought to bear to produce and/or process more and higher nutritional quality, lower cost foodstuffs, to achieve a more equitable distribution of the production to the populace, to create an economic demand situation that stimulates food production, and to provide a level of popular understanding of nutrition that will assure balanced diets when adequate food supplies are available.

### III Population

As with nutrition, the problems of rapid population growth have largely been identified by health authorities. Efforts to deal with the problem have generally been carried out by organizations with a health orientation. Nevertheless, the problem is recognized by the GOC and USAID as one requiring multisectoral action, and increasing efforts to deal with the problem are now seen in sectors other than health.

#### A. What Government and/or Private Agencies are Doing About the Problem.

The Colombian Government, in its development plan, has asserted a population policy which recognizes the problems of rapid population growth and internal migration. The Government has stated explicitly and publicly that couples enjoy a "basic human right" to freely decide the size of their families, and that information and means for exercising this right will be provided. Actions prescribed to deal with rapid growth are largely education, and the provision of family planning services within the context of integrated health services. The Government has been careful to develop its program in such a way as to minimize political or religious conflict, and to avoid offending the social and cultural traditions of its people. With a minimum of publicity, it has expanded its maternal/child care program to cover essentially all populated areas of the country. This campaign, which provides family planning services within an integrated maternal/child health program is now available in more than 90% (844) of the municipios (counties) of the country.

The Ministry of Health has also assumed responsibility for the post-partum program in fifteen non-university hospitals which previously were coordinated by ASCOFAME. In addition to continuing its in-service training program for physicians, coordinators, and nurses, the Ministry program has emphasized training for professors of schools of practical nursing and changes in the curricula. These changes include much more attention to maternal/child care and family planning. The Ministry has also embarked on an ambitious program to train 7,000 rural health promoters in the next three years. The promoters, selected from the small rural communities, return to their community after two months' training. They serve as the link with the health post and provide health education, motivation to use health services, and information on family planning.

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The recent restructuring of the National Council of Population and Ecology at the presidential/ministeral level suggests growing governmental concern for the problem and the intention to seek solutions in a broader and more vigorous fashion.

The private sector performs an important and expanding function, both in the provision of services and through personal and broad mass-media approaches to information and education on population and family planning matters. As part of its training and research program, ASCOFAME continues to maintain outpatient family planning clinics and post-partum family planning services in the university hospitals. Results of many of its past research programs are beginning to be published; one of the most significant is the National Fertility Survey.

An outgrowth of years of work by ASCOFAME in the population field was the formation of the Regional Population Center with a charter which permits it to go further afield into population activities carried out by non-medical institutions. The major thrust of the Regional Center program is in training and research, but it has shown an interest and ability to move into areas not being covered by other programs.

The 42 PROFAMILIA clinics in 29 of the major cities of the country provide a specialized, high-quality family planning service to a significant portion of the urban population. The PROFAMILIA program encompasses a full spectrum of traditional and more advanced concepts of fertility control. A first-rate professional medical staff is maintained, but increasing attention is being given to the use of para-medical personnel and non-clinical programs of contraception. PROFAMILIA's energetic and innovative approaches in these areas, as well as in mass media communication, experimentation in rural programs, local fund raising, contraceptive marketing stimulus, etc., have been pioneer efforts worthy of study and possible replication throughout Latin America.

A serious shortcoming in all the programs has been the lack of adequate evaluation procedures. Some ad hoc evaluation has been done and has indicated good program results. However, there is no systematic approach to continuing evaluation of many aspects of the programs. An attempt to establish an evaluation section in PROFAMILIA has been limited by funding problems. Ministry of Health and ASCOFAME service statistics,

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formerly tabulated by ASCOFAME, are now being processed by the Regional Center. The Government currently is studying a proposal for the establishment of an evaluation section in the Ministry of Health.

The above-mentioned organized family planning programs have significant components of training and communication. All of the major institutions for training health personnel, including the School of Public Health, now have as a part of their normal curricula a considerable emphasis on maternal/child health and family planning. Substantial increases were made in training and public information programs in 1973. The Association for the Study of Population (ACEP) increased its information and education activities, reaching beyond its training programs for women's leaders to new groups such as the Coffee Growers Federation, the Agrarian Reform Institute, the National Police, the Military Officer Candidate School, and superior officers training programs, etc.

Acción Cultural Popular (ACPO), an adult literacy program developed by Monsignor Salcedos, has injected the themes of responsible parenthood and the need for family planning into its far reaching rural radio leadership training program.

One of the leading universities, Javeriana, sponsored by the Jesuit Order, has initiated an ambitious interdisciplinary graduate study program on population and development. Fourteen of its faculty attended a special short course at the University of North Carolina, and several faculty members are doing graduate study in the U. S. in preparation for their work in this program.

The National Agricultural Research and Extension Agency (ICA) is developing a graduate study program in rural development, with considerable emphasis on population problems. Several faculty members are presently studying in the U. S. in preparation for this program.

Faculty members of the School of Home Economics, University of Caldas, are returning from graduate study in the United States and are including population problems and concepts of family planning in the curricula.

Several activities are being carried out by and for the Ministry of Education to develop curricula in sex education, family life education, and population awareness.

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B. Role of AID

The USAID has not provided bilateral financing for programs which deliver family planning services. Programs of this type have been encouraged to seek financing through international agencies, foundations, and universities, and substantial assistance from such sources has been forthcoming. These international institutions, in turn, receive financial assistance from AID (some of which is earmarked for Colombia) as well as other donors on a worldwide basis. The USAID has actively stimulated the interest of Colombian institutions of health, agriculture, and education sectors to examine the implications of rapid population growth on the health and well-being of the population, and on the ability to achieve socio-economic development goals. We have helped them to seek the most efficient means of external financing when desired. We also help stimulate internal coordination of programs and activities.

The USAID has provided considerable assistance on a bilateral basis to demographic research and training. Through an agreement with the National Statistics Department (DANE) and the University of North Carolina, a research project in demographic methodology has been carried out. FY-1973 saw the termination of the field data collection and the initiation of the analysis phase which should be largely completed in FY-1974. The AID urban sector loan provides part of the financing for the census. USAID has also financed international training in fields related to population. During FY-1973, seventy-one Colombians were sent out of the country in 45 training programs.

C. Other External Assistance

Many international agencies and foundations have provided valued financial and technical assistance to the various programs in Colombia. These include PAHO, the Population Council, IPPF, Pathfinder Fund, and approximately 25 other institutions.

Precise financial data is not available as to the amount of assistance being made available to Colombian population programs by this broad array of international agencies, universities, and foundations. Rough estimates suggest that the annual amount from all external sources approaches US\$5 million. Obviously, this US\$5 million is used for a broad spectrum of population activities, only part of which are related to the provision of family planning services.

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D. Future Emphasis and Outlook

As previously noted, there is a declining trend in urban fertility rates. To strengthen the momentum of that trend, family planning services and modern contraceptives must continue to be made available so that urban women have access to safe means of voluntarily controlling their fertility in a dignified setting. While urban family planning services must and doubtless will continue to expand, their relative success to date provides an opportunity to shift priorities and resources to the far more difficult rural areas, where fertility rates remain extremely high and where changes will be harder to accomplish.

Family planning and fertility reduction remain delicate issues in Colombia which require tact and sensitivity if they are to be dealt with more intellectually than emotionally. Nevertheless, families are increasingly demonstrating concern for their inability to exercise "responsible parenthood" if satisfactory means to limit the number of their offspring are not readily available. The Government is expressing more emphatically a recognition that rapid population growth places an excessive burden on limited resources for development. The Church has acknowledged this as a problem to families and to society and is coming to grips with the issue, seeking to find practical solutions commensurate with its theological position.

Dramatical social and cultural change of the type required by the critical nature of this problem cannot be accomplished without offending the sensitivities of one group or another. Colombia has done well to date, however, in minimizing the conflict. It is probable that the more vigorous program expected in the future will maintain this relatively low level of dissonance. Colombia has a well developed cadre of trained human resources in this field. It also has the infrastructure provided by various widespread and influential agencies dedicated to contributing to the solution of the problem. Nevertheless, the scope and character of the population problem are such that external financial and technical assistance will be needed and requested for some time to come. They will be welcomed if provided with full recognition of Colombia's maturity and capacity, and with understanding of the distinctive aspects of Colombia's social, cultural, and religious traditions that demand local, not imported, solutions.

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#### IV Why Were These Sectors Chosen for USAID Concentration?

It would seem unnecessary to reiterate the general considerations that led the Congress to give health, population, and nutrition particular emphasis in the latest proposed AID legislation. It is, however, important to reexamine the bases for supporting these sectors in Colombia, i. e.:

##### A. Plans and Policies

Possibly no other developing country has made the effort that the Colombian medical and health authorities have to diagnose health sector problems and develop plans and policies to deal with those problems. The history of these efforts is found in the Sector Analysis.

Although the plans and policies for nutrition and population have not been as well developed or as rigorously analyzed, there are impressive initiatives in these areas as well. A wealth of data has been drawn together to form the basis of a diagnosis, and national planning efforts are proceeding actively.

These concerns are inherent in the general thrust of the national development policy and plan. The health sector is identified as one of the priority areas; the population policy of the National Plan is receiving increased emphasis and action; and concerns for nutrition, although not as specifically articulated, can be inferred through the emphasis on social and human resource development.

##### B. The Need is Apparent

What of Colombia's health conditions? We have not attempted a detailed comparison between Colombia and the rest of the region of all the many indicators of the status of health. However, several basic measurements have been selected which illustrate clearly enough that by general standards prevailing in Central and South America and the Caribbean, Colombia's health situation is relatively adverse, e. g.:

- Of 18 Latin American nations for which data is available to us, Colombia rated fourteenth in number of hospital beds and practicing physicians per capita, and thirteenth in practicing nurses per capita.

- With regard to the percentage of deaths caused by infections or parasitic diseases, Colombia is in a median group of six countries; seven nations have lower (more favorable) percentage, and seven others are in worse condition.

- As concerns the proportion of deaths in the 1-4 age group due to infections or parasitic illness, Colombia is ranked in the highest (worst) category, with thirteen countries having lower percentages.

- Of sixteen countries reporting, only four have higher rates than Colombia of death from tuberculosis, and in only seven out of twenty is the mortality rate from measles higher.

- Colombia stands fifteenth out of twenty-six countries reporting on the percentage of population served by piped water. (Data on water quality is not available to us.)

Among the indicators selected, Colombia shows comparatively favorable conditions in two categories:

- Only six other countries have significantly lower (better) percentages of deaths caused by diseases preventable by vaccination. (This illustrates the emphasis and success of Colombia's immunization campaigns.)

- Colombia ranks first among 26 countries reporting on the availability of sewerage services. (This probably reflects the relatively higher proportion of urban population in Colombia. The percentage of population reportedly served by connected sewers is 49%, and the urban population is slightly over 50% of the total.)

Despite these two exceptions, it is evident that Colombia, as a nation, suffers from poorer health than most of its Latin American neighbors. Thus, the case for assigning high priority to investment in public health is not difficult to defend on the basis of need. Under these circumstances, we agree with the Colombian development policy that increased health investments are highly justified on humanitarian grounds, as well as economic consideration, such as improving the work force, reducing work days lost to sickness, creating employment, and redistributing income through tangible gains in welfare.

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Concern for nutritional status is similarly based on a recognition of the striking problems presented and their effects on well-being and national development.

- Malnutrition is probably the single most important health factor contributing to morbidity and mortality of the population, particularly, but not exclusively, those of the pre-school age group.

- Poor nutritional status has been noted as a serious contribution factor to poor performance in the school system and in decreased productivity of the labor force.

- The most recent study indicates that 40% of the population cannot afford a "least cost minimum diet"; if food habit constraints are introduced into the model, the figure may be as high as 70%.

The problem of rapid demographic growth rate are well known for their effects on family health and economics and socio-economic development efforts throughout the developing world. Colombia, with a growth rate until very recently of 3.5% and a rapid rate of rural/urban migration, is no exception. The trend is definitely changing toward reduced fertility, particularly in the urban areas, but the built-in momentum from past exceptionally high growth rates and the large number of women now entering their fertile years will be felt for at least another generation.

### C. Organization of the System

Although there are professional manpower and facility constraints, an organization exists with the power and desire to make appropriate changes and carry out strategies and policies developed.

This is perhaps most easily identified (as noted above) with respect to health and population where programs have been developed over a period of years to deal with the problem. Although more diverse and less organized to deal specifically with the issue, the nutritional system is also viable. The backbone is in a rather well developed agricultural system and an improving processing/ marketing sector. Health

and welfare institutions have for years developed a capacity for dealing with the symptoms of the nutrition problem and are increasingly looking toward preventive measures. Substantial research capability exists within the ICBF Director of Nutrition and the Institute of Technologic Research (IT). Educational authorities are only now recognizing the importance of their participation, but a widespread network of formal and non-formal education exists to communicate nutritional information to the populace. It is expected that the national intersectoral nutrition committee will assist in coordinating these efforts and will provide additional impetus for them.

D. The Time is Right

The current Government has solidly backed efforts in these sectors. The concern for action has become so pervasive throughout development planning departments and among opinion leaders that there is no reason to believe the succeeding government will not continue this emphasis. As the GOC is increasing its own inputs into these sectors, this allows for an easier identification of AID priorities and much wider success for AID efforts.

A year and a half ago the Government of Colombia requested assistance in the health sector and formulated an impressive analysis of the sector, its policy and a three-year program requiring external financing.

For five years the Government has directly sought (and received) assistance with population problems. It has appreciated our efforts at arranging indirect international assistance, but no direct, formal request was made to the US Government for financing. However, the GOC is now developing plans for a more vigorous direct involvement and we have received a formal inquiry from the Minister of Health concerning the possibility of US bilateral assistance for family planning integrated with maternal/child care programs.

The GOC has increased significantly its involvement in and support for supplementary feeding programs over the past five years. With the establishment of the national committee for developing a food and nutrition policy, it has now made its first request to AID (and it has

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been filled) for the provision of technical assistance in nutrition planning. We expect this will lead to other requests for assistance in dealing with specific activities to be carried out multisectorially in dealing with the problems of nutrition.

E. Potential for Success

As noted above, two of the most important elements for dealing with the problem are "in place" -- reasonably adequate plans and policies, and sufficient organization of the system to implement projects and activities.

Formidable obstacles confront the country with respect to the present abysmally low level of health coverage of the rural and urban poor population. Radical improvement cannot be expected in the short run. However, given the increased attention to the sector, higher level of resources planned, institutional improvement already being demonstrated, and increased efficiency in the system through better planning, we are confident significant improvement in a five to ten-year time frame can be achieved.

The problem of nutrition is also to be respected as one with no easy solution. A situation where 40-70% of the population could not afford an adequate diet even if it were available necessarily precludes a bullish attitude among planners. Nevertheless, there are positive aspects. The general development trajectory of Colombia is upward. Although efforts toward income redistribution may be only partially fruitful in the short term, the gross national product should continue to grow with at least some relief to even the most deprived.

At present, demand constraints and restrictions of certain factors of production such as fertilizer or credit to medium and small farmers are limiting agricultural production of food crops. However, these are constraints that can and are being dealt with. Colombia has the potential of producing sufficient foodstuffs for a much larger population than it presently has. New products and new crops are on the horizon that give promise of improving the nutritional quality of the diet.

