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McNamara Papers

Travel bri

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Barco's views on budget

(Revised)
June 1, 1970

Itinerary for Mr. McNamara's Visit to Colombia

	Local	GMT		
			June 3	
...e 3	1100	1500	Depart Washington	EA 195
	1308	1708	Arrive Miami	
	1405	1805	Depart Miami	AV 67
	1525	2025	Arrive Barranquilla	
	1545		Depart Barranquilla by light plane for "Atlantico No. 3," Agrarian Reform Project financed by Bank loan 520-CO.	
	1600		Arrive project area. Briefing on Nat'l Agrarian Reform Program.	
	1800		Depart project area by light plane	
	1815		Arrive Barranquilla	
	1830		Depart Barranquilla (by special plane)	AV 165
	1930		Arrive Bogota--Tequendama Hotel	
			Evening free	
			June 4	
June 4	0900		Briefing session--National Planning Department	
	1030		Minister of Finance	NPD Bldg
	1100		Ministers of ~~Agriculture and~~ Development	" "
	1130		Minister of Health (family planning)	" "
	1200		Manager of Export Promotion Fund	" "
	1400 hrs		Lunch free	
	1500		Meeting with Mr. Pastrana (President-Elect)	
	1600 1700 hrs		Return to Hotel	
	1800		Meeting with President--Palacio San Carlos	
	~~1900~~ 1930		Televised loan signing	
	~~1945~~ 2015		Return to Hotel to change	
	~~2030~~ 2100		Black-tie dinner given by President (toast by Mr. McNamara)	
			June 5	
June 5	0830		Briefing on Bogota urban development program	NPD Bldg
	~~0930~~ 0915		Tour housing projects and low-income areas	
	1100		Meeting on urbanization problems (3 managers of utility companies--Bogota Power, Interconnexion Electrica and Bogota Water and Sewerage)	" "
	1200		Manager, National Coffee Federation (coffee exports)	" "
	1300		Business luncheon with 6 business leaders, hosted by Mr. Jorge Mejia Salazar, President of Banco de Bogota	
	1500		Briefing on Agrarian Reform Program (with particular reference to new colonization programs in southern parts of Colombia) at Incora	
	1630		Meeting with Agricultural Fund (Caja--recipient of several Bank loans)	
			Individual meetings with prominent Colombians as follows:	
	1700		(?) ~~Alberto Lleras--former President (1945-46 & 1958-62) and publisher of "Vision"~~ Trade Union leaders	
	~~1730~~ 1745		✓ ~~Indalecio Lieuano--historian and politician~~ Antonio Copello	
	1800		~~Tulio Cuevas--Trade Union leader~~ Dir. Bogota Dir. ANDI	
			Evening free	
			June 6	
June 6	1000	1500	Depart Bogota	AV 30
	1410	1810	Arrive Miami	
	1615	2015	Depart Miami	EA 170
	1828	2228	Arrive Washington--National	

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ITINERARY FOR Mr. McNAMARA's VISIT TO COLOMBIA - JUNE 3 - 6.

Local Time:	June 3	
11:00	Depart Washington	EA 195
13:00	Arrive Miami	
14:05	Depart Miami	AV 67
15:25	Arrive Barranquilla. Customs and baggage to be taken care of by INCORA. No press except photographers.	
15:40	Depart Barranquilla in three light planes for aerial tour of Atlantico Project, showing how flat but swampy land suitable for cultivation is being drained and irrigated. Briefing will be given in planes by INCORA staff. Bank group; Mr. and Mrs. McNamara, Messrs. Alter, Bravo, Clark, Christofferson, ~~Frost, Teigeiro.~~ Colombian Party; Armando Samper (Minister of Agriculture), Carlos Villamil (Manager of INCORA), Hernán Ramirez (Director of INCORA, Atlantic Coast), one other INCORA staff member, Mr. and Mrs. Rodrigo Botero	
16:30	Land at Atlantico Project headquarters at El Limón.	
16:30 - 17:00	Discussion of Atlantico Project and briefing on INCORA's other Atlantic coast programs.	
17:00 - 17:45	Meeting with farmers from Atlantico Project.	
17:45	Depart for Barranquilla. All planes should be airborne by 17:50 to arrive at Barranquilla by nightfall at 18:10.	
18:30	Depart Barranquilla	AV 165
19:30	Arrive Bogotá to be met by Finance Minister. Press confined to photographers.	
20:15	Arrive Hotel Tequendama. Evening free.	

June 4

Note: All meetings in Planning Department unless otherwise stated

09:00	Briefing session by Dr. Jorge Ruiz Lara, Director, Planning Department. Dr. Ruiz Lara will start by introducing his Secretary General Dr. Augusto Cano and his division directors Dr. Guillermo Perry (Public Investment), Dr. Antonio Barrera (Infrastructure), Dr. Alfonso Mejía (Foreign Financing and Preinvestment Studies), Dr. Javier Toro (Human Resources), Dr. Julio Mendoza (Regional Planning), Dr. Roberto Junguito (Agricultural and Industrial Studies), Dr. Enrique Low (Global Studies), Dr. Alfonso Ruan (Secretary of Public Utilities Tariff Board, Messrs. Barrera, Mendoza, and Mejía are also members of this Board.) The directors would then leave to be recalled as required by the nature of the discussion. (Occasional interpretation by Mr. Teigeiro.)
10:20	Depart for meeting at 10:30 with Dr. Abdon Espinosa (Minister of Finance and Governor of the Bank,at Palacio de los Ministerios.)
11:00	Depart for Planning Department
11:15	Minister of Development, Dr. Hernando Gómez.
11:45	Minister of Health, Dr. Antonio Ordoñez.
12:15	Manager of Export Promotion Fund, Dr. Camilo Jaramillo.
12:45	Lunch free.
14:40	Depart Hotel Tequendama for meeting with President elect Dr. Misael Pastrana at 15:00 at his home, Calle 86 No. 8-62.
16:00	Depart for Hotel Tequendama.

(16:30 - 17:30 Signing of loan documents by Mr. Alter in office of Finance Minister, Palacio de los Ministerios. This meeting for Messrs. Alter, Frost, Bravo, Roessler, Teigeiro.)

17:40 Depart Hotel Tequendama for meeting with President Lleras at 18:00 in Palacio San Carlos.

19:30 Televised loan signing in President's office by
20.15
Mr. McNamara and Finance Minister. Speeches by President Lleras and Mr. McNamara. [Speaks first] Live TV, Sim. translate

21.00 ~~22.00~~ State Dinner [McN second]

June 5

08:30 Briefing on Bogotá's urban problem by Mayor of Bogotá Emilio Urrea, ex mayor Virgilio Barco, Luis A. Villegas (Instituto de Crédito Territorial, housing agency), Roberto Botero (Instituto Colombiano de Construcciones Escolares, unit in Ministry of Education which handles Bank financed comprehensive high school project), Patricio Samper (Director of Planning for the Distrito Especial de Bogotá.) (Occasional interpretation by Mr. Teigeiro.) by Bravo

09:30 Depart for tour of low and middle income housing projects, and comprehensive school.

11:00 Meeting on interrelated planning of investment in Bogotá's water and power systems, and relation of this to planning of investment in interconnected power systems of Bogotá, Medellín and Cali. Dr. Antonio Barrera (Planning Department), Dr. Hernán Borrero (Manager Bogotá Water and Sewerage Company) Dr. José Piedrahita (Manager, Interconexión Eléctrica, S. A.)

12:00 Meeting on coffee, Arturo Gómez Jaramillo, Manager of National Coffee Federation.

EEEB

Mg. Daniel Rueda

12:50	Depart Hotel Tequendama for lunch at 13:00 with private sector representatives, at Banco de Bogotá hosted by Dr. Jorge Mejía Salazar. Guest list as follows: Carlos J. Echavarría, José Gómez Pinzón, Alvaro Jaramillo, Gonzalo Restrepo, Nicolás Escobar, José Gutierrez Gómez, Jorge Mejía Palacio, Gerald Alter, William Clark, Raymond Frost, José Teigeiro.
14:45	Depart Banco de Bogotá for meeting at 15:00 at INCORA offices on Agrarian Reform problems, particularly Caquetá Project, by Carlos Villamil, Manager of INCORA, and his staff.
16:20	Depart INCORA for meeting at Planning Department at 16:30 on Bank Livestock lending, with Miguel Garcia Herreros, Manager of Caja Agraria; Rafael Villa, Emilio Daunas of the Caja, and Armando Samper, Minister of Agriculture. (Interpretation by Mr. Teigeiro)
17:00	Meeting with trade union leaders, Antonio Beltran (UTC), and Arnoldo Tabares (CTC). (Interpretation by Jorge Bravo). P. D.
17:30	~~Indalecio Liévano (Liberal Senator, novelist). (Interpretation by Jorge Bravo)~~
18:00 - 19:00 ?	Possible round up meeting with Directors of National Planning Department.
20:00	Working dinner with Bank associates.

RF:mrm

ADDENDUM TO ITINERARY FOR MR. McNAMARA's VISIT

At 8:30 p.m. on June 5, Senora Consuelo de Montejo will host an intimate dinner for Mr. Alter and myself to meet with Senora Maria Eugenia Moreno, daughter of General Rojas (see note on political situation). Mr. and Mrs. McNamara are invited to this dinner, but Mr. McNamara may wish to consult with President Lleras about it.

Mr. Virgilio Barco says he would urge Mr. McNamara to take advantage of this opportunity to meet on a private basis with Senora de Moreno. He agrees that Mr. McNamara should consult President Lleras about the meeting, and feels that President Lleras will agree to it.

The hostess, Senora de Montejo, is a successful business woman, was Mr. Pastrana's campaign manager during the elections, and was elected as an alternate Liberal member of the Senate (i.e. she assumes her seat when the first Liberal Senator is appointed to a Cabinet post).

Raymond M. Frost

Late Note: Mr. Frost reports from Bogota that the President of Colombia does not wish you to meet with Mrs. Moreno.

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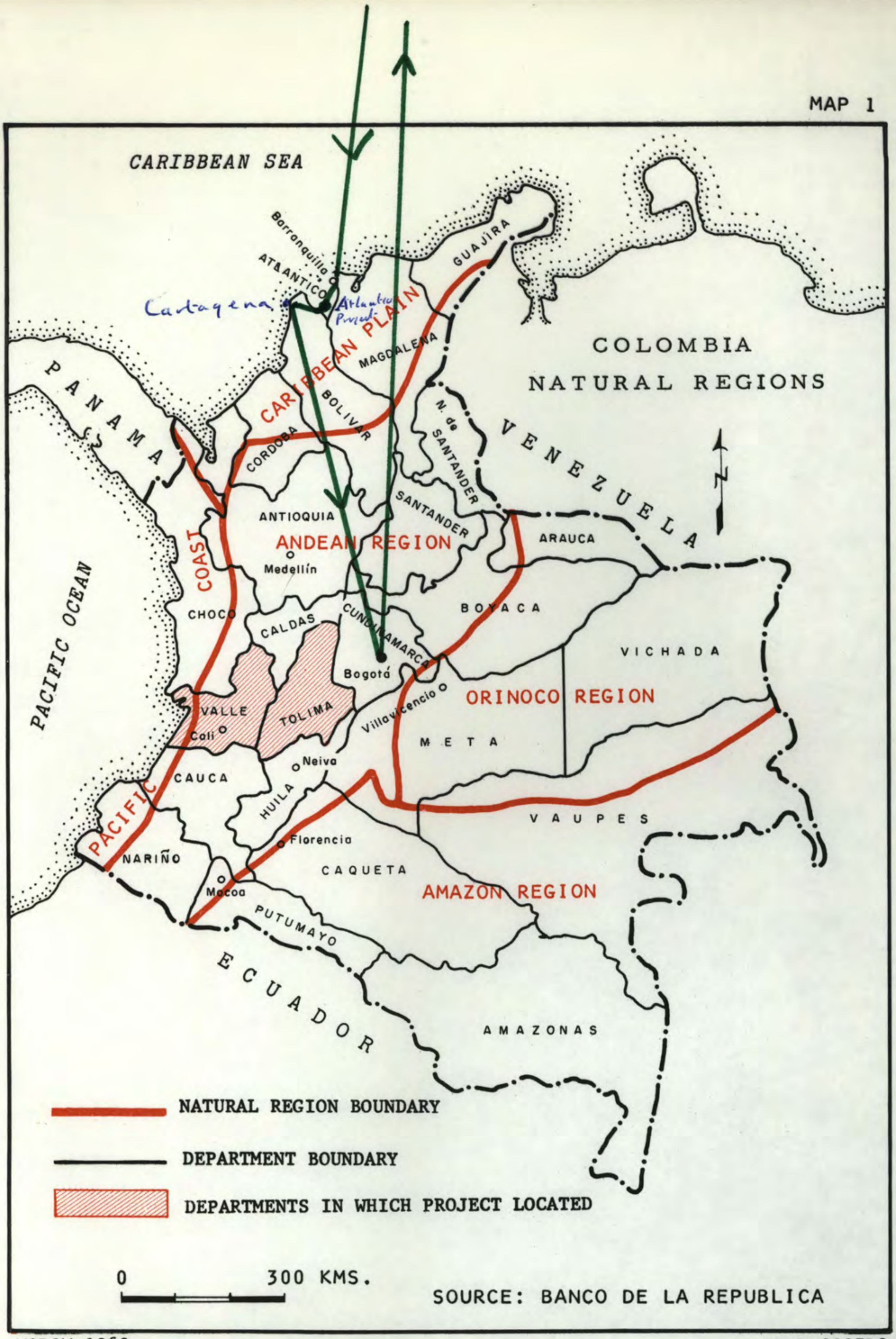
May 26, 1970

MAP 1



MARCH 1969

IBRD 2093R2

FORM No. 26
(4-69)

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

INCOMING CABLE

DATE AND TIME OF CABLE: JUNE 2, 1970 1304

LOG NO.: RC 44 / 2

TO: CHRISTOFFERSEN INTBAFRAD

FROM: BOGOTA

ROUTING

ACTION COPY: MR. CHRISTOFFERSEN

INFORMATION COPY:

DECODED BY:

TEXT:

ARRANGEMENTS AT BARRANQUILLA ARE AS FOLLOWS: MANAGER OF INCORA CARLOS VILLAMIL WILL INTRODUCE YOU TO GABRIEL CAMACHO OF INCORA WHO IS RESPONSIBLE FOR BAGGAGE AND CUSTOMS. PARTY VISITING PROJECT WILL CONSIST OF MR. AND MRS. MCNAMARA, MESSRS. BARCO, ALTER, CLARK, BRAVO, CHRISTOFFERSON, AND MR. AND MRS. RODRIGO BOTERO, AGRICULTURE MINISTER ARMANDO SAMPER, CARLOS VILLAMIL, DIRECTOR INCORA FOR ATLANTIC COAST HERNAN RAMIREZ. PARTY WILL DEPART BY TWO OR THREE LIGHT PLANES FOR AERIAL REVIEW AND BRIEFING ON ATLANTICO PROJECT, LANDING AT PROJECT HEAD-QUARTERS AT 16.30 FOR DISCUSSION AND BRIEFING ON INCORAS ATLANTIC COAST PROGRAM AND FOR MEETING WITH PROJECT FARMERS. PARTY WILL LEAVE FOR BARRANQUILLA AIRPORT AT 1745.

FROST

JAO

FOR INFORMATION REGARDING INCOMING CABLES, PLEASE CALL THE COMMUNICATIONS SECTION, EXT. 2021

ORIGINAL

FORM No. 26
(4-69)

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

INCOMING CABLE

DATE AND TIME OF CABLE: JUNE 1, 1970 1700

LOG NO.: ITT 15 / 2

TO: INTBAFRAD

FROM: BOGOTA

ROUTING

ACTION COPY: MR. ALTER
MR. W. CLARK

INFORMATION COPY: MR. CHRISTOFFERSEN

DECODED BY:

TEXT:

FOR ALTER, CLARK, CHRISTOFFERSEN

CHIEF OF NATIONAL PLANNING DEPARTMENT WOULD LIKE ROUND UP MEETING 6.00 PM FRIDAY. SUGGEST GIVE RESPONSE BOGOTA AFTER INITIAL MEETING WITH HIM ON THURSDAY MORNING

FROST

IR

FOR INFORMATION REGARDING INCOMING CABLES, PLEASE CALL THE COMMUNICATIONS SECTION, EXT. 2021

DUPLICATE

A

COLOMBIA

Note on Atlantico and Caqueta Agrarian Reform Projects

Introduction

This note compares alternative approaches to agrarian reform in Colombia, as background for Mr. McNamara's visit to Atlantico on June 3 and for the briefing on INCORA's program to be given in Bogota on June 5.

The Need for Agrarian Reform

The rural population is about 9 million, and half of these operate family farms of less than 3 ha, from which they derive substandard incomes. Since the 1950's, the urban population has been growing at 6.5 percent annually, taking account of both natural increase and migration from rural areas, and even if this high rate of urban growth continues, the rural population will still be absolutely larger 15 years hence than it is today. Thus, the minimum dimensions of the agrarian reform program are given by the present statistic of 4½ million rural poor, representing nearly 700,000 farm families. It is estimated that 300,000 of these farm families would have to be resettled elsewhere, in order to give farms of adequate size to the remainder; and in addition, 60,000 families of landless farm laborers should be given their own farms. Thus at present, in order to solve the problem of rural poverty, 360,000 farm families should be resettled on larger farms with access to credit, modern inputs and improved farming methods.

INCORA's Achievements to Date

INCORA (Instituto Colombiano de la Reforma Agraria) was created in 1961, and started operations in 1962. In 1962-69, it provided land to maintain an adequate income, with supporting credit and other services, to 82,000 families, or nearly 6 percent of the rural population, and plans to settle another 25,000 families in 1970. It has focussed its attention and expenditures primarily on resettlement in already settled areas, i.e. redistributing large holdings already farmed among neighbouring smallholders. INCORA began by focussing upon this kind of resettlement, rather than upon extending the frontier of colonization, because the number of farmers willing to move to frontier areas is presently limited. However, INCORA was also concerned not to disrupt the existing agricultural economy, by wholesale expropriation of well managed large farms. (INCORA can make an exception to this constraint in irrigation districts. This power is based on the concept that irrigation changes the condition of farming too radically to justify protecting large farmers on the basis of their record in dry farming.) It therefore proceeded by expropriating farms which were poorly managed on a selective basis. In order to justify this performance approach in the face of very stiff opposition from the larger property owners, INCORA had to be able to demonstrate, visibly and politically, that it would make improvements to these marginally performing lands, and the irrigation/reclamation works were a very obvious and visible kind of demonstration of improvement. All these influences combined to promote capital-intensive agrarian reform projects, based on irrigation and reclamation works (of which the Bank-financed Atlantico Project is one example).

However, agrarian reform is now established, and INCORA has a very positive reputation in the country as a tough and efficient organization. It is also becoming increasingly clear that social measures must proceed faster. Therefore, INCORA can afford to focus on its task of settling larger and larger numbers. One method is to develop less costly irrigation projects in suitable areas, such as the tube-well project being prepared for possible Bank financing in the Cesar Valley. Another method is drainage or reclamation works to improve dry farming, and examples of this approach are also included in the Atlantico Project. A third solution is that of extensive colonization on the frontier, and this is the purpose of the Caqueta Project, which is agrarian reform in terms of 100 - 150 ha. per family, as compared with 5 - 10 ha. in Atlantico, and where the project area is 500,000 ha. in the first phase, as compared with 10,000 ha. in Atlantico. As there are very large amounts of unused land on the frontier, the Caqueta Project may turn out to be very significant for agrarian reform in Colombia, if it turns out well. Some Colombians also claim that it may turn out to be of great significance for Latin America, as means for settling the Amazon basin, presently the largest unsettled area in the world. This region has been given up by some economists; the proposal of the Hudson Institute, for example, was to flood it, to form an inland sea as a means of internal transportation for the neighbouring countries. Perhaps the Caqueta Project will offer a model for the productive use for this large region.

The visits to the Atlantico and Caqueta projects, therefore, provide an opportunity for reviewing a broad range of approaches to agrarian reform in Colombia.

The Atlantico Project

In June 1967, the Bank made Loan 502-CO of $9 million for the first stage of the Project, with a total cost then estimated at $15.7 million, now revised to about $16.7 million. This is a sophisticated project, managed with the assistance of a team of Israelis (TAHAL). The second stage of this Project, with a total cost of $2.7 million, will be the subject of a prospective Bank loan in FY 1971. In addition, INCORA is completing the Repelon area of the Atlantico, close to the project financed by Loan 502-CO. Thus there are in Atlantico the following types of agrarian reform projects:

Stage 1 Project (IBRD Loan 502-CO)

(1) High intensity sprinkler irrigation, growing high value crops mainly for export (citrus, pineapple, tomatoes), (3,000 ha under continuous irrigation, and 1,600 under partial irrigation). Cost of investment in the project averages $2,700 per ha., and this excludes farmers investment and credit. As crops are high yielding, family plots are of up to 5 ha. in the fully irrigated area; thus investment in each family plot is up to $13,500. Family net income would be high by Colombian standards, at $1,700 to $2,700 per annum. Economic return on project was estimated at 11 percent at time of appraisal, but this is probably a substantial

underestimate, because of overvaluation of exchange rate at the time, leading to undervaluation of returns from export crops.

(2) Flood protection for dry farming; 6,000 ha. protected from flooding at project cost of $5.1 million, or $850 per ha, and $8,500 per family farm of 10 ha. Family income would be about $1,800 equivalent. Crops would be traditional (sorghum, plantains, vegetables). The rate of return on this part of the project is estimated at 20 percent.

