

PN-ABG-692

19A 69231

ECONOMIC SETTING  
AND  
PROGRAM PROPOSALS FOR  
ESF ASSISTANCE  
TO COLOMBIA

Bogota, Colombia  
April 1990

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## Executive Summary

### Findings of A.I.D. Reconnaissance Visit to Colombia

Pursuant to the agreement reached by Presidents Bush and Barco at Cartagena, a team of four A.I.D. officers visited Colombia from March 16 to April 7, 1990, to: (a) assess the economic environment and the capacities of government and private institutions to administer a \$50 million ESF program in U.S. FY 1991 and possibly beyond; (b) to recommend one or more combinations of assistance modes appropriate to their findings with respect to the economy and management capabilities; and (c) to evaluate the implications of the program structure(s) they recommend for staffing the A.I.D. operation in Colombia.

It is the judgement of the Reconnaissance Team that the Colombian economy is among the most fundamentally sound in the Latin American region. Coffee and petroleum exports constitute leading sectors, and together account for close to 10 percent of GDP in most years. Nevertheless, the country appears to have used the surpluses generated by these sectors more wisely than most and has avoided taking on unmanageable debt service obligations.

The Team considers Colombia's comparatively good economic performance a reflection in large measure, of the nation's excellent cadre of well trained, competent economic policy advisors. The capacity of the country's economic analysts to evaluate performance, diagnose problems and prescribe appropriate policy remedies is excellent. To be sure, policy weaknesses have appeared in the past, exist now and will be seen in the future. However, this is true everywhere, and in Colombia is more likely to reflect delays in the ability of researchers and analysts to get their diagnoses translated into policy action, than inability to identify the problem and the action required. Thus, the environment in Colombia is such that "policy dialogue" can be conducted as a professional and collegial exchange of ideas among peers. The Reconnaissance Team believes that any of the credible contenders for the Presidency would field an equally competent economic team. (Elections will be held in May, and the new administration will take office in September, prior to disbursement of the FY 1991 ESF funds.)

With respect to administrative capability, the Team was favorably impressed with the government agency that would play the central role in coordinating with A.I.D., the Department of Planning. While there are some weaknesses in GOC systems of program implementation and oversight, these have been identified by an A.I.D. funded non-federal audit. Placing external donor coordination in the hands of the Planning Department is an important step, and this agency has plans for strengthening its oversight capacity while remaining lean and relatively free of bureaucratic "fat".

In addition, the Team has identified a number of private foundations and other organizations that have impressive track records in implementation. Some of these will play a major role, particularly in the implementation of the planned expansion of ongoing activities such as the Administration of Justice project.

Based on its findings with respect to the economy, economic management and program management capability, the Team has recommended a program concept in which ESF is provided in support of a comprehensive program against narcotics trafficking and in support of a new surge of broadly-based, market-driven, lawful economic activity. The funds would be disbursed in two "tranches". The first, of one-half the proposed \$50 million, would occur upon signing the agreement. This should be as early in the fiscal year as funds can be appropriated. A second disbursement would follow a joint USG-GOC review of progress under the GOC-designed program described in the Government's letter of request. The program described would include the GOC's macro-economic and structural policy programs as well as its anti-narcotics, judicial protection and Administration of Justice programs. It would present sufficient detail on the GOC budget to permit a tracking from statements of policy in the foregoing areas to specific expenditures in support of these policies.

The Team believes this approach is sensitive to Colombian sovereignty concerns and is appropriate in the context of the support program's origin. More traditional forms of conditionality would serve no purpose in terms of responsible stewardship, and could become a counter-productive irritant in the bilateral relationship.

In preparing a program structure, a balance had to be sought between closely monitored, specific objectives on the one hand, and minimal A.I.D. staff build-up on the other. The resulting proposal has the following principal characteristics:

1. Of the \$50 million ESF, approximately \$10 million would be projectized to continue and expand activities in the areas of Judicial Protection, Administration of Justice, Drug Awareness, and training in the United States.
2. The remaining \$40 million would be in the form of a cash transfer which the GOC could use for external official debt service. The dollars would be deposited in a dollar denominated special account in favor of the Central Government. As various government agencies' debt service payments fall due, they would make payment in pesos into another special account of the Central Government in the Central Bank.
3. The pesos would be used exclusively to finance a GOC sub-budget called the "Core Economic Opportunity Budget." This sub-budget would contain activities that form the core of the GOC's program to suppress narcotics trafficking while promoting a vigorous, broadly-based, export-oriented and market-directed, lawful economy.

Specific areas of emphasis would include:

- (1) Opening the economy to expanded international trade based on market conditions, with particular emphasis on trade policy institutions;
- (2) Regional economic development linked to political decentralization; and
- (3) Public support for a "center for applied research" in public economic policy with an explicit formal linkage between the policy analysis and research specialists and policy - making individuals and bodies in the public sector.

Finally, a portion of the funds in the peso denominated special account would be used to establish two trust funds for A.I.D. management. One would be used for operating expenses in local currency of the A.I.D. operation. The other would be for evaluation, project development and support, and for audits.

Staffing requirements, under any conceivable variation of the program proposed by the A.I.D. team, will rise relative to the present staff of one U.S direct hire officer, one PSC project manager and three FSN clerical/administrative employees. The Team estimates that the total staff will have to be increased to a total of from eight to twelve AID/Colombia persons, including:

- at least 2 middle to senior USDH employees (up to 4)
- at least 1 USPSC employee (up to 2)
- at least 5 FSN employees (up to 6)

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## I. INTRODUCTION: PURPOSE AND OBJECTIVES OF MISSION

At the Cartagena Summit in February 1990, the Presidents of the United States, Colombia, Bolivia and Peru pledged to carry out programs of mutual cooperation in counternarcotics, including law enforcement, demand reduction, and economic development. To help Colombia, Bolivia and Peru with the economic burden, the United States agreed to increase economic assistance to the three countries. In its FY 1991 Congressional Presentation, the Agency for International Development (AID) requested additional economic support funds (ESF) for this purpose. More assistance will be requested in FY 1992-1994.

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

Subsequently, the United States agreed to provide \$50 million in ESF to Colombia in FY 1991 in support of administration of justice, demand reduction and economic development programs. A similar amount will most likely be requested for 1992-1994, provided that Colombia maintains sound economic policies and its strong law enforcement performance.

A four person AID Economic Reconnaissance Team spent two weeks in Colombia (March 26-April 6) to confer with the U.S. County Team and the Colombian Government on the outline of an economic assistance program for the purposes noted above. To accomplish its mission, the Team met with US Embassy staff and a wide spectrum of Colombian government and private sector representatives.

This paper proposes a conceptual and programmatic framework for the assistance program, and for dealing with the management oversight implications of the program proposal.

The team is most grateful for the full cooperation and courtesies provided by the U.S. Mission in Colombia.

## II. ECONOMIC PERFORMANCE AND POLICY

### A. Production, Growth and Economic Structure

#### 1. Production and Growth

Over the past forty years the Colombian economy has recorded enviable performance. Real GDP growth has averaged close to five percent annually or on a per capita basis, over two percent annually. GDP per capita has grown from \$689 in 1965 to \$1238 in 1986 (dollars of 1986 purchasing power).

Coffee plays a major role in the economy now as in the past. In 1988 coffee exports were U.S. \$1.7 billion, 34 percent of total export earnings and almost five percent of GDP. Although diversification through time has lowered the aggregate impact of a given reduction in coffee exports, the fact of the close and direct relationship remains. This is confirmed by the data in Table 1 below, which reveal a perfect match of the coffee export and GDP growth rank orders. For each, the highest growth in the intervals covered occurred in the decade of the 1970s while the lowest was in the 1980s.

TABLE I

Colombia: Growth Rates of Coffee Export Revenue  
and Gross Domestic Product (GDP)

(Geometric Mean Growth Rates in Percent)

<u>Period</u>	<u>Annual Growth of U.S. Dollar Value of Coffee Exports</u>	<u>Annual Growth of GDP</u>
1950 - 60	2.13	4.65
1960 - 70	3.46	5.21
1970 - 80	17.65	5.51
1980 - 85	-4.55	2.25
1988	0.44	3.74

It seems clear that the proceeds of Colombia's main exports have been employed well to diversify the economic base, and to build a solid foundation of international reserves. Coffee exports in 1988 were over five times the 1950 level, yet the share of GDP they represented was only 60 percent of the 1950 share. The coffee share of total export earnings was down from 78 percent in 1950 to 34 percent in 1988.

The main source of non-coffee export growth in this period has been petroleum. Successful explorations permitted dramatic gains from nothing in 1950 to \$8 million in 1960, and almost

one billion dollars (19.2 percent of exports and 2.6 percent of GDP) in 1988.

As petroleum exports advanced, international reserves grew steadily from U.S. \$39 million in 1950 to \$189 million in 1970, and reached a peak of \$4.7 billion in 1981. They helped the nation to weather the exceptionally poor export performance of the succeeding few years without going into recession. In the 1980-85 period, coffee prices declined from their 1975-80 average at an average annual rate of 4.5 percent. Revenues slumped correspondingly. Yet GDP growth remained positive. The US \$1.8 billion earned from exports of petroleum and the reserves that had accumulated provided a significant cushion.

## 2. Non-traditional Exports

Non-traditional exports, in addition to coffee and oil, have become a significant factor. By 1988 they had reached an estimated U.S. \$1.9 billion, surpassing for the first time the value of coffee exports. IMF projections show non-traditional exports almost matching the sum of coffee and hydrocarbon exports (U.S. \$3.9 billion) by 1994.

This estimate should be taken as a crucial goal by the Government. If the projection is not realized, financing the import requirement for a sustainable 5 percent growth path could be a serious problem. The key determinant of the success of this effort will be continuation, and perhaps even acceleration, of the policy reforms associated with the national programs to open the economy to expanded foreign trade ("apertura"). (This program is discussed in a subsequent section.)

## 3. STRUCTURE OF THE ECONOMY

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

Colombia's "apertura" program is intended to integrate Colombia into the highly competitive international economy. While the Colombian economy has performed well in the past three decades, there still remain major elements of the policy biases built into the economy during 30 years of an import-substituting development strategy. While Colombia's policy stance in the 1960's could be described as moderately outwardly looking, it shifted subsequently to moderately inward looking. To open the

economy effectively to international trade and investment possibilities, these remaining policy biases will have to be eliminated.

Examples of such policies include: a flat prohibition of imports of commodities produced in Colombia; preferentially low tariffs on goods not produced in Colombia; exemption from income taxation for incomes earned in favored industries. 1/ These policies have provided effective incentives to employ the relatively more sophisticated, high-technology and capital-intensive production processes that are characteristic of, and appropriate for advanced industrial countries. But in the latter countries, labor and natural resources are comparatively scarce and expensive, while capital (owing to savings) is comparatively abundant and cheap. In Colombia, the reverse is true.

