The Development and Use of New Delivery Systems
by A.I.D. in Colombia: Sector Loans and Block Grants

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Outline

I. Introduction

Three related factors led to this study of the development and use of sector loans and block grants in Colombia. One is the experience of being in the Colombia AID Mission while it was in the process of switching its program from the older forms of assistance to these new delivery systems. The second is the move in AID/Washington during the past year to shift the entire Agency from country programming to sector programming. Although Colombia was not the first country to receive a sector loan, it is the country which has received the largest number. By this fact alone, its experience must have had some influence on the decision to extend the sector approach. The third factor is that an administrative study of the development of these two delivery systems had not been done and might be useful both for the Colombia Mission and AID/W officials developing guidelines for the extension of this system to other Missions.

Development of the block grant has been included because it illustrates many of the same issues as the sector loans, at least in Colombia. But discussion of it will necessarily be more brief, since there is no experience with implementing it yet.

Before turning to the Colombia program, it will be useful to provide a brief account of the Agency's general experience with these two delivery systems and some basic definitions.

Sector loans began in the Latin America Bureau, which authorized the first one in FY 1967 for Chile's education sector. It was not until FY 1971 that another Bureau -- Africa -- adopted the method; and by the end of FY 1972 only these two regions had done so, although the Asia Bureau began to do so in FY 1973. There is wide variation in the types of programs financed under sector lending. Many of them started out as variants of program loans, justified on balance of payments grounds, using the dollars to import general commodities but earmarking the counterpart funds generated by importers' payments for a specific sector. Others started as expanded project loans. The $12.0 million transportation sector loan in Zaire seems to fit this latter category. And the Tunisia FY 1972 agriculture sector loan is an example of the first type. The Colombia program, as will be shown in detail in Part II, started out as the first type but has progressed to a third form, where dollar loan funds are directly converted into local currency for investment in the recipient's development plan.

The following table summarizes the sector loans authorized through FY 1972.[1]

Latin America	FY Year Authorized	(millions) Amount Authorized
Brazil		
Health	1968	$15.4
Education I	1968	32.0
Education II	1970	50.0
Chile		
Education I	1967	10.0
Agriculture I	1968	23.0
Education II	1968	16.3
Colombia		
Agriculture I	1968	14.7
Agriculture II	1969	15.0
Education I	1969	10.0
Education II	1970	15.0
Agriculture III	1970	15.0
Urban/Regional Development I	1971	29.0
Agriculture IV	1971	28.0
Education III	1971	20.0
Urban/Regional Development II	1972	37.7
Agriculture V	1972	30.8
Education IV	1972	20.5

	FY Year Authorized	(millions) Amount Authorized
Dominican Republic		
Education	1971	$10.9
Panama		
Education	1970	8.5
Paraguay		
Education	1970	4.2
Uruguay		
Agriculture	1968	14.5
Costa Rica		
Agriculture	1970	16.4
Guatamala		
Education	1968	8.6
Rural Development	1970	23.0
Nicaragua		
Education	1972	9.1
El Salvador		
Agriculture	1972	6.0
Africa		
Tunisia		
Agriculture	1972	11.0
Zaire		
Transportation	1971	12.0

	FY Year Authorized	(millions) Amount Authorized
Ethiopia		
Agriculture I	1971	$5.0
Agriculture II	1972	15.0
Central and West Africa Regional		
Agriculture	1971	6.0

It will be one of the contentions of this paper that the sector loan technique developed relatively naturally in Colombia as a response to Colombia's present level of sophistication in development planning and program implementation. As the system has developed in Colombia, it is intimately tied to confidence in Colombia's ability to use its own and AID funds wisely. It is beyond the scope of this paper, and the writer's knowledge, to study the ways in which sector loans in other countries work, but the number of countries which have received sector loans but which are at much lower levels of development than Colombia would indicate that they must be implemented very differently than the Colombian loans and have different purposes. The program in Colombia is a manifestation of a new kind of relationship between the AID Mission and the government and it is from this perspective that it will be studied in this paper.

The relationship between sector loans and sector analysis (the latter receiving such keen attention in AID/Washington now) is not necessarily direct. The sector loans authorized so far have not generally been based on sophisticated sector analyses, if they were justified on sector terms at all. Frequently Mission analyses in support of sector loans are more historical and descriptive than analytical. Colombia's fourth education sector loan was criticized in Washington for this defect. A major question asked in this paper will be whether this in fact <u>is</u> a defect. Is it the Mission's job to conduct sector analyses, or to report on host country sector analyses?

Block grants are even newer than sector loans. By the end of FY 1972 none had reached the implementation stage, although three (for Colombia, Nigeria and Turkey) were being processed through AID/W for approval. Since the AID officer who originated the block grant idea was in Colombia during the development of USAID/Bogotá's block grant, the background of this method will be discussed in Part II. Briefly, the device was intended to be a way to: (1) meet the technical assistance needs of those countries which, while still lacking foreign exchange, had reached a sufficient degree of sophistication in development planning and administration to be able to relieve AID of some of the managerial responsibilities involved in technical assistance; and to (2) overcome the narrow approach to sectoral development inherent in project assistance.

The three block grants now under consideration differ substantially. Turkey's[2] consists of financial assistance to the five-year development program of the Bosporus University (formerly Robert College), with \$335,000 for the first two years to be obligated under the initial block grant. The bulk of the funds (\$320,000) are to provide the foreign exchange costs of "topping off" salaries of visiting academic staff, research and consultation visits to the U.S. by Turkish academic staff, fees for U. S. consultant services to assist the University's Development Plan and acquisition of library books and periodicals. The remaining \$15,000 constitutes a "matching grant" which will be released for essentially the same purposes as above if the University matches it with contributions from private donors.

The agreement is not specific about implementation responsibility except to mention that all visiting faculty members are to be considered employees of the university and not of the U. S. government. Since this university has used foreign staff extensively in the past, presumably it will use its established procedures and contacts to procure services financed by the block grant and will not need AID assistance in setting up new procedures and contacts.

The Nigeria block grant[3] provides the foreign exchange for securing U. S. operational and advisory personnel for work in Nigeria and for training Nigerians in the U.S., both in support of the country's present development plan. $2 million are to be obligated in the initial grant, according to the FY 1973 Congressional Presentation. The agreement includes as an annex a detailed list of the specific personnel services and training to be financed. A second annex spells out provisions which must appear in each employment contract the Government of Nigeria signs with U.S. personnel financed under the grant. The agreement is to be signed for the GON by a representative of the Federal Ministry of Economic Development and Reconstruction, but state governments, political sub-divisions, agencies, ministries or public institutions may also recruit and enter employee relationships with advisors and select and arrange the training for Nigerians sent to the U.S. There is no mention of the coordination duties of the Federal Ministry.

The Colombia block grant proposal is for $500,000 in the initial agreement to finance procurement of advisors and training to assist the GOC in improving its capacity to analyze problems and bottlenecks impeding development in certain key sectors and to plan and implement sectoral development programs and projects.[4] In comparison with the Turkey and Nigeria examples it is a more radical departure from present AID practices and yet contains more detail spelling out AID and GOC responsibilities. Conversely, it contains virtually no reference to GOC responsibilities toward technicians hired with block grant funds. Rather than spell out exact advisory services or training, which is to be the responsibility of the GOC, the financed activities are limited to the four sectors in which AID has or will have loans,* with a provision for use in other sectors of 10% of the funds.

The major difference between the Colombia agreement on the one hand and the Turkey and Nigeria agreements on the other is the greater emphasis in the former on the assumption of management responsibility by the host government and the complementary relationship between the technical services and training to be financed and the

*A fourth sector loan, in health, will be developed during FY 1973. It will not be discussed further.

rest of the AID program in Colombia. Since this was the original idea behind the block grant, the Colombia example must be considered the prototype. The Turkey proposal, being with one university, will not affect the AID Mission's conduct of the rest of its grant program nor the Turkish Government's involvement in it; although experience with the block grant may result in its extension to other parts of the program.

Use of the block grant device in Nigeria is rather surprising. The country's lack of trained manpower would indicate that it has not yet reached the point where its sectoral development problems and planning needs can be met by individual "bottleneck breakers." However, since it already hires large numbers of expatriates to fill operational jobs for which Nigerians are not available, it presumably has the administrative capability to administer the block grant.

The purpose of this overview of sector loans and block grant activity in other countries was to give an idea of how extensively the two techniques were being used and to place the following discussion of the Colombia program in some perspective. Programs in other countries will not be discussed further.