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As noted previously, the problem of rapid population growth is already showing some signs of alleviation. It must be kept in mind, of course, that even significant drops in the growth rate will have little immediate effect on macro socio-economic development. Nevertheless, the tide has been turned in the urban population and prospects are good for even more rapid improvement in the future. Dealing with the dispersed, traditional, high-fertility, rural population is significantly more complex. Experimental programs in the rural area have shown real receptivity, however, and we maintain a cautiously optimistic outlook for finding a solution to this difficult problem. Obviously, reduced population growth eventually will begin to alleviate problems of nutrition and health. It is not so obvious, but probably also true, that improvements in health and nutritional status will have a reciprocal beneficial effect on reducing fertility rates.

F. Proposed US Assistance and What it Expects to Achieve

These sectors are a vehicle for a combined use of most of the assistance measures AID has available. These include sector loans, Title X and other grant funds, PL 480 Title I and II foods, and technical assistance. If programs expand as projected below, manpower needs will be as follows:

	<u>FY-'74</u>	<u>FY-'75</u>	<u>FY-'76</u>	<u>FY-'77</u>
US Direct-Hire	2 1/2	3	3	2
Contract (MY)	2.0	3.0	3.0	2.0

1. Health

At least one, and possibly two, additional health sector loans will be utilized to carry forward the goals of the health sector as it will be modified by experience and the AID/GOC cost-effectiveness model. The loan for which we would request authorization early in FY-'74 will be US\$20 to US\$25 million.

These loans will be designed to achieve the following objectives:

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- Provide additional financial resources to expand the activities of the Colombian Government in achieving the goals of what we consider a rational health policy and strategy based on present knowledge and conditions.

- To utilize the loan programming, disbursement, and reporting mechanisms as an incentive and/or sanction where appropriate to encourage health institutions and GOC financial institutions to carry out the programs and activities consonant with the stated policy and strategy.

- To encourage more rigorous analysis of health sector strategy and performance through the use of the following techniques:

- Development, as part of the program and with significant technical assistance, of a mathematical analytic model for measuring effectiveness of alternative health strategies.

- Stipulation of operational research activities to experiment with various elements of the regionalized system.

- Creation of improved information services as a general requirement of the loan, and as a specific requirement for reporting to DNP and USAID activity and financial performance.

- Inclusion in the loan conditions, the requirement for a series of studies related particularly to more precisely clarifying the concepts of the regionalized system and improving its implementation. The first stage of these studies was carried out as a survey, but they are being given increasingly serious and detailed study by health institutions. This is proving an effective tool for loan management and for improving planning and performance.

## 2. Nutrition

PL 480, Title I and II will be utilized as incentives to gradually move the large supplemental feeding program into GOC hands and to continue the focus on priority groups of recipients. Title I could be used to provide raw materials for a new vegetable mix -- "Bienestar" -- which is currently viewed as a main effort by the GOC in future supplementary feeding.

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Technical assistance will be provided through the DNP to the national committee for nutrition and food policy. The first stage will be to help to analyze the significant amount of data now available on nutritional status, food production and processing capacity, market structure, income distribution, food habits, etc., to more precisely diagnose the nutritional problem. A second stage would be to analyze the nutrition system in the light of the diagnosis, identifying the most appropriate points and efficient methods of intervention. If, as we expect, this analysis produces specific project recommendations, USAID will seek grant funding for feasibility studies and/or pilot projects for selected activities. If larger programs are developed for a fourth stage, we expect they could be loan funded, either from AID or from a multilateral development bank.

We expect that grant funding of technical assistance feasibility studies and pilot activities should total no more than \$500,000 over a three-year period. Loan funding beginning in late FY-'75 or FY-'76 could be perhaps \$20 million for a two to three-year period. Due to present trends in food availability, we assume that PL 480 foods could provide no more than \$5 to \$6 million per year over the next five years.

### 3. Population

Title X funds will be used to support a rapidly expanding effort which the GOC has included in its new four-year -- 1974-1977 -- Population Policy and investment strategy. This strategy is designed to reduce the population growth rate to be more in consonance with the economic improvement of the country. Such a program will include services through the MCH program of the Ministry of Health, demographic research, mass media communication and training. It also calls for continuing and expanded efforts of the private sector in these same program areas. Substantial local funding is predicted, as well as the need for major international assistance. We are presently considering with the GOC the desirability of a bilateral Title X program with the Ministry of Health.

Plans would be to continue much of the same kind of programming presently carried out, with particular attention to expanding Ministry of Health and other efforts to reach the rural population. Emphasis must continue on human resources development and research, but increased attention must be given to making available family planning services, and information and education through mass media and personal communication, particularly to the rural areas.

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Levels of assistance through bilateral programs and intermediary international agencies should be at the level of about \$5 - \$6 million per year for at least the next five years, with the US bilateral share being \$1 - \$2 million annually.

## SECTION TWO: EDUCATION

A detailed assessment of the educational sector was made in April, 1972, and partially revised in May, 1973. The following discussion is based on that assessment and on additional information collected since last May. Plans for further updating and refinement of the assessment are also discussed below.

### I The Colombian Educational System

The Colombian educational system is in the process of transition from a predominantly classical, elitist type of education to a broader and more practical type which will be more responsive to the developmental needs of the country. At all levels and in all the divisions -- primary, secondary, higher, adult, and non-formal -- this basic change is becoming more evident. Although this trend has been supported by AID and other external assistance, it results mainly from Colombian concerns and self-help efforts.

In Colombia, as in most developing countries, there has been a greatly increased demand for education during the past ten years. As a result, primary school enrollment is estimated to have more than doubled from 1958 to 1973 (1.5 million to over 3 million). The GOC has recognized that quantitative increases alone are not sufficient and has sought to introduce qualitative innovations designed to increase internal efficiency and to make education more relevant to national needs. Examples of such innovations include the "rural development centers" program for primary and early secondary levels, the comprehensive high school program for urban secondary schools, and the university integration programs.

### II The Educational Strategy

The current GOC education strategy is set forth in two basic documents which, since publication, have been further refined in a series of publications dealing with specific aspects of the strategy:

"Strategy and Mechanisms for the Implementation of the Educational Policy," National Planning Department/Ministry of Education (February, 1971).

"Strategy and Mechanisms, 1972-1975," National Planning Department/Ministry of Education (October, 1971).

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These documents identify the following as fundamental weaknesses of the Colombian educational system:

- The imbalance in attention to the several educational levels.
- The distribution of students; many in classical programs, few in technical-vocational education.
- The disparity of educational opportunities between the urban and rural sectors.

To provide mechanisms to correct these weaknesses, the GOC had by 1968 reorganized the administrative structure in the educational sector to provide for decentralized institutions which specialized along functional lines. These institutions, such as the Colombian Institute for School Construction (ICCE), the Colombian Institute for the Development of Higher Education (ICFES), and the Colombian Institute for Educational Research (ICOLPE) were assigned responsibilities to develop the facilities and the programs needed to upgrade the educational system and to correct the weaknesses noted above.

A development plan specifically proposed the creation of centers of excellence where methods to attain greater productivity from the educational process would be developed. The plan also stressed the increased use of complementary resources. It was opposed to relying exclusively or too heavily on increasing the quantity of traditional resources such as physical facilities and teachers.

At the primary level, the plan sought to improve the balance between the urban and rural sectors by the addition of classrooms in the rural schools. "Rural Development Centers" were also to be established to enrich the rural communities by combining educational services with those of agricultural extension and public health. These activities were to be complemented by intensive teacher-training programs, curricular reforms, and increased availability of improved instructional materials.

The strategy for the secondary level was to break the classical tradition through the establishment of a network of comprehensive high schools designed to place students of varied socio-economic backgrounds in single, large institutions which would provide the students with a choice

of curricular options leading to practical employment after graduation, or to continued education at the polytechnic or university levels. Teaching methodology in these schools was to develop the student's ability to reason and think creatively so as to be better able to participate effectively in his society. Most of these schools are now operating, and the Government has found them to be beneficial to Colombia. The strategy next called for the introduction of diversified and practical education into the regular secondary schools. There are being built "service centers" which will serve several secondary schools. These centers will have the laboratory and shop facilities which will make it possible for the secondary schools which they serve to offer comprehensive programs.

The governmental agency, ICFES, was established to coordinate and assist the development of higher education. ICFES has accepted the challenge to try to rationalize the system of higher education, make it more responsive to the development needs of the country, and integrate the institutions of higher education into regional groups in order for them to pool resources and to avoid unnecessary duplication of effort.

III The Functioning of the Strategy

In support of its educational plan, which time has proved to be essentially sound as to its basic elements, the GOC has significantly increased resources available for education both in absolute terms and as a percentage of the national budget. The following table shows the trend toward increased financing of education:

	<u>Total Government Budgets for Education</u>					
	<u>1968-1973</u>					
	<u>(Millions of Pesos)</u>					
	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Current Pesos	2,685	3,525	4,638	5,655	6,923	7,983
Constant 1968 Pesos	2,685	3,258	3,888	4,278	4,615	4,513

Source: Education Sector Assessment. Deflators, as follows:  
1969:8.2; 1970:19.2; 1971:32.2; 1972:50.0; 1973:76.9

A most important development in the GOC's implementation of its educational plan has been the strengthening of the Ministry of Education's own Planning Office and its counterpart in the National Planning Department. There has also been a concomittant strengthening of the planning capabilities of the semi-autonomous decentralized institutes. The planners, backed by the authority of the Minister, were able to insure that major investment programs were largely implemented according to their plans. Within the Ministry, the Planning Office has assumed its proper role as a principal source of policy-making. This was made possible by increasing the number and quality of personnel and reorganizing the office along lines consistent with program objectives. There still remain areas for improvement in the planning function, e.g. the Planning Office is overburdened with program implementation functions. The Ministry has recognized this and a reorganization is planned to remedy this. Data collection and processing continues to be an impediment to better planning and program evaluation. "Control" over the investment budget implementation too often is based on insufficient information from the decentralized agencies.

On the other hand, the decentralized institutes have been strengthened and in some cases have taken on additional functions. For example, ICCE, which was intended primarily to accomplish school construction, also took over the tasks involved in developing the diversified secondary schools, the INEMs. This has included equipping the schools, helping to develop the curricula, training the personnel and, after the schools started, administering them. The success of the INEMs has resulted largely from ICCE's ability to take the diversified school concept and make it operative in Colombia.

The INEMs were constructed in two phases: ten schools in the first, and nine in the second. The second phase is now being completed and all but two of the schools are operating. Since the plan was to enroll only beginning secondary students, none of the schools have completed the full cycle and are not yet operating at full capacity. The first full cycle will be completed in 1974. Eventually these 19 schools will have a capacity of 80,000 students on a two-shift basis.

The Service Center program to extend comprehensive secondary education in intermediate-sized cities is also being implemented by ICCE. Sites have been acquired or are under negotiation for all the centers. Preliminary architectural and engineering plans have been drawn up for most of the centers. Contracts will be awarded for construction by early

1974. Meanwhile, arrangements with the traditional secondary schools to be served by the centers are being firmed up. All centers are scheduled to open between February and April, 1975.

ICCE also is responsible for construction of 44 of 54 rural development centers now planned. The other ten are to be built by the departmental Coffee Growers' Associations.

Other activities related to the rural development centers such as teacher-training, curriculum introduction, and technical assistance to centers as they become operational are being coordinated by the Social Welfare Division of DNP and a special section of the Planning Office of the MinEd. Under a planned reorganization of the MinEd this special section will be developed into an independent office for rural development.

The major teacher-training effort for the centers is to take place between December and February, during which period most of the sixth grade materials (texts, teachers' guides, etc.) are to be produced by ICOLPE in a printshop donated by the Federal Republic of Germany.

Construction of primary classrooms as satellites to the rural development centers or to complete existing primary schools has been an activity in which ICCE has been most effective. Construction has kept on schedule, despite the fact that these new classrooms have been widely distributed around the country in order to meet regional needs.

ICFES's program in the area of higher education is beginning to have a significant impact. Intra-regional coordination of university programs in several regions is a reality. Many examples have been cited in previous Mission documents. A recent success in the Santander and Norte de Santander departments involves the development of common library facilities, transfer programs for students between the Industrial University of Santander (Bucaramanga) and the Francisco de Paula Santander University (Cucuta), and the exchange of professors. Moreover, ICFES has exercised its authority over the universities by closing twelve private institutions which aspired to "university" status, without meeting the minimum requirements set by ICFES. To avoid hardship to students enrolled in these institutions, ICFES took the initiative in finding places for these students in other legitimate universities or technological institutes. ICFES has also been responsive to projects in Medellin and Bogota to create inter-university services

such as bookstores. It is working with the National Pedagogical University in Bogota and the Pedagogical and Technological University in Tunja on the creation of an instructional film library to serve educational institutes. This trend toward greater exercise of authority and increased responsiveness to requests for services by the universities, coupled with a strengthening of ICFES' capability to provide technical assistance in university planning and administration, augers well for the increased effectiveness of this key institution.

In-service training programs to upgrade instruction have been offered through several institutions so that these programs have been varied. They have reached a large number of teachers, but the effectiveness of at least some of the programs has been questionable since they have consisted of short, one-time workshops. Recently, however, the GOC has reorganized this function and has assigned it to ICOLPE (the Colombian Pedagogical Institute) whose primary function had been educational research. With a well-trained, energetic young staff, there are good prospects for the development of well-conceived, technically sound, continuing in-service training programs.

ICOLPE has sponsored a number of educational research projects which will be important for policy making and has developed the capacity to carry on or sponsor such research. At the present time, some of its more significant projects include a study of primary educational flow, a cost-analysis of official secondary schools, an evaluation of normal schools, experimentation with new curricula in mathematics, and a study of "long-distance" educational activities taking place in Colombia, including correspondence study and the use of radio and television for instructional purposes. ICOLPE has also greatly expanded its publication program, making available key policy documents and research results to a much wider audience, and has become an important center for documentation on educational research and instructional materials both from Colombia and abroad.

COLCIENCIAS (the Colombian institute to promote the development of science) has led in the promotion of scientific research, in forming the Colombian Association for the Advancement of the Sciences, and in sponsoring the transfer of technologies into Colombian industry and agriculture.

In addition to the above activities, COLCIENCIAS sponsored more than twenty major research projects related to development. Some of these studies are:

- A study of the geophysical aspects of the upper altitudes over Colombia and their relations to radio communications.
- Psycho-social personality factors related to the use of dangerous drugs in Colombia.
- Use of garbage for bacterial processing to provide a protein source.

The Colombian Educational Loan Institution (ICETEX) administers a variety of student loans and scholarship funds. It handles all foreign scholarships for the GOC and also the Government's scholarships for secondary education students. It administers the program related to privately financed students, a loan program for university students both in-country and abroad, and it has several special programs such as those related to the AID loan. In the latter program, in addition to special loans which will be forgiven if the students return to government service in priority fields, such as agriculture and education, ICETEX recently has provided scholarships for over 250 teachers in the areas of rural education, functional literacy, and technical-vocational instruction.

#### IV Main Development Problems in the Educational Sector

Despite the major efforts that Colombia is making and plans to make for educational reforms, this country will continue for the foreseeable future to be frustrated by such factors as the large number of functional illiterates, and the rapid population growth of school-aged children which will make it impossible for the formal school system to provide sufficient educational opportunities using traditional methods. The major concern, then, is to make the most efficient use possible of the available resources. This involves improving educational technology and going outside of the formal educational structure to provide for a sizeable part of the school-age population which the traditional system cannot accommodate, and for the functional illiterates left stranded in the past by the lack of educational facilities.

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What the Colombian educational reformers are basically seeking is what they term "complementary resources" which will have a multiplier effect upon education here. The major problem is to identify such potential resources and then to exploit them.