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

The desired structural change should shift input demand in favor of labor, natural resources and domestically produced light capital goods that can be produced at prices and according to quality standards that make them fully competitive with imported rivals. 2/ Owners of these resources will benefit materially as increased demand bids up their prices.

1/ In subsequent, deeper analyses pursuant to the ESF program, the elements of this policy set should be identified specifically and, to the extent possible, their consequences quantified.

2/ The GOC Department of Planning has in hand a project proposal to identify and underwrite research and development on capital goods development that meet these criteria. In the hands of a competent implementation entity, this could contribute to Colombia's integration into the international economy.

Since all Colombian households own labor, while only a few own significant accumulations of capital, the resulting structural changes will yield a broader distribution of the income than that occurring under protectionism. 1/

### GDP by Sector

The only major change in the sectoral origin of GDP since 1984 has been an almost threefold increase in the share of value added contributed by the mining sector. This growth is attributable to earlier massive investment in coal mining operations and smaller investments in exploration.

TABLE II

Gross Domestic Product by Sector of Origin  
(Billions of 1975 Pesos)

Sector of Origin	1987		1988	
	Billions of Pesos	Percent of GDP	Billions of Pesos	Percent of GDP
Agriculture	141	21.4	145	21.3
Mining	30	4.6	31	4.6
Manufacturing	139	21.2	142	20.9
Constr. & Pub. Works	24	4.0	26	3.8
Commerce, Rest. Hotels	78	11.9	81	11.9
Transp., Storage, Comm.	58	8.8	60	8.8
Government Services	56	8.5	59	8.7
Others	129	19.6	136	20.0
<u>Total</u>	<u>657</u>	<u>100.0</u>	<u>680</u>	<u>100.0</u>

All other sectors (except government) advanced at average rates between 2.5 and 4.0 percent in the same period. Success of the GOC's "apertura" program would be expected to increase the GDP shares of the agriculture, light manufacturing and service sectors. On the input side, this would almost certainly be associated with increased employment and reduced imports and investment per unit of GDP growth. Capital goods imports for each million pesos increase of output in Colombian manufacturing in the period 1984-1988 were over 23 times as

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

high as those per million pesos of increased output. Thus, to the extent that agriculture or light manufacturing grow relatively to overall manufacturing, the effect should be a significant diminution in the associated import requirement and of the capital investment (3.3 pesos of capital investment per peso of GDP growth) required to support a given increase of GDP.

#### 4. Labor Force and Employment

Colombia has a predominantly urban labor force, there were 7.26 million employed in the urban formal or informal sector (including government) or between jobs in the urban areas, out of a total of 10.3 million in 1984.

In 1984 about 1.9 million people were employed in the urban informal sector while another 958 thousand or 13.2% of the urban labor force were classified as unemployed. The urban unemployment rate according to ECLA <sup>1</sup> peaked in 1984 and has been declining since then, reaching 9.8 per cent in 1989 (average rate for the cities of Bogota, Barranquilla, Medellin and Cali).

Colombia's labor force is young and relatively well educated, as befits an advanced developing country, with a primary education enrollment ration of 120% (rates greater than 100% reflecting some repetition of grades).

The following table provides a useful overview of the structure of employment in Colombia.

TABLE III  
Labor Force and Employment in 1984

\* 1000s of persons

#### Urban employment

<u>Total urban employment</u>	6303
<u>Total formal urban</u> of which	4325
<u>Private formal</u> <u>manufacturing industry</u>	3539
	501
<u>Construction</u>	401

1/ CEPAL, Notas Sobre la Economia y El Desarrollo 1989.

<u>Other</u>	2637
<u>Public formal</u>	785
<u>Total urban informal</u>	1977
<u>Rural sector employment</u>	
<u>Total rural sector</u>	3067
of which	
coffee	325
other modern agricultural production	778
other rural agricultural production	1953
Total Employment urban & rural	9370
[urban] unemployment	13.2% or 958
Total urban	7261
Total	10328

World Bank, Report No. 6626, Colombia Country Economic Memorandum October 15, 1987.

#### B. Demand Management

As indicated in Section A, Colombia's economy has demonstrated a long-term, annual growth capacity of just less than 5 percent. If the decades of the 1950's and 1980's are dropped out of the calculation, the growth rate averages over 5 percent annually. While these may be imprecise measures of growth potential under optimal policy conditions, they can at least provide indicative benchmarks against which to evaluate demand management policies.

Such an evaluation does not yield particularly high marks for Colombia, but neither is the performance a flat failure. An examination of the behavior of prices reveals that price inflation has been "too high" (which is bad), but not highly erratic (which is good).

Breaking the 1950-1985 period into five year intervals (after 1960) shows the price behavior presented in Table 3.

TABLE IV

Behavior of Selected Prices, 1950-1985  
(Average Percent Change Per Year)

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

Source: International Financial Statistics, 1989 Year Book

Since 1985, annual rates of price inflation have accelerated modestly, with inflation as measured by changes in the GDP deflator reaching a high of 29.2 percent in 1986, and the CIP inflation peaking at 28.1 percent in 1988. Indications are that the rates fell to 25 percent or less in 1989, and GOC economists expect rates closer to 20 percent in 1990. Thus, while price inflation is too high for a country seeking to enter the mainstream of international economic relations, uncertainty associated with large and erratic swings in inflation has not been a major problem in recent Colombian economic history.

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

In the latter part of the 1980's at least, it is quite clear that domestic monetary expansion coupled with quantitative restrictions on imports underpinned the inflationary process. Table 4 below shows the behavior over the 1984-89 period of the two most common measures of domestic money stock along with nominal GDP and the relevant measures of expenditure velocity. The data in Table 4 confirm the excessiveness of monetary expansion.

TABLE V

Money Stock, Money Income and the Velocity of Money  
1984-1989

	Annual Percentage Changes in Nominal Money Stocks		Annual Percentage Change in Nominal GDP (Y)	Velocity of	
	(M1)	(M2)		M1	M2
1984	23.4	22.2	28.0	7.7	2.9
1985	28.2	35.0	27.2	7.4	2.8
1986	22.8	27.5	29.3	8.6	3.0
1987	32.9	30.2	33.2	8.4	3.0
1988	25.8	22.9	29.0	8.9	3.2
1989	29.0	30.0	33.0	8.9	3.2

Source: Money and GDP through 1988 Article IV Consultation Report, 1989. In 1989, team estimate.

That monetary expansion was excessive is not evidence of uninformed policy choices by the Central Bank. A plethora of political-type pressures are brought to bear on the monetary authorities by both private and public sectors. The Team did not have time to learn enough about the political dynamics of central banking in Colombia to be able to (nor, for that matter, did it wish to) fix the blame. Rather, our purpose has been to seek information on the origin of domestic financing demands to help our understanding of the sources of the expansion. Establishing causality is part of the policy dialogue process that will accompany the ESF program.

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

Government spending has increased and has outstripped revenue increases to some extent. However, the deficit as a percentage of GDP has been held within reasonable bounds. In contrast to what often happens in such cases, 86 percent (13 billion pesos) of the new credit from the financial system in this period went to the private sector.

Thus, the common notion that excessive monetary expansion is always caused by excessive deficit spending by the government, does not fit the case in Colombia. <sup>1/</sup>

### C. Balance of Payments: Experience and Prospects

Despite heavy debt servicing and amortization obligations, (in the neighborhood of 40 percent of goods and services export receipts,) and despite quite substantial dependence on export commodities (such as coffee and petroleum) recently experiencing substantial price declines in international markets, Colombia has kept its overall balance of payments deficit well within bounds, achieving sizable surpluses in some years. International reserves, at about 3-4 billion dollars U.S., have remained sufficient, despite year to year ups and downs, to cover about four months of imports.

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

The continued strong growth performance of both GDP and exports provides evidence that international borrowing proceeds have been well-utilized to build productive capacity.

From 1984 to 1989, merchandise exports rose 55 percent, from 3.6 billion dollars U.S. to 5.8 billion dollars U.S. There was a major devaluation in real terms in 1985/86, which provided a stimulus to exports, especially to non-traditional exports, and was maintained subsequently, while important investments in petroleum and coal began to yield a growing and large stream of exports of these commodities.

Merchandise imports were held at about 3.4 billion dollars a year in 1984 and 1985, but were allowed to grow subsequently, reaching 5.2 billion dollars U.S. in 1989 (a 30 percent increase in five years.).

<sup>1/</sup> This preliminary conclusion is consistent with the view of one Colombian economist we met who believes that de facto wage indexing by the private sector swells that sector's demand for credit and that the Central Bank is unable to resist the pressure. This proposition deserves much more careful study.

Colombia has tended to keep imports under control by longstanding resort to quantitative restrictions (licensing of imports) which has contributed to growth of inefficient national industries. However, with the new policy of apertura, this will change, as protection through import quotas is replaced by tariff protection and the level of protection is gradually reduced. Resort to quotas to restrain imports, combined with expansionary domestic credit creation policies, has resulted in inflation of 20 to 30 percent a year (with, however, no tendency to accelerate), and has required considerable depreciation of the currency in nominal terms, just to hold the real exchange rate steady.

Colombia has had important direct investment inflows (peaking at \$1.2 billion in 1985, down to 200 to 500 million dollars U.S. since.

On current account, there is a high level of unrequited private transfers to Colombia, reaching as high as a billion dollars U.S. annually in recent years, but projected to decline by about 400 million dollars U.S. a year in the 1990s.

External debt service and amortization is projected to stay roughly constant at 3.5 billion dollars U.S. per year over the next several years, but to decline as a percentage of export receipts.

With more major World Bank and IDB lending underway and in preparation, disbursements on M&LT capital account should continue to outweigh amortization by large amounts, and with the government committed to an export based growth strategy, Colombia's ability to service external debt should continue to grow.

The policy of Apertura involves expansion of both exports and imports by large amounts over the next few years. Non-traditional exports are projected to reach as high as 4.6 billion dollars U.S. by 1994 and total exports, 9.9 billion dollars U.S. There is even talk of an export receipts target of \$12 billion by 1994.

Initially, imports would expand more rapidly than exports as imports are decontrolled, but the resulting pressure on the balance of payments is expected to be manageable. The additional decline in international reserves projected as a result of the relaxation of some import controls in 1990 and 1991 is not expected to exceed \$150 million in either year, and is expected to be quickly reversed as Apertura policies result in higher export receipts.