II. The Colombia Program

A. Sector Loans

1. The Present System

In FY 1972, AID authorized three sector loans for Colombia totalling $89 million. These three loans constituted about 96% of the AID program in Colombia in that year (excluding PL 480 programs) and will provide approximately 10% of investment by the Colombian national government in the three sectors covered by the loans: agriculture, urban/regional development and education. In addition, education sector loan funds up to $1.5 million will finance foreign training for Colombians working in the three sectors.

FY 1972 was the second year of operation for the type of sector loan described above as "a third form." The new system started in FY 1971 with authorization of a $20 million education loan, a $28 million agriculture loan and a $29 million urban/regional development loan for support of Colombian development activities in calendar years 1971 and 1972.

Essential features of this third form in operation since FY 1971 are:

a. Justification on the grounds of domestic revenue constraints rather than foreign exchange constraints: Colombia maintained a balance of payments surplus throughout 1971, although it still has a shortage of foreign exchange for development purposes. While the dollars from the AID sector loans help Colombia's foreign exchange position, the basic justification for the loans is the internal gap between domestic savings and investment needs. Loan agreements refer only to the uses of the pesos derived from the dollars, with no mention of what the GOC will do with the dollars. This is a very different approach from the program and early sector loans, when the major attention was given to use of the dollars for procurement of capital goods, with allocation of generated counterpart given considerably less attention.

b. Acceptance of Colombian national development programs as the basis for AID support: while there is constant discussion between AID advisors and GOC officials on the plan as it is revised, encouragement for programs considered most essential and always the recourse of not agreeing to use of AID funds in programs believed to be ill-conceived, the basic sector analyses and program development are done by the Colombians. One partial exception is the activity of the Mission Agriculture Division, with help from Washington, in assisting the Ministry of Agriculture do do an input-output analysis of the agriculture sector.

It remains to be seen whether the AID/Washington emphasis on building a sector analysis capability within the Agency will lead to a more active role in this regard in Colombia. If it does, the question then becomes the extent to which involvement in analysis leads to involvement in program development. And whether this is a step backward from the "mature partnership" between Colombia and AID where the stress has been on building up Colombia's capabilities to develop and manage its own programs.

c. Close collaboration in preparation of annual loan documents: virtually all of the information contained in the sector analysis papers prepared in the Spring of 1972 was taken directly from GOC documents prepared as part of its own planning or prepared at AID request. The AID documents were discussed with the GOC as they were being prepared and copies of the final versions were distributed to the government. This contrasts sharply with the procedure a few years ago when the Mission unilaterally prepared these papers and felt obliged to classify large parts of them. It is also an improvement over the 1971 exercise, although part of that document was also prepared in collaboration with the GOC and later made available to it in unclassified form.

d. Direct conversion of dollars into pesos: rather than being generated through the traditional procedure of importers' payment in pesos for the commodities purchased with loan dollars, the last two groups of sector loans have utilized a procedure whereby the dollars are converted into pesos through the facilities of the First National City Bank in Bogotá and a peso check deposited in the National Treasury account of the Colombian Central Bank. Except for an initial advance the funds are disbursed in response to GOC requests which are backed up by proof that the jointly supported programs have received the budget releases due them.

e. Support of programs on the basis of commingled funds: AID resources are earmarked only at the level of the implementing agency. Support for particular programs carried out by each agency is on the basis of total amounts which consist of commingled GOC and AID funds. Once the AID funds are released to the implementing agency they lose their separate identity. This means that evaluations of the development impact of the loans, as well as audits, must be on the basis of GOC success in meeting the targets and total budget levels agreed upon in the loan agreements, and not on the basis of the impact or proper use of AID resources alone.

2. Evolution from Program and Early Sector Loans

Reference has already been made to some of the features of the loan system which preceded the present system. Essentially the non-project loans provided to Colombia prior to 1971 were for importation of capital goods and were justified on balance of payment deficit grounds. Loan papers justifying such loans naturally gave stress to macroeconomic performance, although they usually included descriptive accounts of government performance in key sectors. As mentioned earlier they usually were classified and the host government was not involved in their preparation.

Prior to FY 1968 when the first sector loan was authorized, the pesos generated by importer payments were available to any development activity of the government. The pesos were generated, with considerable lag, over the disbursement period of the loan, which frequently was several years. Allocations were made in annual agreements negotiated by the budget coordination unit of the National Planning Department (DNP) and the AID Mission on the basis of estimated generations during the year (which were frequently inaccurate, leaving some line items unfinanced). With rare exceptions, the line items to be supported were proposed by DNP, with AID confirming them. If for some reason AID did not wish to support a particular line item, counterpart funds were merely shifted to another item, with the original item being financed with ordinary resources. In sum, it was an attribution process.

PL 480 generations, which were combined with loan generations in the annual agreements, had always been restricted to agricultural development projects. Beginning in FY 1968, with the first sector loan, this earmarking was extended. While the first five sector loans resembled program loans in their basic justification, a secondary justification of sectoral development began to receive attention. All pesos generated under these five early sector loans were earmarked for support of development programs in the appropriate sector. However, there was no attempt in the loan agreement to specify support for particular programs or agencies. This specification occurred in the annual counterpart allocation exercise but, as with regular program loans, it remained a process of attributing counterpart funds to some items and ordinary resources to others. However, DNP did try to assign counterpart funds to programs which were receiving AID technical assistance or which were of interest generally to the external donors.

3. Evolution as Response to Colombia's Planning Sophistication

The balance of payments basis for the Colombia loan program lost its immediacy about the same time that the Mission was converting its program to the new sectoral approach. The two events are not necessarily related because sector loans can be justified on balance of payments grounds as well as on the grounds of a domestic savings gap. Also, AID made a program loan to Colombia in June, 1970, after having made five sector loans. And the IBRD was considering a program loan for Colombia in 1972.

Rather, the shift to sector loans represents a change in development priorities, on both the AID and GOC sides. In fact, the shift in emphasis on AID's part to the three sectors receiving loans started as early as 1967, the year before the first sector loan was made. This is evident from the following table which shows the percentage of total counterpart and PL 480 allocations to education, agriculture and urban/regional development in comparison with allocations to all other sectors between 1962 and 1972.[5] A large part of the counterpart prior to 1966 was allocated to industry, reinforcing the emphasis given to this sector by the capital goods importing activity under the program loans.

Local Currency Allocations to Education, Agriculture and Urban/Regional Development as Percent of Total Allocations
(rounded)

	62	63	64	65	66	67	68	69	70	71	72
Educ.	4	8	-	3	1	12	12	18	15	20	19
Agric.	-	14	-	-	19	50	46	33	37	34	39
U/R	25	5	44	25	31	17	17	17	15	19	33
sub-total	29	27	44	28	51	79	75	68	67	73	91
Other	71	73	56	72	49	21	25	32	33	27	9
Total	100	100	100	100	100	100	100	100	100	100	100

Thus, the new sector loan approach in Colombia developed gradually from, first, increasing attention paid to the three sectors in counterpart allocations in the period from 1967 to sometime in 1969; then formal earmarking of funds for the three sectors beginning with the FY 1968 loan, which started generating pesos toward the end of 1969; and finally a switch in emphasis from the development impact of the dollars loaned to the development impact of the local currency purchased with the dollars; and a corresponding involvement in the details of the three sectors.

The nature of this involvement should be stressed. It definitely was not greater AID policy initiative in the sector. In fact, the Mission's technical personnel decreased in size, ad did the number of contract personnel working in the three sectors. AID's involvement increased in the sense that more loan funds were invested in each sector; the Mission's technical staff became more involved with GOC sectoral planning officials and began devoting more attention to the entire sector than to specific project activity; and GOC sectoral planning was made the basis for the Mission's program. The important point is that by the early 1970's, Colombia's sectoral planning was sufficiently established that it could be made the basis for AID loan support. The idea behind the new sector loans was to support the GOC's existing sectoral strategies and to help it to implement and improve them through local currency support of action programs and the administrative, training and research activities necessary to carry out action programs.

The Mission could not have started the kind of sector loans it did in FY 1971, based explicitly on Colombian sectoral development plans, without confidence in the strategies and the Colombian Government's capacity to implement them, as well as in Colombia's commitment to rapid development in the three sectors. At the same time that AID was increasing its financial investment, so was the GOC. Agriculture sector financing increased by about

130% between 1970 and 1972. The education and urban regional sectors increased by 48% and 45% respectively during the same period. In this sense the new sector loan approach in existence since FY 1971 is a response to the increasing sophistication of Colombia's planning capability. It is a suitable mechanism for assisting a country at Colombia's level of development. It allows much broader impact on the sector than isolated grant projects or project loans would and substantial involvement in the programming and budgeting exercises of the government. The latter would definitely not be acceptable to a country like Colombia were it not for the clear fact that the Mission supports its underlying development strategies.