An example of such reform efforts is the "Secondary School by Radio" program which was just started. The lessons are first given by radio during the week, and on Saturday there is a TV review lesson. The students purchase at a very nominal price their lesson material, which is in newsprint and magazine form. Tests covering the courses throughout the country are conducted by the National Testing Service.

The GOC is also trying to make the formal educational system serve more people more effectively. This is the primary motivation for establishing the Rural Development Centers mentioned earlier.

For the overall upgrading of the formal educational system, the importance of improving the curricula and providing more and better instructional materials has been clearly identified. Unfortunately, revising a complete curriculum has proved to be a slower process than was anticipated. There has been considerable experimentation with new curricular elements and the Ministry of Education is now prepared to develop the most important instructional materials such as teacher guides and instructional aids (maps, charts, etc.) using the new printing facility donated to the Government by the Federal Republic of Germany. Since the sixth grade is considered the key grade in several of the reform measures, its curriculum has been completed first, and the materials are ready for publication.

The reform efforts have recognized the key role that the teacher plays in making educational changes, and a major concern is how to develop teachers who will be capable of carrying through the improvement of the curriculum and instructional practices, and teachers who understand the new concepts and who are able to work in the new institutions such as the INEM, the Secondary School Service Centers, and the Rural Development Centers. The Ministry has projected a major effort to develop the teacher-training programs and institutions to meet this challenge. This will mean a major overhaul of the normal schools. Instead of scattered and poorly functioning normal schools, the plan is to close all but those that are adequately staffed, leaving perhaps no more than one or two in each department.

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Those remaining are to be well equipped and enlarged. Each department will have a team of educational specialists to assist the departmental Secretary of Education and the Ministry of Education representative with staff functions (Science Education, Art Education, Physical Education, Adult Education, etc.), and who will also be involved in the supervision of the normal schools.

The in-service education programs are also to be upgraded in line with the above-mentioned programs.

A further project is to upgrade the status of the teachers by establishing a Teachers Law which will legalize professional standards and teacher rights and responsibilities. It is hoped that this law will provide the basis for attracting better qualified people into the teaching ranks and for causing the teachers in-service to upgrade their capabilities.

In addition to such overriding development problems, there are operational problems which also must be dealt with in creating more and better educational opportunities for the Colombians.

As is to be expected with such a major thrust, some operational problems have grown out of the inability to move all of the various entities and activities involved at the same rate. For example, although the several entities created to handle special functions (ICCE, ICFES, ICOLPE, etc.) have for the most part functioned reasonably well, coordination among them could be improved. It has been difficult for the changes to penetrate uniformly throughout the country, since the mechanism created to establish the needed communications between the National Ministry of Education and the Departmental Offices of Education (the Regional Funds (FERs) and Regional Representatives) is new and has to be further developed. The system is now functioning well in about one-half of the departments.

Recently, the Ministry of Education has established a high-level international assistance committee, which, in addition to having the function of coordinating the various external assistance programs, is to supervise and coordinate the activities of the several decentralized agencies. Also, the Ministry of Education is working to develop better coordination among the various agencies on the departmental level by authorizing the Ministry's regional representative to exercise greater leadership.

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As mentioned above, to provide better communications, a system of Ministry Regional Funds and regional representatives was created. To overcome the autonomy exercised by the departmental governors in education, contracts were made with the departments by which the departments agreed to accept orientation by the Ministry's representatives in return for the financial support from the National Government.

A year ago, the Ministry made a careful study of the Ministry representative system and, as a result, made modifications to correct weaknesses, held a training seminar for the representatives, and made a serious effort to secure proper personnel.

V Issues Raised in the IRR on the Education Sector Loan

A. The Ministry's Ability and Intention to Gather and Analyze Sector Data on a Continuous Basis

The Ministry has established a statistical office which is collecting data through its representatives in each department. It is too early to judge the effectiveness of this effort. Recently the statistics for the primary schools for 1971 were published, the first such data to become available since 1968.

A national census was taken in October, 1973, and the data that it will provide will give an excellent base for a diagnosis of the educational situation. The plan is for the statistical office to use this base to keep its information current.

B. GOC's Rural Educational Program and Levels of Investment in the Rural Areas Relative to the Urban Area

The construction program of the ICCE is an excellent indication of the GOC's interest in improving educational opportunities in the rural sector. The bulk of the new classrooms have been in the small cities, towns, and rural areas. Very few have been constructed in the large cities. There has clearly been a reallocation of resources toward rural primary education.

The development of rural centers is an important development concept. It recognizes that the program to upgrade a rural community must provide a unified attack on its problems if the quality of life therein is to be significantly improved.

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C. Cost of INEMs as Compared to Traditional Secondary Schools

Thus far the costs of the comprehensive secondary schools are running considerably higher than for the general secondary schools. Part of this is due to the fact that the comprehensive secondary schools are operating at neither full capacity nor maximum efficiency. Also, the teachers are much better paid, which is entirely proper since they tend to be the best prepared teachers in the country.

It is too early to make a cost-effectiveness study of the INEMs since the first class will not graduate until 1974; however, they have already shown that the cost per graduate will be reduced because of the very high retention rate as compared to that in the regular secondary schools.

Of course, the main contribution of the INEMs is to turn the educational system away from the old classical traditional toward a type of education that is relevant to development needs. The success of the INEMs can best be measured by the moves now to extend the concepts established by the INEMs through the service centers into the regular secondary schools and through the normal schools into the overall teacher-training system.

D. Private Schools

As in most Latin American countries, private education plays a very important role in Colombia, particularly at the secondary level where over half of the students enrolled are in private institutions. It is essential, therefore, that the reform efforts in the public sector be reflected in the private system. That this is happening is shown by the flexibility that the private schools are introducing into their curricula, and by the fact that some of the best private schools have hired administrators who are trained in the reform concepts. Several of the private schools are now playing leadership roles, as it had been hoped, in implementing the reform programs.

E. SENA

SENA, the apprenticeship and on-the-job vocational training system, is financed by a payroll tax on corporations and operates under the Ministry of Labor. It is a very successful example of non-formal

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education, and each day it broadens its program offerings to include more training functions. The need to coordinate SENA with the programs under the Ministry of Education has been recognized and a good relationship with SENA has been established. The concept is that SENA serves a different role from the institutions under the Ministry of Education, and the goal is to develop relationships between the two that, while recognizing their differences, will help to strengthen both systems.

#### F. Higher Education

Higher education must be made more effective and less costly in Colombia. Thus, the ICFES programs described briefly earlier in this paper are important. Recently, the Minister has asked the Congress for special authority to make basic reforms which will key the university program to the national higher level manpower needs. Moreover, the Government is deliberately attempting to reduce its financial obligations to higher education in order to free up resources for allocation to its newly-established priorities in rural primary education.

#### VI Future Need for US Assistance to the Education Sector

For CY-1974 and 1975 an education sector loan for US\$25 million has been authorized by AID/W, and the Mission is now in the process of negotiating a Loan Agreement with the GOC. There is a basic understanding now as to the major objectives and programs, but there will be a sharpening of the focus as a result of the assessments that both the Ministry of Education and the Mission are making. The loan is to continue to support Colombian initiatives in the following areas: (1) improvement of primary education; (2) extension of secondary education reforms by implementing throughout the system those practical concepts which have been shown to be most beneficial for Colombia; (3) upgrading of both pre-service and in-service teacher-training programs; (4) encouraging the integration of the institutions of higher education; (5) strengthening educational management, and increasing the cost-effectiveness of the system through research and administrative improvements at national, regional, and institutional levels; and (6) expanding individual educational opportunities in those fields most essential to national development by providing additional educational loans to needy students.

A. Improving Primary Education

This program will have three main thrusts: to implement the rural development centers; to upgrade the pre-service and in-service teacher-training to provide qualified staffs for the centers and their satellite schools as well as for primary education in general; and to upgrade the instructional programs through the establishing of new, more relevant curricula, teaching methods and instructional materials. [This latter effort will include a revitalization of the ETV program and attention to the non-formal educational programs which supplement and contribute to the formal primary programs.]

B. Extension of Secondary Education Reforms

Now that the 19 INEMs are almost completed and operating, the next phase of this program is to bring the concepts regarding more practical and relevant secondary education to bear upon the rest of the secondary schools. This will involve (a) the further development of service centers with shop and laboratory facilities which can be used by the schools around the centers, (b) introduction of said concepts into the normal schools and into the pre-service and in-service teacher-training programs, and (c) establishment of incentives such as student loans to bring more and better qualified people into the teaching field.

C. Upgrading of Both Pre-Service and In-Service Teacher Training Program

Specifically, this will involve upgrading the normal schools and the education and science faculties of the universities. The in-service programs are now to be coordinated by ICOLPE, and the loan funds are to make it possible for ICOLPE to establish well-conceived, effective, and continuing in-service training programs throughout the country. The weak normal schools will be eliminated and those remaining will be suitably equipped and made an integral part of the reform movement.

D. Encouraging the Integration of the Institutions of Higher Education

This program is to make it possible for ICFES to strengthen its efforts to rationalize Colombian higher education by regionalizing the institutions and developing integrated regional programs. This should reduce

the duplication of effort, eliminate sub-standard institutions and programs, cause each institution to make a complete self-evaluation, improve the research efforts which are most relevant to instructional and national needs, and improve the services of the higher educational institutions to the community and to the other educational levels.

E. Strengthening Educational Management and Improving the Cost-Effectiveness of the Educational System

The Colombians are making an effort to increase the data base for their educational decisions. Loan funds will be used to assist in the gathering and analyzing of the statistics concerning the educational system, in making projections and costing out the present policies and programs, and doing the necessary research studies concerning such things as costs of graduates, retention rates, and repetition rates.

Increased data base will also help the Ministry upgrade its administration at all levels.

F. Educational Loans for Students

Colombia has a very effective student loan organization (ICETEX). Some loan funds will make it possible for ICETEX to expand its programs to include loans for deserving students who wish to go into teaching, thus expanding the manpower pool in this vital field. The loan will also include a dollar fund: to provide short-term training overseas; to support in-service programs for the Ministry for university administrators, and for the leadership of the decentralized agencies.

VII Grant Fund Requirements FY-'74 and FY-'75

Grant funds will be required by the Mission for the following program management and technical assistance activities:

One direct-hire USAID educational advisor to supervise the Mission's program and give special attention to administration, higher education, and teacher-training programs.

One direct-hire USAID educational advisor to concentrate, on the primary level, to ETV and non-formal programs and to the successful termination of previous loan programs.

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One direct-hire, or contract advisor to assist the GOC in adopting advanced methods of sectoral analysis, including mathematical model building.

One local-hire educational expert to give special attention to the financing of the educational system with particular emphasis on the educational bank project.

One local-hire education expert to give special attention to the instructional materials programs, including the RTAC program.

TDY assistance may be requested to help various institutions and programs; an illustrative program follows:

Ministry of Education - FERs program  
ICOLPE - Teacher-Training Program  
ICOLPE - Research Program  
ETV Program  
ICETEX - Systems Analysis  
ICCE - Rural Centers  
ICCE - Secondary Service Centers  
Ministry - Instructional Materials  
Educational Bank  
ICFES - Cost-Benefit Study  
ICFES - Evaluative Criteria  
ICFES - Textbook Program

Invitational travel may be offered to permit leaders in the various projects to upgrade their understanding and skills related to the project by visits to neighboring countries and the US. The following are the estimated requirements (CY-'74, '75):

Ministry of Education	20,000
ICOLPE	10,000
ICCE	10,000
ETV	5,000
ICFES	<u>10,000</u>
Total	<u>55,000</u>

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### VIII Assistance Requirements Beyond FY-'75

The loan funds presently authorized will support the program through CY-1975. An additional sub-sector loan may be required in FY-'76 to cover the requirements for two additional calendar years. This loan will be approximately US\$10 million, and will stress two areas: instructional materials (including educational technology) and non-formal education, especially as this relates to the rural development centers.

Given the forthcoming change in government, it is, of course, difficult to forecast the composition of such a loan. However, the Mission believes that the following programs are likely to receive increased emphasis under any new administration:

#### A. Educational Television and Radio

Indications are that, under the administrative reorganization of the GOC now being studied, all GOC mass media educational activities are to be integrated under a single organization. This would have several advantages over the current situation, under which primary ETV is located in an agency of the Ministry of Communications, the major concern of which is commercial television, while adult ETV and radiofonic high school programs are located in an organization which is administratively under the Executive Office of the President. Integration would enable concentration of technical personnel, for both production and content, with an anticipated multiplier effect. It would also help focus research efforts on particular media as applied to a variety of educational purposes. By 1976 it would be reasonable to expect that the new organization would be fully operative and, building on Colombia's extensive past experience with the use of the media, would have expanded programs which the proposed FY-1976 loan could support. Such support would also build on AID/W funded research projects suggested by the document "The AID Education Program Strategy."

By 1976 it is also anticipated that GOC evaluation of the Acción Cultural Popular programs will be completed. Assuming that the results of this evaluation and the GOC's experience with ACPO's contractual involvement with the rural development centers program is favorable, it would also be reasonable to expect the GOC to seek support for further integration of ACPO with its rural education programs.

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B. Non-Formal Education

The GOC's interest in non-formal education as a means of reaching the unschooled population appears to be increasing. Its interest in ACPO has been referred to above. Another activity which may receive GOC support has developed out of an informal workgroup on non-formal education in which a number of high-level GOC officials have participated. Recently, this group established the Foundation for Continuing Education in Colombia and a sister organization, the Center for the Development of Non-Formal Education. The functions of these two private organizations are to promote and perform research and evaluation on non-formal programs, provide consulting services to selected programs, train their personnel, develop experiments, and serve as an information center for programs in Colombia and abroad. Their initial activity has been to survey 500 separate projects in a sample of 5 Colombian departments.

Given the leadership of these entities and their orientation, it is expected that several projects will develop for which Ministry of Education financial assistance will be sought. The proposed loan could be an important factor in the MinEd's ability to respond.

C. Instructional Materials

While progress in this area has been delayed by the long process of curriculum development, it is anticipated that by FY-1976 the new basic education curriculum will be in general use and that ICOLPE's program in the textbook and prototype teaching aids areas will have reached a takeoff stage. Funds will be required to mass produce and distribute these materials.

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### SECTION THREE: URBAN

For the past three years AID's efforts in Colombia's urban sector have been directed in support of the GOC's urban/regional development strategy. That strategy seeks as its objectives promotion of economic growth of intermediate cities, diversion of migration from major to intermediate cities, improvement of infrastructural services in low-income areas of major cities and all income areas in other cities, and improved local planning and administration. To that end, AID has authorized two loans totalling nearly US\$67 million, matched by considerably more GOC funds, which have primarily supported financing of urban public works (FFDU), small industry credit (FFI and CFP), low-income housing and related services (ICT), intermediate city water and sewerage investment (INSFOPAL), and urban planning and administration (ESAP, DNP, DANE).

#### I Antecedents

The urban/regional sector program had its genesis in the increasing concern of Colombian policy-makers for the rapidly growing urban areas. Over 60% of Colombian population resides in cities of over 20,000 inhabitants. In the Presidential election campaign of 1970, the winning candidate put special emphasis on satisfying the social development needs of the urban masses, especially those in the approximately thirty "intermediate" cities of 30,000 to 350,000 inhabitants. Under the guidance of the then-new administration, the National Planning Department, building on previous "poles of development" work, worked out a sector program which focused on the four goals mentioned above.