#### D. Structural Influence of Economic Policy: "Apertura"

The major thrust of all aspects of Colombian policy with respect to structure is to free the economy from protectionism, subsidies and state controls, moving it to greater reliance on competition, private sector initiative and market forces, and successful international trade. The policies, programs and projects devoted to this objective are grouped together under the general heading of "Apertura" (opening). It is considered by Colombians associated with "Apertura" that the process of enacting the transformation will be long and costly. Yet, it has already begun in earnest, and the candidate who seems most likely to succeed President Barco has expressed his unqualified support. This is likely to be a process that will soon have advanced to a point from which it would be difficult to turn back.

"Apertura" is the subject of appendix 7. For the present purpose it will suffice to set forth the principal features of the program. These are as follows:

Competitive Exchange Rate Policy. The GOC plans annual 4 percent real devaluations from 1990 forward until "purchasing power parity" is established with principal trading partners (i.e for approximately 5 years).

Tariff Policy. Protectionism in the form of trade policies will be significantly reduced in two stages. In the first stage, a large number of administratively determined quantitative restrictions (QRs) on imports will be eliminated or replaced by auctioned licenses, then by quota equivalent tariff rates. In the second phase import duties rates will be lowered and unified into one or an very few rates. The time horizon is three years.

Infrastructure. Transportation and port facilities are considered to be seriously inadequate and a serious obstacle to non-traditional export development. A major investment program is planned to relieve this bottleneck.

Price Policy. The gradual elimination of price controls, begun in 1989, will be undertaken over a 5 year period.

Tax Policy. Greater horizontal and vertical equity and elimination of structural distortions induced by uneven tax treatment will be sought.

Interest Rate Policy. Interest rates subject to control are to be kept positive in real terms, initially, and subsequently decontrolled.

Miscellaneous Policies. Credit lines, quality control and research and development initiatives to make domestic industry more competitive, all under initial sponsorship of the public sector, are planned for 1991 and beyond. A key objective is to diversify production in general, and production for export in particular. Agriculture and industry are included in the plans. In the industrial sector, the idea is that Colombia can eventually produce some of the relatively "light" capital goods it now has to import. A note of caution is in order with respect to public sector provided incentives. Finding the line between compensating for market failure and externalities on the one hand, and introducing anti-market distortions on the other can be difficult. The GOC economic team is clearly aware of this. Nevertheless its members may need support and reinforcement on this issue to avoid introducing new distortions and the possibility will merit a vigilant attitude as "Apertura" unfolds.

Annex 8 deals specifically and in some detail with Export Promotion opportunities and possibilities for Colombia. Generic export promotion is critical for realizing the structural changes sought through the "Apertura" program.

### III. PROGRAM CONCEPTS

#### A. Constraints and Requirements

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

#### B. Objectives

On the other hand, the U.S. assistance build-up reflects an accord reached by Presidents Bush and Barco at the Cartagena summit. Thus it will be a highly visible program with an explicit conceptual linkage to Colombia's efforts simultaneously, and in a manner that illuminates their inter-relationship, to suppress narcotics trafficking and stimulate vigorous, open and market-directed, legitimate economic development. Congress and the American public will expect to see concrete results from collaborative USG-GOC efforts to incorporate all segments of the community into the lawful, democratic mainstream of national life.

### C. Program Strategy

The foregoing combination of requirements -- a modest AID presence along with a strong identification with specific objectives -- calls for a departure from the usual kinds of AID program structure. Specifically, projectization, whether of the ESF dollars or of Colombian pesos "purchased" with the dollars, must be held to a minimum. Moreover, since the personnel and financial costs of project oversight include significant fixed costs, a smaller number of relatively large scale projects is clearly to be preferred to a larger number of relatively small projects. The principle, of course, is that for a given level of projectized outlays, oversight cost is minimized by minimizing the number of transactions.

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

### D. ESF as Support for a Colombian Designed and Implemented Program

The role of ESF assistance varies substantially from one country to another. One of the more important determinants of its role is the status of economic research and policy making in the host country. In countries in which economic talent is very scarce, ESF-related negotiations and policy dialogue can be a vehicle through which U.S. expertise is injected into policy planning and implementation. In more advanced countries, ESF can involve a process through which national talent is reinforced and promoted with officials at policy making levels.

Colombia is a very highly advanced developing country, blessed with a sizeable cadre of competent and active economic policy researchers, analysts and implementors. When national economic policy is deficient, it usually is not from lack of ability to analyze problems and prescribe appropriate solutions.

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

Under this kind of ESF program, "conditionality" has a much different meaning than it would have in a situation in which there was host country innocence of and/or resistance to U.S. understanding of appropriate economic policy. In fact, in the context of an ESF program with Colombia, conditionality may not be an appropriate concept at all. Certainly if it is understood to mean things the U.S.G. wants Colombia to do but that Colombia would undertake only if paid to do so, then it is not appropriate.

The concepts set forth below are in anticipation of a letter from the GOC in which assistance is solicited in support of a 1991 program set forth in the letter. This would include: a statement of the Government's program against narcotics trafficking with emphasis on the components most directly related to U.S. assistance; and a statement of its programs in areas in which projected U.S. dollar assistance is being sought, such as, for example, Administration of Justice, Judicial Protection, Export Promotion, Training and Education in the United States and Project Development and Support. Also included would be a statement of the overall 1991 economic program, including demand management, foreign sector trade and commercial policy and special programs such as "Apertura" modernization of the economy and "alternative development"; and a presentation of the sub-budget called (perhaps) Core Economic Opportunity Budget (CEOB).

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

#### E. Use of General Budget Support Mode for Local Currency

The GOC would express its intention to commit to the program a significant amount of local currency, in excess of the equivalent of the projected ESF program contribution. This enables any local currency the GOC elects to identify with

U.S. ESF support to be administered through the General Budget Support mode.

F. Use of ESF Dollars

As for the use of the balance of payments support portion of the dollars, Colombia's external debt service interest and amortization reached \$3 billion and 48 percent of exports in 1988. Of this amount \$2.7 billion was to service public sector debt. Debt service obligations are projected to be only slightly less than this over the next few years. The letter of request from the GOC should therefore include its proposal to use the balance of payments support portion of the ESF dollars for debt service. If a means of using these funds to leverage additional debt refinancing credits, as for example by way of an interest payment guarantee fund, can be identified, this also should be described in the letter. 1/

G. Consistency with U.S. Foreign Policy Objectives

The United States provides assistance to developing countries with which we share a commitment to democratic ideals. These ideals include as legitimate national objectives, the pursuit of broadly-based economic growth, realized through the development of the strong policy formulation and institutional development capability required to sustain real economic progress over the long run. A strongly performing economic system both reinforces and is reinforced by a stable and democratic political system. The latter therefore is an equally important objective of U.S. economic assistance.

External assistance by itself cannot directly cause real broad and sustainable growth. Nor can it install democratic stability. It can however, play a major role in assisting the host country in its own efforts to establish conditions in the absence of which the growth and democracy objectives would be unattainable. These conditions, e.g. sound economic policy are not always observable directly. However, the success of a program designed to establish them can usually be tested by

1/ Between now and the conclusion of the FY 1991 ESF agreement, this possibility and others of a creative nature should be explored explicitly and seriously, and a separate paper on the subject prepared, perhaps in collaboration with the Banco de la Republica. For example, could Colombia be a country for which an issue of Consols, with interest guarantees from international financial institutions, could be successful?

objective measures of performance. Thus AID programs, including the newly expanded programs in Colombia, should specify the necessary conditions for growth and democracy, inventory the present degree to which they are in place, and set realistic, attainable targets with respect narrowing the gap.

#### IV. PROGRAM CONTENT: Alternative Approaches

A. Introduction: Activities Common to All Structural variants of the program. One clear finding of the 2 week mission to Colombia was that the structure of the ESF program will most likely involve at least three, (and possibly a fourth) kind of delivery modes:

- (1) Balance of payments support, with the establishment of a U.S. dollar special account from which disbursements will be authorized for purposes agreed during negotiations (probably external debt service);
- (2) Project activities of the Handbook 3 variety, financed with "projectized" ESF dollars (with the possibility of the Colombia counterpart contribution coming from local currency identified by the GOC with ESF dollars;
- (3) General Budget Support, with a local currency special account receiving deposits from GOC entities as and when they purchase dollars from the central government to make official external debt service payments;
- (4) For reasons of a political nature, the U.S. Country Team is skeptical about the fourth mode (which might accurately be called a non-mode). Nevertheless it is so administratively attractive, because of its simplicity, that the team believes it should not yet be totally dismissed. Fundamentally it involves the provision of ESF in such a manner that there is no disposable local currency "generation" identified with it at all. The steps are as follows:
  - (a) The GOC receives dollars as ESF tranches are disbursed.
  - (b) The Central Bank opens for the GOC a dollar-denominated special account in the Central Bank (Banco de la Republica).
  - (c) As official external debt service and are amortization payments fall due, they made out of the GOC's special account in the Central Bank.

Since there is no "local currency generation," there are no local currency funds requiring AID oversight. Nevertheless the policy dialogue pursuant to the ESF program can certainly include a Core Economic Opportunity Budget (CEOB), a sub-budget of the general GOC budget. GOC officials have indicated that they would be willing to agree to such an arrangement, and permit as much U.S. identification with the CEOB as the U.S.G. desires.

The program structure options that have been considered represent various combinations of the four modes cited above. There are certain specific activities, most particularly Administration of Justice, that are of such high priority that they will in all probability be undertaken regardless of the program structure selected. These are briefly described below before we proceed to the structural alternatives we have considered.

A. Administration of Justice - The Colombian judicial system is practically incapable of dealing with the vast number of backlog and new cases. Its systems are archaic in design and implementation. Central record-keeping is primitive and computer tracking of cases through its labyrinth of courts does not exist. Most serious cases never come to trial.

In the face of violent intimidation threats, bribery and inadequate investigative capability, the GOC has been unable to arrest and prosecute major traffickers in Colombia, and it has resorted to extradition of these major crime figures to the United States for trial. Extradition is a loud and controversial admission that the Colombian judicial system doesn't work well. AID/Colombia's forthcoming expansion of its Administration of Justice activity has the potential to make strong headway into the long and arduous process of building the kind of durable judicial institutions that are indispensable to a mature democracy. It is the top AID priority.

In FY 1991, the project was funded by LAC at \$1.3 million. Phase II of the project should commence in early 1991. Life-of-project funding has been notionally 36 million, of which dollar and peso costs each represent half. The new project proposal is expected to propose continuing to rely on the Foundation for Higher Education (FES) to carry out project components with the Government of Colombia's Ministry of Justice. AID/Colombia is considering proposing a component to strengthen the Ministry of Justice itself, with advisors working directly with the Ministry.

The project includes components to modernize and strengthen judicial training, administration/communications, and court-room management; to create an Institute of Judicial Administration; and establish a Judicial Career System.

The Ministry of Justice has requested AID/Colombia to help it improve judicial investigative and forensics capacity, including the training of a core of "judicial auxiliaries" who would be trained to investigate and prepare evidence of a quality now generally lacking in the Colombian judicial system.