B. The Block Grant

Unlike most programs in a bureaucracy, the block grant originated with one individual. The present Assistant Director for Development Policy in USAID/Colombia drafted a paper in April, 1969 while he was Technical Service Officer in Tunisia, proposing a new approach to technical assistance for AID concentration countries.[6]

Basically he proposed for those countries whose policies, level of administrative sophistication and development prospects warranted, a sectoral rather than a

3. establishment of contacts between the recipient country and the U.S. job market and training facilities which it could continue to use on a self-financed basis; and

4. reduction in the amount of time spent by Mission staff on the details required to implement technical assistance projects, thereby freeing staff time to devote to analyzing sector needs, influencing government policy and helping substantively to implement the new system.

Kornfeld's original proposal included substantial Mission involvement in helping the host government to take over the responsibilities of the new system and interpreted the new approach as intimately tied to the sector emphases of the rest of the program. These two views very much influenced the further development of the idea in the Colombia context. Before the Mission received final authorization from AID/Washington to enter a block grant agreement with Colombia (received only in December, 1972), it began to prepare the Colombians to take over responsibility for procurement. In September, 1972 the Program Officer accompanied two officials of DNP who will be involved in implementing the agreement on a visit to the U.S. to familiarize them with AID/Washington and other

U.S. facilities for procuring advisors and training opportunities. In October two separate TDY visits were made to Bogotá by employees of AID/W' Management Planning and Contract Management Offices to provide technical assistance to DNP in setting up a system to handle the procurement. The impression should not be left that Colombia has to be taught how to implement the grant. If this were the case there would not be a grant of this kind.

Two existing agencies of the Colombian Government which already do this kind of work will administer the block grant: the National Fund for Development Projects (FONADE), which is part of DNP will be responsible for contracting for technical services; and the Institute for Foreign Training (ICETEX) will administer the training element. DNP's external assistance unit will maintain overall liaison with AID. AID's "technical assistance" is to insure that the statutory requirements for spending U.S. funds are satisfied and that the system is successful from the beginning.

The agreement provides funds which the GOC can use to procure technicians to advise it in carrying out projects or activities in the sectors receiving AID loans which are included in the National Plan for Technical Cooperation (prepared as part of the 1971 country programming exercise of the United Nations); in the formulation of future development plans and strategies for economic and social development; and in the planning, design, execution or evaluation of activities which will make the sector loan-supported programs more effective. Related participant training for personnel involved in sector programs and for officials of DNP and other government planning departments is also eligible for financing up to 20% of the total grant. Thus, the block grant as it has developed in Colombia is complementary to the sector lending program.

The block grant will fill some needs in the Colombia program presently not met at all or being met from other sources. It will replace training opportunities for DNP officials which had been offered on an ad hoc basis under the Technical Support project. More importantly, it will make technical advisors available to the loan-assisted sectors to reinforce the peso support. Originally the Mission made an effort to have such advisors funded from the sector loans but the GOC rejected the proposal except for one contract in the agriculture sector which it did loan fund on the condition that it begin to phase out. Funds included in the first education sector loans for technical assistance were never utilized;

and the GOC informed the Mission in December, 1970 that it had made a policy determination not to finance technical assistance on a loan basis. Quite likely the GOC was reacting more to being asked to pick up on-going, formerly grant-funded contracts for large university teams than to the fact of loan financing; since it finances sizable technical assistance components under project loans. It also has readily utilized sector loan funds earmarked for participant training. In the future it could, and probably should, be expected to receive the block grant on a loan basis; or to set aside a small portion of each sector loan for whatever technical assistance needs it feels it has.

C. Relationship of the Colombia Program to Other Currents Affecting AID

At the same time that the new sector loan system and the block grant approach are well-suited to a country at Colombia's level of development, they also are responses to certain developments internal to AID. The most obvious one is the requirement to reduce overseas staff and lower the visibility of the U.S. presence. The direct hire staff of the Mission in Colombia was reduced by 15% between 1971 and 1972, while the FY 1972 program was 9% larger than the FY 1971 program. The FY 1973 program was 6% smaller than the FY 1971 program, but the direct hire staff was about 20% smaller than in FY 1971. These reductions in direct hire staff occurred throughout the Mission, including the three technical divisions responsible for the sector loans. Much of it was possible because of the reduction in the number of grant projects in the Mission's program. Traditional grant technical assistance requires a heavy investment in AID management and technical attention for the amount of money involved. Sector loans require much less, <u>if</u> the loans support the host country's continuing sectoral development programs. Were the Mission to try to develop its own sector analysis capability, the staff required would be larger than at present, larger perhaps than would be consistent with the call for staff reductions and a lowered overseas profile.

The block grant should also require less AID staff involvement once the breaking-in period is over. Even during the initial period it will not require nearly the amount of staff time devoted to a comparable amount of money obligated in regular technical assistance projects.

Thus the Colombia program is consistent with moves within AID toward mature partnerships with aid recipient and toward smaller overseas missions. How consistent is it with some of the other currents of reform affecting the Agency? (No attempt will be made to discuss all of them!):

1. <u>The Peterson Task Force</u>, which was the basis for recommendations made to Congress by President Nixon for reorganization of the U.S. international assistance program, preceded the initiation of the new sector loans. The stress in the Peterson Report discussion of capital

Colombia's sectoral development programs are "credit worthy," based on the content of the sectoral strategies and on the Colombian Government's commitment to implementing them.[7]

The Peterson Report stresses the role of the international organizations, recommending that they become the major channel for assistance and that they set the policy framework for U.S. assistance.[8] In Colombia the international organizations' programs are about 2 1/2 times the size of the AID bilateral program, with the IBRD being the major donor, follwed by the Inter-American Development Bank. All assistance to Colombia is provided in a consortium framework, which the IBRD leads. At the country level, the Mission cooperates with other donors in a number of ways. Part of the block grant will be used for assistance needs identified during the first U. N. country programming exercise in 1971. And portions of the education sector loans have been invested in programs jointly funded with the IBRD since 1968. The IBRD's policy leadership is accepted at the country level when it exists. But with a very small resident staff, it does not always exist. Visiting IBRD teams frequently find themselves relying on the detailed program knowledge of AID technicians. So the result is a two-way relationship with both parties performing necessary functions.

Moves to place the leadership of international assistance with the international organizations frequently overlook one thing: AID has proven time and again that it has greater capacity for innovation. The two delivery systems discussed in this paper are examples, as was the program loan previously. The entire field of population is another example. While AID's willingness to devise new assistance techniques and the need ~~for~~ of LDCs for non-project assistance may not outweigh other reasons for channeling aid through the international donors, they should at least be part of the argument.

Another recommendation of the Peterson Report was to place the developing countries at the center of international development, basing assistance on their own priorities and self-help efforts.[9] The new sector loan system and the block grant as implemented in Colombia do this better than other forms of assistance.

In sum, then, the Colombia program is relatively consistent with the recommendations made by the Peterson Task Force even though it consists predominantly of a form of assistance not known by the Task Force.

2. The Stern Report. When it became clear in the Fall of 1971 that Congress was not going to act quickly

on the President's proposal to reorganize the international assistance program, the AID Administrator appointed a committee of three officers to prepare recommendations for reforms which could be implemented internally. The resulting Stern Report, named after the committee chairman, was finished in mid-December, 1971 and became the guide for several changes made or still being made in Agency organization, program priorities, and operating procedures.[10] The report deals with several topics outside the scope of this paper and also reiterates many of the recommendations of the Peterson Report, which have already been mentioned. A major addition is the central place sector analysis assumes. While a sector focus has been present to some extent in the Agency for years (at least as early as 1966), it becomes the key to AID programming in the Stern Report, replacing the broader country programming focus. Country-wide analyses are to be left to the international organizations. The major advantages of a sector focus are seen as a greater concentration of attention and resources than a country approach permits; and, conversely, a wider impact than isolated project aid permits. The report makes several recommendations for reorienting AID programs on a sector basis. Some of the activity in AID during 1972 toward implementing these recommendations will be discussed in

Part V. Curiously, while stressing the need for greater concentration on sectors and an improved sector analysis capability in the agency, the report does not mention sector loans at all. It is difficult not to conclude that the Stern Report was seeking a new look for the Agency to pacify the tremendous dissatisfaction expressed on all sides about current programs. The writer is not convinced that a wholesale switch of emphasis to sector analysis is the answer. In any event the Colombia program is consistent with the Stern Report directions in the sense that it is based on a sector approach.