#### II Sector Assessment

In studying the requests for sectoral financing which we received from the GOC, the AID Mission undertook a substantial assessment of the urban development sector. (See Urban/Regional Sector Analysis, USAID Mission to Colombia, May 6, 1972.) In this analysis, two basic features of Colombia's urban/regional system emerged. First, that urban centers, generally consisting of a major city and one or more intermediate cities, represent "development poles" for each region of the country, but that the intermediate cities generally are discriminated against in the share of public and private investment they receive, whether this is evaluated in

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relation to their population or their development contribution and potential. Second, that the rapid growth, both of major cities and intermediate cities, has been accompanied by insufficient employment opportunities and public services. Substantial migration over the past twenty years, as well as high demographic growth rates nationally, have resulted in sharp increases in both absolute numbers and the proportion of urban population, to 56% of the total population in 1970, as compared with but 40% in 1951. Over 60% of the employed urban population earns less than US\$70 per month and unemployment rates in urban areas generally are considered to average from 8-10% without taking into account serious underemployment.\* In addition, provision of public services and infrastructure, though improving, remains grossly inadequate. This is especially the case in regard to water and sewerage service and low-income housing in both intermediate and major cities.

Analysis of the institutions active in the sector indicate that one major problem affecting almost all institutions is inadequate planning, project design, and budgeting. A second major and common problem is simply lack of sufficient funds to reach program levels that would provide minimal adequate public service. A third major problem area is the overlapping and confused jurisdiction for provision of public services and infrastructure. The lack of a central institution with overall responsibility for policy formulation and operational control regarding the inter-related functions of housing, public services, urban land use planning, etc., is a major deficiency.

In regard to industry, a major problem is the severe shortage of credit, particularly credit for working capital, which has denied many firms, especially smaller and more labor-intensive firms in intermediate cities, the possibility of increased utilization of capacity. Problems also persist in the area of provision of technical assistance to industry, again principally to smaller firms. Moreover, there tends to be over-centralization in regard to the provision of import licenses and other such requirements, which tends to make it difficult for firms outside Bogota to operate efficiently. Finally, attraction to and viability of industries in smaller cities are inhibited by inadequate urban infrastructure and services, the weakness of external economies and, in general, the reluctance of highly qualified executive and technical personnel to locate outside of the large metropolitan environment.

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\* Recent, unconfirmed data indicate that the unemployment situation may have improved in 1973.

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### III Existing Urban Sector Program

Based on the GOC request and justified by the sector assessment, a sector loan program was authorized which in its first round (Loan 514-L-063) included the following specific investment activities:

(a) The financing of municipal infrastructure investments, the costs of which are to be recuperated through "valorization" or benefit assessment levies. A revolving fund (FFDU) which rediscounts loans to municipalities received 180 million pesos additional capital from the AID loan, matched by an equal amount from the GOC. These funds were to be distributed in a manner which favors intermediate cities;

(b) The provision of low-income housing and related services through a substantial shift in the public housing agency's (ICT) investment program in favor of low-income families. The AID loan provided 225 million pesos, matched by 430 million pesos of GOC funds;

(c) Credit for small and medium industry, the distribution of which was to favor intermediate cities. AID and the GOC each provided 180 million pesos additional capital for a rediscount line for loans to small and medium industry (FFI);

(d) Improvement in local planning and administration through increased budget support of the public administration training institute (ESAP) and the National Planning Department's assistance to municipalities. The activities received 18 million pesos from the loan and larger matching GOC contributions.

A second loan, 514-L-068, was authorized to continue the above-listed activities in 1973 and to add funding for new activities as follows:

(1) Additional capital for FFDU: AID and GOC each provided 143 million pesos;

(2) Continued expansion of ICT's low-income housing and related services investment: 368.8 million pesos from AID matched by 632.7 million from the GOC;

(3) Additional capital for FFI: 115 million pesos from AID matched by 125 million pesos from the GOC;

(4) Continued public administration training and planning assistance: a total of 14.4 million pesos from AID and 24 million pesos from the GOC;

(5) Expansion of water and sewerage infrastructure in intermediate cities through the municipal development institute (INSFOPAL) which was apportioned 167 million pesos of AID funds and 300 million pesos from the GOC for intermediate cities;

(6) Credit for small industry, additional to that funnelled through FFI, through a public investment bank dedicated to small industry (CFP). Additional capital for the CFP of 60 million pesos of AID funds and 140 million pesos from GOC sources is being provided;

(7) A census of population and housing, carried out in October, 1973, received 30 million pesos from the AID loan and 70 million pesos from other sources.

#### IV Evaluation

Early in 1973 the Mission prepared an evaluation of performance under Loan 514-L-063 through the end of CY-1972. The following material draws heavily on that performance report, supplemented by information from progress reports on the various loan-financed activities through the third quarter of 1973.

The urban/regional sector program as a whole has made substantial progress towards its most prominent short-run goal, that of promoting investment in intermediate cities and redressing the discrimination against intermediate cities in the allocation of credit resources, at least as related to flows of public funds through the banking system. Although the FFDU and FFI disbursed less funds than anticipated during 1972 (and 1973), both entities achieved the targets established in the Loan Agreement relating to the correction of an earlier imbalance between resources going to the larger urban centers and those being applied to intermediate cities. The FFDU in particular made funding available that previously simply did not exist for intermediate cities. Almost all of the cities eligible for FFDU loans have received financing or are in advanced stages of project development.

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Performance on important physical targets, e.g. the number of families benefitting from low-cost housing projects of the ICT, the number of public officials trained by ESAP and the amount of DNP technical assistance to municipalities, was in line with or exceeded the targets set forth in the Loan Agreement. However, some institution-building targets, such as those for University Urban Studies Centers and the funding of municipal development institutes, were not achieved. The latter set of institutes has begun to receive funds in 1973.

On the financial side, the overall results were mixed. The disbursement flows of the two rediscount funds (FFI and FFDU) were considerably behind those anticipated in the Loan Agreement. With the benefit of hindsight, the Mission believes that the Loan Agreement targets for the funds would have been more realistically set in terms of loan approvals rather than cash flows from the funds to sub-borrowers. In both entities, loan approvals totalled nearly the targeted amounts for the period from loan signing through December, 1972. The current projection of approvals by the end of 1973 will commit 85% of available resources of each fund. The funds, however, were slow to get money moving and, therefore, their cash flow record was well under the targets.

All the other entities involved in the sector program, except the CFP, appear reasonably close to fulfillment of financial targets through the end of 1973. There has been a recurrent problem of "tooling up" the financial flows for entities new to the program.

In addition to the specific activities of the entities receiving sector loan support, there have been a number of important developments in the urban/regional sector during the past two years. Most prominently, a savings and loan system has been established with resounding initial success in mobilizing domestic resources. The system, discussed for more than a decade before its initiation, is the cornerstone of the National Plan's emphasis on the construction sector. Also, the GOC now has created a guaranty fund for loans to small enterprises and is discussing with OPIC the establishment of an OPIC small credit guaranty fund. (The guaranty fund was discussed in the sector Loan Agreement for possible inclusion under the FFI activity.) Further, some 25% of the nearly US\$400 million of external loans signed by the GOC in 1972 are directed to the urban/regional sector, including the second AID loan and a US\$44 million IDB "sector-type" loan for Bogota.

Of equal significance is the fact that "urban development" has been firmly established as both a working concept and a top priority in Colombia, as witnessed by the President's decision early in 1973 to elevate overall direction of the sector program to the level of the Economic and Social Policy Council (CONPES), a cabinet level group presided over personally by him.

The following table summarizes a few of the physical accomplishments of the program in CY-1972 and 1973:

Selected Key Indicators

	<u>1972</u>	<u>1973*</u>
ICT - low-income houses completed	17,614	24,000
ICT - families benefitted by public services	91,473	76,000
ESAP - local officials trained	11,482	21,000
FFI - new jobs created	13,000	12,000

\* projections based on actual data through September, 1973

V Further Analysis Requirements

During the latter part of CY-1973 and through CY-1974 a major effort is to be devoted to bringing up to date the analysis which originally supported the sector strategy and program, as well as evaluating the program which is currently under way. The updating of the appraisal will include an exposition of the overall urban policies currently evolving within the GOC, with special emphasis on the savings and loan system, the cities-within-cities concept, and the urban reform law. We expect to add analysis of urban employment and credit distribution emphasizing the position of small industry as a possible prelude to a catalytic role for AID in discussion of policy reforms in the areas of employment, capital markets, and industrial incentives. We also will bring up to date analysis of the housing sub-sector in light of the application of the National Plan's stimulation of the construction industry, and we will attempt to analyze the position of low-income housing and related services in the context of the Plan's emphasis of urban development. We expect the supplementary sector assessment to be completed during the next few months.

Simultaneously with Mission assessment, the GOC is undertaking operational studies of the entities participating in the sector program with the objective of correcting problems that have arisen. Overall coordination and administration within the sector has been especially difficult; during 1974, following the entity studies, attention will be devoted to improving coordination. The results of the operational studies will be incorporated in the Mission's year-end review of 1973 sector performance.

Probably the most important study to be initiated during the next several months will be the GOC's evaluation and reappraisal of the overall strategies and projects which have defined the sector program during its first three years. Due in part to the administrative difficulties which have burdened the Planning Department (DNP) during recent months, the overall evaluation, which had been expected to commence early in 1973, has been slow to get started. Until recently the Mission and the GOC had considered that a third sector loan, similar to the first two, would be requested for program requirements during CY-1974 and 1975. We now believe, however, that it is premature to consider a loan in support of the original emphasis on intermediate city development until the evaluation has at least provided preliminary confirmation of the strategy.

#### VI FY-1974 Program

We will be prepared, however, to permit continuation of the existing program through CY-1974, while awaiting results of the various studies, by allowing the carryover of funds from the second sector loan to finance continued activities of the slow moving Urban Development Finance Fund and the successful public administration training project (ESAP) and planning assistance (DNP). We also expect the GOC to request additional funding for two activities which have evolved out of the sector loan. These activities, small industry and low-income neighborhood improvement, have suffered comparatively less from operational difficulties and uncertainties related to analytical bases. They are related directly to the GOC and AID's mutual goals of employment generation and improved quality of life for poorest classes of urban residents. The Mission expects to forward sub-sector loan proposals to AID/W early in 1974, the salient features of which follow. At this time discussions are in a preliminary stage. Tentative FY-1974 funding requirements for disbursement during CY-1974 and CY-1975 are:

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Small Industry Development	US\$ 4.5 million
Barrio Improvement	<u>US\$10.5 million</u>
Total	<u>US\$15.0 million</u>

Small Industry Development: The small industry credit portion of the first two urban sector loans, though originally beset with operational sluggishness, has proven to be a very effective stimulus to increased employment. The industries supported, besides being labor-intensive, also are largely devoted to the production of wage goods, stimulation of the demand for which is the objective of the Colombian Development Plan. Thus, increased production by small industry will be needed in Colombia to maintain consistency between the Plan and price stability. For these reasons the GOC wishes to further expand the availability of credit to small industry and is working with the Mission in preparation of a sub-sector loan request. The project will probably also include a component of technical assistance for small industry, which frequently requires assistance in administration in order to qualify for credit. Consideration will also be given to assistance to the Small Industry Association (ACOPI) in connection with policy issues and coordination problems related to this sub-sector.

"Barrio" Improvement: Under the influence of the budgetary resource flows of the first two sector loans, ICT's investment program has shifted dramatically in favor of minimum cost housing. In 1974 ICT will directly finance no housing costing over US\$4,500; most of the housing currently under construction will be subject to expansion and internal finishing by the buyer. In addition, ICT has been implementing a number of innovative approaches to neighborhood improvement in poor "barrios." These activities such as public services networks, sites and services, minimum shelter, loans to property owners, and community development, seem to offer the best means of providing minimum standard housing services to the vast and growing number of slum dwellers in Colombia. The Mission is currently discussing with ICT and DNP the possibility of tying any future AID loan support of ICT to an expansion of "barrio" improvement activities. We are also exploring whether the institutional bases of these activities might expand beyond ICT.

Other Urban-Related Activities: Following the successful recent creation of a savings and loan system in Colombia, general capital markets reform has become a greater possibility. We expect to devote considerable

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staff effort and possibly technical assistance to promotion of analysis and discussion of capital markets reform at the GOC policy level. In a similar vein we hope to stimulate discussion of reform of industrial policies (i. e., tariffs, labor laws) which currently favor capital investment relative to employment.

The GOC is working on an urban development policy which will favor the creation of multiple purpose "cities-within-cities" in major metropolitan areas. Should projects be formulated along these lines during the next year or two, we may seek to make available housing guaranty funding for the projects.

VII FY-1975 and Beyond

Assuming that AID continues to be concerned with urban problems, the substantive nature of AID lending in FY-1975 and beyond will depend, inter alia, on the results of the evaluation of the intermediate cities strategy. Although we are not ready to rule out the possibility of a third urban/regional sector loan in FY-1975, it is more likely we will seek to concentrate smaller amounts of loan funds on specific sub-sectors in which our resources play a key catalytic role in policy undertaking of special benefit to Colombian development.

For instance, with respect to employment creation we see in FY-1974 that credit for small industry is a target of opportunity which will get a substantial boost from AID lending. There are major policy changes, however, which can have much greater impact on employment such as capital markets reform and tariff exchange rate rationalization to reduce the subsidy to capital, or Labor Code reform as suggested in an ILO study, or domestic adoption of technology in line with real domestic production costs. AID will seek to promote dialogue and analysis of these policy issues and stand ready in FY-1975 and beyond to give support to policy reforms if and when that may be appropriate.

We are also concerned that the benefits of public investment in urban services and housing be distributed as widely as possible among the poorer residents. In general, this goal will be achieved by reducing subsidies to those fortunate enough to receive housing and services and by reducing

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costs to a minimum consistent with standards adopted to the real needs of the urban poor. The minimum standards applicable for Bogota have been determined in a remarkable study carried out under the auspices of the city and ICT. Application of these or similar standards throughout the country is one of several policy goals we may wish to pursue in the near future. Difficult questions relating to the needs for subsidy relative to possibilities of self-financing of investment in housing and urban services need to be reassessed almost continually. We will attempt to associate future assistance with rational self-help and subsidy policies. We will also seek to assist, when appropriate, the implementation of rational policies regarding urban land use, land taxes, legalization of land titles, and the structure of financing institutions.

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## SECTION FOUR: AGRICULTURE

### I Assessment of the Agricultural Sector

#### A. General Background

Although Colombia lies within a tropical zone, three towering ranges of the Andes mountains branching northward from the southern border result in wide variations in elevation and climatic conditions. These physical characteristics have largely shaped the development of its agricultural sector.

The more amenable areas within the mountainous regions were the first to be settled. Here small farmers have been able to produce a subsistence living with "traditional" methods for several hundred years. These more temperate areas became and remain the most populated regions. Coffee, traditionally the most important export crop, and basic food crops (corn, potatoes, wheat, yuca, peas, carrots, and barley) are grown in these areas, largely by small farmers using low levels of technology. Yields of many of the crops produced by these small farmers have not increased significantly in the last decade.

A second, so-called "commercial" sub-sector, has developed largely since World War II. It consists primarily of medium and larger farms located in the flatlands of the valleys, savannahs and the north coast region. Because of the nature of the terrain and climate within the lowland areas, these farms require a higher level of technology and investment to cope with more serious problems of flooding, drainage, diseases, and insects than those encountered in the more mountainous regions. In general, this group of farmers have been better able to avail themselves of credit, markets, mechanization, and improved technology; as a consequence, yields of many of the commodities typically produced (cotton, rice, oil crops, sorghum, sugar, beef, dairy, and poultry) have shown significant increases over time. This has contributed substantially to the dualistic nature of Colombia's agricultural sector today.