Stage 2 Project (for proposed FY 1971 IBRD Loan)

This is to be for dry farming of 14,000 ha. under traditional crops, following construction of land reclamation and drainage works at cost of $2.7 million, or $193 per ha. and $1,930 per family plot of 10 ha.

Repelon

Gravity irrigation of 3,500 ha., growing cotton, sorghum, etc. This is the most developed portion of Atlantico, with works completed, and settlement well advanced. As this is outside parts of project under Bank sponsorship, we are least familiar with the particulars of costs and benefits, of which we will be advised during visit.

Caqueta Colonization Project (for proposed FY 1971 IBRD Loan)

The federally administered Territory of Caqueta has an area of 90,000 km^2, or nearly 10 percent of Colombia's total area, but its population is only 160,000. Population grew at 8 percent annually between the census dates of 1951 and 1964, of which 3.2 percent was natural increase and 4.8 percent immigration. At present, 1,100 families (with an average of 7 members per family) immigrate into Caqueta annually, while 200 families leave. Settlers arrive on their own initiative and usually start by working as hired laborers for established farmers or lumber operators. After a year or two they accumulate sufficient cash to send for their families and set out for the frontiers of settlement, where they start clearing the forest. The average settlers farm is about 80 ha., within a range of 30 to 150 ha.

In the process of clearing the forest, the most valuable trees are first cut by sawmillers and the rest hand-felled and sawn by the settler or, if he can finance it, by arrangement with a contractor. The stumps and brush are then cut and the debris burned in the dry season (January and February). Shortly afterwards, rice is planted between the stumps and also some subsistence crops (plantain, cassava, sugar cane). Then grass seed is broadcast under the rice crop. The soil is just rich enough to support this rice crop in the first year after clearing, and thereafter it is left to pasture for livestock (first hogs, then cattle). This pattern is repeated at the rate of 5 ha. annually over 5 to 10 years, until the whole farm is under pasture, save for a small plot rotating in rice, and subsistence crops. This process is obviously uncomplicated, requiring no more capital than the settler needs to keep his family alive until his first subsistence crops are in and his first rice crop is sold. Clearing is done by family labor using machetes. The settler can obtain title to as much land as he can clear and manage. This method of allocating land is more economic than issuing title to an equal area for each settler, as it relates the size of holding to the settler's physical and managerial capacity. During the past 6 years, INCORA has issued 5,714 titles in Caqueta.

INCORA has established two supervised credit programs in Caqueta. One is for general agricultural credit, under which Ps 82 million has been disbursed to 3,480 farmers. The other, more recent program, is for livestock credit, under which Ps 28 million has been disbursed to 1,106 farms.

The products of the area are beef, pork and rice, of which about half is consumed in Caqueta (including the principal town of Florencia) and half exported to Cali and other cities.

With respect to health and education, INCORA has organized the construction of 130 primary schools on a self-help basis and has built health posts; the Ministries of Education and Health have contracted with INCORA to provide the necessary staff for these facilities.

Agricultural research has been confined to experimentation with rubber and oil palm, with promising results to date. Research on improved grasses and legumes is now needed and will be provided under the proposed Bank Project.

The Proposed Bank Project

In June 1970, INCORA will complete the first stage of a colonization project, costing $10 million, and including supervised credit for 4,500 farmers and road access to about 7,000 farmers. The proposed Bank project would be for a second stage of development along similar lines, over a six-year period, at a total cost of $30.5 million, of which the Bank would provode $10 million (33 per cent), the Government 42 percent and the farmer 25 percent (mainly in the form of his sweat equity). The Bank and the Government would provide a total of $22.9 million for 590 kms of access roads ($8.1 million), supervised credit ($10 million), 150 primary schools and 10 health posts ($1.1 million), with the balance of $3.7 million for strengthening INCORA's administrative facilities and undertaking research, aerial photography and a marketing study. The benefits of the project would be through providing better communications and more agricultural credit for 4,000 existing partially established farm families, and for 5,000 expected new settlers. The average farm family counts seven members so that the project would directly benefit 63,000 people, and through the transportation, marketing and service requirements, it would create employment for 1,500 urban families. The rate of return on the project is estimated at 20 percent.

Also the size of family farms in Atlantico is presently under revision, and may be larger in some cases than originally assumed. Also the cost figures for Atlantico exclude credit and the farmers own investment, whereas the estimates for Caqueta include these items. However, excluding the farmers own investment, but including an estimate for credit at $200 per ha. in Atlantico, a rough estimate of the cost of settling a family would be as follows; in the irrigated area of Atlantico stage 1, from $8,700 to $14,500; in the dry farming area of Atlantico, Stage 1, about $10,500; in the dry farming of Atlantico Stage 2, it would be $4,000; and in the Caqueta project, (first and second stages together) $3,700.

These estimates, which should be treated with great reserve, are only the beginning of a meaningful comparison, if we think in terms of the total job creating effect of the projects outside as well as in agriculture. In the Caqueta Project about one non-agricultural job appears to be created for every seven farm families which are settled. On the other hand, it has been claimed by INCORA that a sophisticated irrigation project of the type of Atlantico creates at least four non-agricultural jobs for every farm family settled.

Both we and the Colombians are lacking a basis for making these comparisons, as we have both been assessing projects on the basis of their rate of economic return rather than their job and income creating effects. We are presently about to write to the National Planning Department to suggest that they establish a system of analysis which will permit making these comparisons in terms of cost per family, as well as in terms of the economic return in the investment.

May 23, 1970
MRFrost:ms.
IBRD

B

COLOMBIA TRIP

SELECTED BIOGRAPHIC SUMMARIES

I. President: Dr. Carlos Lleras Restrepo

President Lleras was born on April 12, 1903 in Bogota. A graduate of the National University Law School in Bogota in 1930, he has subsequently had a varied and impressive career in business, politics, government and education. An able economist and de facto head of the Liberal Party since 1948, Lleras has served three times as Minister of Finance, as Dean, School of Economics, National University, National Senator, Presidential Designate and Member of the Colombian Committee for the Alliance for Progress. In addition, he has been associated with the International Monetary Fund, the National Coffee Fund and the Institute of Territorial Credit, the government housing agency; in 1961, he authored Colombia's Agrarian Reform Law. Since 1966, Lleras has been President of Colombia.

He is married to the former Cecilia de la Fuente Cortes. They have four children. Lleras is a distant cousin of ex-President (1958-62) Alberto Lleras Camargo. He speaks fluent English.

II. Members of President Lleras' Cabinet: (all are likely to be present for the state dinner on June 4)

Minister of Government: Dr. Carlos Augusto Noriega Gomez

Dr. Noriega, 50, Conservative, has been active in state and national government and, as an expert on labor laws, has sponsored key legislation in Congress.

Dr. Noriega, born in Barichara, Department of Santander, received a law degree at Universidad Javeriana, Bogota, in 1945, and initiated a law practice in the city of Bucaramanga.

In 1947 he was appointed Secretary of Government for the Department of Santander, which elected him Representative to Congress for two terms, 1949-52. He was elected President of the House of Representatives in 1951. Sent as Minister Plenipotentiary to Portugal in 1955, Dr. Noriega returned to Colombia in 1957 to take active part in the National Constituent Assembly. Appointed Ambassador to the United Nations, 1960-61, governing committee, 1964-65. He founded an directed two newspapers.

Minister of Foreign Affairs: Dr. Alfonso Lopez Michelsen

Dr. Lopez, born on June 30, 1913, became Foreign Minister after the leftist liberal revolutionary movement, which he led from 1960, rejoined the Liberal Party in 1967. He studied in Paris, Brussels and London, at the University of Chile and took some courses at Georgetown University Foreign Service School. He is the son of former President Alfonso Lopez Pumarejo (1934-38, 1942-45).

Prior to 1950, when he and his family moved to Mexico for a seven-year stay, Dr. Lopez taught, practiced law and established a reputation as a journalist. When he returned to Bogota at the end of the Rojas Pinilla regime in 1957, he founded the leftist liberal weekly La Calle. Continuously active in the Liberal Party, he has held elected positions in the National House of Representatives and Senate. In 1967 he was appointed Governor of Cesar Department.

Minister of Finance: Dr. Abdon Espinosa Valderrama

Dr. Espinosa, 48, Liberal, has combined journalism with law and politics. For many years he has been a writer, editor, and acting manager of "El Tiempo", the Bogota daily. Born in Bucaramanga, Department of Santander, Dr. Espinosa received a law and political science degree at Universidad Nacional, Bogota, in 1943. In 1944, Dr. Espinosa was named Secretary of Finance and State for Santander. The following year he joined the staff of President Lleras Camargo as private secretary. He was a professor at the Institute of Economic Sciences, Universidad Nacional, 1946-47. Later, he was named for a period acting Governor of Santander, which elected him Representative to Congress during 1958-62. He became Finance Minister in 1966.

Minister of Agriculture: Dr. Armando Samper Gnecco

Dr. Samper, 50, Liberal, was director of the Inter-American Institute of Agricultural Sciences, an Organization of American States agency, when picked by President Lleras for his Cabinet.

Minister of Agriculture: Dr. Samper (continued)

Dr. Samper, a Bogotano, was graduated from the college of agriculture, Cornell University, Ithaca, N.Y., in 1943. He was agricultural economist of the Instituto Nacional de Abastecimientos - National Institute of Storage and Marketing - and head of the agricultural economics division of the Ministry of Economics (later Finance). In 1947, he organized the economic research department of the National Federation of Coffee Growers and headed the department for two years. In 1949, Dr. Samper went to Costa Rica as chief of the scientific exchange service of the Inter-American Institute of Agricultural Sciences of the OAS. He was named director of regional services in 1955. Five years later he was elected director of the Institute by a vote of the OAS ambassadors and he was reappointed for another six-year term in October 1965.

Dr. Samper has edited numerous publications on agriculture and authored two books, "Importance of Coffee to Colombia's Foreign Trade" and "Facilities for Scientific Agricultural Exchange in Latin America."

Minister of Labor: Dr. John Agudelo Rios

Dr. Agudelo, 44, Conservative, is a specialist in labor law who has served the government at the municipal and national levels.

He attended Colegio de Nuestra Senora de los Andes, Cali, and received a law degree from Universidad del Cauca in 1952. He entered politics in 1948 when elected councilman for Popayan, Department of Cauca. In 1949 he was elected Deputy to the Cauca Assembly. He was appointed in 1953 secretary general to the Minister of Labor until he became the director general of Caja Nacional de Prevision Social - National Welfare Fund - in 1956.

Dr. Agudelo has been Colombia's representative to the International Labor Organization (ILO) and delegate to labor conferences. As a professor, he taught at Universidad Nacional, Universidad Gran Colombia, and Universidad Javeriana.

A member of the National Bipartisan Transformation Committee and president of the Center of Colombian Studies, Dr. Agudelo was practicing law and teaching when recently appointed to the Cabinet.

Minister of Public Health: Dr. Antonio Ordonez Plaja

Dr. Ordonez, 51, Liberal, is a leading surgeon and author of medical research papers.

Dr. Ordonez, from Bogota, attained a medical degree at Universidad Nacional, Bogota, in 1948. In 1951, he was appointed a head of clinic and soon was promoted to associate professor of his alma mater. He was teaching professor at Universidad Nacional and Universidad Javeriana, 1953-55. Acting dean of Universidad Nacional's school of medicine, 1961-62, and school of psychology, 1962-63, Dr. Ordonez became dean of Universidad de los Andes' school of arts and sciences, 1964-66, when he was appointed Minister of Health by President Lleras.

He has participated in many national and international medical conferences, including the United Nations' conference on population, Belgrade, Yugoslavia, 1965.

Minister of Mines and Oil: Dr. Carlos Gustavo Arrieta

Dr. Arrieta, 56, Liberal, called to President Valencia's Cabinet, was reappointed by President Lleras Restrepo. A native of San Jacinto, Department of Bolivar, Dr. Arrieta received a law degree from Universidad Nacional, Bogota, in 1939. He was named secretary general of the Ministry of Mines and Oil in 1943, served as acting Minister in 1944. Dr. Arrieta was again called to the Minister for 1965-66 by President Valencia. During 1959-65 he was also counselor of state and served as president of the Council of State, a consultative body to the national government, in 1964. Dr. Arrieta has been a professor of constitutional and administrative law at Universidad Nacional, Universidad Externado and Colegio Mayor de Nuestra Senora del Rosario, Bogota.

Minister of Public Works: Dr. Bernardo Garces Cordoba

Dr. Garces, 50, Conservative, for the past 11 years has been executive director of Corporacion Autonoma Regional del Cauca (CVC).

Dr. Garces has a broad background in organization and management of heavy industrial and construction projects. Born in the Department of Valle del Cauca, he attended Cours Kayser, Paris, and Douai School, England. He received an economics and political science degree at McGill University, Montreal, Canada, in 1940, and a master's degree at Fletcher School of Law and Diplomacy, Medford, Mass., in 1941. Dr. Garces, as assistant manager, 1949-54, helped develop Paz del Rio, S.A., the Colombian steel mill. He has served, on invitation of the U.S. Latin American countries and international organizations, as adviser on large construction projects and on organization of regional development corporations. He has been decorated by the governments of Colombia, Italy and Belgium for his works.

Minister of Development and Acting Minister of Government:
Dr. Hernando Gomez Otalora

Dr. Gomez, 37, was educated at the Javeriana University, Bogota, Southern Methodist University and Harvard University, studying economics and law. He has taught law at Javeriana University and Southern Methodist University and economics at University of Los Angeles, Bogota. Has written various publications on constitutional and business law. Since 1956, he has had positions in the judiciary, the presidency and Finance Ministry. He was advisor to the Monetary Board during 1964-68, when he was appointed Minister of Development. He is now also in charge of the vacant post of Minister of Government.

Minister of Communications: Dr. Antonio Diaz Garcia

Dr. Diaz, 45, rose in the Colombian trade union movement, becoming Secretary General of a company union in 1950; then of the union of workers of the Department of Antioquia. From 1958-63, he was President of the National Union of Colombian Workers (UTC) and then Secretary General of that union from 1963-69. Dr. Diaz is a member of the executive committee of the International Confederation of Free Trade Unions and member of the Board of the Servicio Nacional de Aprendizaje (SENA) and the Instituto de Credito Territorial (ICT), the Government housing agency.

Minister of Defense: Major General Gerardo Ayerbe Chauz

Major General Ayerbe, 54, attended the Colombian War College and a U.S. military school in Panama. He was appointed General in 1956.

Minister of Justice and Acting Minister of Education:
Dr. Fernando Hinestrosa

Dr. Hinestrosa, 39, was educated in various Latin American countries as well as Germany and the United States. He was Professor of Law at the University of Colombia during 1960-62 and then became its deputy rector. Dr. Hinestrosa was Judge at the Supreme Court when he was named Minister of Justice in 1968. He is Acting Minister of Education since 1970.

III. President-Elect: Dr. Misael Eduardo Pastrana Borrero

Dr. Pastrana, 42, Conservative, is a veteran of Cabinet service, and has served in many official and Cabinet posts.

A native of Neiva, Department (State) of Huila, he was graduated in law from Universidad Javeriana, Bogota, in 1946. While Secretary of the Colombian Embassy to the Holy See, 1947-49, Dr. Pastrana studied at the University of Rome. He wears the Cross of St. Gregory Magnus bestowed by the Vatican. Dr. Pastrana was appointed private secretary to President Ospina in 1949, and the following year was sent to Washington, D.C., as Minister Counselor of the Colombian Embassy. In 1953, he was transferred to New York City to head the office of the Caja de Credito Agrario, Industrial y Minero (Agricultural, Industrial and Mining Credit Bank).

Dr. Pastrana first joined the Cabinet, under President Alberto Lleras Camargo, in 1959, as Minister of Development. He took charge of the Public Works Ministry, 1960, and Finance Ministry, 1961. In the Administration of Dr. Carlos Lleras, he has been Minister of Government, and Ambassador to Washington.

He is married to Maria Cristina Arango Vega; they have four children.

V. National Planning Department

Head: Dr. Jorge Ruiz Lara

Dr. Ruiz, 45, was appointed to his present position in December 1969, when his predecessor, Dr. Edgar Gutierrez, joined the World Bank.

He was educated at the University of Los Andes, Bogota, and the University of Illinois. During most of his professional life, he was Professor of Economics at the University of Los Andes; in July 1968, he was named Dean of the Faculty of Arts and Sciences of his alma mater. In 1966-69, Dr. Ruiz was one of the four advisors to the Monetary Board. Dr. Ruiz' numerous publications include a study of the fluctuations of world coffee prices.

Director of the Public Investment Programs Department:
Dr. Guillermo E. Perry R.

Dr. Perry, electrical engineer, joined the Power Division of the National Planning Department in 1967 after having received his education at the University of Los Andes and the Massachusetts Institute of Technology.

Director of the Infrastructure Department: Dr. Antonio Barrera Carrasquilla

Dr. Barrera, civil engineer, graduated with a Ph.D. degree from the Massachusetts Institute of Technology before he was appointed to his present position. He is also member of the National Public Utilities Tariff Board and represented the Government during the negotiations for the Chivor and Cali loans.

Director of the Foreign Finance and Preinvestment Studies Department:
Dr. Alfonso Mejia Diaz-Granados

Dr. Mejia, economist, was educated at the Universidad de America, Bogota, and the University of Michigan.

Director of the Human Resources Department: Dr. Javier Toro Ochoa

Dr. Toro, economist, graduated from the University of Antioquia with a degree in economics and continued his studies in Paris, concentrating on questions of planning and development. He was Dean of the Department of Economics of the University of Antioquia when he joined the Planning Department in 1967.

Technical Secretary of the National Public Utility Tariff Board:
Dr. Alfonso Ruan Gomez

Dr. Ruan studied civil engineering at the University of Montreal and economics at the Georgetown University and the London School of Economics before he was appointed to his present position.

Secretary General: Dr. Augusto Cano

Dr. Cano, economist, was educated at the University of Los Andes, Bogota, and the Michigan State University. He was Professor of Economics when he was appointed to his present position in 1964.

Jose Gutierrez Gomez

From Antioquia. First President and organizer of the National Association of Industries. Presently head of the Corporacion Financiera Nacional, in which IFC has an equity participation and which is a recipient of Bank lines of credit for DFC's. Is also Director of important industries in Medellin. Is 60 years old. Conservative.

Manuel Carvajal

Industrialist; resident of the city of Cali, but known nationally for his economic activities and his concerns with social problems, especially in the field of education and training of labor under private auspices. Minister of Communications until recently. President of Pro-Hoteles (Cali Hotel) in which IFC is investing. Is presently President of the Carvajal printing concern. 53 years old. Conservative.

Alvaro Jaramillo V.

President of the Corporacion Financiera del Norte, in which IFC made an equity investment and has board representation and which is recipient of Bank lines of credit for DFC's. Very active in the economic life of the Atlantic Coast.

Juan Gonzalo Restrepo Londono

Elected Senator of the Republic during the recent electoral campaign. Conservative. 45 years old. Until last month was President of Industrias Alimenticias "Noel", with headquarters in Medellin - a company which has flourished under his management, and in which IFC has made two investments. Was acting Manager of Banco Industrial and exercises much influence in the economic and financial sectors of Medellin. He may be an important figure in the Pastrana Administration.

Jose Gomez Pinzon

President of the construction firm "Cuellar, Serrano, Gomez & Cia. Ltda.", with headquarters in Bogota, one of its first kind in the country, building the Cali hotel and promotor of hotel projects in Bogota, Cartagena and Santa Marta. Has been director of various companies, among them Banco de Bogota. Main force behind Hoturismo, tourism and hotel promotion company in which IFC is a founder member. Former Cabinet member. Is rated as a leading expert in finance and economics. 60 years old; Liberal.

VI. Private Sector: (These are business leaders, of the kind consulted by governments on private sector problems.) ~~Some~~ The following were Those marked X ~~of these will be~~ have been ~~selected~~ invited for the lunch arranged for June 5.)

X Carlos J. Echavarria

From Antioquia. Formerly active in the industrial sector of Medellin and now President of Bavaria, the brewing concern located in Bogota. 68 years old and member of the Conservative Party.

X Jose Gutierrez Gomez

From Antioquia. First President and organizor of the National Association of Industries. Presently head of the Corporacion Financiera Nacional (recipient of Bank lines of credit for DFC's) and also Director of important industries in Medellin. Is 60 years old. Conservative.

~~Manuel Carvajal~~

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~~Dario Vallejo Jaramillo~~

~~Is presently President of Acerias Paz del Rio S.A. (borrower of Loan 345 CO). Was formerly in the management of the Compania de Cementos Diamante S.A. and furthermore, is director of various companies, among them the Banco de Bogota. 48 years old; Liberal.~~

Jose Gomez Pinzon

President of the construction firm "Cuellar, Serrano, Gomez & Cia. Ltda.", with headquarters in Bogota, one of its first kind in the country. Has been director of various companies, among them Banco de Bogota. Former Cabinet member. Is rated as a leading expert in finance and economics. 60 years old; Liberal.

Nicolas Escobar

Vice-President of the Texas Petroleum Company and Director of various organizations, among them the Banco de Colombia. 50 years old; Liberal.

Jorge Mejia Salazar

President of Banco de Bogota. Former Cabinet Minister and Director in Colombia of the Raymond Concrete Pile Company. Has also held important positions in Colombia and abroad for the Mobil Oil Company. 57 years old; Liberal.

Ignacio Copete

President of the Corporacion Financiera Colombiana (recipient of Bank lines of credit for DFC's), formerly Manager of Banco de la Republica, and senior official of IDB.