III. Administrative Relationships in the Colombia Program

A. Relationships Under the Old System

Administrative relationships between the AID Mission and the Colombian Government under the old system of program loans and technical assistance projects were quite different than they are under the new system of sector loans and block grant (remembering of course that elements of the old system still exist and that the new system evolved in two stages). Program loan negotiations were done primarily by senior Mission managers assisted by the economic section and the capital development office. Contacts in the GOC were primarily with the Ministry of Finance, the Central Bank and the highest levels of DNP. The Institute for Industrial Development (IFI) was involved in some of the commodity importing; and, as mentioned previously, the budget coordination unit of DNP was responsible for negotiating counterpart allocation agreements. The AID Mission's Program Office was DNP's contact for counterpart agreements but this office did not otherwise get involved in program loans. Technical divisions in the Mission were involved only to the extent of clearing specific counterpart allocation line items.

The Program Office and technical divisions spent most of their time on the technical assistance grant program, with the former maintaining contact with DNP's technical assistance unit and the latter working primarily with the GOC implementing agencies involved in AID projects and with their respective Ministries. The two relationships came together in the frequent processing or amending of project agreements which obligated funds and described project objectives and activity toward these objectives.

Virtually all of the documentation under the grant program was generated by AID, although there was informal verbal discussion of project activities and funding levels with DNP and the implementing agencies before documentation started. Occasionally DNP or other GOC agencies would request new assistance by letter. Just as frequently new project ideas were initiated by the Mission.

B. Relationships Under the Present System

Under the sector loan system on the AID side, senior managers continue to supervise the entire package of course; but the technical divisions have replaced the economic section as their major action office. The technical divisions are assisted in preparation of loan documents by the Capital Development Office and the Program Office.

On the GOC side, senior officials from the Ministry of Finance continue to be involved in overall policy issues and financial levels, but responsibility for negotiating program content has shifted to DNP, and particularly to its sectoral units. These units work closely with Ministry planning offices and the decentralized agencies in preparation of sector development plans and programs; and with the budget coordination unit in DNP on finances required. The budget coordination unit in turn works with the Ministry of Finance to translate financial needs into budget proposals and appropriations.

The Ministry of Finance has a very important operative function in implementing the sector loans, which was not foreseen clearly at first. This will be discussed further in Part IV.

As with the sector loans, DNP has an enhanced role to play in the block grant. While individual technicians recruited will be assigned to various government agencies, just as Colombians nominated for training will come from various agencies, DNP will negotiate the agreement with AID; coordinate all assistance to be financed under it; and procure the technical services and manage all contracts financed under it. This will require a more aggressive role than it plays in regular technical assistance. The training portion of the block grant will be administered by ICETEX. This work previously was done by the Mission's training office and the AID/Washington training branch.

C. Program Coverage - - A Comparison

Given the changed relationships between AID and the GOC in carrying out the new delivery systems, it will be useful to see the extent to which the new system differs from the old in terms of programs supported. This will be done only for the loan program, by comparing GOC agencies in the three sectors receiving funds under sector loans compared to those receiving counterpart allocations under program and early sector loans.[11] The abbreviated names of the agencies give a general idea of the type of program supported. Sector definitions are those used by the Mission. The urban/regional development sector in particular is a hybrid, consisting of parts of several other sectors (e.g. power, health, housing, industry).

CY 1968 (Col. $ 1.1 billion from program loans and PL 480)

Education: Ministry of Education, National University, Univ. of Valle, Ministry of Government (rural education).

Agriculture: Agrarian Reform Institute, Medellin Marketing Corp., Ministry of Agriculture, Agriculture and Livestock Inst., Animal Desease Inst., Livestock Bank, Magdalena Regional Corp., Geographic Institute.

Urban/Regional Dev.: none

CY 1969 (Col. $ .8 billion form program loans, PL 480 and first sector loan)

Education: Ministry of Education, National University, Higher Education Institute, National Television Institute.

Agriculture: Medellin Municipal Supply Corp., Agrarian Reform Inst., Agric. & Livestock Inst., Livestock Bank, Cauca Valley Corp.

Urban/Regional Dev.: Municipal Development Corp., Bogotá Water and Sewerage, Electrical Development Institute, Bucaramanga Flood Control, Atlantic Coast Electric Corp., Cauca Valley Corp., Industrial Development Inst., Land Credit Inst., Montería Water and Sewerage, Geographic Inst.

CY 1970 (Col. $ 1.0 billion from program loans, PL 480 and agriculture and education sector loans)

Education: National University, School Construction Inst., Cultural Development Inst., Inst. for Science Development, Higher Education Inst., Ministry of Education, National Television Inst.

Agriculture: Agrarian Reform Inst., Medellin Municipal Supply Center, Agric. & Livestock Inst., Livestock Bank, Natural Resources Inst., Meteorological-Hydrological Inst., Regional Development Corp.-Sabana, Quindío Development Corp., Chocó Development Corporation, Rural Road Fund, Geographic Institute.

Urban/Regional Dev.: Antioquia Development Corp., Bogotá Water and Sewerage, Regional Dev. Corp.-Sabana, Bucaramanga Flood Control, Electrical Dev. Inst., Colombian Handicrafts, Land Credit Inst., Municipal Dev. Inst., Geographic Inst.

CY 1971 (Col. $ 1.2 billion from program and old sector loans, PL 480 and small sums from new sector loans)

Education:	Foreign Training Inst., Sports Inst., Ministry of Education, National University, School Construction Inst., Cultural Dev. Inst., Inst. for Science Dev., Higher Educ. Inst., Educ. Research Inst., National Television Inst.
Agriculture:	Agrarian Reform Inst., Ministry of Agriculture, Agric. & Livestock Inst., Marketing Inst., Livestock Bank, Natural Resources Inst., Meteorological-Hydrological Inst., Regional Dev. Corp.-Sabana, Rural Road Fund, Geographic Inst.
Urban/Regional Dev.:	Antioquia Dev. Inst., Bogotá Water and Sewerage, Cali Water and Sewerage, Neiva Water and Sewerage, Bucaramanga Flood Control Corp., Industrial Dev. Inst., Land Credit Inst., Chocó Dev. Corp., Colombian Handicrafts, Geog. Inst.

CY 1972 (Col. $ 1.7 billion from new sector loans, small amounts of PL 480 and old loans)

Education:	School Construction Inst., Higher Educ. Inst., National University, Inst. for Science Dev., Educ. Research Inst., Foreign Training Inst., Ministry of Education.
Agriculture:	Agrarian Reform Inst., Natural Resources Inst., Agric. & Livestock Inst., Ministry of Agriculture, Marketing Inst., Meteor.-Hydrol. Inst., Rural Road Fund, Geographic Inst.
Urban/Regional Dev.:	Geographic Inst., Electrical Dev. Inst., Cauca Valley Corp., Land Credit Inst., Industrial Financial Fund, Industrial Dev. Inst., Municipal Dev. Institute, DNP, Higher Education Inst. (Pub. Admin. School).

CY 1973 (Col. $ 2.0 billion from new sector loans, PL 480 and small amounts from old sector loans)

Education:	Ministry of Education, School Construction Inst., Higher Education Inst., Education Research Inst., Foreign Training Inst.
Agriculture:	Ministry of Agriculture, Agric. & Livestock Inst., Agrarian Reform Inst., Natural Resources Inst., Small Farmer Loan Fund.
Urban/Regional Dev.:	Land Credit Inst., Municipal Dev. Inst., Industrial Finance Fund, Peoples' Finance Fund, Urban Dev. Finance Fund, DNP, Higher Educ. Inst. (Public Admin. School), National Statistical Dept.

The list shows that funds going into the three priority sectors have almost doubled as the system has shifted to one of sector loans, with the largest increases being in the two years when funds came almost exclusively from the new sector loans. In addition, the number of agencies receiving loan funds has been restricted to the key ones in each sector. In this way, the Mission can concentrate its attention on the most essential programs underway in each sector. Policy and program change commitments made by the GOC in the loan agreements primarily concern these agencies. The GOC also commits itself in the agreements to budget levels for specific programs of the above agencies; it does not commit itself to budget levels in other sector agencies, although total sector investment is studied and generally agreed upon as part of the entire loan negotiation.

IV. The Education Sector - An Administrative Analysis

Attempting to present the sector loan and block grant systems as they have developed in Colombia has necessarily required a general treatment. These new systems result from developments in Colombia and from developments internal to AID. They have led to changed relationships between the AID Mission and the GOC and within both entities. The success which the sector loan technique has had in Colombia and the development of the block grant in the Colombian context is at least partly behind AID/Washington's evaluation that these techniques should be used elsewhere. These aspects have been discussed in varying detail above. The present section will discuss in more detail the sector loan system as it has been applied to one sector, with this limitation allowing a more concrete discussion than is possible for the program as a whole. The emphases in this section will be on Colombian administration of its education sector and on the impact of the sector loan technique on this administration.