More remote from the original centers of population and infrastructure -- in the eastern llanos, the southeastern forests, and lower Magdalena river valley -- lie very large areas of potentially productive land and forest resources which are only beginning to be utilized. The

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agricultural potential of these scarcely populated areas is estimated to be greater than the present total agricultural production of Colombia. However, much of this area may require substantial investment and a high degree of technical skill to bring it into production.

The Andean ranges separate the nation into distinct geographic areas. Improved communications have only recently begun to break through this isolation. Rapidly increasing population in the larger cities along with improvements in transportation and communication is resulting in the development of a national market for agricultural products. There is increasing regional specialization in production and a gradual lengthening of the distance over which products are transported to the ultimate consumer. Traditional patterns of marketing have been inefficient and there is a growing awareness among public officials that improvements are required in this area.

For many years coffee exports have been Colombia's major source of foreign exchange. The wide fluctuations in world coffee prices has caused periodic balance of payment problems. This has led to a high priority goal of expanding "minor" or "non-traditional" exports. Coffee still holds a vital position in the Colombian economy. However, from the height of its importance in 1954, when coffee accounted for 84% of export earnings and about 16% of GDP, its relative importance has declined as other exports and sectors of the economy have expanded. In 1971, coffee accounted for only 53% of export earnings and between 6 and 7% of GDP. Other agricultural exports, only 3% of the total in 1950, represented 17% of total exports in 1971 and 22% in 1972. Creation of mechanisms such as the Export Promotion Fund (PROEXPO) and incentives such as the Certificate of Export Tax Credit (CAT), which provides credits against income tax liabilities equal to 15% of the value of exports, have served to stimulate the development of exports.

#### B. Institutional Structure and Functions

Government policy in the agricultural sector is carried out by a large number of specialized agencies. Since a major reorganization in 1968, these agencies have operated under the general policy guidance of the Ministry of Agriculture. A brief description of the major agencies and their functions is given below.

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1. Ministry of Agriculture

The Ministry of Agriculture is chiefly responsible for policy in the sector. It develops agricultural policy, coordinates planning and budgeting of the semi-autonomous agencies, and oversees agricultural program implementation and evaluation.

Those sector agencies that receive funds from the National Government now submit their proposed plans and budgets to the Planning Office of the Ministry (OPSA) for approval. OPSA reviews all projects and agency budget proposals, develops them into a coordinated agricultural sector budget, and forwards it to the National Planning Department.

Many activities carried out directly by the Ministry of Agriculture before 1968 were assigned to newly created or existing decentralized agencies, and the Ministry was transformed into a planning, policy formulation, and coordination agency for the agricultural sector.

2. INCORA

INCORA (Instituto Colombiano de la Reforma Agraria), the Colombian Agrarian Reform Agency, has statutory responsibility for administering the land tenural restructuring provisions of the Land Tenure Law plus extending coverage to renters and sharecroppers. In addition, INCORA is authorized to undertake activities such as farmer credit, land improvement, and social development.

3. ICA

The Instituto Colombiano Agropecuario (ICA) is the agricultural research, extension, and education organization of the Colombian Government, established in 1963, with additional responsibilities for surveillance of technical assistance, control of agricultural input quality, and development and distribution of certified seed.

4. INDERENA

The Instituto de Desarrollo de los Recursos Naturales Renovables (INDERENA) was created in late 1968. It is responsible for the regulation, administration, conservation, and development of maritime and continental water fisheries, national parks, watersheds, national reserves, communal grasslands, national forests, and prairies. INDERENA will have a key role in both the exploitation and conservation of Colombia's vast timber resources.

5. IDEMA

IDEMA (Instituto de Mercadeo Agropecuario) is the national agency with broad responsibilities for the pricing and marketing of agricultural products. Its principal activity is an agricultural price support program, which includes the purchase and sale of storable commodities. It is also the exclusive import agency for basic agricultural products in deficit -- principally wheat -- and for exporting surpluses. In addition, for the purpose of controlling retail food prices, IDEMA operates a number of retail stores, including mobile truck-stores. IDEMA also has responsibilities for improving the market for agricultural products, through controlling grades and standards, provision of market information, etc.

6. Caja Agraria

The Caja Agraria is a development bank (the largest in Colombia) with 670 banking branches, 13 distribution centers, and 444 farm supply stores throughout the country. The Caja principally provides credit services to farmers, cattlemen, and small industry for the purchase of machinery, farm supplies, and rural housing.

In CY-1971 the Caja Agraria constituted 82.0% of the new loans to agriculture and 47.0% of the value of outstanding loans in agriculture. Though a large portion of the agricultural loans made by Caja Agraria before 1968 were to relatively large farmers, a concerted effort has been made in the last three years to lend a larger portion of the agricultural portfolio to small and medium farmers. In 1971, 57.9% of the 367,703 new loans made by Caja Agraria were to small farmers with US\$ 2,500 net worth or less and 93.3% were to farmers with a net worth of US\$ 15,000 or less.

Aside from credit, the Caja is one of the eight organizations which are authorized to produce and distributed improved and certified agricultural seed. Further, an agricultural supply division of Caja Agraria was created to make supplies and equipment available to isolated areas and to control prices on major agricultural inputs.

7. Caminos Vecinales

Caminos Vecinales (farm-to-market roads) is a part of the Ministry of Public Works with responsibility for supervising the construction and maintenance of rural access roads and other secondary roads. Over the next four years, the program plans to supervise construction of 2,500 kilometers of road annually.

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### Other Agencies

Three specialized financing agencies, the Coffee Bank (Banco Cafetero), The Cattle Bank (Banco Ganadero), and the Agricultural Development Financing Corporation (COFIAGRO) provide credit for specialized types of activities in the sector. A meteorological service, a veterinary products-producing agency, a land-surveying institute, and a number of regional development agencies also play important roles in certain parts of the agricultural sectors. In addition, a number of private producers' federations are of some importance.

### C. Government Policy in the Agricultural Sector

Current Government objectives in the sector are expressed in the National Development Plan for 1971-74, which calls for increased production and income, improved income distribution, improved marketing, diversification of exports, strengthening of farmer organizations, and proper exploitation of natural resources. The Plan does not provide explicit detail as to the programs required to achieve these objectives.

On an ad hoc basis, GOC agricultural planners, principally in the Ministry of Agriculture and the National Planning Department, constantly review and debate policy adjustments necessary to achieve the Plan objectives. The Plan, however, does not establish priorities among the objectives, and a long-term strategy for their fulfillment has not emerged. Current programs do give some insight into what the planners presently consider to be the highest priority objectives. Much emphasis has been placed on increased production and productivity, especially with regard to exportable products other than coffee. Income redistribution through land reform and related services has been promoted to some extent, but not through other means. Finally, not enough attention has been given to the problems of marketing, both for agricultural inputs and products. In addition to overall policy, specific government policies in the areas of land tenure, credit, and agricultural pricing have had major importance in shaping the structure of the agricultural sector. A brief description of the impact of policy in these areas is given below.

#### 1. Land Tenure and Land Development

The concept of a social function of land is long established in Colombia. Since 1936, the law has provided for extinction of private ownership of land that is unutilized over a given period of time (formerly 10 years, now three years). Further, the proprietary rights of individuals who have occupied and utilized lands which had been unutilized by the owner for a period of five years are recognized under Colombian law. With the enactment of the Agrarian Reform Law in 1961, land distribution, especially of poorly utilized land, has become the policy and law of the country. A law recently passed (1973) by Congress established a presumed annual income of 10% of the assessed value of agricultural land (4% in the case of livestock) for tax purposes and modified the Agrarian Reform Law to accelerate the legal process involved in acquisition

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and redistribution and protect the ownership of adequately exploited land. Under the new law the time permitted for the process of extinction of private domain has been halved. Moreover, a definite time frame, lacking in the previous law, has been established for the process of expropriation in an attempt to avoid long delays which have occurred in the past. At the same time, this law attempts to clarify the land use and social criteria to be used in judging whether property is being adequately exploited, a source of considerable criticism of the initial law.

Progress in land distribution has been relatively slow. From 1962 through 1972, INCORA granted 140,971 titles involving 10,398,135 acres and 159,082 families <sup>1/</sup>. Nearly 90% of the land area distributed was public and consequently relatively inexpensive. There is a small but increasing volume of private acquisition (which represented 5% of areas settled by the end of 1972).

In the past few years, INCORA has changed emphasis in land distribution from private ownership to group enterprises -- empresas comunitarias -- under the assumption that more families can be served with limited supervision and technical assistance.

Colonization of public lands has been encouraged by the Government in certain areas. Settlers need only to comply with INCORA requirements (principally occupancy and use) to obtain title. The process has been slow because property survey and description is difficult in frontier areas. In addition to providing titles to spontaneous settlers, INCORA has tried "directed" colonization in several areas. In these areas the Government has provided the infrastructure and land development. This type of settlement has been extremely costly per family and results are reportedly less successful than spontaneous settlement. More than half of Colombia's land area has a population density of less than three persons per square kilometer. Population pressures in other areas and increasing demands for food and other commodities are causing a rapid migration of settlers into the more desirable of these low-population areas. This colonization movement is likely to continue unabated with or without government guidance and assistance.

## 2. Agricultural Credit

As noted above, the largest supplier of agricultural credit is the Caja Agraria. Recent developments have opened the way to possible future increases in Caja Agraria credit. The Government, by law, is obliged to buy 200.0 million pesos of Caja Agraria bonds annually for the next ten years. Also, interest rates on savings deposits have been increased, and the Caja Agraria's forced investment requirements have been changed so that a higher proportion of the savings it captures can be used for agricultural credit.

<sup>1/</sup> The difference between titles granted and families settled is due to titles in process.

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Commercial banks rank second as suppliers of agricultural credit. The Fondo Financiero Agrario (Agricultural Finance Fund, a rediscount facility) was created in 1967 to expand credit availability through private banks through a combination of forced investment and rediscounting opportunities in the agricultural sector. Commercial banks must now subscribe 15% to 25% of their portfolio and liquid investments in FFA bonds. The types of loans rediscounted will be broadened to include long-term loans for crops and livestock, and to set aside funds for small farmer credit. Technical assistance will be tied to these loans at 2% of the loan value. Technical assistance may be provided by private advisors in the case of large and medium farmers. The new law also creates a Technical Assistance Fund for Small Farmers to be administered by ICA. This fund will be supported by 15% of net profits from FFA, 1% added to the interest rate charged by banks of FFA loans, and 2% reduction of "export tax exemptions certificate" (CAT).

### 3. Pricing Policies

GOC agricultural price policies are a mixture of a price stabilization program for producers of ten storable crops, and direct intervention in the market to maintain low prices to the consumer. IDEMA (the National Agricultural Marketing Agency) has responsibilities in both areas. Although sufficient data are not available for a comprehensive evaluation of IDEMA's efforts in the price support area, it appears that price support and stabilization programs, if not supported by adequate and timely credit, have not been a sufficiently effective tool in stimulating additional production, especially for those crops typically planted by small farmers. (Even though prices for several commodities are relatively high compared to other producing countries.) Storage facilities do not appear to be a factor limiting the effectiveness of the price stabilization program in most areas, and presently available government bulk storage is not being adequately utilized.

IDEMA is also directly involved in purchase and distribution of basic food commodities as a means of regulating prices to consumers and combating "speculation" by private intermediaries. The agency has marketed increasingly large quantities of wheat (to a large extent under PL 480 programs) at low subsidized prices, which resulted in some substantial losses to IDEMA. At the same time IDEMA has been operating a program of mobile truck-trailer tiendas and fixed location stores for the purpose of "regulating" prices on various products. However, a consumer survey indicated that in the Bogota area only about 3.1% of total retail food purchases were from IDEMA stores and trucks. Thus, it is unlikely that IDEMA's retail program has had a major effect on prices.

In addition, the Superintendency of Price Regulations fixes retail price ceilings on food products of "prime necessity" (i.e. milk, meat, sugar, coffee, rice, oil). Enforcement is sporadic, and administrative procedures at the local level creates considerable uncertainty for food retailers. There is also emerging evidence that these price ceilings have had a depressing effect on production for the domestic market.

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D. Economic Analysis of the Agricultural Sector

Agriculture contributes some 27% of the nation's GNP, employs 40-45% of its labor force, and currently produces more than 75% of the country's export earnings (excluding petroleum).

Between 1968 and 1970, the agricultural sector achieved an average real growth rate of 5.4%. In 1971, growth was slow due to low coffee prices, and extremely heavy rains and flooding, but rebounded to 5.6% in 1972 as a consequence of improved coffee prices and favorable internal conditions.

Despite recent progress, however, the sector is not making its maximum potential contribution. Shortages and rising prices affect certain basic commodities which could be produced abundantly in Colombia. Moreover, the traditional subsector, which comprises the bulk of the rural population and produces most of the principal food crops, is still characterized by generally low productivity, underemployment, and inequitable distribution of productive resources and services.

Over the last two decades Colombia has experienced strong rural-to-urban migration and this trend shows no tendency to abate. Colombian policy makers are consequently faced with rapidly expanding urban centers and the accompanying social problems of overcrowding, inadequate public services and urban poverty. Approximately 85,000 rural inhabitants enter the labor force each year. Although estimates of rural unemployment vary widely, approximately 30% of the total man-days of labor available from the existing rural work force was not utilized. Such unemployment creates considerable pressure for out-migration from the rural sector.

Land, for all practical purposes, does not represent a constraint to increased production and employment in the agricultural sector. As mentioned earlier, there exist in Colombia sizeable acreages such as the eastern Llanos that are just beginning to be utilized. It is also estimated that there is even a significant quantity of uncultivated land in small farms (as much as 38%); the extent to which this land could be utilized for crop production is a question of major importance. According to a recent survey, approximately 42.8 million hectares of land are available for agricultural use, while in 1968 approximately 3.9 million hectares were used for crop production and fallow and 28.5 million for livestock production. Much of the land presently unutilized or poorly utilized can be cultivated; areas devoted to cereals, oilseeds, fruits, vegetables, etc., could be expanded to double Colombia's crop base within the next six years.

Market demand for agricultural products as a group is projected to expand at over 5% per year. This suggests that demand, in general, is not a constraint to increased agricultural production in Colombia. The contrary is more likely to be the case.

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Despite expanding demand, the domestic marketing system represents a considerable bottleneck to development of the sector. Colombia's food marketing system is relatively inefficient, so the cost of essential market services represents roughly 40% of the urban consumer's expenditure for food.

Most food products are marketed through small neighborhood tiendas, and public market stalls, which obtain supplies from small specialized wholesalers. Although a recent marketing study concludes that food prices could probably be reduced by 5% by improvements in the urban food distribution system, there are structural, attitudinal and knowledge constraints limiting these needed changes. Small retailers find it difficult to expand the scale of their businesses because of fragmented wholesaling and lack of services provided by the wholesale firms. Like small farmers, they also live close to the subsistence level and thus are unwilling to face the "risks" related to change.

This set of conditions is aggravated by an underlying distrust and antagonism toward intermediaries who are thought by many to be largely responsible for the high cost of marketing and to contribute little in return for their share of the cost of food to the consumer level. Recent studies suggest that, although efficiency could be increased overall, the intermediary is a relatively efficient part of the marketing system as presently organized. This antagonism toward the intermediary, however, is reflected in certain government policies of direct intervention in marketing, price controls, and other regulations affecting the operation of the marketing system.