Jorge Mejia Palacio

Former Bank ED.

VII. Utility Company and National Agencies:

Manager of Bogota Power Company: Dr. Hernan Borrero Urrutia.

44 years old. Educated at Universities of Cauca and del Valle, studying civil engineering, economics and finance. Worked as private contractor in the early 1950's; became first technical director and then general manager of Empresas Municipales de Cali (1957-67). In 1967 was appointed general manager of the Empresa de Energia Electrica de Bogota.

Manager of Interconexion Electrica S.A.: Dr. Jose Maria Piedrahita.

40 years old. Studied civil engineering at the National University in Colombia and at Battersea College of Technology, London. Worked in major civil engineering construction firms in Colombia, 1954-58, and then with Holland Hannen & Cubitts in London, 1958-59. 1960-65 returned to civil engineering contracting in Colombia. 1965-66 deputy manager of finance in the Instituto de Fomento Industrial, a publicly-owned development finance company. Appointed as manager of Interconexion Electrica S.A. in 1968.

Manager of Empresa de Acueducto y Alcantarillado de Bogota: Dr. Daniel Rueda.

45 years old. Educated at Colombian National University and State University of Iowa, studying civil engineering and hydraulic engineering. 1948-50 worked as engineer in Ministry of Public Works and then went into private projects as consulting engineer on water supply and sewerage systems. Returned to Ministry of Public Works 1954-57. 1957-59 supervised construction and directed operations of Puerto Salgar-Bogota pipeline. 1959-60 Secretary of Public Works of Department of Cundinamarca. 1960-61 returned to private consulting firm. 1961-64 director of engineering in the Colombian Port Authority. 1964-66 returned to private sector. 1967-69 Director of Construction and Maintenance for city of Bogota, undertook major reconstruction program in the city. Appointed manager of Bogota Water Supply and Sewerage Company in 1969.

Director of Colombian Agricultural Institute: Dr. Jorge Ortiz Mendez

49 years old, educated at the Agronomy School of Colombia's National University. A competent and able agronomist and longtime Ministry of Agriculture official, Dr. Ortiz is presently serving on President Lleras' Council for Science and Technology. In

addition to his government posts, he has also had a good deal of experience in executive capacities in private industry and was one of the principal promotors of CIAT (Centro Internacional de Agricultura Tropical), established in Colombia under auspices of the Government and of the Ford, Rockefeller and Kellogg foundations.

Manager of National Coffee Federation: Dr. Arturo Gomez Jaramillo.

54 years old. Studied law and political science. Became official of the National Federation of Coffee Growers in 1944 and manager of the Coffee Federation in 1950. He is associated with numerous institutions in the agricultural sector. Dr. Gomez served as special advisor for coffee affairs to the U.N. and as member of the Colombian committee for the Alliance for Progress. During 1962-63, he was Chairman of the International Coffee Agreement.

Manager of Instituto Colombiano de la Reforma Agraria (INCORA): Dr. Carlos Villamil Chaux

32 years old. Studied civil engineering in Colombia and Germany. Having been a soil and pavement engineer for two years, he joined the staff of INCORA in 1964 as Director of the Atlantico Project (financed by Bank Loan 502 CO). He was appointed Manager of INCORA in 1968.

VI. Private Sector: (These are business leaders, of the kind consulted by governments on private sector problems.) The following have been invited for the luncheon arranged for June 5:

Carlos J. Echavarria

From Antioquia. Formerly active in the industrial sector of Medellin and now President of Bavaria, the brewing concern located in Bogota. 68 years old and member of the Conservative Party.

Jose Gutierrez Gomez

From Antioquia. First President and organizer of the National Association of Industries. Presently head of the Corporacion Financiera Nacional, in which IFC has an equity participation and which is a recipient of Bank lines of credit for DFCs. Is also Director of important industries in Medellin. Is 60 years old. Conservative.

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President of the Corporacion Financiera del Norte, in which IFC made an equity investment and has board representation and which is recipient of Bank lines of credit for DFCs. Very active in the economic life of the Atlantic Coast.

Juan Gonzalo Restrepo Londono

Elected Senator of the Republic during the recent electoral campaign. Conservative. 45 years old. Until last month was President of Industrias Alimenticias "Noel," with headquarters in Medellin--a company which has flourished under his management, and in which IFC has made two investments. Was acting Manager of Banco Industrial and exercises much influence in the economic and financial sectors of Medellin. He may be an important figure in the Pastrana Administration.

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President of Banco de Bogota. Former Cabinet Minister and Director in Colombia of the Raymond Concrete Pile Company. Has also held important positions in Colombia and abroad for the Mobil Oil Company. 57 years old. Liberal.

Jorge Mejia Palaccio

Former Bank Executive Director.

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I am delighted to be in Latin America again, and particularly to make my first visit here to Colombia since becoming President of the World Bank.

Colombia is taking significant steps forward in its development, and I plan to have a first-hand look at some of the projects in which the Bank is cooperating.

I look forward, too, to discussions with officials in the Government who are dealing with the nation's development plans, and of exploring ways in which we in the World Bank Group can be of the greatest possible help in assisting the Colombian people to realize their own aspirations for continuing social and economic progress.

6/4/70

MR. McNAMARA'S REMARKS AT STATE DINNER

Mr. President:

A nation's life depends primarily ~~a great deal~~ on a nation's leadership.

That is particularly true of a nation's social and economic progress, since progress always requires change -- and change always calls for courage.

The gifted leader is one who is wise enough to know the worth of tradition, but bold enough not to become the prisoner of tradition.

To lead is to reappraise, to reform and to revitalize a nation's social structures, while preserving a nation's permanent values.

No one, Mr. President, who is familiar with your more than 40 years of public life can fail to be impressed with your dedication to Colombia's social and economic development, and to the qualities of leadership you have brought to that great task.

As a legislator, a cabinet official, and as President you have given particular importance to the concept of planning: planning that is at once practical and pragmatic in its day-to-day application, and yet far-reaching and long-range in its results.

Your efforts to restrain inflationary pressures have resulted in a salutary financial stabilization. ~~and~~ Your concern for monetary, fiscal, and exchange policy has resulted in an improved balance of payments position, which in turn creates conditions for additional economic growth.

You have made a determined effort to provide the domestic resources required by Colombia's substantially enlarged public investment program.

In spite of strong pressures, you have taken the view that public utility tariffs should comprise one of the key elements in the expansion of these public services and thus have reduced the danger of increasing foreign debt to unmanageable proportions.

~~As we are all aware, coffee prices have been high over the past several months.~~ You have resisted the easy temptation to allow th~~is~~e additional income from higher coffee prices to be diverted into low-priority consumption but ~~have~~ instead have husbanded these additional revenues for high-priority development projects. Without reducing the incentive of the coffee-producing industry -- which is clearly important in your country -- you have thus taken steps to provide a prudent measure of stability in a seasonal and highly fluctuating sector of the economy. The results of such a policy strengthen the export capacity of the nation, its industrial growth, and diversification; and allow funds to flow into essential economic infrastructure that will benefit both the coffee producers, and the nation as a whole.

Your talents both as a lawyer and an economist made it possible for you to draft personally your country's ~~courageous~~ Agrarian Reform Law. Your skills as a legislator saw that act passed. And your executive leadership in the Office of the Presidency has seen its principles turn into practice.

Your concern with the issues of unemployment and urbanization have sought out solutions to these tangled and difficult problems -- problems that plague developing nations everywhere.

~~Further, you~~ You have taken measures to promote a more uniform regional development of Colombia. ~~Unlike a number of other developing countries, who have concentrated their industrial sector in a single city, Colombia has four industrial centers: Bogota, Medellin, Cali, and Baranquilla. These constitute a basis for further regional development, as do the plans to distribute the benefits of that development more equitably thoughtout the country.~~

¶ And ~~But,~~ Mr. President, you have looked beyond the horizons of Colombia itself, and have played a key role in the formation of the Andean Group, a ~~This~~ regional

which
effort ~~between Colombia, Chile, Peru, Ecuador and Bolivia~~ offers great opportunities for expanded economic growth both witnin and among its ~~these~~ five member nations.

As I was reading and thinking of these and the many other contributions you have made to the development of your country, I was reminded of a favorite quotation of Robert Kennedy who died just two years ago this week. Senator Kennedy said: ~~He said:~~ "Some men see things as they are and say why. Others dream things that never were and say why not."

You have dreamed things that never were and you have translated those dreams into reality. The people of this Hemisphere are the beneficiaries.

D

OFFICE MEMORANDUM

TO: FILES DATE: May 23, 1970

FROM: Raymond M. Frost

SUBJECT: COLOMBIA - Political Situation: Report on Mission April 28 - May 5, 1970

The Election Results

To clarify the Presidential candidates and their relative positions, here are the last official results of the April 19 elections:

	No. of Votes	Percent of Total Vote
Dr. Misael Pastrana, Conservative, (National Front)	1,601,697	40.7
General Rojas Pinilla (Alianza Nacional Popular - ANAPO)	1,541,753	39.2
Mr. Belisario Betancur, Conservative, (Independent)	405,306	11.8
Mr. Evaristo Sourdis, Conservative, (Independent)	322,184	8.2
	3,930,940	99.9

These results are still not final, as the voting is being subjected to lengthy scrutiny by an inter-party commission, in response to charges of fraud by ANAPO. The closeness of the results was a surprise to everyone in Colombia and, as demonstrated by the polls, was a phenomenon of the eleventh hour before the elections. This was the first election in which modern polling techniques were used (on a confidential basis). In December 1969, Mr. Pastrana had 38 percent in his favor, while General Rojas had only 18 percent, less than the ANAPO candidate in the 1966 elections. In January and February, Mr. Betancur surged ahead to challenge Mr. Pastrana, followed by Mr. Sourdis and General Rojas. In March, the Conservative Party congress was unable to decide on any single candidate, so that Messrs. Sourdis and Betancur decided to stay in the race against Pastrana (who was selected as the National Front candidate by the Liberal Party convention a few days later). The disunity of the Conservative convention showed traditional politics and politicians at their worst; and following this, that General Rojas took the lead in the polls with 40 percent, Mr. Pastrana following. The Pastrana organization, hitherto complacent, then worked hard to catch up.

Turning to the distribution of the Congress, the change from the old to the new Congress as the result of the election is shown in the following table:

Party Distribution of Seats on the Old Congress (ending 1969), and the New Congress (1970-74)

(Percentage Distribution)

	National Front		Lauro Alzutista		
Old Congress	Liberal	Conservative	Conservative	ANAPO	Other
Senate	50	19	13	17	1
House	38	25	10	18	9
	88	44 = 132	23	35	10

	National Front		Sourdis	Betancur		
New Congress	Liberal	Conservative	Conservative	Conservative	ANAPO	Other
Senate	32	16	9	10	31	2
House	28	15	9	12	34	2
	60	31 = 51	18	22	65	

The Government needs over 50 percent to pass legislation (50 percent plus one vote), and expects to have this majority through the support of the Sourdis group. However, these groupings become fluid when legislation is controversial; and if the Pastrana government moves to the left in its legislative program (see below) it may loose support from the Conservatives and gain it from ANAPO. Another factor in the situation is the possibility that Maria Eugenia Moreno, General Rojas daughter, could become President of the Senate, and she is a remarkably competent politician.

The Issue of Violence

If the National Front lost political ground before the elections, they made it up since over the issue of violence. This was partly a genuine issue, as ANAPO includes a minority of wild men, and General Rojas could have stirred up serious trouble with them; but partly a phoney issue, as he chose not to do so. The ANAPO leadership accused the Government of fraud in the election, and this caused two riots in Bogota, which were rapidly dispersed after some minor window breaking and looting.

President Lleras capitalized on the issue of violence in a telling speech on April 22. He promised to hand over the Government on the prescribed date of August 7 to whoever won the election. He also announced the imposition of a state of siege, a fairly routine procedure in Colombia, and a curfew, which was novel. This speech struck the right note, as Colombians can recall the violence of the 1950's, and do not wish to return to it. In response, Colombian flags were flown from the windows of homes all over Bogota. Since then, President Lleras and General Rojas have been in continuous communication over the preservation of order, and the country is calm. (The only shot fired in the election and post-election period was by General Rojas' bodyguard from the window of the General's house at an army captain. The captain was wounded, but restrained his men from firing back. The General telephoned President Lleras to apologize, and handed over his man to the police.)

Interpretation of the Election Results

In the 1966 elections President Lleras had obtained over 70 percent of the vote, after four years in which the National Front had shown itself at its worst under President Valencia, whose Administration had added incompetent government to the ills from which the country was already suffering from low coffee prices. By contrast, the period 1966-1970 had experienced strong and sound government, rising levels of economic growth, and at the end of 1969 a sharp increase in coffee prices. In the city of Bogota (where there is an up to date series on unemployment), unemployment had fallen in this period from 12 percent to 7 percent. The Government and National Front political organization were therefore confident that, even though the National Front candidate, Dr. Pastrana, lacked popular appeal, he would be carried to a decisive victory by the record of the Lleras Administration and backing of President Lleras himself. The minimum margin for Mr. Pastrana which was officially expected before the elections was of the order of 200,000 votes, and the fact that he eventually won by less than 100,000 votes was a great shock.

A number of reasons have been advanced by knowledgeable Colombians for General Rojas' unexpected strength, as follows:

(1) Popular impatience with the establishment as represented by the old established National Front politicians, many of whom lost elections for House and Senate seats. Mr. Pastrana was identified in the public mind with this group.

(2) Lack of discipline in the National Front. Thus the press, supposedly dominated by organs of the National Front, had conducted a long campaign against various aspects of government policy, particularly taxation. The upper middle classes in general complained loudly against higher income taxes and public utility tariffs, and the business organizations mounted campaigns against them. These various complaints were echoed by the general public. It was noted during the campaign that many voters too poor to pay income tax complained about "fiscalization," and those without electricity connections complained about power rates, because their wealthier neighbors and the press were so complaining.

(3) Mr. Pastrana lacked popular appeal; he had never won an elective office in his previous political career. His strength was exclusively that of being the candidate of the National Front organization. However, in March 1970, the Conservative Party convention, as indicated above, did not give him a majority of delegates votes, and he was confirmed as National Front candidate only by the Liberal Party convention. Thus, at the Conservative convention Mr. Pastrana lost credibility even as the National Front machine candidate, being unable to carry his own party with him.

(4) The division of the Conservative Party effort among three candidates, and complacency among the Liberals, led to lackadaisical campaigning for Mr. Pastrana, and also lack of finance for the campaign.

(5) By contrast to Mr. Pastrana, General Rojas had been a figure on the national scene for 15 years. His behavior during the campaign was sympathetic and he gained much support from being courteous to his opponents, in contrast to their discourtesy to him. His platform was designed to capitalize on popular impatience with the slow process of economic development, offering immediate free benefits to the public after his election (see below).

(6) Under Mrs. Maria Eugenia Moreno, General Rojas' daughter, ANAPO had built a cell-type organization suited to the mobilization of the urban vote. Campaign financing was very adequate, derived from the sale of identity cards to ANAPO supporters. These cards, which cost the holder a dollar or two a month, were willingly paid for, as they were supposed to entitle him on General Rojas' election, to free food, a free house and a Volkswagen for $200; or in the countryside, to a free farm and seven cows.

Future Political Prospects

While it is obviously too early to forecast the political outlook with any precision, there are some lessons of the election which are very clear at least to President Lleras and his associates including Mr. Pastrana. The first of these is that the elections have shifted Colombian politics to the left - meaning that government should aim at more development, more social progress, more redistributive policies. President Lleras and his associates always wanted to move faster, but were restrained by opposition from the traditional politicians, who killed in the Congress measures such as the tax reform, and the urban reform legislation. Now the politicians have been proved wrong, many of them indeed having lost their place in political life as the result of the elections.

What did they want to do -

What will happen to the Conservative Party; the Nat'l Front

As leader of the Liberal party, President Lleras plans to reestablish it as it was before the formation of the National Front, namely the country's popular party with a permanent majority on this account. This will not be a new task to him, as led the party to the left in the 1950's. However, in the 1950's he was competing with a traditionalist Convervative party, whereas today the competition is from ANAPO with its genuinely popular appeal. Dr. Lleras will also have to find new people to work with. The traditional politicians are bankrupt figures, while most of the young people whom he brough into government are technicians. It may be however, that some of the technicians can become the new kind of politician that will be attractive to the public.

Turning to ANAPO, this is now an established party with a strong base in the Congress, and a majority position in the Municipal Councils of the larger cities (though in some cities, such as Bogota and Bucaramanga, ANAPO already had majority before the 1970 election). This obviously provides a good base from which ANAPO can move forward. On the other hand, the fact of being now established may slow ANAPO down. The size of its representation in the Congress is also likely to make it less monolithic, particularly bearing in mind that many, if not most, of the ANAPO congressmen are professional politicians who lost elections as Liberal and Conservative candidates in the 1960's, and used ANAPO to make a comeback. Another element in the situation is the failing health of General Rojas.

RMFrost:ms.
IBRD

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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Gerald Alter

DATE: March 20, 1970

FROM: Dragoslav Avramovic D.A.

SUBJECT: Colombia Mission: Back-to-Office Report

I. Preliminary Findings

(a) Current Situation

1. After a long period of relatively slow growth -- below 5% per annum -- there has occurred an acceleration in recent years, from 4.2% in 1967 to 5.8% in 1968 and 6.5% in 1969. Three factors have led to the acceleration:

(a) Expansion of public investment, which has resulted in an increase in effective demand on the home market;

(b) Expansion of exports of non-traditional products, which has alleviated the foreign exchange constraint and increased the capacity to import; and

(c) Increase in foreign capital inflow on public account under the auspices of the Consultative Group, which has made possible the expansion of public investment.

2. In late 1969, a fourth factor has started to operate -- an increase in the world market price of coffee and associated increase both in foreign exchange earnings and rural income. This is expected to lead to a further acceleration of growth: official planning is now based on growth rates of the order of 7-7.5% per year.

3. In response to higher effective demand in the home market and greater availability of exchange for financing of imported industrial inputs, there has been an increase in the utilization of industrial capacity. Also under way is a boom in the construction industry. While favorable business conditions have been too short-lived to eliminate urban unemployment, its rate has fallen, at least in some of the major centers of economic activity. The December survey of unemployment in Bogota indicates an unemployment rate of 6.9%: this compares with 9.8% in December 1968 and an average of 12.2% in 1967.

4. The improvement in the economic situation has been accompanied by improvement in financial accounts. Net exchange reserves rose by US $61.3 million in 1969; at the end of 1969 they stood at US $96.5 million, corresponding to a gross reserve level of $257.3 million; and the increase has continued thus far this year. Fiscal revenues of the Central Government increased by 17% in 1969 and are projected to rise by another 22% in 1970. The only disturbing factor in the situation is a large increase in money supply in 1969 -- almost 20%, compared to 15% in 1968 and an average of 17% during the last decade. High monetary expansion has reflected the accelerated tempo of economic activity and the accumulation of exchange reserves; but also at work has been a large volume of government-sponsored agricultural and other lending at subsidized interest rates both for current and for capital purchases. The authorities have begun to consider reform measures

for the banking system, which would relieve the commercial banks from the burden of carrying a large amount of illiquid paper -- it is this burden which is now an obstacle to the expansion of lending for working capital to industry and thus to a rapid increase in output to match the increase in effective demand.

5. The most important single element in the short-run outlook will be the behavior of income of the coffee sector. Following the increase in the world coffee price, prices to producers were raised 40% in September and October 1969; and while the producers get only 60% of the world price (the rest is taxed in different ways), the increase in domestic income has been quite large. However, if world coffee prices continue to increase, taxation will rise more than proportionately and the increase in income will be much more moderate than last year: of any increase of the world market price above 57¢ per lb. (the present price is 58¢), the producers will receive only 35%. The rest will be used for public investment in the coffee areas and for building up the reserves of the Coffee Federation.

6. With the recent increase in the domestic coffee price, replanting of the existing plantations will be highly profitable and opening of new plantations more moderately so. In view of scarcity of new land and the long history of price fluctuations, it is not expected that the increase in investment and the associated increase in coffee output will be very large for as long as the present tax arrangements remain in force. While there is now every intention to apply them, it must be realized that the future course of events in the Colombian coffee sector will be influenced by the developments in the world coffee economy. If the world coffee price continues to increase and if this increase is transmitted fully to the producers in the major coffee producing countries, the pressure to modify the present coffee tax arrangements in Colombia will be heavy. There is no point speculating on this issue at the present time: the new coffee study which the Economics Department is now preparing should throw light on the outlook for coffee, on the present tax arrangements in the different coffee producing countries and on the likely future of these arrangements given the new situation and the cooperative efforts to regulate the coffee market in which the producing countries are now engaged. The Colombian coffee authorities and the Colombian Government are most anxious that the present situation is not allowed to degenerate into a massive coffee investment boom; they intend to use their considerable influence in international coffee affairs in the direction of a coordinated price and tax policy in the producing countries; and they hope that the international economic and financial agencies will support these efforts to the maximum extent possible.

What is outlook for [illegible]

(b) Development Problems

7. The Colombian economy faces five major development problems:

(i) The need to reduce underemployment in the rural areas and to raise real income of the rural population. The latter accounts for one-half of total population; most of it consists of owners of minifundias and of landless workers; and the average income in agriculture is less than one-half of the average income in the urban areas.