A. The Colombia Education System

1. Physical Structure

Colombia has a unitary form of government with centralization of policy making in the national capital at Bogotá and decentralization of government administration through the dependent lower levels of government, primarily departments (or states, of which there are 22) and municipalities. In the education sector, the principle of centralized policy making and decentralized administration is expressed through the National Ministry of Education working in collaboration with DNP to prepare national education sector plans and strategies which are then implemented through departmental or municipal secretariats of education. Program administration also is decentralized through eight agencies responsible for specific educational activities, as follows: the Institute for School Construction (ICCE), the Pedagogical Institute (ICOLPE), the Institute for the Development of Higher Education (ICFES), the Institute of Educational Credit and Technical Studies Abroad (ICETEX), the Fund for Scientific Research (COLCIENCIAS), the Institute of Culture (COLCULTURA), the Spanish Institute "Caro y Cuervo," and the Institute of Youth and Sports (COLDEPORTES). The first four mentioned agencies receive sector loan funds. Establishment of a ninth decentralized agency, the Institute for School Administration (INCAES) has been proposed but has not yet been approved. The National Pedagogical University also is under the policy supervision of the Ministry and is the location of ICOLPE. Other national universities and the National Apprentice

Training Service (SENA) are under the general guidance of the Ministry but the formers' traditional autonomy and the latter's location in the Ministry of Labor complicate the relationship.

In their respective fields the decentralized agencies prepare detailed development plans under the guidance of the Ministry and implement them directly or through departmental and municipal structures.

This structure was established in late 1968 by Presidential decree and, because of the strong policy making position given to the Ministry, as well as the Ministry's competence in assuming it, it seems to overcome the criticism made by a World Bank mission in the early 1950's that the Colombians had a tendency to create new agencies for every new government function, causing unnecessary diffusion of power and difficulties for planning and coordinating.[12] The structure does not work perfectly, of course, and several of its components are still developing their places in the system (this is particularly true of ICFES whose authority has been opposed by the universities). But it has improved considerably since 1968, both in terms of the Ministry's coordinating role and in the internal competency of the individual components.

The 1968 decree created an additional type of organization which has to a certain extent centralized, or improved, the decentralized administration. These are the Regional Education Funds (FERs) located in each department and metropolitan area which combine national, departmental and municipal finances for maintenance and expansion of primary and secondary education facilities. A Ministry delegate sits on each FER and oversees its compliance with regulations and provides assistance in improving its operations. The major accomplishment of the FERs so far is that they have made payment of teachers' salaries more reliable and prompt. The AID sector loan provides funds, through the Ministry, for further improvement of the FERs.

2. Planning and Budgeting

The first stage in the planning process is the preparation of a "diagnostico," or analysis of deficiencies in the education sector. This document is prepared by the Ministry of Education's Planning Office with the assistance of DNP's Human Resources Unit from information and statistics provided by the departmental secretariats of education and the decentralized agencies. On the basis of the "diagnostico," the Ministry and DNP develop policies to guide the sector's development. DNP presents these policy recommendations to the National Economic and Social Policy Council for its study and further recommendation to the President. The President, in consultation with the Minister of Education, approves the policies and authorizes their implementation, previously sending them to Congress for study if new or amended legislation is needed.

Once basic policies have been established (those guiding present programs are contained in two DNP documents, "Strategy and Mechanisms for Education Policy, 1971 - 1974," published in February, 1971 and "Strategy and Mechanisms, 1972 - 1975," published in October, 1971), attention turns again to the departmental secretariats and decentralized agencies, which prepare programs, projects and the corresponding budgets in their areas of competence for submission to the Ministry. The Ministry, working with DNP, evaluates and adjusts these proposal and integrates them into a national education plan. DNP then integrates the education plan with other sectoral plans to form a general development plan and prepares the corresponding national investment budget, usually covering a three-year period. These documents are then sent through the sequence of the National Economic and Social Policy Council, the President and the Congress. Once the plan is approved at these levels, the decentralized agencies and department secretariats are responsible for implementing it, subject of course to annual budget appropriations.

Annual budgets are prepared essentially in the same way as are development plans, obviously. The basic proposals are prepared by the departmental secretariats and decentralized agencies on standard forms. The Ministry planning office and DNP review and revise the requests to make them accord with pre-established priorities for different activities in the development plan. Following internal Ministry and DNP approvals, the proposed budget is sent to the Ministry of Finance for the approval of the director of the national budget, who previously has provided some guidelines for budget preparation to the Ministry. In July, following Ministry of Finance approval, the budget goes to Congress for final approval before December 1 for the fiscal year beginning January 1.[13]

The procedure for obtaining budgeted funds during the fiscal year is cumbersome and does not always function smoothly, as everyone discovered in early 1972. The normal procedure is for the Ministry to prepare and submit to the Directorate of the National Budget in the Ministry of Finance a monthly expenditure request based on its anticipated needs during the next month. The Budget Directorate consolidates all such requests, assures compliance with the national budget and obtains certification from the Comptroller General that funds are available, and then presents them for approval to the Council of Ministers. Upon this body's approval, the requests are returned to each Ministry, which then prepares payment orders for each departmental secretariat and decentralized agency. The payment orders, backed up by bills and other evidence of the need for the requested amount, are sent to the Comptroller General for registration and approval. They are then returned to the Ministry, which distributes them to its dependencies. Each dependency then takes its approved payment order to the National Treasury to draw its monthly funds.[14] The month in question is about two-thirds over by this time and the agencies have since the beginning of the month been entering into commitments for expenditure of the monthly funds.

The problem which developed at the end of 1971, and presumably in previous years, was that the Treasury lacked cash to pay approved payment orders, and so was refusing to pay them. This problem apparently resulted because of the different approaches to budget execution taken by the Comptroller and the Budget Office of the

Finance Ministry, which concern themselves primarily with assuring that budget apportionments and obligations are kept within appropriations; and the Treasury, also within the Finance Ministry, which manages cash balances and the liquidation of payment orders. These two approaches, one based on balancing revenue estimates (not collections) with budget commitments of several different types and the other based on cash availabilities, are sufficiently different that records under one can (and did) show a fiscal surplus, while the records of the other show a cash deficit.[15] The problem was seriously exacerbated by the slowness in getting the AID sector loan funds, which had been turned over to the GOC well before the end of the year, through the system to the cash accounts. The result was that the year ended with implementing agencies supported by sector loan funds (in all three sectors) not receiving their annual budget allocations and, particularly important for AID, not receiving sector loan pesos which were supposed to be released before the end of 1971.

Since the agencies generally commit themselves financially up to the amount of their annual budget appropriations, program progress probably was not hurt by the delay in actually receiving the funds. However, the

Mission was in an awkward position when it appeared that the GOC administrative structure was not capable of implementing the sector loans in the manner and time frame agreed. Mission officers spent a great deal of time working with their GOC colleagues trying to find the causes of the problem. DNP asked AID to finance a consultant to study the budgetary system and make recommendations for improving it, which was quickly done.[16] Also, a system was devised to physically mark documents moving sector loan pesos through the bureaucracy to expedite the process and avoid the delays which occurred with the first release. And, seeing the usefulness for monitoring purposes of a quarterly reporting form of budget releases which AID had devised as part of the justification necessary to release funds to agencies supported by the sector loans, the GOC decided to require the reports from other agencies as well. This hopefully will give DNP and the Ministry a better grip on budget execution than it had.

In general, the Government's concerted efforts to solve the problem reassured the Mission that it had not misjudged Colombia's commitment to carrying out its development plans and to the sector loan approach.

3. The Nature of the Development Problem

Many volumes have been written about the deficiencies in Colombia's education sector. It suffers from most of the problems that characterize the education systems of all developing countries: too few classrooms and teachers for the demand, poor existing facilities, lack of textbooks and teaching aids, poorly prepared and paid teachers, outmoded curricula and pedagogical techniques, high drop-out rates, better services in the cities and for the rich; and lack of funds to solve the problems quickly and completely. Since this paper is directed at administrative considerations rather than toward the developmental impact of activity in the education sector, there will be no attempt to discuss these problems in detail. However, the magnitude of the task confronting Colombia's planners and administrators is poignantly illustrated by the following account of what happens in the course of their school years to an average group of 1,000 Colombian children; the Minister of Education gave this account to Congress in 1970 when submitting a series of draft laws for its consideration:[17]

> Supposing that 1,000 children of elementary school age are ready to enter the educational system, 230 of them are totally marginated from it and only 770 manage to enroll.