B. Judicial Protection - In FY 1989, Congress earmarked \$5 million judicial protection in Colombia. AID transferred this amount to the State Department which in turn made a portion available to the Justice Department for training in Colombia and the United State. A portion was reserved for the Embassy/Bogota to purchase armored cars and other equipment. Approximately \$1.5 million remains unexpended and carries over into FY 1990.

For FY 1991 and FY 1992 both, AID/Colombia is proposing \$5 million for Judicial Protection. The activity is undoubtedly of priority importance, but the amounts requested might require close evaluation as does the question of the appropriate organization of the oversight of AID funds for this proposal.

C. Drug Awareness and Prevention - In Colombia, there are an estimated 1.5 million drug addicts, most hooked on "basuco", a highly addictive and toxic powder residue from processing "pasta basica", the first step of processing into final cocaine product. AID/Colombia has funded modest drug awareness and prevention projects through Fundacion Accion Solidaria and Partners of the Americas since 1987. These activities attempt to alert Colombians to the danger of drug production, distribution and consumption, and to counteract the spread of narcotics usage.

As a very high priority, AID/Colombia has proposed \$2.0 million in FY 1991 through or 1994. While this activity has been conditional as an AID project so far, it is conceivable that it could be done under the GOC budget.

D. Economic Openness: Export Promotion

There is some feeling in the U.S. Country Team that export promotion must be supported by AID through a project intervention. "Apertura's" removal of policy biases against exports will do much to expand and diversify exports. Nevertheless it clearly is a category of activity with which GOC-USG Cooperation is appropriate.

E. Development Training - Development training is an integral component of the AID/Colombia program. In FY 1990, in the wake of State/AID ESF reductions, the LAC Bureau managed to provide \$800,000 in scarce DA funds to continue the scholarship program. The Country Team believes that Development Training should be expanded. For that purpose it is proposed that \$2 million in ESF be budgeted "off the top" in FY 1991 with similar amounts requested in the outyears FY 1992-94.

We concur in the high priority assigned to Development Training particularly in administration of justice, judicial protection, export promotion, economic policy areas and related fields. We also recommend that the LAC Bureau include Colombia in the regional CLASP training program for additional funding in FY 1991 and thereafter.

F. Regional Economic Development

A part of the GOC's plan for modernizing the economy is political/fiscal decentralization. Along with this element it is appropriate that decentralized jurisdictions become the focal point of development strategy and programs. Such a regional development strategy is an appropriate focus of GOC-USG collaboration. We do not, however, have at our disposal sufficient information to rank order the regional priorities.

It would take an experienced team of specialists to design a sensible set of criteria for selecting specific regions in Colombia for support to regional development programs. This team is not the right one for such a task. However, in defining the concept of regional development, certain working assumptions seem to be in order:

1. Security budgetary and diplomatic considerations dictate that any such program be a Colombian program. General budget support appears to be the correct mechanism for any desired U.S. identification with such a project.

2. Regional development requires a long-term effort. Since the goal is to make economic activity happen where it has not occurred or is not occurring naturally, a rural development effort can be expected to encounter unanticipated and often highly intractable obstacles.

3. Discussions with the U.S. Country Team and several Colombian institutions suggested a Colombian approach that relies on collaborative efforts of public and private institutions for planning, execution and oversight. Country Team expectation is that such institutions would welcome the participation of the U.S. oil companies EXXON, Occidental, and Shell.

4. The National Plan of Rehabilitation is the GOC's primary vehicle for channeling development resources to those regions of highest political and economic priority. It is possible under Colombian law to include private organizations under the NPR banner, even to the extent of these organizations carrying out development activities with GOC funds.

5. A number of private sector institutions are active in the northeast, 1/ including the Foundation for Higher Education, the Carvajal Foundation, the Corporation for Promotion of Municipal Communities (PROCOMUN), and many others.

6. The creation of a Regional Development Council could take advantage of the resources, experience and ideas of both GOC and private institutions. The existing Corporation for Economic and Social Promotion (CORPES) concept could be configured as a regional coordinating structure. It could serve as a clearinghouse and a regional planning body, with responsibility for coordinating regional development with political decentralization.

7. The American oil companies Exxon, Occidental and Shell would like to be invited to participate in the regional development effort. In 1989, Exxon paid royalties of \$8 million directly to the Department of La Guajira, perhaps the poorest Department in the region. Occidental spends about \$3.5 million annually on socio-economic activities in the northeast. In the Department of Arauca, Occidental operates a very innovative Agriculture Training Center, which trains local farmers and government extension workers in new crops and livestock.

Shell allocates about \$3.5 million for socio-economic activities country-wide. They are not pleased with the results to date from local level management of the funds.

The three American companies identify basic education, health/medical services and diversification of the local economy as very high priorities. They identify as priorities the need to build up local government capacity to manage resources and execute development projects. The three companies are already involved with local private institutions, and presumably would be willing to participate in a comprehensive approach to development of the region.

1/ Departments of La Guajira, Cesar, Magdalena, Atlantico, Santander, Norte de Santander, Bolivar, Sucre and Arauca

7. A northeast regional development program presumes close coordination with the World Bank and Inter-American Development Bank in the planning and execution of the associated regional and municipal development activities.

It is obvious that the concept of a public/private approach to regional development of the northeast needs to be explored far beyond the mandate and time available to the AID Economic Team. If the "core" investment budget approach to programming local currency is adopted, AID/Colombia should encourage the appropriate government and private institutions to define the concept further. The basic building blocks already exist.

B. Option I: No Local Currency

This option is the simplest and least management intensive. The GOC would be authorized to use all the dollars provided for the amortization of and payment of interest on external debt, as described in the previous section. AID would have no responsibilities to monitor local currency funds. The GOC would, in requesting the dollars assistance, submit its anti-narcotics, economic growth program. That program would then become the centerpiece for the USG - GOC dialogue pursuant to ESF assistance.

C. Option II: General Budget Support

In this option, the portion of ESF that is most projectized would be managed in such a manner that it would be identified with an equivalent amount of local currency. These funds would be used to create two trust funds under AID control (one for OE expenses and one for PD&S and audit), and for general support to the Core Economic Opportunity Budget described above. More management would be required than under Option I. However, since the General Budget Support mode would be used, formal oversight responsibility of AID would end when the funds were disbursed for unrestricted use in any CEOP activity. At the end of the year, AID would have the GOC identify the ESF related funds with the most successful CEOP activities.

C. Option III: Full Projectization

Maximum AID involvement and identification could be achieved by projectizing the entire ESF program. This would probably require an AID Mission of 40 or more people, giving the intensive oversight and stewardship responsibility that would go with it.

Many variations of these 3 options are, of course, possible. The Team believes that some variation of Option II is the only one that satisfies all USG and GOC imperatives, given the constraints. As will have been obvious, that is our recommendation.

#### V. MANAGEMENT OVERSIGHT IMPLICATIONS

Recognizing that the final scope and complexity of the AID/Colombia program has yet to be decided, any expansion of AID involvement will require an increase in AID/Colombia staff, and related support effort. Even without additional counternarcotics assistance, AID/Colombia is understaffed.

##### Colombian Institutions

Colombia has quite sophisticated public and private institutions. The Central Bank, Ministries of Finance and Development, and the Department of Planning, are particularly well qualified and are the principal counterpart entities for an ESF program.

Colombian institutions will play an important role in planning, executing and monitoring the counternarcotics assistance program. AID however, will need to exercise oversight, the degree of which will be determined in part by the mix of dollar transfers, projectized uses of dollars, local currency projects, general/budget support, and development assistance (DA) components of the normal AID/Colombia program.

##### AID/Colombia Staff

The August 1989 Management Assessment of the AID/Colombia program recommended that at least two additional staff be added to guarantee proper management oversight of the current program.

Depending on the assistance scenario finally adopted, the team believes that the AID/Colombia resident staff requirement will be between 8 and 13. The program we consider most plausible probably would require a total of 3 U.S. direct hire employees, 1 US. PSC, and 5 or 6 FSN employees.

While staff requirements will not be known with certainty until program negotiations are completed, we believe they will fall within the following minimum and maximum range:

	<u>Minimum</u>	<u>Maximum</u>
USDH	2	4
USPSC	1	1
FSN (OH and PSC Combined)	5	8

ANNEX 1

Notional Budget Table

ESF Funding Table  
((\$000s))

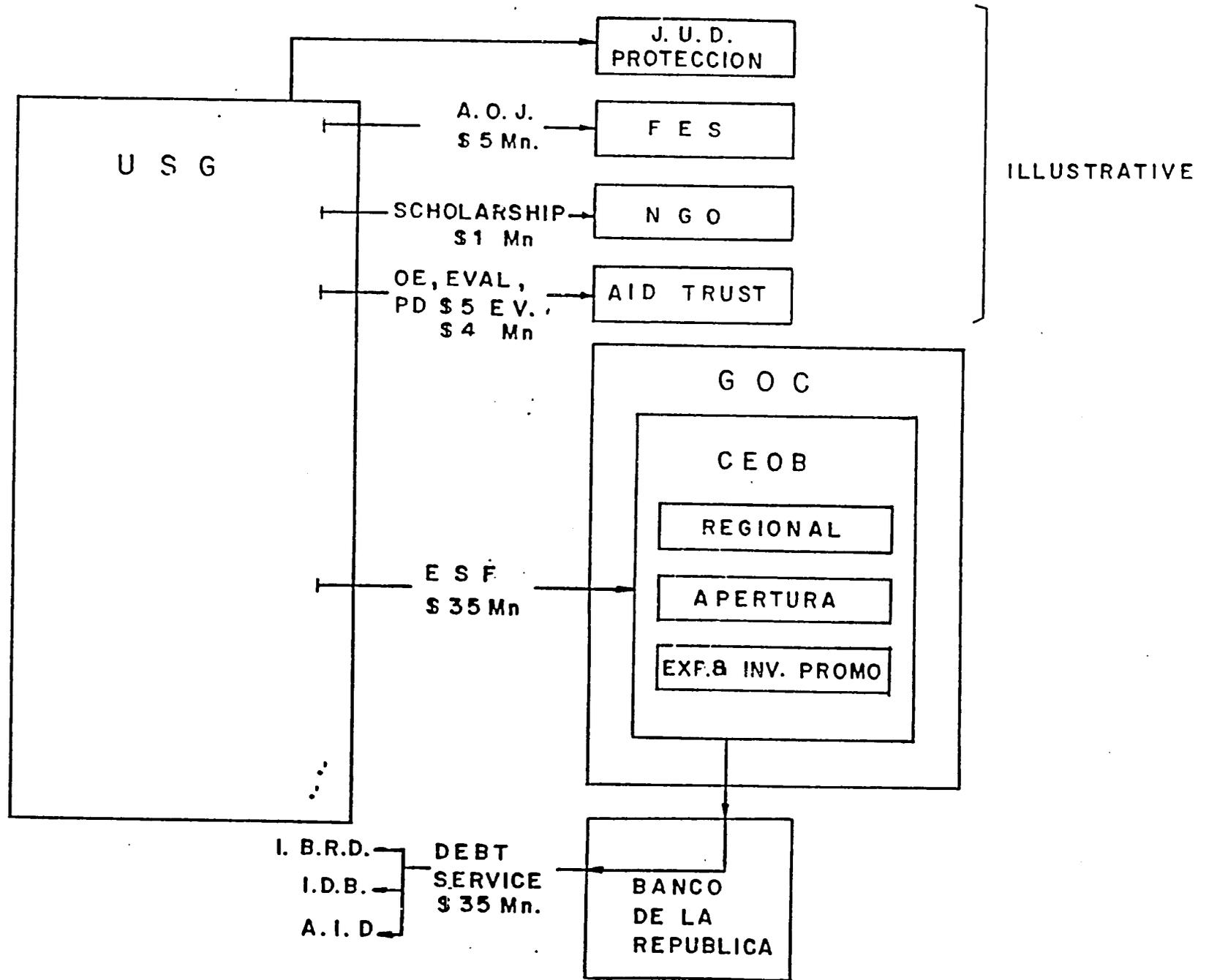
	<u>90</u>	<u>91</u>	<u>92</u>	<u>93</u>	<u>94</u>
<u>On-Going</u>					
Judic'l Prot <u>1</u>	2.0	2.5	2.5	0	0
Adm of Justice	1.3	3.0	3.0	6.0	6.0
Drug Aware <u>2/</u>	n/a	1.0	1.0	1.0	1.0
Dev Training	.8	2.0	2.0	2.5	2.5
<u>New</u>					
Balance of Payments	0	41.5	41.5	40.5	40.5