(ii) The need to reduce unemployment in the urban centers and to make possible absorption into productive urban employment of the continuing influx of the labor force from the rural hinterland. Urban population is increasing at the rate of 5-5.5% per annum. Thus, employment opportunities have to be provided not only for the high increment in the labor force (at present estimated at 3.5% per annum), but also in order to reduce rural underemployment and urban unemployment. The latter had increased during 1963-1967 as a result of the depressed state of the economy; the situation may now be changing (see para. 3 above).

Not with conclusions ILO mission

(iii) The need to step up substantially education opportunities, particularly in the rural areas. At the present time, of the total number of children enrolled in the first grade of rural primary schools, only 3% complete the fifth grade of such schools. The talent needed to enable the country of 20 million to grow rapidly is recruited from a population of only 10 million. ?

(iv) The need to reduce the rate of population growth, now amounting to 3.3% p.a. It appears that the rate of population growth is particularly high in the rural areas and among social groups with little or no education. Consequently, in addition to direct measures to control population growth, positive effects should be expected from accelerated education efforts and from continuing urbanization.

(v) The need to continue with rapid diversification of the export structure, in order to reduce further excessive dependence on coffee and to expand the basis for progressive and lasting alleviation of the foreign exchange constraint. Non-traditional exports (about $200 million) now amount to one-third of total exports and have been growing at 20% p.a.

(c) Development Strategy

8. In the past two decades, and particularly during the last several years, great advance has been made in the establishment of infra-structure, particularly in transportation and power. During the last several years, notable advance has also been made in expanding agricultural output -- its rate of growth is now 5.2% p.a. compared to the postwar trend rate of 3-3.5%. The major upswing in non-traditional exports, the recovery of the world coffee market and the continuing inflow of foreign public capital, have raised the capacity to import to a level at which an acceleration of the over-all growth rate considerably above the historical trend is feasible, provided adequate skills and adequate domestic savings are forthcoming.

9. Over the short run, the availability of skills in over-all terms should not be a critical constraint, although shortages of particular skills may develop. The availability of savings requires further examination: the government budget is now in comfortable balance, but the short-term credit

system carries the burden of long-term lending to the private sector which calls for funding, and this in turn will require budgetary support. Over the longer run, both the availability of skills and of domestic savings are likely to be a constraint: their magnitude and the measures needed for their alleviation will be analyzed in the economic report.

10. The major issue facing the government and the agencies engaged in assisting Colombia's growth concerns the direction of future efforts. A strong case can be made for a more balanced growth pattern, with a shift of resources in favor of industry, on several grounds:

(i) Effective demand for manufactured goods is expected to be very strong in response to the acceleration of income growth. The room for import substitution, in engineering goods and in chemicals, is substantial. Colombia can also expand further its exports of manufactures, where a substantial beginning has already been made. This includes particularly light consumer goods, timber and wood products, light engineering goods and some basic chemicals;

(ii) Colombia has obvious comparative advantage in producing tropical commodities -- coffee, bananas, sugar, cotton, etc.; the next echelon probably includes fish, timber and livestock. These two groups of activities can absorb only a limited amount of labor at reasonably high productivity. Consequently, other activities have to be developed and expanded if full employment is to be attained. The comparative advantage is less obvious in the production of "cold climate" crops: they now call for high subsidies and in the foreseeable future the subsidy level may be as high and perhaps higher than the protection or subsidy needed in a number of lines in manufacturing. The issue of comparative advantage at the margin will be examined in the economic report.

(iii) Colombia's need to drain manpower out of over-populated agriculture can be met only by a substantially higher growth rate in industry and the associated productive urban occupations (construction, distribution, transportation, commerce, etc.) than has been the case in the past. Manufacturing output has been increasing at about 6% p.a.; its growth appears to have been discouraged by insufficient and uncertain availability of imported inputs and by difficulties in obtaining local finance -- difficulties greater than encountered by other sectors.

why slow growth rate in mfg

(iv) Colombia is fortunate in having developed not only one major urban industrial center, but four: Bogota, Medellin, Cali and Barranquilla. Even if further industrialization is concentrated in these four centers -- and this need not necessarily be the case -- prohibitive social costs may not be encountered for some time. Accompanied by adequate urbanization and housing policies, each of these urban centers has considerable room to grow.

11. Major obstacle to industrial growth at present are shortage of working capital and high cost of funds, both for working capital and for fixed investment. The shortage of working capital results from restrictions imposed on commercial banks' short-term lending: these restrictions serve to offset the expansion of money supply resulting from medium and long-term lending to specific classes of borrowers as determined by the Government. At present, the most difficult funds to obtain are those for working capital, i.e., for better utilization of existing industrial capacity; the next most difficult to obtain are local currency funds for purchase of equipment domestically; and the easiest to obtain are the funds for buying equipment abroad.

12. The Government is now considering the operations of the credit system so as to reduce the above anomalies. One of these is high cost of capital for industry: since much of the preferred lending occurs at subsidized interest rates, the rates in the residual market are extremely high, and this discourages expansion of industrial operations. The mission intends to examine this whole complex of problems in detail: an outcome may be a proposal to fund the preferred lending and to supply the subsidy out of the government budget.

13. Acceleration of industrial growth would not imply deceleration in agriculture. Colombia needs and should expand its output of tropical crops and of other agricultural products for exports where it has comparative advantage, up to the absorptive capacity of the external markets; and its production of cold climate crops for the domestic market will have better prospects when it faces a more rapidly increasing real income following acceleration of industrial growth. The major questions in small-scale agriculture are that of organization of production, marketing and education, and of the scope and direction of agrarian reform.

14. Tourism has been a sector which has been lagging in the past. The northern coast of Colombia has many of the characteristics of the Caribbean islands; in addition, it possesses properties of its own. The mission intends to examine the prospects and the requirements of accelerated development of this sector which could have major implications for growth of employment in the depressed northern areas.

15. Public investment (mostly infrastructure) has expanded very rapidly over the last few years and a further substantial increase is envisaged in 1970. If investment in 1970 were carried out as planned the average growth rate in real terms from 1966 to 1970 will reach 25 percent per annum. While in the past the need for such growth of infrastructure investment was unambiguous, the question arises whether its rate of expansion should be kept as high in a coffee boom which inevitably will generate substantially higher needs for investment in the commodity producing sectors. The relative priorities of the infrastructure and commodity producing investments will be examined in the mission's report.

16. The Colombian planning authorities have been engaged recently in analyses of regional growth patterns, in order to identify potential "growth poles" and evolve appropriate locational policies, not only for the

established centers of economic activity, but also for the poorest regions of the country. In cases where inter-sectoral relationships are very close, this approach may evolve in formulating integrated regional programs, including, as appropriate, in addition to industry, agriculture, tourism and transport, the social sectors (education, health, water supply, housing). An advantage of such an approach, if it proves feasible, could be that it might elicit local participation, in planning, execution and financing, to a larger extent than is the case at present. Integrated programs of this kind might be the way to attack the problems of rural poverty, underemployment and unemployment in a systematic and most direct fashion. The implementation of such an approach might be initiated in selected regions. If this approach is taken, it would be important to assure its full integration with sectoral policies and sectoral priorities for the country as a whole.

(d) Indebtedness

17. The present external public and publicly guaranteed debt of Colombia, including undisbursed amounts, is about US $1.4 billion. In the Country Program Paper of January 1970, this debt was projected to increase to US $2.5 billion in 1975 and US $2.9 billion in 1980, based on gross borrowings of US $250-275 million per annum; the debt was expected to stabilize thereafter. The projections were based on a growth rate of the economy of 5.5 percent per annum. It is now expected that a higher rate of growth may be feasible. This higher growth rate should be accompanied by a higher rate of savings than earlier contemplated; nonetheless, it is likely that the resource gap and gross capital requirements will increase compared to the earlier projection, and so would the debt outstanding, during the 1970's. The amount of the increase will be determined, among other factors, by the behavior of coffee prices. The range of the plausible magnitudes will be examined in the projections which are currently under preparation in the context of the new economic report.

18. At the 5.5 percent projected growth rate and the associated borrowing requirements, the ratio of debt service payments to external borrowings, which now amounts to 12.5 percent, was expected, in the Country Program Paper, to rise to 16 percent in 1975 and 17-18 percent in 1980. With likely larger capital requirements and a faster growth in debt at a higher target rate of economic growth now contemplated, debt service payments and the debt service ratio are likely to be at a higher level than the above projections. This will tend to make Colombia's debt service position more vulnerable, particularly in view of its still heavy dependence on the highly fluctuating world coffee market; and this factor should be taken into account in deciding on the terms of lending and specifically on Colombia's eligibility for IDA credits.

19. Following this period of increased vulnerability during the 1970's, Colombia should emerge, as a result of accelerated growth, as a more mature economy with a substantially diversified economic structure, reduced unemployment and underemployment and less skewed income distribution, which should enhance its creditworthiness for conventional lending during the 1980's.

What is the aim this.

II. Pre-investment Studies Program

20. The Colombia mission was the first one to attempt to prepare a program of pre-investment studies. The relevant material was collected in the field and was discussed extensively with the Colombian authorities and with the UNDP. The preliminary list of pre-investment studies that are needed number about 50, covering all sectors. This list will be examined in detail in the course of the next several weeks and the program of studies is expected to be prepared at the same time as the mission's report.

III. Cooperation With Other Agencies

21. Both in preparing the program of pre-investment studies and in its over-all work, the mission enjoyed full cooperation and support of the UNDP Resident Representative and his staff in Colombia. The collaboration was satisfactory in every respect. Also, the mission benefited greatly from the work of the ILO mission, which was in its concluding stage in early February. The ILO mission staff was most generous in sharing their findings and experience with our mission.

cc: Messrs. McNamara
Friedman/Kamarck
de Vries
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Waterston
Balassa
South American Dept.
Mission members

F

CONFIDENTIAL

COUNTRY PROGRAM PAPER: COLOMBIA

Estimated population (millions)
mid-1968: 20.2
mid-1969: 20.9

1967 GNP per capita: US$300 1/

Current population growth rate: 3.3 percent

Current selling exchange rate: Col$17.90

	BANK/IDA LENDING (US$ Millions) Fiscal Years		
	1964-68	1969-73	1971-75
Bank	161.2	481.4	373.0
IDA	-	-	-
TOTAL	161.2	481.4	373.0

A. COUNTRY OBJECTIVES

1) Balance between Developmental and Social Objectives

1. Colombia's objectives, as formulated in plans and statements of policy, are similar to those adopted by many other Latin American countries under the Alliance for Progress. They include targets for economic growth; programs of public investment; the correction of balance of payments disequilibrium; mobilization of domestic resources through public savings; support for private sector development in agriculture and industry; agrarian reform; expansion of public education; housing programs; family planning; employment policies; monetary stabilization policies. Characteristically Colombian is an emphasis on orderly international arrangements for trade, in the International Coffee Organization and the Andean Group, and for aid in the Consultative Group.

1/ US$305-310 in 1968, on the basis of this Atlas estimate, as compared to South America Department's lower estimate of US$280. The difference is due to recent revisions in Colombia's national accounts and population data, as well as to the use of the average exchange rate for 1968 to make dollar conversion (rather than the overvalued 1964 rate used to obtain the Atlas figure).

2. Colombian Governments of the past decade have aimed at a balance between developmental and social objectives, and the balance is shifting marginally towards the latter as the country achieves greater economic success. Thus, in the public investment plan for 1970-72, the share of what may be broadly described as social sectors (agrarian reform, education, health, water supply and sewerage, regional development and housing) could increase from 38 percent of total public investment in 1969 to 44 percent in 1972.

3. However, the Colombian concern for both economic and social considerations shows less in the balance of public expenditures than in a style of maintaining development objectives in social programs, and distributional considerations in economic programs. Thus, among social programs, agrarian reform is much oriented towards production objectives; education, towards the technological and managerial; while health programs include family planning.

4. On the other hand, policies essentially economic in character take account of social considerations. Thus, public savings have been greatly increased in recent years, to a large extent by reliance on a progressive income tax, which now provides 42 percent of central government revenues. The personal income tax is a higher proportion of GNP than in any other Latin American country. Public utility tariff policy aims to maintain an adequate income for utilities to meet their investment requirements, but the structure of rates is designed to minimize the cost of service to the low income consumer. Monetary policy is intended to keep down the rate of price increase primarily for social reasons, as it is the mass of unorganized labor which has the most difficulty in maintaining its real income in times of inflation. This consideration also affects exchange rate policy. The promotion of exports other than coffee by a flexible exchange rate policy is a critically important official objective, but the effect of depreciating the rate upon the domestic price level is watched as closely as its effect upon exports. A novel emphasis upon employment policy may be expected in the near future now that Colombia has been selected as the pilot country in the ILO's world employment program.

5. This blend of developmental and social objectives is obviously appropriate for a society with an income structure characteristic of developing countries, in which the top 10 per cent of the population enjoy 50 per cent of national income, and the bottom 50 per cent of the population receive only 14 per cent of income. The concentration of income in Colombia is indeed greater than in some major latin American countries, where the top decile is estimated as receiving 45 per cent of income in Venezuela and Mexico, and about 37 per cent in Chile and Argentina. The difference lies less in the spread between rich and poor, as there are fewer examples of conspicuous wealth in Colombia than in most other Latin American countries, as in the lesser development in Colombia of a middle class. The peculiarity of Colombian society is the

dominance of an upper class so numerous that very few families are individually wealthy, and almost all have to work for their living. Lacking in inherited wealth, they have focussed on practical higher education, producing a large number of well trained candidates for managerial positions. Other advantages of this situation are that the equation of status with education opens the possibility of opportunity for social advancement to the educated rising from below, though to exploit this opportunity awaits the further reform of public education. The lagging development of the middle class also means that the public service is not burdened with excessive operating expenditures. Thus with one of the lowest tax burdens in Latin America (central government taxes are about 7 per cent of GDP) the central government runs a substantial surplus equivalent to one third of its revenues. Among the disadvantages are that a growing economy cannot manage on the basis of top level management alone, and there is a growing need for middle level management in the public and private sector. This is being met by in-service training; and the secondary education projects to which the Bank is contributing are also responses to this need.

6. Colombian society is comparatively homogeneous in terms of culture. Immigrant groups are small and not dominant. Thus, Colombian industry is largely owned and managed by native Colombians. There are only about 300,000 indigenous Indians, living outside modern society. As indicated in the discussion of sectors in Section B, the development of the country was traditionally in isolated regional centers, and regional sentiment is still strong. However, it is being weakened as a result of fairly massive inter-regional migration, and by the movement from country to city, which in the last decade has brought the urban population to over 50 per cent of the total. The urban population is not unduly concentrated in the capital, but spread among about thirty cities in various states of development, some growing very rapidly, some moderately. With urbanization, unemployment is emerging as a problem with which the government is becoming increasingly concerned,

2) Politics and Country Objectives

7. Government in Colombia is based upon a two-party system. The parties, Liberal and Conservative, have organizations reaching down to the grass roots. More than 80 per cent of the electorate are identified as Liberals or Conservatives. The strength of the parties derives from family tradition, from the cohesion of party organization, and from the relatively high status associated with the holding of public office which has [illegible] a long tradition of freedom from corruption. This status results from the very active participation in politics of the upper class, both for its own sake, and also from a marked sense of social responsibility, i.e. a feeling that politics is the vehicle for developing the country and improving the lot of the people.

8. The party system is the motor of government, and in this respect, its healthy operation is important for the achievement of country objectives. There is evidence of its traditional strength. The two parties, Liberal and Conservative, have been generally stronger either than the military, or than any individual leader who has tried to create a new party outside the system. No one has managed to become President by creating a new party; and in this century, there was only one short-lived experience of military government. Politics has not developed on class lines. On the left, there is no mass communist or even socialist party. Subversive activity is confined to small bands of Castro-type guerrillas in the mountains. The radical right, representing no more than 15 percent of the vote, depends upon the personality of the aging ex-dictator Rojas Pinilla.

9. The party system works satisfactorily if it can both create development-oriented governments, and also act as a means for the fair transfer of power. However, from the 1930's through the 1950's, these functions came into conflict with each other. As long as politics was purely a team game, with neither party consistently identified with any particular program, the system operated fairly well as a means for transferring power. However, the Liberals became identified with welfare and development programs starting in the 1930's, thus broadening their political support in the towns, and have since become the permanent majority party. The Liberals stayed in power from 1930 to 1946; only lost the 1946 election because the party split; and the violence of the 1950's (in which 100,000 were killed) arose from Conservative fear of Liberal dominance, and Liberal fear that the Conservatives would not risk a fair election. Violence was ended by the military government of 1953-57. This was followed by a new National Front constitution of 1958, which established a coalition, under which all public offices were to be equally divided between the Liberals and Conservatives, irrespective of election results, with the Presidency alternating between them every four years from 1958 to 1970.

10. The National Front also formally adopted what are here described as country objectives, thus solving the dual and previously conflicting problems of the transfer of power, and the development-orientation of government. However, the Front is now coming to an end. The 1970 elections will bring in the last (Conservative) National Front Administration, and in the 1974 elections, there will be open competition between the parties. It may be asked whether there will re-emerge the previous conflicts between power transfer and development objectives. One reason to suppose that this conflict may be avoided, is that under the National Front the Conservatives became identified with the same country objectives which were hitherto the exclusive property of the Liberals. However, the Conservatives have not yet come to equal the Liberals' electoral strength; and the organization of the Conservative party happens to have weakened under the restraints of coalition government. Thus, the Conservative candidate in the 1970 elections will

not have more than half his party with him, and will rely to an exceptional extent on Liberal votes. The equilibrium of the party system may depend a good deal upon whether the performance of the next Administration increases confidence in, and support for the Conservative party. This may provide an incentive for that Administration to emulate the excellent performance of the present Liberal Administration - an incentive perhaps necessary, as the Conservatives have been traditionally poor administrators. On the other hand, the search for electoral popularity may lead the next Administration to deviate from sound policies.

11. There are thus some open questions about the course of politics and government in the next four years, and in the longer term future. Nevertheless, there are strong forces working for stability in the pursuit of country objectives. The Conservative candidate in 1970 is firmly identified with National Front policies; and if succeeded in 1974 by a Liberal President, the pursuit of these objectives is likely to be continued with increasing vigor.

3) Macro-economic Objectives

Indicator	Current Level (1968)	Bank Projections for 1975:	
		Absolute	Growth Rate
GNP (constant prices)	Col$93,000 mn.	Col$140,500	6.1
Population	20.2 mn.	25.4 mn.	3.3
GNP per capita	US$280 1/	US$340	2.8
Exports of Goods & Services	US$750 mn.	US$1,230 mn.	7.3 why not higher
Net Private Capital Inflow	US$ 45 mn.	US$50 mn.	1.5
Net Public Capital Inflow	US$125 mn.	US$175 mn.	5.0
Debt Service Ratio	13.7	15.7	2.0

12. The process of agreeing upon targets with the Government is in an interim phase. Targets agreed upon with the Government had been adopted for the years 1969 and 1970, in the policy understanding of 1969. A Bank mission visited Colombia last September to reach an understanding on revised targets, but this has been delayed first by rising coffee prices, which are now about 50 percent higher than the 42¢ level which has hitherto been the basis of Bank and Colombian projections. The other novel development was the presentation of the 1970-72 Plan to the Congress in December 1969, as required by Constitutional amendment, but before the Government felt able to establish firm targets; and the Plan has four alternative growth options, ranging from 6 percent to 7.5 percent, with associated balance of payments and public investment alternatives. Clarification as to which of these will be the official Colombian target awaits our economic mission of February 1970. 63¢

1/ See footnote on page 1.

13. These medium-term objectives in the preceding table are the opening phase of the fifteen-year projections discussed in section C, and their explanation is therefore reserved for that section. The next sub-section will, however, focus on issues of immediate concern, affecting progress in the next 12-24 months towards longer term objectives.

4) Issues of Current Concern for Economic Policy

14. The rate of economic growth averaged 5 percent in 1964-68, was 5.5 percent in 1968, an estimated 6.5 percent in 1969, and a possible 7.5 percent in 1970.

The conditions for achieving medium-term GDP growth targets, averaging 6.1 percent in 1970-75, are, first, that the export target be achieved, in order to adequately increase import capacity which has hitherto been the principal constraint upon Colombia's economic development. The export target assumes a coffee price of 50¢ through 1975 (Economics Department suggests 55¢ for 1970), and a continued growth of exports other than coffee and petroleum at rates of 25 percent in 1970 (achieved in 1968 and 1969) and 20 percent therafter until 1975 (hitherto the official Colombian targets). The 25 percent increase in 1970 is under discussion between the Bank and the Government. The prospects for achieving it depend partly on general export incentives (exchange rate policy and the export tax incentive) and partly on production support measures in agriculture (see section C, page 23).

15. The growth target also depends upon domestic resource mobilization in which the mobilization of public savings is critical. Central government savings have increased rapidly since 1965, at 74 percent in 1966, 16 percent in 1967, 12 percent in 1968. There was a slight setback in 1969 with government savings falling by 5 percent, arising from the Government's failure to take steps to increase revenues to offset the one-time effect upon government salaries of an administrative reform. However, it is presently estimated that the existing tax base will serve to increase government savings by 33 percent in 1970, which will be enough to finance planned public investment; and by 8 percent in 1971, which may not be quite sufficient to finance the high alternative public investment target if this is adopted by the Government.