Of this figure, 655 children are in public schools and 115 in private schools. Follow-up of their opportunities shows that 265 drop out after second grade, leaving only 505 in the educational system.

Of these, 429 children are in public schools and 76 in private schools.

Of this number of children, 289 are eliminated upon completing the first formal cycle, leaving only 216 with continuing opportunities.

Of this figure, 184 are in public schools and 32 in private schools.

Upon entering the secondary cycle, the shortage of openings leaves out 97 additional children, so that only 119 have an opportunity to continue in the system.

Of these, 68 are in public schools and 51 in private schools.

Including in the educational system opportunities in bachillerato,* commercial, normal, vocational, industrial and agricultural education, an additional 74 young persons have been eliminated by the end of the fourth year of secondary school and only 45 are eligible to enter the last stage of the secondary cycle.

At this moment, in the fourth year of the secondary cycle, a very serious situation arises . . . which shows why the present educational system governs each Colombian's job opportunities and, to a large extent although not exclusively, the unfair and scandalous income distribution among the country's inhabitants.

Of the 45 young persons who reach the last two years of secondary education, 19 are in

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*"bachillerato" refers to the classical academic curriculum.

public schools and 26 in private schools.

> During the last two years of the secondary cycle, 8 additional young people drop out of the system leaving only 37 to complete the second formal cycle. Of these, 14 are in public and 23 in private schools.
>
> At the beginning of the last educational cycle, the university, the system, because of a shortage of openings, eliminates 12 more students so that only 25 are left, 13 in public universities and 12 in private universities.
>
> Different drop-out factors eliminate 10 additional students during the first three university years, reducing the number of survivals to 15, 8 at public universities and 7 at private universities. Three years later, upon completion of the university cycle, only 11 students are left.
>
> In percentage terms, only 1.1 out of every 100 Colombians has the opportunity to complete the total educational cycle. This is a very simple X-ray of the educational system's yield.

The Minister went on to say that the educational system had become:

> a giant wall separating Colombians from each other since childhood and consolidating those who have been socially predestined. Those having the opportunity to reap all the benefits of this system can look forward to jobs, power and certain income levels . . . The other Colombia is made up of those who either lack access to the education system, or remain in it only two years or, in the best of cases, manage to get as far as the first two years of the secondary cycle.

4. Development Strategy and Mechanisms

The GOC seeks both quantitative and qualitative changes from its education development efforts. As the Minister's account illustrates, the system's coverage is inadequate for the country's economic, political and social needs. Yet the deficiencies in the quality of the education offered, both in terms of the dysfunction between the country's manpower needs and the skills of school leavers and the high costs of education relative to the small number who complete the full cycle, indicate that a mere extension of the present system is neither possible with available resources nor desirable. Thus the GOC has determined that its basic strategy will be the application of educational innovations designed to increase and improve the quality of the system's output at a cheaper cost. The innovations will be tried on an experimental basis in pilot activities and the best features of the most successful ones will be extended throughout the system, without the high costs necessary for the initial trials. The emphasis will be on changing the traditional system through addition of the "complementary inputs" which have the highest marginal returns. An example will illustrate this concept: with IBRD and AID help, the GOC has constructed nineteen large comprehensive high schools called INEMs which differ in several key respects from the traditional high school. While an academic track is offered, emphasis is on vocational training to prepare students for the job market upon graduating; the INEM teachers are better trained and have more equipment to work with; the curriculum has been revised; and more efficient use is made of teachers' time and school facilities. The initial capital investment in these nineteen schools was high compared to the traditional high school. The Government cannot afford to construct large numbers of these schools, although it recognizes the benefits derived from them. Consequently, the decision has been made to extend the "INEM concept" rather than the INEMs themselves. This will take the form of creating "service centers" with some of the vocational facilities central to the INEM approach which surrounding traditional high schools can use; gradual introduction of the INEM curriculum to the traditional schools and training courses in the INEM approach for traditional teachers. The basic idea is to maximize the impact on the whole system of the original high investment.[18]

The mechanisms for implementing the strategy involve substantial change in the structure of the school system. The present system is a five year primary cycle, a six-year secondary cycle and a higher education cycle whose duration varies from three to six years depending on the course followed. The GOC intends to adjust these divisions so that the first nine years of education (five of primary and the first four of secondary) are considered the "basic education" necessary to prepare a young person to compete successfully in the job market and to take his part in the civic life of the country. The long-term goal will be to provide this amount of education for all Colombians. The last four years of the basic cycle will include vocational subjects to give the graduate at least minimum skills needed by the economy.

Following the basic education cycle will be a "diversified cycle" during which the student can follow the regular university preparatory course or can enter an occupational curriculum to prepare him either to enter the job market or continue on in post-secondary technological training. The major difference between this approach and the present one is the stress on making education relevant to the job prospects of the vast numbers of students who do not go on to higher education.

To accomplish these structural changes, the GOC will construct or consolidate existing incomplete plants into "nuclear schools" offering the first five grades and, in the rural areas, "rural development centers" offering the full nine year curriculum. The rural development center will draw students from surrounding nuclear schools, just as the nuclear schools will draw students from surrounding one-, two- and three-grade satellite schools. In urban areas the nuclear schools will use INEMs or "service centers" to provide the last four years of the basic cycle. Curriculum changes, teacher training and provision of complementary inputs will accompany these structural changes.

Technological institutes will receive increased priority to provide more alternatives to standard university training. Faculties of Education will be improved through increased investment and integration programs to make the best use of existing capabilities at each faculty and avoid duplication of programs. Major stress will be on preparing teachers for the revised curriculum and teaching methods of the basic education and diversified cycles. The concept of integration is also being applied to university development, with universities in one region joining their development plans and agreeing that each will concentrate on developing particular faculties rather than all trying to develop all of them at the same time.[19]

The GOC plan is ambitious. The most obvious criticism one could make is that it is too ambitious; that the government does not now provide five years of primary education for all Colombians so how can it expect to provide a nine-year basic education for everyone. Colombian planners would agree with this criticism and would see the quantitative extension of the nine-year cycle as gradual, a goal toward which to aim. But just as important as the quantitative extension is the incorporation of the qualitative improvements aimed principally at making the system more productive for the manpower needs of the country. In the long run it will be more efficient to make these changes in the context of the revised sequence than to try to incorporate them into the present one.

Obviously, to program and administer such far reaching structural and substantive changes, education authorities will need to have a firm analytical and managerial grasp on the system. They are aware that they do not always have this now. And efforts are being made to improve central and local management, and to improve the data base on which decisions are made.

B. Sector Loan Role

1. Programmed Investment and Relationship to Sector Strategy

Financing provided under the FY 1972 education sector loan for the GOC's 1973 budget will constitute 9.1% of the national education budget. This amount is small but it is concentrated on priority development activities so its impact on the GOC strategy is larger than the percentage figure would indicate. However, the impression should not be left that these priority activities are supported only because of AID financing. The presence of AID funds allows the GOC to invest its own resources in other programs. But AID funding of the priority programs is conditional on agreement that these activities will receive specified budget allocations regardless of the source of funds. Thus they probably are better funded then they would be if AID's contribution were not available.

As mentioned previously, the FY 1972 sector loan is for $20.5 million for expenditure mainly in CY 1973. $1.5 million is reserved for the dollar costs of graduate-level participant training to provide highly trained personnel for Colombia's development program. 80% of this amount must be spent for the three sectors assisted by AID loans, with approximately 40% for agriculture, 24% for education and 16% for urban/regional development.[20] The training program will be administered by ICETEX, which has entered into a contractual arrangement with the Ministry of Education to provide this service. While ICETEX handles much of the foreign training financed by other external donors and with local resources and also administers a domestic scholarship program, it was primarily at AID's instigation that arrangements were made for it to take over the AID-financed training.

Deducting the training portion from the total loan leaves approximately Col. $452 million for local currency support of priority educational development programs. As already explained, earmarking of AID funds stops at the agency level. Colombian law requires that budget line items show the source of funds and, therefore, sector loan resources are assigned to specific items in the published budget law, but the commitment the GOC makes to AID covers total financing of priority programs.