AID/Colombia Program Execution & Oversight

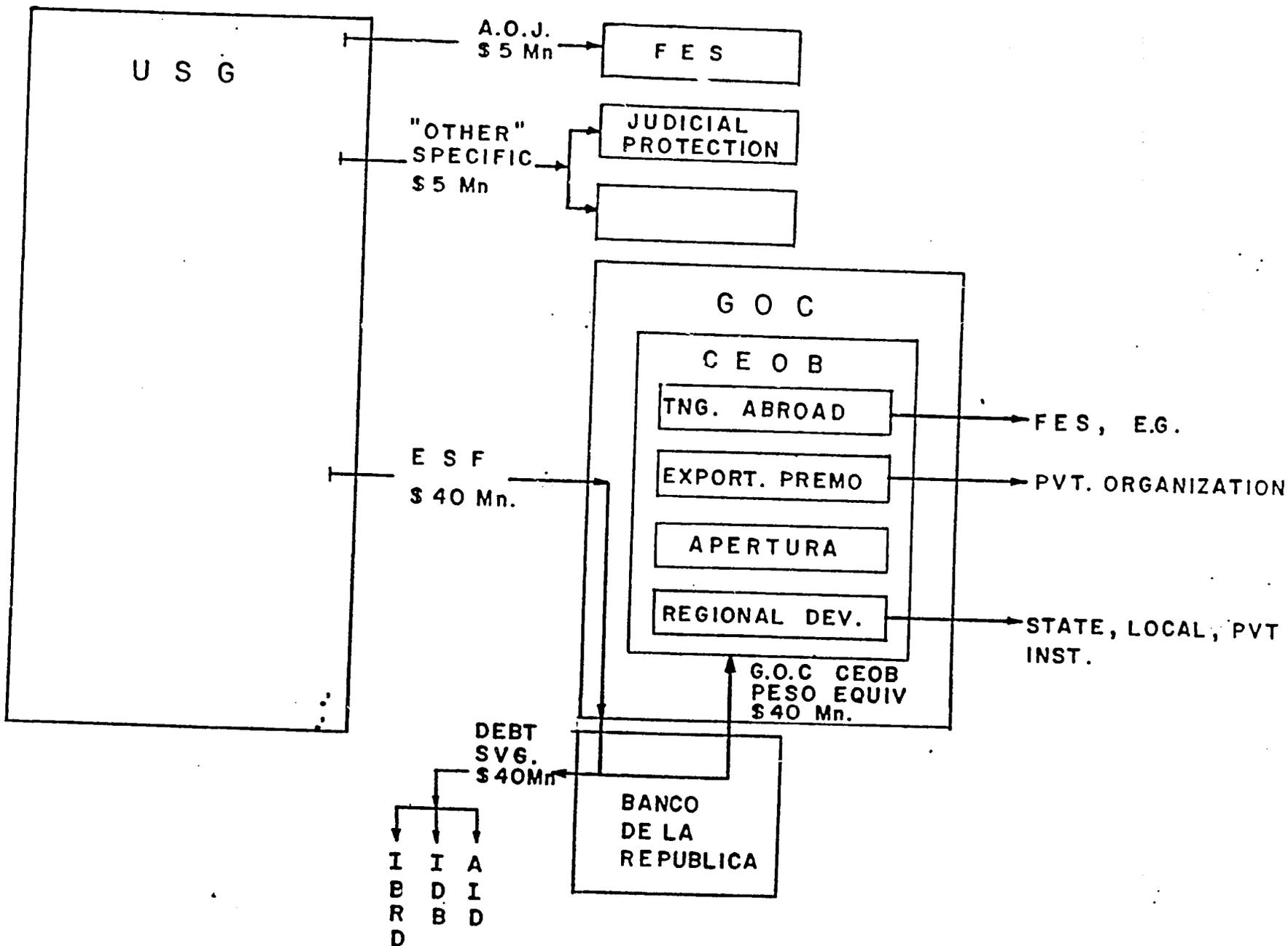
AID/Colombia will rely primarily on Colombian institutions for execution of program but will need to exercise USG management oversight required by law and determined according to assistance delivery modes, i.e ESF cash transfer, ESF dollar and/or DA-funded projects, LC project funding, general budget support.

- 1/ Earmark of \$5m in FY' 89. Carryover of approx \$2m in FY' 90
- 2/ Split between dollar and peso funding not yet determined.

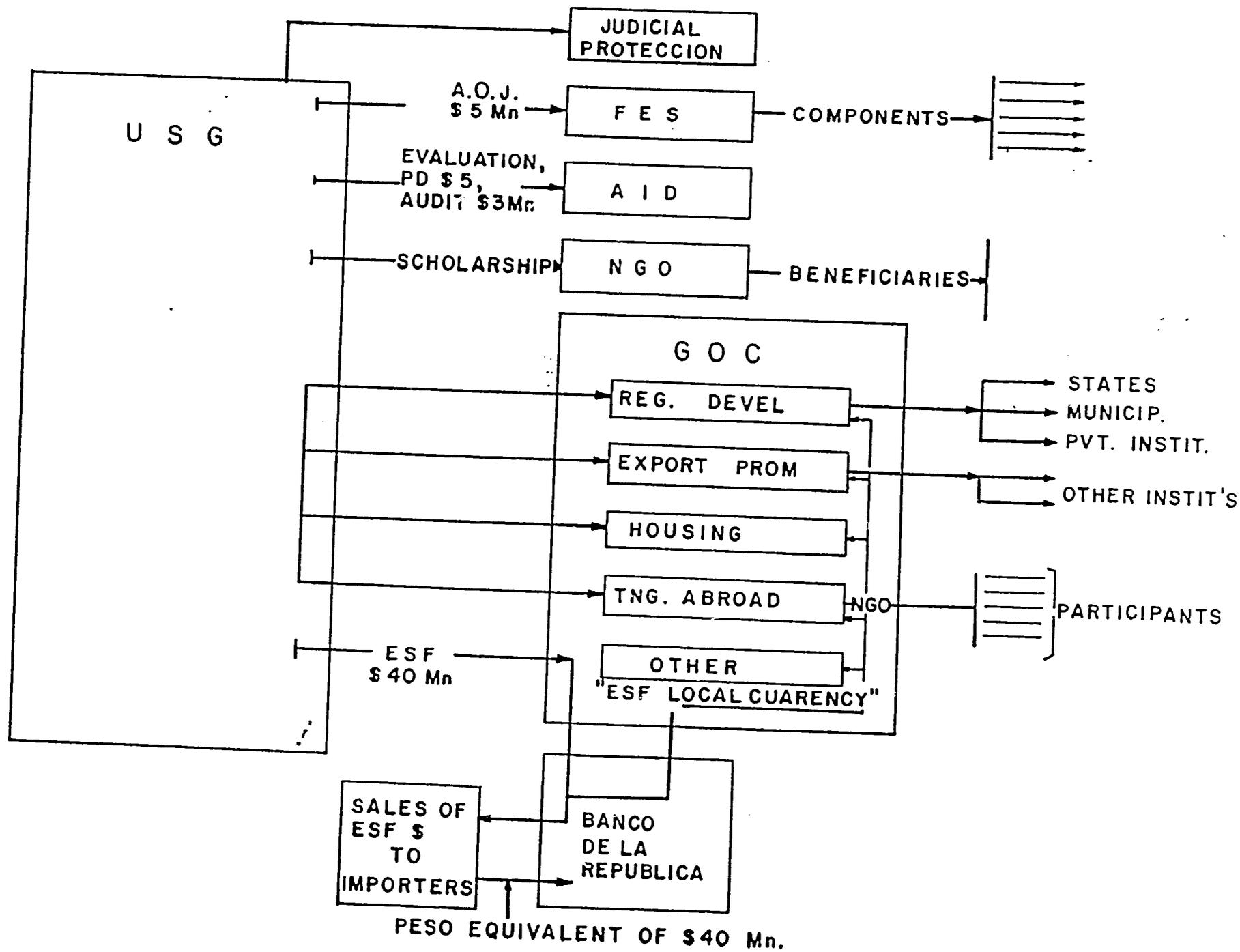
# NO LOCAL CURRENCY



# GENERAL BUDGET SUPPORT "CORE ECONOMIC OPPORTUNITY BUDGET"



### III PROJECTIZED ESF



ANNEX 2

PROJECTIZED ESF

ANNEX 3

AID Management Intensity by Scenario

Current ADC Program/No Additional Assistance

USDH - AIDREP  
USPSC - Health/Training Asst  
FSDH - Fin Analyst (2)  
          Prog Asst (2)  
FSPSC - Secretary

Total - 7 1/

I. Scenario #1

USDH - 2 AIDREP  
          Prog/Proj Officer/Deputy AID Rep/ADJ Project Manager 2/  
USPSC - 1  
  
FSN - 5 Health/Training Asst  
          Fin Analyst  
          Prog Asst

Total - 8

(This scenario and following require increased dedicated management and financial services (RLA/RCO/CONT/EXO) from USAID/Lima and other Andean Missions to ensure proper compliance and oversight. Will also require full-time services of Economics Officer from US Embassy to help monitor balance of payments cash transfer, GOC economic performance and local currency program).