16. Regarding the three alternative public investment targets in the 1970-72 Plan, the high target has been officially adopted for 1970, raising public investment by 15 percent over 1969. If the high alternative is adopted for 1971, this will raise public investment another 11 percent, requiring an increase of up to 7 percent in government revenues over and above the increase in revenue produced by the existing tax laws. The fiscal measure most likely to be taken by the Government has sector policy as well as fiscal implications, as it involves the adjustment of the price of fuel. Although petroleum fuel is produced in Colombia, it is paid for in dollars, at an exchange rate which has remained at 9,

while the exchange rate for all other transactions is now nearly 18. The Government intends to take steps towards unification of the two rates, and this will affect government revenues substantially because the ad valorem tax on gasoline (114 percent) and on diesel fuel (55 percent) would be maintained. This would also correct the inadequate taxation of the road user.

17. With respect to monetary policy, for the past 5 years, the IMF has been constructing its stand-by arrangements on the assumption of an 6-8 percent maximum permissible price increase. This was the historic average rate of price increase in Colombia until the years of inflation 1963-65, when domestic prices rose at an average rate of 16 percent, since when a 6-8 percent rate of increase has been maintained. The Government considers, and we agree, that a lesser rate of domestic price increase would not be compatible with adequate private sector growth, bearing in mind the supply inelasticities and market imperfections prevalent in Colombia at its present stage of development. Turning to targets for the build-up of foreign exchange reserves, in recent years the foreign exchange reserve position has been greatly improved, and a further increase is planned as an objective of policy in 1970, as indicated in the following table:

($ Million)

	End 1962	End 1969	Provisional Target for End 1970	Net Change 1962-70
Gross Reserves	116	254	254	
Liabilities	195	161	136	
IMF	72	130	105	
Other	123	31	31	
Net Reserves	-79	+93	+118	+197

18. As indicated earlier, these immediate policy targets are designed to promote progress towards medium-term objectives which are based on the analysis and forecasts of our December 1968 economic report. A key element in the forecast of that report was the assumption of a price of 42¢ for Colombian coffee in the 1970's and we have already modified the medium-term projections to take account of the possibility of a somewhat higher price of coffee, namely 50¢. However, as the actual price is already over 57¢ and could rise still further, the question arises as to whether the immediate policy issues on which we are focussing are relevant to the possible development of the coffee situation in 1970.

19. Colombia's record in the last coffee boom of the 1950's was not such as to inspire complete confidence in the country's ability to manage the inflationary consequences of a boom of this kind. Colombia achieved fairly high GDP growth rates (averaging about 6 percent) in the early 1950's, and maintained a moderate rate of increase (around 8 percent) in the domestic price level. However, when the coffee boom ended in 1957, it emerged that growth had been fuelled, and inflation damped down, by excessive importation financed by short-term commercial credit in the form of arrears of payments to foreign exporters. These arrears were assumed by the state, as obligations of the central bank, leaving the central bank with short and medium-term foreign obligations exceeding its foreign exchange assets by $200 million. In the next three years, Colombia met these short-term obligations only by a very austere fiscal and monetary policy, which permitted the economy to grow at no more than about 3 percent annually. The ill effects of the 1957 crisis persisted even beyond this period of heavy debt repayment, as it left Colombia with a weak exchange reserve position for a decade.

20. It may be asked whether such mismanagement is likely to recur if a coffee boom develops in the early 1970's. There are some reasons for believing that the situation would be better managed today. First, the impact of a coffee boom on the Colombian economy would be less today than it was in the 1950's, because coffee constitutes only 58 percent of the value of commodity exports today, as compared with 78 percent in 1950. Also, the real impact of a coffee price of 75¢ in 1970 would be about 25 percent less than in 1950, because of the decline in the purchasing power of the dollar.

21. There have also been structural improvements in Colombia's policy and institutions since the 1950's, which give the Colombian authorities the instruments to manage a coffee boom which they did not possess in the earlier period. Thus, the main source of inflationary pressure in the 1950's was a persistent fiscal deficit, arising from lack of control of expenditures, and from a tax system that was not sufficiently responsive to short-term changes in income. Today, there is satisfactory planning and control of public expenditures, and the tax system has been made more responsive to short-term changes in domestic income, by placing the income tax on a current payments basis, and by the introduction of a domestic sales tax. With respect to monetary policy, the Government lacked the power to control domestic credit, as monetary policy was managed by a central bank owned by the commercial banks. However, the Government has since established the Monetary Board, with legal powers and effective instruments of monetary control. With regard to managing the balance of payments, the Government had no quantitative controls over imports or exchange transactions until the late 1950's, whereas today there is a comprehensive mechanism for import licensing, and for the control of payments. Even more important is the alteration in the exchange rate system. In the 1950's, Colombia had a fixed exchange rate system. The rate was in fact maintained at 2.51

through the whole of the coffee boom until devalued in 1957 to a level of about 5.00. Today Colombia has a flexible "crawling peg" exchange rate system permitting of easy adjustments to manage exchange difficulties, such as might emerge at the end of a coffee boom.

22. Finally, it is only since the 1950's that arrangements have been made for controlling the income of the coffee sector as such, by taxation and by other means. The coffee sector in Colombia is taxed at 51 percent of the value of its output - a higher rate than in any other coffee producing country. In addition to this, the Government recently reached agreement with the growers on a basis for capturing coffee profits that would accrue at prices over 57¢. When coffee prices rise above 57¢ (as they are at present), net growers' income (i.e. the 49 percent remaining after deduction of the 51 percent tax burden) is to be divided, so that only 35 percent of this is left to the growers, the balance of 65 percent going to coffee sector institutions which will use it for the repayment of foreign debt of the Coffee Growers Federation; public works in coffee growing areas; and coffee diversification. (Following the establishment of this arrangement, the Government has withdrawn an application previously submitted to the Inter-American Development Bank for a $21 million loan to finance a coffee diversification program.)

23. Notwithstanding the improved structure of fiscal, monetary and coffee sector institutions, a coffee boom of any extent poses risks to economic stability, requiring that we maintain in the future as in the past, a close watch on Colombia's economic performance. If the situation is well managed, and the profits of the boom ploughed into productive investments, including investment in export diversification, Colombia can emerge from the boom with a stronger economy, capable of taking the shock of an eventual slump, and still continuing to grow. If the situation is poorly managed, this opportunity will be lost.

B. ECONOMIC SECTORS

24. A common theme which emerges in the review of the Colombian economy, sector by sector, is the influence of geography. Three mountain chains divide the country from north to south; and the country is further broken up by their spurs and foothills. To overcome these obstacles has required a large investment in surface transportation, concentrated in the years since 1950, when the effort to establish a national road network was initiated, and when the program for completing and rehabilitating the railroad network was also begun. (In 1950 it took one week to travel by land the 200 kms from the coffee center of Manizales to Bogota, a journey which is a matter of hours today.)

25. The country developed historically in various isolated centers of development, each with their own provincial and municipal governments, institutions, and public enterprises. The result is that the responsibility for providing public services is diffused among literally hundreds of agencies all over the country. This is one of the main problems in modernizing and developing public utilities in particular.

26. Issues of sector policy, presently subject to official action, or awaiting completion of necessary studies, are the following: in public utilities (Power, Water and Sewerage, Telecommunications), the principal issues are ways of dealing with fragmented organization, and rate levels, generally adequate among larger enterprises, but grossly inadequate in the many small enterprises, particularly in water and sewerage. In 1968 the Government established the Public Utility Tariff Commission to regulate power and water rates to maintain an adequate rate of return on currently revalued assets of these utilities, subject to due regard to social consideration. In Transportation, organization of railways, highways and ports is centralized, and the problem has been to make centrally run operations better planned and more efficient. There is also a persistent problem of inadequate taxation of road users. In Education, the problems are quantitative, as the sector does not yet serve the whole population, and qualitative, in terms of the need to modernize the orientation of curricula towards technical subjects. In the field of Population the question is to reach a new accomodation with the Church regarding the role of the state in this field.

27. Agriculture and Industry are both much affected by general economic policy, and the context within which these sector activities are carried on has therefore improved in recent years. Thus, the approach of the exchange rate towards equilibrium levels has provided incentives for the growth of agricultural and industrial exports, and the resulting improvement in Colombia's balance of payments has increased the access of these sectors to essential imported inputs. A sounder monetary policy has also resulted in positive interest rates of 8-10 percent in industry, and 5-8 percent in agriculture, after taking account of the rate of domestic price increase as compared with the zero or barely positive interest rates prevailing in former years, thus providing a better basis

for the allocation of capital in the private sector. With respect to policies more specifically oriented towards the requirements of these sectors, in Agriculture a major issue is the allocation at the margin of resources to agrarian reform on the one hand, and supporting services for commercial agriculture on the other hand, with the balance now tending to shift in the latter direction. Specific Industrial policies have not been properly thought out, and some direction is needed in this sector. One question is to identify the effects of protection. Regarding the Petroleum sector, the main policy issue has been that of penalty exchange rates. In Tourism we do not know enough to identify issues in a sector where growth potential is emerging, with the spill-over of tourists from the Caribbean.

Power

28. At the end of 1968, the total installed generating capacity in Colombia was 1,940 MW, including 250 MW in privately owned plants. The total generation in 1968 was 6,500 GWh, including 1,000 GWh generated in the private plants; 74 percent of the electric energy generated by the public utilities was of hydro origin. Power systems centered in Bogota, Medellin, and Cali account for about two-thirds of power generation, with the remaining one-third of the sector organized under the Colombian Power Institute (ICEL), which operates through 15 Departmental and 13 minor subsidiaries.

29. In the last 12 years, energy demand has increased at an average annual rate of 11 percent, which is expected to be maintained in the next decade. Average per capita annual consumption in 1968 was about 375 KWh, below the Latin American average of approximately 475 KWh. 70 percent of the country's rural population have no power at all.

30. To correct a tendency towards fragmented, small-scale development the sector is now being reorganized into six zones, which will eventually be interconnected by high voltage transmission lines. Inter-zonal entities, preferably only one, will be responsible for the planning, construction and operation of the transmission system, and of the prospective larger and more economic power generation plants.

31. The first major interconnection project is the network under construction by Interconexion Eléctrica S.A. (ISA) to connect the systems of Bogota, Medellin, Cali and Manizales. This network is scheduled to start service at mid-1971, and there are plans to expand it with additional interconnection lines.

32. Following the analysis of six alternative programs, the first major long range power generation program has also been adopted for the ISA interconnected system as follows (with completion dates): Alto Anchicaya (1974), Chivor, first phase (1975) and Guatape II (1979). External financing for the first of these projects was received from the IDB in 1968, and the last two are in the Bank lending program.

33. Rates have been regulated at adequate levels for the past three years, particularly in the larger companies; and it is hoped that rate levels will in due course become more adequate for the smaller companies as a result of the work of the Public Utility Tariff Commission.

Water Supply and Sewerage

34. Water supply and sewerage services are inadequate on account of the inability of the municipalities to provide their large capital requirements on the basis of traditionally low tariffs, frequently insufficient to cover operating costs.

35. Some progress has been made in recent years. Between 1960 and 1968 the number of towns without any public water supply has declined from 558 with 845,000 inhabitants to 40 with 188,000 inhabitants; the number without any sewerage services has declined from 798 with nearly 1.5 million inhabitants to 254 with 1.2 million inhabitants. On the other hand, the services in towns which have them are usually inadequate. Capital requirements are heavy; the high public investment alternative in the Government's plan includes Ps 3.1 billion for the sector in 1970-72 (or $170 million equivalent).

36. The country's urban water supply and sewerage sector can be divided into first, a group of 15 cities with populations above 50,000 inhabitants which have organized their own municipal companies to provide such public services as water supply, sewerage, garbage disposal. These companies are generally well run. The Economic Development Fund (FONADE) has financed a number of pre-investment studies for these companies for submission to external lending agencies. (See page 27 for role of FONADE).

37. There are about 600 water supply systems in the smaller cities, which are under the control of the national water supply agency, the Institute of Municipal Development (Insfopal), recently transferred to the supervision of the Ministry of Health. These systems are run on a cooperative basis, with the cash profits of the few profitable systems partially covering the cash deficits of the majority and Government grants making up the difference. Their administrative competence is usually poor. The major source of funds for their investments is Government grants. The IDB has made two loans to Insfopal for $11 million but the program was carried out too slowly.

38. Third, there are the systems administered directly as municipal departments by the smaller municipalities. They are poorly administered. The tendency is for them to affiliate with Insfopal's system in order to get government funds. Fourth, there are the rural water systems, defined as those in towns of less than 2,500 population which are the responsibility of the Ministry of Public Health's rural water supply program, although some affiliated with Insfopal before the rural program was fully established. The Ministry has started a combination loan/grant program which includes technical assistance; the program's success cannot be assessed as yet.

39. In consultation with the Bank, Insfopal and the National Planning Department are studying the national water supply and sewerage sector to assess needs, identify problems, establish sector priorities, and prepare long-range goals and a short-term program. The results of this sector study should be available in 1970.

40. First priority should be given to the municipal companies. It is here, because of their size, concentrations of population, and managerial competence that the greatest benefits and institutional improvements can be achieved for given inputs of money and effort. This is also the category where the major obstacle to development of the sector - low tariffs - can be most easily overcome.

Telecommunications

41. Local telephone services are available in less than half of the 62 towns in the population range 10,000 to 20,000 and hardly any service is available in towns of less than 10,000 population. All they have is a long-distance office, and a telegraph office. Beyond urban boundaries, there is practically no telecommunications service of any kind.

42. Two main obstacles to development in this sector are fragmentation of organization, and tariffs. Regarding fragmentation, the responsibility for local telephone service rests with the Municipalities and Departments. In most centers, the Municipality administers the service. The eight largest centers with a total of about 90,000 lines, are giving reasonable service, but 53 other centers, with a total of 432,000 lines are in technical and financial difficulties because of the small scale of their operations. Each entity is left to make its own plans and find its own capital. The small entities are at a disadvantage in negotiating prices and financing terms with the international equipment suppliers.

43. Long distance telephone and telegraph services are the responsibility of TELECOM. It also operates 11 small local systems totalling 4,600 lines.

44. The various entities are responsible for determining their own tariffs, subject to the approval of the Ministry of Communications. The Ministry does not apply any yardsticks to check operating efficiency or rate of return on investment. The form of justification it requires is that the proposed tariffs are necessary to generate the cash for operations and to meet proposed debt service.

45. The officials in the Planning Department and in the Ministry appreciate the need for better and more concentrated organization of the sector, and are both undertaking the study of this problem.

Transportation

46. In 1950, there was no general network of surface transportation. Since then, a transportation network has been established, but it varies widely in quality. Thus, of 45,000 km of roads, only 5,000 km are paved; and of 3,500 km of railway track, much is in poor condition. There is also a lack of secondary and feeder roads to serve the main surface transportation network. On the other hand, air transport facilities are relatively well developed. There are no less than 652 landing facilities. Air freight traffic is static at only about 100,000 tons annually; and passenger traffic is growing at less than the annual growth rate of GDP. River transport is limited to the lower Magdalena, where it is experiencing a continuing growth of freight traffic. Pipelines transport most petroleum and petroleum products for domestic production and export. A new 100,000 b/d pipeline to take out the production of the Putumayo oilfield was opened in early 1969. Seaport capacity is expected to be adequate when some ongoing structural improvements are completed, but there are still delays at the ports owing to inefficient port operation, lack of coordination with railway and highway authorities in improving access to the ports, and the difficulty of scheduling arrival of bulk imports. The main obstacles to development in the sector are first, planning, organization and finance, the problems of which are under active study in seaports, river and air transport, but in process of operational solution in railways and highways. Thus highway construction was formerly very fragmented, for political reasons. In 1966, there were no less than 300 ongoing main highway projects; the number has now been cut to 100. It took a year to process a construction contract with each contract being subject to review by the Council of State; now, contracts can be let expeditiously by the Highway Fund, established as a semi-autonomous agency. Maintenance arrangements were also inadequate, but are presently being improved according to consultants recommendations and with new supplies of equipment. Financing of highways, traditionally below requirements has been very greatly increased, partly because the Highway Fund has some earmarked revenues, but mainly because of improvements in the general fiscal situation.

47. The Railways have a rehabilitation program, worked out with the help of consultants under which track is being improved from its generally poor condition, and rolling stock modernized and increased. The day-to-day management of the system in all aspects is also being improved under the advice of consultants but there is an urgent need for the appointment of a general manager which has been delayed since August 1969. Staff have been cut from 15,000 in 1964 to 11,400 today, but some increases are to be expected to improve quality of service and standards of maintenance. Some operational improvements have enabled the Railways to take advantage of growing traffic arising from Colombia's general economic growth and to bring down its operating ratio from 122 in 1963 to about 100 in 1969.[1] In October 1969, the Congress initiated and passed a law doubling the level of Railway pensions. It is unlikely that the Government will make payments under the law - which may be unconstitutional - but in any case we are seeking assurances that any such payments will be borne by the Government rather than the

1/ Operating ratio is costs of railroad operation, including depreciation, divided by revenues from railroad operation.

Railways. Looking ahead, the Railways are likely to suffer from the opening of certain highway links and also to gain from the improvement in their own services (which is already restoring the steel traffic to the Railways). Prospects for improved service remain considerable, as the Railways proceed with track rehabilitation and rolling stock investment under the current rehabilitation program, but more attention is required to the commercial side of the operation.

48. Turning to urban transportation, Colombia has hitherto been preserved from extreme urban traffic congestion because the urban population is not concentrated in one or two very large cities but is spread among 30 cities of medium to large size. Restrictions on the importation of private cars have also helped to maintain traffic congestion at tolerable levels. However, the cities have been growing at rates ranging up to 12 percent in some of the small cities, and as high as 7 percent even in the three largest cities of Bogota, Medellin and Cali. The improvement in Colombia's balance of payments is likely to increase the supply of vehicles, and rising economic activity will create more traffic. Thus, urban transporation is now recognized as a problem requiring study and corrective action.

Education

49. The illiteracy rate fell from 38 percent in 1951 to 27 percent at the last census in 1964 (15 percent in the cities, 41 percent in the countryside). In 1968, the educational system was able to enroll 70 percent of the respective age groups at primary level, 21 percent in secondary, 3.5 percent at college level - in each case, these percentages represented increases in relative coverage since 1960 of one fifth at the primary level, and a doubling in secondary and higher levels. Dropout rates are still high - around 75 percent in primary and secondary, and 55 percent in higher education. Colombia's educational problem is thus partly one of the quantity of education, still more one of quality.

50. The objectives of the government's educational plan are to achieve by 1974 the quantitative goal of increasing the coverage of the system from 75 percent to 100 percent at the primary level of the respective age group, and to double the capacity of the secondary level which would permit the enrollment of up to 500,000 primary school leavers annually. With this, the quality of education is to be improved, so as to reduce the dropout rate in primary and secondary education from 75 percent to 60 percent. At the secondary level this is to be associated with a general change in the character of education to meet the middle level production requirements of the economy, both in general secondary education and by the expansion of technical education as such - a goal which accords well with the Bank's own analysis of Colombia's manpower requirements.

Population

51. Colombia's population of 21 million is the third largest in Latin America, and is growing at around 3.3 percent, as compared with 2.9 percent for Latin America as a whole. As Colombia still has plenty of unoccupied land, the problem is not the total size of population as such, but its rate of growth which requires large investments to offset it. Natural growth has combined with internal migration to create high growth rates in the cities. In 1964, Colombia had 16 cities of over 100,000 population, with growth rates ranging up to 10 percent in some cases, and averaging 5.5 percent. Looking ahead, the rate of population growth is likely to increase by the late 1970s to 3.6 percent, on account of decreasing mortality rates, unless fertility rates can be reduced. Such efforts did not start until 1964 in Colombia, when the Association of Medical Schools (ASCOFAME) decided to offer family planning services through university hospitals and associated health centers. In 1966, the present Government entered the field through its Maternal and Child Health Services, and also as coordinator of ASCOFAME's activities. Public agencies started to provide family planning services for their employees, and the Social Security Institute, with health centers serving one million people, is introducing family planning services.

52. While these activities are still proceeding, the religious and cultural obstacles to family planning have increased in the past year. It is likely that family planning will continue to make progress, but at too slow a pace. The family planning agencies have encountered, even in remote areas, a very positive response to information that family planning is possible, and to the provision of services. It remains to be seen whether the Government's efforts can be sharply accelerated without producing counteraction.

Agriculture

53. Agriculture accounts for about 30 percent of GDP, 50 percent of industrial raw material, 96 percent of the country's food supply, and more than half of its employment opportunities. Coffee output has been deliberately restrained to zero growth rate by taxation now at 51 percent of the value of output. Non-coffee output has grown at 4 percent by extending the area under cultivation by traditional methods; modern agricultural practices were not initiated on any scale until after World War II.

54. A new chapter in agriculture began in the early 1960's with the establishment of the Agrarian Reform Institute (INCORA) which combined redistribution of land with the application of capital, supervised credit, and technical assistance. INCORA settled 100,000 farm families (equivalent to 5 percent of the rural population) on 3 million ha in 1962-69, and will settle another 25,000 families in 1970. INCORA had overemphasized capital intensive irrigation projects, but following a review of its program by the Bank in 1967, is placing more emphasis on supervised credit programs, and on extensive land settlement in frontier areas.

55. Because of the improvements made in general economic policy in recent years, Colombian agriculture operates within a reasonably favorable general policy context. The exchange rate is not unduly overvalued; interest rates are positive at levels acceptable to the farmers; the more deterrent of price controls have been removed, or their level raised. What has been lacking are policies and institutions which will actually stimulate agricultural development. In the past three years, the Government has taken steps towards providing such supporting measures, through more effective price support, more credit on a supervised production basis, and more emphasis on research and extension. However, now that these moves are under way, we need to investigate not only whether they are effective, as they appear to have been in bringing about substantial increases in rice and cotton output, but whether they have been effective at undue cost in terms of open or concealed subsidies.