AID support to the key sector agencies and commingled support for key programs are shown below (in millions of pesos):[21]

a. Ministry of Education

GOC funds	72.55
AID funds	51.00
	123.55

Activity Targets - jointly funded:

(1) Normal school improvement	30.00
(2) In-service teacher training	30.00
(3) Educational television	30.40
(4) Improvement of administration (national, regional, local - including FERs)	15.32
(5) Other	17.83
	123.55

b. ICCE

GOC funds	348.29
AID funds	228.30
	576.59*

*excludes IBRD assistance for development of rural development centers and service centers

Activity Targets:

(1) Extension of basic education in urban and rural areas	255.00
(2) Rural development centers, construction and adaptation	64.94
(3) Distribution of books and educational aids	18.79
(4) Diversified secondary education (INEMs and service centers) construction and equipment	163.77
(5) Improvement of existing secondary school facilities	69.97
(6) All other	4.12
	576.59

c. <u>ICFES</u>

GOC funds	216.90
AID funds	122.40
	339.30

Activity Targets:

(1) Development and integration of faculties of education	42.97
(2) Regional university development and integration	158.40
(3) TEXUM book program and documentation center	9.00
(4) Post-secondary technical education	30.20
(5) All other	98.73
	339.30

d. <u>ICOLPE</u>

GOC funds	16.3
AID funds	10.5
	26.8

Activity Targets:

(1) Education research	11.8
(2) Textbook publication	5.8
(3) Prototype instructional aids	6.2
(4) All other	3.0
	26.8

e. <u>ICETEX</u>

GOC funds	48.65
AID funds	40.00
	88.65

Activity Targets:

(1) National Scholarship Fund, for financing teacher professionalization	50.00

(2) Credit for students in education faculties within Colombia	19.50
(3) Funds for management of sector loan scholarships	2.15
(4) All other	17.00
	88.65

2. Planned Administrative Impact

The only direct support for educational administration is provided through the participant training program and through the Col. $15.32 million invested through the Ministry of Education for improvement of national, regional and local administration. Indirect support comes through programs for improvement of teacher training institutions, university integration, and development of post-secondary education, all of which are based on implementing formal development plans prepared by the participating institutions and improved by national authorities before finances are made available.

A separate but very important category of administrative impact is unrelated to specific financial support. It concerns the inclusion throughout the loan agreement of commitments from the GOC to produce the detailed planning documents necessary to implement successfully its basic strategy (and to supply copies to AID). Usually, references to these future plans are included in strategy documents; while they probably would get done regardless, specific reference to them in the loan agreement stresses their importance and reminds senior officials that they have to be done as part of the compliance with the loan agreement.

Administering the loan itself also has a positive impact on GOC administrative performance. While the GOC officials must plan, program, budget and evaluate the entire educational development program, quite apart from the sector loan activities, the latter are the key activities (this was less true prior to the FY 1972 loan). Having to approach them in the coordinated way specified by the loan agreement has a beneficial impact on all planning, programming, budgeting and evaluating.

AID has made a conscious effort to strengthen the position of the National Planning Department and the Ministry of Education planning office, both through participant training opportunities and by establishing professional contacts with officials in these agencies. The sector loan mechanism (as well as the block grant) enhances this effort because DNP and the Ministry have responsibility for administering it. Prior to development of the sector loan technique, AID worked much more closely with the decentralized agencies to plan and implement grant technical assistance programs, with the

Ministry and DNP involved in not much more than a "rubber stamp" capacity. When DNP and the Ministry started to exert a stronger influence, the initial reaction of the decentralized agencies was one of resentment. As will be discussed in the next section, the sector loan has helped to overcome this.

3. Unplanned Administrative Impact

The AID Mission could not foresee completely how the sector loan technique would work in practice, where the administrative snags would develop as the program was implemented. The first 18 months of experience with it has revealed several unplanned, in the sense that they had not actually been thought out, responses. This is not to say that the Mission is unaware of these responses. In fact, much of the following commentary comes from the answers the Chief of the Mission's Human Resources Division made to a series of questions by this writer.[22]

One impact the sector loan has had is the realization that the role of the country's budget officials in implementing the loan was much more central than originally thought. The first loan agreement, in FY 1971, contained a brief account of the disbursement method to be followed in the new system. But it was only when the difficulties in getting funds released arose at the end of 1971, described above in section IV.A.2, that the necessity for greater coordination between the PPBS sequence and actual financial flows became apparent. This has meant that AID officials have had to become very familiar with the Colombian financial system so that, working with Colombian colleagues, they could devise a smooth system of cash flows to loan-supported programs.

The Mission views this financial problem as the major obstacle to program implementation encountered so far. It results essentially from a combination of complex budgetary regulations, some bureaucratic inefficiency and, at least initially, AID's insufficient familiarity with the actual operation of the system.

On the GOC side, the budgetary problem has led to closer collaboration between DNP's Human Resources and Budget Coordination Divisions. It has also led to the adoption for general purposes of the sector loan reporting mechanism (which gives a quarterly account of funds received, by agency and program).

The loan reporting mechanism also requires a narrative account of progress made in the quarter under consideration. Because DNP's Human Resources Division is responsible for collating this information for submission to AID, it has become a stronger focal point for coordinating the decentralized agencies.

Within the Ministry of Education, the sector loan approach has contributed to a greater awareness of the need for better data and analysis. The Mission has complained for years (at least since the last education census in 1968) that more should be done to improve the reliability of the basic data on which sector plans are based. That the Ministry is now convinced of this may be at least partially attributed to the sector loan approach, with its program reporting requirement and emphasis on detailed planning. The decentralized agencies also have become more conscious of their need to provide accurate information on implementation progress to the Ministry and DNP.

Implementing the sector loan has also led to changed relationships among DNP, the Ministry and the decentralized agencies. They are aware of their mutually dependent association: DNP cannot coordinate and the Ministry cannot function as a leader in policy development if the agencies do not cooperate; in turn, the agencies cannot function effectively if DNP and the Ministry are not kept fully aware of problems and progress. This has led the decentralized agencies to a greater understanding of their respective roles in the overall development strategy, avoiding some of the diffusion and difficulties felt by the World Bank to be inherent in the Colombian system. A potential conflict between DNP and the Ministry over their respective planning responsibilities has not developed, perhaps because many of the key officials in each agency have previously worked in the other.

The sector loan approach has had an impact on AID's role as well. While it has become more involved in budgetary questions, the separation between its administrative responsibilities and those of the GOC has narrowed. It now operates more as a partner in overall monitoring, with the decentralized agencies, the Ministry and DNP carrying the principal burden of implementation, reporting and coordination. From all accounts, GOC officials are very content to assume this burden.

Nothing has been said about the administrative impact of the sector loan on the departmental secretariats. As the Ministry improves its coordination and supervision, the departmental secretariats, as dependencies, in turn are affected; and improved as instruments of national policy. However, local government in Colombia is relatively strong compared to many developing countries and financing education is one of its responsibilities. These two facts conceivably could lead to problems between the two levels of government as the Ministry increasingly exerts its authority over local education. AID's support of national government institutions could contribute to this event. On the other hand, as an external donor, it cannot support local institutions directly. And it may, on reflection, not wish to, given their lesser administrative efficiency. But the potential negative impact on local government of a system which so strongly supports the improvement of planning and implementating capabilities of national agencies is worth studying. It may be that the FERs should be given considerably more priority than they have received so far, or that special training programs for departmental and municipal education officials could be supported, to give just two examples. A greater emphasis on regional education would certainly be consistent with the Government's and the Mission's regional development program.

C. Evaluation of Administrative Implications

The sector loan technique corrects one of the major criticisms of U.S. international assistance programs, that they are designed by Americans and reflect U.S. priorities rather than host country priorities. As has been shown in perhaps too much detail in the preceding pages, the program in Colombia is not just based on Colombian strategy and planning; it is directly derived from them. The success of the program will depend on the soundness of Colombian analysis of its educational problems, the programs it designs to solve them and its success in implementing them. AID can help the Colombian in each of these activities through both the sector loan and block grant approaches, by providing additional local currency support for key programs; training for sectoral and general development planners and administrators; high level technical experts to work with Colombians to strengthen weak areas and clear bottlenecks, as defined by the Colombians; and to influence each of these areas through the leverage offered by the sector loan and block grant programs. Given the Mission's acceptance of the validity of GOC strategy and plans, and the GOC's knowledge of this acceptance, the leverage possible from these delivery systems is substantial. In fact, it is probably considerably greater than it would be if the Mission were attempting as part of its programs to change basic GOC strategy and plans. The GOC can understand the Mission's responsibility to see that U.S. funds are spent properly and its resultant need to involve itself in the programs in which these funds are spent. This involvement would be less palatable were GOC planners less predominant in the relationship.