II. Scenario #2

USDH - 3 Same as #1 above plus Economic Opportunity Budget  
          Manager  
USPSC - 1 Same as #1 above  
FSN - 5 Same as #1 above

Total - 9

III. Scenario #3 - Same as #2 above plus USPSC Private Sector,  
FSPSC Adm Asst, FSN Accountant/auditor

Total - 12

1/ AID/Colombia Management Assessment recommended adding at least two FSN staff (total 7) to ensure proper oversight of current program. USAID/Lima Controller and LAC Bureau concurrent .

2/ AOJ may also require 2-3 person TA team

ANNEX 4

LIST OF PEOPLE CONTACTED BY THE ECONOMIC TEAM  
DURING RECENT VISIT TO BOGOTA, COLOMBIA  
MARCH 25 - APRIL 7, 1990

Government of Colombia:

Departamento Nacional de Planeacion  
Dra. Martha Cecilia Bernal de Arrieta  
Dr. Guillermo Anzola, Asesor Economico  
Presidencia de la Republica  
Calle 26 No. 13-19 Tel: 282-40-55

Mr. Roberto Salazar  
Minister of Justice  
Calle 26 No. 27-48 Piso 6

Dr. Hernan Mejia, Banco de la Republica  
Sub-Gerente Ejecutivo Internacional  
Cra. 7 No. 14-78 Tel: 283-11-11

Dr. Luis Alvaro Sanchez  
Director Public Credit  
Dr. Luis Jorge Garay  
International Affairs Consultant  
Dr. Oscar Marulanda  
Ministry of Finance and Public Credit  
Cra. 7A No. 6-45 Tel: 286-36-76

Dra. Maria Mercedes Cuellar  
Dr. Ricardo Melendez  
Minister of Development  
Calle 26 No. 13-19 Piso 34

Dr. Luis Fernando Paez  
Presidency Office of Social Development  
Calle 7 No. 6-54 Zona "A" Piso 3

Banco Central - Bernardo Vargas  
Meeting for Mr. Elliot.

Dr. Eduardo Wills  
Secretario Integracion Presidencia  
Calle 7 No. 6-60 - Bloque B  
Tel. 2829626

INCOMEX - Dr. ARTURO SARAVIDA

ICA - Dr. LUIS ARANGO NIETO Colgas Building Piso 5.

Dr. Botero - Planeacion  
Calle 26 No. 13-19 Piso 17 -Tel. 2831157

Dr. Melendez - Depto. Desarrollo

INCORA - Dr. Carlos Ossa Escobar  
Avenida Eldorado - CAN Piso 2

Federacion de Cafeteros - Hugo Valdes  
Calle 73 No. 8-13

PRIVATE SECTOR:

Dr. Miguel Sanchez Mendez  
Director Judicial School  
Carrera 10 No. 14-33 Piso 18

Dr. Arturo Hein, UNDP Representative

Dr. Ramon de la Torre, President  
ESSO Colombiana  
Cra. 7 No. 36-45 Piso 8

Mr. Morris Harf, President NUEVA FRONTERA Cra. 7 No. 32-33 Of.  
3301

Dr. Sabas Pretelt de la Vega  
President Federacion Nacional Comerciantes Cra. 4 No. 19-85  
Piso 7 Tel: 286-06-00

Dr. Alejandro Scopelli  
President Banco Interamericano de Desarrollo Calle 40 Carrera  
13 Edificio UGUI Piso 8

Dr. Hari Prasad  
President World Bank  
Carrera 10 No. 86-21 Piso 3

FES - Dr. Mauricio Villegas  
Carrera 6 No. 26-86 Tel. 2828811

ANALDEX - Dr. Ricardo Sala Gaitan  
Carrera 10 No. 27-27

Dr. JOSEPH SNAPE - OXY  
Calle 77 A No. 11-32 Piso 9 Tel. 2171111

Dr. Alfonso Esguerra  
Carrera 7 No. 113-31 - Apto. 401

Proexpo - Dr. Federico Claxon

SEGUNDA EXPEDICION BOTANICA  
JAIME AYALA -

Dr. Rodrigo Escobar Navia

Incontec - Javier Henao  
Carrera 37 No. 52-95 Piso 3

EMBASSY STAFF:

Briefing with Ambassador Thomas E. McNamara

Mr. J. Phillip McLean, DCM  
Mr. David Hobbs, Head of Political Section  
Mr. R. Bruce McMullen, ECON Section  
Mr. James Doane, Head NAU Section  
Mr. Howard Lane, USIS  
Mr. Arthur Trezise, Commercial Attache

Annex 5

Next Steps to Program Initiation

<u>Action</u>	<u>Responsible</u>	<u>Target Date</u>
1) Complete Conceptual Outline	AID Recon Team	April 13
2) Approve strategy	LAC/IntAgency	April 19
3) Submit Action Plan AIDREP		end April
4) Approve Action Plan LAC Bureau		mid-May
5) Negotiate ESF Program	AIDREP w/GOC TDY 2 or 3 TDY	May 15-August 15
6) Approve AOJ strategy & project paper	AEC	July
7) Approve Judicial Protection project	DAEC	July
8) Approve Drug Awareness & Dev Training	AIDREP	July
9) Complete Inter-Agency funds transfer for Jud Protection	AID/State/Justice	October
10) Fund cites in hand	LAC Bureau	October
11) Sign various agreements	Amb &/or AIDREP	November
12) Recruit and Panel new staff	AIDREP/LAC	Sept.-Dec. 1990

## ANNEX 6

### WORLD BANK PROJECTS IN COLOMBIA:

#### New Starts of Possible Interest to AID

AGRICULTURAL EXPORT DIVERSIFICATION. Perhaps \$80 million, due for November appraisal and possible March signing. Follow-on to successful prior project with ProDesarrollo, the department of the Federacion de Cafeteros which works on diversification into export crops in the coffee areas. Subject to resolution of various issues, including WB's interest in more work on marketing, extension to other regions, inclusion of other implementing agencies, of subsidy element in ProDesarrollo's credit operations, and improved environmental impact assessment capacity. WB might be interested in AID assistance on this latter issue.

FORESTRY. Perhaps \$20-30 million from WB; most of the lending would come from European bilateral donors who give softer rates. A series of studies are needed in the next 4-5 months. WB rep suggests that AID expertise in this area might be useful.

INDUSTRIAL RECONVERSION. \$200 million; will go to the board in about July, be signed about 4 months later. This private sector and export-oriented project will be based on successful WB projects in several other countries, and plays an obvious role in the apertura process. As one project element, the Ministry of Commerce and Industry needs better capacity for subsectoral analysis to monitor effective rates of protection in subsectors and the impact on businesses as the rates of protection fall.

INTEGRATED RURAL DEVELOPMENT, PHASE III. \$75 million from WB, an equal amount from IDB. Goes to board in July. Will work with municipios all over the country on a decentralized basis.

MUNICIPAL DEVELOPMENT. Is this different from the above? \$150 million in credit and TA.

CHILD WELFARE AND NUTRITION. \$30 million. Timing?

Source: Rosenberg 4/5 conversation with  
Hari Prasad, WB Rep in Colombia

## ANNEX 7

### What is Apertura and How will it Work?

The Colombian government is adopting a policy of "apertura", namely a policy of economic liberalization and opening up of the economy to expanded foreign trade, in order to allow Colombia to realize fully its vast potential for economic growth as an ADC.

Apertura is designed to reinvigorate Colombia's economic growth prospects by improving incentives for sound decisions on the allocation of investment resources, and in particular to facilitate channelling of resources toward lines of production in which Colombia has comparative advantage -- to expand both export-oriented production and efficient import-substituting production -- a precondition of sustained vigorous economic growth at this stage in Colombia's development. As production expansion in these areas takes place, Colombia would expand imports substituting for domestic production in which it does not have a comparative advantage. Both Colombia and its trading partners will benefit.

There is a large degree of consensus in Colombia in favor of apertura. The major presidential candidates are in favor of it. It is extensively and incisively discussed in the newspapers. Review of government documents and of articles appearing in the press indicate that apertura constitutes a well-thought out and coherent strategy for putting the country on an export-based economic growth path at a time when getting onto such a path is critical to Colombia's long-term development performance.

It is anticipated that apertura will be implemented in two phases over a four year period ending in 1994.

Many of the elements of apertura are already well in place or beginning to be implemented. Key elements include: systematic management of the exchange rate to avoid the twin pitfalls of overvaluation and balance of payments disequilibrium; decontrol of prices; replacement of quantitative restrictions on licensing of imports by increased use of the tariff mechanism as a more efficient of providing protection to national industry; a general lowering of tariff barriers; and continued prudent management of the public finances to minimize the size of the deficit into order to keep the debt burden under control and to avoid "crowding out" private investment.

Apertura is designed both to encourage a larger flow of private investment in the economy, and to improve the investment decisions of both the private and the public sectors from the standpoint of the investors themselves and the economy as a whole.

Better investment decisions will mean faster productivity and output growth, as investors channel their resources into labor - and natural resource - intensive, low cost lines of production, in manufacturing, agricultural production and other sectors. Within each sector of the economy and among sectors as well, scarce productive assets -- capital equipment, skilled labor and foreign exchange will be better allocated as a result of apertura policies. A dollar's worth of investment will go further and accomplish more in terms of generating income and employment.

Apertura policies provide highly effective stimulus to economically efficient export expansion and diversification, by removing obstacles to investment in export-oriented production, and by allowing market forces to work and channel investment resources in the needed directions.

Biases against production for export -- such as quantitative restrictions on imports and high tariff rates on imported capital equipment, primary materials and intermediate goods, and overvaluation of the national currency relative to those of trading partners and competing countries -- are being removed, gradually, over a period of three or four years, enlarging the size of the market for which Colombian industry can produce, making it possible to expand production while maintaining and even increasing productivity thanks to the increased scope for specialization and economies of scale. Tariff rates on final goods are also being reduced on average and dispersion of rates is being narrowed, to enlarge the domestic consumer's range of choice and bring pressure on domestic producers to increase productivity and quality of production through better management, better choice of product lines and adoption of improved technologies suitable to Colombia's resource endowment.

A key point in Colombia's policy of apertura is systematic management of the real exchange rate, to provide adequate and

unbiased stimulus both to exports and to efficient import-substituting production. At the same time, less reliance is being put on the costly and cumbersome methods of exports stimulation, such as low interest rate financing for export transactions.