Industry

56. Colombian industry is largely owned and operated by Colombians, less on account of official restrictions on foreign investment (there was no comprehensive machinery for control of foreign investment until 1966) than of the development over the past 70 years of native entrepreneurship.

57. Industry accounts for about 19 percent of GDP, about in line with other countries at a similar level of per capita income, such as Taiwan, Lebanon, Philippines and Turkey, well above the levels in African areas, slightly higher than in Central America, above Peru but below Brazil. The industrial growth rate has been relatively slow in recent years (7.7 percent annually in 1957-66) by comparison with some other developing countries. However, this is partly because industrial development started in Colombia around the year 1900, whereas other developing countries started their industry later and developed it more rapidly, to achieve a similar level of industrialization today. Another reason for the slow recent growth of Colombian industry is a lack of foreign exchange during the past decade of low coffee prices. Since 1962, the scarcity of foreign exchange for the private sector has been somewhat mitigated by US program loans and by foreign loans for capital goods imports, channelled to banks and DFC's through the Private Investment Fund. Special arrangements have also been made since 1968 to mobilize additional domestic resources for industry, through IFI, the public DFC.

58. Since 1966, non-coffee exports have also been increasing, and the outlook is now for a coffee boom. The combination of these influences promises well for manufacturing industry, in the sense of broadening both the domestic market and increasing the availability of inputs. The prospective boom conditions are likely to alter the structure as well as the general growth rate of Colombian industry. Hitherto, consumer goods industry has dominated the pattern of industrial development, and this was appropriate to the scale of Colombian industry. However, as the market emerges or grows, the scope for developing intermediate and capital goods industries on a selective basis grows and it is likely that development will increasingly take this course.

59. The problem before the Government is to maintain policies encouraging such development where appropriate, but not to the extent of promoting industries which, even after their period of infancy, will never become competitive. Industrial policy has never been coherently thought out, and the Government is concerned to remedy this. For instance, protection by quantitative restrictions as well as by customs duties appears to be less a deliberate policy than the incidental consequence of a long period of exchange difficulties. In other words, import restrictions which were imposed for balance of payments reasons have come incidentally to serve a protective function. Also obscure is the extent to which protection has resulted in over-investment in uncompetitive industries. There is some evidence that high levels of protection are afforded to industries which are competitive, while on the other hand, uncompetitive industries have not become financially viable, even with the benefits of protection. For whatever the reason, however, over-investment in uncompetitive industry has not gone too far in Colombia.

Petroleum and Mining

60. The mining sector outside of petroleum, is quite small, the total value of its output in 1968 being no more than about $50 million equivalent; primarily coal, gold, limestone, platinum and emeralds. Hanna Mining and Chevron have proposed a $100 million investment in nickel mining to be shared with Colombian sources and IFC (see section on IFC, page 29), which would almost double the value of Colombia's non-petroleum mineral output. Colombia's mineral possibilities in general are largely unexplored.

61. The petroleum sector is dominated by foreign companies, with the state-owned Colombian company (Ecopetrol) accounting for 16 percent of production. The volume of production in 1968 was 64 million barrels, projected to increase to 94 million barrels in 1972. This projection reflects declining output from old fields offset by rising output from the newly exploited Putumayo field in south-west Colombia, which has added 300 million barrels to Colombia's 700 million barrel proven reserves. The value of oil exports declined from $80 million in 1960 to $36 million in 1968. While exports may rise slightly in the immediate future, the tendency to decline will continue thereafter because of the steady increase in domestic consumption - unless of course further new fields are discovered.

62. The main policy issue in this sector has been that of penalty exchange rates, first, applying to the petroleum companies' payments in Colombia for supplies, salaries and taxation. As the general exchange rate depreciated, this spread became wider, until in 1966 the general rate was almost double the petroleum rate and the spread was a real deterrent to petroleum investment. However in 1967, this disparity was eliminated. Meanwhile another penalty rate has arisen in connection with the exchange rate applied to Colombian "imports" of crude petroleum for domestic uses. This has undesirable effects (already noted in section A, page 6) on the price of fuel, and the base for fuel taxes, but it also, of course, affects the profitability of the petroleum companies.

C. EXTERNAL AID

63. In the 1950's, Colombia depended for external aid upon the Bank and the U.S. Eximbank. The Development Plan of 1961 required external assistance on a much larger scale than Colombia had previously received, and the Bank, after its review of the Plan, agreed to form a Consultative Group consisting of AID, IDB and the ten European countries plus Canada and Japan which were the principal suppliers of capital goods and which were expected to play a substantial role as sources of financing. However, the formation of the Group coincided with the start of the Alliance for Progress, which meant that the AID and IDB came in with substantial lending programs in Colombia.

64. While the supply of aid from Washington thus increased, the initial demand for project assistance from Colombia turned out lower than expected, because of delays in project preparation, and in the availability of domestic financing for projects. Thus while over $200 million of annual project loan commitments had been forecast as required from the Consultative Group, actual commitments were only $136 million in 1963, declining steadily to a low of $57 million in 1965, and then rising again to a level of $117 million both in 1966 and 1967. Bilateral lending from the country members of the Group averaged only $20 million annually in 1963-67.

65. Since 1968, however, the total of project lending is maintaining a higher commitment level, thus opening some room for a more active use of long-term export credits from bilateral lenders. The Bank itself has taken steps to mobilize these by its joint financing arrangements for three projects in the past two years.

66. As indicated in the following table, project loan commitments approved by members of the Consultative Group were $271 million in 1968 and $197 million in 1969, and a preliminary Project List calls for commitments in 1970 of $317 million. In addition, AID has made program loan commitments of $73 million in 1968, $85 million in 1969, and has indicated the intention of committing $60-80 million in 1970. Disbursements of long-term official assistance, project and program, grew from an average of $125 million in 1963-67 to $165 million in 1968, and an estimated $240 million in 1970.

67. Project loan commitments in 1969 were based on the Project List presented to the Consultative Group with the December 1968 Bank economic report (WH 188-a) and as subsequently revised in July (IBRD document COL-69-5). The 1968 economic report had recommended to the members of the Consultative Group that they should support Colombia's external borrowing program through 1973 as presented in that report, subject to the maintenance of the expected level of economic performance.

EXTERNAL FINANCING FOR DEVELOPMENT PROJECTS,
ACTUAL 1968-69 AND PROJECTED 1970
(Millions of U. S. Dollars)

Sector and Lender	1968	1969	Preliminary Project List 1970
Agriculture	14.9	51.1	26.0
IBRD	....	35.3	....
IDB	10.8	13.7	16.0
Other	4.1	2.1	10.0
Communications	2.2	15.3	3.6
IBRD	....	....	...
IDB	....	....	....
Other	2.2	15.3	3.6
Education	14.2	....	12.8
IBRD	7.6	....	6.5
IDB	6.6	....	6.3
Other	...	....	...
Industry	27.5	55.1	30.9
IBRD	12.5	25.0	5.0
IDB	10.0	....	...
Other	5.0	30.1	25.9
Power	126.0	26.8	108.0
IBRD	36.0	....	52.0
IDB	58.8	....	20.0
Other	31.2	26.8	36.0 b/
Transportation	52.0	36.0	88.3
IBRD	35.5	....	28.0
IDB	12.7	32.2	26.6
Other	3.8	3.8	33.7
Water and Sewer	17.0	12.6	25.5
IBRD	14.0	....	25.5
IDB	...	9.0	....
Other	3.0	3.6	....
Other Sectors a/	17.2	0.3	22.3
IBRD	...	...	....
IDB	12.2	0.3	6.0
Other	5.0	...	16.3
TOTAL, ALL SECTORS	271.0	197.2	317.4
IBRD	105.6	60.3	117.0
IDB	111.1	55.2	74.9
Other	54.3	81.7	125.5

a/ Includes housing and preinvestment studies financing.

b/ Includes $22.8 million parallel financing for the Chivor Project.

68. The 1968 economic report also included outline Project Lists for 1970-73, and the preliminary Project List for 1970 is broadly in accordance with the outline list for 1970, save for changes in project timing and amounts inevitable in the process of project preparation.

69. Turning to the qualitative assessment of the performance of the members of the Consultative Group, AID has been performance-oriented in recent years, seeking as conditions for its lending policy measures of the kind recommended in Bank economic reports, and basing its program loans upon policy understandings between the Government and the Bank, as in other countries AID lending has been based on letters from the borrowing governments to CIAP. CIAP is now blending into the Colombian picture, with an observer from the OAS secretariat attending reviews of Colombian economic performance conducted by the Bank. The role of the Bank is to act as honest broker between the Government and AID at the request of both.

70. The IDB is content to leave concern with general economic policy to the Bank, though sometimes it will follow the Bank in project level conditions. The IDB is much concerned with problems of loan administration and disbursement, for which it maintains a resident mission of 15. The IDB is somewhat changeable in its lending preferences, making its first loans in Colombia for housing, water supply and agrarian reform, but subsequently abandoning water supply and housing, in favor of power and transportation. This switching between sectors is also fostered by a practice under which the IDB will not make a new commitment in Colombia in any sector where it already has a loan with more than 50 percent undisbursed. The Bank has endeavoured to adjust its own lending to these changes (see Bank Plan).

71. The country members of the Consultative Group, other than the U.S., have not concerned themselves directly with anything beyond the provision of finance, recently on terms which are long for supplier credits (10-15 years). They have been ready to cooperate with the Bank in three joint financing operations, providing a total of about $20 million in association with $50 million of Bank lending in FY 1968 and 1969. A parallel financing operation is now in prospect for FY 1970 for the Chivor hydro project, in which about $23 million of parallel financing would be associated with a Bank loan of $52 million.

72. There has been close coordination between the Bank and the IMF since the start of the Consultative Group, and both agencies consult over their recommendations to the Government.

73. Turning to technical assistance, the Colombian Planning Department estimates that from 1950 to June 1967, Colombia received \$67.6 million of technical assistance, \$22.6 million from UN sources, \$5 million from the OAS, and \$40 million of bilateral assistance. In the two years ended June 1969, the estimates show a further \$39.4 million of technical assistance commitments, of which \$ 7.4 million was from UN sources, \$2 million from the OAS, and \$30 million from bilateral sources. These figures exclude the technical assistance element in IBRD and IDB loans, estimated to total another \$20 million. The country has also received technical assistance from the major US foundations, such as Rockefeller Foundation for agricultural research purposes. The Ford Foundation has financed the activities of the Harvard Group, which is engaged primarily in sector work in the Planning Department.

74. A projection of Colombia's external borrowing requirements over the next 15 years is given in the Annex. Levels of assistance projected follow consultations with AID and IDB; the latter agency has indicated that it may be ready to lend up to \$75 million, or more than the \$50 million we have projected, if it can obtain projects suited to its preferences. Projections of lending from other sources are in line with experience and reasonable expectations. Terms of lending used in the projections are abstracted from recent experience with lending to Colombia. (See page 1 of Annex.)

75. The Annex provides a balance of payments projection, related to GDP growth targets through an import coefficient. The export projections assume, first, a coffee price of 50¢ throughout, with export volume constant at the maximum permissible under the Coffee Agreement. This is an abstraction of the Colombian Coffee Federation's expectation that the International Coffee Organization will be able to moderate the present boom, which will tend to raise prices over the next three to five years above the 50¢ level, and then establish a new long-term conventional level of coffee prices of around 50¢. Should international action not be able to control the situation, coffee may rise much higher than 50¢ in the next few years (and then fall further). Other export receipts are projected to rise by \$50 million annually, a forecast that takes account of minor export growth rate of 20 percent through 1974, offset by declines in receipts from petroleum as domestic consumption increases.

76. On this program, minor exports would rise from about one-third of total commodity exports in 1969 to more than half of exports in 1974, increasing their relative position only gradually thereafter. Whether Colombia can achieve this radical change in the structure of exports over the next four years depends in the first instance upon her own policies of export promotion . . . and also upon appropriate policies to support the growth of exportable output, particularly from the agricultural sector. Industrial minor exports

grew at 50 percent in 1966-69, or nearly twice the growth rate of total minor exports and accounted for about one-third of the total in 1969. Agricultural minor exports, accounting for nearly 60 percent of the total, grew at 26 percent in 1966-69, or roughly the same growth rate as total minor exports. The remaining 10 percent of minor exports are miscellaneous items which we have not yet analyzed, and which have grown quite slowly. Thus, it appears that industry has an elastic supply which is responsive to export promotion policies, while in agriculture supply is less elastic and depends more on conscious efforts by the Government to provide support in the shape of credit, price support and storage arrangements. Market limitations are not yet a problem except, of course, in textiles, as both agricultural and industrial minor exports are very diversified, with only sugar and cotton each accounting for more than $20 million annually. It may also be noted that these exports depend primarily upon domestic inputs of raw material. This is obviously the case with agricultural exports, while with industrial exports, consisting of cement, minerals, paper, textiles, pharmaceuticals and mechanical and metal manufactures, only the last two items are dependent to a considerable extent upon imported materials, and this dependence will decrease when the Paz del Rio steel mill enters upon the production of cold rolled products in the near future. Export development has not hitherto been much focussed upon the export of services, and there may be a considerable tourist potential which the Colombians are beginning to exploit, but which we have not yet studied. However, even today, it appears that the number of tourists visiting Colombia is already half as great as the number visiting Brazil.

77. Total exports are projected to rise by 15.5 percent in 1970, reflecting the initial effect of higher coffee prices, declining to an overall growth rate of 5.5 percent annually starting in 1972. Imports are forecast to increase by 13.5 percent in 1970, reflecting the country's ability to meet repressed import demand because of higher coffee receipts, and the likely maintenance of U.S. program lending at a substantial level. The growth rate of imports of goods and services (excluding capital service) is then projected at 4.5 percent annually starting in 1972.

78. This is less than the forecast GDP growth rate of 5.5 percent after 1975, and would reduce the proportion of imports to GDP from 14.7 percent in 1969 to 13.7 percent in 1984. This decline is not unrealistic in the light of experience. In 1964-69, when the growth rate of GDP was about 5 percent, the ratio of imports to GDP averaged about 14 percent.

79. This projection of GDP growing at a rate of 5.5 percent per year after 1975 reflects forces which have actually been operating within the Colombian economy. It helps to establish the reasonableness of the hypothesis that per capita income will grow at a significant rate in Colombia over the longer term, while dependence upon foreign capital inflow to maintain such growth is progressively reduced. Under this proj-

ection, the absolute level of external debt would, in fact, stabilize around 1985 and foreign capital inflow, as a percentage of investment or GDP, would progressively decline from 1975 onwards. This prospect for decreasing dependence upon foreign capital inflow, supported both by a growing volume of domestic savings and growing exports relative to imports, gives quantitative expression to our conclusion that Colombia can be considered creditworthy for capital inflows of a substantial magnitude. This projection indicates that the debt service ratio would rise from 13 percent in 1969 to nearly 18 percent in the early 1980's and would decline thereafter. The debt service ratio would rise somewhat less if we could assume that AID, which is currently providing on concessional terms over a quarter of Colombia's external financing, would maintain its present contribution or that IDA would assist Colombia. In fact, we have projected a sharp contraction in the AID contribution in view of the uncertainty about the continuance of the US-AID program and the special difficulties which the U.S. may have in justifying the continuation of program lending during the coffee boom, and we have made no allowance for possible IDA allocations under expanded replenishment.

80. This is a projection of a view of Colombian prospects which we have formed in recent years, and which was presented in a comprehensive manner in our 1968 economic report. However, that view did not take account of the present likelihood that the Colombian growth rate may rise as high as 7.5 percent in 1970, suggesting that the Colombian economy is capable of growth rates of 7-8 percent in the future, as compared with the 6 percent which has been the conventional target of recent years. The Government may wish to move towards higher growth objectives if it focusses seriously on the problems of employment, following the likely recommendations of the ILO mission.

81. This kind of prospect is, however, in the realm of speculation rather than immediate operational significance. The Government is in fact proceeding on the basis of the present external borrowing program, and has proposed in the draft 1970-72 plan that the debt service ratio should not be programmed to exceed 20 percent.

D. **BANK PLAN**

82. The plan proposed for $373 million of Bank lending in 1971-75 is consistent with the limitation on the Bank's risk, confirmed as reasonable in the 1969 CPP review, that the Bank's share in Colombia's external debt should not exceed 36 percent in 1972. On the basis of the Annex projections, this lending program would maintain the Bank's share at 36 percent through 1972, declining thereafter to 33 percent. In terms of the Bank's share in total debt service, this is presently about the same as the Bank's share in total debt, because the structure of Colombia's external debt is exceptionally favorable, thanks to concessional assistance from AID and IDB. However, with the projected phasing out of new AID commitments in the near future, the average terms of Colombia's debt will tend to harden, thus reducing the Bank's share in total debt service somewhat below its share in total debt (see Annex).

83. Over 80 percent of Colombia's external debt is held by official sources, i.e. AID, Eximbank, IDB, IBRD, and a small proportion with European official agencies such as the Kreditanstalt. This means that on the one hand the debt structure is exceptionally good, but on the other hand, also exceptionally rigid, because it is easier to arrange the rescheduling of supplier credits than of official debt. Also, having loaned initially on very favorable terms, official lenders to Colombia are likely to feel that more should not be expected of them.

84. The considerations governing medium and long-term creditworthiness were discussed in sections A and C of this paper, to arrive at fairly positive conclusions. There remains the question of temporary exchange difficulties which may threaten to interrupt the flow of debt service. Difficulties of this kind recurred frequently in the decade following the major exchange crisis of 1957 (without, however, interrupting official debt service), because Colombia's exports and reserve position were weak throughout this period. However, exports have greatly increased in the past two years, and the reserve position has changed from a net negative position in 1962-67, to an increasingly strong positive position today (see page 7). Thus, Colombia should be in a better position to avoid temporary difficulties in the future than in the past. However, the recurrence of such difficulties cannot be ruled out, and the rigidity of Colombia's debt structure suggests that in times of exchange difficulty, we shall be relying primarily upon Colombia's traditional scrupulousness in meeting official foreign obligations, coupled with her ability to restrain imports in favor of debt service, rather than upon preferential treatment for Bank debt.

85. Whereas formerly the total lending program has been specifically allocated to projects, an unallocated amount of some $50 million has been included for the later years, by eliminating all projects where there remains a substantial doubt that the Bank has a useful role to play. The

reason for this is that we are about to send a major economic mission to make a comprehensive program of preinvestment studies, and this mission is bound to identify new project possibilities for the Consultative Group, some of which will doubtless be particularly appropriate for the Bank.

86. Within the context of the Consultative Group, projects have been selected for the Bank on the ground that the Bank had an institution building or sector policy contribution to make, or that other sources of long-term financing were not available, or both. These considerations have led to the shaping of the proposed Bank lending program on lines already defined in the 1969 CPP, namely to include substantial lending in agriculture and water supply projects, where the Bank cannot make a significant contribution to the costs of projects without undertaking local currency financing. Hitherto, it has been possible to make a strong case for local currency financing on country grounds in Colombia, namely the country's effort in mobilizing domestic resources, and its need for foreign exchange. This country case cannot be updated until we have on the one hand, a firmer forecast of coffee prices than is presently available, and on the other hand, until the Government adopts one or other of the alternative investment programs presented in the 1970-72 plan, clarifications which await the work of our February 1970 economic mission. Of the two loans proposed for the current fiscal year which include the financing of local cost, the Second Education loan of $6.5 million includes less than $1 million of local cost financing, justified essentially on the ground of maintaining the proportion of Bank financing at the same 50 percent proportion of total costs as in the first loan. The other case of local cost financing in FY 1970 is the $25 million package of loans for water supply in medium sized cities, half of which would be for the financing of local cost. However, by the time this is ready for Board presentation at the end of the fiscal year, the economic mission may have confirmed the country case.

87. The institutional and policy objectives of Bank lending are largely oriented towards the solution of sector problems discussed in Section B.

88. With respect to the programming of preinvestment studies, both the Bank and the Colombian authorities have sought to foster mechanisms which will take care of such programming in a rational and routine manner, both in the sectors and in the Planning Department. The sophistication and comprehensiveness of these mechanisms varies a good deal as between sectors. They are probably most adequate in <u>power</u>, where Interconexion Electrica, S.A. is making an investment program for two-thirds of the sector by relatively sophisticated comparisons of alternative programs, and where ICEL does a sound job of programming for the smaller companies forming the rest of the sector. In <u>industry</u>, the six large DFC's

do a competent job of reviewing preinvestment studies. In transportation, the Bank and the Government have worked together to establish a central machinery for selecting and preparing investment programs in the Ministry of Public Works (for highways) and in the National Railways. In agriculture, the Agrarian Reform Institute is an effective machine for preparing studies in the irrigation/land reform portion of the sector, and with Bank assistance, the Caja Agraria is formulating national programs in livestock. However, in telecommunications, and water supply and sewerage, the establishment of effective mechanisms for sector programming awaits the outcome of ongoing and proposed studies of the organization and planning of the sector.

89. To fill in gaps in the effectiveness of sector machinery, the Planning Department has established its Economic Development Fund (FONADE), which acts as a channel for substantial financing for preinvestment studies from AID and IDB. FONADE lends for studies programmed by the competent agencies, but also acts as a programming mechanism for the sectors or portions of sectors, where such machinery is defective. Thus, the Bank's lending program in water supply for medium-sized cities results from FONADE's activities in study preparation.