The Ministry of Agriculture has estimated that 23% of Colombia's farmers have access to institutional sources of credit, while 77% depend upon private sources at higher rates. Approximately 54% of total bank credit was for livestock, where it is estimated that there is one peso of outstanding credit for each 2.5 pesos of production, as opposed to ratios of 1/8 to 1/15 for crops. Not surprisingly, larger farmers have captured the lion's share of credit, especially from commercial banks. This is reinforced by the exigent conditions with respect to guaranties required of borrowers. A 1970 World Bank report states; "... only about 25% of bank credits are advanced as a result of a detailed technical appraisal of requests. Credit worthiness of the applicant, not expected return of the investment, is the only consideration of much bank lending in Colombia."

Colombia has an estimated 1.2 million small farmers in need of credit. Recent evidence suggest that return to credit among small farmers is substantially above the going institutional rate for such credit. Thus, it would appear that a more important constraint facing small farmers is the availability of credit and not the rate of interest. Since inflation has averaged 8-14% annually (much higher in 1973), real interest rates for agricultural loans are very low which tends to distort the allocation of scarce credit resources. Further, subsidized rates tend to erode the capital base available

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for credit. There is no question that small and medium farmers desire and need more credit. Indeed, in recent years more attention has been given to the credit needs of small farmers. INCORA credit resources have been increased and Caja Agraria is increasing its lending to small farmers.

A comprehensive reorganization of the agricultural extension agencies in 1969 resulted in the present structure which is somewhat similar to the US system but without the close university tie. ICA (Instituto Colombiano Agropecuario) currently has 11 major research centers, 14 outlying experiment stations, employs a total of 5,347 persons including 1,187 professional and 1,301 sub-professional technicians, operates 47 rural development agencies, and coordinates development activities in 20 pilot development areas. In addition to the public sector technicians, many banks require borrowers to hire private technical assistance as a condition of agricultural production loans, and some private associations such as livestock funds, provide technical assistance to members. In total, there appear to be approximately 10,000 professional and sub-professional workers engaged in providing technical assistance or in other agricultural development activities. The majority of these are well trained and capable. Although this is a large group, it is relatively small compared to the number of farms and to the complexity of Colombia's agricultural problems and needs.

In addition to the potential of unexploited lands, Colombia has a very substantial unused production potential in the areas of forestry and fisheries. In forestry, it is estimated that between 200,000 and 500,000 hectares of forest could be cut with essentially no change in forest management practices or accessibility, compared with a current rate of cutting of about 71,000 hectares. In addition, it is estimated that about 75% of Colombian forests are virgin timber with a near zero net growth rate, so that the lumber not cut represents a permanent loss of potential income. Losses from foregone production probably exceed \$20 million per year in sawn wood for local use or export.

Utilization of potential fisheries resources also offers great potential for Colombia. Aquaculture techniques used on Colombia's 3.7 million hectares of inland waterways could provide a very cheap source of protein for the Colombian consumer.

#### E. External Assistance

The Colombian agricultural sector has historically received substantial amounts of external assistance. During the 1950s, this assistance was mainly in the form of programs to stimulate agricultural research and extension, and to train Colombians abroad in specialized fields. Since 1960, however, considerable amounts of capital assistance have also been given. Donors currently operating in Colombia include Canada, France, West Germany, the Ford, Rockefeller, and Kellogg Foundations, in addition to the multilateral aid agencies. Coordination of the external assistance is done through the National Planning Department and informally among the various donors.

A breakdown of total sector financing by source is shown in Table I. The GOC finances between 85% and 90% of sector requirements, with the remainder coming from external assistance. Through 1972, AID had been the principal source of this assistance, but other donors are now increasing their inputs as the AID share gradually declines.

Table I

TOTAL SECTOR FINANCING BY SOURCE  
(Percent)

	<u>1971</u>	<u>1972</u>	<u>1973(Est.)</u>	<u>1974(Proj.)</u>	<u>1975(Proj.)</u>
AID	5.5	5.3	4.4	2.9	2.2
Other Donors	4.9	9.4	8.3	7.1	7.0
GOC	<u>89.6</u>	<u>85.3</u>	<u>87.3</u>	<u>90.0</u>	<u>90.8</u>
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

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## II Development Problems and Policy Responses

### A. Major Development Problems

From 1968 through 1972 total public resources allocated to agriculture expanded from 6,193.3 to 14,727.1 million Colombian pesos, or 137.8% increase within a five-year period. Colombian domestic resources have consistently represented about 85% of the total. However, it is unlikely that the Government could sustain the rapid increases of the recent past. Moreover, many of the sectoral institutions appear to have reached a temporary plateau in their managerial or technical capability effectively to utilize additional resources.

#### 1. Agricultural Sector Planning

Though the 1971-74 Development Plan sets certain objectives for the agricultural sector, it does not establish priorities among these objectives, nor does it prescribe explicit programs and policies to achieve these objectives. Further, a long-term strategy for development in the sector has not been developed (e.g. with regard to the role of the Llanos, the degree of decentralization of programming resources, or approaches to the development of the dairy, fisheries, and lumber industries). However, Colombia presently has the institutional structure at the national level within which the planning process can be improved and has made progress in this direction.

#### 2. Marketing

Inefficient marketing is widely recognized as a serious obstacle to the development of Colombian agriculture. The existing marketing system for the majority of commodities is not very effective in translating growing consumer demand into additional output at the farm level (especially for those crops typically planted by small farmers), and involves a considerable degree of direct government intervention which either has not served its purpose fully (as in the case of IDEMA's retail stores), or has been counterproductive (as in the case of administered price ceilings at the retail level). Despite the general recognition of marketing as a "problem", a major strategy or a coordinated group of programs for the improvement of the marketing system have not yet emerged. A number of agencies are presently engaged in various marketing improvement projects, but these, in addition to their lack of overall coordination, are not equal to the magnitude of the task.

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### 3. Research and Extension

Research and extension have benefitted from considerable external assistance, and to date there are many highly competent researchers and relatively large number of extensionists at work in the agricultural sector. The major problem does not appear to be the lack of competent manpower, but rather the means of effectively using this manpower to transfer technology to the farm level. There still remains a reluctance on the part of researchers to facilitate the rapid transfer of their findings into commercial practice and they seem content with conducting additional research rather than carrying their findings through to the stage where they may be utilized at the farm level. This link between laboratory or small pilot experiments and commercial applications seems to be an obstacle that the research-extension system has found difficult to surmount.

ICA has made some efforts toward the solution of this problem by (1) developing subject matter specialists as a means of linking research and extension, and (2) by making the decision to move a large proportion of research from the experiment station to the farm. AID will stimulate this process by providing technical assistance in farm management in order to reorient the pristine researchers toward the practical needs of farmers.

The present problems of extension are again largely organizational. The extension program in both ICA and INCORA lacks the proper methodology to reach the vast numbers of Colombian farmers who could profitably utilize technical assistance. Although Colombia has a relatively large number of extension personnel, it is not sufficient to provide assistance to more than a small proportion of Colombian farmers utilizing traditional one-to-one approach.

### 4. Exploitation of Natural Resources

Colombia has sizeable land, forestry and fisheries resources which are not being adequately exploited. For the underutilized land resources, particularly in the Llanos, investments in research and infrastructure are required to bring these areas into production. The responsibilities for management and conservation of forestry and fisheries resources have rested with INDERENA. In neither case has INDERENA placed major emphasis on stimulating the commercial exploitation of these resources in the past. Concentration has been on forest surveys and biological research of various species of fish. There is evidence, however, of a growing orientation toward developing programs which can assist in greater commercial use of fisheries and forestry resources.

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#### 5. Institutional Problems

Since the 1968 reorganization of the public agricultural sector institutions, the Ministry of Agriculture has made considerable progress in establishing the institutional structure recommended. Nonetheless, development activities are constantly hampered by serious bottlenecks of a managerial nature. The Ministry of Agriculture Planning Office (which should have major powers in directing sectoral activities), as well as most of the decentralized agencies, has experienced frequent turn-over in executive level personnel. In addition, most often executives are chosen from among the ranks of technical personnel who are not necessarily capable of becoming effective managers despite their professional qualifications. Further, salaries are lower than in the private sector.

Although the 1968 reorganization and the ICA pilot projects provide the structure for improved coordination among entities both at the national and regional level, the accomplishment of this task in reality is considerably more difficult. Even within agencies there is often a lack of coordination among various activities. Moreover, planning, budgeting, and programming are generally from the top down, which results in undue dependency on the national-level for policy decisions.

Clearly, a major problem in rural development is public sector management. It is a very difficult problem to attack with conventional assistance programs, yet the difficulties resulting from a lack of managerial effectiveness must be recognized, and means of improving managerial capability must be developed.

#### 6. Credit

The recent law creating the Fondo Financiero Agropecuario (discussed earlier) could result in major increases in domestic resources destined for the agricultural sector both for small and large farmers. At the same time, both IDB and IBRD have expressed interest in developing small farmer programs which would undoubtedly contain credit components. If these proposed activities and directions in fact occur, the major problem in credit may be expected to change from one of lack of credit resources to problems of delivering credit to farmers on a timely basis and the availability of inputs to be purchased by borrowers.

While AID has begun to phase down its financial support in the agricultural sector, IBRD has established a policy of placing major emphasis on "small farmers" and IDB is presently involved in developing a sizeable loan proposal with the GOC to finance pilot area programs. IDB has recently signed a loan to finance new wholesale marketing facilities for agricultural products in the major cities (a program which in part evolved from previous AID technical assistance in marketing). It is clear, then, that AID's role must be adjusted as substantial financial resources become available from these institutions.

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### III AID Activities Addressing Particular Problems

#### A. AID Strategy and Current Program

In the recent past the Mission strategy for agriculture has been based on sector lending, with the objective of spurring adequate fiscal performance on the part of the GOC and providing assistance to essential elements in the entire area of concern. Since 1968, five agricultural sector loans totalling US\$103.8 million have been signed. These loans have played a key role in steadily increasing public sector investment in agriculture, both absolutely and relatively. In addition, the approach to disbursement of loans on the basis of a commensurate disbursement of planned GOC resources has been useful in improving the timeliness of financing the sectoral agencies. Further, sector lending has addressed crucial sectoral issues and sought more efficient utilization of the available resources.

More specifically, the sector loans have focused considerable attention and resources on the problem of credit for the small farmer. Approximately 40% of the CY-1972 loan (064) proceeds were directed toward small farmer credit, primarily through INCORA, and 60% in CY-1973 (loan 067) through both INCORA and the Caja Agraria.

AID loans for supervised credit have favorably influenced Colombia's agricultural credit policies. Caja Agraria has expanded its small farmer lending and ICA began utilizing extension agents in a joint program for supervised credit under Loan 514-L-064 and expanded its operations under Loan 514-L-067. Most recently, the legislation developing the new Fondo Financiero Agropecuario specifically provides for supervised credit for small farmers. This may, to a considerable extent, account for the slowness of GOC in utilizing credit resources made available under Loan 514-L-067.

The entire planning and management system of the Ministry of Agriculture has been strengthened significantly as a result of AID assistance. Among the important policy changes fostered by AID loans, the major reorganization of the public institutions in the agricultural sector, carried out in 1968-69, is perhaps the most significant. In support of that reorganization, recent AID lending has helped to strengthen the Ministry of Agriculture Planning Office (OPSA), which now coordinates the planning efforts of all agricultural agencies. As a base for sector planning, considerable attention was given to carrying out studies and the accumulation of sufficient data in key areas on which to base sector development plans. A group of five professionals within OPSA are presently updating and revising the input-output and linear programming models initiated by AID as a means of strengthening sector analysis capability within the Ministry. In addition, greater responsibility for program coordination and evaluation has been given to OPSA and to the planning offices of the associated agencies.

A variety of assistance has been provided in the area of marketing. A broad based study was made of the marketing system and needs in the Cali area. This study also had implications for the marketing needs in Bogota,

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Medellin, and other major Colombian cities. To a great extent, it was the basis for the implementation in Bogota, Medellin and Cali of concerted efforts to develop more efficient marketing systems (e.g., a large central wholesale market was completed in Bogota on June 30, 1972). Under AID's sector loan, funds were provided for complementary program of subloans to improve the food marketing system from the wholesaler forward to consumers. This program, with COFIAGRO, concentrates on investments serving low-income areas.

A farm-to-market road program is directed through Caminos Vecinales, an agency of the Ministry of Public Works. The objective of this program is to get at the problem of access roads utilizing labor intensive construction technology. During the course of CY 1972, the "pick and shovel" access roads program was organized and work began on some 40 farm-to-market roads. The program provided employment to approximately 4,000 people living near these roads. Extension services were provided in the same areas in order to help the farmer workers use their earnings to improve farm production. As of December 31, 1972, 119 kilometers of roads had been completed.

AID assistance, technical and financial, has been a key factor in the development of an active agricultural extension service through ICA with 62 agencies distributed throughout the country. This assistance has been equally important in the development of a comprehensive network of 25 agricultural research centers operating in all altitude and climate zones.

A very important aspect of both the research and extension programs has been the training of personnel. In this respect, ICA and the National University, under a cooperative arrangement (with AID assistance) contracted with the University of Nebraska in 1966 to provide technical and training assistance to both institutions and to upgrade teaching capability in various disciplines at the three faculties of National University and at the University of Caldas. The program also included a comprehensive participant training element under which 188 participants were trained in the United States at the M.S. and Ph.D. degree levels. They already have returned to their positions. An additional 27 are still in the U.S. in training. A significant aspect of the joint agreement was the establishment of a graduate school. The plan called for the development of the capability to grant M.S. degrees in six disciplines. These have been established and by the end of 1972 degrees had been granted in-country to 68 Colombians. This is contributing materially to the ability of key Colombians in agriculture to obtain additional specialized in-country training.

Also under AID sector loans, a formal program was initiated to transfer adaptive research findings to the small farmer. This program began with the development of six pilot projects under ICA and was combined with a program of credit through the Caja Agraria. The program actually became operational in CY-1972; 7,500 loans were made and over 21,000 farm families benefitted by the extension activities built into the program. To meet the demands of this initiative, ICA significantly expanded its staff of extension agents.

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AID has assisted in the development of natural resources since 1963. Since 1969, through a PASA agreement with the Inter-American Geodetic Survey, technical and financial assistance has been provided to assist in the compilation of studies and information needed as a base for development planning. Assistance has been provided in the areas of aerial photography, topography, soils and water, forestry, parks and wildlife, fish, and industrial activities.

The purchase of vehicles and equipment have been elements of some past sector loans. Unfortunately, the procurement of equipment and vehicles has been extremely cumbersome and lengthy process.

The participant training program, which has been loan-financed in the recent past, has the objective of increasing the qualifications of key staff in the sector agencies. Again, the need for significantly accelerating training stems from the fact that the sector program was expanding rapidly.

#### B. Future Program and Strategy Considerations

Although our past programs and strategies have had an important impact on the agricultural development in Colombia, several recent developments require us to review our approach. First, the budget for the agricultural sector may have reached the point where rapid expansion of funding is probably not as critical as it was some years back. Thus it now seems appropriate for AID to seek out those particular initiatives which have high potential for contributing to sectoral development while leaving the major burden to be financed by internal resources and other external resources.

Second, many of the programs initiated by USAID are presently being emulated by IDB and IBRD. This is especially true with regard to small farmers, pilot development areas, and marketing improvement. This offers an opportunity for AID to concentrate on other pressing needs within the sector.