Following the major devaluation of 1985/86, the exchange rate was held steady in real terms, with devaluations only slightly outpacing the inflation rate. Beginning in late 1989, depreciation in real terms to enhance export competitiveness and to maintain balance of payments equilibrium as trade restrictions are lifted and tariff rates lowered still further is anticipated.

Macroeconomic management has been adequate by and large, in the face of rising expenditure requirements related to actions against drug trafficking, rising internal and external debt servicing and amortization requirements, and transfers commitments to freely elected and autonomous organs of local government.

Important fiscal reforms have been implemented in recent years, such as initiation of a value-added tax, reforms of income taxes to eliminate double taxation of profits, and to remove undue stimulus for firms to resort to debt rather than equity financing. Tax collections have risen relative to GDP in recent years.

Inflation is fairly high, ranging between 20 and 30 percent p.a., but stable. Interest rates on deposits and loans are in line with inflation and inflation expectations.

Measures to strengthen banking supervision and the capital basis of the country's financial system have been undertaken.

Some controlled prices have been / will be decontrolled.

Apertura policies are needed to spur economic development and productivity growth and to expand economic opportunities for all Colombia's citizens as well as to ensure a growing tax base to support the government's expenditures for implementing priority programs such as decentralization, and strengthening of local administration, administration of justice, and

reintegration and regional rehabilitation efforts. Increased government revenues depend on economic expansion, and economic expansion for Colombia on a sustainable basis now requires development of the country's export expansion and diversification potential, to be found in its impressive natural resource base, its trained, literate, largely urban labor force and dynamic entrepreneurial traditions.

As noted, apertura is in effect already being practiced and has had the following positive results: sustained improvement of price incentives for exports (with local currency noncoffee export prices relative to the general price level about doubling from 1984 to present; strong and sustained growth of nontraditional exports; increased private investment relative to GDP, and more rapid growth of industrial sector value added than in the early 1980s. (Further apertura measures will help the economy reach the performance standards of the early 1970s).

A first phase apertura measure already underway is the auctioning of about \$150 million worth of import licenses for goods for which licenses have been previously allocated by administrative means. The auction system is said to be similar to that in Australia and New Zealand. In addition to paving the way to use of the tariff mechanism in place of quantitative restrictions and an eventual expansion of imports at tariff rates not to exceed 18%.

From the public finance standpoint a major benefit of this reform will be increased fiscal revenues as a natural by product of replacing quotas with their equivalent tariffs". If, for example, \$150 million worth of licenses are auctioned off, and the tariff equivalent to the licenses in its import - constraining effect is a 50% tariff, it can be estimated that government revenues will be increased by close to \$75 million a year by adopting the license auction procedure or 3% of total tax revenues of approximately \$3,300 billion. Subsequent reduction of the tariff rates established by the auction procedure and increases in import volume may increase or decrease the revenue to the government, depending on how responsive demand is to tariff-inclusive price reductions for the imports in question.

Apertura's effects will be strengthened by major capital projects to improve transport infrastructure (ports, railroads and roads) and to improve economic management of port and railroad authorities., and utilities. Apertura also provides a climate which the economic payoff from such projects is enhanced and the country's ability to service the debt to be incurred to implement them will be strengthened.

In the PAAD, additional discussion of the "Apertura" program should be presented. Specifically, it should include the following topics:

- New opportunities for private investment and export promotion;
- Complementary institutional measures;
- Spreading the benefits of apertura;
- Regional and municipal development;
- Gradualism to ensure sustainability of apertura.

## ANNEX 8

### EXPORT PROMOTION POTENTIAL

The Opportunity. The present and probable future governments view export diversification as a high national priority, and are making progress toward the necessary policy changes Colombia approves to enjoy owing to extraordinary comparative geography, etc.; and (3) it should be possible to effect major improvements in Colombia's trade promotion regime by applying lessons learned in other countries.

In this general picture of opportunity, one significant limitation must be noted. New foreign investment in exports, which, for example, Ireland, the Dominican Republic, and Costa Rica have promoted successfully, is not a realistic prospect for Colombia until the security situation improves. It is not reasonable to expect marketing and publicity to make a serious impact on foreigners' security concerns, at least as long as the present reality continues. In Colombia in particular this consideration makes Administration of Justice initiatives indispensable complements to efforts in support of economic acceleration.

Among the foreign donors, the World Bank is placing specific emphasis on the policy requirements for export growth. With respect to the new U.S. assistance package, it is proposed that we enter the trade policy dialogue only in the context of policy directed toward market directed resource allocation in general. Specific elements of the U.S. assistance program will focus on promotional operations (technical, marketing, and information assistance, etc. and/or finance (export credit).\*

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\* Policy reform and promotional operations must be kept in proper perspective. The former is vastly more important than the latter. In a good policy environment, effective promotion can provide an excellent return on investment by speeding up export growth by a few percentage points per year. But promotion will produce few results in a bad policy environment while a good policy environment will produce substantial export increases even in the absence of promotion institutions and projects.

AID-Managed Promotion Assistance. Given a notional budget equivalent to \$15 million per year for four years (in dollars or pesos), and given the weakness in some of the current GOC promotional institutions, an AID-managed intervention could probably make an important contribution. However, based on experience with such programs in other countries, it is estimated that such an effort would require the following additional staff at a minimum: (1) a full-time, better-than-average USDH officer; (2) a full-time PSC with actual experience in successful export promotion institution no USDH officer with such experience is likely to be available, and the PSC expert would probably have to be non-U.S.; (3) a secretary; and (4) whatever staff increase may be implied by the increased burden on support functions such as accounting, security, etc. Given the constraints discussed above, this option probably is not realistic.

Non-AID-Managed Options. Let us assume either that the new ESF package will not involve allocation of GOC pesos to a Special Account, or that any pesos so allocated will be immediately "sterilized" by returning them to the GOC in the form of general budget support. Let us further assume that the USG nevertheless wants some degree of identification with Colombia's export diversification drive.

Under those assumptions, the cleanest and simplest approach would be for the GOC to agree, as a covenant in our ESF agreement, that it would allocate an amount of its pesos, at least equivalent to our dollar grant, for counterpart in a specific World Bank export-related project or projects. (See Annex 6: World Bank Projects). Likely candidates might be the forthcoming agricultural export diversification project and/or the industrial reconversion project. Both of these are building on past successful experience. It would be less than candid to advertise any direct "additionality" in such an arrangement, since the World Bank is confident that the GOC peso counterpart will be forthcoming whether or not we participate. However, this approach would indirectly free up other GOC peso resources, the programming of which we could discuss on a friendly and purely informal basis, without creating any structure of obligation or accountability.

Alternatively, we may prefer to avoid piggy-backing on World Bank projects, and instead accept what seems to be a reality; namely that the GOC's Planning Department is fully capable of making sensible allocations of its residents to export promotion programs that have been brought to our attention. This approach entails two problems: (1) government export promotion programs in most developing countries are ineffective; and Colombia does not appear to be an exception (2) direct and active USG involvement in the selection and design of export programs, including nongovernmental programs, would entail oversight responsibilities which we cannot fulfill.

The following structure might mitigate both these problems. An informal commission, with no personera juridica, would be created to "divide the pie". Two or three GOC members (perhaps including Desarrollo, Planeacion, and Central Bank) would be balanced by seven or eight private members, representing the "customers" of export promotion programs. (These private members would have to be very carefully selected, and it might be better if they do not include representatives of organizations which are soliciting funding.) The well-regarded UNDP representative might be invited. The local World Bank representative, though highly qualified, indicates he would not have time to participate. A USG member might participate on a non-voting basis. A Colombian executive secretary would be hired to do legwork for the group, and foreign experts could be consulted as necessary.

The task of the commission would be to decide how much money to allocate each year to which programs, and to monitor (directly or by contracting it out) the performance of those programs against predefined targets. There would be no requirement, incidentally, that they disburse all the available pesos in the year in which they are received. The commission might hold back a portion of the pesos to provide longer-term funding for some of the more successful private programs. Eventually, an endowment of the sort that supports highly successful private programs like Fundacion Chile and Costa Rica's CINDE might be considered.

Comments on Individual Export Programs. The following capsule comments should be taken with a rather large grain of salt, since they are based on four days of interviews, and little direct measurement of results.

PROEXPO. This publicly-dominated agency provides subsidized export credit. While its subsidy levels are decreasing, its loans are still up to ten percent cheaper than normal bank credit. It will argue strongly for the use of the entire ESF peso proceeds to shore up its financially shaky lending operation, a proposal which seems to have little to recommend it. Proexpo's other function, export promotion, received uniformly low marks from private sector interviewees. No system has ever been put in place which would allow a meaningful measurement of the cost-effectiveness of its 19 overseas offices. Recent World Bank studies of thirty-five LDC's have made it abundantly clear that governmental trade promotion organizations never work except in certain unusual circumstances which do not apply in Colombia.

INCOMEX. Since its primary task is enforcement of export and import regulations, it is perhaps not surprising that this GOC agency is not popular with its private sector clients. Its present modernization plan is aimed at parlaying its regulatory base (which gives it frequent obligatory contact with exporters) into an export assistance function, providing data bases, technical assistance, etc. Experience in other countries suggests that this combination of functions is not a marriage made in heaven.

ICA. This public agricultural research agency gets mixed reviews. Several interviewees with first-hand experience gave it high marks for technical quality and professional seriousness. It is said to be better on research than on extension. Its proposals to work on solutions to phytosanitary constraints (e.g. medfly for fruits, hoof-and-mouth for beef) sound eminently attractive. The U.S. Embassy's decision not to allow a full-time APHIS representative in Colombia would pose a serious (though perhaps not insuperable) obstacle to such a program.

INCONTEC. This privately-controlled but GOC-sanctioned bureau of standards gets mixed reviews from the private sector. Its tasks -- definition of standards, promotion and certification of quality control -- are crucial to export growth.

SENA. This training institute has an excellent reputation. Its proposal to assist marketing companies which handle

products from small businesses would have to be reviewed in detail on its commercial merits. SENA probably has the implementation capacity if the projects make sense.

ProDesarrollo. After quite a few years of operation, this export-diversification arm of the Coffee Growers' Federation is producing impressive results. The World Bank's experience with this group has been good enough to lead to a second project, subject to success in (a) lowering the subsidy element in ProDesarrollo's credit activities, (b) extending their efforts beyond the coffee areas, (c) increasing the focus on marketing assistance, (d) involving other groups in the efforts, and (e) improving their capacity to do environmental assessments. The local World Bank representative suggests that U.S. assistance on this latter point might be especially welcome.