The role the Mission has assumed can be described as that of "interpreter" of Colombian needs to AID/Washington. The word implies the correct mixture of freedom of translation (the Mission's leverage) and a basic lack of creativity (the strategies and plans exist). It is this writer's opinion that the lack of creativity in the Mission's program is a good thing. Development will surely come faster to Colombia if AID encourages its creativity rather than demands its own. This, of course, leaves AID vulnerable; but no more, and probably less, so than it is in programs which reflect its own rather than host country priorities. AID's vulnerability has been lessened by the gradual development of the new techniques in Colombia. While the internal AID environment was very important in leading the Mission to use these techniques, just as important was the fact that the GOC was ready for them and had the basic programs and administrative capacity to work with them.

This does not mean that there is no substantive role for the Mission to play in Colombia. There is much room for improvement in Colombia's programs and administrative capabilities (not to mention the well-being of its citizens!); and the role of "interpreter" can be a very challenging one, as the Mission has learned.

The Mission can improve its ability to evaluate Colombian analyses and to monitor implementation. If, on the other hand, it tried to take a more creative role - - as opposed to assisting the GOC to play a more creative role -- in sector analysis and the program development which must result, the GOC will correctly interpret it as a lessening of the mature partnership it now enjoys with the Mission.

If the partnership changes, and it naturally will as the present delivery systems are perfected, it should be in the direction of more responsibility for the Colombians. The most obvious area for more direct GOC involvement is in the preparation of the various loan documents for AID/Washington. The FY 1972 sector analysis papers for the three sectors are the best example. These papers required massive Mission efforts to collect material on Colombian sectoral programs and put it into a form suitable for presentation to Washington. The documents are valuable because they bring together in one place for each sector the relationship between the AID program (and to a certain extent those of other donors) and past, present and future GOC sectoral development needs and efforts. Now that the basic documents have been prepared, there is no reason why DNP cannot assume the task of improving them and keeping them up to date. The documents are almost totally based on GOC sources anyway, and it would certainly be more efficient for DNP, rather than the Mission, to synthesize them. The Mission might limit its involvement to assisting DNP in this task and assuring that the right questions are asked and answered.

V. Lessons for AID/Washington

As discussed briefly in section II.C.2. above, the Stern Report recommended that a sectoral approach replace the Agency's present country programming approach. The Administrator in January, 1972 informed AID employees that, among other reforms, a sectoral approach would henceforth be adopted. The tone of the memorandum as well as subsequent developments in Washington leave the conclusion that AID is to become deeply involved in sector analysis and strategy definition. For instance, the future role of the Regional Bureaus is to include "sector analysis combining capital, technical, food and other assistance resources" and "refining sector strategies and project design."[23] At the same time, Dr. Hannah called for a "more collaborative style of assistance."[24]

Institution of the reforms began immediately with follow-up messages to the field from Assistant Administrators. Within a few months guidance on the annual program submission was sent to Missions, asking that they include a plan for switching programs to a sectoral basis. Apparently there was some confusion in the responses, because Washington in September prepared an airgram defining what it meant by sectors, sub-sectors and priority development problems and the analytical possibilities for each.

Meanwhile various Washington offices were working to define the approach better. A Coordinating Committee on Sector Emphases was set up, as were Task Forces for Sector Analysis Requirements, Sector Analysis Methodology and Priority Development Problems. In November, an air-gram to the field, simultaneously enshrined as a "Manual Circular," gave a summary of agency approaches to sector analysis, giving some background on the Agency's interest in sector analysis, its purpose, defining two types (short-term assessments and long-term analyses) and trying to define who will do them and when.[25] It is in this latter area where the writer remains skeptical. The focus on AID's role and initiative is too strong, even though it is recognized that AID need not be involved in actually doing the analyses or assessments.

It seems that AID/Washington is starting from the wrong end. An interest in sector analysis has been growing in the Agency for some years, but at least part of the impetus for its present ascendency is due to domestic political considerations: a desire to show Congress and the Administration that AID can reform itself from within. Secondly, it is building up an elaborate sector analysis interest group in several bureaus in Washington which will instruct and then pressure the Missions to start new or improve their present sector analyses. The Missions will make valiant efforts to comply, with the very low staff resources most of them now have, by reworking their present programs into a sectoral format, offering the host country technical assistance to start some studies, and/or accepting eager TDYers from Washington. The result will be lots of studies of uneven value; program justifications to AID/ Washington and Congress worded in sectoral terms (which will not necessarily improve them and may even make them less coherent); and business pretty much as usual for the LDC which is supposed to be the objective of all this activity, unless it happens already to have a development administration and planning capability structured along sectoral lines.

A better point at which to start would be the development problems an LDC has defined for itself. While it is easy to appreciate AID's need to concentrate its resources and expertise in well-defined areas, it is harder to appreciate the need to make sectoral emphases an Agency-wide approach. It is a very good technique for those countries which are already accomplished in both nationwide macroeconomic planning and discrete project planning. But to encourage a country to adopt it prematurely (as the link which can join national and project planning[26]) will not accomplish anything. Consistency with the call for more collaborative assistance styles would indicate that the Agency should define its approach in a particular country on the basis of that country's own approach.

The lack of experience with the approach would further indicate that more experimentation, in particular countries and particular sectors, take place before the Agency makes it a pillar of its global development philosophy.

The simple conclusion of this paper then, is that the two reforms, a more collaborative style and a sector emphasis, as they are being implemented in Washington may not be compatible. They are compatible in Colombia precisely because the Mission has not developed its own sector analyses and strategies; but instead has accepted those of the GOC. A collaborative style of assistance has been the result. To the extent that the Colombia experience has contributed to AID/Washington's thinking on sector analysis, this distinction should be clearly understood.

Footrotes

[1]Agency for International Development, Operations Report, FY 1971, (Washington, D.C., 1971), p. 39; and FY 1973 Program Presentation to Congress, Development and Humanitarian Assistance, country summaries.

[2]USAID/Turkey, draft block grant agreement dated July 21, 1972.

[3]USAID/Nigeria, draft block grant agreement dated June 19, 1972.

[4]USAID/Colombia, draft block grant agreement, undated, attached to McDonald scope of work proposal dated October 12, 1972.

[5]USAID/Colombia, Resumé of Local Currency Fund Allocations, 1962 - 1972, (Bogota, February, 1972), p. 5.

[6]USAID/Colombia, Leonard Kornfeld, Technical Assistance in Concentration Countries, revised April 22, 1970.

[7]Rudolph A. Peterson, et al., U. S. Foreign Assistance in the 1970's: A New Approach, Report to the President from the Task Force on International Development, (Washington, D.C., March, 1970), p. 27.

[8]Ibid., p. 23.

[9]Ibid., p. 3.

[10]Agency for International Development, Ernest Stern, Philip Birnbaum and Thomas Arndt, untitled report to the Administrator (Stern Report), dated December 13, 1971.

[11]op. cit., Resumé of Local Currency Fund Allocations, pp. 6-15; and Agency for International Development, Sector Loan Papers for Education IV, May, 1972, p. 33; for Agriculture V, May, 1972, p. 29; and for Urban/Regional Development II, June, 1972, p. 29.

[12]International Bank for Reconstruction and Development, The Basis for a Development Program for Colombia, quoted in Albert Waterson, Development Planning and Lessons of Experience, (Baltimore: Johns Hopkins Press, 1965), p. 271.

[13]USAID/Colombia, Education Sector Analysis Paper, April 14, 1972, pp. 85-87.

[14]USAID/Colombia, undated paper entitled "Detailed Transaction Flow, GOC Funding Procedures."

[15]Wilfred Lewis, Jr., Some Views and Comments on the National Budgeting System in Colombia, A Report Prepared for the Colombian National Planning Department and AID (Bogotá, April, 1972), p. 9.

[16]Ibid.

[17]Rodolfo Low Maus, Compendium of the Colombian Educational System, (Bogotá: Editorial Andes, 1971), pp. 114-115.

[18]USAID/Colombia, Education Sector Analysis Paper, op. cit., pp. 154-155.

[19]Ibid., pp. 160-168.

[20]Agency for International Development, Alliance for Progress Loan Agreement (Colombia - Education Sector Loan IV), (July 13, 1972), Annex I, p. xix.

[21]Ibid., pp. xvi.

[22]Letter dated November 16, 1972 from James F. Smith, Chief, Human Resources Division, USAID/Colombia.

[23]Agency for International Development, Memorandum for AID Employees from the Administrator, Reform of the U. S. Economic Assistance Program, dated January 14, 1972, p. 16.

[24] *Ibid.*, p. 9.

[25] Agency for International Development, Airgram CIRC A-1583, November 18, 1972. *Agency Approaches to Sector Analysis.*

[26] *Ibid.*, p. 1.

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