Finally, the new Fondo Financiero Agropecuario program has the potential for generating considerable capital to meet the needs of both large and small farmers. This recent development could well mean that the requirement for external resources for agricultural credit may be substantially less than previously envisioned. Consequently, AID may find it desirable to reprogram some portion of the credit component of Loan 071 to other important areas.

Despite the improvements in planning and coordination within the agricultural sector in recent years, sectoral management still represents a serious obstacle to rural development, and AID could develop a program to expand its assistance in the area of planning, resource allocation, and evaluation in the Ministry of Agriculture. We believe that the application of additional resources to improving analysis, planning resource allocation and evaluation could yield very high returns. The implicit strategy embedded in such a program is that this is one area where the GOC has not yet been able to turn

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basically well-conceived concepts into effective practice. AID has in fact moved in this direction with its assistance in developing the input-output linear programming analysis and providing funds for other studies. We can envision further assistance in sectoral analysis (including expanding the capacity for micro-economic and feasibility studies), planning, time-phasing and coordination of programs, and strengthened evaluation of ongoing activities. AID might assist the GOC in developing specific training courses in management to help managers in the sector to bridge the gap between their technical backgrounds and their managerial responsibilities.

With respect to research and extension, our resources could be applied to (a) linking Colombian agricultural research into the international research network, (b) allocating research resources to the highest priority needs of the nation, (c) rapidly transferring research from the experimental stage to commercial practice and (d) coordinating extension with the credit and input needs of farmers on a more massive scale.

Another important area is marketing, where there are ongoing activities within a number of agencies. Yet there presently is no guiding strategy or coordinative mechanism to assure that the sum of these efforts result in an effective and efficient marketing system for Colombia. AID could assist the GOC in developing a national marketing policy and or coordinative mechanism to assure that the sum of various marketing improvement projects did become an effective whole. At the same time, there may be critical areas within the marketing system where additional capital resources could strongly contribute to improved agricultural marketing.

In a number of the directions suggested above, AID could need to review its present position with respect to technical vs. capital assistance. Perhaps it is time once again to give greater emphasis to strengthening the technical and administrative capacity of the agricultural institutions so that they are better able to use present resources to reach a point of self-sustained development with diminishing external assistance.

A key part of an evolving AID strategy might well be to give strong emphasis to innovative programs which would accelerate production in the short term and others that would stimulate longer range resource development, i.e., farming technology, land resources, forestry, and fisheries, with the maximum participation of private sector capital. Illustrative of areas of short run opportunity are:

1. Adaption of minimum tillage and no tillage techniques for corn, sorghum, and wheat to Colombia's small and family farmers.
2. Transfer of modern production technology with the objective of demonstrating, on over twenty farms, means of lowering the cost of production for the principal food and fiber crops grown on family farms.

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3. Promote more rational geographic distribution of the production and/or processing of basic agricultural commodities in relation to consumption patterns.

4. Commercial production of trout, bocachico, catfish, mullet, and macrobrachium (fresh water shrimp).

AID's contribution to progress in exploiting these opportunities would take the form of negotiating specific program actions to be carried out under the new sector loan, and the provision of technical assistance for these purposes.

Areas that need to be examined for longer range emphasis are wood production, beef and dairy production, commercial agriculture in the eastern Llanos, and development of the fertilizer industry based on Colombia's large supplies of phosphates. Each of these areas has tremendous potential in the long run, and development is certain to gradually occur, but the capital requirements will be immense. The role for AID in one or more of these areas might be to act as a catalyst for faster private-sector development of the resources, e.g. through facilitating the transfer and adaption of technology, participation in feasibility studies, and financing of pilot investments. As prerequisites to joint efforts in such activities, the Government must establish clear policies on issues such as exploitation vs. conservation, terms and conditions of concessions, and rules of the game for the association of foreign and local capital. The extent that the Government will seek advice from AID on such policy matters is unknown, but AID should stand ready to provide highly objective experts as requested.

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PART FIVE: LIKELY US ASSISTANCE AND MANPOWER REQUIREMENTSI Assistance Requirements

The following table provides tentative estimates of total AID commitments in Colombia for FY '74 and FY '75. As indicated in the FY '75 FBS, funds for all four categories of development loan and TA projects will decrease from FY '74 and FY '75. The sub-total for AID in these categories declines from \$53,735,000 in FY '74 to \$43,377,000 in FY '75. Most of this decrease is in the development loan category. The PL 480 figures in this table are very tentative and subject to change.

As has been pointed out in the DAP overview, the AID program in Colombia is currently in a transitional phase. The future program in FY '75 and beyond will be heavily dependent upon new GOC initiatives. Some directions such initiatives might take are sketched out in the Sectoral Discussion, but these represent our unilateral views at the present time. Accordingly, we cannot and have not provided any figures for FY '76 and beyond. It can be stated, however, that the AID program will continue to decline from the FY '75 levels and will probably fall in the \$30-\$40 million range (excluding PL 480) for subsequent years.

Likely US Assistance Requirements  
(\$ Thousands)

	<u>FY '74</u>	<u>FY '75</u>
Development Loans	50,000.0*	40,000.0
Technical Assistance	2,572.0	2,509.0
Population	600.0	585.0
International Narcotics Control	<u>563.0</u>	<u>283.0</u>
Sub-Total	53,735.0	43,377.0
PL 480 Title I	9,600.0 <sup>1/</sup>	13,000.00 <sup>2/</sup>
PL 480 Title II	<u>4,000.0<sup>3/</sup></u>	<u>5,500.0<sup>3/</sup></u>
Total Commitment	<u>67,335.0</u>	<u>61,877.0</u>

\* Composed of: Education - \$10,000.0; Health - \$25,000.0, including sector loan and INSFOPAL; Urban - \$15,000.0, including ICT and Small Industry.

1/ Amount of FY '73 Agreement; all to be shipped in FY '74.

2/ Estimate by AgAttaché.

3/ USAID Estimate

## II Manpower Requirements

The following table provides the expected USAID manpower requirements through June 30, 1975 by AID functional category. The direct-hire level declines from 28 to 24, and the total manpower level declines from 36 to 27. The basic reason for this decline is the phasing out of public safety and tax administration advisers.

After FY '75, however, it is expected that personnel on board will level off at the June 30, 1975 figures. If our planned FY '74-'75 program levels are adhered to, USAID expects to continue in the short run to operate in four sectors requiring monitoring by "technical generalists." If, however, USAID decides to operate in less than four sectors, then personnel levels would have to be adjusted accordingly. Any major changes in these levels will of course, be dependent upon the size and nature of the AID program after FY '75, which will be determined following the installation of the new administration in late 1974.

### Likely US Manpower Requirements (On Board)

	<u>As of</u> <u>12/31/73</u>	<u>As of</u> <u>6/30/74</u>	<u>As of</u> <u>6/30/75</u>
<u>Direct Hires</u>			
Program Management	8	8	8
Program Analysis	3	3	3
Economist	1	1	1
Legal	1	1	1
Rural Development	3	3	3
Health and Family Planning	2	2	2
Human Resources	3	3	3
Urban Development	2	2	2
Public Safety*	4	-	-
Narcotics Advisor	<u>1</u>	<u>1</u>	<u>1</u>
Sub-Total	28**	24	24
PASA (grant-funded only)	3	2	-
Contract (includes AIFLD)	5	4	3

\* Assumes Public Safety program to be phased out by the end of FY '74. due to Congressional requirements.

\*\* Does not include secretaries, C&R, or Auditors.

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Annex A

DETAILED ASSUMPTIONS FOR THE  
MISSION'S BALANCE OF PAYMENTS  
AND NATIONAL INCOME ACCOUNTS  
PROJECTIONS 1973 - 1980

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IA<sub>1</sub>

COFFEE EXPORT PROJECTION

Given the relative importance of coffee to the Colombian economy we have undertaken an intensive review of coffee export prospects. This review included an analysis of domestic production, world demand for Colombian coffee, price trends (to the farmer and export), domestic consumption, and the value of coffee exports in relation to total Colombian exports. Separate but related estimates were made for both quantity and export price. Because of the introduction of a new variety of coffee called Caturra we anticipate that production will increase by four percent annually and that Colombian domestic consumption (approximately eighteen percent of production) will grow by three percent per year; since stocks are already adequate they are not projected to increase over time. Therefore, quantity exported is projected to grow at about 4.2% per year (the difference between production and domestic consumption). World demand is projected by FAS to increase by about 2.2% per year. Therefore, we are projecting that Colombia's share of the world coffee market will grow by three-tenths of a percent each year. This assumption is based on the proposition that Brazilian exports (almost double Colombia's market share) are not likely to grow and may even remain constant over time given alternative higher returns on land usage predicted in Brazil. Export prices are projected to decline over time because growth in coffee exports is likely to exceed world demand. [See attached Table I for yearly projections of price quantity and total value].

IA<sub>2</sub>

PETROLEUM EXPORTS

Here we have adopted the World Bank assumption (see Table 3.6 of April 1973 Report) that the value of crude petroleum exports will continue to decline and will not continue beyond 1974. There have been varying estimates of Colombia's need to import oil in the future. Our B.O.P. projections take this into consideration in our import projections.

IA<sub>3</sub>

OTHER MERCHANDISE

Since 1966 Colombia has enjoyed a remarkable growth in non-traditional exports. They grew on an average annual basis 22.2% during the 1966-72 period. It would be unlikely

that this trend would continue too far into the future, especially as aggregate export levels increase, at which time it would become more difficult to penetrate export markets. The World Bank in 1973 assumed that non-traditional exports will increase by eighteen percent in the 1973-75 period and by fourteen percent thereafter. This is consistent with the average percentage increase in the 1955-72 period. We assumed that other merchandise exports would increase by eighteen percent in 1973, sixteen percent in 1974, and fourteen percent thereafter (see Table II for historical data).

#### IB SERVICE RECEIPTS

Service receipts in Colombia have been increasing at a fairly constant rate of ten percent per year for the 1950-72 period. The 1965-72 average was 10.1 percent. On this basis we are projecting service receipts to increase by ten percent annually.

#### IIA & B IMPORT OF GOODS & SERVICES

Projections here are based primarily on the World Bank's assumption that imports will grow at a constant 14 1/2 percent of GDP in real terms except for 1973-75 where we adjusted the projections to reflect the fact that the GOC is likely to continue to encourage increased imports as an anti-inflationary measure. In 1973 we assumed imports would increase by twenty percent over the previous year based on discussions with the BOR. Under the 14 1/2 of real GDP assumption imports were projected to increase in 1973 by eighteen percent. We adjusted 1974 to make the rate of increase eighteen percent over the previous year on the same basis. The 1975 estimates were adjusted so that imports for that year would represent fifteen percent of GDP in real terms as compared to sixteen percent in 1974. To convert imports in constant dollars to current dollars the Bank's deflator of two percent (except for 1973 which was five percent) was used.

The Bank considers its projections conservative but maintains that they are consistent with a seven percent real GDP growth rate. The Bank estimates were varified independently by the Mission through regression analysis and an independent estimate of oil imports. Our results prior to the adjustments for 1973-75 were almost identical with the Bank's minimum import projections. Using GDP in constant 1970 dollars as the

independent variable a linear regression equation was computed for years 1957-72 (excluding 1964-67). The equation is  $Y = 345.7 + .105X$ . It has an  $r^2$  of .86 which we considered fairly good. The years 1964-67 were excluded because of the erratic nature of government import policies during that period. For future year projections we had assumed a growth rate of real GDP of seven percent each year. Petroleum imports were projected according to the attached Table III, which provides some of the basic assumptions and the foreign exchange requirements for the future. These estimates were then added to our regression results since regression analysis would not pick up import trends for petroleum since they are expected for the first time during the projection period. Two further points are worthy of note. First is that even if significant new petroleum finds are made in the near future they would have little or no effect on over-all import trends through 1980. Second is that our import estimates for petroleum tend on the conservative side (see footnote, Table III). This may perhaps offset future new exports of such minerals as nickel, coal, asbestos, and phosphates which were excluded from our export projections.

### III RESOURCE GAP

The resource gap is equal to the sum of imports of goods and services minus the value of exports of goods and services.

#### IVA<sub>1</sub> NET FACTOR PAYMENTS - INTEREST RECEIPTS

This category includes interest on time and demand deposits held abroad as well as earnings on foreign securities. We expect that these receipts should increase as the level of gross reserves increases. Colombian experience thus far does not substantiate our expectations. For example, in 1972 reserves increased by \$111 million while interest receipts declined from 9 to 8 million dollars. In any event we have projected modest increase in interest receipts as gross reserves increase. A fixed percentage increase in gross reserves will generate the same percentage increase in interest receipts.

#### IVA<sub>2</sub> NEW FACTOR PAYMENTS - INTEREST PAYMENTS

For future years interest payments have been broken down into three separate categories. The first is related to interest payments on public debt (OLD) contracted prior to 1973. The figures for this entry were taken from IBRD Report of April 25, 1973, Volume II, Table 4.2.

The second category of interest payments is related to interest incurred on private capital flows. We are unable to find estimates of these interest payments in the IBRD reports. Information on debt outstanding and average loan terms for this category of private debt is not available at this time. In an attempt to determine what interest payments are likely to be in the future we found that interest payments on private capital flows was a fairly constant percentage of total interest payments in the 1966-72 period (see attached Table IV). We, therefore, assumed that private sector interest payments would represent 58 percent of total interest payments in future years. While we are not particularly happy with this assumption we see no other alternative.

The third component of interest payments represents payments on public debt (NEW) incurred in the post 1972 period. It was computed under the assumption that all new public debt will have the same average loan terms as loans incurred in 1972. That is 22 years repayment period including a five year grace period with an average annual interest rate of 5.7% (see attached Table V). We believe these average terms for the future to be neither overly concessional nor extremely hard.

IVB<sub>2</sub>

NET INVESTMENT INCOME PAYMENTS  
AND VIII NET PRIVATE CAPITAL

The intent of the IBRD's 1970 model run was to neutralize the impact of private flows on the B.O.P. because projections were exceedingly difficult to make. In effect, net private investment income payments to foreigners were set equal to net private capital movements (including errors and omissions) and both were projected to increase by an arbitrary \$5 million per year. Private interest payments were arbitrarily set equal to direct investment income payments but we fail to understand why private interest payments were excluded from future projections of interest (Section IVA<sub>2</sub> of our B.O.P. estimates).

By 1973 the Bank had changed its assumptions on private sector capital flows. It postulated in effect that there would be a \$70 million per year outflow between investment income payments and net private capital inflows. Again the question of private interest payments in the future apparently was not addressed.

The historical evidence suggests a somewhat different picture. Between 1960 and 1972 net private capital inflows have exceeded investment income payments by about \$40 million

per year (see attached Table VI for details). On this basis the Mission has projected private capital flows so that there will be a net inflow of \$40 million per year, this is consistent with past experience. We have also assumed that net private investment income payments will increase by \$5 million per year. In addition we have included under Section IVA<sub>2</sub> an estimate of private interest payments. In effect what we are saying is that Colombia's participation in the Andean Pact will not discourage private capital flows to Colombia through 1980.

#### V NET TRANSFERS

While net transfer receipts have increased by about sixteen percent per year in the 1960-72 period, we do not feel that this trend is likely to continue over time. The Bank is in fact projecting \$1 million increases each year. We have arbitrarily decided to project net transfers as declining \$1.0 million annually during the 1973-80 period.

#### VI CURRENT ACCOUNT

The current account deficit or foreign savings as it is sometimes called is equal to the sum of the resource gap plus the net factor payments minus net transfer receipts.

#### VIIA NET PUBLIC CAPITAL - DEBT CONTRACTED THROUGH 1972

Commitments, future disbursements, and service payments on debt outstanding through CY 1972 was taken from April 1973 Bank Report Table 4.2.