90. The chances of making the current year's lending program by next June are still good, though the tendency within the Bank is for the dates of Board presentation to slip towards the end of the fiscal year, and this slippage of loan negotiations towards the end of the fiscal year will leave little time to resolve unexpected problems which may arise with borrowers, the Government, or the Inter-Parliamentary Commission.

91. The distribution of the proposed lending program by sectors is as follows:

	FY 1971-75 ($ Millions)
DFC	90
Water and Sewerage	70
Agriculture	65
Transportation	57
Education	20
Power	15
Telecommunications	7
Unallocated	49
	373

Development Finance Companies ($90 million)

92. DFC's play a very significant role in channelling finance into industrial development. There is one major publicly-owned DFC, the Instituto de Fomento Industrial (IFI), which has recently been given special regular access to a substantial flow of private savings mobilized through official savings bonds. There are no less than 9 private DFC's

established in the various regions of Colombia.

93. Since 1966, the Bank has been lending through the PIF to the five older established DFC's and a first loan for IFI is included in the fiscal 1970 lending program. The 5-year lending program proposes a maintenance of our current lending rate to the private DFC's plus small amounts for IFI. The limits on this program are determined by the overall limits on Bank lending to Colombia; the demand for finance is bound to be increasing with the prospective acceleration in the rate of growth of the economy and the supply of external financing from other members of the Consultative Group has been distinctly limited, even though the Government has established a channel for external assistance to DFC's and other intermediaries in the shape of the Private Investment Fund (PIF) (through which the Bank lends), to which it is ready to offer guarantees of foreign borrowing. The IDB is more interested in small industry than in the medium to large scale industry served by the PIF while AID is concerned with program-type lending. The other members of the Consultative Group are providing mainly export credit financing, but on terms unacceptably short to the PIF, because export credit terms are related to size of individual orders which with Colombian manufacturing projects, is generally quite small by international standards. Thus the Bank is meeting a need for external financing of DFC's.

94. In the strategy of Bank lending to DFC's, we have been concerned that the price structure within which industry operates shall be such as to encourage industrial development on sound lines, especially to take advantage of export possibilities. This structure is mainly determined by general economic policy, rather than by policies specifically directed towards the industrial sector. Thus, we have been concerned that interest rates to industry should be positive (at 10 percent in real terms), after taking account of the rate of domestic price increase; that the exchange rate should not be unduly over-valued, in order to promote exports and avoid the excessive development of industry based upon imported inputs; and that there should prevail a condition of reasonable stability in the domestic price level; and that import licensing should not be too restrictive. In the future we intend to explore more deeply modifications in tariff policy.

95. With regard to lending for industrial projects other than through DFC's, this has been confined in the past to one loan of $30 million to finance the Paz del Rio steel mill's second stage expansion program. Many initial difficulties with this project are being overcome, thanks to managerial improvements. For the future, as imported equipment for major industrial projects is essentially suitable for long-term supplier financing, which it is the purpose of the Consultative Group to mobilize, it is doubtful that the Bank should plan to finance such projects, unless some particularly large projects of special significance should call for Bank participation. Otherwise the field would be open for IFC.

IFC

93. IFC has invested in more companies in Colombia than in any other country, but the average investment approved per company, at just over US$1.0 million, has been small. 18 investments have been approved for a total amount of $19.6 million, of which 5 investments totalling $5.6 million were in 5 development finance companies. Excluding DFC's, there have thus been 13 investments approved for a total of $14.0 million, of which 4 totalling $2.7 million have been closed out, leaving 9 investments totalling $11.3 million. Of these nine enterprises, two are city hotels to improve conditions for tourists and businessmen, one is a hotel and tourist promotion company, two are important companies in the fibers and textile field, and the remainder are biscuit manufacturers, a producer of mattresses and beds, a steel forging plant and a beef cattle raising and fattening concern. These diverse projects have in common the function of saving or earning foreign exchange for Colombia and thus easing the country's overdependence on coffee exports. The textile companies have been the most successful from both the development and the profitability standpoints. The forging plant (Forjas de Colombia) has suffered from the failure of the Colombian market for forgings to develop as rapidly as had been hoped. It is in operation but not yet profitable.

94. IFC's future investments in Colombia will continue to be oriented towards development and the improvement of the country's foreign exchange position. In line with IFC's current policy and because the Colombian development finance companies can now handle the small investments, it is expected that new IFC investments will tend to be larger than hitherto. Further investment in the development of tourism in Colombia is contemplated. The only major project in the pipeline at the moment is participation in a nickel mining project in the Cordoba Department, some 200 kms north of Medellin. Consideration of this project, which could involve IFC in an investment exceeding US$10.0 million, awaits the successful conclusion of negotiations between the Colombian Government and the U.S. companies promoting the project (see sector discussion, page 18).

Water and Sewerage ($70 million)

95. The Bank financed the first stage of the Bogota water supply project in FY 1968 (in association with joint lenders), and a loan for the second stage was planned for FY 1971. The first stage project is increasing the water supply by much more than originally estimated, and on this basis, it was proposed that the Bank loan for the second stage be postponed until FY 1973. On the other hand, a recent consultant's report indicates that demand is also growing more rapidly than originally projected. On the basis of this revised demand projection, the second stage

of the project would still require a Bank loan in FY 1971. However, the Government is presently considering how to allocate fiscal resources between water supply development in the capital, and in the provincial cities, and may wish to risk some water shortage in Bogota, in order to provide for requirements elsewhere. In the next few weeks, we shall examine the projections of demand for water in Bogota, while the Government will clarify its policy on the balance of central and provincial development. Pending these clarifications, it is proposed that the Bank loan for the second stage remains postponed until FY 1973.

96. In FY 1970, the Bank is also initiating lending to medium-sized cities, with a first $25 million package of loans to those cities, to be followed by other packages for which preinvestment work is proceeding, programmed and financed by the Government through FONADE.

97. The Bank is tackling the main sector problems in the course of its lending. With respect to organization of the hundreds of small entities, we have encouraged the Government to undertake its ongoing study of the entire sector. The rate problem is being dealt with by the Bank's general approach to public utility tariff regulation and by the conditions of specific loans. While large rate increases have been implemented without political difficulty in Bogota, there will be problems in some of the medium-sized cities, where large increases are needed, but where the public is less educated to the benefits of adequate rates. In these cases we have to approach the rate problem in our projects by small steps spread over long periods.

Agriculture ($65 million)

98. With its need and opportunity for technological improvement, Colombian agriculture is an appropriate field for the Bank's project lending, associated with substantial technical assistance and supervision. As indicated in the discussion of the agricultural sector, Colombian agriculture does not suffer from extreme policy distortions. It has thus been possible for the Bank to focus the conditions of its lending on obtaining specific improvements associated with its projects, such as relaxations of controls upon agricultural inputs and encouragement of foot and mouth disease control. It is proposed that the Bank continue this approach of identifying and bringing about specific improvements encountered in its project work, but which will tend to benefit the generality of farmers, as the scope of Bank lending becomes broader (as for instance, in the development of the proposed national livestock program).

99. In livestock, a Bank/FAO mission investigated the sector in 1965, and concluded a focus on livestock development was highly appropriate, bearing in mind the prospects for markets abroad, Colombia's large areas of cheap unimproved pasture, large stock of poorly tended cattle, and

total absence of long-term livestock credit. The Bank made a pilot loan of $16.7 million for livestock development in FY 1966, and a second loan of $18.3 million in FY 1970 extended the area for beef cattle development; made provision to deal with the difficulties in sheep and dairy farming encountered under the first loan; and approached certain sector problems such as foot and mouth disease, and the adequate supply of agricultural inputs to the ranchers. The Government has now asked the Bank to help with the preparation of a national livestock development program in the financing of which the Bank and other sources would participate. Two Bank loans of $15 million each (to be accompanied by lending from other sources) were previously forecast for FY 1972 and 1973, but a more realistic timing is now proposed, i.e. to put the second loan in FY 1974.

100. In irrigation, a $9 million loan for the first phase of the Atlantico project was made in FY 1967. Soil problems make it unlikely that the Bank will in fact proceed with a loan for as much as the $10 million forecast for FY 1971 for the second stage of Atlantico, though a final decision awaits a consultants' report.

101. In 1967, a Bank mission reviewed INCORA's entire development program, this being at the time when INCORA was the predominant public agency in agriculture. The mission reported that INCORA was over-focussing on irrigation, and should study the possibility of new irrigation investments only in the highly promising Cesar and Ariguani river valleys of northeast Colombia. These studies are proceeding, with the Ariguani project earmarked for IDB, and the Cesar project for the Bank, should this project prove feasible.

102. The report on INCORA also recommended priority for land settlement in the Caqueta-Putumayo area, and a $5 million loan for a land settlement project is forecast for FY 1971. Finally, the INCORA report recommended supervised agricultural credit, and the Bank has made one loan for $17 million for medium-sized farms in INCORA project areas. However, it is doubtful whether we shall continue lending for this purpose. The Bank loan was mainly for short-term crop credit, and we would prefer that future lending for this purpose should not be confined to land reform areas, but should be more broadly spread among commercial farmers. On the other hand, the Government prefers to provide general short-term credit for commercial farmers from domestic sources. The total of $35 million of future Bank lending for agricultural credit has therefore been shifted to the unallocated portion of the lending program, with the notion that the forthcoming Bank economic mission may identify other priority areas for Bank lending in agriculture, such as storage and marketing. However, the Government is understood to be preparing a study of agricultural credit, and the restoration of Bank lending for this purpose should be considered if this study indicates an appropriate role for external lenders to play.

Transportation (\$57 million)

103. The Bank has been closely concerned with the improvement of the transportation system, having made, since 1951, five loans and one IDA credit for highway construction of a total of \$103.6 million, and five loans totalling \$94.6 million for the railways (the first three of which were for the construction of the railroad to the Atlantic coast, the last two for rehabilitation of the entire system). The Bank's impact was notable at the beginning because of the absence of existing transport facilities, and even today it is very significant. Thus, the prospective sixth highway project in FY 1970 would increase the country's stock of paved roads by one-third.

104. Whereas formerly the Bank was virtually the only source of external financing in the sector, the IDB has come in as a major source of financing, first for ports, then for feeder roads, and more recently for two main highway projects. The financing of the railways ongoing rehabilitation program has also been shared between the Bank and long-term supplier financing from Spain and Mexico, plus coffee barter arrangements for rails with Poland. Long term supplier financing is also being arranged for road maintenance equipment.

105. Future lending for highways would be generated by studies being financed under the fifth, and to be financed under the prospective sixth highway loans. The sixth railway loan would continue the Bank's contribution to the railway's program of rehabilitating track and stock, and investment in cargo handling.

106. Working closely with the Government, the Bank has played a significant part since 1964 in helping to bring about improvements in the planning and organization of road and rail transport. In the future, it is proposed that the Bank's strategy should be to influence official policy in Colombia, so that the creation of excess capacity in transport infrastructure is avoided; that pricing policies do not overstimulate demand for transport capacity, or distort the distribution of traffic between different modes; that development of transport facilities in underdeveloped and frontier areas is closely related to complementary economic development of those areas; and that investment in roads is protected by enforcement of vehicle loading regulations.

107. With respect to urban transport, the Bank is executing agency for the first stage of a UNDP financed study of the urban development and transportation problems of Bogota. The first stage report will set forth a range of alternative development patterns for the Bogota metropolitan area. With each of these alternatives there will be associated a number of alternative transportation systems. The city and the central Government will then select their preferred alternative, which will be the subject of detailed development in the second stage

study, for which an application to UNDP for funds is now being prepared. The second stage is expected to generate projects, which may be suitable for external financing. With this in mind, a Bank loan of $15 million was proposed for FY 1972. However, as the Bank's role cannot yet be defined, it is now proposed that this amount be transferred to the unallocated portion of the lending program.

Education ($20 million)

108. The proposed education loan of $6.5 million in FY 1970 will assist in financing the second stage of a program to establish a nation-wide system of comprehensive secondary schools. The contribution of these schools will be large in terms of number of students covered, and also in terms of their effect in altering the character of Colombian education away from the humanities and towards technical subjects. The two loans of $10 million each proposed for the next five years would be for higher level technically oriented education, for which preinvestment work remains to be done. The loans may also include components intended to increase the internal efficiency of the whole educational system such as the introduction of integrated institutional television and educational data processing.

109. Bank lending has been associated with sector policy improvements in the development of the comprehensive high schools, such as altering university intake criteria to include technical streams; teacher training requirements; improvements in teacher salary levels; development of satellite schools to feed the Bank-financed schools. Sector policy requirements for future lending would depend upon the more precise identification of projects and their related problems.

Power ($15 million)

110. As long-term export credits are available for electric power equipment, the Bank (after 16 loans) is no longer indispensable as a source of financing, and its institution building role is presently in process of completion. Early Bank lending for power was directed mainly at building up the principal regional power systems oriented around Bogota, Medellin, Manizales and Cali, and more recently, to interconnect those systems and establish a company for the planning, construction and operation of the transmission network and generating plants of the interconnected system. Following the establishment of the Interconnection Company (Interconexion Electrica S.A.), the Bank made a loan of $18 million in FY 1969 to finance the transmission network; and in FY 1970, a second loan to Interconexion of $52 million is proposed, to finance its first generating plant. A third loan for power generation in the interconnected system is proposed for FY 1973, in an amount of $15 million. Though part of the centrally planned investment program, the plant would be owned by Medellin, as it represents the second stage

of a plant built by Medellin, with Bank financing. Bank lending for power since FY 1968 has been in association with joint financing from other sources - of about $16 million with the Bank loans of FY 1968 and 1969, and $23 million and $15 million respectively to accompany the Bank loans proposed for FY 1970 and 1973. As with Bank lending for water supply, lending for power projects is related to performance in public utility tariff policy.

Telecommunications ($7 million)

111. Bank lending is presently confined, and to be confined, to TELECOM, the national long distance telecommunications enterprise, with an initial loan of $16 million for an ongoing project made in FY 1967, to be followed by a proposed loan of $7 million in FY 1971 for the second stage. In the course of these operations, we are meeting the continuing need for institution building in TELECOM. However, we are also finding a need to influence developments in the sector as a whole and to achieve this, we may find in due course a need for more than the single loan forecast for this sector.

112. We are encouraging the study by the Government and by TELECOM of the problems of the sector (fragmentation and financial weakness) in order that a policy may be reached by which the smaller and weaker entities will merge either with larger local companies, or with TELECOM itself. As in other lending for public utilities, we are also concerned with public utility rate policy.

Population

113. When the Government's initiative for family planning was on the upswing in 1968, the Bank agreed to send a mission to identify a family planning project; but by the time of the mission's visit, religious opposition to family planning created a situation in which the Government could not agree to Bank financing of a project clearly related to and justified by family planning. The project identified by the Bank mission was for training health personnel (public health services) and the provision of health centers, one aspect of whose activities was family planning services. The Government would only accept Bank financing of a general public health program, with no check on the family planning aspects of such a program. The Government was advised that this would be unacceptable to the Bank. In the absence of a response from the Government on this point, it is proposed that the project be eliminated from the lending program.

South America Department
February 4, 1970

Attachment 1

Population, mid-1969: 20.9 mn.
Per capita GNP, 1968: US$280

COLOMBIA - ACTUAL AND PROPOSED LENDING THROUGH FY-1975
(Millions of Dollars)

		Through 1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73	Total 1971-75
Agricultural Credit I	IBRD	10.0															
Agricultural Credit II	IBRD							17.0									
Livestock Credit I	IBRD				16.7												
Livestock Credit II	IBRD								18.3								
Livestock Credit III	IBRD										15.0						
Livestock Credit IV	IBRD												15.0				
Atlantico Irrigation I	IBRD					9.0											
Atlantico Irrigation II	IBRD									10.0							
Cesar Irrigation I	IBRD										10.0						
Cesar Irrigation II	IBRD													10.0			
Land Settlement I	IBRD									5.0							
Communications I	IBRD					16.0											
Communications II	IBRD									7.0							
DFC I (private)	IBRD				25.0												
DFC II (private)	IBRD						12.5										
DFC III (private)	IBRD							25.0									
DFC IV (public)	IBRD								5.0								
DFC V (private and public)	IBRD									30.0							
DFC VI (private and public)	IBRD											30.0					
DFC VII (private and public)	IBRD													30.0			
Education I (Secondary)	IBRD							7.6									
Education II (Secondary	IBRD								6.5								
Education III	IBRD											10.0					
Education IV	IBRD													10.0			
Industry (Paz del Rio Steel)	IBRD	30.0															
Power I - XII	IBRD	155.8															
Power XIII (Medellin)	IBRD		5.0														
Power XIV (Medellin)	IBRD		45.0														
Power XV (Bogota)	IBRD						18.0										
Power XVI (Interconexion)	IBRD							18.0									
Power XVII (Chivor)	IBRD								52.0								
Power XVIII (Guatape)	IBRD											15.0					
Highways I - IV	IBRD	66.9															
Highways I - IV	IDA	19.5															
Highways V	IBRD							17.2									
Highways VI	IBRD								28.0								
Highways VII	IBRD										27.0						
Railways I - IV	IBRD	76.3											20.0				
Railways V	IBRD							18.3									
Railways VI	IBRD										10.0						
Bogota Water I	IBRD						14.0										
Bogota Water II	IBRD											25.0					
Medium Cities Water I	IBRD								25.5								
Medium Cities Water II	IBRD										20.0						
Medium Cities Water III	IBRD												25.0				
Unallocated	IBRD										19.0	10.0	20.0				
TOTAL	IBRD	339.0	50.0		41.7	25.0	44.5	103.1	135.3	52.0	101.0	90.0	80.0	50.0	161.2	481.4	373.0
	IDA	19.5															
	IBRD/IDA	358.5	50.0		41.7	25.0	44.5	103.1	135.3	52.0	101.0	90.0	80.0	50.0	161.2	481.4	373.0
	No.	23	2		2	2	3	6	6	4	6	5	4	3	9	27	22
IBRD LOANS OUTSTANDING																	
Including Undisbursed		293.7	320.4	315.8	350.7	364.2	395.9	481.2	597.7	631.1	710.7	776.1	829.1	850.0			
Excluding Undisbursed		126.8	167.0	207.3	233.3	250.4	274.4	298.1	368.2	440.9	506.2	564.8	620.4	673.4			
IDA CREDITS OUTSTANDING																	
Including Undisbursed		19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.3	19.1	19.1	18.9			
Excluding Undisbursed		4.1	7.3	9.3	11.8	17.1	18.9	19.5	19.5	19.5	19.3	19.1	19.1	18.9			