**Colombia: Next Steps Toward  
ESF Agreement**

- I. Review Concepts Paper in Washington. Week of May 14-18  
or earlier
- II. Colombia: Trip 1 - May 27-June 8 (preferred)  
or June 18-30

To Accomplish:

- A. Begin briefing key players of New GOC economic team.
- B. Negotiations re/CEOB criteria with Planeación
1. Importance relative broad based, sustainable growth, to opening economy, efficiency, world trade; and importance re anti-narcotics effort
  2. Readiness (of candidate projects) for implementation
  3. Size of candidate projects
  4. Mechanism of GOC monitoring of CEOB implementation and joint USG-GOC periodic reviews. This will include field trips to project sites.
- C. Review of GOC Economic Policy Program for 1991-94. (General review for 1992-94 and detailed review for 1991)
- D. Draft CEOB and Economic Sections of PAAD
- E. Meet with Colombian economists to discuss Center for Economic Policy Research

Team:

1	Economist with Program Officer Skills- (Skogstad)
1	Economist Elliot, Fox (second week only would be a possibility)

- III. Colombia: Trip 2 - July 1-13 (preferred)  
or July 15-28

To Accomplish:

- A. Complete Project Design and Negotiation of Activities to be Funded with Projectized ESF:
  - 1. Administration of Justice
  - 2. Judicial Protection
  - 3. Scholarships
  - 4. PD&S
- B. Negotiate and Design 2 Local Currency Trust Funds
  - 1. OE
  - 2. Audit, PD&S
- C. Complete Design of Center for Economic Policy Research (LC or Projectized ESF?)
- D. Complete Final Draft of PAAD
- E. Draft Program Agreement for ESF Balance of Payments Program

Team:

- 1 Economist with Program Officer Skills
- 1 Program Officer With Broad AOJ and Training Project Experience
- 1 Project Design Specialist

IV. Complete PAAD and Review by DAEC July-August

Note: Following trips 1 and 2 to Columbia, Skogstad would spend up to 3 days for debriefings in Washington.

2414E

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Dr. Alfonso Esguerra  
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Proexpo - Dr. Federico Claxon

SEGUNDA EXPEDICION BOTANICA  
JAIME AYALA -

Dr. Rodrigo Escobar Navia

Incontec - Javier Henao  
Carrera 37 No. 52-95 Piso 3

EMBASSY STAFF:

Briefing with Ambassador Thomas E. McNamara

Mr. J. Phillip McLean, DCM  
Mr. David Hobbs, Head of Political Section  
Mr. R. Bruce McMullen, ECON Section  
Mr. James Doane, Head NAU Section  
Mr. Howard Lane, USIS  
Mr. Arthur Trezise, Commercial Attache

Annex 5

Next Steps to Program Initiation

<u>Action</u>	<u>Responsible</u>	<u>Target Date</u>
1) Complete Conceptual Outline	AID Recon Team	April 13
2) Approve strategy	LAC/IntAgency	April 19
3) Submit Action Plan AIDREP		end April
4) Approve Action Plan LAC Bureau		mid-May
5) Negotiate ESF Program	AIDREP w/GOC TDY 2 or 3 TDY	May 15-August 15
6) Approve AOJ strategy & project paper	AEC	July
7) Approve Judicial Protection project	DAEC	July
8) Approve Drug Awareness & Dev Training	AIDREP	July
9) Complete Inter-Agency funds transfer for Jud Protection	AID/State/Justice	October
10) Fund cites in hand	LAC Bureau	October
11) Sign various agreements	Amb &/or AIDREP	November
12) Recruit and Panel new staff	AIDREP/LAC	Sept.-Dec. 1990

## ANNEX 6

### WORLD BANK PROJECTS IN COLOMBIA:

#### New Starts of Possible Interest to AID

AGRICULTURAL EXPORT DIVERSIFICATION. Perhaps \$80 million, due for November appraisal and possible March signing. Follow-on to successful prior project with ProDesarrollo, the department of the Federacion de Cafeteros which works on diversification into export crops in the coffee areas. Subject to resolution of various issues, including WB's interest in more work on marketing, extension to other regions, inclusion of other implementing agencies, of subsidy element in ProDesarrollo's credit operations, and improved environmental impact assessment capacity. WB might be interested in AID assistance on this latter issue.

FORESTRY. Perhaps \$20-30 million from WB; most of the lending would come from European bilateral donors who give softer rates. A series of studies are needed in the next 4-5 months. WB rep suggests that AID expertise in this area might be useful.

INDUSTRIAL RECONVERSION. \$200 million; will go to the board in about July, be signed about 4 months later. This private sector and export-oriented project will be based on successful WB projects in several other countries, and plays an obvious role in the apertura process. As one project element, the Ministry of Commerce and Industry needs better capacity for subsectoral analysis to monitor effective rates of protection in subsectors and the impact on businesses as the rates of protection fall.

INTEGRATED RURAL DEVELOPMENT, PHASE III. \$75 million from WB, an equal amount from IDB. Goes to board in July. Will work with municipios all over the country on a decentralized basis.

MUNICIPAL DEVELOPMENT. Is this different from the above? \$150 million in credit and TA.

CHILD WELFARE AND NUTRITION. \$30 million. Timing?

Source: Rosenberg 4/5 conversation with  
Hari P:asad, WB Rep in Colombia

## ANNEX 7

### What is Apertura and How will it Work?

The Colombian government is adopting a policy of "apertura", namely a policy of economic liberalization and opening up of the economy to expanded foreign trade, in order to allow Colombia to realize fully its vast potential for economic growth as an ADC.

Apertura is designed to reinvigorate Colombia's economic growth prospects by improving incentives for sound decisions on the allocation of investment resources, and in particular to facilitate channelling of resources toward lines of production in which Colombia has comparative advantage -- to expand both export-oriented production and efficient import-substituting production -- a precondition of sustained vigorous economic growth at this stage in Colombia's development. As production expansion in these areas takes place, Colombia would expand imports substituting for domestic production in which it does not have a comparative advantage. Both Colombia and its trading partners will benefit.

There is a large degree of consensus in Colombia in favor of apertura. The major presidential candidates are in favor of it. It is extensively and incisively discussed in the newspapers. Review of government documents and of articles appearing in the press indicate that apertura constitutes a well-thought out and coherent strategy for putting the country on an export-based economic growth path at a time when getting onto such a path is critical to Colombia's long-term development performance.

It is anticipated that apertura will be implemented in two phases over a four year period ending in 1994.

Many of the elements of apertura are already well in place or beginning to be implemented. Key elements include: systematic management of the exchange rate to avoid the twin pitfalls of overvaluation and balance of payments disequilibrium; decontrol of prices; replacement of quantitative restrictions on licensing of imports by increased use of the tariff mechanism as a more efficient of providing protection to national industry; a general lowering of tariff barriers; and continued prudent management of the public finances to minimize the size of the deficit into order to keep the debt burden under control and to avoid "crowding out" private investment.

Apertura is designed both to encourage a larger flow of private investment in the economy, and to improve the investment decisions of both the private and the public sectors from the standpoint of the investors themselves and the economy as a whole.

Better investment decisions will mean faster productivity and output growth, as investors channel their resources into labor - and natural resource - intensive, low cost lines of production, in manufacturing, agricultural production and other sectors. Within each sector of the economy and among sectors as well, scarce productive assets -- capital equipment, skilled labor and foreign exchange will be better allocated as a result of apertura policies. A dollar's worth of investment will go further and accomplish more in terms of generating income and employment.

Apertura policies provide highly effective stimulus to economically efficient export expansion and diversification, by removing obstacles to investment in export-oriented production, and by allowing market forces to work and channel investment resources in the needed directions.

Biases against production for export -- such as quantitative restrictions on imports and high tariff rates on imported capital equipment, primary materials and intermediate goods, and overvaluation of the national currency relative to those of trading partners and competing countries -- are being removed, gradually, over a period of three or four years, enlarging the size of the market for which Colombian industry can produce, making it possible to expand production while maintaining and even increasing productivity thanks to the increased scope for specialization and economies of scale. Tariff rates on final goods are also being reduced on average and dispersion of rates is being narrowed, to enlarge the domestic consumer's range of choice and bring pressure on domestic producers to increase productivity and quality of production through better management, better choice of product lines and adoption of improved technologies suitable to Colombia's resource endowment.

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SENA. This training institute has an excellent reputation. Its proposal to assist marketing companies which handle

products from small businesses would have to be reviewed in detail on its commercial merits. SENA probably has the implementation capacity if the projects make sense.

ProDesarrollo . After quite a few years of operation, this export-diversification arm of the Coffee Growers' Federation is producing impressive results. The World Bank's experience with this group has been good enough to lead to a second project, subject to success in (a) lowering the subsidy element in ProDesarrollo's credit activities, (b) extending their efforts beyond the coffee areas, (c) increasing the focus on marketing assistance, (d) involving other groups in the efforts, and (e) improving their capacity to do environmental assessments. The local World Bank representative suggests that U.S. assistance on this latter point might be especially welcome.

Colombia: Next Steps Toward  
ESF Agreement

- I. Review Concepts Paper in Washington. Week of May 14-18  
or earlier
- II. Colombia: Trip 1 - May 27-June 8 (preferred)  
or June 18-30

To Accomplish:

- A. Begin briefing key players of New GOC economic team.
- B. Negotiations re/CEOB criteria with Planeación
  - 1. Importance relative broad based, sustainable growth, to opening economy, efficiency, world trade; and importance re anti-narcotics effort
  - 2. Readiness (of candidate projects) for implementation
  - 3. Size of candidate projects
  - 4. Mechanism of GOC monitoring of CEOB implementation and joint USG-GOC periodic reviews. This will include field trips to project sites.
- C. Review of GOC Economic Policy Program for 1991-94. (General review for 1992-94 and detailed review for 1991)
- D. Draft CEOB and Economic Sections of PAAD
- E. Meet with Colombian economists to discuss Center for Economic Policy Research

Team:

- 1 Economist with Program Officer Skills- (Skogstad)
- 1 Economist Elliot, Fox (second week only would be a possibility)

- III. Colombia: Trip 2 - July 1-13 (preferred)  
or July 15-28

To Accomplish:

- A. Complete Project Design and Negotiation of Activities to be Funded with Projectized ESF:
  - 1. Administration of Justice
  - 2. Judicial Protection
  - 3. Scholarships
  - 4. PD&S
- B. Negotiate and Design 2 Local Currency Trust Funds
  - 1. OE
  - 2. Audit, PD&S
- C. Complete Design of Center for Economic Policy Research (LC or Projectized ESF?)
- D. Complete Final Draft of PAAD
- E. Draft Program Agreement for ESF Balance of Payments Program

Team:

- 1 Economist with Program Officer Skills
- 1 Program Officer With Broad AOJ and Training Project Experience
- 1 Project Design Specialist

IV. Complete PAAD and Review by DAEC July-August

Note: Following trips 1 and 2 to Colombia, Skogstad would spend up to 3 days for debriefings in Washington.

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