#### VIIIB NET PUBLIC CAPITAL - DEBT CONTRACTED AFTER 1972

Capital inflows for this category were determined as the residual flow of capital required to fill the current account gap after all other sources were considered. Amortization payments were projected according to procedures outlined in Section IVA<sub>2</sub> of our assumptions on the B.O.P.

#### VIII NET PRIVATE CAPITAL

See discussion Section IVB for actual assumptions for this category of capital inflow.

IX

SDR ALLOCATIONS

Lacking detailed information on possible future SDR allocations, we did not wish to take the Banks 1973 model assumption that there will be \$20 million in SDR allocations each year. For example, there were no SDR allocations in 1973. Therefore, we have made a conservative estimate that there will be no further allocations of SDRs during the projection period. This may be a pessimistic estimate.

XI

SHORT-TERM CAPITAL MOVEMENTS

For the purpose of our projections this category was treated as nothing more than errors and omissions.

X

RESERVE ACCUMULATIONS

Projections here are based on the assumption that gross reserves will increase so that they will be equal to 25 percent of imports of goods and services. Gross reserves in 1973 increased because of a conscientious policy of the government to allow reserves to grow in excess of 25 percent of exports through foreign borrowings.

TABLE I  
COLOMBIA: COFFEE EXPORT  
PROJECTIONS - 1973-80

<u>Year</u>	<u>Export 1/ Quantity (Metric Tons)</u>	<u>Price Per Cents Per Pound</u>	<u>Per Cents Per Kg.</u>	<u>Export F.O.B. Value (Million Current Dollars)</u>	<u>Export F.O.B. Value (Million Constant 1970 Dollars)</u>	<u>Dollar Deflator 2/ (1970 = 100)</u>
1973	406,680	66	1.46	593.8	531.8	111.66
1974	424,050	65	1.43	606.4	524.7	115.56
1975	442,150	65	1.43	632.3	528.6	119.61
1976	461,000	65	1.43	659.2	532.5	123.79
1977	480,620	62	1.37	658.4	513.9	128.13
1978	500,060	60	1.32	660.1	497.8	132.61
1979	521,340	58	1.28	667.3	486.2	137.25
1980	543,310	56	1.23	668.3	470.4	142.06

1/ Production increases by 4%/year (from 480,000 metric tons in 1972): this minus domestic consumption (increasing from 84,000 metric tons in 1972 at 3%/year) and an other (5,000/7,000 metric tons for contraband) gives exports.

2/ Annual 3.5% inflation rate. An average for the last ten years.

TABLE II  
NON-TRADITIONAL EXPORTS  
(Millions of Current U.S. Dollars)

	<u>Non-Traditional</u>	<u>Non-Monetary Gold</u>		<u>Total Non-Traditional</u>
1950	23	12	=	35
1951	26	14	=	40
1952	22	14	=	36
1953	40	14	=	54
1954	31	13	=	44
1955	35	13	=	48
1956	54	15	=	69
1957	46	11	=	57
1958	39	12	=	51
1959	40	14	=	54
1960	53	15	=	68
1961	58	14	=	72
1962	69	14	=	83
1963	67	11	=	78
1964	79	13	=	92
1965	107	11	=	118
1966	109	10	=	119
1967	127	9	=	136
1968	171	6	=	177
1969	209	7	=	216
1970	256	5	=	261
1971	295	5	=	300
1972*	470	5	=	475

\* Preliminary

TABLE III

PETROLEUM PROJECTIONS

Year	Production <sup>1/</sup> (barrels/day)	Exports <sup>2/</sup> (barrels/day)	Imports <sup>2/</sup> (barrels/day)	Foreign Exchange <sup>3/ 4/</sup> (gain or loss)
1973	182,000	55,000		45,000,000
1974	173,000	38,000		31,000,000
1975	166,000	23,000		19,000,000
1976	159,000	6,000	5,000	- 10,000,000
1977	153,000		10,000	- 22,000,000
1978	150,000		24,000	- 58,000,000
1979	156,000		29,000	- 70,000,000
1980	162,000		34,000	- 82,000,000

- <sup>1/</sup> Assumes 6.5% decline through 1974 and 4% decline through mid-1978. Lesser decline rate should result from incentives to bring in secondary recovery and marginal production as a result of price increases projected during 1974. Assumes 4% increase from mid-1978 as a result of small fields being brought onstream. Any major fields would require until at least 1980.
- <sup>2/</sup> Assumes 6.8% yearly increase in domestic demand. No significant decrease in demand expected from possible price increase.
- <sup>3/</sup> Assumes constant return per barrel exported since change in export mix (more fuel oil and less crude) should nullify increasing prices. Assumes that additional refining capacity will come onstream in 1977-80 to permit imports of crude rather than products, except for some gasoline imports in 1976. Assumes \$6.00/barrel crude price in 1977 with 10% yearly increase.
- <sup>4/</sup> Differences noted here and on b.o.p. projections are explained by the fact that b.o.p. exports include exports of crude only.

NOTE: Above deficit 1975-80 is \$242 million. Most pessimistic estimate is \$950 million and many estimates are around \$500 million. However, we would expect product rationing if production continues to decline precipitously.

**TABLE IV** INTEREST CALCULATION ON PRIVATE DEBT  
(In Millions of Current U. S. Dollars)

	(1)	(2)	(3) = (1) - (2)	(4)
	<u>Total Interest Payments</u>	<u>Interest Payments Public Debt</u>	<u>Interest Payments on Private Capital</u>	<u>Private Capital as % Total Payments</u>
1966	56	22.9	33.1	59
1967	69	24.9	44.1	64
1968	67	28.9	38.1	57
1969	73	33.7	39.3	54
1970	105	43.0	62.0	59
1971	110	45.6	64.4	59
1972	132	58.3	73.7	56
			<b>Average</b>	<b>58</b>

TABLE V  
 ADDITIONAL DEBT SERVICE  
 ON POST 1972 PUBLIC DEBT  
 (In Millions of Current U.S. Dollars)

<u>Year</u>	<u>New Debt</u>		<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
1973	\$110 million	interest	6.3	6.3	6.3	6.3	6.3	5.9	5.5
		principal	-	-	-	-	6.5	6.5	6.5
1974	\$132 million	interest		7.5	7.5	7.5	7.5	7.5	7.1
		principal		-	-	-	-	7.8	7.8
1975	\$163 million	interest			9.3	9.3	9.3	9.3	9.3
		principal			-	-	-	-	9.6
1976	\$206 million	interest				11.7	11.7	11.7	11.7
		principal				-	-	-	-
1977	\$317 million	interest					18.1	18.1	18.1
		principal					-	-	-
1978	\$391 million	interest					-	22.3	22.3
		principal					-	-	-
1979	\$440 million	interest							25.1
		principal							-

TABLE VI PRIVATE CAPITAL AND CAPITAL SERVICE FLOWS  
(In Millions of Current U.S. Dollars)

Section 1 - Bank 1973 Model

<u>Years</u>	<u>Net Private Investment Income Payments</u>	<u>Net Private Capital</u>	<u>Difference</u>
1972	90	20	- 70
1973	94	20	- 75
1974	98	25	- 73
1975	100	30	- 70
1976	105	35	- 70
1977	110	40	- 70
1978	115	45	- 70
1979	120	50	- 70
1980	125	55	- 70

Section 2 - Historical Data

<u>Years</u>	<u>NII</u> <u>Net Private Investment Income Payments to Foreigners</u> <u>(6.61)</u>	=	<u>NPRIVG</u> <u>Net Private Long Term Capital Movements (Including Direct Investment)</u> <u>(11) (12)</u>	+	<u>NOCM</u> <u>Net "Other" Capital Movements (Private Short-Term + Errors and Omissions)</u> <u>(13)</u>	<u>Actual Difference</u>
1960	- 27			88		+ 61
1961	- 36			21		- 15
1962	- 35			10		- 25
1963	- 39			46		+ 7
1964	- 16			95		+ 79
1965	- 25			26		+ 1
1966	- 30			166		+ 136
1967	- 36			85		+ 49
1968	- 47			64		+ 17
1969	- 78			87		+ 9
1970	- 91			142		+ 51
1971	- 75			218		+ 143
1972	- 62			62		- 0
						<u>513</u>
						13 = 39.5

Section 3 - Mission Projections

<u>Years</u>	<u>(1)</u> <u>Net Private Investment Income Payments</u>	<u>(2)</u> <u>Net Private Capital</u>	<u>(3) (=2) + (1)</u> <u>Difference</u>
1973	- 65	+ 105	= + 40
1974	- 70	+ 110	= + 40
1975	- 75	+ 115	= + 40
1976	- 80	+ 120	= + 40
1977	- 85	+ 125	= + 40
1978	- 90	+ 130	= + 40
1979	- 95	+ 135	= + 40
1980	- 100	+ 140	= + 40

METHODOLOGY AND ASSUMPTIONS FOR  
PROJECTING THE NATIONAL INCOME ACCOUNTS

1. Our national income accounts projections were designed to show the amount of gross domestic savings required to meet the postulated seven percent real growth rate.
2. In sequence the steps for making the projections shown in national income accounts are:
  - a. Compute GDP based on the assumed seven percent growth rate.
  - b. Compute GNP by subtracting from GDP net factor payments which were taken from our balance of payments estimates (note all balance of payments projections had to be converted to constant prices for the national income account projections).
  - c. Compute gross fixed investment by multiplying the assumed overall lagged ICOR (to be discussed in the next section of this paper) by the increase in real income this year over last year.
  - d. Compute inventory changes as a constant 1.91 percent of GDP (see Table II for historical data).
  - e. Compute gross investment as the sum of gross fixed investment plus inventory changes.
  - f. Transfer estimates of exports and imports of goods and services (the resource gap) as well as net transfer receipts from the balance of payments to the national income accounts projections.
  - g. Compute foreign savings as the sum of net factor payments plus the resource gap minus net transfer receipts.
  - h. Once foreign savings is known it is possible to project gross national savings by subtracting foreign savings from gross investment.
  - i. Compute gross domestic savings by subtracting net transfer receipts from the sum of net factor payments and gross national savings.

3. The ASSUMED ICOR: Before choosing our overall lagged ICOR of 3.22 for the entire projection period we reviewed the historical data for the past twenty years (see attached Table I). As can be seen from Table I, Colombia's ICORs have varied quite a bit from year to year. However, the trend has been downward. The average over the last five years was 3.22 which was the same over-all ICOR which was assumed by the Bank. If the historical trend continues one would expect the ICORs to continue to decline. If this is the case, less investment will be required to generate the same amount of real growth. This would mean that gross fixed investment requirements would be less than we are presently projecting to achieve the assumed growth rate. We therefore believe our ICOR estimate may prove to be somewhat conservative.

TABLE I COLOMBIA: INCREMENTAL CAPITAL/OUTPUT RATIOS 1950-70  
(Millions Constant 1970 Ps.)

<u>Years</u>	<u>GDP Increment</u>	<u>Gross Fixed Investment</u>	<u>ICOR</u>
1950	1,553.4	10,119.8	6.51
1951	3,241.7	10,049.3	3.10
1952	3,321.8	10,826.6	3.26
1953	4,008.2	14,646.6	3.65
1954	2,422.0	17,050.0	7.04
1955	2,611.3	18,020.1	6.90
1956	1,494.6	17,100.0	11.44
1957	1,694.2	12,820.7	7.57
1958	5,060.4	12,189.8	2.41
1959	3,211.5	13,098.6	4.08
1960	3,992.9	15,427.5	3.86
1961	4,462.2	16,738.6	3.75
1962	2,856.6	16,801.8	5.88
1963	5,535.4	15,458.2	2.79
1964	3,431.1	17,393.9	5.07
1965	5,287.0	16,425.3	3.11
1966	4,373.0	17,742.6	4.06
1967	6,634.1	18,921.5	2.85
1968	7,323.6	21,752.5	2.97
1969	8,249.8	22,295.7	2.70
1970	7,160.2	25,226.4	3.52
1971		26,965.9	
1972			

AVERAGES

21 yrs. = 4.60  
15 yrs. = 4.40  
10 yrs. = 3.67  
5 yrs. = 3.22

TABLE II COLOMBIA: INVENTORY CHANGES - MILLION  
 CONSTANT 1958 PS.

<u>Years</u>	<u>Inventory Changes</u>	<u>Change as a % of GDP</u>
1950	447.6	3.0
1951	350.5	2.1
1952	287.4	1.8
1953	- 225.8	- 1.3
1954	- 19.0	- 0.1
1955	- 11.7	- 0.1
1956	241.2	1.2
1957	949.1	4.7
1958	523.8	2.5
1959	485.2	2.2
1960	546.6	2.4
1961	689.3	2.8
1962	220.9	0.9
1963	488.1	1.8
1964	589.8	2.1
1965	717.1	2.5
1966	1387.9	4.5
1967	249.1	0.8
1968	648.0	1.9
1969	582.1	1.6
1970	795.8	2.1
1971	1068.7	2.6
	Average	1.91

MAJOR DIFFERENCES BETWEEN  
BANK AND MISSION ASSESSMENTS  
OF COLOMBIA'S ECONOMIC PROSPECTS

**MAJOR DIFFERENCES BETWEEN BANK AND MISSION ASSESSMENTS OF COLOMBIA'S ECONOMIC PROSPECTS:** The major differences between our assessment and the Bank's (Report #138-CO 5/15/73) can be found mainly in the balance of payments projections. On the current account we are projecting a smaller resource gap (imports of goods and services minus exports of goods and services). This difference amounts anywhere from \$20 to \$200 million per year and results from alternative assumptions on coffee exports and the growth of other merchandise exports which we are projecting to increase at slightly lower growth rates but from a substantially higher 1972 base figure. It should be pointed out that our import figure for 1973-75 are somewhat higher than the Bank and are almost identical thereafter. In our model we are projecting higher net factor payments between \$50 and \$140 million yearly which results mainly from the fact that Bank estimates of future interest payments apparently did not take into account interest which must be paid on private debt. The net result of these differences is that our foreign savings requirements (the current account deficit), except for one year, are between \$40 and \$110 million less each year than the Bank suggests.

Looking at the sources available to finance for the current account deficit or the capital accounts we notice even greater differences between the respective projections. We are projecting that amortization payments on public capital will be between \$9 (in 1973) and \$241 million (in 1980) less than projected by the Bank. This is so because the Bank implicitly assumed a major shift in the terms of public capital flows away from concessional toward exporter credit type terms and because our current account deficits were smaller than the Bank's to begin with. On the other hand we assumed that all new loans to the public sector through 1980 would have the same terms as the weighted average for all loan commitments to the public sector in 1972 which were 22 years repayment period including a five year grace period with an average annual interest rate of 6.7%. The Bank believes that these terms are neither optimistic nor conservative with regard to future.

Viewing disbursements on net public capital as a residual the Mission projections are considerably lower than the Bank projections. For example they are \$85 million lower in 1973 and nearly \$300 million lower by 1980.

There is one other major difference between our projections and those of the Bank which must be pointed out and that is related to net private capital flows. The Bank assumed a net \$70 million net outflow per year between investment income payments and net private capital flows. The Mission on the other hand has projected private capital flows so that there will be a net inflow of \$40 million per year which is consistent with recent historical experience. A more complete discussion of these differences can be found in Section IVB<sub>2</sub> of Annex A.

Given these differences primarily in the capital accounts our projects show Colombia's debt service ratio declining each year while the Bank shows it growing until 1984 when it begins to decline.