South America Department
1-12-1970

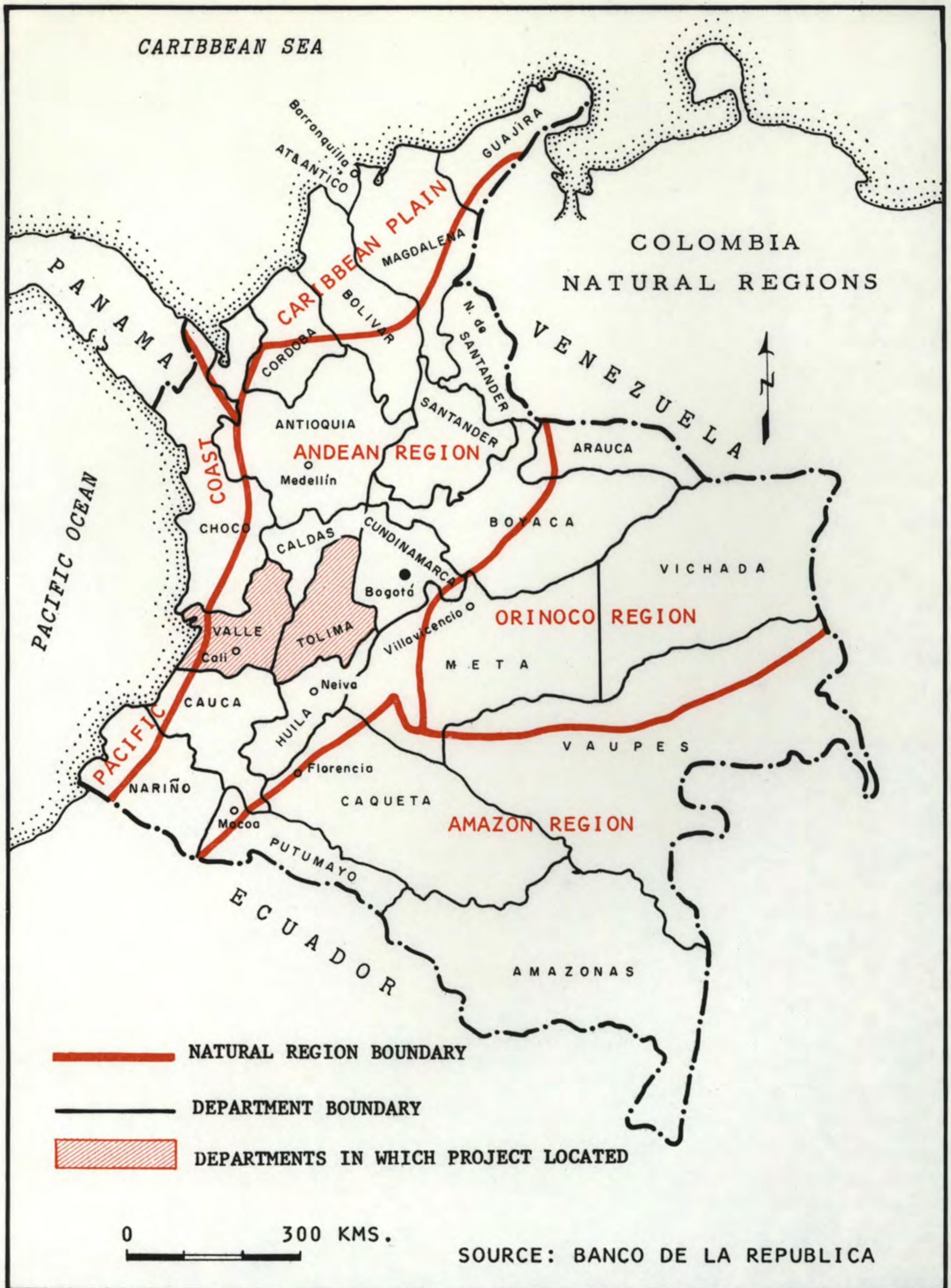
5-YEAR ECONOMIC DEVELOPMENT PROGRAM

Colombia

			Actual Data						Projected Data						Period Growth Rates	
			1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1964-68	1971-75
Population - growth rate	%	1	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
birth rate	per 1000	2	47	47	47	47	47	47	46	46	45	45	45	45		
Price Change - c.o.l. index /a	%	3	17.7	7.1	16.7	8.1	7.4	8.5							11.3	
exchange rate /b (pesos)	per US$	4	9.00	13.51	13.50	15.82	16.91	17.86								
Means of Payment - change	%	5	20.0	19.4	12.0	18.1	19.6									
GNP at factor cost; 1964 prices /c - Total	$ mil.	6	4,815	4,985	5,255	5,475	5,775	6,150	6,611	7,040	7,427	7,835	8,265	8,720		
per capita	$	7	270	271	277	279	286	294	306	316	323	329	336	343		
GNP at constant market prices /d - real growth rate	%	8	6.2	2.1	6.9	4.2	5.5	6.5	7.5	6.5	5.5	5.5	5.5	5.5	5.0	5.7
GDP at current market prices - Total /e	$ mil.	9	4,305	4,540	4,910	5,275	5,775									
Production Growth (real) - agriculture	%	10	5.8	0.2	3.6	7.1									4.2/f	
food per capita	%	11														
manufacturing	%	12	5.9	4.7	6.6	3.6									5.2/f	
GDP by Branch - agriculture /g	%	13	32.2	31.1	30.6	30.6										
mining	%	14	2.8	2.7	2.1	2.0										
manufacturing	%	15	17.9	18.3	18.2	17.2										
construction	%	16	3.6	3.6	4.2	4.9										
transport & communication	%	17	6.7	6.3	6.6	6.6										
public admin. & defense	%	18	6.0	6.0	6.3	6.3										
other branches	%	19	30.8	32.0	32.0	32.4										
Resource Gap/h	% of GDP	20	1.5	1.3	4.2	0.3	1.5									
Net Factor Payments /h	% of GDP	21	1.7	1.8	1.7	2.0	2.0									
National Saving - private	% of GDP	22														
public	% of GDP	23														
Total	% of GDP	24	14.9	17.5	15.8	17.1										
Marginal Saving Rate		25														
Consumption - private	% of GDP	26	77.1	74.8	75.8	74.3										
public	% of GDP	27	6.5	6.5	6.7	6.8										
Total	% of GDP	28	83.6	81.3	82.5	81.1										
Exports of Goods and Services	$ mil.	29	749	708	662	705	780	800	930	990	1,045	1,100	1,160	1,230	4.9	5.8
Imports of Goods and Services	$ mil.	30	-812	-646	-866	-688	-865	-925	-1,050	-1,120	-1,170	-1,225	-1,280	-1,335	5.5	4.9
Net Goods and Services	$ mil.	31	-63	62	-204	17	-85	-125	-120	-130	-125	-125	-120	-105		
Interest on Public Debt, Gross: Outflow (-)	$ mil.	32	-20	-21	-23	-26	-29	-37	-43	-50	-58	-68	-77	-85		
Other Investment Income, Net: Outflow (-)	$ mil.	33	-53	-58	-63	-80	-84	-63	-77	-75	-77	-77	-73	-80		
Net Investment Income: Outflow (-)	$ mil.	34	-73	-79	-86	-106	-113	-100								
CURRENT SURPLUS(+) DEFICIT(-)	$ mil.	35	-136	-17	-290	-89	-198	-225	-240	-255	-260	-270	-270	-270		
Long Term Private Capital, Net inflow /i	$ mil.	36	152	68	43	37	59									
Long Term Public Capital, Gross inflow	$ mil.	37	95	75	135	125	190	282	240	238	252	254	260	266		
less: amortization	$ mil.	38	43	37	44	51	78	67	74	70	78	85	95	107		
Net long term pub. cap. inflow	$ mil.	39	52	38	91	74	112	215	166	168	174	169	165	159		
Short Term Capital, Net inflow	$ mil.	40	69	-103	77	60	-11									
Other Capital, Net Inflow (incl. errors & om.)	$ mil.	41	-145	90	13	-13	58									
NET BALANCE	$ mil.	42	-8	76	-66	69	20									
IMF Drawings(+) Repayments(-)	$ mil.	43	-13	-24	4	34	21	5								
Foreign Exchange Reserves, Inc.(+) Dec.(-) /j	$ mil.	44	-21.0	52.0	-62.0	103.0	41.0									
Foreign Exchange Reserves, Net - Total /k	$ mil.	45	-122	-61	-95	-36	35	94								
Foreign Exch. Reserves, Gross - govt. entities /k	$ mil.	46	147	145	144	149	218	254								
comm. banks	$ mil.	47														
Total	$ mil.	48														
External Debt /m	$ mil.	49	895	1,000	1,020	1,085	1,275	1,475	1,700	1,900	2,070	2,215	2,340	2,470		
Debt Service Ratio	%	50	8.4	8.2	10.1	10.6	13.7	13.0	12.5	12.2	13.0	13.8	14.8	15.7		
Export Price Index (1963=100)	%	51	104	102	96	99	97									
Central Government /n - Current revenue	% of GDP	52	7.2	6.5	8.2	8.0	8.5	8.7	9.4	9.6	9.5	9.2	9.1	8.8	21.3	4.4
Current expenditure	% of GDP	53	5.4	5.0	5.6	5.1	5.5	6.0	6.4	6.5	6.8	7.0	7.2	7.4	15.6	11.8
Saving	% of GDP	54	1.8	1.5	2.6	2.9	3.0	2.7	3.0	3.1	2.7	2.2	1.9	1.4		
Capital revenue	% of GDP	55														
Capital expenditure	% of GDP	56	2.5	2.2	1.9	3.1	3.9	3.8	4.1	4.1	4.3	4.5	4.7	4.9		
Surplus(+) Deficit(-)	% of GDP	57	-0.7	-0.7	0.7	-0.2	-0.9	-1.1	-1.1	-1.0	-1.6	-2.3	-2.8	-3.5		
Military expenditure	% of GDP	58					1.1									
Education - expenditure (general government)	% of GDP	59		78			91									
school enrol., primary & second. /p	%	60														
literacy rate, adult	%	61					1.1									
Tax Revenue (general government)	% of GDP	62	5.9	5.4	5.6	6.6	7.0									
Public Saving (% of public fixed investment)	%	63														
Gross Investment - private fixed	% of GDP	64	13.2	12.6	12.6	12.4										
public fixed	% of GDP	65	2.9	3.1	4.1	5.2										
increase in stocks	% of GDP	66	1.8	2.0	3.7	0.7										
Total	% of GDP	67	17.9	17.7	20.4	18.3									18.2/f	
Finance of Investment - National saving	%	68	83.4	97.4	77.2	93.2									21.6/f	
Foreign capital	%	69														
private	%	70														
public	%	71														
Total	%	72	16.6	2.6	22.8	6.8									-5.5/f	
Change in reserves	%	73														
Public Investment by Sector - agriculture	%	74			23.0	24.0	24.0									
industry	%	75			7.0	8.0	10.0									
power	%	76			13.0	17.0	14.0									
housing	%	77			5.0	5.0	6.0									
transportation	%	78			33.0	29.0	24.0									
telecommun.	%	79			2.0	2.0	2.0									
education	%	80			4.0	4.0	5.0									
health	%	81			2.0	3.0	3.0									
other	%	82			11.0	8.0	12.0									

/a Consumer Price Index, Nation, 1958=100. /b Principal selling rate. /c GDP at constant market prices - 1968 prices. At the request of the area department, the 1968 exchange rate was preferred to the 1964 one. /d GDP. /e At current US $ - computed from the constant 1968 $ series and from the U.S. $ deflator. /f 1964-67. /g Including hunting, fishing, and forestry. /h From data expressed in U.S. $. /i Direct Investment and Long term Priv. Capital. /j Central Bank and Private Banks. /k Central Bank only. /m External Public Debt at end of year. /n From 1969, constant 1968 prices data were used. /p In 1965, Primary = 64%, Secondary = 14%. In 1968, Primary = 72%, Secondary = 19%.

January 26, 1970



MARCH 1969

IBRD 2093R2

COLOMBIA: CAPITAL FLOWS, RESOURCE TRANSFERS, AND DEBT SERVICE, 1969-84

This annex reproduces a balance-of-payments projection made in order to gain insight into Colombia's debt service obligations and foreign capital requirements during the next 15 years. Three tables are attached:

1. Balance of Payments Current Account, 1964-68 and 1969-74
2. Approval and Disbursement Projections, 1969-84
3. External Resource Gap and Capital Inflow Projections, 1969-84

Table 1 indicates recent payments performance along with a 5-year forecast. Table 2 specifies future commitment levels for various types of lending to Colombia, with estimated disbursements therefrom. These disbursements were fed into the computer along with the credit terms shown below to generate the debt service data shown in Table 3.

	Maturity/Grace Period/ Interest Rate
AID Program/Sector Loans	40/10/3.0
AID Project Loans	40/10/3.0
IDB, Ordinary Capital	15/ 5/8.0
IBRD	25/ 5/7.0
Other Project Loans	25/ 5/3.0
Official Export Finance	12/ 4/6.0
Suppliers' and Financial	6/ 1/8.0

Table 1: COLOMBIA: BALANCE OF PAYMENTS CURRENT ACCOUNT, 1964-68 AND 1969-74 a/

(Millions of U.S. Dollars)

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
F.o.b. Merchandise Exports	636.0	591.0	533.9	558.3	608.9	650	775	830	880	930	985
F.O.b. Merchandise Imports	-575.4	-423.5	-638.9	-464.3	-615.1	-700	-815	-875	-915	-960	-1,005
Trade Balance	60.6	167.5	-105.0	94.0	- 6.2	- 50	- 40	- 45	- 35	- 30	- 20
Service Receipts	112.6	117.5	128.1	146.9	173.5	150	155	160	165	170	175
Service Payments b/	-236.6	-222.9	-227.2	-223.9	-251.3	-225	-235	-245	-255	-265	-275
Net Services b/	-124.0	-105.4	- 99.1	- 77.0	- 77.8	- 75	- 80	- 85	- 90	- 95	-100
Exports of Goods and Services	748.6	708.5	662.0	705.2	782.4	800	930	990	1,045	1,100	1,160
Imports of Goods and Services b/	-812.0	-646.4	-866.1	-688.2	-866.4	-925	-1,050	-1,120	-1,170	-1,225	-1,280
Resource Gap	- 63.4	62.1	-204.1	17.0	- 84.0	-125	-120	-130	-125	-125	-120
Factor Payments to Foreigners	- 73.2	- 79.2	- 86.1	-106.4	-113.3	-100	-120	-125	-135	-145	-150
Balance on Goods and Services	-136.6	17.1	-290.2	- 89.4	-197.3	-225	-240	-255	-260	-270	-270
Net Unrequited Transfers	14.4	11.9	10.0	22.0	31.5	15	15	15	15	15	15
Current Account Balance	-122.2	29.0	-280.2	- 67.4	-165.8	-210	-225	-240	-245	-255	-255

a/ 1964-68 data are official, although 1968 is subject to revision. 1969 figures are estimated based on partial information, and 1970-74 figures are projections in constant 1969 prices. Coffee exports are increased from approximately US$350 million in 1969 to US$425 million in 1970 and held constant thereafter. Other exports (petroleum, non-monetary gold, and minor exports) rise by about US$50 million per year, which amounts to a 17 percent increase in 1970, 14 percent in 1971, 12 percent in 1972, 11 percent in 1973, and 10 percent in 1974. (This incorporates a 20 percent growth rate for minor exports, as officially projected.) Imports of goods and services increase by 13.5 percent in 1970, 6.5 percent in 1971, and 4.5 percent annually thereafter. Exports of goods and services rise 15.5 percent in 1970, 6.5 percent in 1971, and 5.5 percent thereafter. (GDP is expected to grow by 7.5 percent in real terms in 1970, 6.5 percent in 1971, and 5.5 percent in 1972-74, averaging 6.1 percent annually during the 5-year period.)

b/ Exclusive of factor payments to foreigners.

Source: Banco de la República and IBRD.

Table 2. COLOMBIA: APPROVAL AND DISBURSEMENT PROJECTIONS, 1969-84[a]

(Millions of Constant 1969 U.S. Dollars)

Credit Category		2nd Half 1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
AID Program/Sector Loans	a	0.0	60.0	40.0	20.0												
	b	0.0	30.0	50.0	30.0	10.0											
Development Project Loans	a	84.2	180.0	160.0	160.0	145.0	135.0	115.0	115.0	115.0	115.0	115.0	115.0	115.0	115.0	115.0	115.0
	b.	12.6	43.9	76.8	108.8	134.4	148.6	147.2	136.2	128.0	121.0	117.0	115.0	115.0	115.0	115.0	115.0
AID	a	10.0	10.0	10.0	10.0	10.0											
	b	1.5	3.5	5.5	7.5	9.0	8.5	6.5	4.5	2.5	1.0						
IDB, OC	a	7.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5
	b	1.1	3.4	5.9	8.4	10.5	12.0	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5
IDB, FSO	a	33.7	37.5	37.5	37.5	37.5	37.5	37.5	37.5	37.5	37.5	37.5	37.5	37.5	37.5	37.5	37.5
	b	5.0	12.4	19.8	27.3	33.2	37.1	37.5	37.5	37.5	37.5	37.5	37.5	37.5	37.5	37.5	37.5
IBRD	a	28.0	110.0	90.0	90.0	75.0	75.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
	b	4.2	22.1	41.1	59.1	73.4	81.6	80.0	70.0	62.8	56.2	52.5	50.0	50.0	50.0	50.0	50.0
Other	a	5.0	10.0	10.0	10.0	10.0	10.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
	b	0.8	2.5	4.5	6.5	8.2	9.5	10.8	11.8	12.8	13.8	14.5	15.0	15.0	15.0	15.0	15.0
Official Export Finance	a	25.0	45.0	55.0	55.0	70.0	70.0	95.0	95.0	95.0	95.0	95.0	95.0	95.0	95.0	95.0	95.0
	b	2.5	12.0	26.5	43.0	53.5	61.0	68.0	80.0	87.5	95.0	95.0	95.0	95.0	95.0	95.0	95.0
Suppliers' and Financial Credits	a	35.0	50.0	50.0	50.0	50.0	50.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0
	b	3.5	15.5	30.5	45.5	50.0	50.0	51.0	54.0	57.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0
TOTAL - ALL CATEGORIES	a	144.2	335.0	305.0	285.0	265.0	255.0	270.0	270.0	270.0	270.0	270.0	270.0	270.0	270.0	270.0	270.0
	b	18.6	101.4	183.8	227.3	247.9	259.6	266.2	270.2	272.5	276.0	272.0	270.0	270.0	270.0	270.0	270.0

a/ The "a" rows refer to new approvals and the "b" rows to disbursements therefrom. The following disbursement patterns are assumed (percentages per annum):

AID Program/Sector Loans	50/50
Development Project Loans	15/20/20/20/15/10
Official Export Finance	10/30/30/30
Suppliers' and Financial Credits	10/30/30/30

Source: IBRD.

Table 3. COLOMBIA: EXTERNAL RESOURCE GAP AND CAPITAL INFLOW PROJECTIONS, 1969-84
(Millions of Constant 1969 U.S. Dollars)

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Gross Domestic Product	6,300	6,770	7,210	7,610	8,025	8,470	8,935	9,425	9,945	10,490	11,065	11,675	12,320	12,995	13,710	14,465
Imports of Goods and Services 1/	925	1,050	1,120	1,170	1,225	1,280	1,335	1,395	1,460	1,525	1,595	1,665	1,740	1,820	1,900	1,985
Exports of Goods and Services 2/	800	930	990	1,045	1,100	1,160	1,230	1,305	1,385	1,470	1,560	1,660	1,770	1,885	2,005	2,135
Resource Gap	125	120	130	125	125	120	105	90	75	55	35	5	-30	-65	-105	-150
Resource Gap as % of GDP	2.0	1.8	1.8	1.6	1.6	1.4	1.2	1.0	0.8	0.5	0.3	0.0	-0.2	-0.5	-0.8	-1.0
Gross Capital Inflow 3/	282	240	238	252	254	260	266	270	272	276	272	270	270	270	270	270
Debt Amortization	67	74	70	78	85	95	107	120	134	149	156	172	190	215	216	224
Interest Payments	37	43	50	58	68	77	86	94	100	106	110	113	116	117	118	118
Total Debt Service	104	117	120	136	153	172	193	214	234	255	266	285	306	332	334	342
Net Capital Inflow	178	123	118	116	101	88	73	56	38	21	6	-15	-36	-62	-64	-72
Debt Service Ratio	13.0	12.5	12.2	13.0	13.8	14.8	15.7	16.4	16.9	17.3	17.1	17.2	17.3	17.6	16.6	16.0
Debt Outstanding at End of Year 4/	1,475	1,699	1,899	2,071	2,216	2,341	2,469	2,584	2,685	2,771	2,850	2,913	2,958	2,978	2,997	3,008
IBRD Debt Outstanding, End of Year 4/	507	599	669	736	785	832	852	870	888	906	923	938	950	959	966	971
IBRD % Gross Inflow	25.5	36.5	37.3	31.6	30.2	31.4	30.0	25.9	23.0	20.4	19.3	18.5	18.5	18.5	18.5	18.5
IBRD % Debt Service	32.9	33.1	37.3	38.0	38.7	37.7	36.3	34.8	32.2	29.5	28.5	26.9	25.8	24.5	24.5	24.3
IBRD % Debt Outstanding	34.4	35.3	35.2	35.5	35.4	35.5	34.5	33.7	33.1	32.7	32.4	32.2	32.1	32.2	32.2	32.3

PROJECTION BASIS

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
GDP Growth, % per annum		7.5	6.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Import Growth, % per annum		13.5	6.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Export Growth, % per annum		16.2	6.5	5.5	5.5	5.5	6.0	6.0	6.0	6.0	6.0	6.5	6.5	6.5	6.5	6.5
Gross Inflow % Shares:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
AID Program/Sector	35.5	31.2	21.0	12.0	3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
AID Project	3.5	4.2	2.3	3.0	3.5	3.3	2.4	1.7	0.9	0.4	0.0	0.0	0.0	0.0	0.0	0.0
IDB, O.C.	4.5	2.5	2.5	3.3	4.1	4.6	4.7	4.6	4.6	4.5	4.6	4.6	4.6	4.6	4.6	4.6
IDB, F.S.O.	3.5	5.6	8.3	10.8	13.1	14.3	14.1	13.9	13.8	13.6	13.8	13.9	13.9	13.9	13.9	13.9
IBRD	25.5	36.5	37.3	31.6	30.2	31.4	30.0	25.9	23.0	20.4	19.3	18.5	18.5	18.5	18.5	18.5
Other Project Finance	3.5	2.0	2.5	3.0	3.5	3.6	4.0	4.4	4.7	5.0	5.3	5.6	5.6	5.6	5.6	5.6
Official Export Finance	13.0	8.6	11.4	17.1	21.0	23.5	25.5	29.5	32.1	34.4	34.9	35.2	35.2	35.2	35.2	35.2
Suppliers' and Financial	11.0	9.4	14.7	19.2	20.7	19.3	19.3	20.0	20.9	21.7	22.1	22.2	22.2	22.2	22.2	22.2

1/ Exclusive of factor payments to foreigners.
2/ Coffee exports increased from approximately US$350 million in 1969 to US$425 million in 1970 and held constant thereafter; other exports (petroleum, non-monetary gold, minor exports, and services) increased at a decreasing rate, from 12 percent in 1970 to 8 percent in 1984.
3/ Exclusive of capital inflow on private account, which is assumed to be equal to profit remittances, royalties, etc. for purposes of this projection.
4/ Outstanding debt, including undisbursed, repayable in foreign currency (excludes lending from IDB F.S.O.).

COLOMBIA: COUNTRY PROGRAM PAPER

Postscript

114. In the review of the Country Program Paper on February 13, Mr. Knapp referred to the discussion in paragraphs 14-22 as giving ground for optimism about Colombia's ability to take good advantage of the opportunity for development afforded by the coffee boom, and that we could therefore reach a more positive conclusion on this point than was indicated in paragraph 23. At the same time, it was agreed that we should continue to maintain pressure for continued good performance. Noting the rather abrupt decline proposed in the Bank lending program for FY 1975, Mr. Knapp proposed that an additional $30 million of unallocated lending be added to the lending program for FY 1975, raising the total for that year to $80 million.

115. Mr. McNamara expressed agreement with this, while indicating that Bank lending should not exceed the limitations defined in paragraph 82. Mr. McNamara also noted the absence in the lending program of a tourism project; that Colombia was a case of a general need for more work in the field of pre-investment surveys for minerals development; and there was an evident opportunity for development of rural power services in Colombia.

South America Department
February 20, 1970